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This action is funded by the European Union

ANNEX 3

of the Commission Decision on the financing of the Annual Action Programme 2019 in favour of the Republic of Kenya

Action Document for "Public Accountability and Service Delivery (PASEDE) programme"

1. Title/basic act/ CRIS number	Public Accountability and Service Delivery (PASEDE) programme CRIS number: KE/FED/041-658 financed under the 11th European Development Fund (EDF)	
2. Zone benefiting from the action/location	Kenya The action shall be carried out at the following location: Nairobi, Kenya.	
3. Programming document	National Indicative Programme (NIP) 2014-2020 for Kenya	
4. Sustainable Development Goals (SDGs)	SDG 5: gender equality SDG 8: decent work and economic growth SDG 10: reduced inequalities SDG 16: peace, justice and strong institutions SDG 17: partnerships for the goals	
5. Sector of intervention/ thematic area	Public financial management	DEV. Assistance: YES[1]
6. Amounts concerned	Total estimated cost: EUR 26 000 000 Total amount of EDF contribution: EUR 26 000 000 of which EUR 23 500 000 for budget support EUR 2 500 000 for complementary support [2]	
7. Aid modality and implementation modality(ies)	Budget Support **Direct management** through: Budget Support: Sector Reform Performance Contract	
8 a) DAC code(s)	15111 Public Finance Management 100%	
b) Main Delivery Channel	12000 – Recipient Government	

[1] Official Development Assistance is administered with the promotion of the economic development and welfare of developing countries as its main objective.

[2] Including the amounts foreseen for audit and communication and visibility (total EUR 500 000).

9. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	☐	☐	x
	Aid to environment	x	☐	☐
	Gender equality and Women's and Girl's Empowerment	x	☐	☐
	Trade Development	x	☐	☐
	Reproductive, Maternal, New born and child health	x	☐	☐
	RIO Convention markers	**Not targeted**	**Significant objective**	**Principal objective**
	Biological diversity	x	☐	☐
	Combat desertification	x	☐	☐
	Climate change mitigation	x	☐	☐
	Climate change adaptation	x	☐	☐
10. Global Public Goods and Challenges (GPGC) thematic flagships	N/A.			

SUMMARY

Following a challenging year in 2017 (drought, prolonged electioneering period, decline in private sector confidence), Kenya is set to rebound in 2018 and 2019. With a sound policy framework in place (President Kenyatta's Big Four agenda, the Third Medium Term Plan, Vision 2030), improvements around public accountability could further boost the implementation of Kenya's development agenda. After several years of expansionary fiscal policies to finance large scale public infrastructure investments, public debt has reached levels that now require fiscal consolidation to maintain debt sustainability and create space for an expansion of private investment. Building on Kenya's good reputation for macro-fiscal stability, improving certain aspects of Public Finance Management (PFM) will be at the core of making fiscal consolidation happen without compromising Kenya's growth potential, including the ability of the private sector to create jobs and reduce inequalities.

Kenya meets the budget support eligibility criteria in terms of macroeconomic stability, transparency and oversight of the budget, and sector policy. Specifically, the new PFM Reform Strategy (2018-2023) is highly relevant and credible to advance PFM reforms, improve service delivery in Kenya. The new PFM Reform Strategy provides a sound basis to implement a EUR 26 000 000 PFM sector reform performance contract.

This action fits in the framework of the United Nations 2030 Agenda for Sustainable Development ("2030 Agenda") and is in line with the Addis Ababa Action Agenda and the European Consensus for Development[3]. The general objective of the action is to promote macro-fiscal stability and service delivery in Kenya. The specific objectives of the action are (1) improved financial transfers to counties; (2) enhanced revenue mobilisation; (3) improved business environment and (4) sound public investment management. Direct outputs are (i) additional fiscal space created by the transfer of funds through fixed and variable tranches,

[3] OJ C 210 of 30.6.2017.

(ii) reduced transaction costs in terms of aid delivery and improved alignment to national policies, (iii) a constructive policy dialogue between the EU and the Government of Kenya in selected area of PFM and transparency as per an agreed monitoring framework; (iv) improved monitoring and reporting of PFM reforms; and (v) advisory services and technical assistance to the PFM Reform Secretariat. The induced output is the successful implementation of the PFM Reform Strategy (2018-2023) in areas supported by the action.

1 CONTEXT ANALYSIS

1.1 Context Description

The Kenyan economy has shown signs of strength and resilience in recent years with a growth rate ranging between 5% and 6% between 2013 and 2016 and moderate inflation. Despite a slight slowdown in 2017 (4.8%) due to poor rains, a decline in credit growth to the private sector and a prolonged electioneering period, early figures for 2018 show that a rebound is taking place (2018 Q1 growth was 5.7%), supported by more favourable weather conditions and a return of confidence among investors. Overall, the country has a diversified economic structure, with highly dynamic services sectors, and has consistently ranked among the best performing economies in sub-Saharan Africa.

In recent years, the Government of Kenya's expansionary fiscal stance has been an important driver of economic growth through both increases in Government consumption (e.g. support to the devolution process, creation of new institutions foreseen by the 2010 Constitution, accommodating wage increases in the public sector) and public investment (e.g. development of the Standard Gauge Railway, Geo Thermal plants, and other infrastructure). Conversely, the contribution of private sector investment to economic growth has been slowing down and eventually began declining in 2016 and 2017. With public debt levels on the rise, the International Monetary Fund (IMF) revised Kenya's risk of debt distress from low to moderate in 2018. Overall, economic growth in Kenya needs to become less dependent on public spending.

Opportunities exist for private sector investment to increase in Kenya. The latest Doing Business study (2019) ranks Kenya at place 61, up from 80 in 2018. A more attractive business environment, together with significant infrastructural assets (i.e. main airport and logistic hub in the region, certification services, access to the sea, road and railway network, and mobile penetration) and a reputation for political and macroeconomic stability provide Kenya with substantial opportunities in terms of investment, job creation and growth. Existing challenges include high cost of labour and pervasive corruption. Trading across borders remains also an area requiring further improvement in Kenya. Currently the country ranks 112 for this specific dimension, down from 106 the previous year.

Between 2005/06 and 2015/16, the share of the population living below the national poverty line fell from 46.8% to 36.1%. In rural areas, the number of poor dropped from 14.3m to 12.6m, while in urban areas the absolute number of urban poor increased from 2.3m to 3.8m. Overall, inequality reduced, e.g. the GINI coefficient of income inequality fell from 0.45 to 0.39.

Regarding cross cutting issues, the Government of Kenya is currently preparing a Gender Strategic Plan (2018-2022) and is implementing a National Climate Change Action Plan. Environmental management activities are coordinated by the National Environment Management Authority.

Kenya is party to core international human rights instruments including Convention on the Elimination of All Forms of Discrimination against Women; the International Convention on the Elimination of All Forms of Racial Discrimination; the Convention on the Rights of the Child; the Convention on the Rights of Persons with Disabilities and Convention against Torture and Other Cruel Inhuman or Degrading Treatment or Punishment.

1.2 Policy Framework (Global, EU)

This action fits in the framework of the 2030 Agenda in the sense that "public policies and the mobilisation and effective use of domestic resources are central to our common pursuit of sustainable development". It should contribute to the achievement of the Sustainable Development Goals 5 "gender equality", 8 "decent work and economic growth", 10 "reduced inequalities", 16 "peace, justice and strong institutions" and 17 "partnerships for the goals".

The action is also supportive of the Addis Ababa Action Agenda and in line with the "Collect more, spend better" approach of the European Commission in the sense that it promotes improvements in terms domestic revenue mobilisation, transparency and oversight in Kenya.

The European Consensus for Development considers that "budget support will help to promote SDG implementation, improve macroeconomic and Public Financial Management, and improve the business environment". The action is very much in line with this statement since the specific objectives of this budget support operation relate to devolution, revenue mobilisation, business environment and public investment.

The External Investment Plan and the Economic Partnership Agreements (EPA) negotiated between the EU and the EAC region represent additional policy tools available in Kenya that can provide leverage to achieve the action objectives (i.e. in terms of policy dialogue).

1.3 Public Policy Analysis of the partner country/region

Kenya Vision 2030 was launched on 10 June 2008 by then President, Mwai Kibaki. It aims at transforming Kenya into an upper middle income country offering a high quality of life to all its citizens by 2030. The Vision is being implemented through successive five-year Medium Term Plans (MTPs). The MTP III that covers the period 2018-2022 was launched in November 2018. The document incorporates key political orientations provided by President Kenyatta as part of the Big Four Agenda through manufacturing, housing, food security and healthcare. It prioritises policies, programmes and projects that should generate broad based inclusive economic growth as well as faster job creation and reduction of poverty and inequality. MTP III builds on past achievements; in particular large infrastructure investments rolled out under MTP II and seeks to enhance productivity in all sectors of the economy.

The MTP III is structured around several pillars. The economic pillar ("moving the economy up the value chain") identifies eight priority sectors with high potential of spurring the country's economic growth and development: tourism, agriculture and livestock, trade, manufacturing, business process outsourcing, financial services, oil, gas and mineral resources and blue economy. The social pillar ("investing in the people of Kenya") comprises education, health, environment, population, urbanisation and planning, gender youth and vulnerable groups and sports, culture and arts. The political pillar ("moving to the future as one nation") covers devolution, governance and the Rule of Law. The realisation of the objectives and targets of the three pillars hinges on the successful implementation of the following enablers: infrastructure, information and communication technologies (ICT), science, technology and innovation, land reforms, public sector reforms, labour and employment, ending drought emergencies, and security, peace building and conflict resolution. Policy orientations provided by the MTP III document are taken into account as part of the preparation of the Medium Term Expenditure Framework for the period 2019/2020 – 2021/2022.

On account of the recent difficulties faced by the country at the economic level (i.e. competitiveness issues leading to an increased current account deficit, vulnerability of agriculture to climate change) and political level (i.e. tensions observed during the 2017 general elections), as well as democratic aspects in a broader sense (i.e. gender discriminations, human right issues, youth unemployment, inequalities), the priorities set in the MTP III seem suitable to address the key challenges faced by the country.

1.4 Stakeholder analysis

The action foresees a budget support operation with the Government of Kenya (executive, legislative, and judiciary). Kenyan people, as recipients of public policies and services will be the final beneficiaries of this sector reform performance contract. Indeed, while the focus of the action is on PFM reforms, these should translate in improved service delivery for Kenyan people who are the right holders of public policies. The target groups are stakeholders and institutions in charge of the implementation of the PFM Reform Strategy, counterparts for the policy dialogue and beneficiaries of complementary measures. Key stakeholders identified in the results team of the PFM Reform Strategy and senior management of the National Treasury can be considered as duty bearers in charge of implementing the key steps required to deliver on the new strategy. As identified in the review of the previous PFM strategy, a better coordination between key stakeholders (duty bearers) and enhanced responsiveness and adaptability in the management of the reform process will be necessary to ensure that legal and regulatory provisions materialise into improved PFM processes and service delivery.

The National Treasury (NT) will be a key stakeholder for the action in the sense that it will provide the leadership and momentum for the implementation of the PFM Reform Strategy. The NT will also be the main counterpart for the policy dialogue through its Principal Secretary or Cabinet Secretary. Within the NT, the Public Financial Management Reform (PFMR) Secretariat will also play an important role as coordinator of the result areas and for conducting the monitoring and evaluation of the PFMR strategy achievements (i.e. release of a joint monitoring framework for development partners supporting the strategy). Other departments of the NT playing a role in the implementation of reforms targeted by the action are (i) the government accounting department, (ii) the inter-governmental fiscal relations department, (iii) the public procurement department, and (iv) the Public Investment Management unit.

The Kenyan Revenue Authority (KRA) is another key stakeholder in this action considering its role in the implementation of the PFMR strategy, in particular in the area of Domestic Revenue Mobilisation (DRM). Both domestic and external departments of KRA should contribute to improvements in the reform agenda. A Tax Administration Diagnostic Assessment Tool (TADAT) study was conducted in 2017, highlighting strengths and weaknesses of the revenue administration.

Other key stakeholders playing an important role towards the achievement of the PFMR Strategy 2018-2023 are the Controller of Budget, the Office of the Auditor General, the Financial Audit and Money Related Committees of the National Assembly, the Commission of Revenue Allocation, the Council of Governors, County Treasuries, the Attorney General, the Central Bank of Kenya, the Institute of Certified Public Accountants of Kenya, the Law Society of Kenya, the Salaries ad Remuneration Commission, the Kenya Law Reform Commission, the Kenya National Bureau of Statistics, and the Kenya Institute for Public Policy Research and Analysis and professional bodies.

Development partners (i.e. World Bank, IMF including East AFRITAC office, Agence française de développement (AFD), DANIDA - DK, GIZ (Gesellschaft für Internationale Zusammenarbeit) – DE, UNICEF) and civil society organisations involved in PFM and transparency issues will also play a key role regarding the monitoring of reforms and achievements of the PFMR strategy.

1.5 Problem analysis/priority areas for support

The Government of Kenya has adopted a strategic policy framework through Vision 2030. While this framework is comprehensive and well structured (successive MTPs providing space for consultation of stakeholders and integration into MTEF), shortcomings have been identified in the terms of service delivery on account of weakness in PFM systems. This observation is the starting point of the PFM Reform Strategy designed for the period 2018-2023. Indeed, while reviewing performances of MTP II and macro-fiscal performance, a relationship was established between weaknesses or poor performances at various stages of the budget cycle and service delivery of public policies, especially at county level.

The core problem that the action aims at addressing is the weak link between policy planning and budget planning and execution. In practice, this requires improving PFM functions with improved service delivery in mind. We present below an overview of the causal chain affecting service delivery in Kenya.

Despite pledges and efforts of the Government of Kenya to embark on fiscal consolidation, fiscal outturns in recent years have systematically deviated from the targets set at the beginning of the fiscal year. This is evidenced in the Budget Review and Outlook Papers (BROPs), the Budget Policy Statements (BPSs) and reports of the IMF on the Stand-By Arrangement (SBA) and Stand-By Credit Facility (SCF) concluded with Kenya in 2016. As a result, fiscal deficits had been on an upward trend, reaching 9.1% of GDP in 2016/17, and (external) debt service payments are steadily accounting for a larger of share of domestic tax collections, increasing the country's vulnerability to external shocks. With an increasing amount of expenditure allocated to debt servicing, fiscal space is becoming tighter for capital expenditures.

Failure to meet fiscal targets appears to have been a combination of inadequate tax policy measures (i.e. exemptions), faltering tax collections and a strong appetite for infrastructure investments on the expenditure side. Domestic revenue collections declined gradually from around 18% of GDP in 2013/14 to 17.1% in 2016/17, and then dropped sharply to 15.4% in 2017/18. Despite this sharp drop, 2017/18 saw a significant reduction in the fiscal deficit on the back of a dramatic cut to development spending. Again, this trend is at the expense of service delivery and implementation of Kenya MTPs. The fact that fiscal outturns deviated from targets also made the budget unreliable, as in-year adjustments undermined Ministries, Departments and Agencies' abilities to undertake long term programmes with better value for money.

As reported by 2017 Public Expenditure and Financial Accountability (PEFA), timeliness and reliability of transfers to Counties, Ministries, Department and Agencies is poor (i.e. cash rationing is taking place, usually through monthly releases of funds), affecting negatively the capacities of institutions to identify, formulate and implement their programmes. Shortcomings in terms of cash management therefore have an impact on service delivery.

To a large extent, past large deficits were financing big infrastructure projects, which to date have not yet yielded the expected returns in terms of enhancing growth or generated more tax revenues. Hence, systematic appraisal of public investment projects is necessary to avoid excessive spending's which eventually impact negatively other programmes (i.e. sector ceilings revised downwards) when fiscal consolidation is taking place.

With a new policy framework (Big Four Agenda) calling for a stronger participation of private operators in the delivery of public policies it is important that the business environment and, more generally, the investment climate be conducive to private sector development. Engagement with Kenyan private sector operators as part of the implementation of EU cooperation programmes (i.e. rural development, infrastructure), as well as meetings of the EU Business Council, provide suitable evidence on constraint faced by the private sector. Despite recent improvement made by Kenya in this area, as evidenced in the latest Doing Business report, further efforts are needed (i.e. ease of trade operations in terms of cost and time[4], predictability of taxes refunds, etc).

The PFM Reform Strategy 2018-2023 aims at addressing identified shortcomings. This action will support the following priority areas: devolution, domestic revenue mobilisation, business environment and public investment management. Disbursements earmarked for the achievement of indicators will be complemented by policy dialogue in the area of PFM, transparency and oversight, as well as with complementarity support to the departments in charge of achieving improvements in the priority areas of the action.

It is expected that improvements of PFM functions and better coordination between stakeholders should translate into improved service delivery (i.e. allocative and operational efficiency) as well as progress in terms of gender equality (i.e. gender responsive budgeting through the improvements of the standard chart of account) or environmental aspects (i.e. assessments foreseen under the public investment management templates).

Finally, it is important to note that corruption remains a high risk factor in Kenya that can hinder the efficiency of public policies. More transparent and accountable public finances as well as more corruption proof PFM systems will be promoted as part of policy dialogue for this action, in particular through the follow-up of findings from the Auditor General. However, the government response to corruption scandals will be discussed as part of the high level political dialogue between the EU Delegation and the Government of Kenya.

1.6 Other areas of assessment

1.6.1 Fundamental values

The EU Delegation submitted the Risk Management Framework (RMF) to the Budget Support Steering Committee (BSSC) meeting on 11 April 2018. During the course of the action, international commitments, democracy, the rule of law and the respect of human rights will be monitored and political risks will be updated accordingly in the RMF.

The current version of the RMF considers that political risks are moderate with substantial human rights risks, moderate risks relating to democracy, substantial risks relating to rule of law and moderate risks relating to insecurity and conflict. The EU Delegation to Kenya will continue monitoring political risks through the formalised political dialogue at Head of Missions level between the EU, its Member States and the Government of Kenya.

1.6.2 Macroeconomic policy

Since March 2016, Kenya has had in place two precautionary stand-by arrangements with the IMF which could provide access to up to about USD 1.5 billion in additional resources in case of balance of payments problems. Due to failure to complete scheduled reviews, actual access to these resources was suspended in mid-2017. One of the arrangements lapsed in March 2018, while the second was extended to September 2018 (with the suspension in place).

On Thursday 13 September 2018, the Kenyan Government announced that it would not seek to have a further extension of the programme, which was due for discussion at the IMF Board on 14 September. De facto, the IMF Board would not have been in a position to approve

[4] The current ranking of Kenya in the trading across borders indicator (Doing Business survey) is a source of concern as the country invested heavily in transport from Mombasa to Nairobi in recent years.

outstanding reviews, without which no further extension could be granted and the programme would lapse anyway. Key sticking points in the discussion between Kenya and the IMF are the pace of fiscal consolidation and the removal of a law that caps interest rates that commercial banks can charge when lending to the private sector. As noted above, the need for fiscal consolidation follows several years of massive borrowing on non-concessional terms to finance big infrastructure projects that address key bottlenecks to sustainable growth. Kenya's debt to GDP ratio increased from 51% as at end 2015 to close to 60% in 2018. Interest payments as a result of this borrowing are now putting a squeeze on the budget, even though the Kenyan government still has a number of investment projects lined up to be financed with additional loans. Hence, discussions with the IMF focused on several measures to increase domestic resource mobilisation, including the introduction of VAT on fuel[5]. The interest rate cap was introduced in 2016 when banks were seen to be making huge profits, yet lending rates were very high and making credit unaffordable. The law caps commercial bank lending rates to 4 percentage points above the central bank reference rate. As a result, it appears that some borrowers are now locked out of the official market, as banks feel they cannot charge an appropriate risk premium. Credit to the private sector in Kenya has been on a downward trend since mid-2015; however it must be noted that the whole East African Community (EAC) region is experiencing a slowdown in private sector credit. While a Finance Bill was tabled in Parliament to address revenue shortfalls, most measures did not make it into the Finance Law that Parliament submitted to the President, who promptly refused to assent to it. Therefore, by the time of the IMF Board meeting, the Government of Kenya was unable to adequately demonstrate that it could live up to the commitments signed up to under the IMF programme.

The overall macroeconomic situation indicates that Kenya is not in immediate need of an IMF programme. However, the lack of a programme could become a problem if it allows Kenya to waver when it comes to implementing the fiscal consolidation commitments, which could eventually undermine investor confidence and trigger adverse debt dynamics. The Government of Kenya has indicated that they would like to have a new programme in place but negotiations will take time and would certainly require Kenya to make progress on the issues mentioned above. The following table presents key indicators on real, monetary and external sectors.

Table 1: Key macroeconomic indicators in Kenya[6]

Indicator	**Year n-3**	**Year n-2**	**Year n-1**	**Year n[7]**	**Year n+1 (forecast)**	**Year n+2 (forecast)**
Real GDP (% change)	5.5	5.7	5.9	4.8	5.7	6.0
GDP per capita (% change)	n.a.	4.5	3.8	5.2	5.5	6.6
Inflation rate (Consumer Price Index)	6.9	6.6	6.3	8.0	5.0	5.3
Investment (% GDP)	22.5	19.5	17.5	19.7	21.9	22.6
Total revenue (% GDP)	19.1	18.8	18.6	19.0	18.9	19.0
- *Income tax (% GDP)*	8.8	8.4	8.2	8.2	8.3	8.4
- *Import duty (% GDP)*	1.3	1.2	1.2	1.2	1.2	1.2
- *Excise duty (% GDP)*	2.0	2.1	2.2	2.1	2.1	2.2
- *VAT (% GDP)*	4.5	4.3	4.4	4.4	4.5	4.6

5 Other reforms include a tax on some financial transactions, aka "Robin Hood tax", increased excise duties on mobile money transactions, increased excises on importation of large cars, a housing development levy, and a capital gains tax on property transfers by insurance firms.

6 Budget support guidelines template adjusted to accommodate classification of Kenya budget documents.

7 2017 for economic data or Financial Year 2017/2018 for budget data.

Total expenditures (% GDP)	28.2	26.6	27.6	26.8	25.5	23.8
- recurrent expenditures	15.4	15.2	15.2	16.1	15.3	14.4
- development and net lending	8.8	7.2	8.4	6.7	6.3	6.0
- interest payments	3.0	3.2	3.5	3.5	3.8	3.5
Net domestic financing (% GDP)	4.3	3.0	4.0	3.4	3.8	2.3
Net domestic credit to the Government	72.9	7.4	15.8	17.3	18.5	10.6
Broad money, M3 (% change)	18.6	8.1	6.0	13.0	13.1	19.8
Current external balance, including official transfers	-8.1	-3.2	-5.0	-6.1	-5.4	-5.5
Gross international reserve coverage in months of next year imports (end of period)	4.9	5.3	4.7	5.8	5.9	6.3
Gross debt (% GDP)	44.8	47.9	51.9	58	63.2	62.9

Source: National Treasury, IMF and KNBS

1.6.3 Public Financial Management (PFM)

PFM performances have improved in Kenya in recent years as evidenced in the 2017 PEFA and the Review of the PFM Reform Strategy 2016. Challenges include: revenue outturns are below potential and targets; recurrent expenditures represent more than 60% of total expenditures of the budget; timeliness of budget information on transfers to counties is poor; public investments do not undergo a thorough and systematic appraisal; there is insufficient information held by Ministries, Departments and Agencies (MDAs) on the stock and value of non-financial assets and an inadequate maintenance of fixed assets registers; operations take place outside financial reports; systematic over optimistic macro-fiscal forecasts lead to fiscal deficits at the end of the fiscal year; supplementary budgets are adopted during the course of the year hence the lack of reliability of agreed expenditures ceilings; uncertainty of predicted cash inflows and expenditure demands; procurement policies, systems and processes are not fully integrated, transparent, competitive and operational; and a lack of regular and timely internal audit reports.

These weaknesses are specifically addressed in the PFM Reform Strategy (2018-2023) through various results areas: (1) predictable and sustainable fiscal space to deliver policy priorities; (2) strategic and transparent spending on public investments and service delivery in line with national and local policy priorities; (3) reliable funding for service delivery and public investment; (4) value for money in procurement and contract management; (5) consolidated human resource information and automated payroll; (6) schools, health and other service facilities effectively manage public resources; (7) disciplined financial management and accurate reporting and (8) accountability delivered through audit, oversight and follow up.

As part of the 2019-2022 PFM Reform Strategy, a work plan has been prepared to specify an annual and multi-year summary of the tasks expected from the key stakeholders identified as responsible to achieve reform results. Monitoring and evaluation of the strategy will be coordinated by the PFM Reform Secretariat operating within the National Treasury according to the provisions of the strategy. With core PFM functions established in the 2012-2018 PFM Reform Strategy, a programme-based methodology is adopted for the 2018-2023 PFM Reform Strategy, moving away from a linear sequential approach towards a result focused, multi-stakeholders and cross-departmental iterative approach. This participatory flexible approach should focus on improving service delivery and performance of the PFM system. The PFM Reform Strategy (2018-2023) has been appropriated by the key stakeholders (i.e. formulation workshop and consultations) and is supported by the leadership of the National

Treasury. The PFM Reform Strategy (2018-2023) provides a framework to advance reforms agenda in both PFM and DRM areas as well as sound coordination mechanisms.

1.6.4 Transparency and oversight of the budget

Kenya scores 46 out of 100 in the Open Budget Survey 2017 conducted by the International Budget Partnership.

In terms of budget transparency and oversight, **the entry point is considered to be met, as the executive's budget proposal and the enacted budget were published in February 2018 and July 2018 on the National Treasury and Kenya Law websites** and are accessible for free. Moreover, the Controller of Budget releases quarterly financial reports, and the Office of the Auditor General releases independent audit reports.

Key weaknesses in this area are the late publication of audit reports, the lack of information provided to compare outturns with the approved budget for the past fiscal year and the use of different formats making monitoring complicated. While a clear and suitable legal framework is in place (Constitution and PFM Act), the objective of the policy dialogue in this area will be to improve compliance in terms of timeliness (external audits), historical comparisons and the format of documents. According to the International Budget Partnership survey, the situation has somehow deteriorated in terms of transparency and oversight of the budget, requiring monitoring as part of the policy dialogue.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Potential reputational risks in supporting a Government system that is weak in terms of corruption with a complicated human rights track record	H	• Careful communication around the targeted and results-oriented nature of a PFM Sector Reform Performance Contract; • Engagement on transparency and oversight as part of the policy dialogue (i.e. PFM and transparency monitoring table); • As evidenced in our recent political reports, the Government of Kenya is currently leading a fight against corruption under the leadership of President Kenyatta. This can be further addressed through political dialogue[8]; • Political risks identified in the RMF will be addressed as part of the broader political dialogue between the EU (EU Delegation and Member States) and the Government of Kenya. This political dialogue is operational since January 2018.
Occasional incidents that violate the EU fundamental values	M	EU fundamental values are addressed as part of the broader political dialogue between the Government of Kenya and development partners. Again, in terms of communication the nature of the budget support operation is clearly defined to a specific sector (PFM).

8 Political dialogue discussions should cover areas such as the enforcement of legislation regarding asset recovery, public procurement as well as monitoring of investigation and prosecution of recent corruption cases.

Given the relative wealth of the country, it needs to be established whether the government is open to engage in meaningful policy dialogue on the serious governance challenges this country faces	M	The fact that Government of Kenya wants to implement a development agenda based on specific strategies (i.e. PFM Reform Strategy) and concrete results, should be conducive of the dialogue. Other EU interventions in the country (i.e. European Development Fund (EDF) programmes, EIP, EPA, Migration Trust Fund) should also provide additional leverage to assert key messages.
Absence of an IMF programme leading to fiscal slippages	L[9]	Close monitoring of macro-fiscal aggregates as part of policy dialogue. The Government of Kenya and the IMF intend to negotiate a new programme in 2019.
Limited induced outputs in terms of socio-economic development	M	The budget support operation will focus on a critical sector (PFM) that can leverage benefits in terms of service delivery.
Poor performance in the achievements of the selected indicators	M	Policy dialogue and reforms derived from this budget support operation will gain momentum from other similar programmes (i.e. World Bank performance for result programme focusing on similar priority sectors).
Assumptions		
- Adoption, roll out and genuine interest in delivering the PFM Reform Strategy 2018-2023; - the Government of Kenya continues its efforts to main macro-fiscal consolidation even without and IMF programme in place; - Economic growth outlook materialise in coming years, allowing increased revenue mobilisation; - External lenders continue to consider the Government of Kenya as a reliable partner and the Government of Kenya continues honouring its repayments obligations (i.e. contracted loans).		

The main risk of non-intervention of the action (budget support operation) is that development cooperation delivered through programmes might not address the long-term challenges faced by Kenya, while other implementation modalities would significantly increase transaction costs for Kenyan institutions without supporting any policy dialogue.

It is crucial to support systems reform in Kenya that will allow improving service delivery efficiency and effectiveness. By not addressing this, there is a risk that Kenya's macro fiscal situation will deteriorate and a loss of fiscal space will not allow for the delivery of the ambitious developmental agenda.

3 LESSONS LEARNT AND COMPLEMENTARITY

3.1 Lessons learnt

The mid-term review of the current PFM Reform Strategy (2013-2018) conducted in 2016 (funded by DANIDA) suggests that addressing PFM challenges in Kenya cannot be achieved by individual departments alone but requires specific and coordinated interventions. Incorporating lessons learnt from recent experience (i.e. improvement in core PFM functions

[9] With frequent borrowing of funds on international markets the Government of Kenya has a strong incentive to maintain macro-fiscal stability in order to keep applicable interest rates low.

but persistent shortcomings in terms of service delivery), the new PFM Reform Strategy (2018-2023) will aim at building coalitions of actors from core PFM institutions as well as MDAs and counties to identify the full range of issues affecting service delivery and address them collectively. Multi-stakeholder consultations were conducted in 2018 to ensure a suitable buy-in to the design of the logic of intervention of the new strategy.

Furthermore, the design of the new PFM Reform Strategy (2018-2023) has been informed by the 2017 PEFA study carried out in 2017 (supervised and coordinated by the PFM Reform Secretariat). Findings from the 2017 PEFA in terms of weaknesses and recommendations informed the design of the new PFM Reform Strategy. The NT also benefited from various external studies in the area of PFM (i.e. East AFRITAC) and a TADAT[10] and PIMA[11] assessment were conducted in 2017 and 2018 respectively. Recommendations from the PIMA provided guidance in the design of the new Public Investment Management guidelines drafted and published by the NT in September 2018.

3.2 Complementarity, synergy and donor coordination

Through the implementation of the action, the EU Delegation envisages developing synergies with other EU funded programmes. Indeed, each selected indicator relates to current areas of cooperation between Kenya and the EU. This strengthens the rationale for the budget support intervention by creating synergies and leveraging impact across instruments. The focus on devolution will complement the IDEAS programme (10^{th} EDF); the focus on revenue mobilisation will fit in the context of the EAC-EU EPA implementation; the focus on business environment links up with the effort of the European Business Council in Kenya and is supportive to the achievements of the External Investment Plan; and finally, the focus on public investment management is complementary to our support to public investments in the area of infrastructure, energy and agriculture.

A Joint Programming Exercise is currently ongoing in Kenya. One of the themes addressed by the EU and its Member States though this exercise is Economic Accountability. Currently, DANIDA[12] and the Swedish Embassy[13] are supporting the PFM reforms (PFMR Strategy 2012-2018) and operations of KRA. GIZ has supported the Government of Kenya in the areas of procurement and audit and oversight, while DFID (Department for International Development) – UK supported the Government of Kenya Domestic Revenue Mobilisation. In 2018, *Agence française de développement* signed a Financing Agreement with the Government of Kenya to support the implementation of the PFMR Strategy through GESDEK[14] programme (EUR 30 million concessional loan and EUR 1.5 million technical assistance).

A basket fund is currently managed by the World Bank through the Kenya Accountable Devolution Programme, with PFM being one of the result areas of the public service and

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10 Tax Administration Diagnostic Assessment Tool.

11 Public Investment Management **Assess**ment.

12 A bilateral programme of EUR 5.8 million was implemented in support to accountability and transparency in the public sector, tax administration, audit and oversight of public resources and fiscal decentralisation.

13 As part of Sweden 2016-2020 Strategy, PFM reforms were supported through i) institutional collaboration Kenya Revenue Authority and Swedish Tax Agency (EUR 5,2 million 2014-2019) and ii) support to KRA’s Data Warehouse Business Intelligence Solution (EUR 3,9 million 2014-2019).

14 The programme for results to strengthen Governance for Enabling Service Delivery and Public Investment in Kenya (GESDEK) is a USD 150 million programme (concessional loans) managed by the World Bank in support to PFM reforms in Kenya.

institutional performance component of the programme[15]. Synergies between development partners are under consideration and coordination will take place more broadly with all development partners as part of the PFM Development Partner Group. It is recommended that going forward development partners supporting PFM reforms will liaise primarily with the PFM Reform Secretariat and monitor achievements through a Joint Performance Framework.

4 DESCRIPTION OF THE ACTION

4.1 Overall objective, specific objective(s), expected outputs and indicative activities

The **general objective** of the action is to promote macro-fiscal stability, service delivery and poverty alleviation in Kenya.

The **specific objectives** of the action are (i) improved financial transfers to counties; (ii) enhanced revenue mobilisation; (iii) improved business environment; and (iv) better public investment management practices.

The **induced output** is the successful implementation of the PFM Reform Strategy (2018-2023) in areas supported by the action.

The **direct outputs** are (i) additional fiscal space created by the transfer of funds through fixed and variable tranches, (ii) reduced transaction costs in terms of aid delivery and improved alignment to national policies, (iii) a constructive policy dialogue between the EU and the Government of Kenya in selected area of PFM and transparency as per an agreed monitoring framework; (iv) improved monitoring and reporting of PFM reforms; and (v) advisory services and technical assistance to the stakeholders in charge of implementing PFM reforms.

On the side of the Government of Kenya, the following activities are expected to achieve the above-mentioned outputs:

- Implementation of the PFM Reform Strategy 2018-2023 through different steps as described under each Result Area and pro-active monitoring review by the Result Teams (outputs i & ii);
- Preparation of disbursement notes regarding the achievement of target sets for the variable tranches (outputs i & ii);
- Participation to policy dialogue with the EU Delegation to Kenya based on an agreed PFM monitoring table (output iii);
- The PFM Reform Secretariat monitors the implementation of the PFM Reform Strategy 2018-2023 and reports on it in a timely manner, as foreseen in both the Strategy and in this Action Document for the selected indicators (output iv);
- Identification of needs to facilitate the implementation of the PFM Reform Strategy 2018-2023 and submission of Terms of Reference to the EU Delegation (output v);

On the EU side, the following activities are expected to achieve the above-mentioned outputs:

- Preparation of the annual eligibility assessment regarding public policy, macroeconomic stability, public financial management and budget transparency (outputs i & ii);
- Review and analysis of disbursement files and transfer of funds to the designated account (outputs i & ii);

[15] Phase II of the programme (2015-2019) is co-funded (USD 22.3 million) by the EU, DANIDA, the Embassy of Sweden, DFID, the Ministry of Foreign Affairs of Finland and USAID. Phase III (2019-2025) is currently under design.

- Participation to policy dialogue with the Government of Kenya based on an agreed PFM monitoring table (output iii);
- Launch of request for services (Framework Contracts) based on agreed Terms of Reference (output v).

4.2 Intervention Logic

The action's inputs comprise transfer of funds to the National Treasury, targeted policy dialogue on PFM and transparency weaknesses as per an agreed monitoring framework, monitoring of the performance of the five indicators[16] derived from the PFM Reform Strategy 2018-2023 work plan, and capacity building and advisory services through complementary measures. Combined with other main inputs of the Government of Kenya (implementation of MTP III, dialogue and engagement with the IMF, efforts to integrate gender budgeting), other external assistance programmes (i.e. GESDEK programme implemented by World Bank and AFD, support from DANIDA to the PFM Reform Secretariat, advisory services from East AFRITAC), support and dialogue conducted by the EU Delegation in relevant and closely related sectors (i.e. IDEAS programme on devolution; implementation of the EPA; roll out of the External Investment Plan; co-funding and technical assistance to public investment projects), these various inputs should translate into direct outputs, as mentioned above.

In turn, achievement of the induced outputs of the action (e.g. successful implementation of the PFM Reform Strategy 2018-2023 in areas supported by the action) and outputs of the Government policy (e.g. successful implementation of the PFM Reform Strategy 2018-2023 in all results areas) will collectively translate into the action outcomes: (i) improved financial transfers to counties; (ii) enhanced revenue mobilisation; (iii) improved business environment; and (iv) better public investment management practices.

Improvement in these PFM areas should contribute to the overall impact of the action: the promotion of macro-fiscal stability and service delivery in Kenya.

4.3 Mainstreaming

Although not specifically targeted in the action, improved PFM practices should contribute to integrate gender and environmental aspects - specific frameworks and strategies are currently designed or already operational in Kenya to mainstream gender and environment - during policy budgeting, planning and implementation.

The PFM Reform Strategy (2018-2023) does not refer specifically to gender dimension. However, it is foreseen under the second result area of the PFM Reform Strategy (Strategic and Transparent Spending on Public Investment and Service Delivery in Line with National and County Policy Priorities) that the Standard Chart of Account will be improved (i.e. more detailed categorisation). This should open the doors to improvements in terms of Gender Responsive Budgeting (GRB) with a view to enhancing its effectiveness in budgeting and accountability of resources as well as enhancing monitoring and budget analysis to advance the integration of the gender dimension in public policies.

Several civil society organisation and UN agencies (UNICEF, UN WOMEN) already operate advocacy and support activities with the National Treasury and county governments to advance GRB in Kenya. On our end we will monitor opportunities to discuss gender mainstreaming through our policy dialogue on PFM, transparency and oversight and advocate for the integration of GRB in Kenya budget cycle.

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[16] Each indicator relates to an outcome of the action, except for the outcome on 'improved business environment' for which two indicators are identified.

4. 4 Contribution to Sustainable Development Goals (SDGs)

This intervention is relevant for the United Nations 2030 Agenda for Sustainable Development. It contributes primarily to the progressive achievement of the following SDGs: SDG 5 on gender equality, SDG 8 on decent work and economic growth, SDG 10 on reduced inequalities, SDG 16 on public institutions and SDG 17 on partnerships for the goals. Improved PFM systems, transparency and participation to the budget process are conducive of sustainable growth, reduction of inequalities, accountable and inclusive institution and are favourable to global partnerships (i.e. fight against illicit financial flows).

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Decision and the relevant contracts and agreements.

5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for the budget support component is EUR 23 500 000, and for complementary support is EUR 2 000 000. These amounts are based on the 2017 mid-term review process and are earmarked to Public Accountability priority sector of the National Indicative Programme 2014-2020 concluded between the European Commission and the Government of Kenya.

The EU budget support (total amount) represents around 0.2% of ordinary revenue collected in Kenya during FY 2017/2018. Still, this would provide significant fiscal space for the government in a context of tough fiscal consolidation with a fiscal deficit expected to come down from 7.9% of GDP in FY 2017/2018 to 3.4% in 2021/2022. In terms of implementation of its development policies, the Government of Kenya experienced a difficult year in FY 2017/2018 as development spending went down from the expected 7.1% of GDP to 6.7% of GDP. Indeed, measures taken in Q4 of the fiscal year to reduce the deficit hit harder the development budget rather than recurrent expenditures that even increased compared to budgeted figures. Reining in recurrent expenditures is one of the key priorities of the new PFM Reform Strategy. Through budget support (monitoring of indicators and disbursements) and policy dialogue (building on other cooperation areas between the EU and the Government of Kenya), a significant leverage effect can be achieved to boost development spending and promote a sustainable growth.

5.3.2 Criteria for disbursement of budget support

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the PFM Reform Strategy 2018-2023 and MTP III and continued credibility and relevance thereof;

- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances;
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme;
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

b) The performance indicators for disbursement that may be used for variable tranches are the following: (i) 'Discrepancy between legal provisions and actual disbursement of the equitable share to counties' to measure compliance with devolution commitments; (ii) 'Average actual domestic revenue collection as a percentage of printed estimates' to measure improvements in terms of domestic revenue mobilisation and revenue forecasting; (iii) 'Time taken by KRA customs for imports clearance and inspection' and (iv) 'Efficient and transparent procurement systems' to measure improvements in the business environment and (v) 'Improved public investment management' to measure improvements in public project appraisal.

The chosen performance indicators and targets to be used for disbursements will apply for the duration of the action. However, in duly justified circumstances, the National Treasury of Kenya may submit a request to the Commission for the targets and indicators to be changed.

Note that any change to the targets should be agreed ex-ante at the latest by the end of the first quarter of the assessed year. The agreed changes to the targets and indicators shall be agreed in advance and may be authorised in writing (either through a formal amendment to the financing agreement or an exchange of letters).

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

The action foresees a combination of fixed and variable tranches, in roughly equal proportions, which provides a good balance between predictability and performance incentives. Any unspent amount from the variable tranches (i.e. when targets are not met) will be de-committed.

Table 1 Disbursement profile (in million EUR)

	2019/20	2020/21	2021/2022
Fixed tranche	7	3	2.5
Variable tranche		5.5	5.5

Variable tranches will be determined through a rolling performance process whereby targets are set in year n-2 for year n-1 and both performance and disbursements take place in year n. Allowing for some time to compile information, this means that disbursements will be effected around the middle of each financial year, except the first fixed tranche which will be released immediately following signature of the Financing Agreement.

Budget support is provided as direct untargeted budget support to the National Treasury. The crediting of the euro transfers disbursed into Kenyan Shillings will be undertaken at the appropriate exchange rate in line with the relevant provisions of the financing agreement.

5.4 Implementation modalities for complementary support to budget support

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures[17].

5.4.1 Complementary support - Procurement (direct management)

The EU Delegation to Kenya will set up a twinning with an EU Member State or will launch a launch a framework contract for technical assistance or advisory services based on requests received by the National Treasury in order to support the successful implementation of the new PFM Reform Strategy 2018-2023. A maximum amount of EUR 2 000 000 is set aside for this purpose outside the amounts foreseen for audit and communication and visibility (total EUR 500 000).

Subject	Indicative type (works, supplies, services)	Indicative trimester of launch of the procedure
Technical Assistance	Services	First semester of 2020

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions:

a) The Commission decides that natural and legal persons from the following countries having traditional economic, trade or geographical links with neighbouring partner countries shall be eligible for participating in procurement and grant award procedures: EU and ACP Member States. The supplies originating there shall also be eligible;

b) The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

	EU contribution (in EUR)
5.3 Budget support	23 500 000
5.4.1 Complementary support - Procurement (direct management)	2 000 000
5.9 Evaluation, 5.10 Audit	250 000
5.11 Communication and visibility	250 000
Total	**26 000 000**

[17] www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

5.7 Organisational set-up and responsibilities

The Financing Agreement will be signed with the National Authorising Officer in Kenya who is the Cabinet Secretary of the National Treasury. The National Treasury will be responsible for ensuring the participation of other relevant Ministries, Departments and Agencies (MDAs) in the implementation of the PFM Reform Strategy 2018-2023. The National Treasury will be the key counterpart of the EU Delegation to Kenya as part of the policy dialogue foreseen in the action.

The policy dialogue meetings will take place through the structures foreseen by the PFM Reform Strategy 2018-2023 to coordinate results teams and implementing departments as well as through a standalone meeting between the Principal Secretary of the National Treasury and the Head of Cooperation of the EU Delegation to Kenya[18], on an annual basis.

The structures foreseen by the PFM Reform Strategy 2018-2023 are (i) a PFM Sector Working Group (PFM SWG), the highest level authorising organ for the strategy in charge of policy dialogue, strategy direction and the provision of broad oversight and guidance on the delivery of results. The PFM SWG will meet once a year and will be chaired by the Cabinet Secretary of the National Treasury; (ii) a PFM Steering Committee, a key authorising and decision making organ in charge of strategy direction and the provision of oversight and guidance on the delivery of results. The Steering Committee will meet at least twice a year and will be chaired by the Principal Secretary of the National Treasury; and (iii) a PFM Technical Committee providing technical guidance to strategy implementation and facilitate cooperation and collaboration among the various implementing agencies and departments. The Technical Committee will meet at least once every quarter and the meetings will be chaired by the coordinator of the PFM Reform Secretariat. The EU Delegation to Kenya will participate in both the PFM Steering Committee and the PFM Technical Committee.

In addition, the National Treasury and the EU Delegation to Kenya will take part in relevant committees and or participate in key meetings foreseen as part of complementary measures mentioned in paragraph 5.4.

5.8 Performance and Results monitoring and reporting

The PFM Reform Secretariat will collect and compile data relating to performance indicators from the relevant stakeholders contributing to the implementation of the PFM Reform Strategy 2018-2023. A joint performance framework will be set up to accommodate the monitoring effort of development partners supporting the implementation of the PFM Reform Strategy. The following mechanisms are envisaged in the PFM Reform Strategy 2018-2023 to collect information:

Thematic annual departmental and thematic work plans and progress reports: these annual work plans and quarterly progress reports are a key operational tool for allocation of funds to specific reform activities. They should include the Government of Kenya and development partners funding for reform activities and capacity development from all sources and will be prepared by implementing departments and consolidated by the PFM Reform Secretariat. Reports will provide information on both activities implemented and funds spent. They will also include standard indicators for the application of crosscutting approaches relating to systems, capacity development, participation and integration.

Performance assessment of counties and MDAs: assessment of performance of counties and service delivery MDAs in the implementation of PFM systems is a key to determine a regular

[18] EU Member States interested in PFM reforms will be invited to this annual meeting as observers.

status and requirements for capacity building and support on the implementation of reforms. The annual capacity and performance assessment of counties is already instituted and implemented by the PFM Reform Secretariat. It will be adjusted based on the indicators developed in the strategy. An annual assessment of MDAs will be developed and commence in 2019-2020.

Results team action plans and results reports: this is the key operational level in management to examine progress towards results and degree on strategic changes or actions required as a comprehensive group of stakeholders. Results teams will prepare rolling action plans and update and report against them regularly. These action plans are intended to be dynamic and iterative. The PFM Reform Secretariat will support each result team to collect and provide evidence and compute status of achievement of key steps and results indicators. Result teams will be convened quarterly by the PFM Reform Secretariat and review and submit these reports to the Accounting Officer of the lead MDA and copy to the PFM Reform Secretariat Programme Coordinator.

Reporting on coordination, capacity and cross cutting issues: on a quarterly basis the PFM Reform Secretariat will report on progress in reform coordination, capacity building and in the implementation of cross cutting issues against the framework set out in the strategy. This will include a number of indicators, which will be included in the results framework.

The PFM Reform Secretariat will compile the relevant information from these various reports and draft a disbursement request capturing evidence/data to be submitted to the EU Delegation by the Cabinet Secretary of the National Treasury for the payment of the variable tranches. These disbursement notes will be submitted to the EU Delegation to Kenya no later than the end of the quarter following the year for which performance is under review. The Programme Operation Manual developed to accompany the implementation of the PFM Reform Strategy (2018-2023) does not currently foresee gender sensitive monitoring and evaluation. However, we plan to gradually raise the adoption of gender sensitive and right-based approach method principles as part of the policy dialogue. Eventually, the PFM reform monitoring and evaluation mechanism should report on participation, non-discrimination and equal access.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the partner's strategy, policy or reform action plan list.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9 Evaluation

Having regard to the nature of the action, a final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that EU budget support was not operated in Kenya for more than ten years.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least one month in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

It is foreseen that audit services may be contracted under a framework contract.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Requirements for European Union External Action (or any succeeding document) shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

Communication and visibility of the EU will build on the initiatives already taken by the Government of Kenya, in particular through the website of the PFM Reform Secretariat. The Communication and Visibility Plan may include other communication material such as brochures, press releases, and if feasible, TV and radio spots to secure outreach and proper communication about the PFM Reform Strategy to targeted audiences.

It is foreseen that a contract for communication and visibility may be contracted under a framework contract.

APPENDIX – INTERVENTION LOGIC TABLE

	Results chain: Main expected results (maximum 10)	Indicators (at least one indicator per expected result)	Sources of data	Assumptions
Impact (Overall Objective)	The general objective of the action is to promote macro-fiscal stability, service delivery and poverty alleviation in Kenya.	Fiscal deficit in percentage of GDP Gross Domestic Product growth Poverty levels in urban and rural areas	Budget documents (i.e. BPS, BROP) IMF and World Bank reports KNBS reports and household surveys	*Not applicable*
Outcome(s) (Specific Objective(s))	The specific objectives of the action are (SO1) improved financial transfers to counties; (SO2) enhanced revenue mobilisation; (SO3) improved business environment; and (SO4) better public investment management practices.	**Discrepancy between legal provisions and actual disbursement of the equitable share to counties* (SO1)** **Average actual domestic revenue collection as a percentage of printed estimates* (SO2)** **Time take by KRA customs for import clearance and inspection* (SO3)** **Efficient and transparent procurement systems* (SO3)** **Improve public investment management* (SO4)**	Result framework matrix of the PFM Reform Strategy 2018-2023 (selected induced outputs)	Adoption, roll out and genuine interest in delivering the PFM Reform Strategy 2018-2023; Key PFM institutions integrate the objectives of the PFM Reform Strategy 2018-2023 in their annual action plans and share relevant information with each other GoK continues its efforts to main macro-fiscal consolidation even without and IMF programme in place; Economic growth outlook materialise in coming years, allowing increased revenue mobilisation; External lenders continue to consider GoK as a reliable partner and GoK continues honouring its repayments obligations (i.e. contracted loans).
Induced output	Successful implementation of the PFM Reform Strategy (2018-2023) in areas supported by the action.	Public Expenditure and Financial Accountability (PEFA) scores International Budget Partnership	Quarterly and annual reporting of the PFM Reform Strategy 2018-2023	Active participation of all stakeholders of the PFM Reform Strategy result teams expected to contribute to the achievement of the results

		(IBP) survey scores Number of meetings held between the EU and GoK to discuss the PFM and transparency monitoring table	PEFA study conducted every two years (EU funded) IBP Open Budget Survey conducted every two years (autonomous) Open Government Partnership reports Minutes of policy dialogue meetings	
Direct outputs	(i) additional fiscal space created by the transfer of funds through fixed and variable tranches; (ii) reduced transaction costs in terms of aid delivery and improved alignment to national policies; (iii) a constructive policy dialogue between the EU and GoK in selected area of PFM and transparency as per an agreed monitoring framework; (iv) improved monitoring and reporting of PFM reforms; (v) advisory services and technical assistance to stakeholders in charge of implementing PFM reforms.	For direct output (i): volume of EU funds delivered through Budget Support For direct output (ii): donor's funds received as revenue as opposed to Appropriation in Aid For direct output (iii): frequency of policy dialogue between the GoK and the EU Delegation For direct output (iv) : timeliness and quality of reports released by the PFM Reform Secretariat (i.e. agreed templates are used and sufficient details are provided to allow an informed judgement) For direct output (v): capacities of the results teams and PFM Reform Secretariat to implement the PFM Reform Strategy result framework and report on it.	Disbursement notes and payments in ABAC Estimates of revenue grants and loans published by the National Treasury Minutes of policy dialogue meetings Reports released by the PFM Reform Secretariat Reports from complementary measure support: technical assistance to the PFM Reform Secretariat	Timely contractual management of the Sector Reform Performance Contract by both parties Availability for policy dialogue as foreseen in the contract Suitable expertise can be mobilised as part of the complementary measures