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2. Project Objectives and Components:

a. Objectives:

According to the Development Credit Agreement (p. 22), the project development objective (PDO) was “The objectives of the Project are to: (a) strengthen the Borrower’s public financial management systems to enhance transparency; accountability and responsiveness to public expenditure policy priorities (PDO1), and (b) enhance public service delivery through effective implementation of Results Based Management (PDO2)."

The Project Appraisal Document (PAD, p. 2, 11) states the PDO identically, and notes that “the project will help support [Kenya’s] program to strengthen the management of public expenditure in order to improve fiscal discipline, bring resource allocations in line with development priorities articulated in the [Investment Program for the Economic Recovery Strategy], and improve the budgeting preparation and execution, reporting and evaluation processes. Activities to be initiated are intended to make budget processes and public financial management (PFM) more transparent, accountable, and responsive to policy priorities.”

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components:

The project contained three components, ten sub-components:

1. **Budget and Public Financial Management** (appraisal, US$ 16.5 million; actual, US$ 4.8 million). The objective of this component was to make budget processes and PFM more transparent, accountable, and
responsive to policy priorities. It was aimed at strengthening financial resource planning, budget preparation and implementation, strengthening financial controls, ensuring that allocation of government resources was consistent with policy priorities outlined in the government’s investment program for economic recovery, and reducing fiduciary risks by making procurement transparent and efficient, and by enhancing expenditure monitoring and audit.

1. Strengthening Budget Formulation. This sub-component supported the Government’s on-going efforts at streamlining budget formulation processes, strengthening the MTEF consultative mechanisms with stakeholders and alignment of expenditure with ERS priorities. It also supported various activities undertaken before budget formulation such as providing technical assistance to strengthen Sector Working Groups and in preparing sector reports.

1.2. Strengthening Budget Execution, Accounting, and Financial Reporting. In the short term, the subcomponent aimed to provide technical support to: (i) improve cash management; (ii) contain occurrence of further expenditure arrears; (iii) improve predictability of cash flow to spending units; (iv) improve payment systems; and (v) ensure payroll integrity. In the medium term, the principles, methodology and processes was expected to have been established for: (i) a system for financial reporting by semi-autonomous government agencies and local authorities on budget and contingent liabilities; (ii) expenditure classification systems along the principles outlined in the international standard classifications such as the UN Classification of the Functions of the Government (COFOG) and the IMF’s Government Financial Statistics (GFS); and (iii) a framework for the preparation and presentation of timely and comprehensive periodic financial management accounts and annual financial statements based on generally accepted accounting principles and professional best practices.

1.3. Strengthening Public Financial Management through the Use of Information Technology. This sub-component supported the Government in achieving two objectives: (i) timely capturing of accurate and verifiable data of budget execution, for improved financial reporting thereby reducing the opportunities for unaccountable discretion on the part of the executive; and (ii) providing enhanced internal controls to improve public expenditure management (including pay-roll management).

1.4. Strengthening the External Audit System. This sub-component supported the strengthening of capacity of the Kenya National Audit Office to become an effective institution that will enhance financial accountability in the public sector.

1.5. Strengthening the Internal Audit System. This sub-component supported the design and rollout of a risk-based audit approach to ministries and departments. It was intended to support the Internal Audit Department to complete their pilot risk-based audits in order to develop and document a new standard internal audit methodology and support its implementation.

1.6. Strengthening the National Procurement System. This subcomponent intended to support the Procurement Authority that was established following the enactment of the Public Procurement and Disposal Act 2005, and to further assist the development of an effective procurement monitoring and tracking system.

1.7. Support to Key Parliamentary Committees for Effective Oversight of PFM. This sub-component aimed to help enable the Parliament to play its oversight role in the area of economic management more effectively and to professionalize its interaction with the government, this subcomponent supported the various parliamentary committees in the area of economic management (budget preparation, budget execution, expenditure control and financial reporting).

1.8. Strengthening Revenue Collection and Management for the Kenya Revenue Authority (KRA). This sub-component supported the Government’s overall fiscal objectives, including revenue collection, enhance efficiency in utilization of resources, and improve effectiveness by adopting procedures and processes with the tax administration system. Activities focused in three main areas: (i) technical Assistance, training and equipment in order to restructure the Domestic Tax Department (TDT) from the current tax-based structure into a unified function-based tax administration; (ii) overhauling of the KRA’s information systems through the acquisition and introduction of a new modern integrated IT system for tax administration and supporting infrastructure for business continuity including a disaster recovery site; (iii) training and TA to upgrade and diversify the skills base in the organization to international best practice standards to the extent of supporting the skill base requirements of the reform program.

2. Capacity Building for "Results for Kenyans" (appraisal US$7.61 million; actual US$ 1.77 million)

2.1. Capacity Building Fund (CBF). The primary objective of this sub-component was to support the overall
shift toward effective management of key parts of the economy to fulfill Government commitments under the
ERS, and the related performance contracts for relevant ministries. This included, but not be limited to,
providing capacity building support to the five key ministries (Finance, Agriculture, Planning and Development,
Trade and Industry and Local Government).

2.2. Transformative Leadership and Ethics for Results Based Management

This sub-component focused on enhancing the change management capacity of leaders in the Public Service and their teams in delivering “Results for Kenyans.” It also aimed to enhance the development and promotion of a value system and code of ethics developed from the existing legislation as well as best global practice as a tool to rejuvenate the service orientation and accountability for public servants.

3. Technical Support and Capacity for Project Implementation

This component was to support the mainstreaming of program management within Government, initially through the expertise of short-term Consultants who were to help build the capacity of government officials and act as “mentors” to guide them in understanding various implementation issues such as procurement, project accounting, project management, and other cross-cutting themes such as Monitoring and Evaluation (M&E), and in developing and implementing a communication strategy.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

Project Cost: The total project cost at appraisal was US$ 47.92 million, funded by an IDA credit of US$25 million, an EU grant of US$ 6.9 million, a PHRD grant of US$3.15 million, a government, US$12.85 million. Actual project costs are not available, since information is lacking for the government’s contribution. Actual funding from IDA was US$10.46 million, EU, US$3.22 million, and PHRD, US$0.41 million. Thus, approximately US$14.4 million remained undisbursed from IDA due mainly to the decision of the Government to use its own funds when IDA resources were immobilized by: (a) the post-election crisis in early 2008; (b) the putting on hold the procurement clearances during the first half of 2009 due to fiduciary issues identified by the assessment undertaken in early 2009 by the Bank. In addition, stronger internal controls had not been put in place, but this was followed up including the appointment of a more senior -level Project Director of the Public Financial Management Reform Secretariat (PFMRS) and recruitment of additional financial management staff to ensure sustained and stronger fiduciary capacity.

Dates: The project was appraised in October, 2005, approved by the Board on January 24, 2006, and declared effective on July 19, 2006. In November 2010, the closing date of the project was extended from November 31, 2010 to August 31, 2011 in response to government’s request letter of August 31, 2010, requesting extension due to implementation delays caused by the post -election crisis in early 2008, the putting on hold the procurement clearances during the first half of 2009 due to fiduciary issues identified by the assessment undertaken in early 2009, as well as project administration and management changes taken by the government in mid-2009 to address and implement the action plan recommended by the Bank. On August 29, 2011 the project underwent restructuring to cancel the undisbursed balance of IDA resources, without a revision of project objectives. In mid-2009, the IDA Credit Agreement was also revised for the following reasons: (a) increase of the Prior Review thresholds of contracts that were financed under the Credit in accordance with the Association ‘s updated Consultant and Procurement Guidelines; (b) introduction of a new provision on Anti-Corruption; (c) revision of Part A.1 of Schedule 1 of the Agreement (Withdrawal of Credit Proceeds) for the purpose of revising the financing percentage of IDA financing to 100% for all expenditure categories.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

Substantial

A new Government, formed by the National Alliance Rainbow Coalition (NARC) which won elections and took office in December 2002, promised to enhance the public sector reform program with increased determination to address governance challenges, to implement democratic reforms, and to undertake key policy and institutional reforms to improve both the investment climate and service delivery.

- The objectives are substantially relevant to the governance pillar of the government’s strategy to improve public sector effectiveness was outlined in its Poverty Reduction Strategy Paper (PRSP), titled the Investment Program for the Economic Recovery Strategy for Wealth and Employment Creation (IP-ERS, 2003-2007),
prepared with the full participation of non-governmental organizations, Development Partners, and other stakeholders, and was debated and approved by parliament.

- They also reflect the Government’s own recognition of its weaknesses in civil service efficiency, and poor government management to address fraud risk, weak oversight, low capacity (particularly in accounting staff), and problems of project supervision that focuses more on documentation rather than physical evidence of implementation.

- Finally, they are consistent with the Bank’s Country Assistance Strategy (CAS, 2004-2007), in particular, to the CAS objective of building institutional capacity for improved service delivery. The project was linked to the Economic Recovery Strategy Support Credit (ERSSC), and complemented other lending instruments for institutional reform and capacity building such as the Financial Sector Adjustment Credit (FSAC). The project was also linked with the objectives of the World Bank Group Action Plan to support “The Challenge of Africa’s Development,” a results-oriented framework to support critical policy and public actions led by African countries to achieve well-defined goals, such as the Millennium Development Goals (MDGs).

IEG assesses relevance of objectives as substantial.

b. Relevance of Design:

Substantial

The strengths of project's design were three-fold:

- **Causal linkages project activities and expected outcomes**: The project’s components and planned activities reflect clear linkages to its development objectives, with activities outlined in the components reasonably expected to lead to intended outcomes. A detailed design summary provided a results chain, with the development objectives plausibly linked to outcomes, outputs, activities, and inputs. The project also provided technical inputs on various reforms that were being undertaken by the Government, including financial management reform, budget reforms, accounting reform, and procurement reform—vital reforms for enhancing transparency, accountability and responsiveness in the public sector. The focus on results through RRIs and RBM were also relevant in improving service delivery, and was also intended to provide a catalytic effect for the government to initiate a number of reforms outside the scope of the project.

- **Innovative capacity building fund (CBF) to promote service delivery**: The CBF aimed to fund sub-projects in a series of ministries that were involved in introduction of results based management initiatives with a clear focus on service delivery. Such challenge grants, governed by clear rules of access, fell within the mainstream of public sector reform efforts in Africa at the time of design, and were intended to provide flexibility in sequencing whole-of-government reforms across agencies and ministries. This approach also offers a simpler approach to designing multiple agency-specific components.

- **Pooled “basket fund” agreement to support donor harmonization**: As most donors (with notable exceptions) provided assistance to the Government through pooled funds, a Memorandum of Understanding was signed between the Government and several donors including the World Bank to support the Government’s Strategy to Revitalize Public Financial Management Reform 2006 – 2010. The Bank played a key role in consolidating external financing into this fund as a way of reducing borrower transaction costs.

These strengths were limited by two significant design shortcomings:

- **Excessive complexity of components**: Despite attempts to simply certain components (for instance, through the CBF and the pooled-fund arrangement), the project was burdened by a design that encompassed ten sub-components and the reliance on a large number of implementing agencies. The overall design placed a premium on a high level of strategic leadership across ministries and agencies. Given the capacity constraints facing Kenya’s government, options for simplifying project design would have appropriate.

- **Lack of reform sequencing and prioritization**: A key success factor for “whole of government” reforms is a set of priorities for sequencing different reform components. Neither the PAD nor the ICR provided information on the Government’s approach to strategic sequencing and coordinating PFM efforts by central control agencies within the Kenyan government. For instance, it is not clear, therefore, whether basic human-resources and financial management rules regarding staffing, promotion, and incentives were in place prior to the transition to performance contracts for ministries. Similarly, based on the information available, there was not evidence that RBI was implemented in the context of a formal performance management system (that is, rolling strategic plans, annualized performance agreements, etc.).
Given the strengths and weaknesses, on balance, IEG assesses relevance of design as substantial.

4. Achievement of Objectives (Efficacy):

The original PDO of the project was to strengthen PFM systems to enhance transparency, accountability, and responsiveness to public expenditure policy priorities, and to enhance public service delivery through Results Based Management (RBM). The ICR review assesses efficacy of PDO 1 and PDO 2 against achievement of both outputs and outcomes. Overall, the project resulted in several outputs but it fully met only two of eight targets, with four being partially met and two not achieved.

It should be noted, further, that while the PAD (p. 11) lists 10 indicators, the ICR lists 8. Moreover two of those indicators (on Skilled Public Accounts and Public Investments Committees submitting reports on annual basis, and on Skilled Finance Committees undertaking statutory functions), actually come from a single indicator in the PAD (on Skilled Public Accounts, Public Investment and Finance Committees of Parliament that undertake their statutory functions meet in a timely manner to discuss and act on reports). Consequently, ICR omits three PDO indicators contained in the PAD, namely: (i) Procurement entities adhere to the national procurement law; (ii) Ministries accessing funds under the credit develop strategic plans and show good performance in implementing; and (iii) External Resources Department is strengthened and develops and adopts an aid policy that bring order to donor support for capacity building. The ICR does not indicate why these indicators were omitted.

PDO1: Strengthening of PFM systems (Substantial).

Outputs

Several project outputs may be seen as partly contributing to the intended outcomes.

- Improvements to the external audit function have led to enhancements in the transparency of PFM functions. External audit reports are produced on a regular basis within the stated time and backlog of national audits was reduced from four years in 2009 to one year in 2010. Regular reports are published by the Public Accounts and Investment Committee of the Parliament, although its backlog was not eliminated within the second year of the project. Within-year deviations from actual aggregate expenditure of budget estimates have fallen from about 11% in 2004/05 to 7.2% in 2008/09 and further to 2.4% in 2010/11. The Integrated Payroll and Personnel Database has been rolled out beyond pilots to all ministries. Results of performance contracts are now published.

   External audit reports once cleared by Parliament are published on a Government website and available to the public, there remain delays. The Office of the Prime Minister has established a Performance Contract Department which evaluates the performance of public agencies and publishes the report/results which is accessible to the public through a website. The ICR notes that there remain slight delays in publication of annual audit report once audits are completed. The Public Procurement Oversight Authority (PPOA) is established and implementing procurement reforms for the purpose of effectively managing public resources.

- Expanded oversight by parliament and improvements to Integrated Financial Management Information Systems (IFMIS) contributed to increased public accountability in PFM. The Parliamentary Budget Committee is fully and legally entrenched in the budget-making process. The Implementation Committee of Parliament is established and following up on implementation of the Finance Committee report of Parliament. Integrated Financial Management Information System (IFMIS) became operational in MoF, Agriculture, Trade and Industry, Local Government, Planning and National Development. However, out of the six modules for the IFMIS, only three modules were rolled out for the automation of financial reporting of the targeted ministries, and these were not operational. Finally, a code of values and ethics has been developed in line with the Public officer ethics Act of 2003. Implementation of code compliance was 55% against the target.

- All ministries, departments, and agencies now have strategic plans and annual work plans that align with the medium-term plan for Vision 2030; (ii) Performance Contracting (PC) is undertaken by state enterprises as well as lower levels within institutions (68 tertiary institutions on PC); and (iii) Extensive training on PC has been carried out (over 3000 public officers trained). Thus progress has been made on PC, which is now widely understood and accepted as a performance management tool.

However, there has not been improvement in the predictability of cash flows to line ministries. Cash follow to line ministries has remained at an average of 85 percent over the three years ending June 2011. Payment arrears have been reduced from 3 months to 2 months. This represents moderate improvement, but the target of 1 month has not been achieved. Although an IT strategy has not yet been fully developed, part of the draft IT Strategy is already being implemented by the ICT Board and the Ministry of Information. Moreover,
although ministries are annually assessed and ranked according to their level of achievement of the indicators stated in the performance contracting documents (and the results of these assessments are made public), there is evidence that the recommendations from these assessments may be ignored. The Implementation Committee of Parliament (ICP) has been established but does not seem to take further action to ensure that the Central Government regularly implements annual audit reports recommendations that are endorsed by Parliament.

**Outcomes**

The following outcomes with respect to the objective of strengthening PFM were achieved with varying degrees of completeness:

- **Improvements in budget forecasting.** A comparison of actual receipts against the original budgeted figures over the years 2004/05 to 2006/07 indicated that the budget accurately forecasted actual revenue receipts: in two of the three years, actual revenue received exceeded the budgeted amount; in only one of these years was revenue collection below 99.7% of budgeted domestic revenue estimates. Budget presentation is now partly consistent with international standards. The budgetary and accounting classifications include administrative and economic classifications, but do not include functional or program classifications.

- **Enhanced external public-audit capacity.** The Kenya National Audit Office (KENAO) increased its audit coverage to 100% of the central government annually. The timeliness of submission of audit reports had improved considerably and KENAO had cleared its backlog in central government and is now producing the annual report every year. For the last three fiscal years KENAO has submitted its annual reports 6-7 months after the receipt of financial statements.

- **Strengthening of parliamentary oversight.** The Parliament has become more involved in the budget process through the Budget Committee. The Budget Committee members received advance information and became involved in sector working groups that prepare the budget which had given them more detailed information before the formal budget scrutiny. In June 2009, the Fiscal Management Act was adopted by Parliament, which allowed more scrutiny of the budget and public hearings.

- **Improved revenue mobilization.** The Kenya Revenue Authority managed to increase revenue collection from KSh 274.3 billion in 2005/2006 to KSh 634.9 billion in 2010/2011 representing a revenue growth of 131%. This had been achieved through automation of the business processes. Voluntary tax compliance improved from 88% in 2005 to 98.3% in 2011. The revenue growth had been estimated above 10% for each of the years of the program implementation. Tax debt to revenue ratio was reduced from 34.6% in 2005 to 14.7% in 2011. The cost of collection had been maintained at a level of less than 2% of the printed estimates and the timeliness of production of statistics was reduced from 48 days in 2005 to 38 days in 2011.

- **Risk-based internal audit.** The internal audit function is not fully in place, and local-government audit reports are in arrears. While a Risk Based Internal Audit Approach has been adopted in all the line ministries of Government, committees are not functioning effectively.

- **Budget predictability.** Budget allocations continue to be characterized by high leakage and poor implementation, especially related to development spending for several programs. Financial records have not provided sufficient information for decision-makers and have been limited in scope by one-dimensional hierarchical accounting structures and by the lack of automation. Quality of financial records has been relatively low and timeliness and design of reports has inaccurate. The production of annual reports ready for audit was often delayed or incomplete. Basic accounting and internal control procedures have been frequently modified and were not legally enforceable.

- **Civil service reform.** The civil service remained overstaffed and service quality was unstable and poor in key economic sectors such as telecommunication, ports, and energy. Pay reform was problematic because of the lack of a pay policy. In addition, poor harmonization of donor support to Kenya had led to uncoordinated interventions—fragmentation that did not improve governmental capacity and that ran counter to commitments made under the Paris Declaration/Accra Agenda. It is important to note that civil service reform outcomes are also related to PDO2 below.

**PDO2: Enhancing public service delivery through and effective implementation of Results-Based Management (Modest)**

**Outputs**

The main project output for RBM was the Results Units/Ministerial Management Units (MMUs), which have been established in all piloted ministries and beyond. The RRRUs/MMUs are expected to champion public sector reforms in their respective ministries. In a few Ministries (such as the Ministry of Agriculture and Ministry of Immigration), MMUs exist and appear to be operating effectively. However, in several governmental agencies, MMUs were either not established or did not become fully functional, although at least some of the envisaged
roles of the MMU are being carried out by different departments, most frequently by the Central Planning Units. A particular challenge with institutionalizing MMUs related to incentives for senior officers to join MMUs as well as the frequent personnel transfers that took place within governmental agencies, and in particular with personnel that staffed the MMUs. However, despite the ongoing challenges with establishing functioning MMUs across governmental agencies, they continued to be highlighted throughout the life of the program as critical for implementing and institutionalizing RBM.

**Outcomes**

With respect to the objective of implementing RBM, the Ministry of State for Provincial Administration and Internal Security used the Rapid Results Initiative to introduce customer service in all provinces and districts and service registers in all District and Chiefs offices. The Ministry of Immigration reduced passport issuance days from 60 to 10, and ID issuance days from 90 to 18 (in Nairobi) and reduced the waiting period for birth and death certificates from 14 to 5 working days. The Ministry of Water strengthened irrigation schemes and improved their registry. The Kenya National Trading Corporation developed systems to provide regular reports. The Ministry of Agriculture increased maize productivity in parts of Western Province from 2 to 6 bags per half acre through an RRI (and gains have been sustained by the farmers coming together themselves and forming grain banks).

Only one indicator is related to the RBM program (“accountability and capacity of public servants enhanced for the delivery of public service”). However, the RBM has been unevenly adopted (with Results Units, while being established, not becoming fully functional in several agencies) and due to logistical problems, as well as the problems in establishing incentives for staff to transfer to Results Units. In addition, there is scant evidence of increased accountability of the civil service, as well as limited information to make the causal inference that the establishment of RBM Results Units led to improvements in public service delivery or to the achievement of the second PDO. These shortcomings, along with incomplete civil service reform, suggest that the RBM intended outcomes have not been achieved.

**5. Efficiency:**

*Modest.*

Neither the ICR nor the PAD provided a cost-benefit analysis for the project, or an internal rate of return analysis for the demand-driven nature of subproject activities. Nor is there evidence of an economic or financial analysis carried out at appraisal. As such, it is not possible to know whether the costs of the project are outweighed by the financial and economic benefits produced.

However, the ICR does note that project activities were implemented using the least-cost approach mandated by procurement guidelines whereby goods were procured with the objective of obtaining the best value for money and consultants were hired with the view to getting the best technically qualified individual or firms for the money. It also states that training activities were budgeted and expensed in accordance with unit rates that were compared against prevailing rates in Kenya. Furthermore, to the extent possible, training activities were bundled and/or local institutions were engaged in training a much larger number of staff. Yet, the ICR does not provide data on regional or international comparators in evaluating efficiency of training and TA activities. Also, the ICR does not provide information on sourcing and recruitment of consultants or the characteristics (credentials, salaries paid) of consultants who were retained.

Other program elements that served to weaken project efficiency, including the utilization of project funds:

- **Coordination challenges due to overly complex design:** The large number of components and agencies proved cumbersome. Attempts to simplify design of component 2 through a CBF are noteworthy, however, similar efforts were not applied to component 1. As a result, as noted in the ICR (p. 33), sub-component leadership was weak, poorly coordinated, and leaders were not well informed about the project.

- **Need for stronger internal controls.** The restructuring document (August, 2011) says that procurement clearances were put on hold during the first half of 2009 due to fiduciary issues and that, while no fraud was identified, stronger internal controls were recommended and put in place.

- **Harmonized funding arrangements did not sufficiently prioritize IDA disbursements.** Since IDA funds were pooled with donor funds, some of which had to be used within one year, the basket fund risked relegating IDA funds to residual uses. The ICR does not indicate whether a side agreement was concluded with donors to ensure that Bank was not a residual contributor, but notes that an agreement allowed the PFMR Secretariat staff to apportion expenditures “according each [development partner’s] contribution in the basket fund during the reporting period” (ICR, p. 17).
Procedural bottlenecks in the financing of training. The ICR mentions cumbersome clearance procedures for training and other expenditures, leading the government to frequently substitute its own funds for IDA funding for these activities. Also, the no-objection process at the World Bank appears to have delayed majority of procurements, leading to significant implementation delays.

On balance, efficiency is therefore rated modest.

### a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

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* Refers to percent of total project cost for which ERR/FRR was calculated.

### 6. Outcome:

The project’s development objectives continue to be substantially relevant to country conditions and government strategy, and to the Bank Country Assistance Strategy. Project design was based on a plausible results chain linking activities to expected outputs and outcomes, and included some innovative elements. But it was excessively complex, failed to prioritize reforms, and needed to anticipate funds flow bottlenecks (especially those associated with basket funding). Even still, a number of project outputs contributed to some improvement in PFM capacity and performance, albeit with less-than-anticipated progress in improving accountability and in improving responsiveness to public expenditure priorities. With the help of the capacity building fund and a focus on results, certain ministries and governmental agencies improved service delivery. Ultimately, project outcomes were hindered by continued evidence of leakages in budget, lack of predictability of cash flows, lack of progress on IFMIS roll-out and civil service reforms in key ministries, delayed submissions of audit reports and weak enforcement of audit findings. Only two of eight targets were achieved.

In accordance with the IEG/OPCS Harmonized Evaluation Criteria, the assessment of relevance of objectives (substantial), relevance of design (substantial), efficacy of PDO1 (substantial) and PDO2 (modest), as well as efficiency (modest) lead to a project outcome rating of moderately unsatisfactory.

### a. Outcome Rating: Moderately Unsatisfactory

### 7. Rationale for Risk to Development Outcome Rating:

The ICR (p. 28) notes that “the IRCBP has been able to achieve a range of objectives . . . but it remains to be seen whether the institution strengthening can be sustained in the Kenyan context, where some degree of political and bureaucratic risks still exist.” A user satisfaction survey conducted in 2009 showed high satisfaction levels of the various customers of and employees of Government of Kenya. The overall customer satisfaction index was 63.5 per cent.

Although the satisfaction rating attests to high citizen ownership and therefore a high likelihood of sustainability, contextual conditions, political trends, changes of priorities, bureaucratic conflict and sheer loss of interest and momentum are potential constraints. In the Kenyan context, particularly, significant capacity constraints prevented full achievement of outcomes, representing potentially significant risks to ensuring that the gains in service delivery achieved under the project are sustained.

Finally, sustainability of any project benefits may be compromised by ongoing problems of political stability, and in particular, implementation of constitutional reforms that may spark disputes between stakeholders regarding their new roles and responsibilities.

### a. Risk to Development Outcome Rating: Significant

### 8. Assessment of Bank Performance:
a. Quality at entry:

The Bank’s approach to the design and management of the project followed most of the currently accepted principles of partnership and aid management identified in the Paris Declaration. The team identified the need for appropriate institutional arrangements for managing the reform process that are fully mainstreamed and linked to a clear strategic framework. The Bank was also instrumental in helping to consolidate external funding into a common basket in 2006 that, in turn, sought to reduce the transaction costs for Government through alignment with country systems. It succeeded in receiving special funds from other donors during the period 2007 to 2009 for work related to compliance with fiduciary requirements of the project. The Bank also deserves credit for attempting to put in place innovative schemes such as the Capacity Building Fund, and responding to the Government's desire to focus its public sector reform efforts on issues of front-line service delivery.

However, the Bank could have gone further in advising on the implementation and coordination challenges associated with complex "whole of government" reforms and Basket Fund arrangements. Some aspects of design -- including a dialogue on reform sequencing -- would have benefitted from a longer gestation period. The ICR does not discuss whether the multi-donor pooled funding arrangements (for example, the use of side agreements or lack thereof) either helped or hindered IDA disbursements. Also, in light of the fiduciary challenges associated with the project, the ICR could have provided more information on whether the Bank undertook adequate risk assessment upstream of design. Finally, the ICR does not provide evidence that the Bank advised the Government on priority setting and strategic sequencing of reforms. The quality of the dialogue on reform sequencing remains an issue.

**Quality-at-Entry Rating**: Moderately Satisfactory

b. Quality of supervision:

Supervision was undertaken at least twice each year from 2006 to 2009 that allowed the provision of on-site support to the Government team. During the period 2006-2009, the Bank task team provided prompt and relevant responses to requests from the Government team. The average period of response to requests for no-objections and review of terms of references was five working days except when documents were incomplete and/or the procedures used were not consistent with the agreed guidelines which took longer to process than the norm of five working days.

In addition, a Country Fiduciary Review (CFR) of May 14, 2009 found fiduciary weaknesses of the PFMR Secretariat that prompted the Bank to suspend the issuance of procurement clearances. As a result of the centralization of project management in the Ministry of Finance during the suspension period, the implementation of the PSR component (a heretofore well-performing component) was negatively affected by the interruption in the funds flow during the period that the procurement clearance suspension was in effect. Implementation all project components and activities were negatively affected by the suspension. There is insufficient information in the ICR to determine whether adequate fiduciary assessments were undertaken earlier in the project timeline. A Mid-Term Review was conducted in September 2009.

Between 2010 until project closing, supervision was inadequate. Only one implementation support mission was carried out. The lack of appropriate follow-up by the Bank on recommendations of the Mid-Term Review may have contributed to the operational problems that were confronted by the project near of just before the closing of the project. A key factor was the failure of the Bank to ensure timely succession of TTLs. After the original TTL moved on at end-CY2009, an ad-hoc arrangement was put in place through CY 2011. As a result, supervision and responsiveness to the client appear to have waned.

**Quality of Supervision Rating**: Moderately Unsatisfactory

**Overall Bank Performance Rating**: Moderately Unsatisfactory

9. Assessment of Borrower Performance:

a. Government Performance:
The Government took full ownership and management of the project, beginning in 2006. It sustained its role, despite the political crisis that evolved during the project. The Government's longer term strategic perspective contributed to the achievement of some project targets. It also took the initiative to launch intensive consultations held with key stakeholders (component teams and development partners) including the UNDP who had been coordinating donor support for financing the public sector reform (PSR) component of the program through a separate pool fund arrangement. The close partnerships during project preparation helped to develop activities to be supported by linking it to the priorities of the government’s ongoing PFM process. However, a more proactive Government stance on fiduciary issues may have helped avert delays in project disbursements and procurement. Also, it appears that the Borrower was not fully prepared for the requirements of complex “whole of government” reforms in terms of strategic oversight and change management -- a key success factor that was found to be lacking across certain ministries and agencies.

**Government Performance Rating**: Moderately Satisfactory

b. Implementing Agency Performance:

The PFM Secretariat was able to conduct work plans and meet its responsibilities for financial management, procurement, and external audit. Annual and quarterly project management reports summarizing progress and outstanding issues were prepared in a relatively timely manner as per the DCA requirements. Approved procurement contracts followed the procedures outlined in the project documents. While work plans were prepared with the view to prioritizing and scheduling various activities, there were often delays in finalizing the document that affected the timely completion of procurement plans.

However, progress of the project was hampered by the PFMRS's difficulties in coordinating and motivating the component teams that suffered from lack of effective synergies and common understanding of the procedures that had to be followed under the project. Miscommunication between the Secretariat and component-level agencies affected the timely processing of No-Objection requests. A country fiduciary review resulted in the replacement of the implementing agency financial management specialist. Financial records were generally maintained and annual external audits were commissioned on time and the reports delivered to the Bank within the stipulated six months after the preceding financial year.

**Implementing Agency Performance Rating**: Moderately Unsatisfactory

**Overall Borrower Performance Rating**: Moderately Unsatisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:

M&E plans were to be developed for each sub-component. Key indicators were to have been developed to measure progress in the attainment of the development objectives of the project as indicated in the Results Framework. For the PFM component, annual assessments were to be undertaken using the performance indicator set developed by the Public Expenditure and Financial Accountability (PEFA) Secretariat. The implementing agency in coordination with the newly established Monitoring and Evaluation Department in the Ministry of Planning and the Public Sector Reform and Development Secretariat were to establish a framework for regular reporting to the Government and the World Bank on input and output targets and progress. Outcome indicators were also to be monitored on a semi-annual basis both by the Government Team, the World Bank, and other donors during implementation support missions.

b. M&E Implementation:

The Results Framework and Monitoring matrix lists eight indicators and eighteen intermediate indicators. The indicators in this framework were used to monitor progress during the project implementation period. At the Government level, the Ministry of Finance was responsible for the overall implementation of project operations
and for reporting process and coordinating actions among other project -benefiting governmental agencies. Based on information in the ICR the Bank was also monitoring actions and reviewing progress of the project implementation, as well as the subsequent actions of the overall PFM and PSR reform program by using reform benchmarks and the overall program outcomes outlined in the PAD’s Results Framework and Monitoring matrix. The results achieved during the project implementation period were documented in Bank supervision missions “aide memoires,” and various project implementation evaluation reports carried out jointly by the Government, the Bank and other development partners. The ICR, however, highlights delays by the implementing agency in the introduction of the agreed monitoring and evaluation framework.

c. M&E Utilization:

The lack of an approved M&E plans for most of the PFM subcomponents minimized the usefulness of the M&E framework as an institutional learning tool for the government and therefore existed only as a “traditional tool for the Bank team to gauge project performance at a relatively macro level.” An M&E framework for the purpose of assisting PFM sub-components in adequately carrying out the reporting, use of data sets and various studies and analysis, was never finalized and, therefore, regular monitoring at subcomponent level was difficult.

M&E Quality Rating: Modest

11. Other Issues

a. Safeguards:

The project was Environmental Category C and therefore did not trigger an Environment Assessment.

b. Fiduciary Compliance:

The project’s financial management risk was rated moderate at appraisal. Overall financial management was adversely affected by weaknesses in reporting and “failure of the lead accountant to adequately train junior account staff during the first few years of the project.” There were also problems with the Government’s provision of counterpart funds during the early stages of the project although this issue was eventually resolved when the financing percentages of the expenditure categories under the IDA Credit was changed to 100 per cent IDA financing. The ICR also details how implementing agency staff could not, in interim financial reports to the Bank’s disbursement office, provide information of each donor’s contribution by category of expenditure, since all donor funds were contributed into the pooled fund—a problem resolved through an agreement that allowed implementing agency staff to apportion expenditures according each donor’s contribution in the basket fund during the reporting period.

The ICR characterizes procurement capacity as “weak at the component levels.” In particular, it notes that the Kenya Revenue Authority was often unable to receive procurement clearance on time due to its inability to comply with the agreed procedures for large procurement contracts. The delays in finalizing bid documents prevented these packages from being funded. According to the ICR, during the midterm review in 2009, it was recommended that the procurement capacity should be strengthened at the level of the components.

c. Unintended Impacts (positive or negative):

d. Other:

12. Ratings:

<table>
<thead>
<tr>
<th>ICR</th>
<th>IEG Review</th>
<th>Reason for Disagreement/Comments</th>
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<tr>
<th>Outcome:</th>
<th>Moderately Satisfactory</th>
<th>Moderately Unsatisfactory</th>
<th>Insufficient information regarding sequencing of PFM reforms; difficulties in improving accountability and responsiveness; lack of PDOs achieved.</th>
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<tbody>
<tr>
<td>Risk to Development Outcome:</td>
<td>Significant</td>
<td>Significant</td>
<td>Fiduciary weaknesses of the PFMR Secretariat discovered late; limited attention to implementation support after 2010, lack of follow-up by the Bank led to operational problems; due to Bank staffing changes supervision and responsiveness to the client appear to have waned after 2009. According to IEG guidelines, when quality at entry is rated &quot;moderately satisfactory&quot; and supervision is rated &quot;moderately unsatisfactory&quot;, the rating for Bank Performance is determined by the project's outcome rating, which in this case is &quot;moderately unsatisfactory&quot;.</td>
</tr>
<tr>
<td>Bank Performance:</td>
<td>Moderately Satisfactory</td>
<td>Moderately Unsatisfactory</td>
<td>Difficulties by the PFMRS in coordination; delayed implementation of project procedures to be followed; delays in finalizing procurement plans; mis-communication between the implementing agency and other agencies. According to IEG guidelines, when Government performance is rated &quot;moderately satisfactory&quot; and Implementing Agency performance is rated &quot;moderately unsatisfactory&quot;, the overall rating for Borrower Performance is determined by the project's outcome rating, which in this case is &quot;Moderately Unsatisfactory&quot;.</td>
</tr>
<tr>
<td>Borrower Performance:</td>
<td>Moderately Satisfactory</td>
<td>Moderately Unsatisfactory</td>
<td></td>
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<tr>
<td>Quality of ICR:</td>
<td></td>
<td>Unsatisfactory</td>
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**NOTES:**
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

**13. Lessons:**

The following lessons are derived from the IEG review and adapted from the ICR:

- Projects that support "whole of government" reforms should be tailored to the technical capacity of individual ministries and agencies, as well as Government's ability to ensure strategic coordination across ministries. In particular, numerous constraints and risks faced by the implementing agency are important lessons that should be taken into account when designing future similar operations.

- Even though emergent civil societies may become more assertive in demanding better services, public sector institutions can prove resistant to change. Sustained strategic oversight is needed to ensure that
investments in technical capacities lead to tangible improvements in organizational performance. Change management during periods of political uncertainty can provide especially challenging.

- Poor delineation of fiscal responsibilities between general government and the rest of the public sector makes it difficult to accurately establish the full extent of extra-budgetary spending or to clearly define general government.
- Appropriate political-economy analysis should support public sector technical modernization efforts. Post-election violence and coalition government consensus - building efforts took a long time to settle and resulted in unnecessary delays, while fiduciary weaknesses and leakages in government adversely affected procurement schedules.
- There is need for better empirical evidence on the sequencing of cross-cutting PFM reforms and agency specific changes in the sectors. Attempts to introduce performance management reforms may be stalled in administrative systems that follow a cash budget or those that lack effective strategic planning systems.
- While potentially effective in reducing transaction costs, pooled or basket funding arrangements have to contend with varied donor requirements. Some donors have annual appropriations processes while multilaterals such as the Bank can make multi-year commitments. Therefore, the Bank should take care (for example, through annual side agreements) to ensure that pooled arrangements do no relegate its funds to residual use.

14. Assessment Recommended?  ● Yes  ○ No

Why?

The IRCBP contains potentially important lessons for future state-building efforts in Kenya (particularly, as constitutional reforms proceed). Comparative analysis of organizational changes in different ministries can provide helpful in understanding factors that can contribute to service delivery improvements.

15. Comments on Quality of ICR:

The ICR provides important information on implementation of the project and its results. However, several sections do not contain sufficient information for a complete review of the project—including issue related to project design and Bank performance. The ICR does not give comment on missing outcome indicators or the discrepancy between the ICR and the PAD on indicators. The ICR does not give comment on missing outcome indicators or the discrepancy between the ICR and the PAD on indicators. The ICR also leaves out some important information:

- There is no information on the Government's approach to strategic sequencing and coordinating PFM efforts by central control agencies within the Kenyan government; nor is there evidence provided as to whether the Bank advised the Government on priority setting and strategic sequencing of reforms.
- There are no data on regional or international comparators in evaluating efficiency of training and TA activities, and there is no information on sourcing and recruitment of consultants or the characteristics (credentials, salaries paid) of consultants who were retained.
- There is no information on whether a side agreement was concluded with donors to ensure that Bank was not a residual contributor to the “basket fund,” and there is no discussion of whether the multi-donor pooled funding arrangements helped or hindered IDA disbursements.
- There is very little information as to whether the Bank undertook adequate risk assessment upstream of design and there is insufficient information to determine whether adequate fiduciary assessments were undertaken earlier in the project timeline—particularly important given fiduciary concerns.

Quality of ICR Rating: Unsatisfactory