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Report No: PAD00013

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM APPRAISAL DOCUMENT
ON A
PROPOSED CREDIT

IN THE AMOUNT OF EUR 235.7 MILLION
(US$250 MILLION EQUIVALENT)

TO THE

REPUBLIC OF KENYA

FOR A

SECOND PROGRAM FOR STRENGTHENING GOVERNANCE FOR ENABLING SERVICE DELIVERY AND PUBLIC INVESTMENT IN KENYA

November 6, 2023

Governance Global Practice
Eastern and Southern Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective September 30, 2023)

Currency Unit =	Kenyan Shillings (KSh)
US$1 =	KSh 148.10
US$1 =	EUR 0.94

FISCAL YEAR
July 1 - June 30

Regional Vice President:	Victoria Kwakwa
Regional Director:	Hassan Zaman
Country Director:	Keith E. Hansen
Practice Manager:	Manuel Antonio Vargas Madrigal
Task Team Leaders:	Onur Erdem, Leonard Mutuku Matheka

ABBREVIATIONS AND ACRONYMS

AM	Accountability Mechanism
CAJ	Commission on Administration of Justice
CoB	Controller of the Budget
CoG	Center of Government
CPF	Country Partnership Framework
CS	Cabinet Secretary
DA1	Donor Assistance 1
DLI	Disbursement-Linked Indicator
DLR	Disbursement-Linked Result
DLSI	Disbursement-Linked Sub-Indicator
E&S	Environmental and Social
EAC	East African Community
EACC	Ethics and Anti-Corruption Commission
e-GP	Electronic Government Procurement
e-TIMS	Electronic Tax Invoice Management System
FIGG DPO	Fiscal Sustainability and Inclusive Green Growth Development Policy Operation
FSA	Fiduciary Systems Assessment
GDP	Gross Domestic Product
GESDeK	Governance for Enabling Service Delivery and Public Investment in Kenya Program
GHG	Greenhouse Gas
GIMIS	Government Investments Management Information System
GIPE	Government Investment and Public Enterprises
GNI	Gross National Income
GRS	Grievance Redress Service
IFMIS	Integrated Financial Management Information System
IPF	Investment Project Financing
IRI	Intermediate Result Indicator
IT	Information Technology
IVA	Independent Verification Agent
KDSP II	Second Kenya Devolution Support Program
KPIs	Key Performance Indicators
KOPCS	Kenya Office of the Prime Cabinet Secretary and Ministry of Foreign and Diaspora Affairs
KRA	Kenya Revenue Authority
M&E	Monitoring and Evaluation
MDAs	Ministries, Departments, and Agencies
NDC	National Determined Contribution
NT	National Treasury
OAFP	Official Aid Funded Projects
OAG	Office of the Auditor General
PAP	Program Action Plan
PDO	Program Development Objective
PEFA	Public Expenditure and Financial Accountability

PFM	Public Financial Management
PFMRS	Public Financial Management Reform Secretariat
PforR	Program for Results
PIM	Public Investment Management
PIMIS	Public Investment Management Information System
POM	Program Operations Manual
RA	Results Area
SC	State Corporation
TSA	Treasury Single Account
UHR	Unified Human Resources
UMIC	Upper-Middle-Income Country
VAT	Value Added Tax

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DATASHEET

BASIC INFORMATION

Project Beneficiary(ies)	Operation Name		
Kenya	Second Program for Strengthening Governance for Enabling Service Delivery and Public Investment in Kenya		
Operation ID	Financing Instrument	Does this operation have an IPF component?	
P180287	Program-for-Results Financing (PforR)	No	

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Fragile State(s)
[ ] Contingent Emergency Response Component (CERC)	[ ] Fragile within a non-fragile Country
[ ] Small State(s)	[ ] Conflict
[ ] Alternative Procurement Arrangements (APA)	[ ] Responding to Natural or Man-made Disaster
[ ] Hands-on Expanded Implementation Support (HEIS)	

Expected Approval Date	Expected Closing Date
29-Nov-2023	31-Dec-2028
Bank/IFC Collaboration	
No	

Proposed Program Development Objective(s)

To enhance revenue mobilization and deepen accountability and transparency in public finance management at the national government level.

Organizations

Borrower:	Republic of Kenya
Implementing Agency:	National Treasury
Contact:	Chris Kiptoo
Title:	Principal Secretary
Telephone No:	2540202252299
Email:	psnt@treasury.go.ke
Implementing Agency:	Kenya Office of the Prime Cabinet Secretary and Ministry of Foreign and Diaspora Affairs
Contact:	Aurelia Rono
Title:	Principal Secretary
Telephone No:	2540202227436
Email:	ps.parliamentaryaffairs@primecs.go.ke
Implementing Agency:	Kenya Revenue Authority
Contact:	Humphrey Wattanga
Title:	Commissioner General
Telephone No:	254709017000
Email:	cg@kra.go.ke
Implementing Agency:	Ministry of Public Service, Performance and Delivery Management
Contact:	Veronica Nduva
Title:	Principal Secretary, State Department for Performance and Delivery Management
Telephone No:	254020222741
Email:	ps.performance@primecs.go.ke
Contact:	Amos Gathecha
Title:	Principal Secretary, State Department of Public Service
Telephone No:	2540202227411
Email:	ps@psyg.go.ke
Implementing Agency:	Office of the Auditor General

Contact: Nancy Gathungu
Title: Auditor General
Telephone No: 2540203214000
Email: oag@oagkenya.go.ke

COST & FINANCING (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? No

Is this project Private Capital Enabling (PCE)? No

SUMMARY

Government program Cost	**847.00**
Total Operation Cost	**847.00**
Total Program Cost	847.00
Total Financing	**847.00**
Financing Gap	**0.00**

Financing (US$, Millions)

World Bank Group Financing

International Development Association (IDA)	250.00
IDA Credit	250.00

Non-World Bank Group Financing

Counterpart Funding	597.00
Borrower/Recipient	597.00

IDA Resources (US$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
National Performance-Based Allocations (PBA)	250.00	0.00	0.00	0.00	250.00
Total	**250.00**	**0.00**	**0.00**	**0.00**	**250.00**

Expected Disbursements (US$, Millions)

WB Fiscal Year	2024	2025	2026	2027	2028	2029
Annual	62.50	54.00	59.00	47.00	17.00	10.50
Cumulative	62.50	116.50	175.50	222.50	239.50	250.00

PRACTICE AREA(S)

Practice Area (Lead)
Governance

Contributing Practice Areas
Macroeconomics, Trade and Investment

CLIMATE

Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

SYSTEMATIC OPERATIONS RISK- RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate

4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	
10. Overall	Moderate

POLICY COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

LEGAL

Legal Covenants

Sections and Description

By not later than December 31, 2024, the Recipient, through the National Treasury, specifically the PFMRS, 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 DLR as set forth in Schedule 4 to this Agreement and recommend corresponding payments to be made, inter alia, to MDAs as applicable.

Conditions

Type	Citation	Description	Financing Source

Effectiveness	Article IV 4.01	The Operations Manual has been prepared and adopted by the Recipient in a form and substance satisfactory to the Association.	IBRD/IDA
Effectiveness	General Conditions Section 10.02	The Recipient is required to prepare and submit to the Association, a legal opinion satisfactory to the Association, confirming that the Financing Agreement has been duly authorized by, executed and delivered on behalf of the Recipient, and is legally binding on the Recipient in accordance with their terms.	IBRD/IDA
Disbursement	Schedule 2 Section IV B.1	No withdrawal shall be made for any DLR under Category (1) through (6), until and unless the Recipient has furnished evidence satisfactory to the Association that said DLR has been achieved.	IBRD/IDA

I. STRATEGIC CONTEXT

A. Country Context

1. **Kenya is a lower-middle-income country aspiring to reach upper-middle-income country (UMIC) status.** The country has outperformed its peers and demonstrated positive economic performance in the aftermath of the COVID-19 pandemic. The gross domestic product (GDP) is projected to grow by 5 percent in 2023. The government has declared fiscal consolidation as an official policy objective. Public debt remains sustainable, but fiscal deficits must be contained to reduce the rate of debt accumulation. The fiscal deficit is projected to fall to 5.7 percent in 2023, demonstrating the government's commitment to a credible fiscal policy framework that is anchored in revenue mobilization and expenditure rationalization. The gross national income (GNI) has been on the rise: at US$2,080 in 2021; it is in a trajectory toward the income bracket for UMIC economies.

2. **The government recognizes the role that institutions play in paving the way for UMIC status.** The impressive economic performance of the last decade has not translated fully into a sustained reduction in poverty and inequality. For Kenya to avoid common 'middle-income country' traps of low productivity and high inequality, government action that boosts productivity, advances human capital, and improves governance for service delivery will be necessary.[1] The government has prioritized bottom-up economic transformation and expansion of social programs and highlighted the transition to a more efficient and results-driven public sector as an enabler. The government's development agenda promotes accountability and good governance. Creating the fiscal space needed to deliver the transformation agenda will require significant domestic revenue mobilization, as well as measures to enhance spending accountability and transparency including the strategic use of digital technologies to actualize the efficiencies needed to improve service delivery in a transparent and accountable manner.

3. **The government is addressing the reform challenges regarding transparency and accountability.[2]** Anticorruption efforts to date have adopted a two-pronged approach: addressing fiduciary and accountability loopholes in the public sector while building an overarching legal, regulatory, and institutional coordination framework to steer anticorruption efforts. The introduction of electronic government procurement (e-GP) and the government's commitment to transition to a Treasury Single Account (TSA) system are important steps toward more accountable resource use. The Conflict-of-Interest Bill that was submitted to Parliament in 2023 seeks to expand the scope of public officers and decision-making processes under the purview of the law and provides a coherent institutional framework for managing conflict of interest. The rollout of an online budget portal to enable citizens to access budgetary and spending data of service delivery units promotes public engagement and scrutiny. The institutionalization of financial and performance audit methodologies in the public sector, as well as the implementation of citizen engagement channels such as social audits, should contribute to more transparent and accountable governance in Kenya.

B. Sectoral and Institutional Context

4. **Two key challenges undermine the ability of Kenya's institutions to support the achievement of UMIC status.** These are: (a) limited accountability and transparency in revenue and expenditure management systems causing revenue and expenditure wastage; and (b) institutional coordination weaknesses regarding decision-making, information sharing, and policy implementation at higher levels of government, leading to suboptimal program and project outcomes. Kenya has witnessed rent-seeking behavior in public investment projects, leading to the potential

[1] Kenya Country Partnership Framework for FY23—FY28.
[2] Kenya was ranked 123 out of 180 countries in 2022 in Transparency International's Corruption Perception Index.

misappropriation of public funds. Some projects that are approved and started are never completed. Costs associated with corruption in the public procurement process are estimated to be 10 – 25 percent of the contract value awarded.[3] Kenya's Ethics and Anti-Corruption Commission (EACC) found in a 2018 survey that 42 percent of respondents who sought government services in 2018 experienced some form of corruption.[4]

5. **A more accountable and transparent public sector is needed to realize the government's development agenda.** Despite recent improvements, revenue collection continues to underperform. Tax policies that allow government officials to grant tax exemptions are prone to abuse. There is potential unrealized value added tax (VAT) revenue due to inefficiencies in the systems used for processing collection, refunds, and exemptions. Non-tax revenue has seen significant growth in recent years owing to the increased utilization of the eCitizen platform. The current push to onboard more e-services onto eCitizen bodes well for the consolidation and accounting of non-tax revenue in an efficient and transparent manner if the capacity of the government digital payment portal (eCitizen) is enhanced accordingly. In a similar vein, full implementation of core public financial management (PFM) information technology (IT) systems underpinning expenditure management will enhance the accountability and transparency in public spending. The complete adoption and interface of digital systems across the government could make an exponential impact on the accountability and transparency of revenue and expenditure management.

6. **The government recognizes these challenges and has embarked on an ambitious PFM reform agenda.** The World Bank-financed Governance for Enabling Service Delivery and Public Investment in Kenya (GESDeK) Program for Results (PforR) (P161387) has been a powerful tool since 2018 to incentivize the departments within the National Treasury (NT) and national-level ministries, departments, and agencies (MDAs) to implement PFM reforms. GESDeK II will build on the achievements registered under GESDeK and will constitute the principal government program supporting the implementation of the PFM Reform Strategy for 2023–2028. The strategy encompasses several dimensions of government-wide institutional efficiency, accountability, and transparency across the public sector, while maintaining the result-oriented outlook introduced under its predecessor. It incentivizes the institutionalization of reforms regarding revenue mobilization, expenditure efficiency and accountability, government coordination, and external oversight, among other priorities.

C. Relationship to the CPF and Rationale for the use of instrument

7. **GESDeK II is aligned with the World Bank's Country Partnership Framework (CPF) for Kenya (FY23-28) discussed by the Board on November 22, 2022 (Report No. 172255-KE).** The Program supports Objectives 1 and 2 of the CPF, which are "boosting Kenya's fiscal and debt sustainability" and "improving public expenditure transparency and effectiveness." The Program supports the achievement of the Africa Region priority of making institutions more efficient and accountable. The Program supports measures that will increase domestic revenue mobilization and strengthen the mechanisms for resource allocation and spending, which is expected to have a positive impact on equality outcomes. In this context, the Program is aligned with Outcomes 4 and 5 of the World Bank Gender Strategy (2024-2030) regarding expanding ownership and use of economic assets and expanding access to and use of services that enable economic participation. GESDeK II complements the Fiscal Sustainability and Inclusive Green Growth Development Policy Operation (FIGG DPO) (P180339) by advancing the implementation of selected legal and policy actions supported by the FIGG DPO. GESDeK II also complements the Second Kenya Devolution Support Program (KDSP II) PforR (P180935), which will incentivize the implementation of selected priority reform areas under the PFM

[3] An Evaluation of Corruption in Public Procurement in Kenya: A Kenya Experience, 2015. EACC
[4] National Ethics and Corruption Survey, 2018. EACC. https://eacc.go.ke/default/wp-content/uploads/2019/11/EACC-Ethic-Corruption-Survey-2018.pdf.

Reform Strategy targeting the county governments. The evolving nature of the devolution structures in Kenya necessitates a dedicated program focusing on PFM reforms at the county level. The improvements in PFM IT systems under GESDeK II will be coordinated with the efforts to advance the interoperability of government systems supported under the Kenya Digital Economy Acceleration Project (P170941).

8. **GESDeK II is consistent with Kenya's Nationally Determined Contributions (NDCs).** Kenya's 2020 NDCs stipulate that 87 percent of the NDC actions will be undertaken with international support. Achieving this goal will require strengthening the institutional capacity to utilize climate finance for the investments that are needed to achieve adaptation and resilience goals. The infrastructure network in Kenya is vulnerable to climate change. An assessment of the impacts of climate change on roads and bridges by 2030 reflected in the Country Climate and Development Report for Kenya indicates additional potential damages that range from US$100 million to approximately US$900 million. Kenya's National Climate Change Action Plan proposes to integrate climate adaptation into public sector reforms. Against this backdrop, GESDeK II supports mainstreaming climate change considerations into the PFM Reform Strategy. GESDeK II supports: (a) the incorporation of climate and disaster risk screening into public investment project appraisals; (b) the rollout of the sustainable procurement policy; and (c) enhancing of the accountability regarding climate-related expenditures. The Program is neutral regarding Kenya's mitigation commitments.

9. **PforR is the proposed financing instrument for the Program.** The PforR will be used to promote efficiency and accountability in the management and use of public resources. GESDeK is closing in December 2023 with a satisfactory rating, with an expectation that all remaining results will be achieved, and the associated funds disbursed. The government has a robust results-oriented PFM reform program, for which adequate resources are and will be allocated from the national budget, including for the capacity building and technical assistance resources required to accelerate reform momentum. These resources are and will be complemented by technical assistance from development partners. The continuation of the PforR instrument will allow the government to leverage the strong implementation and performance monitoring structure established under GESDeK to deepen PFM reforms across more MDAs under GESDeK II.

II. PROGRAM DESCRIPTION

A. Government Program

10. **Kenya has sustained PFM reform momentum for more than a decade.** The NT established the PFM Reform Program in 2006. The reforms supported under this program in consecutive budget cycles have aimed to contribute to fiscal sustainability, strengthen financial governance in the public sector, use the budget as a tool to reduce poverty levels, increase transparency and accountability in the management of public funds, and improve service delivery to the citizens. Since 2006, the government has implemented successive strategies under this program to guide PFM reforms. The first strategy was implemented from 2006 to 2011 and its successor was from 2013 to 2018. The strategy from 2018 to 2023 adopted for the first time an explicitly result-oriented approach, which represented a paradigm shift from the initial input-oriented, transactional approach. The government followed a consultative process in the development of the strategy, with the objective of deepening reforms in priority areas identified by stakeholders and underpinned by diagnostic studies.

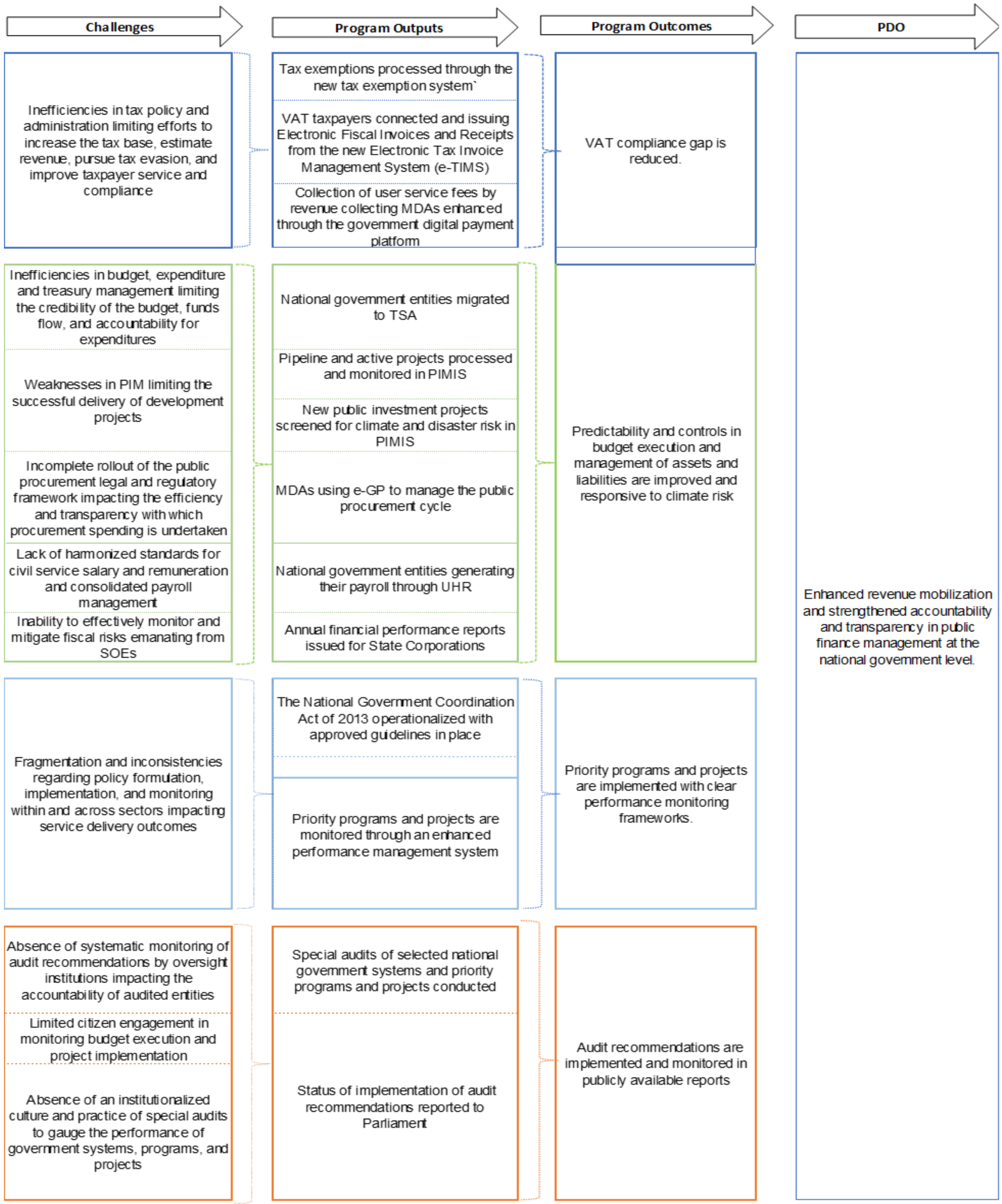
11. **The current PFM Reform Strategy is for 2023–2028.** Building on the foundations introduced under the preceding phases, the strategy aims to promote collaboration between MDAs and counties involved in the PFM reform agenda

for cross-cutting issues that have a systemic impact on revenue and expenditure management and accountability. The strategy focuses on the following results areas (RAs): (a) sustainable and predictable fiscal space to deliver government programs; (b) strategic and transparent spending on public investment and service delivery in line with national and county policy commitments; (c) reliable cash for service delivery and public investments; (d) value for money in procurement and contract management; (e) value for money, performance, and accountability in staffing for service delivery; (f) effective management of public resources in education and health institutions and other service facilities; (g) disciplined financial management; and (h) accurate reporting and accountability delivered through audit, oversight, and follow-up. The strategy emphasizes automation as a crosscutting enabler underpinning these RAs as well as mainstreaming of climate and gender considerations across the PFM cycle.

B. Theory of Change

12. **GESDeK II will enhance the capacity of the national government to mobilize and manage public resources.** The Program responds to a specific set of development challenges within the sectoral and institutional context described earlier, which are further detailed in Annex 2. The Program Development Objective (PDO) encompasses objectives regarding enhanced revenue mobilization, strengthened spending accountability and transparency, and enhanced audit and external oversight. These objectives will be achieved through outcomes that aim for the achievement of the following targets: (a) the VAT compliance gap is reduced; (b) predictability and controls in budget execution and management of assets and liabilities are improved and responsive to climate risk; (c) priority programs and projects are coordinated with clear performance monitoring frameworks; and (d) audit recommendations are implemented, monitored, and published. The Program will incentivize the achievement of a series of outputs that will pave the way for the achievement of these outcome targets. These outputs are highlighted in the theory of change diagram presented in Figure 1. They include rolling out government-wide IT systems and strengthening institutional arrangements that are expected to have a systemic impact on the accountability and transparency in the management of the largest revenue and public spending categories.

Figure 1. Theory of Change



C. PforR Program Scope

13. **GESDeK II builds on the results achieved under GESDeK.** Highlights of the achievements expected by the closing of GESDeK in December 2023 include: (a) user-accepted e-GP system; (b) an automated cash management system; (c) user-accepted Public Investment Management Information System (PIMIS); (d) user-accepted Unified Human Resource (UHR) system that consolidates public sector payroll data; (e) user-accepted information management system facilitating financial and fiscal risk management in State Corporations (SCs); and (f) reengineered eCitizen portal that enables citizens and businesses to conduct and pay for government services online. GESDeK II supports the rollout and institutionalization of these systems across the national government. It also introduces areas of engagement that are priorities for the government, such as strengthening: (a) tax policy and revenue administration systems to mobilize revenue; (b) government coordination and performance management mechanisms to improve the implementation of priority programs and projects; and (c) the implementation of external audit recommendations issued by Parliament. The primary beneficiaries of the Program are the national MDAs, the private sector, and citizens, who will see an improvement in the delivery of core government services. The Program targets all 485 MDAs in the national government, as well as approximately 240,000 registered businesses and 18 million citizens (one third of the total population) who will be using e-services.

14. **GESDeK II also builds on the lessons learned under its predecessor operation.** GESDeK primarily centered on the policies and systems that were foundational for the achievement of the results desired under the PFM Reform Strategy. GESDeK promoted engagement and interventions across a wide range of foundational matters regarding each step of the PFM cycle from the macro-fiscal framework and the credibility of the budget to financial reporting and external oversight. This level of detailed engagement and comprehensive scope was necessary at the time for two reasons: the breadth of the reforms that the government wanted to achieve under the reform strategy and the fact that it was adopting a result-oriented focus for the first time. As part of this approach, the participating MDAs were incentivized to produce the inputs needed for the achievement of the desired results. GESDeK introduced and piloted several policies and systems that constitute the cornerstones of a well-functioning PFM system. Building on this successful approach, GESDeK II focuses the financing instrument to reward the achievement of outputs and outcomes rather than the creation of foundations. It raises the ambition level of the anticipated results to include the government-wide adoption of the desired policies and systems in the first three years of implementation and focus on usage and accountability in the outer years. In line with the desired increase in the level of ambition, GESDeK II has fewer disbursement-linked indicators (DLIs) and disbursement-linked sub-indicators (DLSIs), which will enable higher disbursements to be linked to more strategic outcomes with higher systemic impact.

15. **GESDeK II is organized around four RAs and six DLIs.** Three DLIs are also PDO-level indicators. The DLIs represent the principal way in which the associated PDO-level indicators will be achieved. There is a combination of DLSIs under RA 2 and RA 4 whose achievement will pave the way for the achievement of the associated DLIs under these RAs. Each DLI/DLSI is broken down into annual disbursement-linked results (DLRs), the achievement of which will trigger the disbursement associated with that DLR. The disbursements are calibrated such that higher amounts are linked to DLRs that require more commitment and effort to achieve and whose achievement constitutes a higher systemic impact on the PFM environment. The DLRs for the first three years generally represent steps toward the introduction and implementation of the desired policy or system across the national government. The DLRs in the last two years of the Program emphasize institutionalization of these systems as well as progress toward the achievement of the functional improvements that the systems are expected to support. The DLRs within the first three years of Program implementation that indicate the government-wide adoption of desired policies or systems are also designated as intermediate result indicators (IRIs) in the monitoring and evaluation (M&E) framework for the Program. The

achievement of these IRIs by the time of the midterm review of the Program is expected to signal satisfactory progress toward the achievement of the DLIs and the associated PDO indicators.

16. **RA 1 supports core aspects of the government's revenue mobilization agenda.** The associated DLIs are "VAT gap is reduced"[5] and "collection of user service fees by MDAs is more transparent." The two DLIs center on reforms regarding enhancing the management and transparency of the collection systems for VAT and user service fee revenue. These two revenue categories have shown exponential growth in recent years owing to partial automation and demonstrate significant revenue mobilization potential. The adoption of the Medium-Term Revenue Strategy and the National Tax Policy is also supported under these DLIs. The National Tax Policy brings more clarity to the principles and processes governing VAT exemptions, a major contributor to tax expenditures. The Program supports the implementation of an automated tax exemption system. This will operationalize the provisions of the National Tax Policy regarding streamlining the tax exemption process, which is expected to enhance the management and transparency of the approval of tax exemptions and lead to potential reduction in tax expenditures.

17. **RA 2 will support efforts to strengthen the accountability and transparency of public spending.** The associated DLIs are: (a) "predictability, control, and transparency of budget execution are improved"; and (b) "management of assets and liabilities is improved and responsive to climate risk." This RA institutionalizes some of the key reforms initiated under GESDeK. GESDeK II exercises selectivity regarding the reform areas it supports under this RA by focusing on strategic measures that are expected to have high impact on the management of the largest spending categories. These are: (a) development (public investment) spending; (b) public procurement spending; and (c) the wage bill. In this vein, the Program supports the economic viability of the public investment projects selected for inclusion in the development budget, improved transparency of public procurement spending, and improved payroll controls across the national government. These will be achieved primarily through the adoption of the automated systems underpinning the management of these spending categories, namely, national government-wide rollout of PIMIS, e-GP, and UHR. Additionally, this RA supports ongoing efforts to strengthen the monitoring of the financial performance of SCs, especially those posing the highest fiscal risk to the government. This dimension further supports the implementation of the FIGG DPO Prior Action on State-Owned Enterprise Privatization Bill considering the importance of information regarding fiscal risk and financial performance in making divestiture decisions.

18. **The government has made a commitment to transition to TSA and accrual accounting.** The reforms that GESDeK incentivized regarding improvements in cash management, Integrated Financial Management Information System (IFMIS), and the integration of budget and expenditure management systems have successfully paved the way for the government to transition to TSA and accrual accounting. The government's commitment to migrate to TSA and accrual accounting should significantly enhance its ability to manage cash, commitment control, fiscal consolidation, and transfers to service delivery MDAs. The transition to an integrated treasury management system comprising TSA, accrual accounting, fixed asset registry, and asset valuation system will be supported through an associated DLSI under RA 2 that aims to increase the transparency of the cash position and financial obligations of the government. This dimension further supports the implementation of the FIGG DPO Prior Action regarding debt sustainability considering that the TSA will enable the Debt Management Office to manage borrowing more effectively.

19. **The operation supports Kenya's climate adaptation and mitigation commitments and strategies**. In view of the government's objective to position Kenya as a regional leader in green growth, a DLSI under RA 2 will support the implementation of a sustainable procurement framework and guidelines for incorporating climate and disaster risk

[5] The VAT gap is an estimate of the overall difference between the expected VAT revenue and the amount collected.

into public investment management (PIM.) The government estimates greenhouse gas (GHG) emissions to grow exponentially by 2050. GESDeK II contributes to Kenya's mitigation commitments through its support to the rollout of the government's sustainable procurement policy. The policy includes provisions to ensure that government purchases of goods and services promote energy efficiency and do not harm the environment.[6] Furthermore, the infrastructure network is vulnerable to climate change, leaving some regions and freight at risk. GESDeK II contributes to Kenya's adaptation goals through its support to the incorporation of climate and disaster risk screening into the PIM system, which should enhance the ability of the government to plan, build, and operate more resilient infrastructure.

20. **RA 3 supports efforts to strengthen national government coordination.** The associated DLI is "implementation performance of priority programs and projects is monitored and made public." The reform initiatives that the Program supports in this RA are anchored in the National Government Coordination Act of 2013. The annual DLRs for the DLI gauge the extent to which the institutions responsible for government coordination identify, recommend solutions for, and monitor the resolution of regulatory, policy, and institutional mandate gaps and inconsistencies affecting the implementation of the government's legislative agenda. Deepening the scope of the reforms in this area to the program and project level, the DLI further supports the coordination and monitoring of the performance of priority government programs and projects. This includes incentivizing the recommendation and sanctioning of remedial measures for underperforming priority programs and projects.

21. **RA 4 supports efforts to promote external audit and oversight.** The associated DLI is "audit recommendations regarding procurement, payroll, and public investment are implemented and monitored." This RA builds on the success achieved under GESDeK regarding the timely completion and publishing of public sector audits by the Office of the Auditor General (OAG). The DLI comprises a set of DLSIs that center on: (a) enabling the systematic monitoring of the implementation of audit recommendations issued by Parliament; (b) ensuring that MDAs implement these recommendations; and (c) building the capacity of the OAG to conduct performance audits. In facilitating the implementation of the audit recommendations by the audited MDAs, the Program exercises selectivity by focusing on the monitoring and implementation of audit recommendations concerning the spending categories that RA 2 addresses (that is, procurement, payroll, and public investment spending). The performance audits that the Program incentivizes the OAG to conduct under this RA include audits of the core government systems that the Program supports under RA 2 (that is, PIMIS, e-GP, UHR, Government Investment Management Information System [GIMIS], and the government digital payment platform) as well as a performance audit of climate-related expenditures in the final year of Program implementation.

Table 1. Program Boundaries and Financing

	Government Program	Program Supported by the PforR	Reasons for Non-alignment
Objective	PFM Reform Program: A PFM system that promotes transparency, accountability, equity, fiscal discipline, and efficiency in management and use	GESDeK II: Enhance revenue mobilization and deepen accountability and transparency in public finance management at the national government level	n.a.

[6] Sustainable procurement is the process whereby public authorities seek to procure goods, services, and works with a reduced environmental impact throughout their life cycle compared to goods, services, and works with the same primary function that would otherwise be procured. The environmental impact includes adverse effects on climate mitigation efforts. The guiding principles include: (a) procurement that stimulates and creates demand for goods that contribute to the circular economy; (b) procurement with no negative external impacts or waste; and (c) procurement of recycled/reused products and parts with no harmful substances.

	Government Program	Program Supported by the PforR	Reasons for Non-alignment
	of public resources for improved service delivery and economic development		
Duration	2023–2028	2023–2028	n.a.
Geographic coverage	National and counties	National	County level not included in the proposed Program (county level will be supported by KDSP II PforR)
RAs	RA 1: Sustainable and predictable fiscal space to deliver government programs	RA 1: Enhancing revenue mobilization (DLI 1 and DLI 2)	n.a.
	RA 2: Strategic and transparent spending on public investment and service delivery in line with national and county policy commitments	RA 2: Strengthening the accountability and transparency of public spending (DLSI 4.1) RA 3: Improving the coordination of priority programs and projects (DLI 5)	n.a.
	RA 3: Reliable cash for service delivery and public investment	RA 2: Strengthening the accountability and transparency of public spending (DLSI 3.1)	n.a.
	RA 4: Value-for-money in procurement and contract management	RA 2: Strengthening the accountability and transparency of public spending (DLSI 3.2)	n.a.
	RA 5: Value-for-money, performance, and accountability in staffing for delivery	RA 2: Strengthening the accountability and transparency of public spending (DLSI 3.3)	n.a.
	RA 6: Select sectors and service facilities effectively manage public resources	RAs support all sectors	GESDeK II focuses on crosscutting government-wide systems, which supports all sectors.
	RA 7: Disciplined financial management and accurate reporting	RA 2: Strengthening the accountability and transparency of public spending (DLSI 3.1)	n.a.
	RA 8: Accountability through audit, oversight, and follow-up	RA 4: Promoting audit and external oversight (DLSIs 6.1 and 6.2)	n.a.
Overall Financing		US$847 million (of which US$250 million IDA financing)	n.a.

Table 2. Program Financing

Source	Amount (US$, Millions)	% of Total
Counterpart funding	597	70
IDA credit	250	30
Total program financing	**847**	**100**

D. Program Development Objective (PDO) and PDO Level Results Indicators

22. **The objectives of the Program are to enhance revenue mobilization and deepen accountability and transparency of public finance management at the national government level.**

23. **The progress toward the achievement of the PDO will be measured through the following indicators:**
   (a) VAT gap is reduced;
   (b) Predictability, control, and transparency of budget execution are improved;
   (c) Audit recommendations regarding procurement, payroll, and public investment are implemented and monitored.

E. Disbursement Linked Indicators and Verification Protocols

24. **Table 3 presents the DLIs and the DLSIs associated with each RA.** The achievement of DLIs and DLSIs will be verified by an independent verification agent (IVA) based on the verification protocols outlined in the Program Operations Manual (POM). The full matrix with the corresponding disbursement amounts is included in Annex 1.

Table 3. Results Areas and associated DLI/DLSIs

RA	DLI	DLSI
RA 1: Enhancing Revenue Mobilization	**DLI 1:** VAT gap is reduced.	n.a.
	DLI 2: Collection of user service fees by MDAs is more transparent.	n.a.
RA 2: Strengthening the Accountability and Transparency of Public Spending	**DLI 3:** Predictability, control, and transparency of budget execution are improved.	**DLSI 3.1:** The cash position and financial obligations of the government are more transparent. **DLSI 3.2:** Transparency of public procurement spending is improved. **DLSI 3.3:** At least 90 percent of ministries, state departments, and selected State Corporations have improved payroll controls.
	DLI 4: Management of assets and liabilities is improved and responsive to climate risk.	**DLSI 4.1:** Public investment projects selected for inclusion in the development budget are economically viable. **DLSI 4.2:** The financial performance of SCs is monitored regularly and published. **DLSI 4.3:** Climate adaptation and mitigation concerns are mainstreamed into public investment and procurement spending.
RA 3: Improving the Coordination of Priority Programs and Projects	**DLI 5:** Implementation performance of priority programs and projects is monitored and made public.	n.a.
RA 4: Promoting External Audit and Oversight	**DLI 6:** Audit recommendations regarding procurement, payroll, and public investment are implemented and monitored.	**DLSI 6.1:** Audit recommendations are tracked and implemented. **DLSI 6.2:** OAG conducts performance audits of core government systems and climate-related expenditures.

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

25. **The NT is the lead implementing agency responsible for the execution of the Program.** The other four implementing MDAs are: (a) Kenya Office of the Prime Cabinet Secretary and Ministry of Foreign and Diaspora Affairs (KOPCS); (b) Kenya Revenue Authority (KRA); (c) the Ministry of Public Service, Performance, and Delivery Management; and (d) OAG.

26. **The Program will be implemented using the institutional arrangements currently in place for GESDeK.** The Public Financial Management Reform Secretariat (PFMRS) is the coordinating entity for the Program. Although KRA and KOPCS have not been part of GESDeK, they will be onboarded to the existing institutional arrangements seamlessly given their current strategic involvement in the PFM Reform Strategy. These institutional arrangements include: (a) a high-level PFM Sector Working Group that serves as a forum for dialogue and coordination; (b) a PFM Steering Committee that provides strategic policy guidance and monitors the implementation of the Strategy and the Program;

(c) Joint Technical Committee that is responsible for technical oversight of the Program; and (d) Results team for each RA. Each Results team comprises the implementing MDAs for that RA. The Results teams will be responsible for: (a) ensuring collaboration between implementing MDAs; and (b) reporting to the Joint Technical Committee as well as the PFM Steering Committee regarding the achievement of the DLIs, the DLSIs, and the Program Action Plan (PAP).

B. Results Monitoring and Evaluation

27. **The Results Framework comprises the PDO-level indicators and IRIs drawn from the DLIs and the DLSIs.** There are logical and sequenced connections between intermediate results and PDO-level indicators. The M&E plan includes the descriptions and parameters for all indicators. Given that all indicators in the Results Framework are drawn from the DLIs and the DLSIs, the protocols for verification and assessment of progress of the indicators in the M&E plan are the same as those for the verification of the achievement of the associated DLIs and DLSIs. The M&E plan will be implemented by the PFMRS, building on the successful experience and capacity developed under GESDeK. The World Bank will regularly monitor the adequacy of the M&E arrangements within the NT and the participating MDAs as part of implementation support. The POM will outline the verification protocols for the DLIs and the DLSIs.

C. Disbursement Arrangements

28. **An IVA will validate the achievement of the DLIs and the DLSIs.** The Results teams will provide evidence of achievement of their respective DLIs and DLSIs to the PFMRS annually. The validation of the results will be based on the verification protocol outlined in the POM. The PFMRS will compile and submit evidence for the achievement of the results to the IVA annually. The IVA will submit the verification report to the PFMRS. The PFMRS will present the IVA report to the Joint Technical Committee for review and endorsement. The endorsed report will be discussed by the PFM Steering Committee and submitted to the World Bank by the NT for review and subsequent disbursement of funds. An arrangement will be made for advancing funds at Program inception against the expected achievement of DLIs and DLSIs. The Program expenditure framework will be monitored to ensure continued adequacy of the government program financing. The PFMRS has demonstrated capacity regarding the procurement, onboarding, and management of a reputable IVA under GESDeK. The efficiency, timeliness, and quality of the independent verification practices were satisfactory under GESDeK. These will be continued under GESDeK II.

D. Capacity Building

29. **The Program leverages the strong reform design capacity in Kenya for strengthening institutions**. The achievement of the DLIs and the DLSIs requires measures that build administrative capacity to adopt the policies and systems that the Program will support. The advisory, training, and any other form of capacity-building resources needed by the participating MDAs to introduce and institutionalize the reform measures will be included in the annual work plans of the MDAs and submitted to the PFMRS for funding at the beginning of the fiscal year. These work plans will be funded through the budgetary allocation of the PFMRS following the good practices established under GESDeK.

IV. ASSESSMENT SUMMARY

A. Technical

30. **The reforms are aligned with the policy priorities of the government.** The public administration sector in the medium-term plan of the government acknowledges the progress achieved to date on PFM reforms. The government has also prioritized improving government coordination, as well as the financial performance and oversight of SCs. The strategic objectives identified by the government for the public sector include providing

leadership, policy direction, and coordination of the government; promoting prudent financial and fiscal management for economic growth and stability; transforming the public service and enhancing performance management; reporting on utilization of public funds; establishing a fiscally sustainable remuneration and benefits system; ensuring good governance and accountability in the public sector; developing and managing human resources; and promoting access to information. These objectives will be operationalized through several core strategic documents, which include the PFM Reform Strategy, the Medium-Term Revenue Strategy, the State-Owned Enterprise Governance Blueprint, and the National Government Coordination Guidelines. GESDeK II is aligned with these strategic documents.

31. **The Program expenditure framework is fiscally sustainable.** The government's medium-term fiscal trajectory is sound, and the PFM Reform Program is included in the medium-term expenditure framework. The PFM Reform Program has been in place since 2006 and reliably funded. Participating MDAs are accorded the authority to incur commitments and expenditures to enable them to achieve results under the PFM Reform Strategy based on the work plans that they submit to the PFMRS at the beginning of the fiscal year. The PFM Reform Program, coordinated by the PFMRS, has further flexibility regarding in-year budget reallocations to meet the advisory assistance and capacity-building needs that may emerge during the fiscal year.

32. **The Program is aligned with the goals of the Paris Agreement on both adaptation and mitigation.** In line with the PforR instrument method for assessing Paris Alignment, (a) risks from climate hazards are not likely to have a material impact on the Program per the application of the World Bank Climate Change and Disaster Risk Screening Tool and (b) the Program is not at a material risk of having a negative impact on Kenya's low-carbon development pathways. Therefore, the Program is assessed to have low or no risk on adaptation or mitigation:

- **Assessment and reduction of mitigation risks.** Kenya's contribution to global GHG emissions is negligible. All DLIs are universally aligned with the Paris Agreement as 'Public Administration' and are neutral with regards to increasing GHG emissions. No PforR proceeds will be used to finance large data centers.
- **Assessment and reduction of adaptation risks.** Risks from climate hazards and the vulnerability of the infrastructure network due to the repeating patterns of floods and droughts in Kenya are not likely to affect the achievement of the DLIs or the PDO.

33. **GESDeK II is aligned with the World Bank corporate commitments, as shown in Table 4.**

Table 4. Program alignment with World Bank corporate commitments

IDA20	The Program contributes to IDA20 commitments regarding improving domestic resource mobilization capacity, ensuring secure digital government services, and strengthening public accountability mechanisms.
Gender	RA 2 will ensure that e-GP reflects the provisions of the public procurement framework regarding supporting women-owned businesses. RA 3 will ensure that the gender inclusion priorities of the government are incorporated into the performance monitoring framework to be established by the Ministry of Public Service.
Citizen engagement	All proposed RAs promote citizen engagement by design, especially in the outer years where there is an emphasis on citizen feedback.

B. Fiduciary

34. **Fiduciary risk is rated Moderate.** The Integrated Fiduciary Systems Assessment (FSA) found that the procurement, governance, and financial management systems and capacity are adequate to provide reasonable assurance that the Program funds will be used for the intended purposes with due attention to the principles of economy, efficiency, and

accountability. Main fiduciary risks include: (a) inadequate budget allocations and occasional delays in exchequer releases to implementing MDAs affecting the implementation of procurement plans and timely achievement of results; (b) internal control weaknesses including expenditure misclassification and insufficient documentation for payments; (c) procurement plans and contract award decisions not published; (d) weaknesses in contract management impacting the implementation of public investment projects; (e) delays in the submission of audit reports; and (f) delays in the implementation of audit findings.

35. **Fiduciary risks are mitigated by the design of the Program.** The government has significant and successful experience with the PforR instrument. The Program has mechanisms in place to mitigate the identified risks through the DLIs, PAP, and POM. Specifically, under RA 2, (a) the transition to TSA will mitigate potential delays in the flow of funds to participating MDAs, (b) the rollout of e-GP will improve the efficiency of government contracting and potential cost overruns, and (c) the adoption of accrual accounting will mitigate the perennial recurrence of pending bills. RA 4 will support the implementation of audit findings. The fiduciary capacity of the implementing MDAs has improved under GESDeK. GESDeK II benefits from the presence of experienced financial management and procurement staff in the PFMRS, adequate accounting systems, a clear Program expenditure framework, and acceptable audit capacity under the OAG to review the Program. An independent auditor has been appointed by Parliament to audit the OAG, and this practice will continue under GESDeK II to audit the OAG's portion of the Program expenditures. The World Bank will provide regular fiduciary capacity building. High-value contracts are not included in the Program. The World Bank will monitor Program expenditures to ensure that: (a) spending is in accordance with the Program expenditure framework; (b) no high-value contracts are included in Program expenditures; and (c) fraud and corruption complaints are monitored.

36. **The operation is subject to the World Bank anti-corruption guidelines.** The protocol for the application of the guidelines will be included in the POM. The public can channel complaints directly to NT or other oversight agencies. The NT has a well-established fraud and corruption handling framework. The Program's grievance redress mechanism established under GESDeK will be continued under GESDeK II. The NT will forward any complaints regarding fraud and corruption to the EACC and the Commission on Administration of Justice (CAJ) for review and investigation. This will inform actions that may be included in the PAP during Program implementation. Both the EACC and CAJ will submit biannual reports to the World Bank, which will be a legal covenant in the Financing Agreement.

C. Environmental and Social

37. **The environmental risk is low.** The Program will not support any civil works. The anticipated environmental risks are minimal and associated with the generation of electronic waste (e-waste).[7] Potential negative environmental impacts of the Program include: (a) improper disposal of e-waste which may contaminate water and the soil through the release of heavy metals; (b) air pollution because of the release of hydrocarbons into the atmosphere through melting of materials; (c) oil spills during installation works; (d) cooling equipment containing ozone depleting substances; and (e) occupational health and safety incidents at installation sites. These risks are site-specific in nature and low or negligible in scale. The government has an adequate legal framework and procedures in place for the

[7] Over the life of the Program, electronic equipment may be procured, which can include computers, servers, printers, scanners, and similar items. These are unlikely to pose any environmental risk before the end of their lifecycle. However, they have the potential to generate e-waste once they become obsolete, which can pose threats to human health and the environment if the items are not disposed of properly. Such threats include persistent, bio-accumulative, and toxic substances (e.g., brominated flame-retardants, heavy metals, and persistent organic pollutants.) These threats can result from two sources: (i) the leaching of hazardous substances (lead, mercury, cadmium, and lithium) into the environment from e-waste that is disposed of in non-engineered landfills and refuse dumps; and (ii) improper recycling techniques employed in the informal recycling sector.

management of e-waste.[8] Environmental risks due to improper e-waste management will be mitigated during Program implementation through measures such as the procurement of electronic equipment only from credible manufacturers, as well as activities to raise awareness regarding e-waste management including recycling, reuse, and proper disposal of electronic equipment.

38. **The social risk is moderate.** Social risks may emanate from inadequate public participation processes and data privacy and protection issues regarding handling and processing personal data. These risks may emerge in the context of the introduction of the revenue mobilization measures and the implementation of the IT systems planned under the Program, which may inadvertently cause: (a) the exclusion of vulnerable and marginalized groups and other disadvantaged groups from public participation processes; (b) breaches of personal privacy due to improper application of data security and protection provisions; (c) limitations in access by individuals and businesses to the automated services (such as e-TIMS) due to digital illiteracy and lack of access to smartphones, electricity, and internet connectivity; and (d) inability of the public to get resolution on complaints due to inadequate grievance management at the MDAs. To mitigate against these risks, the Program will ensure that the public is engaged in the formulation and rollout of Program initiatives regarding tax administration. Public participation measures will include vulnerable and marginalized groups and other excluded groups in line with the provisions of the Constitution of Kenya and the Public Participation Policy of 2023. The Program will follow the Data Protection Act of 2019 to ensure that personal and business data are handled properly.

39. **The Program will also contribute to strengthening the risk management capacity of the government.** The activities to mitigate environmental risk will strengthen the capacity of the NT and the MDAs to manage the e-waste generated by the Program and linking the agencies with recycling facilities. The Program will: (a) incorporate environmental and social (E&S) considerations into the PFM Reform Strategy; (b) mainstream climate and disaster risk management principles into PIM; (c) institutionalize a data security and privacy element in the rollout of the IT systems that will be supported under the Program; and (d) promote citizen engagement in the implementation of Program actions. The World Bank will provide E&S capacity building to the NT and other MDAs as needed.

V. GRIEVANCE REDRESS SERVICE

40. 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 mechanism or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), visit https://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's Accountability Mechanism, visit https://accountability.worldbank.org.

[8] The legal framework includes the 1999 Environmental Management and Coordination Act (as amended in 2015), Waste Management Regulations, E-waste Management Guidelines, and the draft e-waste regulations.

VI. KEY RISKS

41. **The overall risk to achieving the PDO is Moderate.** The Program builds on the proven experience with GESDeK, as well as a commitment from the government regarding adherence to the PFM reform agenda. All the key risks are rated Moderate, except for macroeconomic, and political and governance risks which are rated Substantial.

42. **Macroeconomic risk is Substantial.** The fiscal consolidation agenda may face challenges due to a demand for higher spending to lower the cost of living, potential introduction of subsidies, and revenues falling short of projections. A cycle of climate-induced natural disasters could pose fiscal pressures due to the urgent need to rebuild damaged infrastructure and provide social protection. The reforms that GESDeK II will support are designed to increase revenue collection and improve efficiency in spending, which should mitigate fiscal pressures over the medium-term. The World Bank will liaise with the International Monetary Fund and other development partners to monitor fiscal stability and recalibrate Program actions during implementation. In addition, the Development Policy Operation series planned for FY24–26 and the World Bank Analytical Services and Advisory portfolio will support policy and institutional measures to enhance fiscal consolidation.

43. **Political and governance risk is Substantial.** The substantive and politically sensitive nature of the reforms proposed by the government regarding enhancing revenues and accountability in public spending bear political economy implications. GESDeK II makes an intentional effort to forge an alliance between the Executive and Parliamentary liaison through RA 3 (that is, KOPCS) as well as RA 4 (that is, Parliamentary Accounts Committee). It is expected that this effort provides a channel of engagement that mitigates the extent to which political contestation may affect Program reform progress.

ANNEX 1. RESULTS FRAMEWORK MATRIX

Program Development Objective(s)

To enhance revenue mobilization and deepen accountability and transparency in public finance management at the national government level.

PDO Indicators by Outcomes

Baseline	Closing Period
Enhanced Revenue Mobilization	
VAT gap is reduced (Text) DLI	
Dec/2023	Dec/2028
VAT gap is 38.9 percent	VAT gap is reduced to 20 percent
Strengthened Public Spending Accountability and Transparency	
Predictability, control, and transparency of budget execution are improved (Text) DLI	
Dec/2023	Dec/2028
(i) Most cash balances are consolidated on a monthly basis; (ii) Records are partly maintained for contracts including data on what has been procured, value of procurement, and who has been awarded contracts; (iii) The payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. Staff hiring and promotion is controlled by a list of approved staff positions.	(i) All bank and cash balances are consolidated on a weekly basis; (ii) Records are maintained for contracts including data on what has been procured, value of procurement, and who has been awarded contracts; (iii) Approved staff lists, personnel database, and payroll are directly linked to ensure budget control, data consistency, and monthly reconciliation.
Enhanced External Audit and Oversight	
Audit recommendations regarding procurement, payroll, and public investment implemented and monitored (Text) DLI	
Dec/2023	Dec/2028
No	Yes

Intermediate Indicators by Results Areas

Baseline	Period 1	Period 2	Period 3	Period 4	Closing Period
Enhancing Revenue Mobilization					
Tax exemptions processed through the automated tax exemption system (Percentage)					
Dec/2023	Dec/2024	Dec/2025	Dec/2026	Dec/2027	Dec/2028
0	0	90	90	95	95
VAT taxpayers connected and issuing Electronic Fiscal Invoices and Receipts from e-TIMS (Percentage)					
Dec/2023	Dec/2024	Dec/2025	Dec/2026	Dec/2027	Dec/2028
0	30	70	90	95	95
MDAs collecting user fees through the government digital payment platform (Percentage)					
Dec/2023	Dec/2025	Dec/2026	Dec/2027		Dec/2028
50	75	90	90		90
Strengthening the Accountability and Transparency of Public Spending					
National government MDAs migrated to TSA (Percentage)					
Dec/2023	Dec/2024	Dec/2025	Dec/2026	Dec/2027	Dec/2028
0	0	50	90	90	90
Pipeline and active projects processed and monitored in PIMIS (Percentage)					
Dec/2023	Dec/2024	Dec/2025	Dec/2026	Dec/2027	Dec/2028
0	50	50	90	95	95
National government MDAs using e-GP to manage the public procurement cycle (Percentage)					
Dec/2023	Dec/2024	Dec/2025	Dec/2026	Dec/2027	Dec/2028
0	10	25	90	90	90
National government MDAs generating their payroll through UHR (Percentage)					
Dec/2023	Dec/2024	Dec/2025	Dec/2026	Dec/2027	Dec/2028
30	40	50	90	90	90
State Corporations for which annual financial performance reports have been issued (Percentage)					
Dec/2023	Dec/2024	Dec/2025	Dec/2026	Dec/2027	Dec/2028
0	0	90	90	90	90
Improving the Coordination of Priority Programs and Projects					
Capacity of institutions responsible for government coordination to identify and monitor the resolution of issues impacting the implementation of priority programs and projects (Text)					
Dec/2023	Dec/2024	Dec/2025	Dec/2026	Dec/2027	Dec/2028
N/A	N/A	Institutions responsible for government coordination as described in the guidelines have mapped	Proposals for resolving the identified conflicts and inconsistencies between laws, regulations and	Status of implementation of recommendations for underperforming	Status of implementation of recommendations for underperforming programs

		the legal, policy, and operational conflicts and inconsistencies related to the achievement of the legislative agenda	policies impacting the legislative agenda are developed and adopted	programs and projects is monitored and published	and projects is monitored and published
Promoting External Audit and Oversight					
Reporting to Parliament on the status of implementation of audit recommendations (Yes/No)					
Dec/2023	Dec/2024	Dec/2025	Dec/2026	Dec/2027	Dec/2028
No	Yes	Yes	Yes	Yes	Yes
Performance audits of selected core government systems (Text)					
Dec/2023	Dec/2024	Dec/2025	Dec/2026	Dec/2027	Dec/2028
Performance audits plan developed and approved	Performance audit of UHR and the government digital payment platform	Performance audit of PIMIS	Performance audit of GIMIS	Performance audit of e-GP	Performance audit of climate-related spending

Disbursement Linked Indicators (DLI)

Period	Period Definition	Timeline
Period 1	January-December	2024
Period 2	January-December	2025
Period 3	January-December	2026
Period 4	January-December	2027
Period 5	January-December	2028

Baseline	Period 1	Period 2	Period 3	Period 4	Period 5
1 : VAT gap is reduced (Text)					
VAT gap is 38.9 percent	DLR 1.1: (i) The NT has implemented selected priorities of the Medium-Term Revenue Strategy; (ii) 30 percent of all registered VAT traders	DLR 1.2: (i) Tax exemptions for 90 percent of Donor Assistance 1 (DA1) projects and Official Aid Funded Projects (OAFPs) are processed through the	DLR 1.3: (i) 90 percent of tax exemptions are processed through the automated tax exemption system and (ii) 90 percent registered VAT traders	DLR 1.4: (i) Tax expenditure reports generated based on data from the system inform the review of tax policy, legislation, and/or tax	DLR 1.5: VAT gap is reduced to 20 percent

	connected to (and issuing electronic fiscal invoices and receipts from) e-TIMS	automated tax exemption system and (ii) 70 percent of all registered VAT traders connected to (and issuing electronic fiscal invoices and receipts from) e-TIMS	connected to (and issuing Electronic Fiscal Invoices and Receipts from) e-TIMS	administration processes and (ii) No input VAT credit is allowed to registered VAT traders unless the invoice is issued through e-TIMS and declared to KRA	
0.00	6,000,000.00	9,000,000.00	13,000,000.00	8,000,000.00	5,000,000.00
DLI allocation		41,000,000.00	As a % of Total Financing Amount		16.4%
2 : Collection of user service fees by MDAs is more transparent (Text)					
50 percent of revenue collecting MDAs are processing payments through eCitizen	DLR 2.1: 75 percent of revenue collecting MDAs are processing payments through eCitizen	DLR 2.2: At least 90 percent of revenue collecting MDAs are processing payments through eCitizen	DLR 2.3: Revenue reports generated on a real time basis feed into cash management and the quarterly budget reviews	DLR 2.4: Revenue reports generated on a real time basis feed into: (i) cash management and (ii) the quarterly budget reviews and made public	DLR 2.5: Revenue reports generated on a real time basis feed into: (i) cash management and (ii) the quarterly budget reviews and made public
0.00	9,000,000.00	6,000,000.00	5,000,000.00	4,000,000.00	4,000,000.00
DLI allocation		28,000,000.00	As a % of Total Financing Amount		11.2%
3 : Predictability, control, and transparency of budget execution are improved (Text)					
(i) Most cash balances are consolidated on a monthly basis; (ii) Records are partly maintained for contracts including data on what has been procured, value of procurement, and who has been awarded contracts; (iii) The payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. Staff	N/A	N/A	N/A	N/A	(i) All bank and cash balances are consolidated on a weekly basis; (ii) Records are maintained for contracts including data on what has been procured, value of procurement, and who has been awarded contracts; (iii) Approved staff lists, personnel database, and payroll are directly linked to ensure budget control, data consistency, and monthly reconciliation.

hiring and promotion is controlled by a list of approved staff positions.					
0.00	0.00	0.00	0.00	0.00	0.00
DLI allocation		78,000,000.00	As a % of Total Financing Amount		31.2%
➢ 3.1 : The cash position and financial obligations of the government are more transparent (Text)					
No TSA; IPSAS cash accounting	DLR 3.1.1: (i) The TSA enterprise architecture and migration roadmap are approved and (ii) The fixed assets registry module is configured in IFMIS	DLR 3.1.2: (i) 50 percent of national government MDAs have migrated to TSA and (ii) At least 90 percent of financial assets and liabilities are registered and uploaded in IFMIS	DLR 3.1.3: (i) 90 percent of national government MDAs have migrated to TSA; (ii) Valuation of 50 percent of fixed assets is completed and uploaded in IFMIS, and (iii) an inventory of outstanding fixed asset-related issues prepared	DLR 3.1.4: All bank and cash balances are consolidated on a weekly basis	DLR 3.1.5: Pronouncement issued for the adoption of accrual accounting
0.00	7,000,000.00	7,000,000.00	10,000,000.00	6,000,000.00	6,000,000.00
DLI allocation		36,000,000.00	As a % of Total Financing Amount		14.4%
➢ 3.2 : Transparency of public procurement spending is improved (Text)					
e-GP design complete	DLR 3.2.1: e-GP piloted in 9 MDAs	DLR 3.2.2: e-GP rolled out in 30 percent of national MDAs except SCs	DLR 3.2.3: e-GP rolled out in 90 percent of national MDAs	DLR 3.2.4: All mandatory e-GP reports are published online, including preference and reservation on contracts awarded to youth, women and persons with disability	DLR 3.2.5: Records are maintained for contracts including data on what has been procured, value of procurement, and who has been awarded contracts
0.00	4,000,000.00	6,000,000.00	10,000,000.00	2,000,000.00	2,000,000.00
DLI allocation		24,000,000.00	As a % of Total Financing Amount		9.6%
➢ 3.3 : At least 90 percent of ministries, state departments, and selected State Corporations have improved payroll controls (Text)					
UHR design completed	DLR 3.3.1: Organizational structures, staff establishments, remuneration and benefits structures for 25 percent of selected SCs, selected	DLR 3.3.2: Organizational structures, staff establishments, remuneration and benefits structures for all selected SCs, all commissions, all	DLR 3.3.3: At least 90 percent of Ministries and State Departments are automatically generating their payroll through UHR; all selected SCs and	DLR 3.3.4: UHR payroll compliance reports are shared with oversight institutions	DLR 3.3.5: Approved staff lists, personnel database, and payroll are directly linked to ensure budget control, data consistency, and monthly reconciliation

	constitutional commissions, and all independent offices are reviewed, approved, and uploaded in UHR	Ministries, and all State Departments are reviewed, approved, and uploaded in UHR	Agencies are uploading their data in UHR		
0.00	3,000,000.00	8,000,000.00	4,000,000.00	1,500,000.00	1,500,000.00
DLI allocation		18,000,000.00	As a % of Total Financing Amount		7.2%
4 : Management of assets and liabilities is improved and responsive to climate risk (Text)					
(i) Economic analyses are conducted to assess some major investment projects; (ii) financial performance of some SCs are monitored; (iii) climate considerations do not inform public investment and procurement decisions	N/A	N/A	N/A	N/A	(i) Economic analyses are conducted as established in national guidelines to assess most major investment projects and some results are published; (ii) Financial performance of all SCs are monitored regularly; (iii) Climate adaptation and mitigation considerations inform public investment and procurement decisions
0.00	0.00	0.00	0.00	0.00	0.00
DLI allocation		46,000,000.00	As a % of Total Financing Amount		18.4%
➢ 4.1 : Public investment projects selected for inclusion in the development budget are economically viable (Text)					
PIMIS design completed	DLR 4.1.1: The proposals for and approval of 90 percent of new projects in roads, health, and education sectors are processed through PIMIS	DLR 4.1.2: (i) The proposals for and approval of at least 90 percent of new projects are processed through PIMIS and (ii) Progress reports for ongoing projects in roads, health and education sectors are generated from PIMIS	DLR 4.1.3: At least 90 percent of pipeline and active projects in all sectors except security are processed and monitored in PIMIS	DLR 4.1.4: PIMIS portfolio performance reports are published online	DLR 4.1.5: Economic analyses are conducted as established in national guidelines to assess most major investment projects and some results are published online. The analyses are reviewed by an entity other than the sponsoring entity
0.00	4,000,000.00	4,000,000.00	6,000,000.00	3,000,000.00	3,000,000.00
DLI allocation		20,000,000.00	As a % of Total Financing Amount		8.0%

➢ 4.2 : The financial performance of SCs is monitored regularly and published online (Text)					
No defined KPIs for SCs	DLR 4.2.1: KPIs for all SCs defined and approved	DLR 4.2.2: Approved KPIs for all SCs are monitored through an automated system	DLR 4.2.3: Annual financial performance reports and recommendations for all SCs are issued and remedial action taken on ten SCs that pose the highest fiscal risk to the government	DLR 4.2.4: Three-year consolidated assessment report regarding financial performance of all SCs is submitted to Parliament	DLR 4.2.5: Report published online regarding the status of the implementation of the recommendations of the three-year consolidated assessment report by SCs
0.00	3,000,000.00	3,000,000.00	3,000,000.00	2,000,000.00	2,000,000.00
DLI allocation		13,000,000.00	As a % of Total Financing Amount		5.2%
➢ 4.3 : Climate adaptation and mitigation concerns are mainstreamed into public investment and procurement spending (Text)					
No sustainable procurement policy; no climate risk screening in PIM	DLR 4.3.1: Climate and disaster risk screening guidelines are incorporated into the PIM system	DLR 4.3.2: (i) Sustainable Procurement Policy developed and approved and (ii) 90 percent of new projects are screened for climate and disaster risk in PIMIS	DLR 4.3.3: NT has published online a roadmap to phase out the procurement of selected goods and services deemed non-compliant with sustainable procurement guidelines	DLR 4.3.4: Government has started to phase out the procurement of selected goods and services deemed non-compliant with sustainable procurement guidelines	DLR 4.3.5: OAG has conducted a special audit of compliance of procurement spending with sustainable procurement guidelines
0.00	3,000,000.00	3,000,000.00	3,000,000.00	2,000,000.00	2,000,000.00
DLI allocation		13,000,000.00	As a % of Total Financing Amount		5.2%
5 : Implementation performance of priority programs and projects is monitored and made public (Text)					
No national government coordination guidelines in place; priority programs and projects to be monitored not selected	DLR 5.1: National government coordination guidelines approved priority programs and projects are selected and monitoring frameworks developed	DLR 5.2: (i) Institutions responsible for government coordination as described in the guidelines have mapped the legal, policy, and operational conflicts and inconsistencies related to the achievement of the legislative agenda and (ii) Progress reports for all priority programs and projects, including	DLR 5.3: Proposals for resolving the identified conflicts and inconsistencies between laws, regulations, and policies impacting the legislative agenda are developed and adopted	DLR 5.4: Status of implementation of recommendations for underperforming programs and projects is monitored and published online	DLR 5.5: (i) The implementation of submitted recommendations is monitored by the institutions responsible for government coordination and (ii) Status of implementation of recommendations for underperforming programs and projects is monitored and published online

		recommendations for underperforming programs and projects are published online			
0.00	3,000,000.00	3,000,000.00	4,000,000.00	1,500,000.00	1,500,000.00
DLI allocation		13,000,000.00	As a % of Total Financing Amount		5.2%
6 : Audit recommendations regarding procurement, payroll, and public investment implemented and monitored (Text)					
No	0	50	50	50	50
0.00	0.00	0.00	0.00	0.00	0.00
DLI allocation		44,000,000.00	As a % of Total Financing Amount		17.6%
➢ 6.1 : Audit recommendations are tracked and implemented (Text)					
A prioritized list of audit recommendations pending resolution completed	DLR 6.1.1: OAG has reported to Parliament on the status of implementation of audit recommendations.	DLR 6.1.2: (i) OAG has reported to Parliament on the status of implementation of audit recommendations and (ii) at least 50 percent of audit recommendations regarding payroll, procurement, and PIM are implemented in selected MDAs	DLR 6.1.3: (i) OAG has reported to Parliament on the status of implementation of audit recommendations and (ii) at least 50 percent of audit recommendations regarding payroll, procurement, and PIM are implemented in selected MDAs	DLR 6.1.4: (i) OAG has reported to Parliament on the status of implementation of audit recommendations and (ii) at least 50 percent of audit recommendations regarding payroll, procurement, and PIM are implemented in selected MDAs	DLR 6.1.5: (i) OAG has reported to Parliament on the status of implementation of audit recommendations and (ii) at least 50 percent of audit recommendations regarding payroll, procurement, and PIM are implemented in selected MDAs
0.00	7,000,000.00	5,000,000.00	4,000,000.00	3,000,000.00	2,000,000.00
DLI allocation		21,000,000.00	As a % of Total Financing Amount		8.4%
➢ 6.2 : OAG conducts performance audits of core government systems and climate-related expenditures (Text)					
Plan for performance audits developed and approved	DLR 6.2.1: OAG has undertaken a performance audit of (i) UHR and (ii) eCitizen	DLR 6.2.2: OAG has undertaken a performance audit of PIMIS	DLR 6.2.3: OAG has undertaken a performance audit of GIMIS	DLR 6.2.4: OAG has undertaken a performance audit of e-GP	DLR 6.2.5: OAG has undertaken a performance audit of climate-related spending by the national government
0.00	5,000,000.00	5,000,000.00	5,000,000.00	4,000,000.00	4,000,000.00
DLI allocation		23,000,000.00	As a % of Total Financing Amount		9.2%

Monitoring and Evaluation Plan: PDO Indicators by PDO Outcomes

Enhanced Revenue Mobilization	
VAT gap is reduced (Percentage) DLI	
Description	The VAT gap is an estimate of the overall difference between the expected VAT revenue and the amount actually collected.
Frequency	Twice (Baseline and Closing)
Data source	KRA
Methodology for Data Collection	Progress reports submitted by implementing entity
Responsibility for Data Collection	PFMRS
Strengthened Spending Efficiency and Accountability	
Predictability, control, and transparency of budget execution are improved (Text) DLI	
Description	Predictability and control in budget execution is a PEFA framework dimension encompassing improvements in PFM performance in areas including: expenditure arrears, payroll controls, procurement, internal audit, financial data integrity, in-year budget reporting, and annual financial reporting. The Program targets functional improvements in these areas that are expected to contribute to improved PEFA scores in this dimension.
Frequency	Twice (Baseline and Closing)
Data source	Implementing entities
Methodology for Data Collection	Progress reports submitted by implementing entities
Responsibility for Data Collection	PFMRS
Enhanced External Audit and Oversight	
Audit recommendations regarding procurement, payroll, and public investment implemented and monitored (Percentage) DLI	
Description	The achievement of this indicator means that all audit recommendations regarding payroll, procurement, and PIM with a 3-month timeline that are under the responsibility of selected MDAs in key service delivery sectors are implemented. This is a recurring annual goal with an annual target of 90 percent achievement.
Frequency	Annual
Data source	OAG
Methodology for Data Collection	Progress reports submitted by implementing entity
Responsibility for Data Collection	PFMRS

Monitoring and Evaluation Plan: Intermediate Results Indicators by Results Areas

Enhancing Revenue Mobilization	
Tax exemptions processed through the automated tax exemption system (Percentage)	
Description	Self-explanatory
Frequency	Annual
Data source	Macro-Fiscal Unit NT
Methodology for Data Collection	Progress reports submitted by implementing entity
Responsibility for Data Collection	PFMRS
VAT taxpayers connected and issuing electronic fiscal invoices and receipts from e-TIMS (Percentage)	

Description	**Self-explanatory**
Frequency	**Annual**
Data source	**KRA**
Methodology for Data Collection	**Progress reports submitted by implementing entity**
Responsibility for Data Collection	**PFMRS**
MDAs collecting user fees through the government digital payment platform (Percentage)	
Description	**Self-explanatory**
Frequency	**Annual**
Data source	**Government Digital Payment Unit NT**
Methodology for Data Collection	**Progress reports submitted by implementing entity**
Responsibility for Data Collection	**PFMRS**
Strengthening the Accountability and Transparency of Public Spending	
National government MDAs migrated to TSA (Percentage)	
Description	**Measures the percentage of national MDAs transitioned to TSA**
Frequency	**Annual**
Data source	**National Treasury**
Methodology for Data Collection	**Progress reports submitted by implementing entity**
Responsibility for Data Collection	**PFMRS**
Pipeline and active projects processed and monitored in PIMIS (Percentage)	
Description	**Measures the percentage of ongoing and proposed public investment projects (in all sectors except the Security sector) that are onboarded and being processed through PIMIS.**
Frequency	**Annual**
Data source	**PIM Unit NT**
Methodology for Data Collection	**Progress reports submitted by implementing entity**
Responsibility for Data Collection	**PFMRS**
National government MDAs using e-GP to manage the public procurement cycle (Percentage)	
Description	Measures the percentage of national-level MDAs where e-GP has been introduced and is in use.
Frequency	**Annual**
Data source	**Public Procurement Department NT**
Methodology for Data Collection	**Progress reports submitted by implementing entity**
Responsibility for Data Collection	**PFMRS**
National government MDAs generating their payroll through UHR (Percentage)	
Description	**Measures the percentage of Ministries and State Departments generating their payroll through UHR.**
Frequency	**Annual**
Data source	**Department of Public Service**
Methodology for Data Collection	**Progress reports submitted by implementing entity**
Responsibility for Data	**PFMRS**

Collection	
State Corporations for which annual financial performance reports have been issued (Percentage)	
Description	**Self-explanatory**
Frequency	**Annual**
Data source	**GIPE**
Methodology for Data Collection	**Progress reports submitted by implementing entity**
Responsibility for Data Collection	**PFMRS**
Improving the Coordination of Priority Programs and Projects	
Capacity of institutions responsible for government coordination to identify and monitor the resolution of issues impacting the implementation of priority programs and projects (Text)	
Description	**"Capacity" entails the institutions responsible for government coordination (i.e., KOPCS, NT, and entities to be determined in the National Government Coordination Guidelines) are able to: (i) map the legal, policy, and operational conflicts and inconsistencies related to the achievement of the legislative agenda; (ii) submit the proposals for resolving the identified issues to the relevant Steering Committees; and (iii) monitor the resolution of issues.**
Frequency	**Annual**
Data source	**KOPCS**
Methodology for Data Collection	**Progress reports submitted by implementing entity**
Responsibility for Data Collection	**PFMRS**
Promoting External Audit and Oversight	
Reporting to Parliament on the status of implementation of audit recommendations (Yes/No)	
Description	**Measures if the OAG has reported to Parliament on the status of implementation of audit recommendations from the previous year following the end of the fiscal year.**
Frequency	**Annual**
Data source	**OAG**
Methodology for Data Collection	**Progress reports submitted by implementing entity**
Responsibility for Data Collection	**PFMRS**
Performance audits of selected core government systems (Text)	
Description	**OAG conducts special audits of: (i) UHR, (ii) eCitizen, (iii) PIMIS, and (iv) e-GP, as well as (v) climate-related expenditures.**
Frequency	**Annual**
Data source	**OAG**
Methodology for Data Collection	**Progress reports submitted by implementing entity**
Responsibility for Data Collection	**PFMRS**

Verification Protocol Table: Disbursement Linked Indicators

1 : VAT revenue gap is reduced (Text)	
Formula	• **DLR 1.1: (i) The Medium-Term Revenue Strategy is approved by NT (US$1,500,000); (ii) 30 percent of all registered VAT traders connected and issuing electronic fiscal invoices and receipts from e-TIMS (scalable: US$1,500,000 for every 10 percent increment)** • **DLR 1.2: (i) Tax exemptions for 90 percent of Donor Assistance 1 (DA1) projects and Official Aid Funded Projects (OAFPs) are processed through the automated tax exemption system (scalable: US$1,000,000 for every 30 percent increment) and (ii) 70 percent of all registered VAT traders connected and issuing Electronic Fiscal Invoices and Receipts from e-TIMS (scalable: US$1,500,000 for every 10 percent increment up to US$6,000,000)** • **DLR 1.3: (i) 90 percent of tax exemptions are processed through the automated tax exemption system (scalable: first 50 percent US$6,000,000 and every 10 percent increment thereafter US$1,500,000) and (ii) 90 percent registered VAT traders connected and issuing Electronic Fiscal Invoices and Receipts from e-TIMS (scalable: US$1,500,000 for every 10 percent increment up to US$3,000,000)** • **DLR 1.4: (i) Tax expenditure reports generated based on data from the system inform the review of tax policy, legislation, and/or tax administration processes (US$2,000,000) and (ii) No input VAT credit is allowed to registered VAT traders unless the invoice is issued through e-TIMS and declared to KRA (US$6,000,000)** • **DLR 1.5: VAT gap is reduced to 20 percent (US$5,000,000)**
Description	**Collection of VAT revenue is enhanced and VAT exemption process is streamlined through automation; No VAT refund is issued outside e-TIMS.**
Data source/ Agency	**PFMRS**
Verification Entity	**IVA**
Procedure	**Annual review by IVA**
2 : Collection of user service fees is more transparent (Text)	
Formula	• **DLR 2.1: 75 percent of revenue collecting MDAs are processing payments through the Government Digital Payment platform (scalable: US$1,800,000 for every 5 percent increment up to US$9,000,000)** • **DLR 2.2: 90 percent of revenue collecting MDAs are processing payments through the Government Digital Payment platform (scalable: US$2,000,000 for every 5 percent increment up to US$6,000,000)** • **DLR 2.3: Revenue reports generated on a real time basis feed into cash management and the quarterly budget reviews (US$5,000,000)** • **DLR 2.4: Revenue reports generated on a real time basis feed into cash management and the quarterly budget reviews and made public (US$4,000,000)** • **DLR 2.5: Revenue reports generated on a real time basis feed into cash management and the quarterly budget reviews and made public (US$4,000,000)**
Description	**Completion of annual DLRs outlined in the DLI table.**
Data source/ Agency	**PFMRS**
Verification Entity	**IVA**
Procedure	**Annual review by IVA**
3 : Predictability, control, and transparency of budget execution are improved (Text)	
Formula	**Satisfactory achievement of all DLSIs and annual DLRs toward the following end-of-Program targets: (i) All bank and cash balances are consolidated on a weekly basis; (ii) Records are maintained for contracts including data on what has been procured, value of procurement, and who has been awarded contracts; (iii) Approved staff lists, personnel database, and payroll are directly linked to ensure budget control, data consistency, and monthly reconciliation.**
Description	**(i) The cash position and financial obligations of the government are more transparent; (ii) Transparency of public procurement spending is improved; (iii) At least 90 percent of ministries, state departments, and selected State Corporations have improved payroll controls.**
Data source/ Agency	**PFMRS**
Verification Entity	**IVA**
Procedure	**Annual review by IVA**

3.1 : The cash position and financial obligations of the government are more transparent (Text)	
Formula	• **DLR 3.1.1: (i) The TSA enterprise architecture and migration roadmap are approved by CS NT (US$4,000,000) and (ii) The fixed assets registry module is configured in IFMIS (US$3,000,000)** • **DLR 3.1.2: (i) 50 percent of national government MDAs have migrated to TSA (scalable: US$1,000,000 for every 10 percent increment up to US$5,000,000) and (ii) 90 percent of financial assets and liabilities are registered and uploaded in IFMIS (US$1,000,000 for the first 50 percent and US$250,000 for every 10 percent increment thereafter up to US$1,000,000)** • **DLR 3.1.3: (i) 90 percent of national government MDAs have migrated to TSA (scalable: US$1,000,000 for the first 60 percent and every 10 percent increment thereafter up to US$4,000,000); (ii) Valuation of 50 percent of fixed assets is completed and uploaded in IFMIS (US$1,000,000 for every 10 percent increment up to $5,000,000); and (iii) an inventory of outstanding fixed asset-related issues prepared (US$1,000,000)** • **DLR 3.1.4: All bank and cash balances are consolidated on a weekly basis (US$6,000,000)** • **DLR 3.1.5: Pronouncement issued by CS NT for the adoption of accrual accounting (US$6,000,000)**
Description	**Completion of annual DLRs outlined in the DLI table.**
Data source/ Agency	**PFMRS**
Verification Entity	**IVA**
Procedure	**Annual review by IVA**
3.2 : Transparency of public procurement spending is improved (Text)	
Formula	• **DLR 3.2.1: e-GP piloted in 9 MDAs (US$4,000,000)** • **DLR 3.2.2: e-GP rolled out in 30 percent of national MDAs (US$2,000,000 for every 10 percent increment up to US$6,000,000)** • **DLR 3.2.2: e-GP rolled out in 90 percent of national MDAs (US$2,000,000 for every 10 percent increment up to US$10,000,000)** • **DLR 3.2.4: e-GP reports are published (US$2,000,000)** • **DLR 3.2.5: Records are maintained for contracts including data on what has been procured, value of procurement, and who has been awarded contracts (US$2,000,000)**
Description	**Completion of annual milestones outlined in the DLI table.**
Data source/ Agency	**PFMRS**
Verification Entity	**IVA**
Procedure	**Annual review by IVA**
3.3 : At least 90 percent of ministries, state departments, and selected State Corporations have improved payroll controls (Text)	
Formula	• **DLR 3.3.1: Organizational structures, staff establishments, remuneration and benefits structures for 25 percent of selected SCs, selected constitutional commissions, and all independent offices are reviewed, approved, and uploaded in UHR (US$3,000,000)** • **DLR 3.3.2: Organizational structures, staff establishments, remuneration and benefits structures for all selected SCs, all commissions, all Ministries, and all State Departments are reviewed, approved, and uploaded in UHR (scalable: $800,000 for every 10 percent increase in the number of entities uploaded regardless of type of entity, up to US$8,000,000)** • **DLR 3.3.3: At least 90 percent of Ministries and State Departments are automatically generating their payroll through UHR; all selected SCs and Agencies are uploading their data in UHR (US$4,000,000)** • **DLR 3.3.4: UHR payroll compliance reports are shared with oversight institutions (US$1,500,000)** • **DLR 3.3.5: Approved staff lists, personnel database, and payroll are directly linked to ensure budget control, data consistency, and monthly reconciliation (US$1,500,000)**
Description	**Completion of annual DLRs outlined in the DLI table.**
Data source/ Agency	**PFMRS**
Verification Entity	**IVA**
Procedure	**Annual review by IVA**
4 : Management of assets and liabilities is improved and responsive to climate risk (Text)	

Formula	Achievement of all associated DLSIs and annual DLRs towards the following target: (i) Economic analyses are conducted as established in national guidelines to assess most major investment projects and some results are published. The analyses are reviewed by an entity other than the main sponsoring entity; (ii) Financial performance of all SCs are monitored regularly; (iii) Climate adaptation and mitigation considerations inform public investment and procurement decisions
Description	(i) Public investment projects selected for inclusion in the development budget are economically viable; (ii) The financial performance of SCs monitored regularly and published; (iii) Climate adaptation and mitigation concerns are mainstreamed into public investment and procurement spending
Data source/ Agency	PFMRS
Verification Entity	IVA
Procedure	Annual review by IVA
4.1 : Public investment projects selected for inclusion in the development budget are economically viable (Text)	
Formula	• DLR 4.1.1: The proposals for and approval of 90 percent of new projects in roads, health, and education sectors are processed through PIMIS (US$2,000,000 for the first 50 percent and scalable US$500,000 for every 10 percent increment thereafter up to US$2,000,000) • DLR 4.1.2: (i) The proposals for and approval of at least 90 percent of new projects are processed through PIMIS (US$3,000,000) and (ii) Progress reports for ongoing projects in roads, health and education sectors are generated from PIMIS (US$1,000,000) • DLR 4.1.3: At least 90 percent of pipeline and active projects in all sectors except security are processed and monitored in PIMIS (US$6,000,000) • DLR 4.1.4: PIMIS portfolio performance reports are published (US$3,000,000) • DLR 4.1.5: Economic analyses are conducted as established in national guidelines to assess most major investment projects and some results are published. The analyses are reviewed by an entity other than the sponsoring entity. (US$3,000,000)
Description	Completion of annual DLRs outlined in the DLI table.
Data source/ Agency	PFMRS
Verification Entity	IVA
Procedure	Annual review by IVA
4.2 : The financial performance of SCs is monitored regularly and published (Text)	
Formula	• DLR 4.2.1: KPIs for all SCs defined and approved (US$3,000,000) • DLR 4.2.2: Approved KPIs for SCs are monitored through an automated system (US$3,000,000) • DLR 4.2.3: Annual financial performance reports and recommendations for SCs are issued and remedial action taken on ten SCs that pose the highest fiscal risk to the government (scalable: US$300,000 per SC) • DLR 4.2.4: Three-year consolidated assessment report regarding financial performance of SCs is submitted to Parliament (US$2,000,000) • DLR 4.2.5: Report published regarding the status of the implementation of the recommendations of the three-year consolidated assessment report by SCs (US$2,000,000)
Description	Completion of annual DLRs outlined in the DLI table.
Data source/ Agency	PFMRS
Verification Entity	IVA
Procedure	Annual review by IVA
4.3 : Climate adaptation and mitigation concerns are mainstreamed into public investment and procurement spending (Text)	
Formula	• DLR 4.3.1: Climate and disaster risk screening guidelines are incorporated into the PIM system (US$3,000,000) • DLR 4.3.2: (i) Sustainable Procurement Policy developed and approved (US$1,000,000) and (ii) 90 percent of new projects are screened for climate and disaster risk in PIMIS (US$1,000,000 for 50 percent and US$250,000 for every 10 percent up to US$1,000,000) • DLR 4.3.3: NT publishes a roadmap to phase out the procurement of selected goods and services deemed non-compliant with sustainable procurement guidelines (US$3,000,000)

	• **DLR 4.3.4: Government starts to phase out the procurement of selected goods and services deemed non-compliant with sustainable procurement guidelines (US$2,000,000)** • **DLR 4.3.5: OAG conducts a special audit of compliance of procurement spending with sustainable procurement guidelines (US$2,000,000)**
Description	**Completion of annual DLRs outlined in the DLI table.**
Data source/ Agency	**PFMRS**
Verification Entity	**IVA**
Procedure	**Annual review by IVA**
5 : Implementation performance of priority programs and projects monitored and made public (Percentage)	
Formula	• **DLR 5.1: National government coordination guidelines drafted and approved priority programs and projects are selected and monitoring frameworks developed (US$3,000,000)** • **DLR 5.2: (i) Institutions responsible for government coordination as described in the guidelines have mapped the legal, policy, and operational conflicts and inconsistencies related to the achievement of the legislative agenda (US$2,000,000) and (ii) Progress reports for all priority programs and projects, including recommendations for underperforming programs and projects, incorporate citizen feedback and are published (US$1,000,000)** • **DLR 5.3: Proposals for resolving the identified conflicts and inconsistencies between laws, regulations, and policies impacting the legislative agenda are developed and adopted (US$4,000,000)** • **DLR 5.4: Status of implementation of recommendations for underperforming programs and projects is monitored and published (US$1,500,000)** • **DLR 5.5: (i) The implementation of submitted recommendations is monitored by the institutions responsible for government coordination (US$750,000) and (ii) Status of implementation of recommendations for underperforming programs and projects is monitored and published (US$750,000)**
Description	**(i) National Government Coordination Act of 2013 has been operationalized with approved guidelines in place and (ii) Priority programs and projects are monitored through an enhanced performance management system.**
Data source/ Agency	**PFMRS**
Verification Entity	**IVA**
Procedure	**Annual review by IVA**
6 : Audit recommendations regarding procurement, payroll, and public investment implemented and monitored (Percentage)	
Formula	**Satisfactory achievement of annual DLRs toward the end-of-Program target of over 95 percent of audit recommendations implemented and monitored.**
Description	**(i) Audit recommendations are tracked and implemented and (ii) OAG conducts special audits of the performance of core government systems and selected priority programs and projects.**
Data source/ Agency	**PFMRS**
Verification Entity	**IVA**
Procedure	**Annual review by IVA**
6.1 : Audit recommendations are tracked and implemented (Text)	
Formula	• **DLR 6.1.1: OAG reports to Parliament on the status of implementation of audit recommendations (US$7,000,000)** • **DLR 6.1.2: (i) OAG reports to Parliament on the status of implementation of audit recommendations (US$2,000,000) and (ii) 50 percent of audit recommendations regarding payroll, procurement, and PIM are implemented in selected MDAs (US$1,000,000 each for payroll, procurement, and PIM, for a total of US$3,000,000)** • **DLR 6.1.3: (i) OAG reports to Parliament on the status of implementation of audit recommendations (US$1,000,000) and (ii) 50 percent of audit recommendations regarding payroll, procurement, and PIM are implemented in selected MDAs (US$1,000,000 each for payroll, procurement, and PIM, for a total of US$3,000,000)** • **DLR 6.1.4: (i) OAG reports to Parliament on the status of implementation of audit recommendations (US$1,500,000) and (ii) 50 percent of audit recommendations regarding payroll, procurement, and PIM are**

	implemented in selected MDAs (US$500,000 each for payroll, procurement, and PIM, for a total of US$1,500,000) • DLR 6.1.5: (i) OAG reports to Parliament on the status of implementation of audit recommendations (US$500,000) and (ii) 50 percent of audit recommendations regarding payroll, procurement, and PIM are implemented in selected MDAs (US$500,000 each for payroll, procurement, and PIM, for a total of US$1,500,000)
Description	**Completion of annual DLRs outlined in the DLI table.**
Data source/ Agency	**PFMRS**
Verification Entity	**IVA**
Procedure	**Annual review by IVA**
6.2 : OAG conducts special audits of the performance of core government systems and selected priority programs and projects (Text)	
Formula	• DLR 6.2.1: OAG undertakes a performance audit of (i) UHR (US$3,000,000) and (ii) the Government Digital Payment platform (US$2,000,000) • DLR 6.2.2: OAG undertakes a performance audit of PIMIS (US$5,000,000) • DLR 6.2.3: OAG undertakes a performance audit of GIMIS (US$5,000,000) • DLR 6.2.4: OAG undertakes a performance audit of e-GP (US$4,000,000) • DLR 6.2.5: OAG undertakes a performance audit of climate-related spending (US$4,000,000)
Description	**Completion of annual DLRs outlined in the DLI table.**
Data source/ Agency	**PFMRS**
Verification Entity	**IVA**
Procedure	**Annual review by IVA**

ANNEX 2. TECHNICAL ASSESSMENT

A. Program Development Objective (PDO)

1. **The objectives of the Program are to enhance revenue mobilization and deepen accountability and transparency in public finance management at the national government level.** The government has prioritized bottom-up economic growth and expansion of social programs and highlighted the transition to a more efficient and results-driven public sector as an enabler. Higher revenue mobilization is needed to operationalize the government's development agenda, while efficiency in spending will be necessary for the revenue that is mobilized to deliver its intended purpose in a transparent and accountable manner. Strong coordination at the highest levels of government will be needed to deliver this ambitious agenda. The PDO stems from the premise that accountable and transparent revenue and expenditure management constitute the principal enablers for the transition to a more efficient and results-driven public sector. Building on the reform trajectory and momentum established under GESDeK, the PDO for GESDeK II maintains the national government focus of its predecessor and expands its thematic coverage to include revenue mobilization, a priority of the current Government and critical enabler for the development agenda.

B. Program Scope

2. **GESDeK II will support the implementation of the PFM Reform Strategy for 2023–2028.** The PFM Reform Program has national coverage and apply to all MDAs. Among the key results areas anticipated under the new PFM Reform Strategy, GESDeK II will specifically support the ones regarding: (a) enhancing revenue mobilization; (b) strengthening accountability and transparency of public spending; (c) improving the implementation of priority programs and projects; and (d) promoting external audit and oversight. While the scope of the government's PFM Reform Program includes the counties, GESDeK II will maintain its focus on the national level considering: (a) the selectivity that the Program is exercising regarding supporting initiatives that will have systemic impact across the public sector; and (b) there is another PforR operation (KDSP II) that will support PFM outcomes at the county level.

C. Technical Analysis

(a) Macroeconomic context and fiscal considerations for the Program

3. **Medium-term growth prospects remain positive.** Real GDP growth is anticipated to rise to 5.2 percent in 2024. Real per capita incomes are also expected to grow, from 2.8 percent in 2022 to 3.1 percent in the medium term. Poverty is expected to resume its downward trend. The economic outlook assumes a slowdown in public investment reflecting ongoing fiscal consolidation, higher electricity tariffs, increase in the cost of production for small businesses, and tight monetary policy. The Program will directly contribute to the government's fiscal consolidation agenda through its focus on mobilizing revenue and enhancing spending efficiency.

(b) Strategic relevance and technical soundness of the Program

4. **The government's ongoing PFM Reform Program is a cornerstone of the fiscal consolidation agenda.** The PFM Reform Strategy aims to promote collaboration between entities involved in the PFM reform agenda for cross-cutting issues that have a systemic impact on revenue and expenditure management and accountability.

5. **RA1: Enhancing Revenue Mobilization.** Kenya's revenue yield is below the desired East African Community (EAC) target of 25 percent of GDP. Although various tax reforms have been implemented by KRA over the past two decades, the average 'revenue to GDP' ratio has barely increased by 0.6 percent over the entire period.[9] The overall revenue gap was estimated at 6.9 percent of GDP in 2021 with VAT and trade taxes contributing most to this gap at 4.48 percent and 3.03 percent, respectively. The 2022 PEFA assessment notes challenges faced in the monitoring of revenue arrears and compliance aspects regarding revenue audit and investigation. The 2022 Tax Administration Diagnostic Assessment Tool assessment highlighted inaccuracies in the taxpayer register, low rates of on-time filing and payment, and low electronic payment usage. The assessment emphasized that there is no risk-based audit plan that helps reduce under-declarations by taxpayers and that large amounts of VAT refunds remain unpaid. Incomplete integration across tax systems, outdated technology, and the absence of business continuity protocols occasionally causing system downtimes further affect compliance levels.

6. **The government plans to reach the EAC revenue collection to GDP target by 2030 based on an in-depth reform of tax policy and administration.[10]** GESDeK II will support this effort by incentivizing several key activities identified in the draft National Tax Policy. The draft policy identifies low tax compliance and high tax expenditure as some of the main challenges for revenue collection. Tax compliance, in terms of filing of tax returns and payment of tax due, stood at 70 percent in the FY 2020/21 and 77 percent in the FY 2021/22. The level of compliance is limited by the technical and complex nature of tax laws and procedures, taxpayer apathy, high compliance cost, inadequate sharing of taxpayer information among the national and county government agencies, absence of KRA offices in some regions of Kenya, and low tax literacy among citizens. Tax expenditure is mostly driven by VAT expenditure.[11]

7. **Against this backdrop, GESDeK II RA 1 will support the efforts outlined in the draft National Tax Policy in three areas that are critical for reducing tax expenditures and mobilizing revenue:** (a) streamlining the processing and approval of tax exemptions; (b) automating the collection of VAT and the issuance of VAT returns and refunds; and (c) consolidating the collection of user fees collected by revenue-collecting MDAs. The results that GESDeK II will support constitute the key targets regarding the digitization efforts in these three key areas in the draft National Tax Policy. GESDeK II will support the full automation and use of these systems. The information generated by these systems will be used by KRA and the NT to refine the reform agenda regarding tax policies and compliance.

8. **RA 2: Strengthening the Accountability and Transparency of Public Spending.** The 2022 PEFA assessment confirms that strong PFM laws and regulations are in place. The relatively high levels of in-year budget adjustments weaken fiscal discipline. A critical area regarding fiscal risk is the inability of the government to monitor the financial performance of SCs.[12] GESDeK II RA 2 will support the institutionalization of a system to enable the government to

[9] Nelson H. W. Wawire, "Constraints to Enhanced Revenue Mobilization and Spending Quality in Kenya," Center for Global Development, Policy Paper 163, January 2020.
[10] Ibid.
[11] The 2022 Tax Expenditure Report recorded that between 2020 and 2021, domestic VAT expenditure increased by KSh 38.55 billion (78.76 percent of the total change) while expenditure related to VAT on fuel increased by KSh 11.22 billion (22.92 percent of the total change). Tax expenditure on excise duty (domestic), excise duty on imports, and corporation tax decreased by KSh 5.83 billion, KSh 10 million, and KSh 920 million, respectively. The analysis of tax expenditure on each tax category shows that the expenditure has been on a downward trend over the last five years, despite an increase in 2021 compared to 2020 (in 2021, tax expenditure was KSh 316.0 billion, which is an increase of KSh 48.9 billion from 2020.)
[12] Several recommendations regarding improving the performance of the SCs have been issued in various studies of the sector in the last several years. These recommendations include: (a) strengthening the legal framework and institutional structure of SCs (implement a clear and standardized classification of SCs among all oversight agencies, rationalize SCs by reducing overlapping mandates and duplications as well as direct competition among them, and harmonize the legal framework to provide for a consistent legal foundation for the exercise of oversight functions); (b) improving

monitor the financial performance of SCs regularly and report to oversight entities to inform fiscal risk monitoring as well as the determination and monitoring of remedial actions to improve the financial performance of SCs.

9. **The controls environment for the major spending categories is in place, but improvements are needed regarding the systems underpinning the management of these spending categories.** Public investment and assets management systems perform above average according to the 2022 PEFA assessment. Payroll controls are satisfactory. The absence of complete procurement data and accurate information on procurement methods used signals weaknesses regarding competitive public procurement. The Treasury is not able to consolidate central government daily cash position. RA 2 will support the rollout of government-wide electronic systems for managing public procurement, investment, and payroll spending, complemented by the migration to TSA to pave the way for a truly integrated PFM controls system.

10. **Climate variability is a source of significant risk for Kenya.** The repeating patterns of floods and droughts have had devastating socioeconomic impacts and high economic costs. For instance, the 2008–2011 drought is estimated to have cost Kenya US$12.1 billion, including US$805.6 million for the destruction of physical and durable assets. A range of climate models forecast that Kenya's climate in the future will entail the mean temperature increasing. Precipitation will fluctuate significantly on an annual basis, with almost all models indicating that Kenya will get wetter. Increasingly erratic rainfall is the main climate risk facing Kenya's water and food security and agricultural production. Recent weather shocks have already resulted in 14 counties being classified at the level of acute food insecurity and above. The infrastructure network is vulnerable to climate change, leaving some regions and freight at risk. Urban areas are also at risk of floods and heat events. The country has been motorizing at a higher pace than originally projected, and rapid urbanization has not been matched by adequate urban planning and investments in roads and urban infrastructure. The incorporation of climate and disaster risk screening tools into the PIM system can enhance the ability of the government to build more resilient public infrastructure.

11. **RA 3: Improving the Coordination of Priority Programs and Projects.** A new office within the Presidency, KOPCS, has been established to steer the coordination efforts inside the government and monitor the implementation of the government's priorities. The KOPCS will oversee the priority projects which will have an impact on economic development. Fragmentation and lack of synergy across MDAs have been impeding the effective implementation of priority projects, leading to project delays and cost overruns. GESDeK II RA 3 will help KOPCS and other MDAs responsible for government coordination to improve the monitoring of critical projects and programs.

12. **The government's efforts to establish a strong coordination framework is anchored in emerging good practices regarding Center-of-Government (CoG) reform.** These include: (a) focus on a select number of cross-cutting priorities; (b) ensure a coherent, whole-of-government coordination system; (c) institutionalize the coordination system with a legal foundation; and (d) integrate and share resources including the sharing of existing databases and performance management systems. In this context, GESDeK II RA 3 will support instituting an effective CoG coordination mechanism that resolves regulatory, policy, and institutional mandate conflicts and discrepancies and continuously monitor the performance of priority programs and projects.

performance monitoring in the SC sector (improve reliability and timeliness of data as well as analytical capacities for improved performance and risk monitoring); and (c) enhancing controls and transparency of the operational performance of SCs and their relations with the government (increase transparency and comprehensiveness of financial and fiscal reporting on SCs, strengthen external audit and parliamentary scrutiny, and enforce the Governance Code Mwongozo and make compliance with it public).

13. **RA 4: Promoting Audit and External Oversight**. According to the 2022 PEFA assessment, although the coverage of both internal and external audit is satisfactory, management response to internal audit, as well as the extent to which audited entities follow the audit recommendations issued by Parliament, is weak. There is also considerable lack of capacity regarding legislative scrutiny of audit reports. The absence of a systematic follow-up mechanism regarding the extent to which the audited public sector entities implement audit recommendations represents a significant weakness in the accountability framework, which GESDeK II RA 4 aims to address.

(c) Results Framework and M&E Capacity

14. **The Results Framework comprises the PDO indicators and IRIs drawn from the DLIs and the DLSIs.** There are logical and sequenced connections between intermediate results and PDO indicators. The M&E plan includes the descriptions and parameters for all indicators. Given that all indicators in the Results Framework are drawn from the DLIs and the DLSIs, the protocols for verification and assessment of progress of the indicators in the M&E plan are the same as those for the verification of the achievement of the associated DLIs and DLSIs. The M&E plan will be implemented by the PFMRS, building on the successful experience and capacity developed under GESDeK. The World Bank will regularly monitor the adequacy of the M&E arrangements within the NT and the participating MDAs as part of implementation support. The POM will outline the verification protocols for the DLIs and the DLSIs.

(d) Economic Justification

15. **The Program supports the government's fiscal consolidation agenda.** The aftermath of the COVID-19 pandemic saw a significant fiscal financing gap as revenue collection dropped and expenditure pressures increased. While the direct economic benefits of governance and PFM reforms may be difficult to estimate, available analyses such as a recent Public Expenditure Review indicate that: (a) the implementation of payroll controls could result in potential fiscal savings of about Ksh.19.4 billion (or 0.2 percent of GDP); (b) improving procurement could deliver approximately Ksh.85.9 billion (or 0.9 percent of GDP) in fiscal savings; and (c) the implementation of public investment guidelines could deliver one-off expenditure savings of about KSh.150 billion (or 1.5 percent of GDP). The Program's focus on improving the management of payroll, procurement, and public investment stems from a case to achieve these savings. Together with targeted interventions to enhance tax and non-tax revenue, which are expected to raise VAT revenue collection from 4 to 6 percent of GDP, the Program supports a well-rounded package of reforms with significant fiscal savings potential that render the US$250 million investment economically justifiable.

D. Program Expenditure Framework

16. **The expenditure framework is fiscally sustainable.** The government's medium-term fiscal trajectory is sound, and the PFM Reform Program is included in the government's medium-term expenditure framework. The PFM Reform Program has been in place since 2006 and reliably funded. Historical expenditures for the relevant programs and sub-programs were reviewed and found to be sufficient for supporting the reform activities identified under the Program. The assessment further confirmed that the trajectory of expenditures presented in the medium-term expenditure framework for the life of the Program is sufficient and reliable. Participating MDAs are accorded the authority to incur commitments and expenditures to enable them to achieve results under the PFM Reform Strategy based on the work plans that they submit to the PFMRS at the beginning of the fiscal year. The PFM Reform Program has flexibility regarding in-year budget reallocations to meet the advisory assistance and capacity-building needs that may emerge during the fiscal year. The POM for the Program is reviewed regularly to reflect changes in programs

and sub-programs in which the reform initiatives are anchored. A detailed Program expenditure framework is presented in table 2.1.

Table 2.1. Program Expenditure Framework

Sub-Program	FY 2023/2024	FY 2024/2025	FY 2025/2026	FY 2026/2027	FY 2027/2028	TOTAL
1071 National Treasury	**104.01**	**112.59**	**116.92**	**97.22**	**107.69**	**538.43**
0718040 Accounting Services	29.78	35.99	37.49	30.59	33.46	167.31
0718050 Supply Chain Management Services	8.25	7.69	7.81	8.18	7.98	39.92
0718060 Public Financial Management Reforms	7.03	12.06	12.12	9.30	10.13	50.65
0719010 Fiscal Policy Formulation, Development and Management	58.95	56.85	59.50	49.15	56.11	280.56
1013 Office of Prime Cabinet Secretary	**8.54**	**8.24**	**8.28**	**8.35**	**8.35**	**41.76**
0755050 Coordination and Supervision Services	4.99	4.64	4.64	4.76	4.76	23.78
0755060 Government Coordination & Supervision	3.55	3.60	3.64	3.60	3.60	17.98
1014 State Department for Parliamentary Affairs	**2.21**	**2.22**	**2.37**	**2.27**	**2.27**	**11.34**
0759010 Parliamentary Liaison Services	0.80	0.80	0.94	0.85	0.85	4.23
0759020 Legislative Coordination Services	0.42	0.42	0.43	0.42	0.42	2.11
0760010 Policy Coordination Services	0.64	0.64	0.64	0.64	0.64	3.21
0760020 Policy Advisory Services	0.36	0.36	0.36	0.36	0.36	1.80
1213 State Department for Public Service	**0.81**	**0.88**	**0.92**	**0.86**	**0.87**	**4.35**
0710030 Management Consultancy Services	0.81	0.88	0.92	0.86	0.87	4.35
2111 Office of the Auditor General	**49.78**	**50.48**	**52.44**	**48.30**	**50.25**	**251.25**
0729030 Specialized Audits	4.21	4.37	4.53	4.17	4.32	21.60
0729040 National Government Audit	45.57	46.12	47.91	44.12	45.93	229.65
TOTAL	**165.36**	**174.41**	**180.93**	**157.00**	**169.43**	**847.14**

ANNEX 3. SUMMARY FIDUCIARY SYSTEMS ASSESSMENT

1. **The fiduciary risk rating is Moderate.** The FSA concludes that the current systems with proposed risk mitigating measures provide reasonable assurance that the Program funds will be used for the intended purposes. The PFM and anticorruption efforts of the government are anchored within laws, regulations, and procedures which were assessed to be adequate. A detailed standalone FSA has been prepared which is the basis for the following summary.

2. **Planning, budgeting, and procurement.** Budget controls exist in all implementing entities. Budget utilization under GESDeK was satisfactory. Inherent risks in the overall PFM system may expose the Program to delays in the disbursement of funds, additional funding requests made, and late submission of financial and non-financial reports by MDAs to the Controller of the Budget (CoB). Although high-value procurement will not be part of the Program, procurement is still a significant portion of the government's spending. Under GESDeK, all procurements were approved before their implementation based on justifiable quantities, cost, and lead times. The FSA found instances of inaccurate internal needs analysis, mismatch between budgets and procurement planning, poor vendor selection and management, weak contract management, and lengthy delays in procurement and internal approval processes.

3. **Based on this assessment, the fiduciary risks regarding planning and budget are Substantial.** Mitigating measures include: (a) incorporating in the POM the processes of annual work plan preparation and procurement planning to secure enough funding for the Program; (b) each implementing entity to implement recommendations of the CoB reports; (c) submission of biannual expenditure reports by the MDAs to PFMRS to facilitate the review of budget allocations; and (d) capacity building on procurement planning and contract management.

4. **Treasury management and funds flow.** The fiduciary risks over treasury management and funds flow are Moderate. Delayed release of resources is a potential risk for the Program. To mitigate this risk, (a) RA 2 of the Program focuses on implementing TSA and (b) performance and funding agreements may be signed between the NT and participating MDAs to maintain incentives throughout the life of the Program.

5. **Accounting and financial reporting.** Existing financial management regulations and financial reporting systems are adequate to enable Program accounting and reporting. The accounting function under GESDeK performed adequately in line with the PFM Act and regulations. Transactions were systematically captured in the IFMIS and there was adequate staff capacity for fiduciary oversight. The staffing level at the finance and accounting departments of the implementing entities are adequate. Timely submission of the annual financial statements to the OAG has improved. However, audit reports note misstatements and inaccuracies regarding closing balances, receivables, and payables.

6. **Based on this assessment, the fiduciary risk over accounting and reporting is Moderate.** GESDeK II will have Program-specific annual financial statements prepared by the PFMRS from expenditure reports received from the MDAs implementing the Program. The Program will also prepare biannual expenditure reports that will be submitted to the World Bank within 45 days after the end of the six months. At the closure of the Program, expenditure reconciliation will be carried out to confirm that overall Program expenditure has exceeded the IDA disbursement.

7. **Procurement processes.** The implementing MDAs have established Supply Chain Management Departments with qualified staff to manage all procurement processes based on the approved procurement plans. GESDeK has shown that procurement processes are conducted in line with the provisions of the law. Procurement manuals have been developed internally by the MDAs as well as the regulator to guide the procurement processes. Despite these well-

functioning processes, the assessment revealed several procurement and governance-related risks. These are related to collusive practices in the bidding process, procurement not based on the needs assessment and over-estimated costs for procurement. Continuous capacity building is incorporated into GESDeK II to support this function.

8. **Internal control and internal audit.** The Program benefits from the well-established internal control framework of the government and the Financial Management Manual developed under GESDeK. Internal control weaknesses are noted in the audit reports of MDAs and include lack of segregation of duties, outstanding unreconciled financial balances, lack of a fixed assets registry, pending bills, delays in implementing audit recommendations, and lack of a risk management policy framework. GESDeK improved the performance of the internal auditor regarding the preparation of annual and quarterly internal audit reports which have undergone quality assurance. Despite these improvements, the audit committees in MDAs require strengthening. The overall internal control risk is rated Moderate. The proposed investments in improving the tracking and follow up of audit recommendations under RA 4 and government-wide IT systems in RA 2 are expected to mitigate the challenges in internal controls and internal audit.

9. **Program governance and anticorruption arrangements.** All MDAs are required to report on corruption indicators on a quarterly basis. Non-compliant institutions are not issued with compliance certificates and their overall annual performance contract scoring is lowered. The EACC has a well-functioning and accessible complaint management system. The NT has a well-established fraud and corruption handling framework. The Program will be implemented in accordance with the memorandum of understanding signed between the World Bank and the EACC in September 2014.

10. **External financial and procurement audit.** The OAG will carry out the Program audit in line with international public sector auditing standards. A private audit firm appointed by Parliament will audit the OAG. The entity audit reports under GESDeK were submitted to the World Bank with delays. The audit of GESDeK at the NT received unqualified audit opinion for the last two years, while the other implementing entities received qualified audit reports. There are delays in the implementation of external audit recommendations. The Public Procurement Regulatory Authority does not regularly conduct procurement reviews or annual procurement audits due to inadequate resources. Therefore, the fiduciary risk over audit is Substantial. To mitigate the identified risks, (a) instead of an entity audit approach, a program audit will be carried out for GESDeK II; (b) the audit report submission timeline for GESDeK II will be six months after year-end in compliance with the provisions of the PFM Act; (c) RA 4 under GESDeK II will support the tracking and implementation of audit recommendations; and (d) the terms of reference for the Program audit will incorporate a provision to review the exclusion of high value contracts and use of debarred firms from the Program.

ANNEX 4. SUMMARY ENVIRONMENTAL AND SOCIAL SYSTEMS ASSESSMENT

1. **The overall E&S risk is Moderate.** An Environmental and Social Systems Assessment that engaged the implementing MDAs and other stakeholders was undertaken. The final report was disclosed on the NT website. The assessment found that Kenya has well-developed laws, regulations, procedures, and guidelines which, if applied effectively, would enhance the E&S opportunities under the Program. However, MDAs do not routinely comply with existing statutory provisions regarding E&S standards. Public participation is challenged by inadequate funding, stakeholder mapping and targeting, and public awareness. Grievance mechanisms within the implementing MDAs need strengthening. The capacity to manage e-waste remains weak. There are no dedicated E&S specialists within the implementing MDAs.

2. **E&S benefits of the Program.** Expected positive E&S outcomes of the Program include enhanced capacity of MDAs to manage E&S risks in the PIM cycle.

3. **E&S risks and impacts.** The potential negative environmental impacts from Program activities are negligible. They include: (a) improper disposal of e-waste resulting in soil and water contamination; (b) pollution from hydrocarbons; (c) oil spills during installation; (d) cooling equipment containing Ozone Depleting Substances; and (e) occupational health and safety incidents. Main social risks include inadequate application of public participation processes and data privacy and protection provisions regarding handling personal and business data.

4. **E&S mitigation measures.** The government will ensure that Program activities affecting the management of personal data and e-waste follow relevant legislative frameworks and institutional protocols.

5. **The PAP includes the E&S actions that will advance the E&S benefits of the Program and mitigate the associated risks.**

ANNEX 5. PROGRAM ACTION PLAN

Action Description	Source	DLI#	Responsibility	Timing		Completion Measurement
Adoption of the 2023-2028 PFM Reform Strategy	Technical	NA	National Treasury	Due Date	31-Dec-2023	Yes/No
Controller of Budget report recommendations implemented by participating MDAs	Fiduciary Systems	NA	Participating MDAs and PFMRS	Recurrent	Yearly	Yes/No
Submission of internal audit report on the Program	Fiduciary Systems	NA	Internal Audit Department and PFMRS	Recurrent	Yearly	Yes/No
An E&S Action Plan incorporated into the POM	Environmental and Social Systems	NA	PFMRS	Due Date	30-Nov-2023	Yes/No
NT issues an e-waste management plan	Environmental and Social Systems	NA	PFMRS	Due Date	30-Nov-2023	Yes/No
Incorporation of E&S measures in the PFM Reform Strategy	Environmental and Social Systems	NA	PFMRS	Due Date	31-Dec-2023	Yes/No
Assignment of an E&S specialist to the Program	Environmental and Social Systems	NA	PFMRS	Due Date	30-Nov-2023	Yes/No
Capacity building for financial management, procurement, and fraud and corruption	Fiduciary Systems	NA	PFMRS	Recurrent	Semi-Annually	Yes/No
Submission of fraud and corruption report	Fiduciary Systems	NA	EACC and CAJ	Recurrent	Semi-Annually	Yes/No

ANNEX 6. IMPLEMENTATION SUPPORT PLAN

1. **The World Bank will support the Program implementation.** Implementation support will comprise biannual supervision missions, quarterly technical review meetings, a mid-term review, and just-in-time technical and advisory support as requested by the government. The World Bank will be a member of the Joint Technical Committee that is responsible for reviewing and endorsing the workplans developed by the participating MDAs. During the supervision missions, the World Bank will review implementation progress, update the results framework, assess the credibility of the Program expenditure framework, monitor compliance with the Legal Agreements, verify the implementation of the actions identified in the PAP, and work with Government counterparts to mitigate implementation risks and challenges. The World Bank will facilitate the coordination of reform support through its active role in the PFM Development Partners Group and leverage own technical assistance resources. The following tables outline the focus of implementation support during the initial and subsequent stages of Program implementation, as well as the skill mix required, including the technical, fiduciary, and the E&S skills needed during Program implementation.

Table 6.1. Focus of Implementation Support

Time	Focus	Skills Needed	Partner Role
First 12 months	Advise Results Teams to develop workplans and begin implementation; determine if any advisory support is needed to achieve the DLSIs.	Program management, tax administration, PFM (TSA, accrual accounting, PIM, SCs), e-GP, HR and payroll management, audit and compliance, fiduciary, E&S, climate change	n.a.
12–48 months	Play an active role in Results Teams to continue implementing the work plans; ensure regular monitoring of progress to ensure continued achievement of DLSIs.	Program management, tax administration, PFM (TSA, accrual accounting, PIM, SCs), e-GP, HR and payroll management, audit and compliance, fiduciary, E&S, climate change	n.a.

Table 6.2. Task Team Skills Mix Requirements for Implementation Support

Skills Needed	No. of Staff Weeks	No. of Trips	Comments
Task team leaders	16	—	Country office based
Tax administration specialist	4	2	Region based
Financial management specialist	4	—	Country office based
Procurement specialist	6	—	Country office based
Environmental and safeguards specialist	4	—	Country office based
Public administration specialist (HR and wage bill)	4	—	Country office based
PFM (Treasury management, PIM, SCs)	4	—	Country office based
Audit and compliance	4	—	Country office based