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PROGRAM APPRAISAL DOCUMENT
ON A
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IN THE AMOUNT OF EUR 131.6 MILLION
(US$150 MILLION EQUIVALENT)

TO THE
REPUBLIC OF KENYA

FOR A

PROGRAM TO STRENGTHEN GOVERNANCE FOR ENABLING SERVICE DELIVERY AND PUBLIC INVESTMENT IN KENYA

August 16, 2017

Governance Global Practice
AFRICA

CURRENCY EQUIVALENTS
Exchange Rate Effective as of June 30, 2017

KSH 103.85 = US$1
Euro 0.877 = US$1
Euro 1 = KES 118.31

Fiscal Year: July 1 – June 30

ABBREVIATIONS AND ACRONYMS

ACG	Anti-Corruption Guideline
AFROSAI	African Organization of Supreme Audit Institutions
AMS	Audit Management System
BETF	Bank-Executed Trust Fund
BSD	Budget Supply Department
CAJ	Commission of Administrative Justice
CDD	Community-driven Development
CID	Criminal Investigations Department
CM	Cash Management
CoA	Chart of Accounts
COB	Office of the Controller of Budget
CPC	Corruption Prevention Committee
CPS	Country Partnership Strategy
CS	Cabinet Secretary
DG	Director- General
DANIDA	Danish International Development Agency
DLI	Disbursement Linked Indicator
DLR	Disbursement Linked Result
DP	Development Partner
DPF	Development Policy Financing
EACC	Ethics and Anti-Corruption Commission
EACRC	East African Compliant Recycling Company
ENPV	Expected Net Present Value
e-Procurement	Electronic Government Procurement
e-ProMIS	Electronic Project Monitoring Information System
ESSA	Environmental and Social Systems Assessment
e-Waste	Electronic Waste
F&C	Fraud and Corruption
GESDeK	Governance for Enabling Service Delivery and Public Investment in Kenya
FY	Fiscal Year
GAC	Governance and Anti-Corruption
GDP	Gross Domestic Product
GHRIS	Government Human Resource Information System

GoK	Government of Kenya
GRS	Grievance Redress Service
HR	Human Resource
IAs	Implementing Agencies
IAD	Internal Audit Department
ICPAK	Institute of Certified Public Accountants of Kenya
ICR	Implementation Completion and Results Report
ICT	Information and Communication Technology
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
INTOSAI	The International Organization of Supreme Audit Institutions
IPCRM	The Integrated Public Complaints Reporting Mechanism
IPF	Investment Project Financing
IPPD	Integrated Payroll and Personnel Database
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
KDSP	Kenya Devolution Support Program for Results
KNCHR	Kenya National Commission on Human Rights
KRA	Key Result Area
KSH	Kenyan Shilling
M&E	Monitoring and Evaluation
MDAs	Ministries, Departments and Agencies
MHRAC	Ministerial Human Resource Advisory Committee
MoPSYGA	Ministry of Public Service, Youth and Gender Affairs
MTEF	Medium-Term Expenditure Framework
MTR	Mid-Term Review
NEMA	National Environment Management Authority
NGEC	National Gender and Equality Commission
NLC	National Lands Commission
NPSC	National Police Service Commission
NT	The National Treasury
OAG	Office of the Auditor General
OCDS	Open Contracting Data Standards
ODPP	Office of the Director of Public Prosecutions
PAD	Program Appraisal Document
PAP	Program Action Plan
PBB	Program-Based Budgeting
PC	Performance Contracting
PDMO	Public Debt Management Office
PDO	Program Development Objective
PE	Political Economy
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFM SWG	PFM Sector Working Group
PFMR Secretariat	Public Financial Management Reform Secretariat
PFMRS	Public Financial Management Reforms Strategy

PforR	Program-for-Results
PIM	Public Investment Management
PIU	Program Implementation Unit
POM	Program Operations Manual
PPAD Act	Public Procurement and Asset Disposal Act
PPARB	Public Procurement Administrative Review Board
PPCRAB	Public Procurement Complaints Review and Appeals Board
PPDR	Public Procurement and Asset Disposal Regulations
PPOA	Public Procurement Oversight Authority
PPP	Public-Private-Partnership
PPRA	Public Procurement Regulatory Authority
PS	Principal Secretary
PSASB	Public-Sector Accounting Standards Board
PSC	Public Service Commission
PBT	Persistent, Bio-accumulative Toxins
QA	Quality Assurance
RAS	Reimbursable Advisory Services
RIFF	Reform Implementation Facilitation Facility
SCoA	Standard Chart of Accounts
SIDA	Swedish International Development Cooperation Agency
SORT	Systematic Operations Risk-Rating Tool
SPP	State Procurement Portal
SRC	Salaries and Remuneration Commission
SWG	Sector Working Group
TSC	Teachers Service Commission
UAT	User Acceptance Test
US$	United States Dollars

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Task Team Leader(s):	Jens Kromann Kristensen and Ikechi B. Okorie

REPUBLIC OF KENYA

PROGRAM TO STRENGTHEN GOVERNANCE FOR ENABLING SERVICE DELIVERY AND PUBLIC INVESTMENT IN KENYA

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PAD DATA SHEET

Republic of Kenya

Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya

PROGRAM APPRAISAL DOCUMENT

Africa Region
Governance Global Practice

Basic Information			
Date:	August 16, 2017	Sectors:	Central Government (Central Agencies)
Country Director:	Diariétou Gaye	`	Public expenditure, financial management and procurement
Senior Director	Deborah L. Wetzel		Administrative and civil service
Practice Manager Global Practice Vice President:	George Addo Larbi Jan Walliser		Other accountability/ anti-corruption
Program ID:	P161387		
Team Leader(s):	Jens Kromann Kristensen & Ikechi B. Okorie		

Program Implementation Period:	Start Date:	09/07/2017	End Date:	12/31/2022
Expected Effectiveness Date:	01/07/2018			
Expected Closing Date:	12/31/2022			

Program Financing Data					
[ ]	Loan	[ ]	Grant	[ ]	Other
[x]	Credit				

For Loans/Credits/Others (US$ million):

Total Program Cost:	246	Total Bank Financing:	150
Total Co-	10 (DP	Financing	0

financing:	parallel funding)	Gap:	

Financing Source	Amount
BORROWER/RECIPIENT	86
IBRD/IDA	150
Total	246 (incl. US$10 million parallel DP Funding)

Borrower: The Republic of Kenya			
Responsible Agency: The National Treasury			
Contact:	Dr. Kamau Thugge	Title:	Principal Secretary
Telephone No.:	+254 (20) 225 22 99	Email:	ps@treasury.go.ke
Responsible Agency: The National Treasury			
Contact:	Dr. Geoffrey Mwau	Title: Director General, Directorate of Budget, Fiscal and Economic Affairs	
Telephone No.:	+254 (20) 225 22 99	Email:	gnmwau@treasury.go.ke
Responsible Agency: State Department of Public Service and Youth, Ministry of Public Service, Youth and Gender Affairs			
Contact: Ms. Lillian Mbogo-Omollo		Title: Principal Secretary	
Telephone No.:	+254 (20) 227 411	Email:	ps.psy@psyg.go.ke
Responsible Agency: Office of the Auditor General			
Contact: Mr. Edward Ouko		Title: Auditor General	
Telephone No.:	+254 (20) 311 482	Email:	oag@oagkenya.go.ke

Expected Disbursements (in € Million)

Fiscal Year	2017/18	2018/19	2019/20	2020/21	2021/22
Annual	15.4	22.9	29.9	31.7	31.7
Cumulative	15.4	38.3	68.2	99.9	131.6

Program Development Objective

To improve utilization and transparency of resource management in selected service delivery Ministries, Departments and Agencies (MDAs).

Compliance			
Policy			
Does the program depart from the CAS in content or in other significant respects?		Yes [ ]	No [x]
.			
Does the program require any waivers of Bank policies applicable to Program-for-Results operations?		Yes [ ]	No [x]
Have these been approved by Bank management?		Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?		Yes [ ]	No [x]
Overall Risk Rating: The overall risk to achieving the PDO is "Substantial".			
Legal Covenants			
Name	**Recurrent**	**Due Date**	**Frequency**
Program Operations Manual		April 7, 2018	Once
Description of Covenant Schedule 2, Section I.D.1 No later than three (3) months after the Effective date, the Recipient shall prepare a Program Operations Manual (POM) in form and substance satisfactory to the Association, containing detailed arrangements and procedures for implementation of the Program including *inter alia*: (a) disbursement and flow of funds arrangements; (b) institutional arrangements; (c) financial management, governance and procurement systems; (d) environmental and social management systems including the ESSA and operation of grievance redress mechanism; (e) monitoring and evaluation, reporting and communication, including Program indicators; (f) Program Action Plan; (g) detailed arrangements for verification of achievement of the DLR (including the Verification Protocol); and (h) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Program.			
DLR Verification Arrangements		June 30, 2018	Once
Description of Covenant Schedule 2, Section I.E.1No later than June 30, 2018, the Recipient, through the National Treasury, specifically the PFMR shall recruit one or more entities with experience, independence, and capacity and under the terms of reference acceptable to the Association (Independent Verification Agent(s) to verify the data and other evidence supporting the achievement of one or more Disbursement Linked Result (DLRs) as set forth in Schedule 4 of the Financing Agreement.			
Team Composition			
Bank Staff			
Name	**Title**	**Specialization**	**Unit**
George Larbi	Practice Manager	Overall Guidance	GGO19
Johan Mistiaen	Program Leader	Overall Guidance	AFCE2

Jens Kromann Kristensen	Task Team Leader and Lead Public Sector Specialist	Public Financial Management, Public Investment Management	GGO19
Ikechi Okorie	Co-Task Team Leader and Snr. Operations Officer	Public Financial Management; Financial Management	GGO31
Timothy Williamson	Snr. Public Sector Specialist	PFM and Intergovernmental Fiscal Relations - IGFR	GGO19
Alex Appiah-Koranteng	Snr. Governance and Public Sector Specialist	Human Resource Management – Payroll & Pensions	GGO19
Geoff Handley	Snr. Public Sector Specialist	Economic Assessment	GGO19
Stephen Davenport	Snr. Governance Specialist	Transparency, Citizens' Engagement and Participation	GGO28
Leonard Matheka	Snr. Financial Management Specialist	External & Internal Oversight, Financial Management	GGO31
Nagaraju Duthaluri	Lead Procurement Specialist	Procurement, E-Procurement	GGO01
Joel Munyori	Senior Procurement Specialist	Public Procurement Reforms	GGO01
Yoko Kagawa	Snr. Public Sector Specialist	Operations, M&E	GGO13
Lilian Wambui Kahindo	Social Development Specialist	Social Safeguards	GSU07
Edward Felix Dwumfour	Snr. Environmental Specialist	Environmental Safeguards	GEN01
Mohamed Khatouri	Operations Adviser	Monitoring and Evaluation – Results Framework	OPSPQ
Christine Owuor	Public Sector Specialist	Governance and Anti-corruption	GGODR
Lucy Musira	Operations Analyst	Operations, Human Resource Management	GGO19
Efrem Fitwi	Procurement Consultant	Procurement	GGO01
Caroline Wambugu	Program Assistant	Program Support	AFCE2
Rita Itoro-Godfrey	Program Assistant	Program Support	GGO19

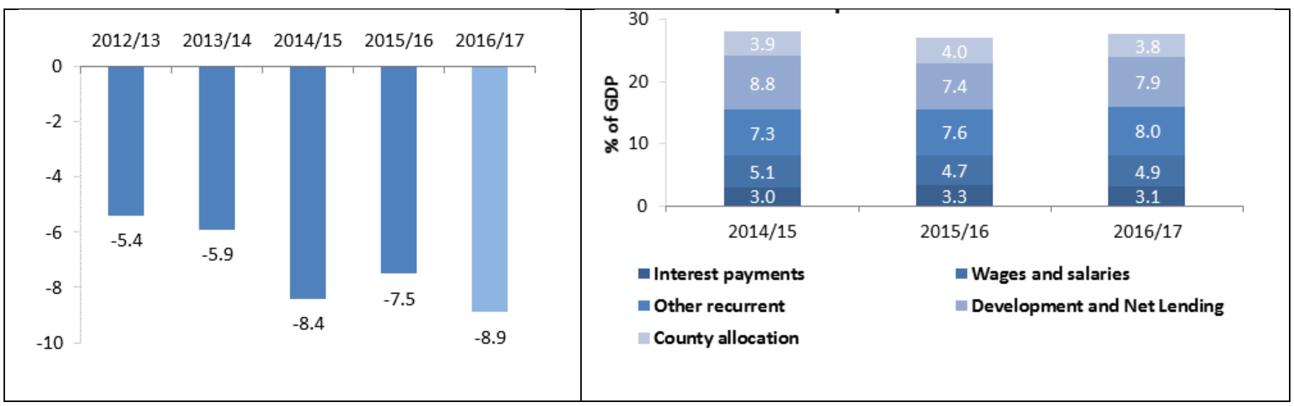
I. STRATEGIC CONTEXT

A. Country Context

1. **Kenya is going through a period of economic growth and sustained poverty alleviation.** The economy grew at 5.8 percent in 2016. This was slightly higher than in 2015 and followed almost a decade of solid economic growth, driven by almost all sectors in the economy. At the same time, the poverty incidence (measured against the official national poverty line) dropped from 46 percent in 2006 to 36 percent in 2016. Unlike natural-resources revenue dependent countries, Kenya has benefitted from the low energy prices and sound macro fiscal management for almost a decade[1].

2. **Government expenditure accounted for around 27 percent of gross domestic product (GDP) in fiscal year 2016/17, and an expected fiscal deficit of around 9 percent of GDP has increased pressure for fiscal consolidation and improved value for money.** Kenya has chosen a growth model emphasizing expanding publicly provided economic infrastructure funded through concessional and non-concessional borrowing. The Capital Budget (in Kenya known as the Development Budget) accounted for almost 9 percent of GDP in FY 2014/15. At the same time, recurrent spending continued to increase moderately to 15.6 percent of GDP in FY15/16 and is expected to rise to 16 percent in FY16/17. These increases reflect rising public debt interest payments as well as spending on public sector wages and salaries.

Figure 1: Fiscal Deficit - %of GDP (Left) and Breakdown of Government Expenditure (Right)



Source: Kenya Economic Update 2017) and the National Treasury

Source: Kenya Economic Update2017 and the National Treasury

3. **The expanding economy, poverty alleviation and increasing public spending has gone hand in hand with reforms of the public-sector institutions following the adoption of Kenya's 2010 Constitution.** Since 2013 a devolved system of governance has been in place with the transfer of some Government functions, employees and funding from the national Government to 47 counties. The counties are led by elected Governors and County Assemblies. In parallel, Ministries, Departments and Agencies (MDAs) at the national level have been restructured and oversight institutions such as the Parliament, the Office of the Auditor General (OAG) and the Ethics and Anti-Corruption Commission (EACC) have been strengthened vis-à-vis the Executive.

[1] Kenya Economic Update, Affordable Housing Finance, Special Edition, 2017

4. **Fiscal pressures, institutional reforms and a growth model based on increased public provision of services and infrastructure makes the functioning of core public management systems key to the sustainability of Kenya's economy.** Increasingly, stakeholders in Kenya recognize that systems for public investment management (PIM), procurement, cash management, wage bill management and external oversight are key to getting value for money and ensuring that public resources are allocated and efficiently used for productive and service delivery uses.

B. SECTORAL AND INSTITUTIONAL CONTEXT

5. **Over the past decade, Kenyans have made progress in a range of governance reforms, accelerated by the Constitution 2010.** Good progress has been made in areas of economic governance, including revenue administration at the national level, the passing of a Public Financial Management (PFM) law in 2012 that, inter alia, regulates the use of budget and control and the establishment of Office of the Controller of Budget; and the Office of the Auditor General (OAG) as a Supreme Audit Institution. The Judiciary is also undergoing reform with a Supreme Court established and has more functional independence under the Constitution 2010. These and other reforms bear testimony to significant support and capacity for governance reforms.

6. **Despite the progress, Kenya still faces significant governance challenges that are symptomatic of institutional and systemic weaknesses.** These include ineffective oversight and accountability, weak implementation and enforcement of laws and regulations, inefficient public investment management and systemic corruption. In addition, generic efforts to strengthen laws, policies and systems have not focused on some of the core challenges in functioning of systems for managing public resources important for infrastructure and service delivery. Many strategies – including the PFMR Strategy – are broad, with comparatively little focus on the incentives that cross cutting and sectoral institutions have to adhere to the laws, policies, processes and systems that have been established. Furthermore, the Constitution 2010 creates space for strengthening demand side governance through public dialogue and citizen engagement but the instruments and mechanisms for putting these into practice for strengthening oversight and accountability of governments and officials are not yet fully embedded. There is an emerging acknowledgement, including at the highest level of government, that governance reforms have not delivered intended functional change.

7. **At the same time, there is a recognition that the public-sector management systems do not deliver optimally on core functionalities.** Kenya's PFM Performance as measured by the 2012 Public Expenditure and Financial Accountability (PEFA) indicators is evolving with nine B scores, thirteen C scores and nine D scores[2]. Put in a regional context, overall, Kenya's PEFA scores are slightly worse than those of Rwanda but slightly better than those of Uganda. Furthermore, corruption continues to pose challenges with Kenya ranking 146 out of 176 countries in the 2016 Transparency International Global Corruption Index[3]. There is near consensus that expanding economic infrastructure is a key enabler to achieving the country's development objectives. Despite years of increasing capital expenditures, total factor productivity in the private sector is stagnating and there is a recognition that infrastructure projects could be better selected, designed, implemented and evaluated. Discussions have centered on the steps needed to improve the PIM systems and approaches

[2] Public Expenditure and Financial Accountability (PEFA) Assessment, Final Report, August 8, 2012. A new PEFA is currently underway and expected to be completed in September 2017.

[3] Findings are based on the Transparency International Corruption Perceptions Index 2016 and are confirmed by the EACC analyses.

to implementation of a new framework. Key immediate steps include: drafting of a PIM Manual; and the establishment of a new unit at the National Treasury (NT) responsible for overseeing implementation and enforcement of these guidelines.

8. **Closely related, public procurement and contracting reforms have not contributed significantly to reducing and/or preventing corruption in Kenya as expected, and continues to be perceived as lacking transparency and not designed to deliver value for money.** The underlying problems emanate from lack of integration of procurement policies and systems, lack of transparency and enforcement, and limited technical expertise. These contribute to delays, cost overruns and weak accountability. Some of the immediate next steps geared towards removing these bottlenecks include: upgrading of the e-Procurement system with Integrated Financial Management Information System (IFMIS) to operationalize the new legal framework; capacity building of technical experts; disclosing procurement data following Open Contracting Data Standards (OCDS); and monitoring and evaluation (M&E) of procurement aimed at verifying both the technical aspects of procurement and the service delivery outcome.

9. **While key steps were undertaken in 2016/2017 to develop a new cash management system, adjustments to policies, processes and systems are required.** The quantity, quality, cost and timeliness of planned expenditures for service delivery are undermined because budgeted funding is often not provided in full when required for service delivery MDAs and infrastructure projects. The unpredictability of the budget in turn impedes MDAs' and Treasury's ability to plan adequately for when they require funds, and for Treasury to predict short-term borrowing needs of the Government. Funding for service delivery MDAs and infrastructure obligations are not adequately prioritized and protected when shortfalls occur, which adversely affects service delivery. There is a need to operationalize a new cash management system, encouraging MDAs to prepare accurate cash plans that identify the timing of major investment and service delivery obligations. There is also a need to put in place mechanisms to prioritize service delivery expenditures when shortfalls occur.

10. **The Government of Kenya (GoK) has recognized and made commitments on the importance of transparency and external accountability to development.** However, implementation of these commitments remains a challenge. Stakeholders do not have access to appropriate and relevant information on service delivery, information is not linked to decision- making and accountability processes, and there is a lack of ownership and use of information provided by existing systems. Combined, these undermine effective decision-making on resources for service delivery and accountability for the use of those resources. Some of the underlying causes of these problems are associated with project information not being up to date, and stakeholders not aware of available information and how to access it. To address these challenges, the GoK is keen to execute an action plan that includes: (i) revising existing reporting formats, including financial statements and Chart of Accounts (CoA); (ii) updating the BOOST[4] platform; (iii) simplifying PFM compliance guidelines; (iv) reviewing, consolidating and submitting of quality MDA annual and in-year financial statements to the OAG by the National Treasury; and (v) establishing a dedicated budget live portal, up to date with new reports.

[4] BOOST is a Bank-wide collaborative effort launched in 2010 to facilitate access to budget data and promote effective use for improved decision-making processes, transparency and accountability.

11. **Human Resource Data in the Public Service is fragmented and inconsistent, limiting the ability to make sound decisions and planning on wage bill and human resource management, and budgeting.** This fragmentation is mainly due to the absence of consolidated human resource data. Accordingly, data on Personnel Employment is not readily available, creating difficulty in accessing the overall payroll. To successfully resolve these challenges, the GoK seeks to: (i) assess and upgrade the capability and infrastructure of the Government Human Resource Information System (GHRIS) to handle consolidated human resource data; (ii) issue regulations on itemized payroll details and sharing of data and information; and (iii) incrementally restructure and upload data from MDA payroll systems so that wage bill data can be extracted, analyzed and published.

12. **The 2010 Constitution gives the OAG enhanced mandate in the audit of public funds.** The OAG's mandate has been expanded to include auditing and reporting on all public funds held at both the national level and in each of the 47 county Governments. The OAG has been facing major capacity challenges in meeting this new mandate with implications on timeliness and quality of audit reports submitted to the Parliament.

13. **The GoK has responded to the above challenges with the Public Financial Management Reforms Strategy (PFMRS).** The Strategy was refreshed following a mid-term evaluation in 2016, including an updated monitoring and evaluation (M&E) framework. The National Treasury Departments, the Office of the Auditor General and the Ministry of Public Service, Youth and Gender Affairs (MoPSYGA) are among several key implementing agencies of the PFMRS. The PFM Reforms Secretariat in the National Treasury is coordinating the reforms.

C. Relationship to the CPS and Rationale for Use of Instrument

14. **The World Bank Country Partnership Strategy (CPS) 2014-18 - approved by the Board of Executive Directors in 2014 (Report No. 87024) together with the Performance and Learning Review[5] (PLR) approved in July, 2017 (Report No. 113547-KE), identify: (i) growth to eradicate poverty; (ii) human development and shared prosperity; and (iii) delivering the devolution dividend, as domains of engagement.** Good governance is a connecting platform underlying the three domains. The CPS recognizes that governance constraints hinder achievement of development outcomes, both in sectors and center of Government, and divert resources from public to private purposes through fraud and corruption. The PLR validates the strategic objectives and design of the CPS and that these constraints hinder achievement of envisaged CPS outcomes, which is why governance has been made a connecting platform.

15. **Stakeholders in Kenya have significant human resources to design reforms with a high level of technical expertise, relative to other countries in the region.** At the same time, implementation of policies and reforms remain a major challenge. Strategies cover a wide range of subject areas, giving little attention to sequencing and prioritization. Efforts to strengthen laws, policies and systems have not focused on the core functions of those systems in managing public resources which are important for infrastructure and service delivery. In addition, some stakeholders benefit from the current weaknesses, including the opportunities for corruption and other forms of rent

[5] The PLR proposes a two-year extension of the CPS to FY20, to assure a smooth transition in support of the national planning processes and to dovetail with the new data and knowledge to be included in a forthcoming Systematic Country Diagnostic (SCD) that will then inform the next Country Partnership Framework (CPF).

seeking. Overall, there has been comparatively little focus on the incentives for sectoral institutions to implement reforms and adhere to the laws, policies, processes and systems that have been established. Underlying many of these challenges are collective action problems: whilst it is not in the interests of individuals to take action, the benefits of working together to address challenges would outweigh the costs and help overcome vested interests.

16. **The proposed Program-for-Results (PforR) Operation would make significant contribution to overcoming these challenges.** ***Firstly,*** by focusing attention on results which reflect genuine change to the functioning of systems important for infrastructure and service delivery within a subset of the Government's reform program elements. ***Secondly,*** by providing a framework for monitoring and reporting that could transform the generalized high-level support and interest into actionable steps and accountability. ***Thirdly,*** by establishing financing incentives to achieve results that genuinely reflect a change in the functioning of PFM systems as well as providing needed funding for the Government's program.

II. PROGRAM DESCRIPTION

A. GOVERNMENT PROGRAM

17. **The Program will be anchored in the Revised Strategy for Public Financial Management Reforms (2013-2018).** The main objective of the Strategy is to ensure "A public finance system that promotes transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development". A number of strategic plans feed into the PFMRS implementation, including the OAG's Strategic Plan (2015-2018). The Government's program also includes the recommendations made in the GHRIS Hardware Infrastructure Evaluation Report (2016).

18. **A mid-term review (MTR) of the performance of the PFMRS in 2016 identified areas of good progress, areas of slow progress, gaps in coverage and some implementation challenges[6].** The review found that 13 of 69 key reform interventions are completed while 29 are well on target. The review further found that 20 reform activities were delayed and work was to start on seven actions. Key implementation gaps identified included addressing the implications of devolution and strengthening cash management. Several implementation challenges were identified including a significant funding gap, a need to strengthen M&E, and a need to strengthen coordination. These and other challenges and gaps were reflected in a refreshed version of the Strategy made public in 2017. This PforR supports the implementation of this refreshed version.

19. **The PforR will support the implementation of the PFMRS as reflected in ongoing reform activities in the National Treasury.** As further detailed in Section D below, the parts of the Strategy supported by the PforR have been identified in an extensive consultative process with Government counterparts that has informed the program boundaries in terms of activities, expenditures and intended results. At the level of Results and Key Interventions, there is a one-to-one relationship between the PFMRS and the boundaries of the Government's program. However, at the level of activities, there is variation between results areas in the degree to which the program being implemented by the GoK reflects the formal Strategy. As further discussed in Section C below,

[6] Ministry of Finance, the National Treasury, Consultancy Services for Review of the PFM Reform Strategy 2013/2018, February 2016.

expenditures that correspond to Government's actual reform program as it is being implemented, have been identified at program and line item level in the Kenya CoA. This defines the program boundaries in a way that can be audited and accounted for.

20. **While the PFMRS covers the period 2013-2018, the wider reform program is unlikely to be discontinued after 2018.** Kenya has been undertaking governance reform, including continuous improvements of public sector management and PFM, without interruption for about two decades and reform efforts are likely to extend well beyond 2018 and the closure of this operation.

B. PROGRAM DEVELOPMENT OBJECTIVE (PDO) AND KEY RESULTS

21. **The Government program objective is formulated in the PFMRS.** The objective is to "ensure a public finance system that promotes transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development". The PDO of the PforR is closely aligned with this objective while reflecting that the Program will only support part of the Strategy. The PDO for the PforR is to improve utilization and transparency of resource management in selected service delivery MDAs.

22. **The PDO will be achieved through six Key Results Areas (KRAs) to be measured through PDO Indicators.** All PDO Indicators are Disbursement-linked Indicators (DLIs). The DLIs at PDO level are designed to measure implementation of reforms in line MDAs responsible for service delivery and public investment and thus the functional deployment of the intended reforms. Accordingly, they are set at a level between outputs and outcomes as shown in Table 1 below[7].

23. Annex 1 provides an overview of PDO Indicators, Results Areas, the corresponding aspect of the PDO being measured, the matching Objective and Key Initiative in the Government's PFMRS. The Annex also provides an overview of the "logic chain" of the Program.

Table 1: Results Areas and PDO Indicators

No	Results Area	Measured by PDO Indicator
1	Prioritized Public Investments	Number of projects with capital allocations above KSH.100 million which are in compliance with procedures in the PIM manual.
2	Reliable Funding for Service Delivery and Public Investments	Average under-release of priority operational service delivery budget allocations expressed as a percentage of revised in-year cash plans on a quarterly then monthly basis. Annual exchequer releases to GoK capital budget allocations as a % of the approved budget.
3	Efficient and Transparent Procurement	Number of MDAs using the e-Procurement System in compliance with the PPAD Act, 2015, and attendant Regulations for the full fiscal year and procurement data disclosed in the State Procurement Portal (SPP) following Open Contracting Data Standards (OCDS).
4	Consolidated Staff Data	Number of MDAs whose payroll data has been uploaded into GHRIS and are up to date.
5	Timely and Quality Financial Statements and	Percentage of MDAs whose financial statements audits

[7] As will be presented in subsequent sections in this PAD, the operation is structured into six results areas each based on identified results chains. DLIs have been developed along the results chains with some focusing on outputs and some closer to outcomes. The DLIs selected for PDO level indicators are those relating to the outer years of the operation and thus closer to the outcome level.

No	Results Area	Measured by PDO Indicator
	Audits	have been completed within 3 months after OAG receipt of final financial statements using an improved methodology, undergone quality assurance; and months between receipt of consolidated financial reports by OAG and submission of audited financial statements to Parliament.
6	Strengthened Fiduciary Assurance and Transparency	Number of MDAs where information is publicly available online in searchable form on: (a) program expenditure; (b) project expenditure; and (c) transfers to service delivery units [8]. Annual and quarterly MDA Internal Audit Reports have been prepared and undergone Quality Assurance (QA) in line with enhanced procedures for assurance, risk management and audit follow-up.

C. PROGRAM SCOPE

Overview

24. **The Kenyan Government's PFMRS has seven substantial thematic areas and program management as a crosscutting element.** GESDeK supports five out of the seven thematic areas of the PFMRS as indicated in Table 2 below, defining the Program boundary. A detailed overview of what elements and expenditures in the PFMRS are included in the PforR is in Annex 1.

Table 2: PFMRS themes and PforR support

Theme in the PFMRS	Included in the PforR?	Key Results Area
Theme 1– Macro-Economic Management and Resource Mobilization	Yes	2
Theme 2 – Strategic Planning and Resource Allocation	Yes	1
Theme 3 – Budget Execution, Accounting and Reporting and Review	Yes	2, 3, 4 and 6
Theme 4 – Independent Audit and Oversight	Yes	5
Theme 5 – Fiscal Decentralization and Intergovernmental Fiscal Relations	No	n/a
Theme 6 – Legal and Institutional Framework	No	n/a
Theme 7 – IFMIS and other PFM Systems	Yes	All
Cross cutting: Program Management	Yes	All

25. **Each PFMRS theme has a separate objective and details on Key Interventions and Outputs.** For example, Theme 2 focuses on Strategic Planning and Resource Allocation to "ensure effective and equitable allocation of public funds in line with national and county Government priorities". The Theme includes four Key Interventions of which the following relate to PIM: "Strengthen planning and oversight over public investments projects". This Key Intervention is

[8] "Searchable" means that the data can be searched with the help of an online" search function".

implemented through the following outputs: (i) Investment projects financed by the budget are prioritized and aligned to national policies; and (ii) An accurate and up-to-date record of all investment projects is readily available. Each output is planned to come about by undertaking a number of activities. For example, the first output mentioned here is planned in the Strategy to be implemented through the following activity: "Develop a roadmap for PIM reforms and guidelines to streamline the project appraisal and approval process". As such, the Strategy forms a solid anchor and basis for the PforR operation. The exact coverage/boundaries is indicated in Annex 1.

26. **The program theory of change involves focusing on the leadership roles of the NT, MoPSYGA and OAG, including mobilizing the leverage these central MDAs have vis-à-vis program beneficiaries[9].** The program implementing MDAs have defined constitutional, legal and regulatory responsibilities and powers in the six KRAs supported by the program. The implementing MDAs also hold significant capabilities for both internal and external change embedded in their role in resource allocation, management of financial management processes and technical expertise. NT staff are seconded to the finance functions of all beneficiary MDAs giving the NT additional leverage. The program will support the Government's ongoing reform program and provide a framework for focusing the efforts of these three implementing agencies. The theory of change implies that the three agencies are able to influence beneficiary MDAs to implement the intended reforms.

27. **Two KRAs - Timely and Quality Financial Statements and Audits; and Strengthened Fiduciary Assurance and Transparency - only require changes within the implementing agencies, whereas the remaining four (PIM, Cash Management, Wage Bill and Procurement) also imply changes to beneficiary (MDA) behavior.** It is envisioned that behavioral change, both in the three implementing and beneficiary agencies will be achieved through a problem-based, collaborative and iterative approach to reform implementation.

28. **The implementing agencies have previously been able to achieve MDA change through their leverage**, for example: (i) the introduction of enhanced investment project reporting by MDAs to NT following the issuance of a related circular in 2015; (ii) the completed implementation of e-purchasing through IFMIS; (iii) the Controller of Budget enforcing reporting requirements from MDAs; and (iv) the piloting of the new cash management module which is being rolled out in 2017/18.

29. **MDA costs associated with implementation and compliance in KRAs would be included in the expenditure framework and executed by the implementing agencies.** Examples of such activities include training in new procedures and requirements, technical skills upgrading and provision of new ICT systems.

30. **World Bank Implementation Facilitation – including through a proposed World Bank-executed trust fund – is intended to further strengthen the process.** As discussed in the section on Implementation Arrangements and Annex 8, behavioral change will be pursued through a problem-based, collaborative and iterative approach to reform implementation.

31. **Program beneficiaries will be among about 30 identified Service Delivery MDAs.** In all six KRAs, key reform steps will establish systems and incentives intended for behavioral change in a

[9] A "Theory of Change" is a description of why and how a preferred change is anticipated to come about in a given setting or context. It aims at bridging planned activities and the intended outcomes and is closely related to the concept of results chains.

number of MDAs and/or related expenditures. While the exact number of MDAs that will change, behavior is left open to allow for flexibility, a list of "eligible" MDAs has been agreed on the basis of the criteria presented in Box 1 below. A detailed definition and list of Service Delivery MDAs, Service Delivery Programs and associated Service Delivery Expenditures and Staffing Payrolls will be maintained in the Program Operations Manual (POM). While the list of "eligible" MDAs is not expected to change dramatically from year to year, it is envisioned to be updated when there are reshuffles of Government structure. A list for 2017/18 based on the Budget Bill for fiscal year 2017/2018 is provided in Table 17 of Annex 3.

32. **The PforR complements the Kenya Devolution Support PforR (KDSP)-P149129,** which supports PFM capacity building at the county level in Kenya and also includes a results area aligned with the theme in the PFMRS focused on Fiscal Decentralization and Intergovernmental Fiscal Relations (Theme 5). The current PforR focuses on strengthening the enabling environment for service delivery and public investment through reforms at the national level. While some reforms are likely to benefit counties as well as national level beneficiary MDAs, this would be an added outcome and not directly the focus of this PforR. Examples of potential benefits at the county level would be access to the e-Procurement system and improved cash management that would directly benefit county operations and thereby service delivery and public investment at the sub-national level. Similarly, improved wage bill data would improve the whole government approach to wage bill management, including for staff in the counties.

Box 1: Priority Expenditures for Service Delivery

The GoK uses a program-based budget structure. Within this structure, a set of **Service** Delivery Programs have been identified in the budget representing: (i) The delivery of a service that can be accessed directly by Kenyans; (ii) Direct contribution to economic, human development and/or poverty reduction; and (iii) Alignment with the latest version of the Medium-Term Plan (currently 2013-2017)[10].

A **Service Delivery MDA** is a vote that is responsible for delivering a priority service delivery program. **A Priority Service Delivery Program** is a program which contains one or more of the following:

- **Major Allocations to Service Delivery Operational Inputs:** Allocations to sub-programs for items for service delivery in the GoK budget greater than KSH.100 million. These allocations will be a focus for reliability in budget execution and transparency. These would include direct transfers for service delivery facilities and other Government units; conditional transfers for county service delivery; and major centrally procured inputs distributed to service delivery MDAs (e.g. medical supplies, instructional materials; food for prisoners).
- **Projects with Fixed Capital Investments:** Annual allocations to service delivery infrastructure and equipment to projects with capital allocations greater than KSH.100 million in service delivery programs. These allocations will be a focus of budget execution and transparency.
- **Service Delivery Staffing:** Personnel emoluments for staff deployed to service delivery facilities/directly involved in service provision under the responsibility of an MDA (e.g. teachers, doctors, police) greater than KSH.500 million. These MDAs will be a focus for consolidation of HR information in GHRIS.

Service Delivery MDAs and priority service delivery programs are the focus of MDA results. An initial list of Service Delivery MDAs, with the types of service delivery expenditures each contain is set out in Annex 3.3, Table 12. This list will be in the POM, alongside the full list of priority programs and items relevant to service delivery. The lists will be updated if the structure of Government, associated programs and/or the item budget changes.

10 The Second Medium Term Plan 2013-2017, Transforming Kenya: Pathway to Devolution, Socio-economic Development, Equity and National Unity, The Republic of Kenya, The Presidency, Ministry of Devolution and Planning, 2013.

Theme 1- Macro-Economic Management and Resource Mobilization

33. The objective of this Theme in the PFMRS (2013-18) is to "strengthen macro-economic forecasting and enhance collection, accounting and timely reporting of public revenues at national and county Governments, in line with macro-economic fiscal policies". This Theme is supported through PforR Results Area Two, which inter alia will support the "GoK's capacity for debt management and reporting" which is a Key Intervention under this theme. Indirectly, the PforR will also support the Key Intervention in the Strategy aiming at "Consolidating efforts to mobilize additional resources through Public-Private-Partnerships (PPPs)" through Results Area One on PIM since improved PIM will improve PPP capacity in the National Treasury and MDAs.

Theme 2 – Strategic Planning and Resource Allocation

34. The objective of this Theme in the PFMRS is to "ensure effective and equitable allocation of public funds in line with national and county Government priorities. The PforR is supporting the Key Interventions in the Strategy under this Theme aimed to "Strengthen planning and oversight over public investments projects" and "Strengthening Systems for planning and budget formulation". The PforR is supporting this intervention through KRA 1 with its focus on PIM supported by the Electronic Project Monitoring Information System (e-ProMIS) for investment project portfolio management. In addition, OAG oversight of resource utilization especially for public investment projects will be strengthened under KRA 5. Furthermore, the format of some budget documents and reports will be adjusted to facilitate decision-making under KRA 6.

Theme 3 – Budget Execution, Accounting and Reporting and Review

35. The objective of this Theme is to "ensure efficient and effective budget utilization, accurate and timely accounting and reporting and effective control, scrutiny and review of expenditure of public resources both at the national and county Governments". Reflecting a judgement that implementation challenges are key bottlenecks for service delivery and public investment, this Theme is supported by four PforR Key Results Areas: (i) *Strengthening Cash planning and cash management* is supported by the PforR Key Results Area Two on Reliable Funding for Service Delivery; (ii) *Improving effectiveness of Internal Audit functions* is supported by PforR Results Key Area Six relating to fiduciary assurance; (iii) *Strengthening Payroll Management* and *Strengthening systems for Teachers payroll* are supported by Key Results Area Four on Consolidated Staff Data for Better Service Delivery and Fiscal Management; and (iv) *Strengthening public procurement and asset disposal functions in the public sector* is supported by the PforR Key Results Area Three on Transparent and Efficient Procurement.

Theme 4 – Independent Audit and Oversight

36. The objective of this Theme of the PFMRS is to "ensure accountability and oversight of public resources and enhance efficiency, effectiveness and lawfulness in the collection and application of public funds". The following Key Intervention in the Strategy is supported by the PforR through Key Results Area Five: "Strengthening capacity of Independent Audit".

Theme 5 – Fiscal Decentralization and Intergovernmental Fiscal Relations

37. The objective of Theme 5 in the strategy is to "strengthen intergovernmental fiscal relations and improve the efficiency and effectiveness of county public financial management systems". As

mentioned above, this Theme is supported by the KDSP and will not be supported by the current operation.

Theme 6 – Legal and Institutional Framework

38. The objective of this Theme is to “ensure a consistent and harmonized PFM Legal and Institutional Framework and enhance compliance of MDAs and counties with its implementation”. The PforR will not support this reform area as identified Key Interventions mostly relate to county level issues supported by the KDSP or legal changes for which a PforR will not be an adequate instrument.

Theme 7 – IFMIS and other PFM Systems

39. Theme 7 aims to “establish a secure, reliable, efficient, effective, and fully integrated public financial management system in national and county Governments”. The interventions supported by the Results Areas under the PforR with regards to the PFMRS are detailed in Annex 1.

40. Therefore, while the continuous work on improving existing modules of IFMIS is not directly supported by DLIs, the Results Areas depend on, and incentivize improvements of IFMIS.

Cross cutting: Program Management

41. The refreshed PFMRS has an elaborate and detailed reform implementation structure, which this PforR will be embedded in. The structure is therefore within the program boundaries and expenditures are included in the expenditure framework. The implementation structure is summarized in Section III below and detailed in Annex 1.

Expenditures

42. The Government’s program includes the PFMRS and related Sub-Strategies as funded by the GoK budget and Development Partners (DPs). DPs, including the World Bank through this PforR, are expected to fund the bulk of the “variable inputs” associated with implementation of the PFMRS. The Government is funding “fixed inputs” in terms of staff salaries and overheads associated with anchoring, designing and implementing reforms. These two elements (“variable” and “fixed” inputs) associated with implementing the PFMRS define the program boundaries and thereby the expenditure framework.

43. **Aligned with the program boundaries, expenditures are comprised of two elements.**

- “Variable costs”: These include allocations for the implementation of reform inputs identified in the Government program as formulated in the PFMRS using the established mechanism of the PFM Reform project, which is included in the GoK Development Budget as a budget line in the chart of accounts. Expenditure types include consultancy services, hardware and software, training, etc.
- “Fixed costs”: These include allocations for the operational costs of the relevant Budget Programs in the National Treasury, MoPSYGA (responsible for wage bill management strengthening) and OAG. These allocations enable the three MDAs to manage and enforce the new processes and systems. Expenditure types include salaries and overheads.

44. **The Government's program is set out in the PFMRS with a combined "fixed" and "variable" budget of US$632 million.** The PFMRS is budgeted to cost US$124 million in "variable" costs[11]. Implementation of the program is also supported by departments in the implementing agencies; first in the design phase and subsequently in the implementation phase. Government departments involved in design and implementation of the program have a planned total GoK expenditure of US$508 million for the period 2016/2017 - 2020/2021.

45. **The GESDeK supports a subset of the PFMRS, as outlined above, which amounts to US$246 million and constitutes the expenditure framework for the PforR.** This constitutes US$55 million in variable costs and US$191 million in fixed costs[12]. Of these US$246 million, IDA will fund a total of US$150 million which is notionally allocated to variable (US$40 million) and fixed (US$110 million) costs for illustrative purposes in Figure 2 below. Currently, GoK plans to contribute approximately US$5 million to program variable costs and other Development Partners contribute US$10 million which implies a deficit of US$40 million.

46. These costs are allocated over a period from 2016/2017-2020/2021, three years beyond the estimated timespan of the PFMRS[13]. The government intends there to be future iterations of the PFMRS after 2018. Even if this does not occur, the Implementing Agencies will continue to manage the improved systems introduced under the PFMRS and incur the planned fixed costs. It is also highly likely that PFM reforms and associated variable costs will continue. The focus on GESDeK DLIs from 2019 onwards will be on the implementation of the processes and systems developed in the context of the PFMRS by the Implementing Agencies. Therefore, GeSDEK will remain relevant over the full Program period, 2016/2017-2020/2021, even in the absence of future iterations of the PFMRS.

47. **Whilst the proceeds from the PforR can be allocated flexibly by GoK and the allocation below is not binding during implementation, it is important that adequate resources are allocated to implementing agencies to enable the relevant DLIs to be achieved.** Budget allocations to variable costs will therefore be increased to cater adequately for the costs of the implementation of GESDeK. Further details are provided in Annex 1.

48. **Out of a total GESDeK expenditure of US$246 million, 35 percent will be financed by Government; 61 percent by IDA; and 4 percent by other Development Partners (DPs).** The Government will fund US$86 million equivalent whereas IDA will fund US$150 million equivalent. DPs will fund US$10 million equivalent.

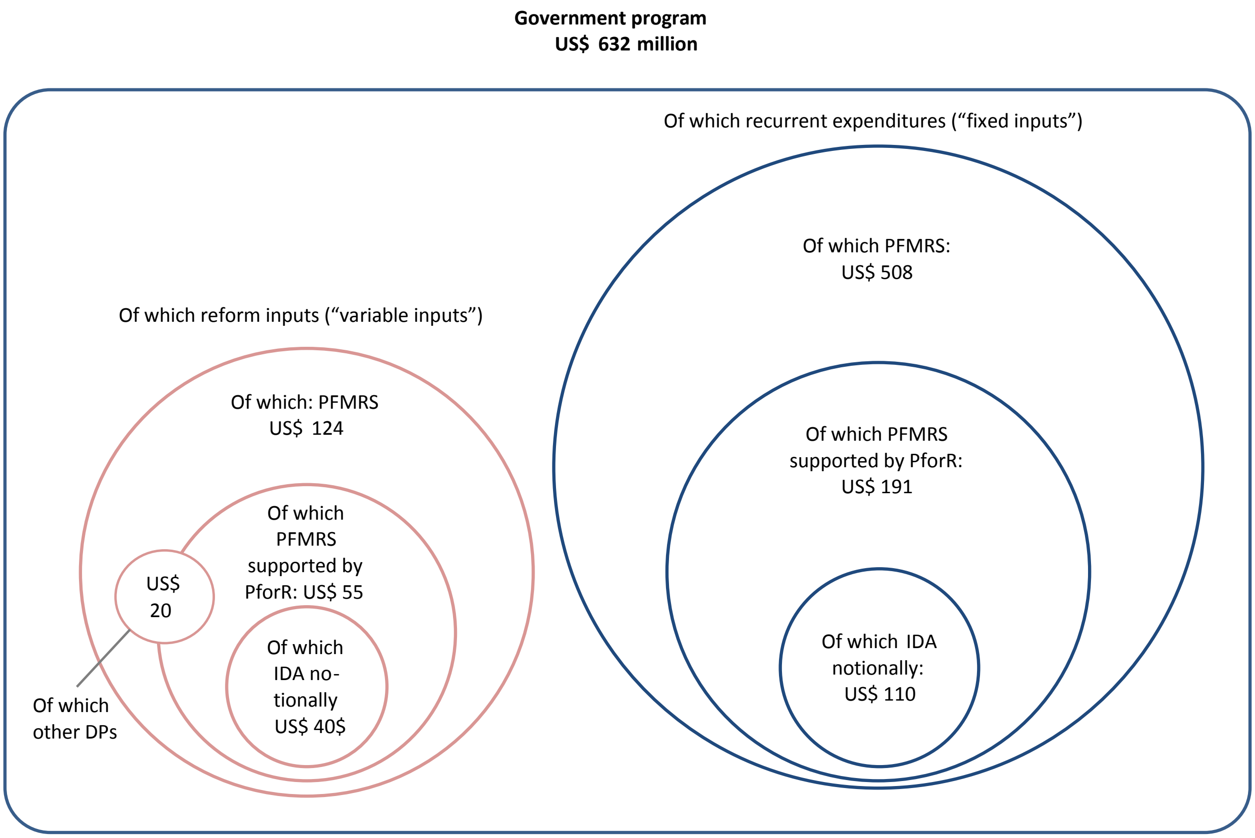
49. **DPs have been supporting PFM reforms for decades.** Currently, two of them; the Danish International Development Agency (DANIDA); and Swedish International Development Cooperation Agency (SIDA) support the PFMRS amounting to approximately US$4 million per year. This support is provided to select activities within the PFMRS and the funding is channeled through Country Systems (on budget). It is therefore assumed that half of this will be used for the part of the PFMRS that is supported by the PforR or US$10 million over the Program period. In addition to this, donors will support a Bank-Executed "Reform Implementation Facilitation Facility" Trust Fund which will be

[11] The costing of the strategy assumes that it will be extended or succeeded after 2018.
[12] The fixed costs supported by GESDeK Program for Results exclude salary recurrent expenditures for the relevant sub-programs in the budget.
[13] The 2021/22 GoK expenditures supported by GESDeK program will be based on the iterations to the PFMRS and the MTEF for the relevant period 2021/24.

used to support the Technical Teams and broader coalitions to deliver the steps required in the Program over the period of the operation.

50. **Program beneficiaries are ultimately all citizens of Kenya.** Most of the PFMRS Themes aim at improving the efficiency and effectiveness of public spending which should benefit all Kenyan citizens. Better prioritized public investments will have greater social and economic benefits for citizens. More reliable funding for education, health and social protection services will benefit citizens. Improved procurement, fiduciary assurance, and auditing will make expenditure more efficient, increasing impact further. Increased transparency will enable all citizens of all genders to assess funding levels and delivery with a view to improving their lives.

Figure 2: Overview of Program Expenditure Framework, 2016/2017 to 2020/2021, US$ million



51. **There are no activities or contracts in the Government's program other than salary recurrent expenditures, that have to be excluded from the PforR Program in accordance with the Bank's Policy and Directive on PforR Financing.** There are no high-value contracts that have

been included in the program[14]. The Financing Agreement and POM will spell out the exclusion of high-value contracts.

52. **The Program is not expected to have any adverse social impacts.**

D. DISBURSEMENT-LINKED INDICATORS

53. **Within the framework set by the PFMRS, the DLIs for the PforR have been developed in a consultative process involving all key stakeholders.** These DLIs have been developed to support a subset of the Government's program based on where: (i) ongoing reform momentum within the PFMRS and drive is strong; and (ii) change is most likely to improve the enabling environment for service delivery and public investment management. The preparation process has involved the identification of governance challenges in relation to service delivery and public investment and the identification of results in terms of feasible steps and success indicators. The process has involved four main elements. These include: (i) collectively identifying and agreeing on a prioritized set of bottlenecks affecting infrastructure and service delivery; (ii) collectively understanding problems and defining success; (iii) identifying feasible steps towards success; and (iv) identifying the stakeholders and systems important for delivering success.

54. **The approach is technically sound for three main reasons. *Firstly,*** the process focused on identifying, understanding and resolving the specific problems identified which impact on service delivery, as opposed to the generic implementation of procedures, policies and systems. ***Secondly,*** it has involved a common results framework for both the identification and measuring of success (success indicators) and defining results along the pathway for achieving success (feasible steps). ***Thirdly,*** the participation in the preparation process has involved the building of teams of stakeholders that will be involved in the implementation of the solutions, increasing commitment and the chances of success.

55. **The process has led to identification of six Key Results Areas.** For each results area, results chains have been identified and DLIs have been developed along the results chains: The first years relate to the steps necessary to bring about change. These are at the output level of reforms and relate to business processes, procedures and systems. The indicators for the outer years of the PforR measure success in the implementation of reforms by MDAs, with compliance enforced by the implementing agencies. The Key Steps initially represent reform actions in the first two years of the Program. In subsequent years, these indicators relate to keeping the implemented reforms in place. The success indicators will come about after putting in place the initial key steps. Accordingly, they will materialize from year 2 of the Program in each results area and with expectations of increasing delivery. The logic chain including the feasible steps towards the attainment of the goals within each result area is included in Annex 1.

56. **Below is a presentation of the six results areas** highlighting the indicators to measure the expected achievements during the lifetime of the PforR.

[14] The Recipient shall ensure that the Program excludes any activities which involve the procurement of: (1) works, estimated to cost US$50 million equivalent or more per contract; (2) goods, estimated to cost US$30 million equivalent or more per contract; (3) non-consulting services, estimated to cost US$30 million equivalent or more per contract; or (4) consultants' services, estimated to cost US$15 million equivalent or more per contract.

- **Results Area 1: Prioritized Public Investments -** Success will be measured in terms of number of projects with capital allocations above KSH.100 million which are in compliance with procedures in the PIM manual.

- **Results Area 2: Reliable Funding for Service Delivery and Public Investment -** Success will be measured by the average under-release of priority operational service delivery budget allocations expressed as a percentage of revised in-year cash plans on a quarterly and monthly basis; annual exchequer releases to GoK capital budget allocations as a percentage of the approved budget; and average under performance of quarterly net borrowing as a percentage of what is planned in revised in-year cash plans.

- **Results Area 3: Efficient and Transparent Procurement -** Success will be measured in terms of MDAs using the e-Procurement System in compliance with the PPAD Act and Regulations for the full fiscal year and procurement data disclosed in SPP following OCDS.

- **Results Area 4: Consolidated Staff Data -** Success will be measured in terms of number of MDAs whose payroll data has been uploaded to GHRIS and are up to date.

- **Results Area 5: Timely and Quality Financial Statements and Audits -** Success will be measured by the reduction in number of months between receipt of final consolidated financial reports by OAG and submission of the audited financial statements to Parliament. Success will also be assessed by the percentage (%) of MDAs (i) the National Treasury has reviewed the quality of annual financial statements generated from IFMIS and has submitted to the OAG within 4 months; and (ii) whose financial statement audits have been completed within 3 months after OAG receipt of final financial statements using an improved methodology, and having undergone quality assurance.

- **Results Area 6: Strengthened Fiduciary Assurance and Transparency -** Success will be measured by the number of MDAs where information is publicly available online in searchable form on: (a) program expenditure; (b) project expenditure; and (c) transfers to service delivery units. Success will also be measured by the number of MDAs whose annual and quarterly Internal Audit Reports have been prepared and undergone quality assurance in line with enhanced procedures for assurance, risk management and audit follow up.

The detailed DLI Matrix is provided in Annex 3.

E. KEY CAPACITY BUILDING AND SYSTEMS STRENGTHENING ACTIVITIES

57. **While considering that capacity for reform design and implementation is strong in Kenya, the Program is designed to further strengthen capacity and institutions.** All the DLIs would be achieved through capacity building and institutional strengthening as illustrated in Annex 1, Table 9. However, aligned with the spirit of the instrument, the GoK might decide to bring about results with different capacity building interventions from the ones envisioned at the PforR preparation stage.

58. **In addition, a proposed Bank-Executed Trust fund is being established to provide enhanced implementation facilitation by the World Bank Task Team.** As further detailed in Annex 9, the trust fund will provide targeted technical assistance and facilitation to unlock bottlenecks as they might arise.

III. PROGRAM IMPLEMENTATION

A. INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

59. **The National Treasury will represent the GoK (Borrower) and the lead MDA charged with the responsibility of providing overall strategic guidance to the Program.** The other two implementing MDAs are the Ministry of Public Service, Youth and Gender Affairs and the Office of the Auditor General. Within the National Treasury, the Program will be anchored at the PFMR Secretariat. The Directorate of Public Service Management will be the lead department at the MoPSYGA. The Office of the Auditor General shall be responsible for the results under DLI 5.2.

60. **The Program will be implemented using the existing institutional arrangements currently in place for the implementation of the PFMRS 2013 - 2018[15].** These arrangements have been in place since 2006 and the Secretariat continues to coordinate PFM reform activities in Kenya. In so doing, it has managed both GoK and DP funds. The structure has five key elements. These include: (i) a high-level PFM Sector Working Group[16] that serves as a forum for dialogue, broad consultation, information sharing and coordination; (ii) a Steering Committee[17] that oversees, provides strategic policy guidance and reviews and monitors the implementation of the program and the PforR; (iii) a Technical Committee[18] that will be responsible for the technical monitoring and evaluation of the Program; (iv) Implementing MDAs; and (v) a PFM Reform Secretariat that will serve as a Secretariat to the PFM Sector Working Group (SWG), Steering Committee and the Technical Committee.

61. **In addition to the established PFMRS coordination structures, the Technical Teams responsible for each results area will work together in delivering the key steps to success and report on progress.** The Technical Teams will meet regularly to review progress and agree on actions going forward to achieve success, in an iterative and adaptive manner. The Technical Teams will comprise the implementing agencies and key beneficiary MDAs relevant to each results area.

62. **The review of the PFMRS in 2016 facilitated a process whereby key actions to strengthen governance and coordination were identified and are in the process of being addressed.** The PforR is also targeting most of these key actions. For example, by establishing the PFMR Secretariat as the Project Implementation Unit, it provides a framework for strengthened coordination mechanism from which communication can be clear and uniformly transmitted to implementing departments and

[15] A renewed review will be undertaken in case these arrangements are proposed to be adjusted in the future.

[16] Chaired by the Cabinet Secretary (CS) of the National Treasury and comprising of CS Ministry of Devolution and Planning; DPs Representatives; Chair Council of Governors; PS National Treasury; PS State Department of Planning and Statistics; Chair CRA; Controller of Budget; Commissioner General of KRA; Chair SRC; Secretary/CEO TSC; Director General PPRA; Clerk of National Assembly and PFMR Secretariat.

[17] Chaired by the PS National Treasury and comprising of PS Devolution, PS Planning and Statistics; DPs; DG Budget; DG Accounting Services; DG Public Debt; CEO SRC; CEO CRA; Auditor General; CoB and PFMR Secretariat.

[18] Chaired by the Program Coordinator PFMR Secretariat and comprising all component managers representing implementing agencies/Results Teams; DPs and PFMR Secretariat.

agencies (including dissemination of the POM that describes the day-to-day aspects of the PforR in detail).

More details on the implementation arrangements, including budgeting and fund flows, are provided in Annex 1.

B. Results Monitoring and Evaluation

63. **The Monitoring and Evaluation (M&E) arrangements in the PFMRS meet requirements for monitoring the Program-for-Results operation.** The institutional and implementation arrangements summarized above and detailed in Annex 1 provide a solid structure for collecting and validating information for M&E. The Strategy itself has a strong and newly updated results framework, which is closely aligned with the results framework for this PforR.

64. **The Results Framework for the PforR comprises six PDO Indicators and 18 Intermediate Results Indicators.** The Results Framework defines the indicators and the institutional arrangements for data collection. All intermediate results indicators are included in DLIs. The procedures for collecting DLI and other M&E information annually for the preceding financial year are detailed in Annex 2.

65. **The PFM Reform Secretariat and the World Bank task team will verify the adequacy of M&E arrangements within the implementing MDAs on a continuous basis for the duration of the PforR as part of regular implementation facilitation and supervision.** The POM will set out reporting arrangements, and the requirements will be set out in the PAP as well as form the basis of DLIs. This will ensure challenges in reporting are addressed in the Program.

C. Disbursement Arrangements and verification protocols

66. **An independent verification agent will validate achievement of DLIs.** The Implementing Agencies will provide evidence of achievement of their respective DLIs to the PFM Reform Secretariat on the first working day after July 15 annually for periods covering the previous fiscal year (i.e. July 1 – June 30). Validation of results will be based on the verification protocol in Annex 3. The PFM Reform Secretariat will present all validation and verification information to the World Bank by the end of September annually after verification by the agent during the month of September.

67. **The PforR instrument allows for advancing disbursement against expected results in the coming fiscal year up to a rolling limit of 25 percent of the credit amount, i.e. in this case up to US$37.5 million.** The financing agreement for the GESDeK will reflect this provision and it is expected that GoK will request such rolling advances starting by project effectiveness for results expected by June 2018.

68. **The Program embeds flexibility in delivery by leaving open the specific MDAs that will benefit from the program and by expecting a review in year two of the Program to potentially adjust the DLIs.** The nature of public sector reform is such that support and drive for different reform elements will change over time. The Program is therefore designed to allow for flexibility by defining a broad likely reform space represented by the six Key Results Areas within which some flexibility will be allowed to adjust priorities and move forward at different speeds. An in-depth review is planned after 30 months of the Program to potentially adjust the DLIs.

69. **The indicators which measure success are all scalable, whilst the indicators that measure Key Steps are not.** Success indicator DLIs are measured in terms of the number of MDAs, projects or share of expenditures which are compliant with the new processes. Disbursement amounts for each DLI will be computed based on the number achieved relative to the target. For the step indicators in the DLIs, all key steps in a results area must be achieved for disbursement to take place.

The verification protocol is provided in Annex 3.

IV. ASSESSMENT SUMMARY

A. TECHNICAL

Strategic relevance

70. **The PforR is focused on strengthening the functionality of Kenya's public finance system with the objective of improving utilization and transparency of resource management in selected MDAs.** The reforms are anchored in the GoK's Revised Strategy for Public Financial Management Reforms (2013-2018) – recognizing that performance to date has made notable progress in improving the "form" of the public finance systems, there needs to be a shift in focus to the "functions" of these systems to ultimately enable service delivery for citizens. The Program identifies specific, measurable results in six Results Areas – each of which contain "key steps" that represent iterative milestones towards the achievement of improved functional performance for service delivery. This has resulted in a Program that is ultimately focused on promoting the functional and behavioral change required to close the implementation gap and promote adoption of reforms that have been formally passed, but have yet to translate into results for citizens.

Technical Soundness

71. **The technical soundness of the Program activities has been informed by a robust, participatory preparation process.** Within the framework set by the PFMRS, the DLIs have been developed through a facilitated process grounded in a collective understanding of the underlying problems and a clear, shared definition of success. They have been designed to support the implementation of specific sub-themes of the PFMRS taking advantage of where: (i) ongoing reform momentum is strong; and (ii) an improvement in functional performance is most likely to improve the enabling environment for service delivery and investment management. By grounding the preparation process in the simultaneous building of teams of stakeholders that will be involved in the implementation of the solutions – the enabling environment for functional impact is already being strengthened.

Governance Structure and Institutional Assessment

72. **The governance structure of the Program will leverage the existing institutional arrangements already embedded in the PFMRS.** The key elements include: (i) a High-Level PFM SWG; (ii) a Steering Committee; (iii) a Technical Committee; (iv) implementing MDAs; (v) the aforementioned Technical Teams linked to results areas; and (v) the PFM Reform Secretariat. This structure encompasses stakeholders at both the national and county Government levels and includes Development Partners. The PFM SWG, in particular, is a forum for dialogue, broad consultation, information sharing, and coordination that is chaired by the Cabinet Secretary of the National Treasury. The beneficiary MDAs will be members of the Technical Teams. Except for the Technical

Teams, these implementation arrangements (see figure 3 in Annex 1) have been tried and tested. These arrangements have been in place since 2006 and the Secretariat continues to coordinate PFM reform activities in Kenya.

Expenditure Framework

73. **The Program's Expenditure Framework is defined in the context of the spending needs for the full implementation of the PFMRS.** There is a funding gap for reform inputs in the implementation of the Strategy. A notional allocation of US$40 million equivalent from the PforR will, therefore be dedicated to, and commensurate with the funding gap for reform interventions relevant to the achievement of program results. The PforR will also provide a notional US$100 million equivalent of funding to underpin the operational costs of the relevant Budget Programs in the National Treasury, MoPSYGA, and OAG, which will enable those institutions to better manage and promote the adoption of the new processes and systems.

74. **The program expenditure framework is adequate to deliver objectives and results and Government has reliably provided adequate funding for fixed costs.** The expenditure framework provides for financing of reform inputs (variable costs) directly to allow the feasible steps to be taken in the development of processes and systems, training of MDAs, etc. The expenditure framework also safeguards projected allocations for non-salary recurrent budgets which helps ensure that central agencies have the resources to manage systems and enforce compliance over time.

Program M&E and M&E Capacity

75. **The Program has M&E arrangements reflecting the Results Areas and DLIs.** There are three main program specific tools which will be used in M&E, namely: (i) Technical Team Reporting, which is the key operational level program management and sets out the feasible steps, responsibilities, and timing; (ii) the Results Framework which sets out the clear set of 'key steps' (intermediate outcomes) and 'success indicators' (PDO level results indicators); and (iii) the Program Action Plan (PAP), which identifies the cross-cutting actions required to address risk. The results framework utilized will allow adjustment over time based on experience of implementation. In each fiscal year, the Technical Teams will collect and provide evidence and computation of the values of the success indicators by July 15. These will then be compiled by the PFMR Secretariat by the end of August and verified by the verification agent by the end of September.

Economic Impact

76. **Both estimation and attribution of the costs and benefits of institutional and governance reforms is extremely difficult.** Social Cost Benefit Analysis can nonetheless be useful because the analysis helps spell out aspects of the 'theory of change' and can provide a sense of what the broader economic impacts of those changes might be over the medium- to long-term. The program economic evaluation for the GESDeK has been undertaken to illustrate the kind of benefits that could accrue from implementing the Program. The analysis is illustrative as the exact value of benefits accruing from the Program cannot be ascertained ex-ante. Conservative estimations of benefits have been applied across all results areas.

77. **The net impact realized through expected efficiency gains from the process of improved systems for public service delivery is illustrated, very approximately and conservatively, to**

potentially be around US$440 million. This represents the sum of estimated net benefits arising from program implementation. The summary of the cost and benefits associated with each of the results areas of the Program is presented in Annex 4. The methodology applied to generate these estimates are included in the Technical Assessment. The illustrative analysis assumes an exchange rate of KSH.103 per US$ and a 12 percent discount rate. It assumes a time horizon of five years, from 2017/18 – 2021/22.

B. FIDUCIARY

78. **The Integrated Fiduciary Systems Assessment (FSA) found that the National-level fiduciary systems for the three Implementing Agencies (IAs) have both strengths and challenges.** In view of the nature of the challenges, the combined overall fiduciary risk to the Program has been assessed as Substantial. The conclusion of the assessment is that the PFM system complemented by the program-specific mitigation measures is adequate to support the Program.

79. **Taking into account good progress on regulatory framework and institutional structures, combined with remaining challenges and inadequate capacity in some areas at the national level, including delays, the procurement risk for the Program has been assessed to be substantial**. The regulatory and institutional framework for public procurement has been strengthened in recent years with the newly enacted Public Procurement and Disposal Act. The three implementing MDAs have established institutional structures for the procurement function in line with the new Procurement Act. The assessment revealed that the current arrangement seems to be generally working well particularly because it has eliminated the prevalent bureaucracy and delays attributed to the defunct Tender Committees. A key challenge in the three implementing agencies identified in the assessment is procurement records management and delays providing professional opinion by head of procurement department.

80. **The actions included in the DLIs on cash management, internal control and e-procurement will be included as risk mitigating actions for the three implementing agencies in the PAP.** The NT, OAG and the MoPSYGA will be included in the first phase of implementing enhanced e-procurement (results area 3) and internal audit processes (results area 6). In addition, their financial statements will be subject to quality assurance and enhanced audit methodologies (results area 5) and internal audit (results area 6). These activities are reflected in the PAP.

81. **Fraud and Corruption risks for implementing the Program are assessed as Substantial.** Key risks include control weaknesses in IFMIS, collusion and fraud in public procurement, delayed audit reports and a history of fraud and corruption complaints against the implementing MDAs. However, while risks are substantial, Kenya has the institutional and organizational capacity to handle issues of fraud and corruption in the Program and risks can be further mitigated through the Program Action Plan (PAP). The Kenyan Governance and Anti-Corruption (GAC) system complemented by the program-specific mitigation measures, are adequate to support the Program.

82. **Efforts are needed to mitigate risks on all three areas covered by the assessment.** The Bank's Governance team will work closely with Government counterparts as part of the PFM dialogue and program implementation support to further strengthen the fiduciary and governance systems of the program as contained in the PAP.

C. Environmental and Social

83. **Only two out of the six World Bank Core Principles on Environmental and Social Safeguards apply to the GESDeK PforR[19].** The Core Principles being triggered are number 1, which is the General Principle of Environmental and Social Assessment, and number 3, which is on Public and Worker Safety. The latter would be associated with e-waste[20].

84. **The environmental and social risks and impacts of activities under the GESDeK are ranked as "low", "insignificant" or "negligible" respectively**. This is because low quantities of electronic equipment will be procured for the program and this should not present significant or severe impacts to both the biophysical and social environment.

85. **The anticipated minimal risks would be mainly associated with the generation of electronic waste (e-waste).** Over the life of the project, electronic equipment to be procured will include computers, servers, printers, scanners and similar items, which are unlikely to pose any threats until the end of life of these devices. These items will have the potential to generate e-waste once they reach their end of life or become obsolete, which can be a threat to human health and the environment if poorly or wrongly disposed of. Threats include persistent, bio-accumulative and toxic substances, such as brominated flame-retardants, heavy metals, and persistent organic pollutants. This threat can result from two sources. The first is from the leaching of hazardous substances, in particular lead, mercury, cadmium, and lithium into the environment from e-waste that is disposed of in non-engineered landfills and refuse dumps. The second is from improper recycling techniques, which are in particular employed in the informal recycling sector in developing countries (including in Kenya) and currently result mainly from the export of e-waste to these countries, but increasingly also from improper domestic disposal.

86. **Kenya has adequate procedures and legal framework for management of e-waste.** The framework includes the 1999 Environmental Management and Coordination Act (as amended in 2015), Waste Management Regulations, E-waste Management Guidelines and draft E-waste regulations, all which present an adequate framework for managing and mitigating the impacts associated with e-waste in the country. The main mitigation measures of the ESSA are to procure electronic gadgets from credible manufacturers, awareness and sensitization raising, collecting, recycling and re-use and disposal. In so doing, the Program will strengthen the capacity of the National Treasury, MoPSYGA and OAG to manage the e-waste generated by the program by providing awareness and sensitization and training for the staff about e-waste management; and linking the agencies with recycling facilities such as the East African Compliant Recycling Company (EACRC) Limited[21]. The objective will be to properly collect, de-manufacture/disassemble, re-use and dispose of all non-usable remains of the e-wastes generated by the program.

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[19] The six principles relate to (1) General Principle of Environmental and Social Assessment; (2) Natural Habitats and Physical Cultural Resources; (3) Public and Worker Safety, (4) Land acquisition; (5) Indigenous Peoples and vulnerable groups; and (6) Social conflict. Please refer to Annex 6 for more detail.

[20] E-Waste is defined as Electronic waste also known as e-waste is an informal term used to describe almost all types of Electronic and Electrical Equipment (EEE) that has entered or could enter the waste stream. It is used for almost any household or business item with circuitry or electrical components with power or battery supply that has reached its end-of-life.

[21] The EACRC is operating Kenya's first e-waste recycling facility, operating to international health, safety and environmental standards and establishing a local, sustainable IT e-waste recycling industry.

87. **While the Program does not affect vulnerable groups directly, any collected or available expenditure and public investment data will be used for policy-making and could generate indirect positive social impacts, especially if the data is disaggregated by gender, geography and other dimensions.** Data collected is useful for decision-making that present opportunity for development for vulnerable households which leads to improvement in incomes of poor households. In addition, improved compliance with the Procurement Act, 2015, following from strengthening of e-procurement will enhance implementation of the requirement that 30 percent of procurements should be awarded to youth, women and persons with disabilities. It is not anticipated that any social conflicts will arise as a result of this program.

88. **Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program grievance redress mechanism or the World Banks's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel, which determines whether harm occurred, or could occur, because of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org

89. Complaints can be channeled through the Commission on Administrative Justice (also referred to as the Office of the Ombudsman).

D. RISK ASSESSMENT

90. **The overall risk to achieving the PDO is "Substantial".** Political and Governance together with the fiduciary; institutional capacity for implementation and sustainability; stakeholder and technical design risks are perceived to be "Substantial". The macro-economic, sector strategy and policies risks are rated "moderate". The environmental and social risk is rated "Low". An overview of the risks as per the SORT methodology is included in Annex 7.

91. **The Political and Governance risks are "Substantial".** The main reason for the risk rating is related to the August 2017 General Elections, possible distraction, and the time it may take for a new administration to settle down. However, the 2013 General Elections were orderly and a new Government was formed within about two months reflecting the gains from the critical political and electoral systems reforms by the GoK following the 2007 elections. To mitigate political and governance against this, the PforR is anchored in a Government Program that has been implemented (without interruption) over two election cycles by different administrations. The risk will be reviewed during the first year of implementation.

92. **Despite significant improvements in transparency, accountability and participation, challenges of corruption remain.** The World Bank has also improved its Grievance Redress Mechanism as well as the application of its Fraud and Corruption policy. Within the Program, monitoring of the implementation of those recommendations is part of the PAP.

93. **Macroeconomic risks are "Moderate".** The macroeconomic environment remains stable in Kenya. However, emerging economic winds of change (including building fiscal pressures particularly regarding recurrent spending) could lead to a slippage from medium term economic objectives. The outcome of the elections could disrupt economic activity, adversely affecting investor confidence and reduce economic activity from projected levels.

94. **Technical Design risks are "Substantial".** The PforR preparation process has facilitated building of a team of stakeholders that will be involved in the implementation of the solutions. The fact that the program narrows its focus to an "enabler" of service delivery is a way of mitigating the technical design risks especially as it relates to addressing downstream service delivery bottlenecks. However, there remains a risk of systems development being delayed, required updated of regulatory frameworks not being made in time (for example attendant regulations for the PPAD Act, 2015), and implementing agencies failing to establish the needed capacity to enforce compliance.

95. **Risks related to institutional capacity for implementation and sustainability are "Substantial".** The decision-making structure is well articulated in the PFMRS and is tried and tested. However, while the Program operation involves just three implementing agencies (all situated in Nairobi), each of these institutions has varying capacities. The PFMR Secretariat however has significant experience in World Bank and GoK funded projects and will develop, train and strengthen the capacities of implementing agencies on program operations.

96. **Several lessons can be drawn from the World Bank's last Credit supporting Governance reforms in Kenya[22].** Several lessons were highlighted in the Implementation Completion and Results Report (ICR). The design of this operation draws on these lessons and includes mitigation measures for the risks identified in the ICR:

- Public sector reforms are inherently political and their design and implementation should be informed by a careful and ongoing political economy (PE) analysis. Related, resistance to change is a major hurdle. Public sector and governance reforms affect various interests and often face resistance. **Mitigation:** The proposed Reform Implementation Facilitation Facility (RIFF – see Annex 9) is proposed to "work the political economy" and mobilize coalitions for change.

- Design complexity and shortcomings hampered implementation. **Mitigation:** The PforR supports a sub-set of the wide ranging PFMRs. The PforR has been prepared through multi-stakeholder consultation.

- Absence of a component leader with strong leadership and ownership skills in implementing reforms activities. **Mitigation:** Each DLI is the responsibility of a department within an implementing agency. Technical Teams will be responsible for coordinating and driving activities at departmental levels. In addition, the preparation process, including the identification of the Key Results Areas, has deepened the program ownership within the IAs.

[22] The SDR 17 million Institutional Reform and Capacity Building Technical Assistance Project (P090567) became effective in 2006 and ended in 2011. It had disbursed SDR 6.9 million by the closing date. The outcome was rated Moderately Satisfactory in the ICR.

- Failure by components to recognize the need to fully integrate proposed activities into strategic plans, annual work plans, performance contracts and budgets of MDAs. **Mitigation:** The PforR relies on country systems including for departmental work planning. The links will be set out in the POM.

- Weak understanding of how to harmonize Government procedures and systems with those of the project. **Mitigation:** The financing instrument chosen uses country systems.

- Delay in the introduction of the agreed monitoring and evaluation framework. **Mitigation:** The Monitoring framework relies on the existing PFMRS structure.

- Lack of a strong, elaborate and effective communication strategy between the coordinating unit and stakeholders. **Mitigation:** The implementation facilitation is planned to involve multi-stakeholder involvement as described in Annex 9.

- Inadequate amount of initial capacity building activities on project design, procurement, disbursement, and financial management procedures of the Bank. **Mitigation:** The financing instrument chosen uses country systems.

97. **Sector Strategies and Policies related risks are "Moderate".** The PFM Strategy and the OAG Strategic Plan are currently under implementation, while the activities to be implemented by the MoPSYGA emanate from an action plan currently under implementation. However, while these strategies, policies and plans exist, large funding gaps exist. The program is designed to incentivize increased allocation by the GoK to achieving the results.

98. **Fiduciary Risks are assessed as "Substantial".** A fiduciary assessment was carried out for the Program and the three implementing MDAs were assessed with a Financial Management, Procurement and Governance and Anti-Corruption (GAC) perspective. The assessment identified various risks as discussed in Part IV B above and Annex 5 below. **Mitigation:** The Results Areas, DLIs and the PAP have been developed to improve fiduciary compliance and reduce underlying risks.

99. **Stakeholders Risks are assessed as "Substantial".** The Government and Development Partners support the program. Whilst the implementing agencies have shown willingness to engage in developing solutions, MDAs may not be willing to comply and change their behavior. For example, MDAs responsible for largescale public investments may not adhere to the new project appraisal process, some MDAs may not be willing to be transparent and share information via the Budget Portal. Since the program is highly dependent on IFMIS, there is some possibility that various MDAs, civil society groups and sections of the public will voice concerns about supporting the system further because of widely held beliefs about the integrity of the system.

100. **Environmental and social risks are "Low".** Risks relate mostly to handling of e-Waste. Risks will be mitigated primarily through capacity building.

E. PROGRAM ACTION PLAN

101. **The Program Action Plan (PAP) in Annex 8 focuses on risk-mitigation measures.** A PAP for a PforR is intended to identify actions for strengthening institutions and improving systems performance. Aligned with this objective, the PAP is intended to include three types of actions: (i) Actions to improve the technical dimensions of the program (ii) Actions to enhance the capacity and

performance of the implementing agencies; and (iii) Risk-mitigating measures. In the current PforR, the first two types of actions are embedded in the results framework as intermediate results indicators and incentivized because all of them are also DLIs. Accordingly, the PAP for this operation only includes the third type of action – i.e. risk mitigation measures.

102. The actions are derived from the technical, fiduciary and environmental and social systems assessment. Key actions include measures to strengthen budgeting, reporting and internal and external control, GAC measures and actions to enable the implementing agencies to handle e-waste, and thereby mitigating the key social and environmental risks associated with the PforR.

Annex 1: Detailed Program Description

Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya (GESDeK)

Program Development Objective

1. **Derived from the principles for PFM in the Kenyan Constitution, the PFMRS defines a vision and an overall strategic reform objective for PFM in the country.** The vision is to create "a public financial management system that is efficient, effective, and equitable for transparency, accountability and improved service delivery". The overall goal of this Reform Strategy is to ensure 'A public finance management system that promotes transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development".

2. **The PDO for this PforR is closely related to the Strategy but supports only a sub-set of its seven themes.** The PDO has been developed to reflect this more modest contribution. The PDO is *to improve utilization and transparency of resource management in selected service delivery MDAs*. Compared to the overall objective of the Government's program, this PDO reflects that the Program does not facilitate expenditure prioritization between sectors or expenditure categories (which is why it does not include references to "use of public resources" and "Equity"). It also reflects that the Program does not directly target wider issues of "service delivery and economic development" but focuses on the "enabling environment". Many additional reform actions would be needed along the results chain to achieve impact on economic development, amongst others.

3. **The following six PDO Indicators, that double as DLIs, will measure achievement of the PDO.** The table below provides an overview of the links between results areas, PDO Indicators, the corresponding aspect of the PDO being measured, the matching Objectives and Key Initiatives in the Government's PFMRS.

Table 3: PDO Indicators

No	Results Area	PDO Indicator/DLI	PDO Aspect	PFMRS Objective	PFMRS Key initiative
1	Prioritized Public Investments	Number of projects with capital allocations above KES 100 million which are in compliance with procedures in the PIM manual.	Improve resource utilization and transparency	"To ensure effective and equitable allocation of public funds in line with national and county Government priorities"	1. Strengthen planning and oversight over public investments projects 2. Strengthening Systems for budget formulation
2	Reliable Funding for Service Delivery and Public Investments	a) Average under-release of priority operational service delivery budget allocations expressed as a percentage of revised in-year cash plans on a monthly basis. b) Annual exchequer releases to GoK capital budget allocations as a % of the approved budget.	Improve resource utilization	To ensure efficient and effective budget utilization, accurate and timely accounting and reporting and effective control, scrutiny and review of expenditure of public resources at national and county Governments	Strengthening Cash planning and cash management

No	Results Area	PDO Indicator/DLI	PDO Aspect	PFMRS Objective	PFMRS Key initiative
		c) Actual domestic (tax plus non-tax) revenue collections as a percentage of the annual budget d) Average under performance of quarterly net domestic borrowing as a percentage of revised in year cash plans			
3	Efficient and Transparent Procurement	Number of MDAs using the e-Procurement System, including State Procurement Portal, in compliance with the PPAD Act and attendant regulations for the full fiscal year and procurement data disclosed in SPP following OCDS	Improve utilization of resources and transparency	Same as above	Strengthening public procurement and asset disposal functions in the public sector and improved oversight
4	Consolidated Staff Data	Number of MDAs whose payroll data has been uploaded to GHRIS and are up to date.	Improve utilization of resources	1. Same as above and 2. "To establish a secure, reliable, efficient, effective, and fully integrated public financial management system in national and county Governments"	1. Strengthening payroll management 2. Strengthening systems for teachers payroll 3. Integrating IFMIS and other PFM systems
5	Timely & Quality Financial Statements and Audits	a) % of MDAs, whose financial statement audits have been completed within 3 months after OAG receipt of final accounts using an improved methodology, undergone quality assurance b) Months between receipt of consolidated financial reports by OAG and submission of audited financial statements to Parliament c) % of MDAs, the National Treasury has reviewed the quality of annual financial statements generated from IFMIS and has submitted to the OAG within 4 months	Improve utilization of resources	"To ensure accountability and oversight of public resources and enhance efficiency, effectiveness and lawfulness in the collection and application of public funds"	1. Strengthening capacity of Independent Audit 2. Strengthening audit follow up

No	Results Area	PDO Indicator/DLI	PDO Aspect	PFMRS Objective	PFMRS Key initiative
6	Strengthened Fiduciary Assurance and Transparency	a) Number of MDAs where information is publicly available online in searchable form on: (i) program expenditure; (ii) project expenditure; and (iii) transfers to service delivery units. b) Annual and quarterly MDA Internal Audit Reports have been prepared and undergone quality assurance in line with enhanced procedures for assurance, risk management and audit follow up	Improve transparency	TBD	TBD

4. **The implementing agencies responsible for each Results Area and related DLIs are shown in the table below.** The National Treasury is responsible for achievement of DLIs in results areas 1,2 3 and 6. The MoPSYGA is responsible for results area 4. The OAG is responsible for results area 5. The implementing agencies are fully in control of the "feasible steps" indicators due between effectiveness and year two-three of the PforR. For the PDO DLI Indicators, the three implementing agencies are dependent on their ability to work with MDAs on compliance with and use of new systems, processes and approaches. To achieve this, the three implementing agencies are expected to build and strengthen alliances with MDAs and other stakeholders: and deploy their regulatory, financial and technical capabilities as discussed around the theory of change the main text of the PAD.

Table 4: PDO Indicators

No	Results Area	Implementing agency
1	Prioritized Public Investments	National Treasury
2	Reliable Funding for Service Delivery and Public Investments	National Treasury
3	Efficient and Transparent Procurement	National Treasury
4	Consolidated Staff Data	Ministry of Public Service, Youth and Gender Affairs
5	Timely & Quality Financial Statements and Audits	Office of the Auditor General
6	Strengthened Fiduciary Assurance and Transparency	National Treasury

5. **The GESDeK supports five of the seven themes of the PFMRS as indicated in the Table below. Each results area supports several key interventions in the PFMRS.** However, the PforR does not support all Key Interventions under each Theme. The Government's program includes the PFMRS and related sub-strategies as funded by the GoK budget and Development Partners. DPs, including the World Bank through this PforR, are expected to fund the bulk of the "variable inputs" associated with implementation of the PFMRS. Examples of these include consultancies, software deployment and capacity building activities. The Government is funding "fixed inputs" in terms of staff time and overheads associated with anchoring, designing and implementing reforms. These two

elements ("fixed" and "variable" inputs) associated with implementing the PFMRS define the program boundaries and thereby the expenditure framework.

Table 5: PFMRS Themes and PforR Support, Million

Themes and Key Interventions in the PFMRS	Total for PFMRS		Within Program Boundary			Implementing Agency
	KSH (M)	US$ (M)	Yes/ no	KSH (M)	US$ (M)	
Theme One: Macro-economic Management and Resource Mobilization	**4,446.7**	**43.0**		**181.9**	**1.8**	
Strengthen macro-economic forecasts	100.7	1.0	Yes	100.7	1.0	NT
Enhance Tax Revenue Collections	3,240.5	31.3	No			Na
Strengthen mobilization, accounting and reporting on own source revenue	433.8	4.2	No			Na
Improve external resources reporting	26.8	0.3	No			NT
Consolidate efforts to mobilize additional resources through PPP	541.1	5.2	No			Na
Strengthen GoK's capacity for debt management and reporting	81.2	0.8	Yes	81.2	0.8	NT
Improve reporting on and accounting for Appropriations-in-Aid (A-I-A) by MDAs	22.5	0.2	No			NT
Theme Two: Strategic Planning and Resource Allocation	**295.1**	**2.9**		**86.0**	**0.8**	
Strengthen strategic planning	46.0	0.4	Yes	46.0	0.4	NT
Strengthen planning and oversight over public investments projects	40.0	0.4	Yes	40.0	0.4	NT
Strengthen county budgeting systems	209.1	2.0	No			Na
Strengthen systems for budget formulation	0.0	0.0	Yes	0.0	0.0	NT
Theme Three: Budget Execution, Accounting and Reporting and Review	**3,029.8**	**29.3**		**2,311.4**	**22.4**	
Strengthen cash planning and management to improve execution of the budget	95.2	0.9	Yes	95.2	0.9	NT
Strengthen in year monitoring reports covering both financial and non-financial	214.3	2.1	No			NT
Strengthen statutory reporting	83.7	0.8	No			NT
Improve effectiveness of Internal Audit functions	471.6	4.6	Yes	471.6	4.6	NT
Strengthen oversight and reporting of fiscal operations of SAGAs	53.2	0.5	No			NT
Implement asset and liability management reforms	108.7	1.1	No			NT
Implement pension reforms	258.6	2.5	No			NT
Strengthen Teachers Payroll	676.5	6.5	Yes	676.5	6.5	MoPSYGA
Strengthen Payroll Management	132.1	1.3	Yes	132.1	1.3	MoPSYGA
Strengthen procurement and asset functions in the public sector	0.0	0.0	Yes	0.0	0.0	NT
Theme Four: Independent Audit and Oversight	**716.2**	**6.9**		**716.2**	**6.9**	
Strengthen capacity of Independent Audit	687.7	6.7	Yes	687.7	6.7	OAG
Strengthen capacity of County Assemblies and Parliament for oversight	24.0	0.2	Yes	24.0	0.2	OAG
Strengthen audit follow up	4.6	0.0	Yes	4.6	0.0	OAG
Implement Inter-agency mechanisms to strengthen PFM oversight function	0.0	0.0	No			OAG
Theme Five: Fiscal Decentralization and Intergovernmental Fiscal Relations	**62.7**	**0.6**		**0.0**	**0.0**	
Clarify and strengthen inter-governmental relations	0.0	0.0	No			Na
Theme Six: Legal and Institutional Framework	**16.2**	**1.8**		**0.0**	**0.0**	
Strengthen legal and institutional framework	156.4	1.5	No			Na
Strengthen institutional framework	0.0	0.0	No			Na

Themes and Key Interventions in the PFMRS	Total for PFMRS		Within Program Boundary			Implementing Agency
	KSH (M)	US$ (M)	Yes/ no	KSH (M)	US$ (M)	
Clarify county staff structures	33.8	0.3	No			Na
Theme Seven: IFMIS and other PFM Systems	**3,974.5**	**38.4**		**2,224.2**	**21.5**	
Strengthen the use of IFMIS systems in both national and county Governments operations	1,124.2	10.9	Yes	1,124.2	10.9	NT
Revenue Systems for county Governments	0.0	16.9	No			Na
Integration of PFM systems	0.0	0.0	Yes	400.0	3.9	NT
Support to PFM systems	700.0	6.8	Yes	700.0	6.8	NT
Program Management	**134.0**			**134.0**	**1.3**	
Strengthen Coordination Mechanisms	0.0	0.0	Yes	6.0	0.1	NT
Strengthen DP engagement	0.0	0.0	Yes	0.0	0.0	NT
Strengthen capacity of the Secretariat	0.0	0.0	Yes	42.4	0.4	NT
Strengthen M&E and reporting	85.6	0.8	Yes	85.6	0.8	NT
TOTALS	**12,849.1**	**124.3**		**5,653.7**	**54.7**	

The five themes are supported by six results areas as follows:

- Theme 1 and 7: Results Area 2 - Reliable Funding for Service Delivery and Public Investment
- Theme 2 and 7: Results Area 1 - Prioritized Public Investments
- Theme 3 and 7: Results Area 2 - Reliable Funding for Service Delivery and Public Investment
- Theme 3 and 7: Results Area 3 - Efficient and Transparent Procurement
- Theme 3 and 7: Results Area 4 - Consolidated Staff Data
- Theme 4 and 7: Results Area 5 – Timely & Quality Financial Statements and Audits
- Theme 3: Results Area 6 - Strengthened Fiduciary Assurance and Transparency

6. **The DLIs are structured along results chains.** They progress for the duration of the Program from identifying "reform steps" or "feasible steps" in the form of activities and outputs resulting in outcomes captured in out-year DLIs called "success indicators".

7. Below is a presentation of the six results areas highlighting the feasible steps which will make progress towards achieving the goal, and indicators to measure the expected achievements during the lifetime of the PforR.

Results Area 1: Prioritized Public Investments

- *Feasible Steps:* The Program will support feasible steps which will involve: (i) the development of a PIM manual which includes, inter alia, project identification, appraisal, budgeting, implementation, reporting and M&E; (ii) the establishment of a dedicated PIM unit with basic staff in place and trained to perform the National Treasury gate-keeping role; (iii) the enhancement of e-ProMIS[23] to deliver requirements of the PIM manual, with interface between e-ProMIS and IFMIS tested and live.

- *Success Indicator:* Success will be measured in terms of number of projects with capital allocations above KSH.100 million which are in compliance with procedures in the PIM manual.

Results Area 2: Reliable Funding for Service Delivery and Public Investments

- *Feasible Steps:* The Program will support feasible steps which include: (i) encouraging greater realism in revenue forecasting used in the budget; (ii) supporting the preparation of borrowing plans consistent with delivering cash for MDAs based on their cash plans; (ii) introducing a new cash management and exchequer system which ensures all GoK releases to MDA bank accounts are made automatically following MDA approvals in IFMIS; and (iii) the development and implementation of guidelines that require that revised MDA cash plans protect service delivery and infrastructure budget priorities.

- *Success Indicators:* Success will be measured by the average under-release of priority operational service delivery budget allocations expressed as a percentage of revised in-year cash plans on a quarterly and monthly basis; annual exchequer releases to GoK capital budget allocations as a percentage of the approved budget; and average under performance of quarterly net borrowing as a percentage of what is planned in revised in-year cash plans.

Results Area 3: Efficient and Transparent Procurement

- *Feasible Steps:* The Program will support feasible steps relating to the upgrading and implementation of the e-procurement system to enable it deliver on the requirements of procurement entities, oversight institutions and suppliers in line with the law and regulations. It will also support the establishment of mechanisms for encouraging compliance with the PPAD Act, 2015, and regulations in the context of the upgraded system and greater transparency through the SPP. Finally, it will ensure that the e-procurement system and SPP is up to date and includes appropriate information on tenders, awards, contract implementation, and complaints follow-up by disclosing procurement data by following OCDS.

- *Success Indicators:* Success will be measured in terms of MDAs using the e-Procurement System in compliance with the PPAD Act and Regulations for the full fiscal year and procurement data disclosed in SPP following OCDS.

Results Area 4: Consolidated Staff Data

- *Feasible Steps:* The program will support feasible steps related to: (i) increased GHRIS[24] functionality to handle consolidated HR data from MDAs and interfacing with IFMIS; (ii) the

[23] The program results and associated DLIs are based on e-ProMIS. However, if results are achieved through an equivalent electronic system with the same specified functionality, results will be considered achieved.

development and issuance of regulations and standards on itemized payroll details consistent with enhanced GHRIS functionality and sharing of data; (iii) restructuring and uploading of data from different payroll systems across service delivery MDAs; and (iv) publishing of basic wage bill data by administrative / service delivery unit, consistent with the CoA.

- *Success Indicators:* Success will be measured in terms of number of MDAs whose payroll data has been uploaded to GHRIS and are up to date.

Results Area 5: Timely and Quality Financial Statements and Audits

- *Feasible Steps:* The Program will support feasible steps related to the: (i) implementation of risk-based audit strategies; (ii) adoption of the audit management software; (iii) revision of audit methodologies in line with international standards; (iv) ability of the IFMIS to generate MDA financial statements; and (v) adoption of International Public Sector Accounting Standards (IPSAS) compliant financial statements by MDAs.
- *Success Indicators:* Success will be measured by the reduction in number of months between receipt of final consolidated financial reports by OAG and submission of the audited financial statements to Parliament. Success will also be assessed by the percentage (%) of MDAs (i) the National Treasury has reviewed the quality of annual financial statements generated from IFMIS and has submitted to the OAG within 4 months; and (ii) whose financial statement audits have been completed within 3 months after OAG receipt of final financial statements using an improved methodology, undergone quality assurance

Results Area 6: Strengthened Fiduciary Assurance and Transparency

- *Feasible Steps:* The Program will support feasible steps which include: (i) MDAs and increasingly the public can access multi-year itemized and facility level budget and outturn data for all MDAs in searchable form through the budget module of IFMIS; and (ii) Updated manuals and Quality Assurance (QA) framework for internal audit in place to strengthen assurance and risk management are in place.

- *Success Indicators:* Success will be measured by the number of MDAs where information is publicly available online in searchable form on: (a) program expenditure; (b) project expenditure; and (c) transfers to service delivery units. Success will also be measured by the number of MDAs whose annual and quarterly Internal Audit Reports have been prepared and undergone quality assurance in line with enhanced procedures for assurance, risk management and audit follow up.

[24] The Program results and associated DLIs are based on GHRIS. However, if results are achieved through an equivalent system with the specified functionality, results will be considered achieved.

Table 6: Logic Chain

<table>
<tr><th colspan="5">The Project Development Objective (PDO) is: to improve utilization and transparency of resource management in selected service delivery MDAs</th></tr>
<tr><th>Long-term Impacts</th><th>Government PFM Strategy that PforR supports</th><th>Medium-term Impacts</th><th>Results Area</th><th>Outputs necessary for results</th></tr>
<tr><td rowspan="6">Strengthening Governance for Enabling Service Delivery and Public Investment</td><td rowspan="6">• Macro-Economic Management and Resource Mobilization
• Strategic Planning and Resource Allocation
• Budget Execution, Accounting and Reporting and Review
• Independent Audit and Oversight
• IFMIS and other PFM Systems</td><td>Improved Budget formulation and execution Improved Transparency</td><td>Area 1: Prioritized Public Investments</td><td>• Establishment of PIM Manual
• Establishment of a dedicated PIM unit
• PIM ICT Platform</td></tr>
<tr><td>Improved Budget formulation and execution Improved Transparency</td><td>Area 2: Reliable Funding for Service Delivery and Public Investment</td><td>• Improved revenue forecasting
• Implementation of new guidelines for cash planning including cash release</td></tr>
<tr><td>Improved Budget execution Improved Transparency</td><td>Area 3: Efficient and Transparent Procurement</td><td>• Functional e-Procurement system
• Functional public procurement and asset disposal portal</td></tr>
<tr><td>Improved Budget formulation and execution Improved Transparency</td><td>Arear 4: Consolidated Staff Data</td><td>• Functional payroll data base
• Data cleaning</td></tr>
<tr><td>Improved Accountability</td><td>Area 5: Timely and Quality Financial Statements and Audits</td><td>• Risk based audit codes
• Implementation of Quality Control and Assurance Framework
• Use of Audit Management Software</td></tr>
<tr><td>Improved Transparency</td><td>Area 6: Strengthened Fiduciary Assurance and Transparency</td><td>• Establishment of dedicated budget portal in NT
• Disclosure of budget and spending
• NT quality assurance of Annual Financial Statements</td></tr>
</table>

IFMIS and other PFM Systems

8. Theme 7 aims to "establish a secure, reliable, efficient, effective, and fully integrated public financial management system in national and county Governments". The interventions supported by the Results Areas under the PforR with regards to the PFMRS are detailed in Annex 1 through all the Results Areas: "Integrating IFMIS and other PFM systems":

- Key Results Area 1 - Prioritized Public Investments: e-ProMIS will provide data for the budget preparation process as captured in IFMIS. IFMIS is used for the preparation of detailed annual project budgets and information on capital programs, project financial management and accounting. IFMIS financial data will feed into E-ProMIS through system integration.

- Key Results Area 2 - Reliable Funding for Service Delivery and Public Investment: Achievement of the DLIs will be dependent on activation of the IFMIS Cash management module.
- Key Results Area 3 - Efficient and Transparent Procurement: A comprehensive review of the IFMIS e-Procurement system will be undertaken in light of the new provisions within the PPAD Act, 2015, and corresponding regulations. A decision on implementation modality will be taken in light of review findings.
- Key Results Area 4 - Consolidated Staff Data: IFMIS is used for preparing Personnel Emolument budgets and payment of salaries, and the interface with the consolidated GHRIS will improve accuracy in these processes.
- Key Results Area 5 – Timely and Quality Financial Statements and Audits: Achievement of DLIs in this results area will depend on data exchange between IFMIS on the one hand and the Audit Vault and Audit Management system on the other.
- Key Results Area 6 – Strengthened Fiduciary Assurance and Transparency: DLI achievement will be facilitated by data exchange protocols between the IFMIS on one hand and e-ProMIS, the SPP, and the online public budget interface on the other. The internal audit will have facilitated access to IFMIS back-end data to provide assurance on the effectiveness of IFMIS, the reliability of the data and quarterly reports generated.

Expenditure framework

9. **Aligned with the program boundaries, the Program Expenditure Framework is comprised of two elements:**

- “Variable costs”: Allocations for the implementation of reform inputs identified in the Government program as formulated in the PFMRS and supporting strengthening of wage bill management and the OAG, using the established mechanism of the existing PFM Reform project managed by the PFMR Secretariat, and included in the GoK Development Budget as a budget line in the Chart of Accounts.
- “Fixed costs”: Allocations for the operational costs of the relevant Budget Programs in the National Treasury, MoPSYGA (responsible for wage bill management strengthening) and OAG, which enable those institutions to manage and enforce the new processes and system.

10. **The Kenyan budget is program-based.** The expenditure framework is determined by selecting those Budget Programs that relate to the implementation of the PFMRS. The relevant Budget Programs are highlighted in Box 2 below. Program 1 on PFM and Program 3 on Economic and Financial Policy Formulation and Management, including all Sub-Programs, provide funding for the Government’s program.

11. **The total cost of implementing the PFMR Strategy is estimated in the Strategy to be approximately US$124 million.** If one excludes allocations to revenue enhancement and activities to be implemented in support of counties, the cost relevant to the achievement of GESDeK results is

estimated to be approximately US$55 million as indicated on Table 5 on "PFMRS Themes and PforR support" above.

Box 2: Existing Programs for Economic and Public Financial Management in the Government of Kenya Budget

National Treasury

Program 2: Public Financial Management
Sub-Program 2.2 Budget Formulation Coordination and Management
Sub-Program 2.3 Audit Services
Sub-Program 2.4 Accounting Services
Sub-Program 2.5 Supply Chain Management Services
Sub-Program 2.6 Public Financial Management Reforms
Sub-Program 2.7 Government Investment and Assets

Program 3: Economic and Financial Policy Formulation and Management
Sub-Program 3.1 Fiscal Policy Formulation, Development and Management
Sub-Program 3.2 Debt Management

Ministry of Public Service, Youth and Gender Affairs, State Department for Public Service and Youth Affairs

Program 5: Public Service Transformation
Sub-Program 5.1 Human Resource Management
Sub-Program 5.2 Human Resource Development
Sub-Program 5.6 Public Service Reforms

Auditor General

Program 1: Audit Services
Sub-Program 1.4 National Government Audit

Table 7: Program Expenditure Framework Supported by the PforR, "variable inputs", million

	Baseline Est.	**Estimates**	**Projected Estimates**				**Total**	
	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**		
	KSH million	**KSH million**	**KSH million**	**KSH million**	**KSH million**	**KSH million**	**KSH million**	**US$ million**
a) Total for GESDeK Variable Inputs		**920**	**1,400**	**1,400**	**1,000**	**1,000**	**5,720**	**55**
b) Existing Development Allocations to PFM Reform	1,243	627	627	627	627	627	3,134	30
c) Existing allocations to GESDeK results (b/2)	1,243	313	313	313	313	313	1,567	15
d) Funding Gap (a-c)	***n/a***	***607***	***1,087***	***1,087***	***687***	***687***	***4,153***	***40***

12. **There is a funding gap for reform inputs in the implementation of the PFMR Strategy (the "variable costs") of approximately US$40 million.** The total "variable cost' of the PFMRS is US$124 million, of which the amount relevant to GESDeK equals US$55 million. The "variable cost' of the PFM budget allocations in 2017/18 to the development budget under the PFM reforms sub-

program are US$2 million from GoK, with donors contributing an additional US$4 million. These funds currently are allocated to the Support to PFM Project managed by the PFMR Reform Secretariat[25]. It is assumed approximately half would be allocated to activities relevant GESDdeK, this would amount to US$3 million a year or US$15 million over the Program period. There is therefore a deficit of US$40 million over the five-year Program Period. Annex table 5 illustrates the funding gap and required increases in PFMR allocations to GESDeK.

13. **GESDeK will provide additional funding to enable the GoK to increase funding for the implementation of PFMR Strategy.** This will substantively fill the funding gap for PFM reforms focused on national expenditure management. Over the program period, GoK will increase budget allocations for GESDeK variable costs by an amount equivalent to the deficit for implementing GESDeK. The additional allocations will be made to the implementing agencies through the existing PFMR Project managed by the PFMR Secretariat or a budgetary unit agreed with the implementing agency and specified in the POM. Approximately US$40 million of IDA resources is notionally allocated to finance this deficit.

14. **Based on the Budget programs in box 2 above, the table 8 below presents the "fixed inputs" part of the expenditure framework for the Government's program.** The expenditure framework for the "fixed inputs" is based on current expenditures in the program budget for 2017/18. Table 8 below, shows the total program expenditure amounting to US$508 million, which is composed of the original planned medium-term expenditure from the 2019/20 Medium Term Expenditure Framework (MTEF) funded by GoK and other development partners.

Table 8: Government Program Expenditure Framework, "Fixed Inputs", million

	Baseline Est.	Estimates	Projected Estimates			Total	
	2016/17	2017/18	2018/19	2019/20	2020/21		
Budget Item	KSH million	KSH million	KSH million	KSH million	KSH million	KSH million	US$ million
National Treasury	5,729	5,533	5,746	5,722	5,722	22,723	220
0718000 P2: Public Financial Management	4,644	4,457	4,606	4,617	4,617	18,297	177
0719000 P3: Economic and Financial Policy Formulation and Management	1,085	1,077	1,139	1,105	1,105	4,426	43
1211 State Department for Public Service and Youth Affairs	5,450	1,812	2,011	2,129	2,129	8,083	78
0710000 P 5: Public Service Transformation	5,450	1,812	2,011	2,129	2,129	8,083	78
2111 Auditor General							

[25] Administrative SCOA code 1071100100

	Baseline Est.	Estimates	Projected Estimates			Total	
	2016/17	2017/18	2018/19	2019/20	2020/21		
Budget Item	**KSH million**	**KSH million**	**KSH million**	**KSH million**	**KSH million**	**KSH million**	**US$ million**
	4,183	5,276	5,404	5,536	5,536	21,752	210
0729000 P.1 Audit Services	4,183	5,276	5,404	5,536	5,536	21,752	210
Total GoK Fixed Inputs	**15,362**	**12,622**	**13,161**	**13,387**	**13,387**	**52,557**	**508**

15. **The table 9 below shows the total expenditure on fixed inputs for GESDeK, the Program for Results, which amounts to US$ 191 million.** This comprises the original planned non-salary current medium-term expenditure from the 2019/20 MTEF funded by GoK.

Table 9: The Program Expenditure Framework Supported by the PforR, "Fixed Inputs", million

	Baseline Estimates	Estimates	Projected Estimates			Total	
	2016/2017	2017/18	2018/19	2019/20	2020/21		
Budget Item	**KSH million**	**KSH million**	**KSH million**	**KSH million**	**KSH million**	**KSH. million**	**US$ million**
National Treasury	**2,371**	**2,446**	**2,609**	**2,550**	**2,493**	**10,097**	**101**
0718000 P2: Public Financial Management	1,471	1,519	1,622	1,599	1,577	6,316	63
0718020 SP 2.2 Budget Formulation Coordination and Management	*209*	*242*	*253*	*244*	*236*	*976*	*10*
0718030 SP 2.3 Audit Services	*246*	*249*	*278*	*273*	*268*	*1,068*	*11*
0718040 SP 2.4 Accounting Services	*538*	*548*	*600*	*592*	*584*	*2,323*	*23*
0718050 SP 2.5 Supply Chain Management Services	*437*	*440*	*446*	*445*	*445*	*1,777*	*18*
0718060 SP 2.6 Public Financial Management Reforms	*40*	*40*	*45*	*44*	*43*	*173*	*2*
0719000 P3: Economic and Financial Policy Formulation and Management	900	927	987	951	916	3,781	38
0719010 SP 3.1 Fiscal Policy Formulation, Development and Management	*820*	*842*	*893*	*862*	*831*	*3,429*	*34*
0719020 SP 3.2 Debt Management	*79*	*85*	*94*	*89*	*85*	*353*	*4*
1211 State Department for Public Service and Youth Affairs	**740**	**576**	**550**	**562**	**578**	**2,266**	**23**

	Baseline Estimates	Estimates	Projected Estimates			Total	
	2016/2017	2017/18	2018/19	2019/20	2020/21		
Budget Item	**KSH million**	**KSH million**	**KSH million**	**KSH million**	**KSH million**	**KSH. million**	**US$ million**
0710000 P 5: Public Service Transformation	740	576	550	562	578	2,266	23
0710010 S.P.5.1 Human Resource Management	*378*	*86*	*90*	*97*	*104*	*377*	*4*
0710020 S.P.5.2 Human Resource Development	*363*	*367*	*381*	*400*	*420*	*1,568*	*16*
0710060 S.P.5.6 Public Service Reforms	-	*122*	*79*	*65*	*54*	*321*	*3*
2111 Auditor General	**1,285**	**1,616**	**1,654**	**1,693**	**1,732**	**6,695**	**67**
0729000 P.1 Audit Services	1,285	1,616	1,654	1,693	1,732	6,695	67
0729040 SP. 1.4 National Government Audit	1,285	1,616	1,654	1,693	1,732	6,695	67
Total GESDeK Fixed Inputs	**4,396**	**4,638**	**4,813**	**4,805**	**4,803**	**19,058**	**191**

16. **The total budget for GESDeK, combining fixed and variable costs, amounts to around US$246 million.** The Aggregate Expenditure Framework for 2016/2017 to 2020/2021 is presented in table 10 below. Of this, US$10 million is expected to be funded by other development partners. The GoK contribution is US$86 million and the proposed IDA funding is US$150 million. The entire Government program is estimated at around US$632 million. This is shown in Table 8 below.

Table 10: Overview of Program Expenditure Framework, 2016/2017 to 2020/2021, US$ Million

	PFMRS (Variable cost)	Sustaining implementation (fixed cost)	Total
PFMRS	124	508	632
Part of PFMRS supported by GESDeK	55	191	246
- Of which DP funding	*10*	*0*	*10*
- Of which IDA funding	*40*	110	*150*
- Of which GoK funding	*5*	81	86

Institutional and Implementation arrangements

17. **The National Treasury will be the lead agency charged with the responsibility of providing overall strategic guidance to the Program**. The other two implementing agencies are the MoPSYGA and the OAG. Within the National Treasury, the project will be anchored at the PFMR Secretariat. The Directorate of Public Service Management will be the lead department at the MoPSYGA. Both the Deputy Auditor General Departments for Corporate Services and Specialized Audit will be responsible at the OAG.

18. **The Program will be implemented using the existing institutional arrangements in place for the implementation of the PFMRS 2013-2018.** The PFM Strategy is the overarching strategy for PFM reforms in Kenya. The implementation arrangements are being used to coordinate sub-strategies and action plans that form part of the Program. This includes the OAG Strategic Plan (2013-2018).

19. **The Program will be implemented according to the governance structure embedded in the Strategy.** The key elements include: (i) a high-level PFM Sector Working Group (PFM SWG); (ii) a Steering Committee; (iii) a Technical Committee; (iv) Implementing MDAs; and (v) a PFM Reform Secretariat. This structure encompasses stakeholders at both national and county Government levels and includes Development Partners. The MoPSYGA is not currently part of the structure but will be included by project effectiveness. The structure is illustrated in the Figure 3 below.

Figure 3: PFM Reform Governance Structure

Source: PFMR Strategy 2013-2018

20. **The PFM SWG[26] is a forum for dialogue, broad consultation, information sharing and coordination.** Chaired by the Cabinet Secretary of the National Treasury, the PFM SWG meets once a year to promote mutual accountability in the management of PFM policies, mobilize resource for sector programs and projects and promote the use of Country PFM systems by Development Partners. For purposes of the GESDeK, the PFM SWG will facilitate allocation of resources towards the Program as part of the Government Program. The PFM SWG will also play a key role in providing the authorizing environment for achieving reform implementation and functional change.

21. **The PFM Steering Committee[27] will oversee, provide strategic policy guidance and review and monitor the implementation of the Program and the PforR.** The Steering Committee is chaired by the Principal Secretary (PS) of the National Treasury who is responsible for

[26] Chaired by the Cabinet Secretary (CS) of the National Treasury and comprising CS Ministry of Devolution and Planning; DPs Representatives; Chair Council of Governors; PS National Treasury; PS State Department of Planning and Statistics; Chair CRA; Controller of Budget; Commissioner General of KRA; Chair SRC; Secretary/CEO TSC; Director General PPRA; Clerk of National Assembly and PFMR Secretariat. Membership of the CS of MoPSYGA will be coopted.

[27] Chaired by the PS National Treasury and comprising PS Devolution, PS Planning and Statistics; DPs; DG Budget; DG Accounting Services; DG Public Debt; CEO SRC; CEO CRA; Auditor General; CoB and PFMR Secretariat. Membership of the Directorate of Public Service Management will be coopted.

implementation of the PforR. However, for purposes of GESDeK, because each implementing agency is responsible for achievement of the results and DLIs, implementation responsibility will be shared and the PS of the National Treasury will only be assuming a "first among equals" position. The responsibilities of the Steering Committee in the PforR include: (i) providing strategic direction and oversight of implementation of the PforR; (ii) ensuring that resources are allocated to Departments for implementing activities required to achieve steps set out in the action plans; (iii) approval of annual work plans; and (iv) review progress on implementation of GESDeK results.

22. **The PFM Technical Committee[28] will be responsible for the technical monitoring and guidance of the Program.** Chaired by the Program Coordinator of the PFMR Secretariat, the Technical Committee meets regularly (at least once every quarter). The Committee will be tasked with the following responsibilities concerning the PforR: (i) develop and review annual work plans before submitting for approval by the Steering Committee; (ii) facilitate cooperation and collaboration among the various implementing agencies and departments implementing the PforR; (iii) monitor and review progress of program implementation based on progress reports; and (iv) participate and facilitate program review, evaluations and other diagnostic exercises.

23. **In additional to the established PFMRS structures, Results Teams will be established and operational.** Implementing departments, represented in these teams will be responsible for delivery of DLIs. The results teams would have the following elements:

- A Team Leader to chair meetings and help ensure collaboration between Departments to implement the key steps, and reporting to the PFM Technical Committee and PFM Steering Committee on the delivery of results.
- Lead departments are assigned responsibility for each DLI within a results area.
- Relevant departments and staff are assigned the delivery of each feasible step within each results area.
- Each Results Team will be reporting on its DLI(s), relevant parts of the results framework and PAP.
- An up to date register of the status of risks (compiled and updated by each results team).
- Regular (at least quarterly) meetings to collectively work on feasible steps and challenges in implementation.

24. **The PFM Reform Secretariat will serve as a Secretariat to the PFM SWG, Steering Committee and the Technical Committee.** Chaired by the Program Coordinator, the Secretariat will be tasked with the following responsibilities:

- Provide a convening and secretariat function for the Results Teams
- Develop, operationalize, enforce and implement the POM and Communications strategy

[28] Chaired by the Program Coordinator PFMR Secretariat and comprising all component managers representing implementing agencies/Results Teams; DPs and PFMR Secretariat.

- Coordinate monitoring and evaluation, including supporting the compilation of reports and briefs for senior management. This will involve consolidation and submission of progress reports for the PFM SWG, PFM Steering Committee and senior management
- Monitor and advocate for sufficient allocation of budget for the achievement of results by the various implementing agencies and departments
- Regularly collect and analyze data, preparation of progress/implementation report (including presenting the reports to the TC and SC for consideration)
- Coordinate the scope and implementation of work plans for the program.
- Hire the independent verification agent (see below) to verify the achievement of DLIs.
- Consolidate program financial accounts and financial statements from implementing agencies as well as facilitating audit and review of the same.

25. **The above implementation arrangements have been tried and tested.** These arrangements have been in place since 2006 and the Secretariat continues to coordinate PFM reform activities in Kenya. In so doing, it has managed both GoK and Development Partner funds. As discussed in Annex 6 on Environmental and Social Systems Assessment (ESSA), the institutions and implementation set-up embeds capacity to manage environmental and safeguards risks (primarily related to e-waste). As discussed in Annex 5 on Integrated Fiduciary Systems Assessment (IFAR)some risk mitigation is needed through the PAP, supervision and implementation facilitation to supplement existing capacity for financial management and procurement. With these program-specific mitigation measures, capacity will be adequate to support the Program.

26. **The review of the PFMRS in 2016 facilitated a process whereby key actions to strengthen governance and coordination were identified and are in the process of being addressed.** The PforR is also targeting most of these key actions. For instance, by establishing the PFMR Secretariat as the Project Implementation Unit, it provides a framework for a strengthened coordination mechanism from which communication can be clear and uniformly transmitted to implementing departments and agencies (including dissemination of the POM that describes the day to day aspects of the PforR in detail). Challenges in reporting will be addressed in the Program because the regular financial and progress reporting are obligations defined in the POM, included in the PAP as well as forms the basis of DLIs.

DLI Verification

27. To maintain simplicity and clarity, all DLIs double as PDO Indicators and the following procedure will be followed for collecting information for the preceding financial year:

- The Technical Teams will collect and provide evidence and compute the values of the success indicators by July 15.
- The PFMR Secretariat will compile the information on the status of DLIs from the Technical Teams by the end of August for the preceding financial year.

- Verification by the independent verification agent hired by the PFMR Secretariat will be conducted by the end of September[29].

Budgeting and Budget Execution

28. **The Work planning and Budgeting process for PFM reforms will ensure that adequate resources are allocated to achieve GESDeK results.** In advance of the start of each budget process (in August of each year), each results team will estimate the costs of reform activities related to the achievement of GeSDEK results over the Medium Term. The PFMR Secretariat will compile these costings and allocations and integrate them into overall PFMRS work plans. The PFMR Secretariat will forward the funding requirements to the Budget Supplies Department in the National Treasury. The Budget Supplies Department will ensure these costs are integrated into the initial medium-term budget ceilings for the relevant budgetary units and highlight that these ceilings relate to GESDeK results. The National Treasury, as part of the annual national budgeting process, will undertake to ensure that the PFM Strategy and GESDeK remain adequately resourced throughout the stages of the budget process. Implementing agencies will ensure that activities relevant to GESDeK results are specified in their annual work plans. IDA resources will provide the fiscal space to enable increased allocations to the existing PFMR project or other budgetary units administrative segment in the chart of accounts as part of the variable inputs.

29. **During budget execution, the National Treasury will ensure that Exchequer Releases are made to Budgetary Units implementing the PFMRS in line budget allocations and cash plans.** This will help enable the implementation of reform activities as planned during the financial year.

Implementation Facilitation Facility

30. **A Bank-Executed "Implementation Facilitation Facility" Trust Fund or equivalent will be established during the first year of implementation to support the Technical Teams and broader coalitions to deliver the steps required.** The facility will also help broker solutions to implementation challenges as they emerge, provide ideas for those solutions, and help build coalitions of support. This is further described in Annex 9 on Implementation Support.

Key Capacity Building and Systems Strengthening Activities

31. While recognizing that capacity for reform design and implementation is strong in Kenya, the Program is designed to further strengthen capacity and institutions. All the DLIs would be achieved through capacity building and institutional strengthening as illustrated in Table 11 below. However, aligned with the spirit of the instrument, the GoK might decide to bring about results with different capacity building interventions from the ones envisioned at the PforR preparation stage

Table 11: Capacity Building and Institutional Strengthening

No	Results Area	Examples of Institutional Strengthening	Examples of Capacity Building

[29] The verification Agent will be funded as part of the expenditure framework

No	Results Area	Examples of Institutional Strengthening	Examples of Capacity Building
1	Prioritized Public Investments	- PIM Manual - PIM Unit in National Treasury - e-ProMIS - Improved project selection	- Capacity in MDAs to undertake appraisal - Capacity in National Treasury to undertake appraisal assessment - Capacity of National Treasury to play a gate keeping role on PIM
2	Reliable Funding for Service Delivery and Public Investments	- Automation of Exchequer process - Cash Management Guidelines - Revision of borrowing plan - Timely release of cash	- On the job training in cash management plans development in MDAs and National Treasury - On the job training in borrowing plan development in National Treasury
3	Efficient and Transparent Procurement	- e-Procurement systems compliance review - Procurement portal - Implementation of e-Procurement	- MDA capacity for e-Procurement through training in systems use - MDA capacity to implement new procurement law and regulations - PPRA disclosing procurement data in SPP following OCDS.
4	Consolidated Staff Data	- GHRIS development and implementation - Updating of payroll management regulations and standards - Consolidation of payroll data	- Capacity to undertake payroll modeling and analysis - Capacity to undertake periodic payroll audit and cleaning - Capacity to manage and maintain the GHRIS.
5	Timely and Quality Financial Statements and Audits	- Revised Audit Codes - New Audit Software - New Quality Control and Assurance Framework - Timely Audit reports	- Capacity for risk-based audit selection - Capacity for preparing financial statements - MDA capacity including targeted training in the preparation of IPSAS compliant financial statements - Capacity to generate financial statements from the IFMIS
6	Strengthened Fiduciary Assurance and Transparency	- Updated manuals - Quality Assurance for framework for internal auditing in place - Risk management frameworks and registers in place - Automating internal auditing - Revised reporting formats - New online public interface - Disclosure of factional expenditure data to the public	- Internal Audit Department capacity for audit analysis and issuance of timely and quality audit reports - MDA capacity to prepare Risk Registers. - Capacity to update and use analytical repository - Capacity to disclose data - Capacity to maintain repository and update regularly
	Program Management		- Monitoring and evaluation

Results Monitoring and Evaluation

32. **The Results Framework for the PforR comprises six PDO Indicators and 18 Intermediate Results Indicators.** The Results Framework defines the indicators and the institutional arrangements for data collection. All PDO Indicators are reflected in the 10 DLIs as Disbursement Linked Results (DLRs) while all of the Intermediate Results Indicators are also DLRs. The procedures for collecting DLI and other M&E information annually for the preceding financial year is detailed in Annex 2.

33. **The following procedure will be used for collecting DLI and other M&E information annually for the preceding financial year:**

i. Using templates specified in the POM, which build on those used during project preparation, the Technical Teams through their Implementing Agencies will collect and provide evidence and computing the status of their indicators for the preceding financial year by July 15.

ii. The PFMR Secretariat will compile the information on the status of DLIs from the Result Technical Teams by the end July for the preceding financial year and submit the information to the independent verification agent.

iii. An independent verification agent hired by PFMR Secretariat and funded as part of the expenditure framework will verify DLIs by the end of September and submit the verification to the PFMR Secretariat for forwarding to the World Bank. The Independent verification agent will be procured using TOR acceptable to the Bank.

Annex 2: Results Framework and Monitoring

Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya (GESDeK)

Table 12: Result Framework

Results Areas Supported by PforR	PDO/Outcome Indicators (Key indicators to measure the achievement of each aspect of the PDO statement)	Intermediate Results Indicators (critical processes, outputs or intermediate outcomes indicators needed to achieve each aspect of the PDO)	DLI #	Unit of Meas.	Baseline (2016/17 unless otherwise stated)	End Target (2021/22)
Results Area 1: Prioritized Public Investments	**PDO Indicator 1: Prioritized Public Investments.** Projects with capital allocations above KES 100 million which are in compliance with procedures in the PIM manual.		1	Number of Projects	0	30 Projects using e-ProMIS
		IR Indicator 1.1: Dedicated unit established with staff deployed/assigned performing NT PIM roles.	1	Yes/No	No	Yes
		IR Indicator 1.2: Approved PIM Manual and user requirements which addresses, inter alia, key challenges in PIM including prioritization, costing and transparency	1	Yes/No	No	Yes
		IR Indicator 1.3: UAT complete for enhanced e-ProMIS automating provisions of PIM Manual	1	Yes/No	No	Yes
Results Area 2: Reliable Funding for Service Delivery and Public Investments	**PDO Indicator 2.1: Reliable Funding for Service delivery and Investment Projects** a) Average under-release of priority operational service delivery budget allocations expressed as a percentage of revised in-year cash plans on a		2	%	8% of recurrent budgets for 25 service delivery MDAs (2015/16)	Below 8% of monthly service delivery cash plans

Results Areas	PDO/Outcome Indicators	Intermediate Results Indicators	DLI	Unit of	Baseline	End Target
	quarterly then monthly basis.					
	b) Annual exchequer releases to GoK capital budget allocations as a % of the approved budget.		2	%	90.7 % of GoK development Budget allocations (2015/16)	95 % of GoK capital allocations
		IR Indicator 2.1: Guidelines adopted by NT which require that revised MDA cash plans protect service delivery and infrastructure budget priorities	2	Yes/No	No	Yes
		IR Indicator 2.2: Actual domestic (tax plus non-tax) revenue collections as a percentage of the annual budget.	2	% of Approved Budget	91.87% (2015/16)	94%
		IR Indicator 2.3: Average under-performance of quarterly net domestic borrowing as a percentage of what is planned in revised in year cash plans	2	% of Plan	70% (2015/16)	Under 25 %
		IR Indicator 2.4: In year borrowing plan consistent with delivering cash for MDAs based on a compilation of the cash plans using the new system	2	Yes/No	No	Yes
Results Area 3: Efficient and Transparent Procurement	**PDO Indicator 3: Efficient Procurement** MDAs using the e-Procurement System in compliance with the PPAD Act, 2015, and attendant Regulations for the full fiscal year and procurement data disclosed in SPP following OCDS		3	Number	n/a	All MDAs
		IR Indicator 3.1: UAT for upgraded e-procurement and SPP complete	3	Yes/No	No[30]	Yes
		IR Indicator 3.2: roadmap agreed for				

[30] IFMIS procurement module operational and aligned with 2005 procurement act

Results Areas	PDO/Outcome Indicators	Intermediate Results Indicators	DLI	Unit of	Baseline	End Target
		upgrading e-procurement system including SPP, aligned to requirements of PPADA and attendant regulations.				
Results Area 4: Consolidated Staff Data	**PDO Indicator 4: Consolidated Staff Data** MDAs whose payroll data has been uploaded to GHRIS and are up to date.		4	Number	0	20 MDAs including 4 with major service delivery payrolls
		IR Indicator 4: Plan adopted for GHRIS to be enhanced to handle consolidated HR data from MDAs which interfaces with IFMIS	4	Yes/No	No	Yes
Results Area 5: Timely and Quality Financial Statement and Audits	**PDO Indicator 5: Timely and Quality Financial Statements and Audit** a) % of MDAs, whose financial statement audits have been completed within 4 months after OAG receipt of final financial statements using an improved methodology, undergone quality assurance		5	Number	0	50% of MDAs
	b) Months between receipt of final consolidated financial reports by OAG and submission of audited financial statements to Parliament		5	Number	10 Months	3 Months
		IR Indicator 5.1: Approval of audit codes that classify risk clusters to enable efficient targeting of audit resource	5	Yes/No	No	Yes
		IR Indicator 5.2: Enhanced audit methodology and quality assurance framework approved	5	Yes/No	No	Yes
		IR Indicator 5.3: The percentage (%) of MDAs the National Treasury has reviewed the quality of Annual Financial Statements generated from IFMIS and has submitted to the	5	Yes/No	10%	50%, generated from IFMIS

Results Areas	PDO/Outcome Indicators	Intermediate Results Indicators	DLI	Unit of	Baseline	End Target
		OAG within 4 months.				
Results Area 6: Strengthened Fiduciary Assurance and Transparency	**PDO Indicator 6a: Transparent Institutions** Number of MDAs where information is publicly available online in searchable form on a) program expenditure, b) project expenditure and c) transfers to service delivery units.		6	Number	0	All MDAs, including education, health and infrastructure
		IR Indicator 6.1: MDAs can access multi-year itemized and facility level budget and outturn data for all MDAs in searchable form through the budget module in the IFMIS	6	Yes/No	No	Yes
		IR Indicator 6.2: UAT of online public interface which provides information in a searchable form on programs, projects and transfers to service delivery unit	6	Yes/No	No	Yes
	PDO Indicator 6b: Strengthened Fiduciary Assurance and Risk Management Annual and quarterly MDA Internal Audit Reports have been prepared and undergone quality assurance in line with enhanced procedures for assurance, risk management and audit follow-up.		6	Number	0	20 MDAs
		IR Indicator 6.3: Updated manuals and QA framework for internal audit in place to strengthen assurance and risk management are in place	6	Yes/No	No	Yes
		IR Indicator 6.4: Complete diagnostic Study of internal audit	6	Yes/No	No	Yes

Table 13: Indicator Description

Indicator Name (#)	Description	Frequency	Data Source/ Methodology for data collection	Responsibility for Data Collection	DLIs	
					Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
PDO Indicator 1: Prioritized Public Investments. Projects with capital allocations above KES 100 million which are in compliance with procedures in the PIM manual.	Number of projects with capital allocations above KES 100 million in MDAs for which requirements in the PIM Manual have been fulfilled. The project has been budgeted for in the MTEF	Annual	PIM ICT platform such as e-ProMIS Project book and development budget estimates (IFMIS).	Results Team	IVA	Yes
IR Indicator 1.1: Dedicated unit established with staff deployed assigned performing NT PIM roles.	Establishment of a dedicated unit (at a minimum) that has been approved by PS/NT that includes functional responsibility for PIM. The unit has a specified structure which includes a head and staff. Staff have been deployed/assigned to work in the unit in line with the structure.	Once	PIM Manual National Treasury	Results Team	IVA	No
IR Indicator 1.2: Approved PIM Manual and user requirements which addresses, inter alia, key challenges in PIM including prioritization, costing and transparency	A PIM Manual has been drafted which includes specified processes and formats and the use of e-ProMIS and IFMIS in delivering processes and reports.	Once	PIM Manual	Results Team	IVA	No
IR Indicator 1.3: UAT complete for enhanced e-ProMIS automating provisions of PIM Manual	E-ProMIS has functionality to support delivering processes and reports as specified in the approved user requirements. A functional interface between the IFMIS and the e-ProMIS. This includes a mechanism for catering for changes to SCoA codes for projects over time and introduction of static SCoA project codes.	Once	National Treasury / e-ProMIS	Results Team	IVA	No

Indicator Name (#)	Description	Frequency	Data Source/	Responsibility	DLIs	
PDO Indicator 2.1: Reliable Funding for Service delivery and investment projects a) Average under-release of priority operational service delivery budget allocations expressed as a percentage of revised in year cash plans on a monthly basis.	The average value of revised monthly cash plans minus monthly exchequer releases for operational service delivery budget allocations where releases are below planned amounts for the 12 months in the financial year expressed as a percentage of revised monthly cash plans.	Annual	Annual budget and revised cash plans. Exchequer Release data (IFMIS)	Results Team	IVA	Yes
b) Annual exchequer releases to GoK capital budget allocations as a % of the approved budget.	The total value of exchequer releases for capital allocations in the list of service delivery MDAs divided by the total value of approved budget allocations to those allocations. GoK funds only.	Annual	Annual budget and revised cash plans. Exchequer Release data (IFMIS)	Results Team	IVA	Yes
IR Indicator 2.1: Guidelines adopted by NT which require that revised MDA cash plans protect service delivery and infrastructure budget priorities	The NT has issued guidance in a circular which set the modalities for prioritizing service delivery and project budget lines in the revision of cash plans when there are revenue shortfalls.	Once	Cash management guidelines/circulars	Results Team	IVA	No
IR Indicator 2.2: Annual domestic (tax plus non-tax) revenue collections as a percentage of the annual budget	Total domestic tax and non-tax revenue collected as a % of the total approved annual budget for domestic tax and non-tax revenue.	Annual	Annual revenue forecasts and collections	Results Team	IVA	Yes
IR Indicator 2.3: Average under performance of quarterly net domestic borrowing as a percentage of what is planned in revised in year cash plans	The average value of revised monthly planned minus actual net domestic financing where such financing is below planned amounts for the four quarters in the financial year expressed as a percentage of revised quarterly plans.	Annual	Cash plan and borrowing outturn data	Results Team	IVA	Yes
IR Indicator 2.4: In year borrowing plan consistent with delivering cash for MDAs based on a compilation of the cash plans using the new	An aggregate cash plan approved by PS/NT which sets out by month: a) the value of the aggregated MDA cash plans and revenue projections; b) the type and quantity of borrowing to be	Annual	National Treasury	Results Team	IVA	No

Indicator Name (#)	Description	Frequency	Data Source/	Responsibility	DLIs	
system	taken; and c) explanations of any differences between aggregated revenue and expenditure plans nationally					
PDO Indicator 3: Efficient and Transparent Procurement MDAs using the e-Procurement System in compliance with the PPAD Act and Regulations for the full fiscal year and procurement data disclosed in SPP following OCDS	MDAs for which the following has been carried out in line with the PPDA Act and Regulations: a) All procurement is carried out in the e-procurement system, the required information is provided; and the appropriate procurement method and approvals in place; b) Required information made public via the State Procurement Portal tender portal	Annual	National Treasury Procurement system; budget estimates; expenditure reports.	Results Team	IVA	Yes
IR Indicator 3.1: UAT for upgraded e-procurement and SPP complete	UAT report confirms upgraded e-Procurement system operational, aligned to requirements of procurement entities, oversight bodies and suppliers in line with the PPAD Act 2015 and Regulations. The state procurement portal is also in place, following Open Contracting Data Standards.	Once	e-procurement system UAT report	Results Team	IVA	No
IR Indicator 3.2: roadmap agreed for upgrading e-procurement system including SPP, aligned to requirements of PPADA and attendant regulations.	Road map for: e-Procurement system in place, aligned to requirements of procurement entities, oversight bodies and suppliers in line with the PPAD Act 2015 and Regulations; and state procurement portal following Open Contracting Data Standards.	Once	e-procurement roadmap	Results Team	IVA	No
PDO Indicator 4: Consolidated Staff Data Number of MDAs whose payroll data has been uploaded to GHRIS and are up to date.	The number of MDAs where up to date payroll information has been uploaded and is available in an integrated GHRIS and data is a) disaggregated by administrative unit (e.g. department), including service delivery unit/facility where	Annual	IFMIS; Payroll databases; GHRIS	Results Team	IVA	Yes

Indicator Name (#)	Description	Frequency	Data Source/	Responsibility	DLIs	
	appropriate and b) consistent with the payroll system and IFMIS (structure and value).					
IR Indicator 4: GHRIS enhanced to handle consolidated HR data from MDAs and interfaces with IFMIS	GHRIS enhanced to consolidate individual MDA pay-rolls developed in GHRIS is in place. The system includes interfaces between the individual payrolls, consolidated database in GHRIS and IFMIS with a common data structure.	Once	GHRIS	Results Team	IVA	No
PDO Indicator 5: Timely and Quality Financial Statements and Audit A) % of MDAs whose financial statement audits have been completed within 4 months after OAG receipt of final accounts using an improved methodology, undergone quality assurance	The number of MDAs for which the following is true for the audit of the previous FY. a) audits are fully documented on an Audit Management Software b) audits have been prepared using the new methodology and risk clustering the audits have undergone quality assurance and	Annual	OAG AMS	Results Team	IVA	Yes
B) Months between receipt of final consolidated financial statements by OAG and submission of audited financial statements to Parliament	The targeted number of months for the DLI for the given FY is greater than or equal to the number of complete between a) The date Parliament receives the audited financial statement of individual MDAs from the Auditor General and b) The date the OAG receives the consolidated financial statement from NT	Annual	OAG	Results Team	IVA	Yes
IR Indicator 5.1: Audit codes in place that classify risk clusters to enable efficient targeting of audit resource	The OAG has issued a new set of audit codes, which are based on guidelines and agreed principles. This has been reviewed by AFROSAI (or equivalent).	Once	OAG	Results Team	IVA	No
IR Indicator 5.2: Enhanced audit methodology and quality assurance framework in place	The OAG has issued a new methodology that includes revised presentation of reports and a quality	Once	OAG	Results Team	IVA	No

Indicator Name (#)	Description	Frequency	Data Source/	Responsibility	DLIs	
	control and assurance framework. This has been reviewed by AFROSAI (or equivalent).					
IR Indicator 5.3: The percentage (%) of MDAs the National Treasury has reviewed the quality of Annual Financial Statements generated from IFMIS and has submitted to the OAG within 4 months.	Share of MDAs for which the NT has reviewed the quality of annual financial statements generated from IFMIS and submitted to the OAG within 4 months after the close of the financial year, where a) they have been generated from IFMIS, b) Review reports are in place the quality of statements, and c) individual vote and consolidated financial statements are made available on the on the National Treasury website.	Annual	Annual Financial Statements	Results Team	IVA	Yes
PDO Indicator 6a: Transparent Institutions Number of MDAs where information is publicly available online in searchable form on a) program expenditure, b) project expenditure and c) transfers to service delivery units.	Number of MDAs where up-to date information is publicly available online in searchable form on a) program expenditure from the program budget, b) project expenditure from IFMIS and c) transfers to individual service delivery units from IFMIS.	Annual	Budget Portal, IFMIS, financial statements	Results Team	IVA	Yes
IR Indicator 6.1: MDAs can access multi-year itemized and facility level budget and outturn data for all MDAs in searchable form through the budget module in the IFMIS	The analytical repository in the Hyperion budget module linked to IFMIS is expanded so that it includes historical MDA budget and outturn data, including a) the full COA code string/line item; and b) Non-financial data from the program budget	Once	Hyperion IFMIS budget module	Results Team	IVA	No
IR Indicator 6.2: Functional online public interface which provides information in a searchable form on programs and projects and transfers to service delivery unit	Online public interface provides information in a searchable form on a) program expenditure and performance from the program budget, b) project expenditure from IFMIS and c) transfers to individual service	Once	Online public interface	Results Team	IVA	No

Indicator Name (#)	Description	Frequency	Data Source/	Responsibility	DLIs	
	delivery units from IFMIS.					
PDO Indicator 6b: Strengthened Fiduciary Assurance and Risk Management Annual and quarterly MDA Internal Audit Reports have been prepared and undergone quality assurance in line with enhanced procedures for assurance, risk management and audit follow-up.	From 2017/19 the number of MDAs which meet the following: a) Annual and Quarterly Internal audit reports use the new methodology and b) These reports have been subject to the new quality assurance framework.	Annual	Internal Audit Reports	Results Team	IVA	Yes
IR Indicator 6.3: Updated manuals and QA framework for internal audit in place to strengthen assurance and risk management are in place	By the end of 2017/18, the NT will have approved: a) Enhanced tools for IAD effectiveness, including new MDA manuals which provide a strengthened framework for assurance and risk management and audit follow up. b) New Internal Quality Assurance & performance improvement framework to ensure enhanced tools are employed	Once	IAD Manuals and QA framework	Results Team	IVA	No
IR Indicator 6.4: Complete diagnostic Study of internal audit.	The National Treasury has completed a diagnostic Study of the IAD;	Once	Diagnostic Study	Results Team	IVA	No

Annex 3: Disbursement Linked Indicators, Disbursement Arrangements and Verification Protocols

Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya (GESDeK)

Table14: Disbursement Linked Indicator Matrix

	Total Financing Allocated to DLI	**As percent of Total Financing Amount**	**DLI Baseline** *By June 2017*	**Indicative timeline for DLI Achievement - DLRs**				
				2017/18 - Y1 *By June 2018*	**2018/19 - Y2** *By June 2019*	**2019/20 – Y3** *By June 2020*	**2020/21 – Y4** *By June 2021*	**2021/22 – Y5** *By June 2022*
Result Area 1: Prioritized Public Investments								
DLI 1: Prioritized Public Investments Number of Projects with capital allocations above KES 100 million which are in compliance with procedures in the PIM manual. (Lead: Macro & fiscal Affairs Department, NT)	$25 million	16.7 percent	Project Identification Circulars in place	PIM Unit established in NT Approved PIM Manual and user requirements for e-ProMIS which addresses key challenges in PIM including prioritization, costing and transparency.	5 projects UAT complete for enhanced e-ProMIS automating provisions of PIM Manual	10 Projects	20 Projects using e-ProMIS	30 Projects using e-ProMIS
Allocated amount:				$5 million	$5 million	$5 million	$5 million	$5 million
Allocated amount for results area 1:	**$25 million**	**16.7 percent**		**$5 million**	**$5 million**	**$5 million**	**$5 million**	**$5 million**

<table>
<tr><th rowspan="2"></th><th rowspan="2">Total Financing Allocated to DLI</th><th rowspan="2">As percent of Total Financing Amount</th><th rowspan="2">DLI Baseline
By June 2017</th><th colspan="5">Indicative timeline for DLI Achievement - DLRs</th></tr>
<tr><th>2017/18 - Y1
By June 2018</th><th>2018/19 - Y2
By June 2019</th><th>2019/20 – Y3
By June 2020</th><th>2020/21 – Y4
By June 2021</th><th>2021/22 – Y5
By June 2022</th></tr>
<tr><td colspan="9">Result Area 2: Reliable Funding for Service Delivery and Public Investment</td></tr>
<tr><td>DLI 2.1: Reliable funding for Service Delivery and Investment Projects

Average under-release of priority operational service delivery budget allocations expressed as a percentage of revised in year cash plans on a quarterly then monthly basis.

(Lead: Accounting Services, NT)</td><td rowspan="2">$ 19 million</td><td rowspan="2">12.7 percent</td><td>8% of recurrent budgets for 25 service delivery MDAs (2015/16)

Cash management system not operational (2016/17)</td><td rowspan="2">UAT of cash management and exchequer systems.

Guidelines adopted by NT which require that revised MDA cash plans protect service delivery and infrastructure budget priorities.</td><td>Below 8% of quarterly service delivery cash plans</td><td>Below 5% of quarterly of service delivery cash plans</td><td>Below 10% of monthly service delivery cash plans</td><td>Below 8% of monthly service delivery cash plans</td></tr>
<tr><td>Annual exchequer releases to GoK capital budget allocations as a % of the approved budget.

(Lead: Accounting Services, NT)</td><td>90.7% of GoK Development Budget Allocations (2016/17)</td><td>92% of Capital Allocations</td><td>93% of capital allocations</td><td>94% of capital allocations</td><td>95% of capital allocations</td></tr>
<tr><td>Allocated amount:</td><td></td><td></td><td></td><td>$3 million</td><td>$4 million</td><td>$4 million</td><td>$4 million</td><td>$4 million</td></tr>
</table>

	Total Financing Allocated to DLI	As percent of Total Financing Amount	DLI Baseline *By June 2017*	Indicative timeline for DLI Achievement - DLRs				
				2017/18 - Y1 *By June 2018*	**2018/19 - Y2** *By June 2019*	**2019/20 – Y3** *By June 2020*	**2020/21 – Y4** *By June 2021*	**2021/22 – Y5** *By June 2022*
DLI 2.2: Improved Revenue Projections Actual domestic (tax plus non-tax) revenue collections as a percentage of the annual budget. (Lead: Macro and Fiscal Affairs Department, NT)	$8 million	5.3 percent	91.87% (2015/16)	92 percent of forecast	92.5% percent of forecast	93.0% percent of forecast	93.5% percent of forecast	94.0% percent of forecast
Allocated amount:				$0 million	$2 million	$2 million	$2 million	$2 million
DLI 2.3: Reliability of domestic financing Average under performance of quarterly net domestic borrowing as a percentage of what is planned in revised in year cash plans. (Lead: PDMO, NT)	$10 million	6.7 percent	70% (2015/16)	In year borrowing plan consistent with delivering cash for MDAs based on a compilation of the cash plans using the new system	Under 40% of plan	Under 35% of Plan	Under 30% of Plan	Under of 25% of Plan
Allocated amount:				$2 million	$2 million	$2 million	$2 million	$2 million
Allocated amount for results area 2:	**$37 million**	**24.6 percent**		**$5 million**	**$8 million**	**$8 million**	**$8 million**	**$8 million**
Result Area 3: Efficient and Transparent Procurement								

	Total Financing Allocated to DLI	As percent of Total Financing Amount	DLI Baseline *By June 2017*	Indicative timeline for DLI Achievement - DLRs				
				2017/18 - Y1 ***By June 2018***	**2018/19 - Y2** ***By June 2019***	**2019/20 – Y3** ***By June 2020***	**2020/21 – Y4** ***By June 2021***	**2021/22 – Y5** ***By June 2022***
DLI 3: Efficient and Transparent Procurement Number of MDAs using the e-procurement system in compliance with the PPADA and attendant regulations for the full fiscal year and procurement data disclosed in SPP following OCDS (Lead: Procurement Department, NT)	$21 million	14 percent	IFMIS procurement module operational and aligned with the PPADA 2005 and attendant regulations	Roadmap agreed for upgrading e-procurement system including state procurement portal, aligned to requirements of PPADA and attendant regulations	UAT for upgraded e-procurement and state procurement portal complete	5 MDAs (comprising of 2 high spending ministry /state department and 1 commission)	10 MDAs (comprising 5 high spending ministry /state department and 1 commission)	All MDAs
Allocated amount:				$2 million	4 million	$5 million	$5 million	$5 million
Allocated amount for results area 3:	**$21 million**	**14 percent**		**$2 million**	**$4 million**	**$5 million**	**$ 5 million**	**$5 million**
Result Area 4: Consolidated Staff Data								
DLI 4: Consolidated Staff Data Number of MDAs whose payroll data has been uploaded to GHRIS and are up to date. (Lead: MoPSYGA)	$20 million	13.3 percent	0	Plan adopted for GHRIS to be enhanced to handle consolidated human resources (HR) data from MDAs which interfaces with IFMIS	2 Pilot MDAs	5 MDAs including 2 with major service delivery payrolls	10 MDAs including 3 with major service delivery payrolls	20 MDAs including 4 with major service delivery payrolls
Allocated amount:				$2 million	$3 million	$5 million	$5 million	$5 million
Allocated amount for results area 4:	**$20 million**	**13.3 percent**		**$2 million**	**$3 million**	**$5 million**	**$5 million**	**5 million**

	Total Financing Allocated to DLI	As percent of Total Financing Amount	DLI Baseline *By June 2017*	Indicative timeline for DLI Achievement - DLRs				
				2017/18 - Y1 *By June 2018*	**2018/19 - Y2** *By June 2019*	**2019/20 – Y3** *By June 2020*	**2020/21 – Y4** *By June 2021*	**2021/22 – Y5** *By June 2022*
Result Area 5: Timely & Quality Financial Statements and Audits								
DLI 5.1: Timely, Quality Assured, Financial Statements The percentage of MDAs the National Treasury has reviewed the quality of annual Financial Statements generated from IFMIS and has submitted to the OAG within 4 months. (Lead: Accounting Services, NT)	$9 million	6.0 percent	10%, generated from IFMIS	15%, generated from IFMIS	20%, generated from IFMIS	30%, generated from IFMIS	40%, generated from IFMIS	50%, generated from IFMIS
Amount allocated				$1 million	$2 million	$2 million	$2 million	$2 million
DLI 5.2 Timely, Efficient, Quality Audit: a) % of MDAs whose financial statement audits have been completed within 3 months after OAG receipt of final financial statements using an improved methodology, undergone quality assurance. (Lead: OAG)	$18 million	12 percent	0% of MDAs (new methodology not in place)	None	Enhanced Audit methodology and Quality assurance framework approved	15% of MDAs	33% of MDAs	50% of MDAs

	Total Financing Allocated to DLI	As percent of Total Financing Amount	DLI Baseline *By June 2017*	Indicative timeline for DLI Achievement - DLRs				
				2017/18 - Y1 *By June 2018*	**2018/19 - Y2** *By June 2019*	**2019/20 – Y3** *By June 2020*	**2020/21 – Y4** *By June 2021*	**2021/22 – Y5** *By June 2022*
b) Months between receipt of final consolidated financial reports by OAG and submission of the audited financial statements to Parliament			10 months (2015/16)	Approval of audit codes that classify risk clusters to enable efficient targeting of audit resource	8 months	6 months	4 months	3 months
Amount allocated				$1 million	$ 1 million	$4 million	$6 million	$6 million
Allocated amount to results area 5:	**$27 million**	**18.0 percent**		**$2 million**	**$3 million**	**$6 million**	**$8 million**	**$8 million**
Result Area 6: Strengthened Fiduciary Assurance and Transparency								
DLI Indicator 6.1: Transparent Institutions Number of MDAs where information is publicly available online in searchable form on a) program expenditure, b) project expenditure and c) transfers to service delivery units. (Lead: Budget Supplies Department, NT)	$12 million	8.0 percent	0 MDAs	MDAs can access multi-year itemized and facility level budget and outturn data for all MDAs in searchable form through the budget module in IFMIS	UAT of online public interface which provides information in a searchable form on programs and projects and transfers to service delivery unit 2 pilot MDAs, including education	5 MDAS, including education and health	15 MDAs including education, health and infrastructure	All MDAs including education, health and infrastructure
Amount allocated				$1 million	$2 million	$3 million	$3 million	$3 million

	Total Financing Allocated to DLI	As percent of Total Financing Amount	DLI Baseline *By June 2017*	Indicative timeline for DLI Achievement - DLRs				
				2017/18 - Y1 *By June 2018*	**2018/19 - Y2** *By June 2019*	**2019/20 – Y3** *By June 2020*	**2020/21 – Y4** *By June 2021*	**2021/22 – Y5** *By June 2022*
DLI 6.2: Strengthened Fiduciary Assurance and Risk Management Annual and Quarterly MDA Internal Audit Reports have been prepared and undergone QA in line with enhanced procedures for assurance, risk management and audit follow up. (Lead: Internal Audit, NT)	$8 million	5.3 percent	Audit Management and Data Analysis Software, Internal Audit Manuals & Guidelines in place	Complete diagnostic Study of internal audit	Updated manuals and QA framework for internal audit to strengthen assurance and risk management are in place	10 MDAS	15 MDAs	20 MDAs
Amount allocated				$1 million	$1 million	$2 million	$2 million	$2 million
Allocated amount to result area 6:	**$20 million**	**16 percent**		**$2 million**	**$3 million**	**$5 million**	**$5 million**	**$5 million**
Total Financing Allocated:	**$150 million**	**100 percent**		**$18 million**	**$26 million**	**$34 million**	**$36 million**	**$36 million**

Table 15: DLI Verification Protocol Table

DLI	Definition	Scalable (Yes/No)	Protocol to Evaluate Compliance of the DLI and Data/Result Verification		
			Data source	Verification Entity	Procedure
Result Area 1: Prioritized Public Investments					
DLI 1: Prioritized Public Investments.	*DLR1a: PIM unit established in NT.* Establishment of a dedicated unit (at a minimum) that has been approved by PS/NT that includes functional responsibility at minimum for a) the development of and oversight of implementation of the PIM manual, b) review of project appraisals, c) e-ProMIS system management. The unit has a specified structure which includes a head and staff. Staff have been deployed/assigned to work in the unit in line with the structure.	No	Formal letter/memo signed by PS/NT / from PS National Treasury	PFMR Secretariat supported by independent verification agent.	**Y1** Formal letter/memo signed by PS/NT / from PS approving the structure of the new unit. Technical team collects formal documentary evidence of minimum basic staff specified for the unit have been deployed/ assigned and remain in place (e.g. memos, appointment letters).

<table>
<tr><th rowspan="2">DLI</th><th rowspan="2">Definition</th><th rowspan="2">Scalable (Yes/No)</th><th colspan="3">Protocol to Evaluate Compliance of the DLI and Data/Result Verification</th></tr>
<tr><th>Data source</th><th>Verification Entity</th><th>Procedure</th></tr>
<tr><td></td><td>DLR 1b: Approved PIM Manual & user requirements for e-ProMIS which addresses key challenges in PIM including prioritization, costing and transparency

A PIM Manual has been drafted which includes, processes and formats for at least:

a) Project Identification and the Project pipeline
b) Project design, costing and sequencing
c) Project appraisal and appraisal review
d) Budgeting for projects
e) M&E and Reporting

The PIM manual specifies the use of e-ProMIS and IFMIS in delivering processes and reports.

The PIM Manual which meets the above criteria has been approved by the Principal Secretary in the National Treasury.

User requirements for e-which will address prioritization, costing and transparency.</td><td>No</td><td>PIM Manual</td><td>PFMR Secretariat supported by independent verification agent.</td><td>POM
The POM provides more elaborate specification of the PIM manual and its composition.

Y1
Technical team verifies that a PIM manual has been issued by the National Treasury.

User Requirements for e-ProMIS PIM functionality approved by PS/NT.</td></tr>
<tr><td></td><td>DLR 1c: UAT complete for enhanced e-ProMIS and IFMIS

A functional interface between the IFMIS and the e-ProMIS. This includes a mechanism for catering for changes to SCOA codes for projects over time.

e-ProMIS has functionality to support the delivering processes and reports in line with the approved user requirements.</td><td>No</td><td>National Treasury / e-ProMIS</td><td>PFMR Secretariat supported by independent verification agent.</td><td>POM

POM sets i) basic specifications for the PIM system based on user requirements; and ii) definition of functional PIM system once user requirements are defined.

Y2

Technical team reports whether</td></tr>
</table>

DLI	Definition	Scalable (Yes/No)	Protocol to Evaluate Compliance of the DLI and Data/Result Verification		
			Data source	Verification Entity	Procedure
					system has been developed in line with the requirements POM
	DLR 1d: Projects with capital allocations above KES 100 million which are in compliance with procedures in the PIM manual. Number of projects with capital allocations above KES 100 million in MDAs for which requirements in the PIM Manual have been fulfilled, including at least: a) Appraisal reports are available b) The National Treasury has reviewed the appraisal report and the review states that the project at least meets appraisal criteria c) The project has been budgeted for in the MTEF d) From Y4 onwards, compliance requires the use of e-ProMIS	Yes	Appraisal Reports MTEF NT	PFMR Secretariat supported by independent verification agent.	**POM** POM Provides i) List of applicable MDAs (along the lines of table 3.3) ii) definition of capital items in the SCOA; iii) checklist of compliance with PIM manual incorporating a to c.; and iv) checklist for use of e-ProMIS **Y2 onwards** Technical Team reports on compliance with PIM manual using checklist for use of PIM Manual set out in the POM. **Y4 onwards** Technical Team reports on compliance with e-ProMIS using checklist for use of e-ProMIS set out in the POM.
Result Area 2: Reliable Funding for Service Delivery and Public Investments					
DLI 2.1: Reliable Funding for Service Delivery and Investment Projects	*DLR 2.1a: UAT of cash management and exchequer systems* UAT of systems, the functionality of which include: Automation of cash planning;	No	UAT report for the cash management module and automated exchequer system	PFMR Secretariat supported by independent verification agent	**Y1** Technical Team provides approached UAT report.

DLI	Definition	Scalable (Yes/No)	Protocol to Evaluate Compliance of the DLI and Data/Result Verification		
			Data source	Verification Entity	Procedure
	• A system of annual MDA cash planning and in year revisions • Aggregation of MDA cash plans Automation of exchequer requisitioning and release process: • Request for exchequer by MDAs; • Approval of exchequer by COB and NT; • Release of funds to MDA bank accounts. .				
	DLR2.1b Guidelines adopted by NT which require that revised MDA cash plans protect service delivery and infrastructure budget priorities. The NT has issued standalone guidelines or guidance in a relevant circular which set out: a) Priority service delivery and project budget lines which need to be protected during execution, which include those specified in the POM *b)* The process for revising cash plans in year when there are revenue shortfalls including the protection of priority budget lines for service delivery	No	Budget Supply Department (BSD)/Cash Management Committee if constituted/established Official Annual Guidance on Cash Management In year circulars adjusting monthly cash allocations.	PFMR Secretariat supported by independent verification agent.	**POM** POM provides specifications of the guidelines and circulars **Y1 onwards** Technical Team compiles guidelines and circulars issued by National Treasury to MDAs and verifies requirements to protect budget lines are in place
	DLR 2.1c: Average under-release of priority operational service delivery budget allocations expressed as a percentage of revised in year cash plans on a quarterly then monthly basis.	Yes	Revised Cash Plans from the new cash management system Actual exchequer releases from IFMIS		**POM** POM Provides i) List of applicable MDAs (along the lines of table 3.3); ii) definition of priority operational budget lines; and iii) further guidance for data collection and methodology for computing

<table>
<tr><th rowspan="2">DLI</th><th rowspan="2">Definition</th><th rowspan="2">Scalable (Yes/No)</th><th colspan="3">Protocol to Evaluate Compliance of the DLI and Data/Result Verification</th></tr>
<tr><th>Data source</th><th>Verification Entity</th><th>Procedure</th></tr>
<tr><td></td><td>For all priority, operational service delivery budget lines to which exchequer releases apply as specified in the POM:

For Y2 and Y3: The average value of four quarters in the FY of
a) the planned expenditure from revised quarterly cash plans minus b) actual exchequer releases expressed as a percentage of the c) expenditure from the revised cash plan for the quarter where d) releases are below what is planned; and
0% in quarters where exchequer releases are greater than what is planned for in revised cash plans.
For Y3 and Y4: The average value for the 12 months in the FY of
a) the planned expenditure from revised monthly cash plans minus b) actual exchequer releases expressed as a percentage of the c) expenditure from the revised cash plan for the month where d) releases are below what is planned; and
0% in quarters where exchequer releases are greater than what is planned for in revised cash plans.
If in the final period (q4/June) cumulative expenditures in revised cash plans are below 95% of the original approved annual budget, then cumulative exchequer releases by the end of q4/June will be expressed as a % of</td><td></td><td></td><td></td><td>indicator.

Y2 onwards
Technical Team obtains data from the systems for eligible MDAs and expenditures and reports on the achievement of indicators using guidance from the POM.</td></tr>
</table>

DLI	Definition	Scalable (Yes/No)	Protocol to Evaluate Compliance of the DLI and Data/Result Verification		
			Data source	**Verification Entity**	**Procedure**
	95% of the annual budget and the average calculated using this value.				
	DLR2.1d: Annual exchequer releases to GoK capital budget allocations as a % of the approved budget. The total value of exchequer releases for fixed capital allocations to major capital projects in the list of service delivery MDAs *divided by* the total value of approved budget allocations to those allocations.	Yes	Approved Annual budget Approved revised cash plans from the cash management system. Line item exchequer release data (IFMIS)	PFMR Secretariat supported by independent verification agent.	**POM** POM Provides i) List of applicable MDAs (along the lines of table annex 3.3); ii) a definition of capital projects with the largest capital allocations; and iii) further guidance for data collection and methodology for computing indicator. **Y2 onwards** Technical Team obtains data from the systems for eligible MDAs and expenditures and reports on the achievement of indicators using guidance from the POM.
DLI 2.2: Improved Revenue Projections	*DLR 2.2: Annual domestic (tax plus non-tax) revenue collections as a percentage of the annual budget* Total domestic tax and non-tax revenue collected as a % of the total approved annual budget for domestic tax and non-tax revenue. Non-tax revenue is defined as domestic revenue which is not collected by KRA which funds the exchequer. This excludes Appropriation in Aid, Grants, the Railway Development Fund, the Road Maintenance Fund, and the Petroleum Development Levy	Yes	Published Domestic Revenue Outturns, Approved Budget	PFMR Secretariat supported by independent verification agent.	**POM** POM provides guidance on the collection of data, computation and reporting. **Y2 onwards** Technical Team obtains data and reports on the achievement of indicators using guidance from the POM.
DLI 2.3: Reliability of domestic	*DLR 2.3a: In year borrowing plan consistent with delivering cash for MDAs based on a compilation of the cash plans using the new*	No	Cash Management Module and cash plan	PFMR Secretariat supported	**Y1** Technical Team obtains borrowing plan approved by cash management

DLI	Definition	Scalable (Yes/No)	Protocol to Evaluate Compliance of the DLI and Data/Result Verification		
			Data source	**Verification Entity**	**Procedure**
financing	*system* An aggregate cash plan for FY1 has been approved by the PS NT before the end of the first month of the FY which sets out by month: a) The value of the aggregated MDA cash plans and revenue projections by month from the system; b) The type and quantity of borrowing to be taken by month during the year is prepared; and c) Any differences between aggregated revenue and expenditure plans nationally are explained and justified		Aggregate cash plan approved by PS/NT	by independent verification agent.	committee and checks it meets the specified definition.
	DLR 2.3b: Average under performance of quarterly net domestic borrowing as a percentage of what is planned in revised in year cash plans An aggregate cash plan is in place for the FY as specified in DLR 2.3a. The revised cash plan is the most recent aggregate cash plan revised for a quarter based on actual outturns preceding each quarter. Revised aggregate cash plans must a) balance cash inflows and outflows, b) be consistent with prioritizing priority service delivery budget lines, and v) be approved by the Cash Management Committee[31] at least 2 months prior to the end of the quarter in question.	Yes	PDMO Aggregate cash plan approved by PS/NT Revised in year borrowing plans approved by CMC NT and CBK Financing Data	PFMR Secretariat supported by independent verification agent.	**POM** POM provides guidance on the collection of data, computation and reporting **Y2 Onwards** Technical Team obtains borrowing plan approved by cash management committee, borrowing outturns and any subsequent revised cash flow plans and computes indicator using guidance in POM.

[31] If the Cash Management has not been constituted, then the revised cash plan must be approved at a minimum by the DG Accounting Services

<table>
<tr><th rowspan="2">DLI</th><th rowspan="2">Definition</th><th rowspan="2">Scalable (Yes/No)</th><th colspan="3">Protocol to Evaluate Compliance of the DLI and Data/Result Verification</th></tr>
<tr><th>Data source</th><th>Verification Entity</th><th>Procedure</th></tr>
<tr><td></td><td>The average value of four quarters in the FY of
The planned net domestic financing (face value: cost) from a) revised quarterly cash plans minus b) actual net domestic financing (face value: cost) expressed as a percentage of c) the planned net domestic financing (face value: cost) from revised quarterly cash plans for quarters where d) outturns are below what is planned;
0% in quarters where net domestic financing greater than what is planned for in revised cash plans.</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="6">Results Area 3: Efficient and Transparent Procurement</td></tr>
<tr><td rowspan="2">DLI 3: Efficient, and Transparent Procurement</td><td>DLR3a: roadmap agreed for upgrading e-procurement system including SPP, aligned to requirements of PPADA and attendant regulations.

An agreed plan for upgrading the e-procurement system and developing the procurement portal that will fully deliver on the requirements of procurement entities, oversight bodies and suppliers in line with the PPAD Act 2015 and Regulations (including business processes and information / data approvals and reporting requirements). The plan will propose either upgrading IFMIS or a new system integrated with IFMIS.</td><td>No</td><td>Plan agreed by National Treasury (Department of Public Procurement and IFMIS) and PPRA to State Procurement Portal</td><td>PFMR Secretariat supported by independent verification agent.</td><td>POM
The POM i) provides basic specifications of an e-procurement system and ii) checklist of functionality of an e-procurement system once developed

Y1
The technical team provides evidence that a plan is in place and that it has been approved at a minimum by NT and PPRA.

.</td></tr>
<tr><td>DLR 3b: UAT for upgraded e-procurement</td><td>No</td><td></td><td>PFMR</td><td>Y2</td></tr>
</table>

DLI	Definition	Scalable (Yes/No)	Protocol to Evaluate Compliance of the DLI and Data/Result Verification		
			Data source	**Verification Entity**	**Procedure**
	system and state procurement portal complete Enhanced e-procurement system tested and ready for pilot implementation for the new FY 2018/2019, which includes: The state procurement portal in also in place, following Open Contracting Data Standards which has at the minimum information on: - publication of appropriate information on tenders, awards, contract implementation from the e-procurement system. - procurement plan associated with each MDA. User acceptance testing reports demonstrating functionality against all aspects of the user requirements		Signed UAT Reports	Secretariat supported by independent verification agent.	The technical team provides UAT reports that confirm that e-procurement system is in line with requirements, and this is confirmed approved at a minimum by NT and PPAD Act
	DLR3c: Number of MDAs using the e-procurement system in compliance with the PPADA and attendant regulations for the full fiscal year and procurement data disclosed in SPP following OCDS Number of MDAs for which the following has been carried out in line with the PPDA Act and Regulations: • All GoK and eligible donor procurements are carried out in the e-procurement system • All required standard tender documents have been uploaded onto the system. • The appropriate procurement method has been applied.	Yes	National Treasury: e-procurement system; budget estimates; expenditure reports.	PFMR Secretariat supported by independent verification agent.	**POM** POM Provides i) List of applicable MDAs (along the lines of table annex 3.3), ii) Checklist for compliance with Act and Regulations using the e-procurement system and portal once developed **Y3 onwards** Technical Team make estimates of using guidance and tools set out in the POM.

<table>
<tr><th rowspan="2">DLI</th><th rowspan="2">Definition</th><th rowspan="2">Scalable (Yes/No)</th><th colspan="3">Protocol to Evaluate Compliance of the DLI and Data/Result Verification</th></tr>
<tr><th>Data source</th><th>Verification Entity</th><th>Procedure</th></tr>
<tr><td></td><td>Approvals have been granted on the system by the appropriate officials
Required information been provided on contract implementation
Required information made public via the State Procurement Portal tender portal
Any other requirements specified in the POM
This applies to goods works and services procured under multi-year contracts in the current financial year starting with procurements initiated the year the enhanced e-Procurement system became operational.</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="6">Results Area 4: Consolidated Staff Data</td></tr>
<tr><td rowspan="2">DLI 4: Consolidated Staff Data</td><td>DLR4a: Plan adopted for GHRIS to be enhanced to handle consolidated HR data from MDAs which interfaces with IFMIS

An agreed plan is in place for a human resource data management system which consolidates individual MDA pay-rolls developed in GHRIS.

This plan includes user requirements which specify; business processes, information requirements and interfaces between the individual payrolls, consolidated database in GHRIS and IFMIS with a common data structure.</td><td>No</td><td>Endorsed plan by relevant stakeholders such as the National Treasury; PSC Salaries and Remuneration Commission Teachers Service Commission and MoPSYGA</td><td>PFMR Secretariat supported by independent verification agent.</td><td>POM
The POM provides basic specifications of GHRIS

Y1
Technical Team provides a) the approved plan in line with the description, b) evidence that it has been approved

Y2
Technical team verifies that GHRIS meets user requirements and infrastructure is in place.</td></tr>
<tr><td>DLR4b: Number of MDAs whose payroll data has been uploaded to GHRIS and are up to date.</td><td>Yes</td><td>IFMIS

Payroll databases.</td><td>PFMR Secretariat supported</td><td>POM
POM Provides i) List of national MDAs (along the lines of table</td></tr>
</table>

DLI	Definition	Scalable (Yes/No)	Protocol to Evaluate Compliance of the DLI and Data/Result Verification		
			Data source	**Verification Entity**	**Procedure**
	The number of MDAs where up to date payroll information has been uploaded and is available in an integrated GHRIS as follows: - Data from the second most recent monthly salary payment has been uploaded - Data is disaggregated by administrative unit (e.g. department), including service delivery unit/facility where appropriate Data is consistent with the payroll system and IFMIS (structure and value) – i.e. the total value of staff paid by service delivery and administrative unit in the IFMIS and the payroll system is consistent with GHRIS.		Enhanced GHRIS	by independent verification agent.	annex 3.3) and ii) checklist defining up to date service delivery payrolls on GHRIS once system has been developed. **Y2-4** Technical reports on this DLI using the checklist in the POM for MDAs with service delivery payrolls.
Results Area 5: Timely and Quality Financial Statements and Audits					
DLI 5.1: Timely, Quality Assured, Financial Statements	*DLR 5.1: The percentage (%) of MDAs the National Treasury has reviewed the quality of Annual Financial Statements generated from IFMIS and has submitted to the OAG within 4 months.* The percentage (%) of MDAs the National Treasury has reviewed the quality of Annual Financial Statements generated from IFMIS and has submitted to the OAG within 4 months. where the following is true. a) Financial statements are consistent with IFMIS data in applicable MDAS b) Review reports/checklists are in place the quality of vote Annual Financial	Yes	NT Annual Financial Statements Review Reports IFMIS	PFMR Secretariat supported by independent verification agent.	**POM** POM provides i) list of applicable MDAs (along the lines of table annex 3.3) and ii) checklist for compliant annual financial statements. **Y1 onwards** The technical team prepares a report consistent with that specified in the POM

DLI	Definition	Scalable (Yes/No)	Protocol to Evaluate Compliance of the DLI and Data/Result Verification		
			Data source	Verification Entity	Procedure
	Statements for list of MDAs in the POM. c) Evidence of the date that the OAG received consolidated Annual Financial Statements d) Individual vote and consolidated financial statements are made available on the on the National Treasury website or equivalent				
DLI 5.2: Timely, Efficient, Quality Audits	*DLR 5.2a: Approval of audit codes that classify risk clusters to enable efficient targeting of audit resources* The OAG has issue a new set of audit codes, which are based on guidelines and agreed principles. This has been reviewed by AFROSAI (or equivalent) as compliant and consistent with international standards	No	OAG AFROSAI	PFMR Secretariat supported by independent verification agent.	**Year 0** The technical team provides a) the audit codes, guidelines and principles as outlined in the POM and b) AFROSAI (or equivalent) confirms in writing that it has peer reviewed the guidelines, principles and codes.
	DLR 5.2b: Enhanced Audit methodology and Quality Assurance framework approved The OAG has issued a new methodology that includes revised presentation of reports and a quality control and assurance framework. This has been reviewed by AFROSAI (or equivalent) as compliant and consistent with international standards.	No	OAG AFROSAI	PFMR Secretariat supported by independent verification agent.	**Year 1** The technical team provides a) the new methodology and guidelines as outlined in the POM and b) AFROSAI (or equivalent) confirmation in writing that it has peer reviewed the new methodology and associated guidelines, principles and codes and confirms they are compliant with international standards.

DLI	Definition	Scalable (Yes/No)	Protocol to Evaluate Compliance of the DLI and Data/Result Verification		
			Data source	**Verification Entity**	**Procedure**
	DLR5.2c: % of MDAs whose financial statement audits have been completed within 3 months after OAG receipt of final financial statements using an improved methodology, undergone quality assurance. The number of MDAs for which the following is true for the audit of the previous FY. a) financial statements and audits are fully documented on an Audit Management Software (for example Teammate), b) audits have been prepared using the new audit methodology, risk clusters have been applied and audits are presented in the revised format, *c)* the audits have undergone quality assurance and all required documentation has been uploaded onto the Audit Management Software.	Yes	OAG AFROSAI	PFMR Secretariat supported by independent verification agent.	**POM** POM provides i) list of applicable MDAs (along the lines of table 3.3) and ii) a checklist for compliance with AMS, risk clustering and new methodology in line with DLI description. **Year 2 onwards** The technical team completes checklists for MDAs and then reports of the number of MDAs which are compliant.

<table>
<tr><th rowspan="2">DLI</th><th rowspan="2">Definition</th><th rowspan="2">Scalable (Yes/No)</th><th colspan="3">Protocol to Evaluate Compliance of the DLI and Data/Result Verification</th></tr>
<tr><th>Data source</th><th>Verification Entity</th><th>Procedure</th></tr>
<tr><td></td><td>DLR 5.2d: Months between receipt of consolidated and quality assured financial statements by OAG and submission of the audited financial statements to Parliament

The targeted number of months for the DLI for the given FY is greater than or equal to the number of complete between
a) the date Parliament receives the audited financial statement of individual MDAs from the Auditor General (as evidenced by a letter acknowledging receipt from Parliament or submission from OAG stamped by Parliament) and
b) The date the OAG receives the consolidated financial statement from NT (as evidenced by a letter acknowledging receipt from the OAG and/or a submission from individual MDAs stamped by the OAG)</td><td>Yes</td><td>OAG

AMS</td><td>PFMR Secretariat supported by independent verification agent.</td><td>Y1 onwards
The technical team compiles audit reports and provides evidence as set out in the DLI description.

POM – provides list of 112 MDA against which the DLI will be applicable in a scalable manner.</td></tr>
<tr><td colspan="6">Results Area 6: Strengthened Fiduciary Assurance and Transparency</td></tr>
<tr><td>DLI 6.1: Transparent Institutions</td><td>6.1a MDAs can access multi-year itemized and facility level budget and outturn data for all MDAs in searchable form through the budget module in the IFMIS

The analytical repository in the Hyperion budget module linked to IFMIS is expanded so that it includes historical MDA budget for the current and forthcoming year and outturn data for the previous year. The data includes
a) Expenditure for full COA code</td><td>No</td><td>Hyperion analytical repository</td><td>PFMR Secretariat supported by independent verification agent.</td><td>POM
POM elaborates basic specifications for the online interface.

Y0
Technical team confirms Hyperion analytical repository has specified information, is up to date as specified in the definitions</td></tr>
</table>

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<tr><th rowspan="2">DLI</th><th rowspan="2">Definition</th><th rowspan="2">Scalable (Yes/No)</th><th colspan="3">Protocol to Evaluate Compliance of the DLI and Data/Result Verification</th></tr>
<tr><th>Data source</th><th>Verification Entity</th><th>Procedure</th></tr>
<tr><td></td><td>string/line item
b) Data by service delivery unit for major service delivery budget lines (outturn only).

The complete Hyperion analytical repository containing data for all MDAs is made available in searchable form to all MDA users of Hyperion.</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>6.1b UAT of online public interface which provides information in a searchable form on programs and projects and transfers to service delivery unit

User Acceptance Testing of an online public interface is established (either as part of an existing website or stand-alone) which provides interactive/user-friendly interfaces for
a) Program plans and performance information
b) transfers to or expenditure by service delivery units; and
c) financial and non-financial information on capital infrastructure projects.</td><td>No</td><td>Budget Portal, national treasury

GHRIS, IFMIS, PIM system</td><td>PFMR Secretariat supported by independent verification agent.</td><td>POM
POM elaborates basic specifications online interface

Y2
The technical team confirms that the budget portal is functional and up to date in line with specifications in the POM</td></tr>
</table>

DLI	Definition	Scalable (Yes/No)	Protocol to Evaluate Compliance of the DLI and Data/Result Verification		
			Data source	Verification Entity	Procedure
	DLR 6.1c: Number of MDAs where information is publicly available online in searchable form on a) program expenditure and performance, b) project expenditure and performance and c) transfers to service delivery units Number of MDAs where up-to date information is publicly available online in searchable form on a) program expenditure and performance from the program budget, b) project expenditure from IFMIS and c) transfers to individual service delivery units from IFMIS. The information should be up to date (the latest information being not more than four months old), and fully consistent with the IFMIS and other information systems. Program performance information should be available at a minimum from Y2 onwards.	Yes	Online public interface	PFMR Secretariat supported by independent verification agent.	**POM** POM Provides i) List of service delivery MDAs and ii) checklist for meeting DLI definition. **Y2 onwards** The technical team reports on the status of the DLI using the guidance in the POM
DLI 6.2: Strengthened Fiduciary Assurance and Risk Management	*6.2a: Complete Diagnostic Study of Internal Audit* The National Treasury has completed a diagnostic Study of the IAD;	No	Diagnostic study	PFMR Secretariat supported by independent verification agent.	**Y1** Technical team confirms diagnostic Study has taken place and provides study.
	6.2b: Updated manuals and QA framework for internal audit to strengthen assurance and risk management are in place By the end of 2017/18, the NT will have approved: c) Enhanced tools for IAD effectiveness,	No	Enhanced guidelines and QA framework signed by the PS and CS, NT and relevant tools in place/operational	PFMR Secretariat supported by independent verification agent.	**POM** POM sets out basic requirements of reformed internal audit processes and QA following the diagnostic study. **Y1**

DLI	Definition	Scalable (Yes/No)	Protocol to Evaluate Compliance of the DLI and Data/Result Verification		
			Data source	**Verification Entity**	**Procedure**
	including new MDA manuals which provide a strengthened framework for assurance and risk management and audit follow up. d) New Internal Quality Assurance & performance improvement framework to ensure enhanced tools are employed				Technical team provides evidence enhanced guidelines, tools and QA in place and approved confirms they are in line with POM specifications
	6.2c Annual and quarterly MDA Internal Audit Reports have been prepared and undergone QA in line with enhanced procedures for assurance, risk management and audit follow up. From 2017/19 the number of MDAs which meet the following: a) Annual and Quarterly Internal audit reports use the new methodology and b) These reports have been subject to the new quality assurance framework.	Yes	MDA Annual Internal Audit Reports QA Reports or equivalent.	PFMR Secretariat supported by independent verification agent.	**POM** POM sets out i) list of MDAs (along the lines of table annex 3.3), ii) a checklist for MDA implementation of new framework once it is established. **Y2 Onwards** The technical team reports on the number of MDAs implementing the new IA methodology using the checklists in the POM.

Table 16: Bank Disbursement Table

#	DLI	Bank financing allocated to the DLI	Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
Results Area 1: Prioritized Public Investments						
1	*DLR1a:* PIM Unit established in NT	2.5	June 2018	Yes	Yes	Pass/Fail
1	*DLR1b:* Approved PIM Manual & user requirements for e-ProMIS which addresses key challenges in PIM including prioritization, costing and transparency	2.5	June 2018	Yes	Yes	Pass/Fail
1	*DLR1c:* UAT complete for enhanced e-ProMIS automating provisions of PIM Manual	2.5	June 2019	Yes	Yes	Pass/Fail
1	DLR1d: Projects with capital allocations above KES 100 million which are in compliance with procedures in the PIM manual.	17.5	June 2022	5 projects	30 Projects using e-ProMIS	In 2018/19: 1 million per project In 2019/20: 0.5 million per project. In subsequent years: US$ 0.5 million for each additional project above the previous year's target up to the target for the year.
Results Area 2: Reliable Funding for Service Delivery and Public Investment						
2.1	DLR 2.1a: UAT of cash management and exchequer systems.	1.5	June 2018	Yes	Yes	Pass/Fail
2.1	DLR 2.1b: Guidelines adopted by NT which require that revised MDA cash plans protect service delivery and	1.5	June 2018	Yes	Yes	Pass/Fail

#	DLI	Bank financing allocated to the DLI	Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
	infrastructure budget priorities					
2.1	DLR2.1c: Average under-release of priority operational service delivery budget allocations expressed as a percentage of revised in year cash plans on a quarterly then monthly basis.	8.0 (US$ 2 million per annum)	June 2022	8% of service delivery budgets, Quarterly	8% of service delivery budgets, Monthly	$2m minus US$ 0.4 million for every 1 % point above the target. Deterioration from one year to another does not result in reimbursement.
2.1	DLR2.1d: Annual exchequer releases to GoK capital budget allocations as a % of the approved budget	8.0 ($2m per annum)	June 2022	90% of capital budget allocations	97% of capital budget allocations	US$2m minus US$ 0.4 m for every 1 %-point increment below the target. Deterioration from one year to another does not result in reimbursement.
2.2	DLR 2.2: Actual domestic (tax plus non tax) revenue collections as a percentage of the Annual Budget.	8.0 (2.0 per annum)	June 2022	90%	97%	US$2m minus US$ 1m for every 1%-point increment below the target. Deterioration from one year to another does not result in reimbursement.
2.3	DLR 2.3a: In year borrowing plan consistent with delivering cash for MDAs based on a compilation of the cash plans using the new system	US$2.0 million	June 2018	Yes	Yes	Pass/Fail
2.3	*DLR 2.3b:* Average under performance of quarterly net domestic borrowing as a percentage of what is planned in revised in year cash plans	US$8.0 million (US$2 million per annum)	June 2022	60%	30%	US$2m minus US$ 0.4 m for every 1 %-point increment above the target. Deterioration from one year to another does not result in reimbursement.

#	DLI	Bank financing allocated to the DLI	Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
DLI 3: Efficient and Transparent Procurement						
3	DLR 3a: roadmap agreed for upgrading e-procurement system including SPP, aligned to requirements of PPADA and attendant regulations.	2	June 2018	Yes	Yes	Pass/Fail
3	DLR 3b: UAT for upgraded e-procurement and State Procurement Portal Complete	4.0	June 2019	Yes	Yes	Pass/Fail
3	DLR 3c: Number of MDAs using the e-procurement system in compliance with the PPADA and attendant regulations for the full fiscal year and procurement data disclosed in SPP following OCDS	15.0	June 2022	5 MDAs (Comprising of 2 high spending Ministry/State Department and 1 Commission)	All MDAs	June 2020: US$1 million for each MDA up to a maximum of 2. US$1 million for each additional high spending MDA up to a maximum of 3. June 2021: 2020 MDA target is met. US$ 1 million for additional MDA up to a maximum of 2. US$1 million for each additional high spending MDA up to a maximum of 3. June 2022: US$5 million minus 1m for each MDA below 25 or the full number of MDAs whichever is lower.
Results Area 4: Consolidated Staff Data						

#	DLI	Bank financing allocated to the DLI	Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
4	DLR 4a: Plan adopted for GHRIS to be enhanced to handle consolidated HR data from MDAs which interfaces with IFMIS	2	Jun 2018	Yes	Yes	Fail/Pass
4	DLR 4b: Number of MDAs whose payroll data has been uploaded to GHRIS and are up to date.	18	June 2022	2 Pilot MDAs	20 MDAs including 4 with major service delivery payrolls	June 2019: US$1.5 million for each MDA on GHRIS up to a maximum of 2. June 2020: 2019 MDA target is met. US$2 million for each MDA with major service delivery payroll on GHRIS up to a maximum of 2. US$1 million for one additional MDA on GHRIS. June 2021: 2020 MDA target is met. US$2 million for one additional MDA with a major service delivery payroll on GHRIS plus US$0.75 million for each additional MDA on GHRIS up to a maximum of 4 June 2022: 2021 MDA target is met. US$2 million for one additional MDA with major service delivery payroll on GHRIS. US$0.33 million for each additional MDA on GHRIS up to a maximum of 9.
Results Area 5: Timely & Quality Financial Statements and Audits						
5.1	DLR 5.1: The percentage (%) of MDAs the National Treasury has reviewed the	8.0	June 2022	10%, not generated from IFMIS	50%, generated from IFMIS	Disbursement proportional to progress towards meeting annual target over base line.

#	DLI	Bank financing allocated to the DLI	Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
	quality of Annual Financial Statements generated from IFMIS and has submitted to the OAG within 4 months.					
5.2	DLR 5.2a: Approval of audit codes that classify risk clusters to enable efficient targeting of audit resource	1	June 2018	Yes	Yes	Pass/Fail
5.2	DLR 5.2b: Enhanced Audit methodology and Quality assurance framework approved	0.5	June 2019	Yes	Yes	Pass/fail
5.2	DLR 5.2c: % of MDAs whose financial statement audits have been completed within 3 months after OAG receipt of final financial statements using an improved methodology, undergone quality assurance.	8.0	June 2022	15% of MDAs	50% of MDAs	June 2020 - US$2m minus US$0.2m for every 1 %-point increment below the target. Thereafter - US$3m minus US$0.3m for every 1 %-point increment below the target. Deterioration from one year to another does not result in reimbursement.
	DLR 5.2d: Months between receipt of final consolidated financial reports by OAG and submission of the audited financial statements to Parliament	8.5	June 2022	8 months	3 months	- June 2019: US$0.5 on a pass/fail basis. - June 2020: US$2 million minus US$1 million per month behind target - June 2021: US$3 million minus US$1.5 million per month behind target - June 2022: US$3 million minus US$1.5 million per month behind target Deterioration from one year to another does not result in reimbursement.

#	DLI	Bank financing allocated to the DLI	Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
Results Area 6: Strengthened Fiduciary Assurance and Transparency						
6.1	DLR 6.1a: MDAs can access multi-year itemized and facility level budget and outturn data for all MDAs in searchable form through the budget module in the IFMIS	1	June 2018	Yes	Yes	Pass/Fail
6.1	DLR 6.1b UAT of online public interface which provides information in a searchable form on programs and projects and transfers to service delivery unit	0.8	June 2019	Yes	Yes	Pass/Fail
6.1	DLR 6.1c: Number of MDAs where information is publicly available online in searchable form on a) program expenditure, b) project expenditure and c) transfers to service delivery units.	10.2	June 2022	5 MDAS, including education and health	All MDAs including education, health and infrastructure	June 2019: US$0.6 million for 1 MDA in the Education Sector plus US$0.6m for 1 additional pilot MDA. June 2020: 2019 MDA target is met. US$1 million for one MDA in the Health Sector. US$1 million for each additional MDA up to a maximum of 2. June 2021: 2020 MDAs' target is met. US$0.3 million for one MDA in the Infrastructure Sector. US$0.3 million for each additional MDA up to a maximum of 9. June 2022: US$3 million minus US$0.5 million for each MDA below the full number of MDAs

#	DLI	Bank financing allocated to the DLI	Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
6.2	DLR 6.2a: Complete diagnostic Study of internal audit	1	June 2018	Yes	Yes	Pass/Fail
6.2	DLR 6.2b: Updated manuals and QA framework for internal audit to strengthen assurance and risk management are in place	1	June 2019	Yes	Yes	Pass/Fail
6.2	DLR 6.2c: Annual and Quarterly MDA Internal Audit Reports have been prepared and undergone QA in line with enhanced procedures for assurance, risk management and audit follow up.	6	June 2022	10 MDAS	20 MDAs	June 2020: US$0.2 million per MDA up to a maximum of 10. June 2021: Minimum of 5 MDAs. US$0.2 million per additional MDA above 5 up to a maximum of 10. June 2022: Minimum of 10 MDAs. US$0.2 million per MDA above 10 up to a maximum of 10.

Table 17: List of Eligible Ministries, Departments and Agencies as of April 2017

Votes with Priority Programs	Major Staff Allocations	Major Allocations to Priority Operating Budget Lines	No. Service Delivery Projects with Major Capital Allocations
Sub Program/Project Threshold (KES)	***500,000,000***	***100,000,000***	***100,000,000***
1021 State Department for Interior	Yes	Yes	5
1023 State Department for Correctional Services	Yes	Yes	5
1032 State Department for Devolution	No	Yes	2
1063 State Department for Basic Education	No	Yes	10
1064 State Department for Vocational and Technical Training	No	Yes	4
1065 State Department for University Education	No	Yes	39
1081 Ministry of Health	Yes	Yes	14
1091 State Department of Infrastructure	Yes	Yes	127
1092 State Department of Transport	No	Yes	13
1094 State Department for Housing & Urban Development	No	No	14
1103 State Department for Water Services	No	Yes	32
1104 State Department for Irrigation	No	Yes	9
1105 State Department for Environment	No	Yes	7
1106 State Department for Natural Resources	No	Yes	12
1112 Ministry of Lands and Physical Planning	Yes	Yes	7
1122 State Department for Information Communications and Technology & Innovation	No	Yes	8
1123 State Department for Broadcasting & Telecommunications	No	Yes	2
1152 State Department for Energy	No	Yes	40
1161 State Department for Agriculture.	No	Yes	6
1162 State Department for Livestock.	Yes	Yes	5
1164 State Department for Fisheries and the Blue Economy	No	Yes	2
1185 State Department for Social Protection	No	Yes	4
1252 State Law Office and Department of Justice	No	Yes	0
1291 Office of the Director of Public Prosecutions	Yes	No	0
2091 Teachers Service Commission	Yes	No	0
No. Votes 25	**8**	**22**	**367**

Note: This list is to be updated annually in the POM.
Source: Based on the Kenyan Approved Budget for Fiscal Year 2017/2018

Annex 4: Summary Technical Assessment

Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya (GESDeK)

PROGRAM DESCRIPTION

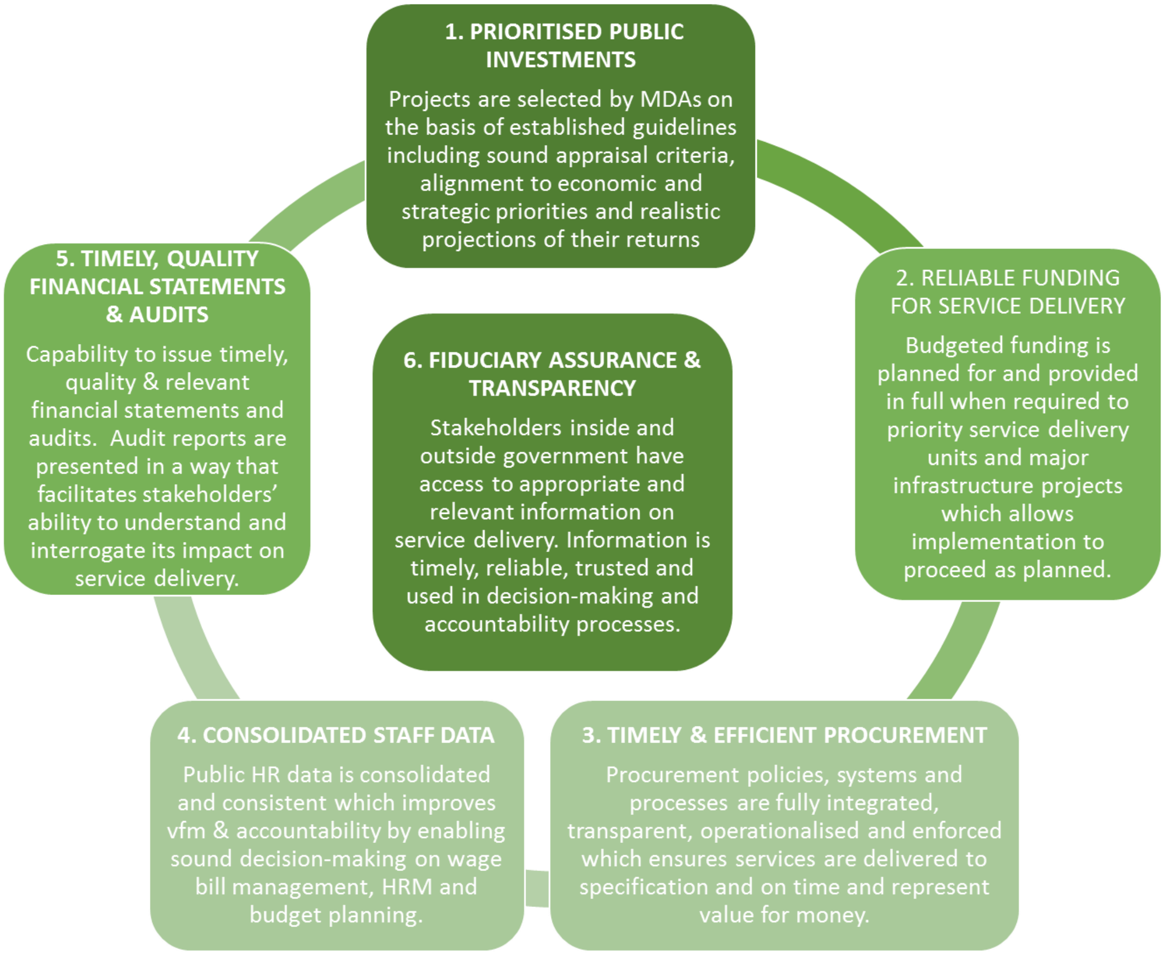
1. **The Program is focused on strengthening the functionality of Kenya's public finance system with a view to improving service delivery and economic development.** The reforms are anchored in the GoK's revised Public Finance Management Reforms Strategy (2013-2018). The Government program has made notable progress in improving the "form" of the public finance systems. At the same time, there is a need to shift the focus to "functions" of these systems to ultimately enable service delivery for citizens. The Program identifies specific, measurable results in six proposed Results Areas – each of which contain "key steps" that represent iterative milestones towards the achievement of improved functional performance for service delivery and, in turn, disbursement. This reflects a Program that is focused on promoting the functional and behavioral change required to translate into improvements in implementation.

2. **The proposed operation will be anchored in the revised Public Finance Management Reform Strategy (2013 - 2018).** The main objective of the strategy is to ensure "A public finance system that promotes transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development". Several Strategic Plans feed into the PFMR Strategy implementation, including the OAG Strategic Plan (2015-2018). The Government's program also includes the recommendations made in the GHRIS Hardware Infrastructure Evaluation Report (2016).

3. **The Program will focus specifically on results for national level institutions.** The Kenya Devolution Support PforR (P149129) and an associated trust fund will support progress in county level PFM. However, in some cases, the results promoted at the national level by this PforR will also affect county PFM results. For example, program results include improvements in procurement systems, the development of which may be funded from program resources. The improved system would be used both at the national and county level. KDSP resources would fund training and rollout of the system at the county level.

4. **The PDO is to improve utilization and transparency of resource management in selected service delivery Ministries, Departments and Agencies.** The PDO will be achieved through six results areas, each supported by DLIs. The six Results Areas and their relation are illustrated in the figure below.

Figure 4: Definitions of Success in Resolving Governance Bottlenecks for Service Delivery



5. **Plans have been prepared to deliver progress towards success in the six interrelated and complementary Results Areas, which were identified during program preparation as presenting bottlenecks to service delivery**. The figure 4 above shows definitions of success in the six results areas, which are long-term goals. The Program is intended to support and incentivize the GoK to take key steps and deliver results which represent actual progress towards the achievement of success.

6. **The Program boundaries are defined along these six key result areas.** For each area, in order to make progress towards success the following disbursement-linked indicators have been identified:

- A set of **key steps** towards success to be taken;

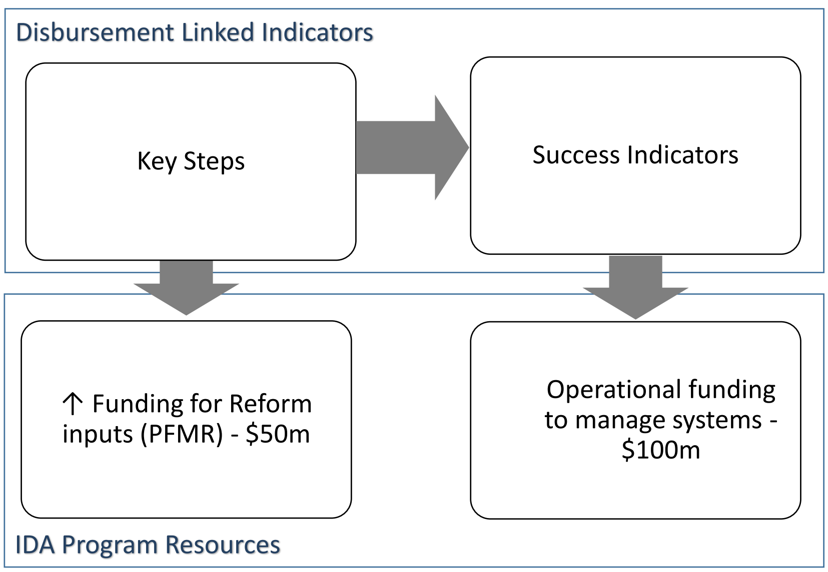
….which are intended to lead towards improvement in….

- **A success indicator** which measures the progress towards the achievement of success.

7. **Each *key step* is the responsibility of a directorate within the National Treasury, the OAG or MoPSYGA.** A key step is a milestone taken from a longer set of feasible steps towards success identified by Government actors. The achievement of key steps in a results area would lead to the disbursement of funding by the World Bank. In turn, funding for reform inputs under the PFMRS for that institution would be made available, through a process coordinated by the PFM Reform Secretariat[32]. US$50 million would be made available and could be used for reform inputs under the PFMRS. Whilst this funding would be available for supporting PFMRS work plan implementation in general, it would also be expected to ensure any additional resources that are required to implement the feasible steps towards the success.

8. **Improvements in *success indicators* because of the key steps taken would result in increases in funding available to support medium term increases in budget allocations for operational transfers to schools.** US$100 million would be made available and can be made available for funding these budget allocations. This is displayed in the figure 5 below.

Figure 5: Linking DLIs to the Program Resources



9. **Other instruments such as Investment Project Financing (IPF), Development Policy Financing (DPF), and Reimbursable Advisory Services (RAS) were considered not to be as good a fit for the current challenges as a PforR in this regard**:

- Many PFM and governance challenges go significantly deeper than a need for policy changes and require a multi-year more granular engagement. This makes a DPF a less perfect fit than a PforR.

- The need is not so much for outside technical assistance and advisory as for structuring and focusing organizational and leadership attention on key reforms. An IPF would therefore be a less perfect fit than a PforR.

[32] The amount availed to a directorate/institution need not be equal to the DLI value. All funding disbursed under this window would be against PFMR strategy activities.

- Related to the above, small-scale technical advice through a RAS would not deliver the incentives needed to bring forward reforms. In addition, plenty of such support has been provided by other development partners in recent years.

10. **However, one of the lessons of PforRs is that they will not automatically generate the solutions to the problems that will enable the achievement of those results.** A collaborative process has taken place with client counterparts to identify key bottlenecks, define success and identify the feasible steps to achieving them. Technical teams have been formed made up of GoK stakeholders across departments within National Treasury and other partner institutions. This process has benefited from facilitation from the World Bank. This facilitation has helped provide initial impetus for collective action to solve problems.

PROGRAM STRATEGIC RELEVANCE

11. **Over the past decade, Kenyans have made progress in a range of governance reforms, accelerated by the Constitution 2010.** Good progress has been made in areas of economic governance, including revenue administration at the national level, the passing of a PFM law in 2012 that, inter alia, regulates the use of budget and control and the establishment of the Office of the Controller of Budget and the OAG as a Supreme Audit Institution[33]. The defunct Anti-Corruption Commission was replaced with a new and strengthened EACC with enhanced legal and operational independence (although in the recent past its operational independence has been challenged by Parliament). Devolution has taken off since the election in March 2013, bringing governance and service delivery closer to citizens, but with significant challenges in capacity of institutions and systems.

12. **Despite the progress, Kenya still faces significant governance challenges that are symptomatic of institutional and systemic weaknesses.** These include ineffective oversight and accountability, weak implementation and enforcement of laws and regulations, inefficient PIM and systemic corruption. The Constitution 2010 creates space for strengthening demand side governance through public dialogue and citizen engagement but the instruments and mechanisms for putting these into practice for strengthening oversight and accountability of Government and officials are not yet fully embedded. Implementation is ongoing in all these areas with risk, opportunities and challenges in the years to come. These governance challenges reduce development effectiveness and the prospects for sustained poverty reduction.

13. **There is an emerging acknowledgement, including at the highest level of Government, that governance reforms have not delivered the intended functional change**. Amongst those involved in these processes, there is also acknowledgement of the challenges faced, and some disappointment in the lack of impact of reforms and systems that have been implemented. The recurrent issuing of debt as well as cash shortages mentioned above contribute to the impression of a system that does not facilitate service delivery. The need for governance reforms attracts frequent media and popular attention, and political leaders routinely express support to governance reform elements. The President in November 2015 noted endemic

[33] The PFM Act is under revision to, inter alia, take full account of the devolved system of government.

corruption in the management of public resources and launched as a range of initiatives to address the challenge[34].

14. **Generic efforts to strengthen laws, policies and systems have not focused on how they function and the challenges they present to infrastructure and service delivery.** Many strategies – including the PFMRS – are broad, covering a wide range of subject areas, which has contributed to a lack of focus. There has also been comparatively little focus on the adherence of sectoral institutions to the laws, policies, processes and systems that have been established Some stakeholders benefit from the current state of affairs, including the opportunities for inappropriate private rent seeking and corruption. Underlying many challenges are collective action problems. Whilst it is not in the interests of individuals to take action, the benefits of most stakeholders working together to address challenges would outweigh the costs and help overcome vested interests[35].

15. **Significant external support has underpinned the development of policies, systems and capacity building in public financial management and other governance reforms.** Support has been appropriately anchored in various Government strategies as well as in more detailed strategies specific to selected policy areas or institutions. However external support has not focused adequately on changes in behavior of individuals and institutions required to deliver functional change.

16. **From an overall governance perspective, the program is relevant for three reasons.** *Firstly*, it will support addressing the governance challenges facing Kenya which are acknowledged at the highest level; *secondly*, because it will promote functional and behavioral change required to address those challenges; and *thirdly* it will identify changes which impact on service delivery as a means of focusing efforts in the implementation of governance process and systems.

TECHNICAL SOUNDNESS

17. **The technical soundness of the Program activities has been informed by a robust, participatory preparation process.** Within the framework set by the PFMRS, the DLIs have been developed through a facilitated process grounded in a collective understanding of the underlying problems and a clear, shared definition of success. They have been designed to support the implementation of specific sub-themes of the PFMRS taking advantage of: (i) where ongoing reform momentum is strong; and (ii) where an improvement in functional performance is most likely to improve the enabling environment for service delivery and investment management. By grounding the preparation process in the simultaneous building of teams of stakeholders that will be involved in the implementation of the solutions – the enabling environment for functional impact is already being strengthened.

[34] Statement by His Excellency Hon. Uhuru Kenyatta on a National Call to Action against Corruption, Nairobi, November, 2015.

[35] For example, reactive cash management is the default approach – to ration cash when there are revenue shortfalls, and explain to spending agencies “there is no money”. Meanwhile spending agencies have no incentives to prepare cash plans as they will never be implemented. This results in unpredictable funding for MDAs and consistent pressure on the Treasury. However, with proactive cash management, with processes established to smooth out revenue shortfalls, this would mean that: (a) Treasury would avoid having to manage successive cash crisis after the event and (b) spending agencies would receive more predictable funding – albeit potentially below budgeted levels. This is potentially advantageous for all stakeholders.

18. **A common template was used by the technical teams to complete the three stages (Please refer to box 3 below)**. To meet these objectives, the World Bank Team played a facilitation and brokering role while the PFM Secretariat convened the teams.

Box 3: Templates for Addressing Governance Bottlenecks to Service Delivery

Common templates were used by Technical Teams to identify governance bottlenecks and develop plans to address them. They included the following five sections/elements:

1. **Understanding the nature of the bottleneck and challenge**
   - The individual problems which contribute to the overall bottleneck and its impact on service delivery;
   - The causes of the bottleneck – why does it exist? Why does it persist?
   - Which actors / institutions / policies and systems are involved and what are their roles?
2. **Defining success and required changes in function and behavior**
   - What a resolved bottleneck looks like and its impact on service delivery
   - The changes in function and stakeholder behavior this would imply/require
3. **Identifying feasible steps towards success**
   - Sets out realistic potential positive steps that can be taken towards resolution;
4. **Identifying the Stakeholders and Systems to deliver success**
   - Identifying the stakeholders required to deliver change and their roles
5. **Assessing the space for and risks to achieving success**
   - Determining whether there is likely to be space or opportunity for addressing challenges, and the risks of change not being realized

Results Area 1: Prioritized Public Investments

19. **The approach to PIM in Kenya at the National Government level is not systematic nor set up to ensure the productive, cost-effective asset creation that is necessary to deliver adequately high returns.** Despite legislation on matters related to resource management – and important reforms being led by National Treasury relating to the capture of investment projects in the budget process – there remains no coherent system for making decisions on selection and prioritization of public investments on the basis of public policy objectives. In turn, the processes meant to ensure that these investments are well governed in the process of procurement, contracting, implementation, operation and maintenance remain inadequately developed and applied.

20. **The Program focuses on addressing three related and relevant problems in PIM** – each of which had underlying causes identified during the preparation process:

- Projects in MDAs budget proposals lack clear prioritization criteria, are inadequately planned and budgeted for leading to low returns on public investments and reduced contribution to economic growth and policy objectives.
- The lack of a clearly dedicated gate keeping role to provide independent review of project proposals allows poor prioritization and unrealistic costing.
- A lack of transparency and information available relating to the status of planned and ongoing investments makes it difficult to track, monitor and evaluate expenditure (value for money) for public investments.

Results Area 2: Reliable Funding for Service Delivery and Public Investments

21. **Current approaches to debt and cash management in Kenya are resulting in recurrent episodes of cash shortfalls and a sense of fiscal crisis in the public.** Infrastructure can only be delivered and services provided as planned if the Treasury reliably makes budgetary resources available at the time they are required. Furthermore, if infrastructure and services are to be delivered as planned, MDAs also need to identify when resources will be required and then deploy those resources when they are required.

22. **Cash management in Kenya has historically been reactive rather than proactive.** This has had knock on effects on the ability of MDAs to implement the budget as planned and ultimately undermines service delivery. While the deficit and borrowing were within the limits set by the 2015/16 budget, failure to take home loans in good time led to cash shortfalls. The shrinking of the fiscal space was exacerbated by lower than projected revenue collection. In the 2015/16 financial year, revenue shortfalls contributed to delays in payment of salaries and transfers. Payments were frozen on the IFMIS as a means of rationing cash. As cash is unreliable, MDAs have little incentive to prepare accurate cash plans. The problems are compounded by delays in the start of the financial year, which is compounded by the bunching of commitments towards the end of the financial year.

23. **The Program focuses on addressing three related and relevant problems addressing cash management issues – each of which had particular underlying causes identified during the preparation process:**

- Services are delayed because Treasury is unable to start the execution on time at the beginning of the financial year for both GoK and donor funded development expenditures.
- MDAs do not plan adequately for when they require funds for the delivery of services, and Treasury does not predict adequately when cash shortfalls are likely.
- Funding for service delivery MDAs and infrastructure obligations are not adequately prioritized and protected during execution, adversely affecting the delivery of services.

24. **The cash management success indicator is a critical key step and will also serve as DLIs for the Results Area.** The key steps identified are feasible, as the bulk of actions are under the purview of the National Treasury and take advantage of new systems whose development are close to completion. The new cash management module of the IFMIS and automated payment systems will be ready for implementation prior to effectiveness – and provide the platform for future steps.

Results Area 3: Efficient and Transparent Procurement

25. **Public Procurement in Kenya is characterized by a number of challenges, including inadequate accountability, procurement performance measurement and disclosure of procurement data.** There was some confusion in the institutional setup in the previous Public Procurement and Asset Disposal Act (PPAD Act). This was clarified in the new PPAD Act

enacted in December 2015. The public perception is that corruption is widespread in public procurements[36] and there is a trust deficit.

26. International experience shows information technology can contribute to transparency, fairness, accountability and effectively measuring public procurement performance. E-Government Procurement (e-Procurement) can contribute to addressing the trust deficit between the stakeholders and achieve value-for-money. Government has introduced an e-Procurement module of the IFMIS, which is being used for purchasing of low-value goods and services. The IFMIS E-purchasing module was launched by H.E. the President of Kenya in August 2014. The current system's main limitation is that it is not able to handle open tenders (default method in PPAD Act 2015) which account for the majority of public procurements by value. Tenders are therefore done manually which renders them more vulnerable to improper practices. Most public procurements in the world, particularly wherever an e-Procurement is implemented, is done through a Public Procurement Portal where all procurement opportunities are advertised and all contract awards (following Open Contracting Data Standards) are disclosed.

27. **The PforR focuses on addressing three related and relevant problems related to the functional take-up of the existing e-Procurement system, the technical weaknesses in costing and contract oversight, and the lack of enforcement and transparency.** Each of these problems, in turn, had particular underlying causes identified during the preparation process that will be targeted by proposed interventions:

- Delays in procuring goods and services by MDAs using existing procurement systems (IFMIS and Manual) which, in turn, interrupts service delivery[37].
- Weaknesses in both: (i) technical specification and costing of procurements of goods, services and works in the Item Master; and (ii) technical oversight during contract implementation.
- Collusion, fraud and corruption in procurement is exacerbated by a lack of enforcement and transparency, which leads to increase costs of services and compromises the quality of their delivery.

28. **The procurement success indicator and critical key steps will also serve as DLIs for the Results Area.** The key steps identified are technically feasible and build on an existing process which involves reviewing and upgrading the existing procurement system based on the requirements of different sets of users, provided any technical obstacles are overcome. The definition of success and associated success indicators represent improvement in compliance with established procurement processes, which represents significant behavioral change. This, in turn should improve value for money in procurement. If a decision is made to develop a stand-alone procurement system, then this may lead to a delay of at least a year.

Results Area 4: Consolidated Staff Data

[36]By 2014/2015, the EACC had a total of 82 ongoing forensic investigations of which 84 percent could be adduced to weaknesses in PFM (half of the PFM related investigations were on procurement irregularities alone). (EACC Annual Report 2014-2015)

[37] Relating to lack of compliance with the e-procurement approval hierarchy process, starting with the development and approval of procurement plans. Another significant issue is the delays in approving in the system. The time lapses and the procuring entity is forced to start the procurement process once again.

29. **There is currently no centralized payroll database for the GoK.** While there are multiple payrolls in existence, this information is not consolidated in one place which limits the ability of Government to enact controls, enforce compliance, and undertake comprehensive analysis and forecasting.

30. **The GHRIS is currently used for consolidating payroll data received from the Integrated Payroll and Personnel Database (IPPD) on a monthly basis, and provides reliable data to other Government systems.** The IPPD, however, only covers Ministries and Counties at the moment, or approximately 40 percent of total public employees. The 306,000 teachers and other key staffing groups (such as the Constitutional Commissions, Consolidated Fund, independent agencies, tertiary institutions, and county assemblies) are currently not captured. Furthermore, there are inadequate controls, lack of standard coding practices, and information security challenges that pose serious risks on current operations. The interface between the IFMIS-GHRIS has not yet been concluded.

31. **The PforR is focused on the following core problem:** Human Resource Data in the Public Service is fragmented and inconsistent which limits the ability to make sound decisions on wage bill management, human resource management and budget planning and undermines efficiency and accountability in staffing for service delivery.

32. **The Human Resource data success indicator and key steps will also serve as DLIs for the Results Area. The key steps identified are technically feasible and relate to the upgrading of and integration of consolidated data into existing Human Resource systems.** The definition of success and associated success indicators represent functional change. A consolidated up to date payroll, which is consistently structured with the IFMIS will represent an important basis for future improvements in the management and accountability of staffing for service delivery.

Results Area 5: Timely and Quality Financial Statements and Audits

33. **The Constitution 2010 gives the OAG enhanced mandate in the audit of public funds, including funds sent through non-state players. The OAG's mandate has been expanded to include audits and report on all public funds held at both the national level and in each of the 47 county Governments.** Its scope of audit has been extended to go beyond the traditional annual financial statements certification and cover value-for-money, forensic and ICT audits, as well as environmental audits.

34. **In addition, the OAG is expected to take into account the GAC challenges inherent in public sector audits.** The OAG has been facing major capacity challenges in meeting this new mandate which has affected the timeliness of the submission of audits. There have also been challenges in the timeliness and quality of financial statements especially at the county level. The OAG is also responsible for the audit of the World Bank Portfolio and has experienced capacity constraints in the audit of devolved, decentralized and CDD-type projects. There is currently no World Bank operation supporting the OAG except for the recipient-executed Institutional Development Fund (IDF)Grant-funded Project for the Strengthening of the

Accounting Profession in Kenya. The Grant is quite limited in scope and closed in January 2017[38].

35. **The PforR focuses on addressing three interlinked audit problems to spur more effective service delivery:**

- Lateness in annual audit reporting for National and County Governments, resulting in external audits of National Government not being prepared on time (meaning, that audit follow-up is delayed).
- Audit Reports are mainly focused on compliance and financial audit, lacking a link to evaluation of MDA service delivery. This results in results not being presented in a way which are stakeholder friendly in terms of evaluating service delivery performance of both MDAs and County Government.
- Inadequate audit follow-up and limited public engagement in audit and governance issues.

Result 6: Strengthened Fiduciary Assurance and Transparency

36. **The GoK has recognized the importance of transparency and external accountability to development.** It has made clear commitments in its PFMRS (2013-2018), latest Open Government Partnership National Action Plan, and at the Anti-Corruption Summit in London in 2016. Implementation of these commitments remains a challenge, however, particularly in the realm of fiscal transparency. Relatedly, there are also challenges in publishing budgetary data in citizen-centric methods and formats for the purpose of greater accountability. Due to this, there is very limited information on funding and staffing at the level of service delivery MDAs and on infrastructure projects.

37. **Another key challenge across the PFM cycle is compliance with established laws, regulations, processes and systems.** For example, in budget execution, there is weak compliance with commitment controls in the IFMIS and payments through the exchequer system. Internal controls remain embryonic. There are problems with the management of users and passwords on the IFMIS. There are challenges with accounting, recording and reporting, and the consistency of information across reports – although the provisions in the PFM Act are strong.

38. **The PforR will focus on addressing three problems related to compliant and transparent institutions that both have interdependencies on each other and the other five results areas:**

- Information on service delivery MDAs and relevant projects is not available in appropriate forms for politicians, civil society and the public to be able to play their roles in decision-making and accountability for funding of service delivery.
- Systems are not complied with and used to their full potential and this undermines the quality of reporting and trust.
- Information is not well targeted to the public for feedback and accountability purposes.

[38] This is a US$ 698,000 grant implemented by the Institute of Certified Public Accountants of Kenya (ICPAK). Under this Project, ICPAK, working with the National Treasury (under the Director-General Accounting Services/Accountant General) and the OAG, have rolled out activities for enhancing the quality of financial statements especially for county governments, and strengthening the capacity of the OAG.

PROGRAM ECONOMIC VALUATION

39. **Both estimation and attribution of the costs and benefits of institutional and governance reforms is extremely difficult.** However, Social Cost Benefit Analysis is nonetheless a useful exercise to undertake for such reform efforts because it requires the underlying '*theory of change*' to be spelled out clearly, and helps to provide a sense of what the broader economic impacts of those changes might be over the medium- to long-term. The Governance for Improved Service Delivery PforR will deliver benefits across the six results areas:

- Weak selection, prioritization, and appraisal mechanisms for investment projects together with very poor quality information and oversight of ongoing projects currently undermines the economic impact of public investment projects. The PFMRS and associated support will deliver a systematically strengthened PIM system, including a more systematic and evidence-based approach to project selection and appraisal, as well as clearer and better informed decision making regarding the execution – and possible rationalization - of the ongoing project portfolio. The economic benefits are potentially quite large – as the Bank's recent PIM assessment shows, despite a rapid expansion in the size of the development spending, total investment contribution to economic growth has in fact declined in recent years.

- The economic costs of Kenya's reactive approach to cash rationing became very obvious during 2016/17 when salaries and transfers to counties were delayed, resulting in an associated economic slowdown. The second results area will support a strengthened approach to budget execution and cash management, resulting in a more predictable and stable flow of funds to MDAs for infrastructure and service delivery. This will in turn mean a more stable and predictable contribution of public spending to economic activity, as well as resulting in savings to Government, since cash shortfalls are costly in terms of both domestic borrowing costs, project delays and related cost overruns, and non-delivery of goods and services. A more unified payroll system, as well as supporting improved cash management, will also result in efficiency gains through strengthened fiscal control of the aggregate public sector wage bill – currently far in excess of those in most comparable countries and under considerable upward pressure from county Governments – resulting in more economically efficient public spending.

- Possible efficiency savings through better value-for-money in procurement could also realize a material economic benefit. This would free up public funds to spend on other productive investments and service delivery inputs.

- Similarly, improved efficiency in the payroll could also realize material benefits. Funds freed up from eliminating ghost workers would free up resources, and better allocation of existing staff would improve the returns to salary expenditures in areas such as health and education.

- Finally, under the third results area, strengthened accountability for public spending through improved fiscal transparency and strengthened audit will ultimately reduce waste and corruption and improve the economic efficiency of public spending.

40. **Both estimation and attribution of the costs and benefits of institutional and governance reforms is extremely difficult.** Social Cost Benefit Analysis can nonetheless be useful because the analysis helps spell out aspects of the 'theory of change' and can provide a sense of what the broader economic impacts of those changes might be over the medium- to long-term. The program economic evaluation for the GESDeK has been undertaken to illustrate the kind of benefits that could accrue from implementing the Program. The analysis is illustrative as the exact value of benefits accruing from the Program cannot be ascertained ex ante. Conservative estimations of benefits have been applied across all results areas.

41. **The net impact realized through expected efficiency gains from the process of improved systems for public service delivery is illustrated, very approximately and conservatively, to potentially be around US$440 million**. This represents the sum of estimated net benefits arising from program implementation. The summary of the cost and benefits associated with each of the results areas of the Program are presented in the table below. The methodology applied to generate these estimates are included in the Technical Assessment. The illustrative analysis assumes an exchange rate of KSH.103 per US$ and a 12 percent discount rate. It assumes a time horizon of five years, from 2017/18 – 2021/22.

Table 18: Summary Economic Analysis (US$ million)

		2017/18	2018/19	2019/20	2020/21	2021/22
Results area 1: Prioritized Public Investments	Cost	10	11	11	11	11
	Benefits	3	42	50	53	50
Results area 2: Reliable Funding for Service Delivery and Public Investments	Cost	21	22	22	22	22
	Benefits	3	31	39	41	39
Results area 3: Efficient and Transparent Procurement	Cost	21	22	22	22	22
	Benefits	3	53	63	67	65
Results area 4: Consolidated Staff Data	Cost	21	22	22	22	22
	Benefits	3	45	52	56	53
Results area 5: Timely and Quality Financial Statements and Audits	Cost	51	52	54	54	54
	Benefits	3	115	130	140	138
Results area 6: Strengthened Fiduciary Assurance and Transparency *)						
	Total Cost	126	129	130	130	130
	Total Benefits	13	286	334	357	345
	NET BENEFITS	-113	157	204	227	215
	ENPV	**436**				

Note: *) This results area is cross-cutting and specific NPV projections have not been undertaken

Annex 5: Summary Integrated Fiduciary Systems Assessment

Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya (GESDeK)

1. **An Integrated Fiduciary Risk Assessment was conducted on the basis of the Interim Guidance Notes (IGNs) on Program-for-Results Operations issued by the Operations Policy and Country Services (OPCS) Department of the World Bank issued on June 19, 2012.** The assessment was focused on the following: (i) evaluation of the proposed program fiduciary systems including consideration on key measures to handle the program risks of fraud and corruption; (ii) determination of fiduciary benchmarks through which fiduciary performance during program implementation shall be monitored; (iii) development of the Program Action Plan (PAP) outlining the fiduciary systems risks and gaps, priority action areas to strengthen the fiduciary systems and mitigate the fiduciary risks. The PAP is aligned with the proposed DLIs.

2. **In view of the nature of the challenges, the combined overall fiduciary risk to the Program was assessed as Substantial.** The conclusion of the assessment is that the PFM systems complemented by the program-specific mitigation measures will be adequate to support the Program.

FINANCIAL MANAGEMENT ARRANGEMENTS

Planning and Budgeting Arrangements

Overall FM objective: The Program budget is realistic, is prepared with due regard to Government policy, and is implemented in an orderly and predictable manner

3. **The Government budgeting process is undertaken in accordance with PFM Act 2012 and PFM Act Regulations 2015.** The annual budget estimates and Medium Term Expenditure Framework are captured in the IFMIS Hyperion budget module. The estimates are recorded using the existing Standard Chart of Accounts (SCoA) classified by a) development and recurrent vote; b) vote-head and sub-head votes, administrative units or departments; c) fund source codes; d) Classification of Functions of Government (CoFOG); e) economic items; and f) where applicable, geographic classification. The budget module has additional fields that may be customized to capture additional budget information as may be required. The budget and expenditure details are recorded at sub-item level while budget execution reports are generated at item level. The preceding PforR programs in Kenya have experienced a number of challenges primarily: a) inadequate budget allocations to pre-finance envisaged program activities and results; b) delays in timely and predictable release of Government funds; and c) weak alignment of the work-plans to the procurement plans. Specific delays in exchequer releases in the first quarter of every financial year has been a recurring bottleneck impacting the overall delay in the implementation of Government programs. To mitigate these delays, the program will incentivize Government to strengthen the budget execution and cash management function, in particular, (i) automation of exchequer processes; (ii) strengthen cash management guidelines and practices; and (iii) effective commitment control through reduction of the e-procurement function seamlessly integrated with IFMIS cash management and budget functionalities.

4. **The Program has developed an appropriate expenditure framework to ensure that Program activities are accurately captured in IFMIS using the existing SCoA budget classification.** The implementing MDAs (NT[39], MoPSYGA[40] and OAG) will prepare the procurement and work-plans for their respective activities and related budgets as part of the annual budget process. The program budgets and expenditures will be captured and reported through specific SCoA codes in IFMIS as outlined in the program expenditure framework. For the purposes of implementing the program, the budgeting arrangements for National Treasury, MoPSYGA and the OAG were found sufficient. The identified planning and budgeting risks will be monitored and addressed through capacity building trainings on budget preparation, execution and monitoring and further reinforced through the program specific activities designed to incentivize planning and budget execution fiscal discipline particularly those related to Results Areas 1 and 2. The implementing entities will ensure that adequate budget allocation and funds are available on a timely basis to implement the agreed program activities to achieve the agreed results. The supporting program's eligible expenditures will be recognized, captured, analyzed, summarized and reported as part of the Government Program using the SCoA agreed program codes as provided for in IFMIS.

Treasury management and Funds Flow arrangements

Overall FM objective: Adequate and timely funds are available to finance program implementation

5. **In an effort to strengthen Treasury's management function, efforts have been made to implement the Treasury Single Account (TSA) principle, institutionalize cash management and planning at the national and county levels as well as further strengthen commitment controls in IFMIS.** However, there are inherent delays in the funds flow process touching both on Government funds and external financing. These delays are largely occasioned by inadequate revenue mobilization and subsequent exchequer financing to meet the budgeted requirements, manual exchequer processes outside of IFMIS, as well as systemic delays in the release of exchequer funds by Treasury to MDAs. The program will contribute towards strengthening the Treasury's management function especially with regards to cash management and planning- Results Area 2.

6. **Funds will be released from the World Bank to the National Treasury Consolidated Fund upon achievement and verification of the Results.** Bank policy allows for advance disbursement against achievement of future results or agreed results achieved prior to the effectiveness of the Program. The disbursement of funds from the World Bank will be deposited into the government Consolidated Fund for onward reallocation through the exchequer process. In line with the Government practice, reimbursements will form part of the overall government consolidated fund with no requirement for ring-fencing of the IDA funding. Nevertheless, in view of limited resources, Government will administratively consider alignment and prioritization of cash releases to the Program implementing entities to coincide with the World

[39] Budget Supply Department, Directorate of Accounting Services (Internal Audit Department, IFMIS and Public Sector Accounting Standards Board- PSASB), Public Procurement Department- PPD and the Public Financial Management Reform (PFMR) Secretariat

[40] Public Transformation Program implementing departments - Human Resource Development- HRD, Human Resource Management – HRM, Public Service Performance Management Department, Public Service Reforms and Management Consultancy Services Department

Bank's DLI disbursements. Treasury management and funds flow risks will be continuously monitored as part of the Program Action Plan (PAP).

Accounting and Financial Reporting Arrangements

Overall FM objective: Adequate program records are maintained, and financial reports produced and disseminated for decision-making, management, and Program reporting.

7. **Since the inception of the PFMR Strategy 2013-2018, major improvements in accounting and reporting have been realized.** The National Treasury introduced Standard Chart of Accounts (SCoA) compliant with the IMF Government Financial Statistics (GFS). The Public-Sector Accounting Standards Board (PSASB) was also established as specified in the PFM Act 2012 section 192 with the PSASB issuing standards and templates for adoption across Ministries, Counties, Departments, and Agencies (MCDAs). In view of capacity considerations, the PSASB set out cash basis IPSAS for adoption Government-wide as a transitional step towards accrual based IPSAS. Additional disclosures are provided in the MCDAs Financial Statements - these include disclosures on liabilities (pending bills) and fixed assets registers. Also, noted as a major financial reporting achievement is the adoption of International Public Sector Accounting Standards (IPSAS) - cash basis to aid Government institutions to gradually migrate to accrual based IPSAS in line with the road map set by the Board.

8. **The National Treasury, OAG and MoPSYGA, have well established accounting and finance systems with adequate staffing.** The PFM Act 2012 (section 80) requires that all the MDAs prepare consolidated annual financial statements. This requirement had been met across the three implementing entities for a second year in a row. Timeliness had been achieved in the preparation of the financial statements for the three program implementing agencies meeting the crucial PFM Act 2012 deadline of September 30th, and consolidation by the NT achieved by October 31st. However, there is need to build capacity of IFMIS users to reconcile long outstanding balances to enhance the integrity and reliability of government financial statements. The Program will incentivize Government to: (i) build sustainable capacity (skills/tools) at the National Treasury (Directorate of Accounting Services & Quality Assurance – Financial Reporting Unit) in the preparation and consolidation of financial statements; (ii) build capacity of the program implementing MDAs as well as other national MDAs to fully reconcile and clean up all irreconcilable balances; (iii) develop and implement a roadmap for the adoption of accrual IPSAS standards by MDAs; and (iv) design appropriate DLIs to improve the timelines and quality of the audited financial statements.

9. **The Program financial reporting arrangements will be aligned with existing GoK reporting arrangements.** The Program will use existing Government accounting and financial reporting systems through use of core PFM including the specific Standards Chart of Accounts (SCoA) provided in IFMIS. The Program budgets and expenditures will be accounted and reported as part of the implementing MDAs institutional annual financial statements. Appropriate disclosure notes highlighting the program budgets and the related expenditures (by specific IFMIS program codes) shall be provided as outlined in the program expenditure framework. The implementing entities (Heads of Budget and Accounting Units) will ensure that the annual program activities budgets are appropriately captured, posted and reported through IFMIS using the agreed expenditure program codes. The PFMR Secretariat will compile the

information on the status of DLIs from the respective Result Technical Teams. In addition, the PFMR Secretariat will coordinate generation of IFMIS budgets and expenditure reports in line with the agreed expenditure framework as may be required to support the DLIs verification.

Internal Controls and Internal Audit Arrangements

Overall FM element objective: There are satisfactory arrangements to monitor, evaluate, and validate program results and to exercise control over and stewardship of program funds.

10. **The Government legal framework for internal controls is defined in the PFM Act 2012, PFM Act Regulations 2015.** Under the revised structure for the National Treasury, the internal audit function falls under the Directorate of Accounting Service. At national level, the Internal Audit Department (IAD) falls under the responsibility of the Director General, Accounting Services and Quality Assurance at the National Treasury. To foster the effectiveness and independence of the IAD, the existing reporting arrangements may need to be reorganized and harmonized in line with the International Professional Practice Framework for Internal Audit (IPPFIA) and the PFM Regulations 2015. IAD staff are seconded to MDAs and have multiple reporting responsibilities, technically to the MDAs Audit Committees/ Internal Auditor General and administratively to the Accounting Officers. Key challenges affecting the ability of the IAD to undertake its mandate satisfactorily include: (i) delays by MDAs to establish Audit Committees, Internal Control Framework and Institutional Risk Management Framework as provided in the PFM Regulations 2015; (ii) recurrent underfunding operationally impairing the effectiveness of the internal audit function; (iii) lack of technical capacities within the MDAs to support the internal auditors to undertake specialized audits - MDAs are expected to appoint technical standing committees to work alongside the internal auditors - this had not been operationalized; (iv) delays and poor responses to the internal audit queries; and (v) lack of internal/external auditor collaboration framework to facilitate external auditors reliance on the work of the internal auditors.

11. **To strengthen the mandate and the capacity of the IAD, the Government program will support targeted results areas that contribute to the internal audit accountability and integrity pillars.** These areas include support to the MDAs to establish and operationalize (a) operational Audit Committees in line with the PFM Act 2012 and PFM Regulations 2015; (b) Internal Control Framework (ICF); (c) Risk Management Framework (RMF); (d) incentivize National Treasury allocate adequate funding to finance Internal Audit work plans. The Program will rely on existing GoK internal audit control policies and procedures.

12. **Given that IAD and the OAG are program implementing entities, an independent verification agent will be hired by the PFMR Secretariat and funded as part of the variable expenditure framework.** The Independent verification will: a) carry out verification of the DLIs in line with the agreed verification protocol; b) as part of DLI verification provide confirmation the DLIs are achieved in line with the agreed expenditure framework; and c) identify bottlenecks and requisite measures to support the achievement of the DLIs. The TOR for the Independent Verification Agent shall be agreed between the World Bank and the Government. The PFMR Secretariat will take measures to ensure the DLI verification reports are submitted to the World Bank on a timely basis. In addition, the PFMR Secretariat will be

required to establish and update a risk register for the program, and this will be included as part of the PAP.

External Audit and Oversight

Overall FM objective: Adequate independent audit and verification arrangements are in place and take account of the country context and the nature and overall risk assessment of the program.

13. **The PFM Act 2012 sets out the timelines for submission to OAG of annual financial statements by MCDAs as September 30, while audit reports should be finalized not later than December 31**. In the recent past, a number of measures and achievements have been instituted to strengthen oversight institutions particularly the Parliamentary Accounts Committee (PAC) and Office of the Auditor General. These include: a) enactment and implementation of the Public Audit Act (2015); b) the OAG continues to undertake audits of all MCDAs; c) Public Investment Committee (PIC) and Public Accounts Committee (PAC) have cleared a significant backlog relating to review of OAG reports; d) liaison officers from OAG have been posted to Parliament; and e) significant capacity has been built in the OAG. Based on the 540 government entities audited by the Kenya National Audit Office for the FY 2013/14 and FY 2014/15, there was marked improvement in the number of unqualified audit opinions.

14. **The Public Audit Act 2015 requires audit reports to be submitted to Parliament within six months of the end of the financial year but this deadline has not been met by OAG in the last two years.** Since the audit reports for the program are expected to be undertaken as part of the implementing entities institutional audits, there is a risk that the institutional audits may not be submitted on time. There were delays of seven months by the Office of the Auditor General in completing the consolidated audits for the National Government for the FY14/15 and FY 2015/16. For instance, the National Government FY 2014/15 Audited Financial Statements, which were due by December 31 2014 were finalized in July 2015. The audited financial statements reveal several fiduciary weaknesses with some cases of adverse and disclaimer opinions. Some of the weaknesses identified in the past audits which may impact on the program include: (i) inaccurate/unreliable financial statements; (ii) poor asset controls in particular lack of or poorly maintained asset registers); (iii) cases of missing revenue and expenditure supporting documentation; (iv) un-accounted expenditures (v) poor control over staff allowances (vi) unaccounted advances and imprest; (vii) poor records management including anomalies in the general ledgers; (viii) lack of up-dated cashbooks (ix) inaccuracies in bank reconciliations; (x) material procurement irregularities; (xi) weak payroll controls and discrepancies; and (xii) control weaknesses in revenue management particularly cases of misappropriation.

15. **The PforR will provide support in further strengthening the PFM systems in order to address the identified weaknesses.** The audit capacity will be enhanced as part of the implementation of the Program and will be addressed through specific DLIs to strengthen the capacity of the MDAs and OAG. The measures are expected to incentivize OAG and by

extension, Government follow up; and address audit recommendations, timely preparation and submission of audit reports to Parliament as well as strengthening the inter-agency framework to improve PFM governance oversight.

16. **Statutory institutional audits for the Implementing Agencies as provided for in the Constitution of the Republic of Kenya and the relevant legislation, shall constitute the Audit of the Program.** The program audit will be based on the institutional Annual Financial Statements of the Implementing Agencies supported by appropriate disclosure notes outlining the annual Program budget appropriations and related expenditures as provided in the Program Expenditure Framework. The Program audit will therefore be made up of: (i) institutional Annual Financial Statements for NT supported by appropriate eligible expenditure framework disclosure notes to be audited by the Office of the Auditor General; (ii) institutional Annual Financial Statements for MoPSYGA supported by appropriate eligible expenditure framework disclosure notes to be audited by the OAG; and (iii) institutional Annual Financial Statements for the OAG supported by appropriate disclosure notes highlighting the eligible expenditure framework to be audited by an independent external audit firm to be appointed by Parliament.

17. **In the event that institutional audits of the implementing agencies highlight issues of substance relating to Program expenditures, the Government will furnish a time bound action plan to address and resolve the issues**. The Government will expedite the appointment of auditors for the OAG by Parliament to mitigate any potential delays in the submission of the institutional audit for the OAG. The incremental costs related to the program external audits will be budgeted and financed as part of the program variable costs through the PFMR Secretariat. The audits will be conducted in accordance with the PFM and Public Audit laws and International Standards of Auditing (ISA) and International Standards for Supreme Audit Institutions (ISSAI) to which the Auditor General subscribes. The Program will incentivize the implementing and beneficiary institutions to progressively reduce delays in preparation and presentation of the audited Annual Financial Statements. For each of the implementing entities, the audited institutional annual financial statements (with appropriate disclosure notes) together with the management letters will be submitted to the World Bank not later than 12 months after the end of the Government financial year.

PROCUREMENT ARRANGEMENTS

Legal Framework Set-up

18. **Public Procurement in Kenya is governed by the new Public Procurement and Asset Disposal Act of 2015 (PPAD Act) which was developed and assented to on December 18, 2015 and came into force on January 7, 2016.** Regulations to operationalize the PPAD Act have been developed and approved by the Cabinet and are awaiting the National Assembly's approval to enable the Cabinet Secretary, National Treasury to gazette it. As per Article 7(1) of the Act, the National Treasury established under section 11 of the Public Finance Management Act, 2012 shall be responsible for public procurement and asset disposal policy formulation. The Act established the Public Procurement Regulatory Authority (PPRA) as an oversight body regulating public procurement in the country and the Public Procurement Administrative Review Board (PPRB) as an independent body responsible for handling procurement complaints. The PPAD Act 2015 provides for the establishment of the relevant administrative organs within

procuring entities, the procedures for undertaking procurement and the mechanisms for handling complaints from aggrieved bidders and service providers in the procurement process.

19. **The GoK enacted the new PPAD Act to address structural weaknesses in the existing legal framework and the need for other legislative changes after enactment of the new Constitution in 2010, to:** (i) align it with the new constitution enacted in August 2010; (ii) eliminate inherent weaknesses to conform to international good practices; and (iii) accommodate emerging contemporary needs in the public sector. The new regulations are expected to be out by December 2017 and this will be followed by the issuance of the New Public Procurement Manual and associated Standard Bidding Documents and Request for Proposals by the Regulatory Authority. The Government has also committed itself to provide resources for the development of same. To separate policy formulation from oversight, the new Act establishes the National Public Procurement Directorate under the National Treasury whose primary role includes: public procurement and asset disposal policy formulation, designing and prescribing procurement systems for national and county governments, and issuance of guidelines to public entities on procurement matters.

Institutional Framework and Management Capacity

20. **Under the new Procurement Law, the PPRA is responsible for the procurement oversight function of the public procurement both at the national and county level of government. PPRA's role includes inter alia to**; (i) ensure that procurement procedures established by the PPAD Act are complied with; (ii) monitor the functioning of the public procurement system; (iii) assist in the implementation and operation of the public procurement system by providing advice and assistance to Procurement Entities (PEs); and (iv) promote and support the professional development of persons involved in procurement.

21. **All the IA's institutional structure of the procurement function is established in line with the New Law.** The old Regulations is still in effect but its application is limited as long as it is consistent with the New Act. The law also provides the internal organization of public entities relating to procurement. The new Act abolishes the role of the Tender Committee, a role which has now been incorporated with that of the Senior Supply Chain Manager and the Accounting Officer. The assessment revealed that the current arrangement seems to be generally working well particularly because it has eliminated the prevalent bureaucracy and delays attributed to the defunct Tender Committees. On maintaining integrity of the procurement system, the New Law has established time lines to enable concrete actions. This goes to the extent of stopping a procurement process if there is a complaint until it is resolved or time bound concrete actions are taken.

22. **The Public Procurement Complaints Review and Appeals Board that was established in 2001 by an earlier Act and retained in PPAD Act 2005 continues to operate under the new PPAD Act 2015 under a new name- the Public Procurement Administrative Review Board (PPARB).** The Act provides for administrative reviews of procurement proceedings whereby any aggrieved participant in a procurement proceeding claiming to have suffered or risks suffering loss or damage may submit a request for review to the Review Board through its secretariat.

23. **Procurement activities under this PforR Program will be undertaken at the national level by the three implementing agencies.** Verification of DLIs will be undertaken by an independent verification agent contracted by the PFMR Secretariat.

Procurement Operations and Market Practices

24. **The PPAD Act provides for different procurement methods and open competition is the preferred approach in line with the procurement law and the ministerial orders.** National Competitive Bidding (NCB), International Competitive Bidding (ICB), Shopping, Direct Contracting (DC) and Restricted Tendering (RT) are the common methods practiced based on the stated thresholds. Standard tender documents and manuals are available and are expected to be revised to align with new regulations.

25. **The new PPAD Act has introduced new procurement methods that require sensitization of both the implementers and stakeholders.** This calls for building capacity of the users and stakeholders on both levels of Government and development of strategy for its implementation. The Government (National Treasury) has partnered with several government bodies to meet the capacity challenges. A training manual has already been prepared and implemented and so far, 50 Training of Trainers (ToTs) from different sectors have been trained to serve as trainers.

26. **The assessment revealed that there is strong need for strengthening the capacity of the Regulatory Authorities.** At the moment, they do not have the capacity to deal with over 30,000 public entities.

27. **While the entities assessed have acceptable manual procurement filing and record keeping systems, the assessment revealed that Records Management in general is still a challenge.** The reason is that the system is manual and in some instances, lacks proper facilities. Procurement documents as part of the overall documents of each IA, are managed under the custody of the concerned Procurement head whereby most of the current documents are kept with the procurement officer in charge and the remainder by the central archives. This challenge can only be mitigated through automating the records management system.

E-procurement and IFMIS

28. **The existing 'Procure to Pay' module hosted by the IFMIS department is currently being used by procuring entities in both levels of Government.** However, the complete end-to-end e-procurement to the extent where suppliers submit their quotes online is yet to be undertaken and the supplier portal is yet to be implemented. The current challenges may be mitigated through: (i) having continuous capacity building of users and stakeholders; (ii) strengthening the capacity of the system to sustain the operations; and (iii) maintaining a clear distinction between Process Owners and IFMIS experts.

Program specific Arrangements

29. The Government (National Treasury) as the mandated body to implement IFMIS, needs to strengthen / update it taking into consideration some of the identified weaknesses in the system and enhance its full implementation. At the national level, the review and enhancement of

the IFMIS P2P module in line with the new procurement law and regulations (once gazetted) are believed to mitigate some of the highlighted risks.

Integrity and Transparency of the Public Procurement System

30. **The Public Procurement and Asset Disposal Act, 2015 established the Public Procurement Administrative Review Board to manage complaints emanating from procurement processes from procuring entities.** The new law has addressed most of the challenges that prevailed earlier by introducing penalties and sanctions and tying responsibilities to various individual actors and players.

31. **Procurement audits serve as an effective tool for enforcing compliance.** Currently, the PPRA is not able to conduct adequate number of audits within a year due to lack of adequate resources. Consequently, there continues to be limited procurement audit training as well as open workshops conducted by PPRA and Kenya Institute of Supply Management (KISM).

32. C***onclusion:*** Due to the nature of the challenges and inadequate capacity in some areas at national level, the procurement risk for the Program has been assessed as "Substantial".

Governance and Anti-Corruption (GAC) Considerations

33. **There are multiple channels for reporting public complaints.** These include email/website, telephone, in person, letters and suggestion/anti-corruption boxes. Complaints are directed to the Accounting Officer of the institution in question. The public can also channel their complaints directly to the CAJ/Ombudsman, EACC, Public Procurement Complaints Review and Appeals Board (PPCRAB), National Environment Management Authority (NEMA) and National Lands Commission (NLC), in terms of complaints on maladministration, F&C, procurement, Environment and Land complaints respectively[41]. Complaints can also be channeled internally within implementing agencies by way of internal memos. While complaints handling systems are in place within the National Treasury, OAG and MoPYSGA, one will need to be established at the PFMR Secretariat as the Program Implementation Unit (PIU) for the PforR. This requirement has been included in the program action plan.

Assessment of Legal and Institutional Arrangements for Fighting Fraud and Corruption

34. **The Constitution and legal framework have strong provisions on combating fraud and corruption.** This legal framework gives significant and independent powers to the Office of the Director of Public Prosecutions (ODPP), National Police Service Commission (NPSC) and EACC to exercise their relevant mandates at both national and county government levels. The responsibility for investigating fraud and corruption is shared between the Criminal Investigations Department (CID) of the NPSC and the EACC, while prosecution is the sole mandate of the ODPP (with provision to delegate these powers).

35. **The legal framework makes clear distinctions regarding institutional responsibilities for investigating and prosecuting corruption, however the mandate to investigate fraud is**

[41] Environment and lands complaints management system is described in more detail in the Environmental and Social Systems Assessment (ESSA)

shared. The EACC has powers to investigate corruption (bribery, fraud, embezzlement, misappropriation of funds, abuse of office, breach of trust and offences involving dishonesty) while the CID on all aspects of criminal conduct (including fraud by public officers [which is considered as a corruption offence under the Anti-Corruption and Economic Crimes Act]). The Director of Public Prosecutions has the sole mandate to institute and undertake criminal proceedings against any person or authority including fraud and corruption.

36. **The fight against corruption continues to be a top priority for government actioned through a series of initiatives aimed at curbing the vice. In the last two years alone, H.E.** President Uhuru Kenyatta has been at the forefront of driving this agenda. Similarly, to boost the fight against corruption, Parliament has progressively been increasing allocations to all agencies dealing with corruption.

37. **The Auditor General's report provides pointers to potential cases of fraud and corruption and provides a basis for action by other institutions.** The OAG produces an annual audit report on the use of public funds by public institutions. The annual report is sent to Parliament (Public Accounts Committee and Public Accounts Committees) as well as each County Assembly. The Auditor General may conduct other periodic reports including forensic audits and procurement audits, which in addition to annual financial audits, could provide useful information for action by other institutions. These reports are published and publicized and made available to the public. As per the law (section 53 of the Public Audit Act 2015), within three months after Parliament has considered and made recommendations on the annual audit report, accounting officers must take relevant steps to implement the recommendations or give written explanation to Parliament. This however is not adhered to, and this program specifically aims to address this issue as part of Result Area 5.

38. **The internal audit function forms an important element of mitigating against F&C risks, as its main function is to undertake risk assessment, risk management reviews, investigative and assurance services to the Accounting Officer.** The PFM regulations provide for the roles of the internal auditors (including internal audit committees) to inter-alia review and evaluate financial management, transparency and accountability of organizations; give reasonable assurance through the audit committee on the state of risk management control and governance in an organization; and review the financial and non-financial performance management systems of the organization. In addition to this, in section 32 of Public Audit Act 2015, reports adopted by internal audit committees shall be provided to the Auditor General. However, there is weak internal audit capacity (internal audit is yet to transition to the new requirements of the law) as mentioned in Part F of the FM assessment. As part of strengthening internal audit functions for purposes of F&C mitigation, the PFMR Secretariat will be required to establish a risk register for the program and regularly update it as part of the PAP.

39. **As part of performance contracting, each public institution is required to report on the corruption eradication indicator and report (quarterly basis) on implementation of various measures.** The assessment found this indicator to be well complied with. The assessment team noted that the MoPSYGA had gone ahead of other program implementation agencies and developed a whistle blower protection policy. In the rare circumstances that institutions do not comply, the EACC does not issue them with compliance certificates and their overall performance scoring is reduced. However, given that the OAG is not on Performance Contracting (PC), the elements of the corruption prevention eradicator as prescribed in PC and

good practice will be included as part of the Program Action Plan. This will also address challenges of funding complaints resolution activities (recently MDAs are experiencing reductions in budget allocations towards achieving some of these activities).

40. **The EACC has a well-functioning, well known and accessible complaints management system linking key investigative, and transparency agencies.** The Integrated Complaints Reporting Mechanism (IPCRM) establishes unified complaints reporting centers for the EACC, the Commission on Administrative Justice, National Anti-Corruption Steering Committee, National Cohesion and Integration Commission, Kenya National Commission on Human Rights and Transparency International (Kenya). Through this platform, EACC's outreach is extended to places where it does not have physical presence as cases can be reported through these institutions and they in turn lodge the complaints on the platform which is accessed, managed and maintained by dedicated staff in EACC. Complaints are regularly analyzed, categorized, and referred to appropriate units or other agencies responsible. Apart from the complaints platform, EACC also receives complaints through a dedicated email address, dedicated telephone, and suggestion boxes. This is shown in the Table below.

41. **The assessment found that there are a number of existing complaints against various GESDeK implementing agencies. These are summarized in the Table below:**

Table 19: Ongoing Corruption Complaints Received by the EACC against GEDSeK Implementing Agencies

Nature of Complaint/Investigation	National Treasury	Office of the Auditor General		MoPSYGA	Total
Bribery	-	-		1	1
Conflict of Interest	-	-		1	1
Civil Issues	1	-		-	1
Embezzlement/Misappropriation	5	1		4	10
Maladministration	4	-		7	11
Public Procurement	3	-		-	3
Unethical Conduct	1	-		2	3
Sub -Total	**14**	**1**		**15**	**30**

Assessment of Legal and Institutional Arrangements for Handling Complaints on Maladministration and Service Delivery in Kenya

42. **The legal framework has strong provisions on handling of complaints on maladministration and service delivery.** The Commission of Administrative Justice (CAJ)/Ombudsman is established to enforce administrative justice and address maladministration through effective complaints handling and alternative dispute resolution[42]. Ombudsman services are accessed from 15 different locations across the country (four including 11 Huduma Centres). Between November 2011 and December 2015, the CAJ handled over 227,160 complaints with an 82 percent resolution rate. Complaints have been received against the three GESDeK implementing agencies as shown in below.

[42] Article 59(4) of the Constitution and the Commission on Administrative Justice Act 2011

Table 20: Ongoing Complaints Received by the CAJ Against GEDSeK Implementing Agencies

National Treasury	Office of the Auditor General	MoPSYGA	Total
50	4	87	141

Source: CAJ/Ombudsman March 2017

43. **The services of the CAJ/Ombudsman are accessible to the public.** Access includes the establishment of an SMS Platform, Hotline number and through an electronic system of lodging complaints through Twitter, Face Book, the IPCRM and an interactive website (web posting). Notwithstanding these efforts, accessibility of the Ombudsman services remains a major challenge as decentralization of Ombudsman services is currently hampered by financial constraints.

44. **The Public Service Values and Principles Act 2015 and Commission on Administrative Justice Act (and regulations), provide for how internal and external complaints are handled and this is largely followed. Public institutions are required to have service charters, register complaints and resolve all complaints within three months from the date of receipt. Internal complaints are received and addressed through memos from one department to another.** Most internal complaints will copy the office of the PS (particularly in memoranda), but in effect these complaints are usually handled by the respective heads of department, and the office of the PS only becomes involved when what are thought to be critical issues come up. Most internal complaints received relate to delays in procurement of goods, HR matters (allowances, leave, promotions etc.).

45. **The law provides for a number of internal institutional structures that exist in relation to handling of complaints and these are operational in the implementing agencies.** This includes: (a) Complaints handling committee that meets quarterly to review status of complaints received and refers any matters to the Ombudsman etc.; (b) Corruption Prevention Committee (CPC) that meets quarterly and gives policy direction on handling matters relating to corruption; (c) Integrity Assurance Officers who support and report to the CPC; and (d) the Ministerial Human Resource Advisory Committee (MHRAC) that advises the Principal Secretary/ Authorized officer on matters dealing with disciplinary issues. The MHRAC mainly uses the civil service code of regulations to determine its actions and meets on a monthly basis.

46. **The assessment found performance contracting to be working well with all institutions regularly implementing various indicators.** As part of performance contracting, each public institution is required to report on the complaints resolution indicator and report on implementation of various measures prescribed on an annual basis. Non-compliant institutions are not issued with compliance certificates and their overall scoring is lowered as a result of non-compliance. However, given that the OAG is not on PC, various complaints handling measures as prescribed in PC and good practice will be included as part of the Program Action Plan. This will also address challenges of funding complaints resolution activities (recently MDAs are experiencing reductions in budget allocations towards achieving some of these activities).

Assessment of Complaints and Grievance Handling Systems within GESDeK Implementing Agencies

47. **There are various channels for reporting public complaints including email/website, telephone, in person, letters and suggestion/anti-corruption boxes and the assessment team found these to be functional.** These complaints can be made through the accounting officer. The public can also channel their complaints directly to the CAJ/Ombudsman, EACC, Public Procurement Complaints Review and Appeals Board (PPCRAB), National Environment Management Authority (NEMA), National Lands Commission (NLC), in terms of complaints on maladministration, F&C, procurement, Environment and Land43 complaints respectively. Complaints can also be channeled internally within implementing agencies by way of internal memos. While complaints handling systems are in place within the NT, OAG and MoPYSGA, one will need to be established at the PFMR Secretariat as the PIU and ensure that complaints reporting mechanism are available at all buildings hosting these institutions. This will be included as a minimum condition.

48. **Aligned to the existing complaint reporting channels available, the GESDeK program will similarly adopt the following process for reporting on complaints for the program and these as more intricately spelt out in the POM:**

- Implementing agencies complaints focal points shall receive complaints (Fraud and Corruption, Procurement, Environment and Land etc.) from the public on a quarterly basis, and shall provide summary reports of these complaints and actions taken on them to the PFMR Secretariat with copies to the National Treasury Internal Audit Department.
- Oversight agencies (PPOA, EACC, NEMA, Ombudsman, KNCHR, NLC, PPCARB, and NGEC) shall compile and publish periodic reports of their respective institutions (including on complaints received and action taken).
- The National Treasury Internal Audit Report shall, on a quarterly basis, collate and compile information received in (a)-(c) above as well as any other complaints from the oversight agency forum[44] into quarterly reports (of complaints received relating to the program) and submit them to the PFMR Secretariat.
- The PFMR Secretariat shall collate these quarterly reports into an annual report. The report shall be made available to the public.
- The PFMR Secretariat shall assume overall responsibility for disseminating and informing implementing agencies of prescribed complaint handling and reporting arrangements

Program specific assessments of risks of Fraud and corruption

49. **The Program will be implemented in accordance with the MOU signed between the Bank's Integrity Vice Presidency (INT) and the EACC in September 2014.** The MOU provides for terms of cooperation, privileges and immunities, confidentiality and communication to third parties. Implementation of the GESDeK will be aligned with the Anti-Corruption Guidelines (ACGs) applicable to PforR operations i.e. "Guidelines on Preventing and

[43] Environment and lands complaints management system more elaborately described in the Environmental and Social Systems Assessment (ESSA)
[44] Membership of the Oversight Agency Forum includes the Auditor General, Efficiency Monitoring Unit, Ombudsman, EACC, Internal Audit, PPOA etc.

Combating Fraud and Corruption in Program-for-Results Financing", dated February 1, 2012 and revised on 10th July 2015. The ACG consist of three basic elements:

i. **Sharing of information with the World Bank on fraud and corruption allegations[45]:** All program managers and beneficiaries are required by law to report any allegations of fraud and corruption to the EACC. The EACC will share such information with the World Bank in real time (every six months) on all allegations of fraud and corruption received from the public, and from the complaints and grievance system.

ii. **Sharing of World Bank's debarment and suspended lists of firms and individuals:** The Public Procurement and Regulatory Authority will share with the implementing agencies, at least on a quarterly basis, the list of firms and individuals debarred by the Bank which have been debarred or suspended from participating in procurement in Kenya. This is so as to ensure that these individuals or firms are not allowed to bid for contracts or benefit from a contract under the Program during the period of debarment or suspension.

iii. **Investigation of fraud and corruption:** The EACC has the legal mandate to investigate any allegations of fraud and corruption and the Directorate for Public Prosecution any prosecutions arising therefrom. Thus, all allegations of fraud and corruption will be investigated by the EACC and those found to be credible will be sent for prosecution by the DPP. The Bank may make administrative inquiries relating to fraud and corruption allegations made against the entire program or part of the program and in such cases the National Treasury, Auditor General and Ministry of State for Public Service Youth and Gender Affairs, will collaborate with INT to acquire all records and documentation that INT may reasonably request from the operation regarding the use of the Program financing.

The table below summarizes key Fiduciary F&C Risks and Mitigation Measures

Table 21: Potential Fraud and corruption risks in Key Result Areas of the Program

Key Potential Risks	Summary Analysis and Mitigation Measures
IFMIS as a cross cutting system across underpinning each KRA	Auditor General report on IFMIS pointed to control weaknesses (use by unidentified users, lack of basic system procedures and safeguards etc.) exposing it to fraud and misuse. The GESDeK program is largely dependent on IFMIS as the system to deliver on the program results and to be integrated with other systems including e-ProMIS, GHRIS etc. *Mitigation: All Results Areas depend incentivize improvements of IFMIS. As part of the PAP, specific reports will be designed in line with the expenditure framework to facilitate generation of program expenditures directly from IFMIS (by each implementing agency). The reports shall be used to support: (i)the DLI verification and (ii)the disclosure notes to the institutional annual financial statements*

[45] Template for reporting F&C included in Appendix A

Key Potential Risks	Summary Analysis and Mitigation Measures
Procurement	Collusion and fraud in public procurement activities due to lack of transparency. Corruption (bribery) in public sector procurement is rampant and estimated to add 10-20 percent to total contract costs. Review of the IFMIS E-Procurement and enhancement of the system to conform to requirements of the new law, and further enhancements of controls and reporting *Mitigating measures: DLIs and Results Areas include: creation of a public procurement portal to ensure transparency and accountability and use of internal audit and PPRA to monitor and report on compliance with the law and value for money and availability of data in automated e-procurement system which provides for an audit trail*
Auditing and internal controls	Delayed audit reports and lack of audit follow up on audit recommendations; audit committees (as per the new law are yet to be established), leading to limited information for engagement/addressing GAC related issues. *Mitigation: DLIs and Results areas of the program include Internal Audit conducting annual risk based fiduciary reviews, strengthening mechanisms for capturing and monitoring internal and external audit recommendations, establishment and updating of a risk management register (PAP) and developing risk clusters to inform and prioritize audits.*
Complaints handling systems	While all implementing agencies have operational complaints handling systems, complaints can't be reported at the PIU. It doesn't have complaints reporting facility. *Mitigation: Establishment of a complaints reporting system at the PIU as part of the PAP (within six months of effectiveness). This system is not standalone and feeds into the overall National Treasury complaints handling system.*
Complaints received against implementing agencies	Both the CAJ and the EACC have received complaints against all the implementing agencies around issues of F&C and maladministration complaints respectively. *Mitigation: Publish annual performance against the "resolution of public complaints" and "corruption prevention indicators" under the Performance Contracting system (including certified compliance with reporting on complaints to the Ombudsman and EACC.) In the case of OAG, including this in their annual progress reports on program implementation. These reports will be disclosed on each agency's website.*

50. **In conclusion, F&C risks for implementing the Program are "Substantial".** While Kenya has the institutional and organizational capacity to handle issues of fraud and corruption in the program, the fiduciary team shall have to ensure that the requisite measures as prescribed in the public service and in the program (PAP) are in place to both mitigate and deal with complaints as and when they come up.

Annex 6: Summary Environmental and Social Systems Assessment

Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya (GESDeK)

Conclusion

1. **Only two of the six World Bank Core Principles for assessment of Environmental and Social Systems Assessment (ESSA) apply to the GESDeK.** The two principles are number 1, which is the General Principle of Environmental and Social Assessment and number 3 on Public and Worker Safety especially as they relate to e-waste. The four remaining Core Principles of Environmental and Social Management that must be met in the preparation of an Environmental and Social System Assessment (ESSA) for all PforRs are not applicable in this Program.

2. **The environmental and social risks and impacts of activities to both the biophysical and social environment under the GESDeK are ranked as low/negligible.** This is because low quantities of electronic equipment will be procured for the program.

Context and Objectives

3. **An ESSA has been prepared for this PforR to examine the country's environmental and social management systems applicable to the Program.** The ESSA has assessed the compliance of the country's environmental and social management systems with the Bank's Policy on Program-for-Results Financing. The policy and assessment aim to ensure that the program's environmental and social risks will be managed adequately at the country level, and that the applicable country safeguard management system complies with the basic principles of sustainable development. Paragraph 8 of the World Bank's Policy on Program-for-Results Financing describes the Core Principles of Environmental and Social Management that must be met in the ESSA. These Core Principles are as follows:

- Core Principle 1: General Principle of Environmental and Social Assessment. Environmental and social management procedures and processes are designed to (a) promote environmental and social sustainability in the program design; (b) avoid, minimize, or mitigate against adverse impacts; and (c) promote informed decision-making relating to a program's environmental and social effects.

- Core Principle 2: Natural Habitats and Physical Cultural Resources. Environmental and social management procedures and processes are designed to avoid, minimize, and mitigate against adverse impacts on natural habitats and physical cultural resources resulting from the program.

- Core Principle 3: Public and Worker Safety. Environmental and social management procedures and processes are designed to protect public and worker safety against the potential risks associated with (a) construction and/or operations of facilities or other operational practices developed or promoted under the program; (b) exposure to toxic chemicals, hazardous wastes, and otherwise dangerous materials; and (c) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards.

- Core Principle 4: Land acquisition. Land acquisition and loss of access to natural resources are managed in a way that avoids or minimizes displacement, and affected people are assisted in improving, or at least restoring, their livelihoods and living standards.

- Core Principle 5: Indigenous Peoples and vulnerable groups. Due consideration is given to cultural appropriateness of, and equitable access to, program benefits giving special attention to rights and interests of Indigenous Peoples and to the needs or concerns of vulnerable groups.

- Core Principle 6: Social conflict. Avoid exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.

4. The ESSA evaluates the compatibility of the program's systems with the six Core Principles on two basic levels: (i) the systems as defined by laws, regulations, procedures, etc. (the "system as defined"); and (ii) the institutional capacity of implementation entities under the program to effectively implement the system (the "system as it is applied in practice"). It identifies and analyzes the differences between the national systems and the core principles that apply to the program on the two levels indicated above.

Program Environmental and Social (including Health) Risks

5. **The GESDeK is not likely to lead to any significant adverse impacts.** The National Treasury (NT), and MoPSYGA and the OAG will implement the PforR. The program will entail procurement of electronic equipment including computers, servers, tablets and related accessories. The anticipated minimal risks would be mainly associated with the generation of electronic waste (e-waste). Over the life of the project, electronic equipment to be procured will include a number of computers, servers, printers, scanners, etc.), which are unlikely to pose any threats until the end-of-life of these imported devices. Once the equipment reaches its end of life or becomes obsolete and enters the waste stream it is then referred to as e-waste and may pose a threat to the environment if disposal is wrongly or poorly managed.

What is E-waste?

6. **Electronic waste - also known as e-waste - is an informal term used to describe almost all types of Electronic and Electrical Equipment that has entered or could enter the waste stream.** The term is used for almost any household or business item with circuitry or electrical components with power or battery supply that has reached its end-of-life.

7. **E-waste can be a dangerous threat to human health and the environment including persistent, bio-accumulative and toxic substances, such as brominated flame retardants, heavy metals (e.g., lead, nickel, chromium, mercury), and persistent organic pollutants (e.g., polychlorinated biphenyls (PCBs).** This threat can result from two sources. The first is from the leaching of hazardous substances, in particular lead, mercury, cadmium, and lithium into the environment from e-waste that is disposed of in normal (non-engineered) landfills and

refuse dumps. The second is from improper recycling techniques, which are in particular employed in the informal recycling sector in developing countries and currently result mainly from the export of e-waste to these countries, but increasingly from improper domestic disposal.

8. **Improper and indiscriminate disposal of e-waste could to lead to the mushrooming of informal waste disposal centers in neighborhoods.** This would further exacerbate the problem of e-waste management where informal e-waste handlers, refurbishers or recyclers become exposed to adverse health impacts of e-wastes because of failure to use personal protective equipment and lack of special skills to dismantle/disassemble the end-of-life devices.

Air Pollution

9. **The improper disposal of e-waste through incineration is likely to lead to atmospheric pollution through the release of toxic and noxious gases in the atmosphere.** The informal sector's recycling practices magnify health risks. For example, primary and secondary exposure to toxic metals, such as lead, results mainly from open-air burning used to retrieve valuable components such as gold. Combustion from burning e-waste creates fine particulate matter, which is found to be linked to pulmonary and cardiovascular disease.

Waste Management Problem of Non-Biodegradable Equipment

10. Most of the components of electronic devices are not biodegradable and hence provides a challenge in terms of disposal. Non-biodegradable equipment often remains in the environment for years and end up becoming a health menace, eye sore as well as a landscape and visual intrusion problem.

Toxicity and Radioactive Nature of E-waste to the Human, Water, Soil and Animals

11. **Electrical and electronic equipment contain different hazardous materials, which are harmful to human health and the environment if not disposed of carefully.** While some naturally occurring, substances are harmless in nature, their use in the manufacture of electronic equipment often results in compounds, which are hazardous (e.g. chromium becomes chromium VI). Lead, mercury, cadmium, and poly-brominated flame-retardants are found in electronic equipment and are all persistent, bio-accumulative toxins (PBTs). They can create environmental and health risks when computers are manufactured, incinerated, landfilled or melted during recycling. PBTs, in particular, are a dangerous class of chemicals that linger in the environment and accumulate in living tissues, and because they increase in concentration as they move up the food chain, PBTs can reach dangerous levels in living organisms, even when released in minute quantities. PBTs are harmful to human health and the environment and have been associated with cancer, nerve damage and reproductive disorders.

12. **As mentioned earlier electrical and electronic equipment contain different hazardous materials, which can enter the soil-crop-food pathway.** This can magnify exposure of humans and animals to these toxic substances.

Recommendations for Action (Prevention and Mitigation Measures) under the Program

General Remarks

13. **In general, responsible approaches to avoiding and curtailing e-waste hazard could be by adopting technical and policy-level interventions, implementation and capacity building, and increase in public awareness about the risks associated with the de-manufacture, reuse and recycling as well as the final disposal of end-of-life devices.** There are numerous technical ways to prevent and minimize the generation of e-waste. In general, these may include producers engaging in sustainable product design and engineering (e.g., modifying current production processes by reducing the volume in substances but also size of devices; using renewable material and biodegradable material for components and peripherals of devices; adopting appropriate recycle and re-use technologies; looking at a green packaging option and utilizing minimum packaging material, etc.). Policy-level interventions may in general include: (i) providing clear definition of e-waste for formulation and implementation of regulation; (ii) instituting import and export regulatory regimes; and (iii) formulation and integrated ICT waste management policy). In terms of implementation and capacity building, it is important that recipient countries undertake to: (i) pass legislation for collection, recycling and disposal; (ii) ensure adequate institutional capacity building; and (iii) formalize the informal recycling sector.

14. **The current awareness level regarding the existence and dangers of e-waste in Kenya is extremely low.** This is partly because the volume of e-waste being generated is not as high as in developed countries. However, building consumer awareness through public awareness campaigns would help to foster a new responsible kind of consumerism that may be obtained by: (i) donating functioning electronics for re-use; and (ii) opting for those electronic products that are made of fewer toxic substances, use recycled content, are energy efficient, are designed for easy upgrading or disassembly, use minimal packaging, and offer leasing or take back options).

15. **The ESSA for the PforR contains potential preventive and mitigation measures through which the adverse impacts associated with e-waste emanating from this program can be managed.** The mitigation measures and guidelines have been designed in order to avoid, minimize and reduce negative environmental and social (health) affects at the project level. The mitigation measures are presented in the next sections.

Procurement of Electronic Gadgets from Credible Manufacturers

16. **The program will, as a mitigation measure, ensure that all electronic devices are procured from credible manufacturers and have a clear date of manufacture and warranty.** This will avoid procurement of poorly refurbished or second hand electronic devices with a shorter shelf life, a common problem that leads to generation of e-waste because of obsoleteness.

Awareness and Sensitization Raising

17. **The program will provide awareness and sensitization on the proper use and disposal of electronic devices once they become obsolete**. Sensitization will be done with staff at the three implementing agencies who will be using the electronic devices. Sensitization will focus on the usefulness and significance of reporting defect/dysfunctionality of devices in use, e-waste recycling and re-use, and the need for collection and returning all obsolete electronic devices procured under the program to the Program Management Unit for proper disposal through NEMA accredited firm(s).

Collection, Recycling and Re-use, and Disposal

18. **All the e-wastes generated by the program will be recaptured via a "Take Back Scheme" for recycling where these end-of-life devices will be delivered to facilities that recycle e-waste at minimal or no cost such as the East African Compliant Recycling Company (EACRC) Limited.** The EACRC is operating Kenya's first e-waste recycling facility, operating to international health, safety and environmental standards and establishing a local, sustainable IT e-waste recycling industry.

19. **The EACRC was designed as a scalable model for e-waste recycling.** It was established in Mombasa in October 2011 as a pilot project with funding from Hewlett Packard. The EACRC is the first facility of its kind in East Africa to test a practical approach to e-waste recycling. The objectives behind its establishment were to:

- Analyze and measure volumes of e-waste returned
- Establish the process to safely separate the products into parts
- Identify facilities and markets to process all the resulting dismantled materials

20. **Since beginning official operations, the EACRC remains the only recycling facility in Kenya to accept, dismantle and separate all E-waste components and not just the valuable resources.** Plastics, glass, batteries - everything - are all disposed in accordance with the highest international criteria while generating local income and employment opportunities. Until now, the facility receives end-of-life IT from business and public sector customers, as well as from the informal sector for recycling. EACRC facility offers its workers advice on handling E-waste containing hazardous materials such as lead and cadmium.

Conclusions

21. **With the exception of two of the six Core Principles namely, Core Principle 1 and 3, the other remaining four Core Principle are not applicable to the GESDeK.** The environmental and social risks and impacts of activities under the PforR are ranked as low, insignificant or negligible because low quantities of electronic equipment will be procured for the program and this should not present significant or severe impacts to both the biophysical and social environment.

22. **Kenya has adequate procedures and legal framework for management of e-waste.** These include the 1999 Environmental Management and Coordination Act (as amended in 2015), Waste Management Regulations, E-waste Management Guidelines and draft E-waste regulations all which present an adequate framework for managing and mitigating the impacts associated with e-waste in the country.

23. **While the program does not affect vulnerable groups directly, any collected or available data will be used for policy-making and could generate indirect positive social impacts, especially if the data is disaggregated by gender, geography and other dimensions.**

Elements Incorporated into the Program Action Plan

24. **The Program will strengthen the capacity of the National Treasury (NT), MPSYGA and OAG to manage the e-waste generated by the program by providing awareness and sensitization and training for relevant staff concerning e-waste management.** It will also

link the agencies with NEMA certified recycling facilities such as the EACRC Limited in order to properly collect, de-manufacture/disassemble, re-use and dispose of all non-usable remains of the e-wastes generated by the program.

Annex 7: Systematic Operations Risk Rating (SORT)

Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya (GESDeK)

Systematic Operations Risk-Rating Tool (SORT)	
Risk Category	**Rating (H, S, M, L)**
1. Political and Governance	S
2. Macroeconomic	M
3. Sector Strategies and Policies	M
4. Technical Design of Project or Program	S
5. Institutional Capacity for Implementation and Sustainability	S
6. Fiduciary	S
7. Environment and Social	L
8. Stakeholders	S
OVERALL	**S**

Annex 8: Program Action Plan

Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya (GESDeK)

Risk sources	Actions required to meet the DLIs and address other major weaknesses that will support the overall PFMR Strategy	Responsible MDA	Due by	Objectives/ Results & DLI linkages
Planning and Budgeting Arrangements Overall FM objective: The Program budget is realistic, is prepared with due regard to government policy, and is implemented in an orderly and predictable manner				
Budgeting provisions in the annual appropriations are not commensurate to the cost estimates for the program activities.	Annual budget provisions under the respective implementing entities are matched to the annual estimated costs for the planned program activities to pre-finance inputs contributing to the achievement of the Disbursements Linked Results.	National Treasury (Budget Supply Department) in consultation with Directorate Accounting Services, PFMR Secretariat and OAG.	Budget provisions- Annually by 30 June	All DLIs and results areas
Treasury Management and Funds Flow Overall FM objective: adequate and timely funds are available to finance program implementation				
Cash management and plans	Timely release of exchequer funds commensurate with requests (as reflected in implementing agencies cash plans) from the implementing agencies to pre-finance inputs to achieve the Disbursements Linked Results.	National Treasury (Exchequer Department and Accounting Services) in consultation with the Implementing agencies/ departments.	Exchequer Releases – Monthly	All DLIs and results areas
Accounting and Financial Reporting Arrangements Overall FM objective - adequate program records are maintained, and financial reports produced and disseminated for decision-making, management, and Program reporting				

Risk sources	Actions required to meet the DLIs and address other major weaknesses that will support the overall PFMR Strategy	Responsible MDA	Due by	Objectives/ Results & DLI linkages
IFMIS expenditure framework reports.	Design specific reports in line with the expenditure framework to facilitate generation of program expenditures directly from IFMIS. The reports shall be used to support the DLI verification. In addition, the reports will also support the disclosure notes to the institutional annual financial statements. Reports shall be prepared for each of the implementing agencies.	National Treasury (PFMR & PSASB)	Design the reports in IFMIS 31 October 2017. Budget execution reports every 12 months.	All DLIs and results areas
Institutional Financial Statements	Prepare institutional annual financial statements for the three implementing agencies with appropriate disclosure notes outlining the program expenditures in line with the agreed expenditure framework	National Treasury (PFMR & PSASB), MoPSYGA and OAG	Annually not later than 30 September 2017	All DLIs and results areas
Internal Control (including internal audit) Overall FM element objective: there are satisfactory arrangements to (a) monitor, evaluate, and validate program results; and (b) exercise control and stewardship of program funds				
Internal Control Framework	Establish and maintain: (i) PFM Standing Committee; (ii) Audit Committees; (iii) Internal Risk Management Framework including F&C risks; (iv) Risk Registers and Internal Control Framework in line with the PFM Act 2012 and PFM Regulations 2015	Internal Audit Department	Continuously monitored every 6 months.	All DLIs and results areas
Program Risk Management Register	Prepare and maintain an updated program risk management register.	PFMR Secretariat	Continuously monitored every 6 months	All DLIs and results areas
Independent verification arrangements	Plan and budget resources to finance costs related to the independent verification agent. The budget shall be an integral part of the PFMR annual budget. PFMR will institute measures to ensure invoices relating to verification are settled on a timely basis.	National Treasury (PFMR Secretariat)	Hiring of verification agent for the duration of the program completed by January 2018.	All DLIs and results areas

Risk sources	Actions required to meet the DLIs and address other major weaknesses that will support the overall PFMR Strategy	Responsible MDA	Due by	Objectives/ Results & DLI linkages
External Audit Overall FM element objective: adequate independent audit and verification arrangements are in place, taking into account the country context and the nature and overall risk assessment of the program.				
External Audit and Oversight	In line with the provisions of the PFM regulations, NT and MoPSYGA to submit quality assured financial statements to the Auditor General for external audit in accordance with the statutory time line.	PFMR and IPSAS Board	Annually by 30 June	All DLIs and results areas
Procurement				
Procurement delays, lack of transparency and corruption	Implementation of e-procurement in the three implementing agencies as part of the first phase	All three implementing agencies (Accounting Officers)	June 2020	All DLIs and results areas
Delays in providing professional opinions	Compliance with the applicable business standards as per the draft Regulations, i.e., 14 days	The Head of Procurement Function	Continuous	All DLIs and Result Areas
Lack of structured and efficient filing and records management systems	Establish a filing and records management system in accordance with the provisions of the PPAD Act 2015	(Accounting Officers)	Continuous	All DLIs and Result Areas
Governance and Anti-Corruption[46]				

[46] The GESDeK Program F&C mitigation measures will be further augmented by WB support to ongoing anti-corruption reform initiatives under the Kenya Governance and Improvement Program. These areas include strengthening complaints management, social audit and strengthening oversight and enforcement roles of CAJ/Ombudsman and EACC.

Risk sources	Actions required to meet the DLIs and address other major weaknesses that will support the overall PFMR Strategy	Responsible MDA	Due by	Objectives/ Results & DLI linkages
Incidence of Fraud and Corruption and delays in responding to complaints	Publish annual performance against the "resolution of public complaints" and "corruption prevention indicators" under the Performance Contacting system (including certified compliance with reporting on complaints to the Ombudsman and EACC.) In the case of OAG, including this in their annual progress reports on program implementation	National Treasury, MoPSYGA and OAG	Annually	All DLIs and results areas
	Establishment of complaints and reporting system at the PIU	PFM Reform Secretariat, National Treasury, OAG and MoYPSGA	Within 6 months of effectiveness	All DLIs and results areas
Weak internal risk assessment of factors leading to Fraud and Corruption	Establishment of risk register for the program	PFM Reform Secretariat	Within 6 months of effectiveness	All DLIs and results areas
	Updating F&C indicators in the risk register (above)	PFM Reform Secretariat	Annually	All DLIs and results areas
	Reporting on recommendations made to mitigate against risks identified in the risk registers	PFM Reform Secretariat	Annually	All DLIs and results areas
Safeguards				
Poor management of e-waste generated from electronic devices	Managing and mitigating impacts associated with e-waste by implementing the requirement of the 1999 Environmental Management and Coordination Act (EMCA) (as amended in 2015), Waste Management Regulations, E-waste Management Guidelines and draft E-waste regulations	National Treasury (NT), MPSYGA and OAG	Annually	All DLIs and results areas

Annex 9: Implementation Support Plan

Program to Strengthen Governance for Enabling Service Delivery and Public Investment in Kenya (GESDeK)

1. **The World Bank will provide implementation facilitation through a multi-disciplinary task team primarily located in Nairobi.** The task team leader and co-task team leader will both be based in Nairobi and will be "on call" for facilitation and unlocking of implementation bottlenecks. Financial Management, Procurement and safeguards Specialists are also based in the country office. Proximity will enable real time risk monitoring and mitigation.

2. **PforRs, on their own do not, automatically achieve results.** They will not, automatically:

- Generate the solutions to the problems that will enable the achievement of results; or
- Encourage collaborative working to overcome collective action problems that underlie many of the programs.

3. **As part of the preparation of the program, a collaborative process has taken place with client counterparts to identify key bottlenecks, define success and identify the feasible steps to achieving them.** Technical Teams have been formed made up of GoK stakeholders across departments within National Treasury, the OAG and MoPSYGA. The PFM Reform Secretariat played an important role in convening actors; however, the World Bank – an external actor – has played a role in the facilitation process and brokering a way forward and provided ideas for potential solutions.

4. **There is a risk that stakeholders do not continue to work together during implementation and that collective action problems persist/reappear.** Identifying feasible solutions is only the start. When the teams move from planning to implementation of reform, some stakeholders may not take actions required, even when taking into account the financial incentives provided by the DLIs. In addition, team leaders may not invest adequately in building the coalitions of support for change. This will be crucial during implementation, as success requires changes in behavior by service delivery MDAs – in terms of adhering to new/reformed processes and systems – and this again may not be automatic.

5. **It is therefore a priority that this facilitation of the reform process continues beyond the preparation phase and continues during implementation.** This cannot be achieved through supervision budgets alone. Therefore, a relatively small, responsive and flexible technical assistance facility to support the facilitation of the reform processes will be established alongside the Program. This proposed Trust-funded Reform Implementation Facilitation Facility (RIFF), which is expected to be managed by the World Bank, would:

- Help facilitate discussions on reform implementation, broker agreement solutions to collective action problems, support coalition building (including with service delivery MDAs), and help ensure that reform processes are informed and adapted as implementation progresses.

- Provide a source of ideas to solving technical and institutional problems as they emerge - the “how-to” - in the identification of solutions, drawing from the World Bank’s technical expertise from other countries.

- Help GoK take advantage of new reform opportunities as they emerge, and deepen planned reforms.

- RIFF would be able to support dynamic reform processes, whilst keeping the program for results on track for achieving desired results. In doing so, the RIFF would: (i) provide Kenya-based World Bank staff and consultants facilitation and brokering support to each of the six Technical Teams; (ii) support a pool of Bank staff and international consultant expertise needed to provide ideas to GoK Technical Teams; and (iii) support just-in-time consultancy assignments to provide ideas and concrete proposals important in achieving reform results.

6. It is envisioned to cost in the region of US$1 million per annum over the lifetime of the Program (US$5 million).

7. Against this background, the focus of implementation support and the required skills mix are summarized in the two tables below.

Table 22: Main focus of Implementation Support

Time	**Focus**	**Skills Needed**	**Resource Estimate**	***Partner Role***
First twelve months	Ensure that the authorizing environment is maintained and expanded. Facilitate Working Groups to begin implementation. Ensure adequate resource and M&E capacity	***Implementation facilitation*** - PFM (PIM, Cash Management, transparency) - e-Procurement - Wage Bill Management - Audit and compliance ***Supervision*** - Monitoring and Evaluation - Financial Management - Procurement - Environmental Safeguards Specialist	US$150,000	See table 24 below
12-48 months	Ensure that the authorizing environment is maintained and expanded. Facilitate Working Groups to continue implementation. Facilitate outreach to MDAs. Ensure adequate resource and M&E capacity	***Implementation facilitation*** - PFM (PIM, Cash Management, transparency) - e-Procurement - Wage Bill Management - Audit and compliance ***Supervision*** - Monitoring and Evaluation - Financial Management - Procurement - Fiduciary - Environmental Safeguards Specialist	US$150,000	See table 24 below

Table 23: Task Team Skills Mix Requirements for Implementation Support

Skills Needed	No. Staff Weeks	No. Trips	Comments
Task Team Leader	8	0	Region based
Co-Task Team Leader	8	-	Country Office based
Monitoring and Evaluation Specialist	8	-	TBD
Financial Management Specialist	4	-	Country Office based
Procurement Specialist	4	-	Country Office based
PFM (PIM, Cash Management, Transparency)	4	-	Country Office based
e-Procurement	4	-	Country Office based
Wage Bill Data	4	-	Country Office based
Audit and Compliance	4	-	Country Office based

Table 24: Role of Partners in Program Implementation

Name	Institution/Country	Role
DANIDA	Denmark	Currently providing support for the implementation of certain activities in the PFMRS. As members of the PFM Steering Committee, they provide overall strategic policy guidance to the implementation of the PFMRS. As a Development Partner, DANIDA will ensure that the requisite institutional and operational arrangements (M&E, progress reports, work plans etc.) are in place for the wider Government Program and the GESDeK program.
SIDA	Sweden	Currently providing support for the implementation of certain activities in the PFMRS. As members of the PFM Steering Committee, they provide overall strategic policy guidance to the implementation of the PFMRS. As a Development Partner, SIDA will ensure that the requisite institutional and operational arrangements (M&E, progress reports, work plans etc.) are in place for the wider Government Program and the GESDeK program.
USAID	United States	As a potential donor to the proposed World Bank Executed Trust Fund "Implementation Facilitation Facility", USAID will form part of the Steering Committee which will oversee, provide strategic policy guidance and review and monitor the implementation of the Trust Fund.