
**Kenya Country Programme
2016-2020**

**Thematic Programme for
Governance**

**Development Engagement
Document:**

**Support To The Public Financial
Management Reform Strategy in
Kenya**

(The National Treasury)

Dev. Engagement Gov.	Outcome	Outputs
Public Financial Management Reform (PFMR)	A public finance system that promotes transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources	<ul style="list-style-type: none"> - Enhanced revenue collection - Accurate accessible and timely government-wide financial information and reports with clear accountability - Accurate, user-friendly and timely independent audit reports based on a risk-based approach - Strengthened capacity for public procurement and disposal oversight - A functional monitoring and evaluation framework for the PFMR strategy
Budget	DE partner	
The Danish contribution is DKK 45 million. GoK funding is estimated at DKK 220 million.	The National Treasury, more particularly the PFMR secretariat	
Management arrangements		
Denmark will contribute to a basket fund managed by the PFMR Secretariat. Currently only Denmark and Sweden are using this arrangement. The funds are available for all aspects of the reform and will be committed through three year rolling Annual Work plans decided in the PFM Reform Strategy Steering Committee.		
Description		
The PFMR strategy is structured along themes: Resource mobilization, resource allocation, budget execution, accounting, reporting and review, independent audit and oversight, fiscal decentralization and intergovernmental fiscal relations, legal and institutional framework, and IFMIS re-engineering. Implementation is done by the relevant PFM stakeholders, such as the Kenya Revenue Authority, the Office of the Auditor General, and several units of the Treasury. The PFMR Secretariat coordinates and manages the reform. The activities consist inter alia of training and systems development within the implementing organisations..		

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Abbreviations

AfDB	African Development Bank
CoB	Controller of Budget
CRA	Commission on Revenue Allocation
CPI	Corruption Perception Index
Danida	Danish International Development Assistance
DED	Development Engagement Document
DKK	Danish Krone
DP	Development Partner
DPG	Development Partner Group
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GoK	Government of Kenya
ICT	Information and Communications Technology
IFMIS	Integrated Financial Management Information Systems
JFA	Joint Financing Arrangement
KADP	Kenya Accountable Devolution Program
KES	Kenyan Shillings
KGSP	Kenya Governance Support Programme
MDKK	Million Danish Kroner
M&E	Monitoring and Evaluation
MFA	Danish Ministry of Foreign Affairs
MTEF	Mid Term Expenditure Framework
MTR	Mid Term Review
NT	National Treasury
OAG	Office of the Auditor General
PEFA	Public Expenditure and Accountability
PFM	Public Financial Management
PFMR	Public Financial Management Reform
PI	Performance Indicators
PS	Permanent Secretary
RDE	Royal Danish Embassy
SWG	Sector Working Group
TA	Technical Assistance
TPI	Transparency International

Development Engagement Document Public Financial Management Reform

1. Introduction

- 1.1 The present development engagement document details the objectives and management arrangements for the development cooperation concerning the support to the Public Financial Management Reforms (PFMR) Strategy in Kenya 2016-2020 as agreed between the parties specified below. The development engagement document is annexed to the Bilateral Agreement with the National Treasury and constitutes an integrated part hereof together with the documentation specified below. The Danish support is part of the Danida Thematic Governance Programme 2015-2020 under the Danish country programme for Kenya. The engagement document is also available to the External Grant Committee of Danida.
- 1.2 The development engagement entails Danish support for the implementation of the Strategy for Public Finance Management Reforms in Kenya, 2013-2018 and its successor strategy. All PFMR themes are eligible for support. Allocations will be determined annually in a Joint Steering Committee. Some Danida funding is beforehand earmarked for Technical Assistance (TA) regarding monitoring and evaluation (M&E). The support covers the period January 2016 to June 2020.

2. Parties

- 2.1 The Danish Embassy, Nairobi and the National Treasury (NT) of Kenya.
- 2.2 Signatories will be the Danish Ambassador representing the Government of Denmark, and the Cabinet Secretary to the National Treasury of Kenya.

3. Documentation

- 3.1 The Strategy for Public Finance Management Reforms in Kenya, 2013-2018, and its successor document.
- 3.2 The Mid Term Review (MTR) of the Danida Kenya Country Programme will recommend on support after the current PFMR strategy ends in 2018.

4. Brief description of the Public Financial Management Reforms Secretariat

- 4.1 The PFMR secretariat is a unit within the National Treasury (NT) that coordinates and manages the PFMR Strategy. The PFMR secretariat established 2006 consists of 20 staff. It is led by a PFMR Secretariat Manager who reports directly to the Principal Secretary of the NT. The PFMR Secretariat also coordinates aspects of the reform strategy that relate to stakeholders outside the National Treasury, for example the Commission on Revenue Allocation (CRA), the Kenya Revenue Authority, the Office of the Controller of Budget, the Public Procurement Oversight Authority, the Office of the Auditor General, Parliamentary Budget Office, Transition Authority and the Council of Governors Secretariat. The roles and responsibilities of the PFMR secretariat include: planning, monitoring and evaluation; provision of technical expertise in PFM reform programme management; consolidation of Annual Work Plans and

cost estimates as well as coordinating the reform budget with the national budget and its accommodation within the Mid Term Expenditure Framework (MTEF); financial management; communication of reforms and program performance; and performing the secretariat role to the Steering Committee (SC), the Technical Committee (TC) and the PFM Sector Working Group (SWG).

- 4.2** The Secretariat manages a basket fund through which Development Partners’ (DP) support and some of Government of Kenya (GoK) funds for PFM reform are channelled. GoK financing is allocated through the regular budget process. Currently Denmark and Sweden are the only DPs that use the basket funding mechanism.
- 4.3** The PFMR strategy was developed through a comprehensive consultative process, including Denmark and other development partners. It incorporated lessons learned from the previous strategy, requirements from the PFM Act 2012 and the Public Expenditure and Financial Accountability (PEFA) findings of 2012. The strategy is structured along 7 priority themes. The first four relate to the annual budget cycle, whereas the other three are cross-cutting. In addition there is an eighth theme ‘programme management’ with the purpose to ensure efficient co-ordination, planning, monitoring and implementation of the PFM Reform Programme.

Theme		Overall Objective
1	Resource Mobilization	To enhance collection, accounting and timely reporting of public revenues at national and county governments, in line with macroeconomic fiscal policies.
2	Resource allocation	Ensure participatory, effective and equitable allocation of public funds in line with national and county Government priorities.
3	Budget Execution, Accounting, Reporting and Review	To ensure efficient and effective budget utilization, accurate and timely accounting and reporting and effective scrutiny and review of expenditure of public resources at national and county governments.
4	Independent Audit and Oversight	To ensure accountability of Public Resources and oversight and effectiveness and lawfulness in the collection and application of Public Funds.
5	Fiscal Decentralization , and Intergovernmental Fiscal Relations	To establish and implement a framework for fiscal decentralization and to facilitate timely disbursements and efficient delivery of services in a transparent and accountable manner.
6	Legal and Institutional Framework	Develop a consistent and harmonized PFM legal and institutional framework.
7	IFMIS Re-engineering	An excellently secure, reliable, efficient, effective, and fully integrated public financial management system.

5. Background and Theory of Change

5.1 Context

The Government of Kenya, with support from its partners, has undertaken several previous PFM initiatives to improve systems and processes. The Strategy for the Revitalization of PFM Systems in Kenya (2006-2011) was developed to guide reforms in the PFM sector.

In 2010, Kenya enacted a new Constitution that ushered in a new PFM architecture. The spirit of the Constitution was to ensure that there is accountability and openness in the process of raising, allocating and accounting for public resources. In addition, it aimed at strengthening the separation of powers between the three arms of government. The Constitution created 47 county governments and new PFM institutions. Some of the institutions have included the Commission of Revenue Allocation (CRA) charged with the responsibility of advising on the distribution between the national and devolved government and the sharing of resources among the 47 counties. Another new PFM institution is the Controller of Budget whose main responsibility is to ensure that the budget is implemented as approved by parliament i.e. by ensuring withdrawals from the consolidated fund are legally approved. In addition to creating new counties and PFM institutions, the Constitution expanded mandates of existing PFM institutions which included the National Treasury and the Auditor General.

Although Kenya's PFM system over time has made progress this has not translated into noticeably improved performance. The most recent PEFA assessment for Kenya¹ in 2012 showed little change from the previous 2008 PEFA. Areas of concern were: Extent of unreported government operations; Effectiveness in collection of tax payments; Timeliness and regularity of accounts reconciliation; Availability of information on resources received by service delivery units; and Scope, nature and follow-up of external audit. There are however areas where there is slight improvement. Positive changes can for instance be found regarding the annual budget preparation process as well as increased capacity both regards internal and external audit². Since the latest PEFA Assessment there is no strong evidence base available. Nevertheless there are promising signs of improvement, for instance, Public participation in PFM in Kenya is now provided for both in the Constitution as well as in the PFM Act (2012). The new Integrated Financial Management Information System (IFMIS) has taken time to be implemented but at the national level all units are now connected. In this way, the county treasuries, the Accountant General, the Controller of Budget and the Auditor General have access and control to resource flows to and within the counties³.

Denmark has been supporting PFM reform in Kenya since 2006. The support has continued through the current Danida governance program (Kenya Governance Support Programme, KGSP) and the revised PFM component (2014-2015). The current support is already aligned with the PFMR Strategy 2013-2018.

A number of Development Partners are providing support to PFM reform in Kenya and are members of the PFM sector working group. This includes the African Development Bank (AfDB), Germany (GIZ), Sweden, USAID and the World Bank.

To ensure coordination, the Danish Embassy is an active member of the PFM Development Partner Group (PFM DPG). The PFM DPG also engages with the PFMR Secretariat thus constituting the PFM Sector Working Group (SWG). It is the Danish Embassy's intention to lead by example in order to bring more DPs to the basket mechanism and contribute to strengthened coordination and alignment. A step towards this may be by establishing a Joint Financing Arrangement (JFA). In a first instance the momentum could be built incrementally through the DPs that are the most aligned and likeminded (e.g. Sweden).

5.2 Justification including lessons learnt

¹ https://ec.europa.eu/europeaid/sites/devco/files/report-pefa-assessment-kenya-201208_en.pdf

² Public Expenditure and Financial Accountability (PEFA) Assessment – Final Report, 8 August 2012.

³ Status of Public Financial Management Reforms in Kenya: Briefing Paper - Background document prepared for Danida Appraisal mission, 20 February 2015, The Law and Development Partnership.

The PFMR DED is relevant to the Strategy for Denmark's development cooperation” The Right to a Better Life”, its human rights based approach and its four fundamental principles. The focus of the DED is on the duty bearers, but not solely, and on transparency and accountability. Access to information is an integral element in the human rights-based approach. The DED shall strengthen the GoK's capacity to ensure that decision makers and the public administration in the management of public resources and their public sector management can be held to account. Transparency and accountability in the PFM system are enabling and necessary, but not sufficient, factors for participation and inclusion of citizens in public decision-making and administration. The Strategy for Denmark's development cooperation sees the fight against corruption as part of promoting good governance and the development of democratic institutions, and increased capacity and decentralisation in the public sector. An improved PFM system, with increased tax revenue, can also promote democratic accountability between state and citizens, because a tax-paying population has a stronger incentive to hold their political leaders accountable for the use of their taxes.

Some of the PFM reform results achieved to date, and to which Denmark has contributed include: that there is a marked improvement in revenue collection since 2006; single chart of accounts has been developed for IFMIS; IFMIS cash management and fixed asset modules have been rolled out to at least 10 ministries; an “IFMIS academy” is established and operational; and for the financial year 2013/14 consolidated financial statements for national government agencies was produced for the first time.

A lesson learnt from the support to date is that PFM reforms takes time and it is important to stay the course. Although the PFM system performance may not have made tangible progress there is observable improvement in key areas of the PFM system, like external audit in terms of both autonomy of the institution (OAG) and its performance. International experience shows that as anti-corruption is rarely a clearly stated objective of PFM reform, its effectiveness in this area is seldom gauged. However there are indications of a positive correlation between PFM reform and anti-corruption as improved performance of PFM systems is likely to have an impact on (bureaucratic) corruption, through improved budget execution and accounting tools. One area where a positive correlation can be safely assumed is between IFMIS and decreased corruption. Here ICT allows for faster and more comprehensive data processing. Nevertheless, IFMIS alone will not lead to a significant decrease in corruption⁴. International experience further shows that PFM reforms deliver results when three conditions coincide: a strong political commitment to their implementation; reform designs and implementation models are well tailored; strong coordination arrangements – led by government officials – are in place to monitor and guide reforms.⁵ A key lesson-learnt from Kenya, informing the design of the Danida support, is the good experience of a basket fund under the management of the PFMR-secretariat⁶. Successful implementation greatly depends on the timely availability of funds, i.e. when the implementing institution needs them and the KGSP review, supported by external evaluation, emphasises country systems as the preferred option⁷.

⁴ Public financial management reforms in developing and post-conflict countries, Expert Answer 383, (May 2013) U4 Anti-Corruption Resource Centre, <http://www.u4.no>

⁵ Evaluation of Public Financial Management Reform Burkina Faso, Ghana and Malawi 2001–2010 Final Synthesis Report (Joint Evaluation Danida, Sida, AfDB): 2012:7, www.Sida.se/publications.

⁶ Kenya Governance Support Programme 2010-2015 – Public Financial Management Component, Draft Desk Appraisal Report, November 2013, MFA Denmark The report emphasises the need for all development partners party to the joint funding to subscribe to the common agreed procurement, disbursement and reporting procedure. Experience from third party managed arrangement showed poor absorption rates due to increased bureaucracy that hampered implementation.

⁷ Review Aide Memoire – Review of: Kenya Governance Support Programme (2010-2015), MFA Denmark & Evaluation Report of “Strategy to revitalise Public Financial Management Reforms 2006 to 2011 (including the transition period to June 2012”, , KPMG December 2012

The role of Denmark is to continue supporting PFM reform with a holistic systems approach to capacity development and by doing so reinforcing the coordination and steering of reform implementation.

The need and scope for continued PFM reform is emphasised by the GoK in the PFMR strategy 2013-2018. The document in its situation analysis points to a number of achievements, but in particular emphasises the remaining challenges that needs to be addressed so that the PFM reform strategy vision ‘a public financial management system that is efficient, effective, and equitable for transparency, accountability and improved service delivery’ can be achieved.

Kenya’s relatively high levels of poverty and inequalities impedes on the chances for the country to grow into a prosperous society as democracy and stability are hard to consolidate in contexts of poverty and inequality. The sustained high level of corruption is a negative factor. Corruption is by nature intangible and difficult to gauge exactly. However, Kenya has over time been ranked at the lower end of corruption indexes⁸ although Kenya has seen some positive developments with regard to curbing corruption over the last few years⁹. Part of the solution lies in continuing the reforms in public financial management.

The 2010 constitution brought about further opportunities but also challenges. Public Financial Management (PFM) under the devolved system of government has changed significantly. The 47 new county governments are now receiving and managing their own resources. However, the counties have yet to fully structure their internal PFM systems and build the requisite capacity.

In addition to the support to the PFM reform strategy, the RDE will also support the Kenya Accountable Devolution Program (KADP) managed by the World Bank. The KADP support aims at strengthened institutions and systems that enhance devolved service delivery, at national and county level. Among the program objectives one finds: Strengthened PFM systems; Enhanced oversight, transparency and accountability; County systems for access to information, participatory planning & budgeting. The DED Support to Civil Society, should i.a. result in increased capacities for Civil Society Organisations to engage with county level government in decision making processes regarding planning, budgeting & oversight. One of the expected partners is the Institute for Economic Affairs-Kenya seeks to promote open, active and informed public debates on key policy issues and accountability, mainly in the budget process. There is also a link to the Health Thematic Program. PFM is an integral part of establishing fully functional management systems for the implementation of devolved primary health care services and the capacity to manage resources in a transparent and accountable way and should also help reduce the risk of fungibility and fiduciary risks. Supporting the strengthening of PFM structures will contribute to the general capacity development of the counties.

5.3 Narrative for Theory of Change

⁸ See for instance Transparency International’s (TPI) Corruption Perception Index (CPI) (<http://www.transparency.org/cpi2014/results>). It is difficult to gather and verify hard data on corruption because of its hidden nature. Evidence is usually based on perceptions and opinions systematically and professionally gathered and subjected to diagnostic diligence and international comparison. In the TPI CPI of 2014 Kenya is ranked 145th out of 175 assessed countries, with a score of 25 out of a possible 100. The country consistently performs poorly in Transparency International’s Corruption Perceptions Index. Kenya has expressed a commitment to anti-corruption measures for more than 30 years but the actual achievement of corruption elimination is extremely low. Kenya’s anti-corruption policy and hence high-level legislative framework appears to be good but the actual implementation of that policy, however, is generally poor.

⁹ See for instance the ‘Business Anti-corruption portal (<http://www.business-anti-corruption.com>)

A weak PFM system means that scarce resources are wasted through poor allocations and inefficient management. The desired change is that there is a public finance system that promotes transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources in order to allow improved service delivery and economic development. Although PFM reform will not alone contribute to a significant reduction in poverty and inequality, or the eradication of corruption, it is a prerequisite and contributing element. A performing PFM system allows Kenya to manage its development and is a prerequisite for long term and sustainable poverty reduction.

PFM reform is a central element of Kenya's governance reforms. Democratic governance entails democratic control over resources so that the PFM system ensures that budget planning and discipline are compatible with macroeconomic stability, that resource allocation is in line with Kenya's vision 2030 and that development interventions are implemented efficiently and effectively, and results are monitored. The increased tax base generated by economic growth must be used so that Kenya can increasingly finance its public expenditures. A stronger tax system should boost government revenue and should pave the way for redistribution of resources for the benefit of the entire population. It is through the PFM system that Kenya's policies are transformed into actions and services are delivered. Although anti-corruption is not an explicit objective of Kenya's PFM reform it can be expected to contribute indirectly¹⁰ through providing for a transparent process of allocation of public resources; reliable and predictable cash management and revenue collection; and meaningful audit and oversight of the use of public money.

Some of the themes of the PFM reform can illustrate how change shall happen in the specific context.

Theme 1: Resource Mobilization. A prerequisite for sustainable development is the mobilisation of sufficient domestic resources.

Theme 2: Resource allocation: That the allocation of public funds in line with national and county Government priorities and that resource allocation is made on strategic decisions are key to a functioning PFM system. The intervention areas includes the development of structures for public participation in budget preparation and evaluation

Theme 3: Budget Execution, Accounting, Reporting and Review: Efficient and effective budget utilization, i.e. making the best possible use of available resources, entails value for money and that the collected revenue is available to the Treasury for use, is essential. It is important that aggregate reporting on tax assessments, collections, arrears and transfers to Treasury takes place regularly and is reconciled. Solid internal control systems and timely management information on compliance enable proper budget execution and reduce the waste of scarce resources.

Theme 4: Independent Audit and Oversight: The timeliness and quality of audit reports are key to ensuring accountability of the use Public Resources, its effectiveness and lawfulness. It is important that all parts of central government activity are subjected to proper review in order to exclude the possibility that major issues concerning the usage of funds may not be discovered and brought to proper attention. An important area where public money is spent, and should be so effectively and lawfully, is the procurement of goods and services. The failure to undertake prompt review of financial activity may either or both miss the opportunity to take corrective action and allow the misuse of funds to continue longer with consequential increase in loss or cost and more waste of resources.

¹⁰ See U4 Anti-Corruption Resource Centre, <http://www.u4.no/>

As for the cross-cutting themes, IFMIS (“Theme 7: IFMIS Re-engineering”) should be the infrastructure for a fully integrated PFM system, linking, planning, budgeting, expenditure management and control, accounting, audit and reporting.

A success factor for donor supported PFM reform is strong Government-led coordination arrangements to monitor and guide reforms¹¹. So the engagement also focuses on “Theme 8: Programme Management” that relates to efficient co-ordination, planning, monitoring and implementation of the PFM Reform. Towards this end Danida shall provide support to TA for finalising the M&E framework and to help roll it out¹².

Key assumptions, noted in the 2012 PEFA, as factors that might bring about significant change are: the 2010 Constitution, the Public Finance Management Act, a re-engineered IFMIS and the implementation of Devolution.

It is assumed that there is continued political ownership of PFM reform and will to build on the momentum created by the Constitution and the PFM Act. Furthermore is the assumption that the independent audit and oversight institution shall retain their autonomy, both in terms of legal mandates as well as appropriate means to carry out their tasks.

Another assumption is that the GoK and other development partners avail sufficient resources for the implementation of PFM reform in order for increased effectiveness of Danida support.

An underlying assumption is that the political situation in Kenya remains stable - and that latent conflicts are not aggravated - so that focus on implementing the constitution remains (including PFM reform and devolution).

6. Development Engagement Objectives

- 6.1 The overall vision for the partnership is to support the Government and people of Kenya in implementing their *Vision 2030* to create ‘a globally competitive and prosperous country with a high quality of life by 2030’.
- 6.2 The Thematic Governance Programme Objective is: Implementation of the Constitution and consolidation of an accountable, inclusive, and participatory democracy based on increased stability

To operationalise this, the objective is seen as having three intervention areas: Public sector effectiveness; Democratic practices; and Peace, security and stability. This DE is primarily implemented within the first area.

¹¹ Evaluation of Public Financial Management Reform Burkina Faso, Ghana and Malawi 2001–2010 Final Synthesis Report (Joint Evaluation Danida, Sida, AfDB): 2012:7, www.Sida.se/publications.

¹² The M&E framework is still in draft. Consequently, all the sub-components largely report against outputs and activities. Moreover, internal and external reviews suggest that M&E systems need to be in-built within the departments of PFM institutions to improve their processes e.g. frontline M&E on performance of various systems. However, all the PFM partners’ reports are output and activity based, although data on results and indicators is readily available and credible. The data is used for country-wide budgeting and planning during the MTEF sector budget hearings and resource allocation. See Assessment of M&E Systems of Grant Partners and Options for Updating Results Framework of the Danida Kenya Governance Sector Programme (April 2015), Adili Consulting

6.3 Outcome

The **expected outcome** of this Development Engagement is: A public finance system that promotes transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources¹³.

6.4 Outputs

Based on the available national results framework, areas highlighted in the PEFA 2012 and Danida priorities the following key outputs have been selected:

Output 1: Enhanced revenue collection

Output 2: Accurate accessible and timely government wide financial information and reports with clear accountability

Output 3: Accurate, user-friendly and timely independent audit reports based on a risk-based approach

Output 4: Strengthened capacity for public procurement and disposal oversight

Output 5: A functional monitoring and evaluation framework for the PFMR strategy¹⁴

7. Results Framework¹⁵

7.1 The PFMR secretariat is responsible for monitoring and reporting on the progress and performance of the development engagement using its own results framework and M&E system as detailed in Section 12 below. Progress will thus be measured through the PFMR strategy M&E framework. The parties have however agreed that the Danish Embassy will use the following results framework matrix with a limited number of outcomes, outputs and indicators for the purpose of reporting on progress and performance to the Danish constituency. Data to inform the reporting will be supplied by PFMR secretariat as part of the ordinary management of the engagement.

7.2 The parties have agreed to measure progress and performance by the following key outcome and output indicators. Within the first ½ year of implementation the PFMR secretariat will establish annual targets for these indicators.

Outcome		A public finance system that promotes transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources	
Outcome indicator 1		Improved Public Expenditure and Financial Accountability (PEFA) Assessment ratings	
Baseline	Year	2012	12 PEFA Performance Indicators (PI) were rated as [C], and 9 PEFA PIs were rated as [D]

¹³ Derived from the GoK PFMR strategy goal which is: “A public finance system that promotes transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development”.

¹⁴ The monitoring and evaluation framework for the GoK Public Financial Management Reform Strategy has room for improvement in order to be robust. There is a particular challenge to select outputs and output level indicators. It should be noted that the PFMR strategy will subject to a Mid Term Review in 2015 as well as a PEFA that will be done in 2016.

¹⁵ This support contributes to the realisation of national targets and its outcome, outputs and indicator targets are derived from these.

Target	Year	2020	All PEFA PIs rated as [C] are rated as [B] or higher, and all PEFA PIs rated as [D] are rated as [C] or higher
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Output 1		1. Enhanced revenue collection	
Output indicator 1.1		Taxes as % of GDP	
Baseline	Year	2013	24,1%
Target	Year	2020	25,6%
Output 2		2. Accurate accessible and timely government wide financial information and reports with clear accountability	
Output indicator 2.1		Timely, accurate and reliable financial data for managers and reports as per legal requirements ¹⁶	
Baseline	Year	2013	70% (functional classification and reporting utilised, county reporting in place)
Target	Year	2020	100% accurate and reliable
Output 3		3. Accurate, user-friendly and timely independent audit reports based on a risk-based approach	
Output indicator 3.1		Risk-based audit approach (methodology) implemented	
Baseline	Year	2013	20% of all audits are done based on a risk-based methodology
Target	Year	2020	100% of all audits are done based on a risk-based methodology
Output 4		4. Strengthened capacity for public procurement and disposal oversight	
Output indicator 4.1		Share of Government Procurement Entities (PEs) using electronic procurement (e-procurement)	
Baseline	Year	2013	No Government Procurement Entities using electronic procurement (e-procurement)
Target	Year	2020	100% of Government Procurement Entities on e-procurement
Output 5		5. A functional monitoring and evaluation framework for the PFMR strategy	
Output indicator 5.1		A functional monitoring and evaluation framework for the PFMR strategy ¹⁷	
Baseline	Year	2015	Not in place ¹⁸
Target	Year	2017	A functional monitoring and evaluation framework for the PFMR strategy in place

¹⁶ Source of data will be OAG and CoB reports.

¹⁷ Source: The service provider of the Danida Management Monitoring and Evaluation Framework shall provide the assessment in its reporting.

¹⁸ A results matrix has been developed but has not been implemented.

8. Risk Management¹⁹

The below risk matrix provides an overview of risk level and risk management measures. It is not exhaustive and focuses on key risks and has a joint GoK – Denmark approach to risk management within the framework of this Development Engagement.

Programmatic Risks						
Risk Factor	Likelihood	Background to Assessment of Likelihood	Impact	Background to Assessment of Potential Impact	Risk Response	Combined Residual Risk
Political will and commitment to undertake PFM reforms are not sustained	Unlikely	To date there has been political ownership of PFM reform and will to build on the momentum created by the Constitution and the PFM Act.	Major	Would the circumstance occur then it would have major negative impact on the PFMR strategy objective. However it may not necessarily impact that negatively on the objectives of all underlying intervention areas.	Acceptance combined with mitigation/reduction: - Sustained high level dialogue between GoK and DPs - Monitoring/oversight and preparedness to tighter earmarking of Danida inputs (to further support performing intervention areas and/or counter effects of the risk outcome)	Minor
The capacity to coordinate and implement PFM reforms may become insufficient	Unlikely	The complexity of PFM reform and multitude of stakeholders (in particular when factoring in devolution) may make PFMR secretariat capacity inadequate Inadequate, uncoordinated DP support may occur	Major	Would the circumstance occur it would impact negatively on the likely effectiveness of PFMR reform	Mitigation/ reduction: -To push harder for a Joint Financing Arrangement (JFA) enabling tighter coordination and management - Capacity development (including M&E TA support)	Minor
Inadequate financing for PFM reforms to an extent that seriously hampers implementation	Almost certain	Competing multiple priorities for GoK financing The financial needs and current gaps of funding are not satisfied	Major	Would the circumstance occur it would have negative effect on the effectiveness of Danida support and the PFM reform program	Mitigation/reduction - To push for a Joint Financing Arrangement (JFA) enabling improved targeting of PFMR support - Refinement of PFMR Strategy (for increased buy-in) on the basis of the PFMR MTR and forthcoming PEFA assessment	Minor

¹⁹ The section builds on the Danida Country Programming risk management model. The categories for risk factor likelihood range from Rare, Unlikely, Likely to Almost certain. The risk factor impact assessment ranges from; Insignificant, Minor, Major to Significant. Risk responses are: Avoidance, Mitigation/Reduction, Sharing or Acceptance. The residual risk (that remains after factoring in the effects of the planned risk response) range from Insignificant, Minor, Major to Significant.

Programmatic Risks						
Risk Factor	Likelihood	Background to Assessment of Likelihood	Impact	Background to Assessment of Potential Impact	Risk Response	Combined Residual Risk
					- Sustained dialogue between GoK and donors (from technical to high level)	
Danida becomes the 'Development partner of last resort' (also an institutional risk)	Unlikely	A potential consequence of the previous risk (Inadequate financing for PFM reforms)	Major	Would this circumstance occur the effectiveness of Danida support would diminish The Danida value for money would decrease (poor efficiency)	Mitigation/ reduction: - High level dialogue between GoK and the RDE - Monitoring/oversight and preparedness to tighter earmarking (to further support performing intervention areas and/or counter effects of the risk outcome) - The Danida MTR shall be used as a means for decisions in this regard	Minor
The Monitoring and Evaluation framework is not established as planned	Likely	It is almost certain for the first year of implementation, whereas the risk response will take gradual effect and the likelihood should be significantly reduced.	Minor	The circumstance will impact negatively on decision making (GoK and Denmark) as well as the Embassy's reporting back to Danida, but the magnitude is limited and likely to decrease due to the planned risk management	Mitigation/reduction: -Capacity development through M&E TA support - Clear and agreed management arrangement (including reporting criteria)	Minor
Institutional Risks						
Risk Factor	Likelihood	Background to Assessment of Likelihood	Impact	Background to Assessment of Potential Impact	Risk Response	Combined Residual Risk
Fraud, Misuse or misappropriation of funds within the PFMR program (Fiduciary risk)	Unlikely	The program contains procurement which is a risk area. Although unlikely, the risk factor cannot be ruled out The program is complex and the relative capacity of the OAG may be decreasing (level	Significant	Apart from the negative impact on the programme implementation and performance, this would entail high reputational risk levels for GoK PFMR stakeholders and Danida.	Mitigation/ reduction: - Use of country control and internal audit procedures, the program as such contains capacity development in this intervention area - If indication of need arise;	Minor

Institutional Risks						
		of resources allocated to audit compared to expanding budget)		For Danida it is a potential killing factor, in the long term, with regards to continued support	preparedness to complement the use of country systems with limited intrusive fiduciary safeguards e.g. external audits in a delegated arrangement with Office of Auditor General; allow and provide for procurement and value for money audits	

9. Inputs

9.1 Planned inputs

Budget in million Danish Kroner (DKK)					
Engagement	2016	2017	2018	2019	Total
Annual Work-Plans	11	10	10	9	40
Monitoring and Evaluation Technical Assistance.	1	1	0.5	0	2.5
Sub-total, PFMR secretariat	12	11	10.5	9	42.5
Specific reviews and audits (including PEFA), administered by the RDE	1.5	0.3	0.3	0.4	2.5
Grand Total	13.5	11.3	10.8	9.4	45

9.2 Indicative Ressource allocation broken down by PFMR strategy themes and objectives²⁰

Indicative Ressource Allocation in million Danish Kroner (DKK) 2013-2018			
Theme	Overall Objective	GoK input	Total estimated budget
Resource Mobilization	To enhance collection, accounting and timely reporting of public revenues at national and county governments, in line with macroeconomic fiscal policies.	35	185
Resource allocation	Ensure participatory, effective and equitable allocation of public funds in line with national and county Government priorities.	10	18.1
Budget Execution, Accounting, Reporting and Review	To ensure efficient and effective budget utilization, accurate and timely accounting and reporting and effective scrutiny and review of expenditure of public resources at national and county governments.	40	248.9
Independent Audit and Oversight	To ensure accountability of Public Resources and oversight and effectiveness and lawfulness in the collection and application of Public Funds.	33.6	467.6
Fiscal Decentralization, and Intergovernmental Fiscal Relations	To establish and implement a framework for fiscal decentralization and to facilitate timely disbursements and efficient delivery of services in a transparent and accountable manner.	26.5	301
Legal and Institutional Framework	Develop a consistent and harmonized PFM legal and institutional framework.	20	144.9
IFMIS Re-	An excellently secure, reliable, efficient,	35.8	36.2

²⁰ The table is included for illustrative purposes and is endowed with some degree of uncertainty.

engineering	effective, and fully integrated public financial management system.		
Programme Management	Ensure efficient co-ordination, planning monitoring and implementation of the PFM Reform Programme	22	68.5
Total		222.9	1470

- 9.3** The overall indicative costing of the PFMR Strategy amounts to 20,3 billion KES (approx. 1,47 billion DKK) for the years 2013-2018. The Danida share of the input to the current PFMR strategy²¹ is approximately 4.5%. The GoK Kenya funding stands at 3.377 billion KES (approx. 209 million DKK) over the four year period. There is thus a substantial funding gap. Other key development partners providing support to the PFMR strategy include the World Bank, the International Monetary Fund (IMF), the African Development Bank (AfDB), Germany (GIZ), USAID and Sweden²²
- 9.4** Danish support will be phased over the life of the PFMR Strategy 2013-2018 and its successor strategy. Danida funds shall be committed annually through rolling three year work-plans (Mid Term Expenditure Framework). Danida funds shall not be used for running costs outside the Annual Work-Plan.
- 9.5** In order to address the needs within the area of M&E a particular envelope for TA in this area not exceeding 2.5 MDKK is earmarked for this purpose. The procurement of TA consultancy services will be managed by the PFMR Secretariat in agreement with the Embassy. In the event the financial needs for M&E TA prove inferior to the allocated 2.5 MDKK, remaining parts of this envelope may be reallocated for other purposes after consultation.
- 9.6** A budget line for specific reviews and audit, including contributing to the Public Expenditure Framework Assessment (PEFA), will be set aside. These funds amounting to 2.5 MDKK are to be administered by the RDE. In the event the financial needs for specific reviews and audits prove inferior to the allocated 2.5 MDKK, remaining parts of this envelope may be reallocated for other purposes after consultation.
- 9.7** Funds will be released according to commitments made towards the PFMR strategy Annual Work-Plans, reported performance against the work-plans and documented needs for replenishment.

²¹ Indicative Danida funds for the years 2016-18, to be administered by the PFMR, secretariat amount to 33.5 MDKK. Added to this are 36 MDKK disbursed under the previous program (2014-2015).

²² The current funding gap is difficult to estimate as there is no consolidated data on the volumes of development partner support available. There is however an ongoing endeavour within the PFM DP to update the support matrix to also include financial volumes and time frames. As a benchmark it can be noted that Sweden, the only other DP currently using the basket funding mechanism, supports the OAG with about 4 MDKK over one year (bridging support) administered by the Embassy, that is complemented by a TA support programme from its National Audit Office. Sweden is also targeting support to the Kenya Revenue Authority amounting to approx. 60 MDKK (including institutional cooperation with the Swedish Tax Agency).

10. Management arrangement

- 10.1** The overall principles for management of the present development engagement are described in the Implementing Partner Agreement to which this Development Engagement Document is annexed.
- 10.2** In the absence of a Joint Financing Arrangement (JFA), or similar document, regarding support to PFM reform and funding through the PFM reform account the parties have agreed to the following management arrangements in regard to this development engagement.
- 10.3** The daily management of the implementation of the Development Engagement is undertaken by the PFMR Secretariat. The PFMR secretariat will provide administration support to the implementation of the reforms supported by Danida funds. The PFMR Secretariat will consolidate work-plans into an overall three year rolling Annual PFMR Programme work-plan. The implementing institutions' underlying work-plans may be shared with the Danish Embassy for the purpose of monitoring progress and performance.
- 10.4** The Embassy's role consist of:
- Policy dialogue with the GoK
 - Participation in relevant joint GoK-donor group meetings e.g. Steering Committee, Technical Committee and Sector Working Group (SWG)
 - Participation in relevant development partner group meetings, in particular the PFM DP
 - Dialogue with civil society
 - Development engagement oversight
- 10.5** The Embassy will work within the implementing arrangements specified in the PFMR strategy. These include a PFMR Steering Committee and PFMR Technical Committee. Development Partners are also expected to engage through the PFM Donor Working Group and the PFM Sector Working Group (SWG).
- 10.6** In the event that the Embassy becomes the only Development Partner providing support through the PFMR account the Embassy may have to seek the establishment of a Project Steering Committee. Such a forum would consist of the PS National Treasury and the Deputy Head of Mission, Danish Embassy. The Mid Term Review (MTR) of the Danida Kenya Country Programme will take stock of this and may provide guidance in this regard.
- 10.7** All documentation forming a basis for decisions shall be submitted at least two work weeks before any decision making forums. This includes the proposed (Draft) Annual Work-Plan and its budget as well as the Status Report on the Implementation of the PFMR Strategy.
- The Annual Work-Plan and its budget shall be rolling over three years.
 - Reporting shall be cumulative of implementation to date, cover all interventions; both GoK and DP funded activities that are undertaken in order to implement the PFMR strategy.
 - Reporting shall focus on progress and performance. Activities undertaken and results achieved shall be explicitly linked to the Agreed Annual Work-Plan and the PFMR strategy results framework. Reporting shall draw on the established monitoring and evaluation

framework including indicators. It shall contain analysis of deviation, its consequences for future implementation and propose actions to address challenges and risks.

- Financial reporting shall, in addition to information on the use of and expenditure incurred of Danida funds, provide overall information on resources availed and used for the implementation of the PFMR Strategy.

10.8 As part of the implementation arrangements for the Danida Kenya Country Program all the Thematic Governance Program Partners will be invited annually for a stock-taking and information sharing workshop. It will i.a. treat achievements, challenges and lessons-learnt.

11. Financial Management and Audit

11.1 Both parties will strive for full alignment of the Danish support to the implementing partner rules and procedures. Financial management and procurement will utilise country systems. All procurement of goods, works, services and selection of consultants by the institutions will be in conformity with the PFM law, including the Public Procurement Disposals Act.

11.2 The yearly Audit of the Danish funds will be undertaken by the Auditor General. If implementation shows that the utilisation of country systems is not an appropriate modus operandi the Embassy may initiate audit conducted by an external audit company.

11.3 Accounting records shall be available for control by the Embassy of Denmark, by a representative appointed by the Embassy, or by the Danish Auditor General.

12. Monitoring and Evaluation

12.1 The PFMR Secretariat is responsible for monitoring and reporting on the progress and achievements of the development engagement using the PFMR strategy results framework and M&E system.

12.2 The PFMR Secretariat will coordinate and submit consolidated M&E information and reports. Each institution is responsible for collection and analysis of data to monitor achievements and implementation in relation the PFMR strategy results framework and the Annual Work Plans. Each institution will also submit the reports and findings to the PFMR Secretariat.

12.3 Apart from the specific M&E TA allocation, the cost of M&E shall be factored into the general M&E framework of the PFMR strategy and be part of the Annual Work-Plans

12.4 Monitoring will be based on:

- The established and agreed results framework of the PFMR strategy
- Narrative reporting from the PFMR stakeholder institutions (all quality assured by the PFMR Secretariat)
- Financial and audit reports from the PFMR stakeholder institutions (all quality assured by the PFMR Secretariat)
- Regular and continuous dialogue with PFMR stakeholder institutions

12.5 The Danish Mission and Danida shall have the right to carry out any technical or financial mission that is considered necessary to monitor the implementation of the programme. This includes:

- The annual Real Time Evaluation (RTE) managed by Danida Copenhagen over the period of the agreement using data collected by the PFMR Secretariat. Danida will also after the termination of the programme support reserve the right to carry out evaluation in accordance with this article.
- The Danida Management Monitoring and Evaluation Framework commissioned by the Royal Danish Embassy for the purpose of providing management information for the steering of the Danida Kenya Country Programme. All DED partners including the PFMR secretariat will provide data needed to measure progress and performance.
- The Mid Term Review (MTR) of the Danida Kenya Country Programme
- External and/or special audit (at the behest of the Royal Danish Embassy).
- After the termination of the programme support the Danish Mission reserves the right to carry out evaluation in accordance with this article.

13. Signatures

On behalf of

The National Treasury of Kenya

Signature

Cabinet Secretary

Date

On behalf of

The Danish Embassy, Nairobi

Signature

Ambassador

Date