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Report No: PAD00016

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM APPRAISAL DOCUMENT
ON A
PROPOSED CREDIT

IN THE AMOUNT OF EUR 140.7 MILLION
(US$150 MILLION EQUIVALENT)

TO THE

REPUBLIC OF KENYA

FOR A

SECOND KENYA DEVOLUTION SUPPORT PROGRAM

NOVEMBER 14, 2023

Governance Global Practice
Eastern and Southern Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective October 31, 2023)

Currency Unit =	Kenyan Shillings (KSh)
US$1=	KSh.150.70
US$1 =	EUR 0.94

FISCAL YEAR

July 1 – June 30

Regional Vice President:	Victoria Kwakwa
Regional Director:	Hassan Zaman
Country Director:	Keith E. Hansen
Practice Manager:	Manuel Antonio Vargas Madrigal
Task Team Leaders:	Christine Anyango Owuor, Lucy Anyango Musira

ABBREVIATIONS AND ACRONYMS

APA	Annual Performance Assessment
AWPB	Annual Work Plan and Budget
CAJ	Commission on Administrative Justice
CASB	County Assembly Service Board
CBK	Central Bank of Kenya
CGAAA	County Government Additional Allocation Act
CIDP	County Integrated Development Plan
CoG	Council of County Governors
CPIU	County Program Implementation Unit
CPF	Country Partnership Framework
CPSC	County Program Steering Committee
CPTC	County Program Technical Committee
CRA	Commission on Revenue Allocation
CRF	County Revenue Fund
CTIPT	County Technical Implementation Partner Teams
DLI	Disbursement-Linked Indicator
DSP	Devolution Sector Plan
DSWG	Devolution Sector Working Group
E&S	Environmental and Social
EACC	Ethics and Anti-Corruption Commission
ESCP	Environmental and Social Commitment Plan
ESIA	Environmental and Social Impact Assessment
ESHS	Environment, Social, Health, and Safety
ESHSRIM	Environmental, Social, Health and Safety Risk and Impacts Management
ESS	Environmental and Social Standards
ESSA	Environmental and Social Systems Assessment
FLLoCA	Financing Locally Led Climate Action Program
FM	Financial Management
FSA	Fiduciary Systems Assessment
GDP	Gross Domestic Product
GESDEK II	Second Program for Strengthening Governance for Enabling Service Delivery and Public Investment in Kenya
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
HR	Human Resources
HRM	Human Resource Management
HRMIS	Human Resource Management Information System
IFMIS	Integrated Financial Management Information System
IPF	Investment Project Financing
IGRTC	Intergovernmental Relations Technical Committee
IVA	Independent Verification Agent
KDSP	Kenya Devolution Support Program
KRA	Key Results Area
LMP	Labor Management Procedures
M&E	Monitoring and Evaluation

MC	Minimum Condition
MDAs	Ministries, Departments, and Agencies
NAP	National Adaptation Plan
NEMA	National Environmental Management Authority
NPCU	National Program Coordination Unit
NPSC	National Program Steering Committee
NPTC	National Program Technical Committee
NT	National Treasury
NTIPTs	National Technical Implementing Partner Teams
NYOTA	National Youth Opportunities Towards Advancement
OAG	Office of the Auditor General
OCoB	Office of the Controller of Budget
OSR	Own-Source Revenue
PA	Project Account
PAD	Program Appraisal Document
PAP	Program Action Plan
PDO	Program Development Objective
PFM	Public Financial Management
PforR	Program for Results
PIM	Public Investment Management
POM	Program Operational Manual
PPADA	Public Procurement and Asset Disposal Act
PSC	Public Service Commission
QAR	Quality Assurance Review
SDD	State Department for Devolution
SDPDM	State Department for Performance and Delivery Management
SDPS	State Department for Public Service
SEA/SH	Sexual Exploitation and Abuse and Sexual Harassment
SEP	Stakeholder Engagement Plan
SPA	Special Purpose Account
SPMU	Single Project Management Unit
SRC	Salaries and Remuneration Commission
SRM	Social Risk Management
SRIM	Social Risk and Impact Management
TA	Technical Assistance
TADAT	Tax Administration Diagnostic Assessment Tool
ToC	Theory of Change
VMGs	Vulnerable and Marginalized Groups

TABLE OF CONTENTS

DATASHEET

BASIC INFORMATION

Project Beneficiary(ies)	Operation Name		
Kenya	Second Kenya Devolution Support Program		
Operation ID	Financing Instrument	Does this operation have an IPF component?	Environmental and Social Risk Classification (IPF Component)
P180935	Program-for-Results Financing (PforR)	Yes	Moderate

Financing & Implementation Modalities

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

Expected Approval Date	Expected Closing Date
07-Dec-2023	31-Dec-2027
Bank/IFC Collaboration	
No	

Proposed Program Development Objective(s)

To strengthen county performance in the financing, management, coordination, and accountability for resources

Organizations

Borrower:	Republic of Kenya
Implementing Agency:	State Department for Devolution
Contact:	Teresia Mbaika Malokwe
Title:	Principal Secretary
Telephone No:	2250645
Email:	ps@devolution.go.ke

COST & FINANCING (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	No
Is this project Private Capital Enabling (PCE)?	No

SUMMARY

Government program Cost	**671.00**
Total Operation Cost	**671.00**
Total Program Cost	656.00
IPF Component	15.00
Total Financing	**671.00**
Financing Gap	**0.00**

Financing (US$, Millions)

World Bank Group Financing

International Development Association (IDA)	150.00
IDA Credit	150.00

Non-World Bank Group Financing

Counterpart Funding	521.00
National Government	521.00

IDA Resources (US$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
National Performance-Based Allocations (PBA)	150.00	0.00	0.00	0.00	150.00
Total	**150.00**	**0.00**	**0.00**	**0.00**	**150.00**

Expected Disbursements (US$, Millions)

WB Fiscal Year	2024	2025	2026	2027	2028
Annual	15.00	9.00	56.00	60.00	10.00
Cumulative	15.00	24.00	80.00	140.00	150.00

PRACTICE AREA(S)

Practice Area (Lead)

Governance

Contributing Practice Areas

Macroeconomics, Trade and Investment; Social Sustainability and Inclusion; Education

CLIMATE

Climate Change and Disaster Screening

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

SYSTEMATIC OPERATIONS RISK- RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Substantial

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

POLICY COMPLIANCE

Policy

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

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

ENVIRONMENTAL AND SOCIAL

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
ESS 1: Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10: Stakeholder Engagement and Information Disclosure	Relevant
ESS 2: Labor and Working Conditions	Relevant
ESS 3: Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4: Community Health and Safety	Relevant

ESS 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
ESS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
ESS 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Relevant
ESS 8: Cultural Heritage	Relevant
ESS 9: Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

LEGAL

Legal Covenants

Sections and Description
The Recipient shall engage not later than 6 months after the effective date, and thereafter maintain throughout the implementation of the Program, a verification agent with experience, independence, capacity and in accordance with the terms of reference acceptable to the Association.
Without limitation on the generality of Part A of Section I of the Financing Agreement, and prior to disbursement of funds to any Participating county, the Recipient through the State Department for Devolution, shall not later than three (3) months after the Effective Date, enter into a Participation Agreement with a respective Participating county, in form and substance satisfactory to the Association.
Not later than six (6) months after the Effective Date, the Recipient shall establish the grievance redress mechanism, in form and substance satisfactory to the Association.

Conditions

Type	Citation	Description	Financing Source
Effectiveness	Article IV. 4.01. (a)	The Recipient has prepared and adopted the Operations Manual, in form and substance satisfactory to the Association.	IBRD/IDA
Effectiveness	Article IV. 4.01. (b)	The Recipient has established the Program Steering Committee (PSC) with composition, resources, and terms of reference satisfactory to the Association.	IBRD/IDA

Effectiveness	Article IV. 4.01. (c)	The Recipient has established the National Program Coordination Unit (NPCU) within the State Department of Devolution, with composition, resources, and terms of reference satisfactory to the Association, and has seconded/deployed/recruited to the NPCU, a Program coordinator, a procurement specialist, and financial management specialist – all with qualifications, experience and under terms of reference satisfactory to the Association.	IBRD/IDA
Effectiveness	Article IV. 4.01. (d)	The Recipient has adopted the Labor Management Procedures in form and substance satisfactory to the Association.	IBRD/IDA
Disbursement	Schedule 2, Section IV. B, 1 (b)	No withdrawal shall be made for any DLR corresponding to DLIs under Categories (1) through (7), until and unless the Recipient has furnished evidence satisfactory to the Association that the said DLR has been achieved.	IBRD/IDA
Disbursement	Schedule 2, Section IV. B, 1 (c)	No withdrawal shall be made under Category (8), for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed EUR 2,814,000 may be made for payments made prior to this date but on or after November 1,	IBRD/IDA

		2023, for Eligible Expenditures.	

I. STRATEGIC CONTEXT

A. Country Context

1. **While Kenya has maintained impressive economic performance and resilience, the country's rising debt and increased fiscal risks pose a concern for sustaining the development momentum.** Real gross domestic product (GDP) grew at an average of 4.8 percent between 2015 and 2019. Due to the COVID-19 pandemic, the economy contracted by 0.3 percent in 2020. While real GDP grew by 7.5 percent in 2021, it reduced to 4.8 percent in 2022 and is projected to grow at 5 percent in 2023.[1] Average fiscal deficit reduced from 7.3 percent of GDP between 2015 and 2019 to 6.2 percent in 2021/2022 and is projected to reduce to 4.4 percent of GDP in 2023/2024.[2] Decades of public investment-led growth has however resulted in rapid debt accumulation that may not be sustainable. In 2022, debt averaged 67.4 percent of GDP and estimates for 2023 show an average of 66.2 precent.[3] Inequality measured by the Gini index declined from 45.0 in 2005/2006 to 40.7 in 2015/2016. While Kenya's performance improved slightly in 2019, it has remained below its regional peers.[4]

2. **The Government has identified devolution as a key enabler for the creation of a conducive environment for socioeconomic transformation.** Kenya's devolution process remains the most ambitious and rapid transformation of the Government since the country's independence.[5] Over the last 10 years, significant milestones have been realized, including: (a) the establishment and operationalization of 47 county governments (executives and assemblies); (b) the election of a bicameral parliament; (c) the establishment and operationalization of institutions and systems for delivery of devolved services; (d) the establishment and implementation of administrative and fiscal frameworks for sharing resources, functions, and responsibilities; (e) substantial investments by counties in infrastructure and county corporations for service delivery; (f) investments by counties in human resources (HR) to recruit staff to deliver services; and (g) establishment of electoral, horizontal, and direct accountability mechanisms that have enabled citizen oversight of county service delivery performance.

3. **The Government recognizes the role that county governments will need to play for ongoing efforts on fiscal consolidation and reduction of fiscal deficit to bear fruit.** Measures that the Government has put in place at the national level also need to be rolled out to counties. This includes implementation of new revenue mobilization strategies and clearing of pending bills to contractors and suppliers. For several reasons,[6] there is inadequate adherence to the established fiscal responsibility principles.[7] For example, not all county governments allocate (or eventually spend) a minimum of 30 percent of their budget over the medium term to development expenditure, and only 11 county governments' expenditure on wages and benefits are within the legal threshold of 35 percent of their total revenue (most are higher). On average, county governments are collecting approximately 59 percent of their

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[1] Kenya Economic Update, 2023.
[2] Budget Policy Statement, FY2023/2024.
[3] Kenya Macro Poverty Outlook, October 2023.
[4] Kenya Poverty and Equity Assessment, 2023.
[5] Making Devolution Work for Service Delivery in Kenya Report,2022.
[6] These include: (a) transfers to and within counties is unreliable; (b) commitments are not kept within resources availability, bills are not paid on time, and stock of pending bills is high affecting the supply of goods and services to counties; (c) OSR collection is below what is planned and below potential reducing resources available to fund county service delivery; and (d) payroll management controls are weak.
[7] As provided by the Public Financial Management (PFM) Act (2012) and PFM (county governments) Regulations (2015).

targeted own-source revenue (OSR) and approximately 40 percent of their potential. To fully reap the devolution dividend, achieve the Bottom-Up Economic Transformation Agenda, and transform Kenya into an upper-middle-income country, key reforms must be implemented that address binding constraints to Kenya's devolution process.

4. **The success of Kenya's future development path will also depend on how well coordinated intergovernmental responses to frequent climate shocks are.** These shocks have had significant negative impact on economic performance. In 2020, out of 181 countries, Kenya ranked as the 9th most vulnerable country to climate change and the 4th most climate ready.[8] Kenya's vulnerability includes repeated droughts and floods, attributable to extreme climatic events that have caused devastating economic and social effects; for example, the 2008–2011 drought is estimated to have cost Kenya US$12.1 billion, including US$805.6 million for the loss of physical and durable assets, and US$11.3 billion for losses in the flows of the economy across all sectors.[9]

B. Sectoral (or Multi-Sectoral) and Institutional Context

5. **Despite the milestones achieved in Kenya's devolution process, key governance bottlenecks continue to constrain the achievement of the intended service delivery outcomes.** These bottlenecks are underpinned by various analytical reports and studies which are detailed in Annex 2 and the technical assessment. They fall into three thematic areas:

(a) **Sustainable Financing and Expenditure Management:** (i) OSR collection is below what is planned and below potential, reducing available resources to fund county service delivery; (ii) transfers to and within counties are unreliable; (iii) commitments are not kept within resources availability, bills (including on statutory deductions and contributions such as pension contributions) are not paid on time, and the stock of pending bills is high, affecting supply of goods and services to counties;[10] and (iv) weak compliance with requirements for development partner funding undermines delivery of development projects.

(b) **Intergovernmental Coordination, Institutional Performance, and Human Resource Management (HRM):** (i) Intergovernmental structures are not fully operationalized, leading to disputes from overlapping institutional mandates and duplication of functions between governments; (ii) county departmental structures and requisite staffing are not fit for purpose or efficient nor aligned to support performance and service delivery objectives; and (iii) payroll management controls are weak, and HR records are not up to date to inform decision-making on HRM issues such as redeployment, succession management, and filling of skills gaps.

(c) **Oversight, Participation, and Accountability:** (i) County public investment management (PIM) is weak, with fragmented information and citizen participation in the development and delivery of county public investments; and (ii) county assembly oversight is weak with delayed deliberations on reports from the Office of the Auditor General (OAG).

[8] Country Index - Notre Dame Global Adaptation Initiative (ND-GAIN).
[9] Kenya Country Climate and Development Report
[10] In addition, critical commitments such as remittances of pension deductions from civil servants and county governments' contributions to the pension funds are persistently delayed.

6. **Over the last decade, the Government has implemented a series of reforms aimed at strengthening devolution.** Through the World Bank-financed Kenya Devolution Support Program (KDSP) Program-for-Results (PforR) (P149129), implemented from 2016 to 2021, foundational institutions, systems, and capacities to support devolution were put in place. The Second Kenya Devolution Support Program (KDSP II) will build on the achievements and lessons learned from the KDSP (and other World Bank-funded devolved sector projects). This reform agenda is anchored in the Devolution Sector Plan (DSP) (2024–2028), the follow-on strategy to the National Capacity Building Framework, which was the anchor government program for KDSP.

7. **The devolution sector brings together many institutions at the national and county levels of government with defined functional mandates.** To address the above constraints, various institutions are instrumental to achieving results and they need to coordinate. At the national level, program beneficiaries include: the State Department for Devolution (SDD); the National Treasury (NT); the Council of County Governors (CoG); the State Department for Public Service (SDPS); State Department for Performance and Delivery Management (SDPDM); the Public Service Commission (PSC); the Intergovernmental Relations Technical Committee (IGRTC); the Commission on Revenue Allocation (CRA); the Office of the Controller of Budget (OCoB); the Central Bank of Kenya (CBK); the OAG; the Salaries and Remuneration Commission (SRC); the Commission on Administrative Justice (Ombudsman); and the Senate. At the county level, beneficiaries include the County Executives, County Assemblies, County Public Service Boards, and County Assembly Service Boards (CASBs). The key beneficiaries of the Program also include citizens of Kenya living in all 47 counties.

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

8. **The Program is consistent with the World Bank Group Country Partnership Framework (CPF) for Kenya (FY23–28) discussed by the Board on August 22, 2022 (Report No.172255-KE).**[11] The Operation will help boost Kenya's fiscal and debt sustainability (Objective 1) by supporting mechanisms for enhancing county OSR, improving the efficiencies and accountability for conditional grants to counties (enhancing disbursements and accuracy in reporting of World Bank financing to devolved sector projects). Aligned with the objective on improving public expenditure transparency and effectiveness (Objective 2), the Program will support the automation of various manual government processes that cause inefficiencies and potential for mismanagement of resources (for example, exchequer releases, revenue collection, and payroll management) and establish a performance management culture in counties. KDSP II will also support the quality of citizen participation and feedback mechanisms on service delivery. The Program is also aligned with the World Bank Group Gender Equality Strategy (2024–2030) Strategic Outcome 6: Advance women's participation, decision-making and leadership. The Program supports the achievement of the World Bank's mission of ending extreme poverty on a livable planet and supports implementation of the World Bank *Evolution*. The operation supports the achievement of the Africa Region priority of making institutions more efficient and accountable. The operation supports measures that will increase own source revenue and strengthen the effective management of resources, which is expected to have a positive impact on equality outcomes. The Program will leverage the Devolution Sector Donor Working Group for better coordination with devolution sector projects supported by other development partners.

[11] https://documentsinternal.worldbank.org/Search/33926212.

9. **The design of KDSP II ensures complementarities with select national-level PFM reforms supported by the Second Program for Strengthening Governance for Enabling Service Delivery and Public Investment in Kenya (GESDEK II), P180287.** While GESDEK II and KDSP II have links, the two Programs are fundamentally distinct. GESDEK II focuses on supporting PFM at the national-level ministries, departments, and agencies (MDAs), while KDSP II incentivizes achievement of governance results across 47 counties, using performance-based grant mechanisms that enhance the existing county conditional grant allocation system. The two Programs also align with the institutional mandates of the SDD and NT, whereby the SDD has the responsibility to coordinate capacity building for county governments across all devolved sectors. However, to ensure that the two Programs advance in a mutually reinforcing manner, a coordination mechanism has been developed, with the NT playing a role in both Programs.

10. **KDSP II will also enhance the effectiveness and sustainability of World Bank-financed devolved sector operations by strengthening governance systems and structures at the county level.** It will strengthen the coordination of devolved sectors through the Devolution Sector Working Group (DSWG) and intergovernmental sectoral forums. It will also support timely and reliable financing to and within counties for service delivery; establish county shared services for delivery of development projects, including procurement, fiduciary, and environmental and social (E&S) systems; and improve coordination of national and county governments in devolved sectors. KDSP II infrastructure investments will also align with other World Bank-financed projects, particularly on planning, design and operationalization.[12]

11. **KDSP II will facilitate the achievement of Kenya's Nationally Determined Contributions.** Institutional capacity and intergovernmental coordination must be strengthened for Kenya to deliver on its mitigation and adaptation targets. The Program is also consistent with the sectoral adaptation actions of Kenya's National Adaptation Plan (NAP 2015–2030). The first sectoral adaptation action described in the NAP is about devolution and focuses on mainstreaming climate change adaptation into county planning as well as creating a two-way channel of communication and learning between national and county governments. The NAP also identifies public sector reforms as a key adaptation action to equip public sector employees with the tools and knowledge to implement climate-compatible projects and services. KDSP II activities directly support these efforts by: (a) strengthening intergovernmental forums on climate change; (b) including climate change adaptation and mitigation as part of the leadership training curriculum for senior county officials; and (c) embedding climate screening protocols in the county PIM framework. These actions are also in line with the Country Climate and Development Report for Kenya, which provides recommendations to strengthen intergovernmental coordination in the context of devolution and support planning processes and institutional readiness to deliver on climate actions.

12. **A PforR with an Investment Project Financing (IPF) component is best suited to deliver on the Program objectives within the current context.** Through performance grants, the PforR instrument will incentivize achievement of critical reforms with strong government ownership to sustain implementation momentum. The KDSP II PforR design builds upon the foundations and considers lessons learned from the KDSP PforR. At the same time, a targeted IPF instrument will support critical technical assistance (TA) and

[12] For example, municipalities supported under the Second Kenya Urban Support Program will participate in the planning and design of infrastructure investments within urban areas.

capacity-building efforts. The IPF will also mitigate national-level budget uncertainties and enable flexible responses to evolving Program needs.

II. PROGRAM DESCRIPTION

A. Government Program

13. **The DSP is the overall umbrella strategic framework for devolution.**[13] The theme of the 2024–2028 DSP is "the acceleration of the performance of devolution" and its objectives include: (a) improving capacity in service delivery, resource management, and accountability; (b) improving access to decentralized services; (c) ensuring effective participation by communities in governance and socioeconomic development; and (d) strengthening intergovernmental cooperation and collaboration for resolution of emerging issues in devolution.

14. **KDSP II builds on the results achieved under KDSP, which closed in 2021.** This includes improvements in: (a) the quality of financial statements and financial reporting; (b) compliance with budgeting formats; (c) adherence to procurement procedures; (d) planning and monitoring and evaluation (M&E) (setup of county M&E committees); (e) timely development of County Integrated Development Plans (CIDPs) and Annual Development Plans; (f) processes in public participation; and (g) county audit outcomes (number of counties with adverse and disclaimer audit opinions reduced). Counties also established functional civic education units and processes for public participation and developed various infrastructure investments.

15. **The design of KDSP II also reflects lessons and experiences from KDSP.** These include: (a) the need to fully align results and responsibilities with institutional mandates; (b) improved identification of key stakeholders responsible for delivery of results and their incorporation into technical results teams; (c) provision of adequate incentives to coordinate and implement reforms across various areas; (d) stronger links between addressing identified governance constraints and consequential (measurable) improvements in service delivery; (e) rigorous quality assurance processes to verify the Annual Performance Assessment (APA) results; (f) the effectiveness of using the IPF component to finance national-level program coordination; and (g) the need to include national-level agencies responsible for environmental and social standards (ESS) in the Program design.

16. **As shown in Figure 1, KDSP II is structured around the implementation of national and county government actions and the achievement of national and county results across three key results areas (KRAs).** The Program operational structure is as follows:

(a) **At the national level, the Program will be supported by the World Bank through both an IPF and a PforR component.** The IPF will support TA and capacity building, while the PforR will incentivize the timeliness of transfers from national to county governments through Disbursement-Linked Indicator (DLI) 1. Specific results under DLI 1 will include the automation of the county exchequer process, pending bills management within the

[13] The DSP has clear links with the county-facing pillars of the Public Finance Management Reforms Strategy 2024–2028 and the Public Sector Transformation Strategy 2024–2028, which will both also inform Program results.

Integrated Financial Management Information System (IFMIS), and more timely communication between national and county governments on conditional grants to be received by counties.

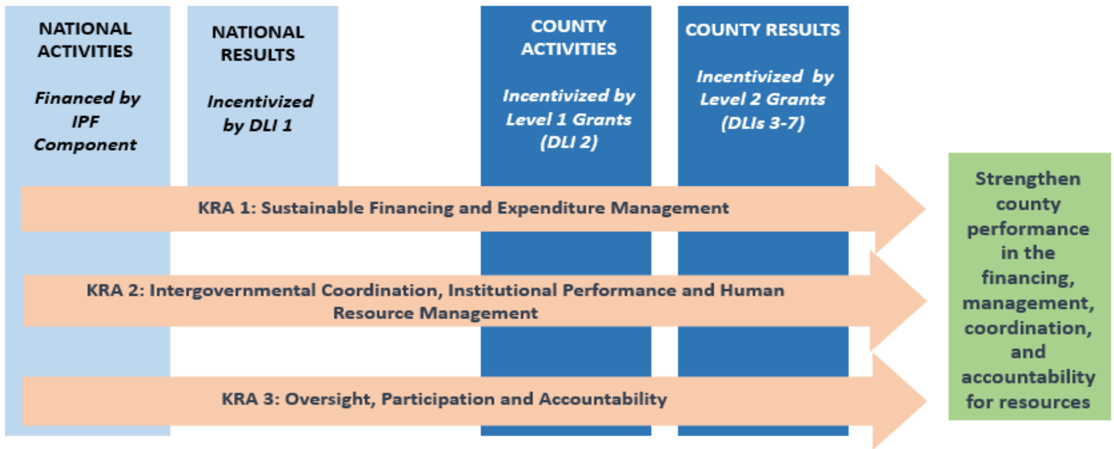
(b) **At the county level, the Program will be supported through DLIs that will fund two types of conditional grants enhancing the present conditional grant allocation system:**

- **DLI 2 is linked to the institutional grant (Level 1 Grant) which will be used by counties to finance capacity-building and institutional strengthening activities.** Level 1 Grants incentivize counties to set up core governance and institutional arrangements for management of public resources, which will enhance capacity, facilitate achievement of Program results, and support Program coordination. Specific results under DLI 2 will include the following: in the first year, counties will need to (i) sign a participation agreement providing for, among others, publishing of budget and expenditure data[14] and (ii) prepare approved work plans, cash plans, and budgets consistent with the agreed methodology and standards (prescribed in the POM). In subsequent years, these results will also include (i) qualified or unqualified audit opinions (with time-bound action plans for addressing qualifications), (ii) reports on implementation progress and use of Program funds, and (iii) timely release of KDSP II funds from the County Revenue Fund (CRF) to the Special Purpose Account (SPA).

- **DLIs 3 to 7 are linked to the investment grant (Level 2 Grant) which will be used by counties to finance investments to support service delivery.** To access Level 2 Grants, counties will be required to meet all the minimum conditions (MCs). These include (i) workplan and budget for use of the investment grant in the next fiscal year, (ii) disclosure of stock of pending bills,[15] (iii) disclosure of OSR collection,[16] (iv) establishment of a county Single Project Management Unit (SPMU),[17] (v) development of implementation plans for HR and payroll audits and publishing of staffing levels aligned with approved structures and staff establishment, (vi) screening of proposed infrastructure investments (which will also include feasibility studies and E&S screening for proposed investments),[18] (vii) training of gender officers aligned with approved training programs, and (viii) establishment of County Program Implementation Units (CPIUs). MCs will be assessed through the APA. Further details are provided in Annex 2 and will be elaborated in the POM.

[14] As defined in the Project Operations Manual (POM).
[15] Aligned with disclosures made to the OCoB.
[16] Aggregated per revenue stream for the last 12 months and disclosed on the county website.
[17] Will include finance, procurement, internal audit, E&S, and M&E functions.
[18] Screening will cover climate, gender, and E&S social issues and will also align with the county PIM framework (once it is rolled out to counties under the Program).

Figure 1. Summary of KDSP II Design



17. **KRA 1 will support efforts toward enhancing financing to and expenditure management by counties.** In this KRA, the IPF will support the development of frameworks and guidelines for county revenue mobilization; policy to support financing for service delivery units; and structures and tools to support counties' institutionalization of shared project management functions, that is, the county SPMU. The DLIs will similarly target the revenue mobilization agenda (for example, increased revenue collection, enhanced accuracy of fiscal forecasting, and expansion of revenue base), timely communication on releases of conditional grants, automation of the county exchequer requests, and implementation of pending bills action plans (see Table 1).

Table 1. KRA 1: Sustainable Financing and Expenditure Management

Key Governance Bottlenecks	National Actions and Results		County Actions and Performance			Resolved Bottleneck
	IPF-Financed Activities	PforR (DLI 1)	Level 1 Grant	Level 2 Grant		
			DLI 2	Minimum Conditions	DLI	
Disbursements to counties is delayed and affects service delivery	(i) Reengineer business processes for exchequer requests (ii) Financial reporting template for counties	Average number of days it takes for NT, OCoB, and CBK to process a county exchequer requisition once submitted	n/a	n/a	n/a	**Timely disbursements to counties for service delivery**

Key Governance Bottlenecks	National Actions and Results		County Actions and Performance			Resolved Bottleneck
	IPF-Financed Activities	PforR (DLI 1)	Level 1 Grant	Level 2 Grant		
			DLI 2	Minimum Conditions	DLI	
OSR collection is below what is planned and below potential, reducing available resources to fund county service delivery	(i) County revenue forecasting framework with simple realism rules agreed (ii) Technical specifications for the integrated county revenue management system (iii) Guidelines for cleaning county tax registers and cadasters and assessing taxpayer obligations (iv) Guidelines on revenue mapping	n/a	n/a	Disclosure on website of OSR collected (disaggregated by revenue stream) in previous year	**DLI 3** Participating counties that have increased their OSR by at least 5% annually, over and above the rate of inflation	**Increase in own source revenue collected, as planned, and is closer to potential**
Commitments are not kept within resources availability, bills are not paid on time, and the stock of pending bills is high, affecting supply of goods and services to counties (including remittances of statutory deductions)	(i) Review of existing county budget and expenditure ceilings (ii) Development of county pending bills action plans (iii) Strengthening of IFMIS controls for exchequer requests, and pending bills	n/a	n/a	Disclosure on website of verified stock of commitments and pending bills	**DLI 4** Participating counties that have prepared and are implementing action plans to reduce their stock of pending bills and maintain it at minimal levels	**Commitments are kept within resources availability; action plans are implemented on time; bills are paid on time and the stock of pending bills are kept to a minimum**

Key Governance Bottlenecks	National Actions and Results		County Actions and Performance			Resolved Bottleneck
	IPF-Financed Activities	PforR (DLI 1)	Level 1 Grant	Level 2 Grant		
			DLI 2	Minimum Conditions	DLI	
Weak compliance with requirements for development partner funding undermines delivery of development projects	Job descriptions and terms of reference for county SPMUs	n/a	(i) Participation agreements (ii) Approved work plans, cash plans, and budgets <u>From Y2 onward:</u> (iii) Qualified or unqualified audit opinion (iv) Proper use and timely reporting on grants (v) Timely release of KDSP II funds from CRF to SPAs	(i) SPMU structure approved (ii) Training program for Gender Officers implemented as per approved budget (iii) KDSP II CPIU established (iv) Workplan and budget for use of Level 2 Grant in next fiscal year <u>Y3 onward:</u> (v) SPMU established	n/a	**Effective compliance and management of development partner funding**

18. **KRA 2 will support national and county government initiatives toward strengthening intergovernmental coordination, institutional performance, and HRM.** The IPF will support the development of policy and administrative procedures for the operationalization of intergovernmental, intercity, and inter-municipality forums. The IPF will also support the development of guidelines including on county HR and skills audits, model organization structures for customization by counties, and performance management. DLIs under this KRA will target counties implementing recommendations of HR, skills, and payroll audits; aligning county staffing with departmental functions in select sectors; and improving credibility of the payroll. Details are shown in Table 2.

Table 2. KRA 2: Intergovernmental Coordination, Institutional Performance, and Human Resource Management

Key Governance Bottlenecks	National Actions and Results	County Actions and Performance		Resolved Bottleneck
	IPF-Financed Activities	Level 2 Grant		
		Minimum Conditions	DLI	
Intergovernmental structures are not fully operationalized for more efficient coordination of institutional mandates, functions, and funding for service delivery	(i) Annual summit reports and monitoring of implementation of recommendations (ii) Frameworks and operationalization of intergovernmental sectoral forums, intercity, and inter-municipality forums (iii) Review of devolution and intergovernmental legal frameworks (iv) Framework to operationalize the DSWG (v) Framework for monitoring and implementation of intergovernmental resolutions (vi) Framework for monitoring the implementation of intercounty agreements and projects (vii) Framework for intra-governmental relations between county executives and assemblies (viii) Frameworks for intergovernmental relations and operations of Social Risk and Impact Management (SRIM) (ix) Automation of ESIA approval by NEMA and SRIM	n/a	n/a	**Improved coordination of functions and mandates for service delivery**
County departmental structures and requisite staffing are not fit for purpose or efficient, nor aligned to support performance and service delivery objectives; HR records are not up to date to inform decision-making; and payroll management controls are weak	(i) Model organizational structures (ii) Guidelines for HR and skills audit (iii) Audits on county payrolls and compliance checks on grading and salary structures (iv) Guidelines on integrated performance management (v) Capacity-building programs for county leadership (vi) Staff establishment control guidelines (vii) Completion and rollout of Human Resource Management Information System (HRMIS) and performance contracting system to counties	Counties have developed implementation plans for HR and Payroll audit; and organizational review recommendations, and approved staff establishments	<u>**DLI 5**</u> Participating counties that have integrated their HR records, authorized staff establishment and payroll, and uploaded cleaned payrolls in the HRMIS <u>**DLI 6**</u> Participating counties that are enhancing accountability for results through an integrated performance management framework	**Consolidated HR data for decision-making; improved payroll integrity, and budget control on staffing** **Improved accountability for results through integrated performance management**

Note: ESIA = Environmental and Social Impact Assessment; NEMA = National Environmental Management Authority.

19. **KRA 3 will support improvements in oversight, participation, and accountability.** The IPF will support the development of guidelines on project stocktaking, community-led project management committees, and climate change risk screening and preparedness (including assessment of the climate resilience of existing infrastructure assets). It will also support the rollout of the county PIM framework. The DLIs will focus on establishment of project management committees, county compliance with the PIM framework, and the development and operationalization of a county investment dashboard with a citizen feedback interface (which is used to improve public investments). Details are shown in Table 3.

Table 3. KRA 3: Oversight, Participation and Accountability

Key Governance Bottlenecks	National Actions and Results	County Actions and Performance		Resolved Bottleneck
	IPF-Financed Activities	Level 2 Grant		
		Minimum Conditions	DLI	
County public investment is weak, with fragmented information and citizen participation in planned and ongoing projects	(i) Rollout of county public participation guidelines, project management guidelines, and PIM framework (ii) Rollout of guidelines for project management committees[19] (iii) Rollout of Environmental, Social, Health and Safety Risk and Impacts Management (ESHSRIM) Manual (iv) Guidelines on county project stock-taking (v) Guidelines providing business process and technical requirements for county investment dashboard (vi) Guidelines on climate change risk screening and preparedness, including assessment of climate resilience of existing infrastructure (vii) Development of frameworks and tools to strengthen county assembly oversight (viii) Framework to harmonize public participation between county assemblies and executives	Screening of proposed infrastructure investments (which will also include conducting feasibility studies, climate change and environmental and social screening)	DLI 7 Participating counties that have established public investment management dashboards with citizen feedback mechanisms	**Improved county public investments which are aligned to citizen service delivery needs**

[19] These committees will incorporate gender, vulnerable and marginalized groups (VMGs), and other disadvantaged groups.

B. Theory of Change

20. **KDSP II will improve the financing, management, coordination, and accountability of county resources.** It will facilitate the achievement of key reform steps which will lead to intended higher-level service delivery outcomes. The Program responds to a specific set of development challenges within the sectoral and institutional context described above, which are further detailed in the Theory of Change (ToC) (Table 4). The Program Development Objective (PDO) encompasses objectives regarding sustainable financing and expenditure management; intergovernmental coordination, institutional performance, and HRM; and oversight, participation, and accountability. While the ToC focuses on downstream outputs and outcomes at the county level, where changes will be most impactful, it will be highly dependent on upstream actions undertaken at the national and intergovernmental levels. National-level actions will be crucial to ensure that county governments operate within national policy and regulatory environments, are provided with appropriate TA and capacity-building support and are incentivized to strengthen their capacities to improve county infrastructure investments.

Table 4. KDSP II ToC

Challenges	Activities	Outputs	Outcomes	PDO	Higher-level outcome
KRA 1: Sustainable Financing and Expenditure Management					
• Disbursement to counties is delayed • OSR collection is below what is planned and below potential • Commitments are not kept within resources availability, bills are not paid on time, and the stock of pending bills is high • Weak compliance with requirements for development partner funding undermines delivery of development projects	• Reengineer business processes for county government exchequer requests, including through automation • Review county OSR forecasting tools • Develop and review revenue enhancement plans • Develop technical specifications and business process requirements for the integrated county revenue management system • Develop and implement time-bound actions plans for pending bills • Develop model frameworks for financing county service delivery units • Develop job descriptions for SPMUs	• Conditional grant framework implemented • County exchequer process automated • Enhanced county OSR collection and administration, including automation • Revenue base expanded • SPMUs established and operational • Outstanding commitments and pending bills reduced	• Improved reliability in transfers to and within counties for service delivery (DLI 1) • Increase in OSR collection and closer to potential (DLI 3) • Commitments are kept within resources availability, action plans are implemented on time, bills are paid on time, and the stock of pending bills is kept to a minimum (DLI 4) • Effective compliance and management of development partner funding		
KRA 2: Intergovernmental Coordination, Institutional Performance, and Human Resource Management				Strengthened county performance in the financing, management, coordination, and accountability for resources	Improved service delivery in counties
• Intergovernmental structures are not fully operationalized for more efficient coordination of institutional mandates, functions, and funding for service delivery • County departmental structures and requisite staffing are not fit for purpose or efficient nor aligned to support performance and service delivery objectives; HR records are not up to date to inform decision-making; and payroll controls are weak	• Develop policy and administrative procedures to operationalize intergovernmental institutional structures and strengthen monitoring of implementation of intergovernmental action plans • Review county organizational structures, capacities, and HRM systems, approve staffing lists, and update HR records and payroll data • Conduct compliance checks on grading and salary structures	• Implementation of intergovernmental joint action plans • Timely submission of annual summit reports • Aligning of approved staff establishment, HR records, and payroll • HRMIS modules • Integrated performance management framework	• Improved coordination of functions and mandates for service delivery • Consolidated HR data for decision-making, improved payroll integrity, and budget control on staffing (DLI 5) • Accountability for results through performance management (DLI 6)		
KRA 3: Oversight, Participation and Accountability					
• County public investment is weak, with fragmented information and citizen participation in planned and ongoing projects	• County project stocktaking • Roll out county PIM framework, ESHSRIM manual, public participation guidelines, and project management guidelines • Develop an open public investment database with citizen feedback interface • Develop guidelines for project management committees, which incorporate gender, VMGs (where applicable), and other disadvantaged groups • County assessments on climate resilience of existing infrastructure assets	• Community-led county project implementation committees established and operational • Citizens provide feedback on implementation of county projects and feedback is incorporated • Strategies to enhance climate resilience of infrastructure • Pipeline projects prepared according to PIM framework	• Enhanced oversight and accountability in use of public resources • Improved county public investments which are aligned to citizen service delivery needs (DLI 7) • Improved climate resilience of county infrastructure and projects		

C. PforR Program Scope

21. **Program boundaries and financing are outlined in Table 5 and will focus on supporting a subset of the government program.**

Table 5. PforR Program Boundary

	Government program	Program Supported by the PforR	Reasons for Nonalignment
Objective	**DSP (2024–2028):** Aims to improve capacity in service delivery, resource management, and accountability; improve access to decentralized services; ensure effective participation by communities in governance and socioeconomic development; and strengthen intergovernmental cooperation and collaboration for resolution of emerging issues in devolution.	To improve the management, transparency, and accountability of county resources	Aligned
Duration	FY2024–2028	FY2024–2028	Aligned
Geographic coverage	National MDAs responsible for the DSP and county (47 counties)	National MDAs responsible for the DSP and county (47 counties)	Aligned
KRAs	1: Kenya Devolution Acceleration Program 2: County Economic Development and Transformation Program 3: Urban Areas and Cities Management 4: Intergovernmental Support Program 5: County Public Service Management 6: Sub-national Climate Change Program 7: Policy, legal and institutional reforms	KRA 1: Sustainable Financing and Expenditure Management KRA 2: Intergovernmental Coordination, Institutional Performance, and Human Resource Management KRA 3: Oversight, Participation and Accountability	Aligned. KDSP II has prioritized key results under five out of the seven DSP program areas. KRA 1 targets areas 1 and 2 of the DSP, while KRA 2 focuses on 4 and 5. Finally, all KRAs support area 7 of the DSP.
Overall Financing	US$656 million	US$266 million (of which US$135 million IDA PforR financing and US$131 counterpart financing)	

D. Investment Project Financing

22. **The IPF component will finance national-level reform actions and activities.** The IPF will be implemented through two subcomponents:

(a) **Policy support, TA, and capacity building.** As outlined in Annex 2, this subcomponent will finance activities to support the development and review of policy, regulatory, and institutional frameworks and provide national-level TA and capacity-building support for counties.

(b) **Program management, coordination, and M&E.** This subcomponent will finance M&E (including independent verification of achievement of Program results), fiduciary and E&S management support, Program communication activities, and audits. It will also finance the incremental operating costs of the National Program Coordination Unit (NPCU) and support institutions such as CoG, IGRTC, NT, SDPS, SDPDM, and PSC including the hiring of technical and operational specialists to manage, monitor, and evaluate the Program. Staff of the NPCU and support institutions will receive regular training to ensure compliance with World Bank guidelines and procedures concerning IPFs. This subcomponent will also finance the operating costs of the National Program Steering Committee (NPSC) and National Program Technical Committee (NPTC).

Financial Management

23. **The Financial Management (FM) residual risk for the IPF component is assessed as 'Moderate'.** Based on experience from KDSP I and other projects implemented by the main implementing entity, SDD, the key risks include delay in fund flow due to inadequate budget allocation for the project, gaps in internal audit reviews, and inaccuracy in financial reports. As this is an IPF and implemented by one entity and the resources will be ring-fenced, the risks will be mitigated by: ensuring early dialogue with the NT to secure adequate budget allocation by involving the Chief Finance Officer of the SDD; adopting a two-level approval (work plan and activity level) for expenditure associated with high risk related to training, workshops, and foreign travel; opening of a Special Project Account (PA) to receive the resources; annual internal audit review of the project (together with the Program); designation of an accountant for the Program; and pre-agreed financial reporting format which will be complemented with capacity building to the accountants. A detail FM assessment report has been prepared and filed.

24. **The FM arrangements are anchored within the country system with some specificities applicable for the project.** The Annual Workplan and Budget (AWPB) of the project will be prepared by the SDD following the Government budget process and will require approval by the World Bank. The project will be identifiable through a separate budget code. The project will use the Government IFMIS for budgeting, funds flows, payments, and reporting. The project will update the FM Manual from KDSP I and will use it to guide the FM aspects of the project under the overall purview of the PFM Act and regulations. In addition, the internal audit unit of the SDD will incorporate the project in its annual work plan and review the project regularly. The project will also submit quarterly financial reports to the World Bank within 45 days of the quarter end. The project will be audited by the OAG annually and the report will be submitted to the World Bank within 6 months of the year end. The SDD will take timely action on all audit report findings.

25. **The Designated Account of the project will be managed by the SDD.** The SDD will be required to open a segregated foreign currency Designated Account with the CBK, which will be managed by the NT through which funds from the World Bank shall be deposited. It will also open a segregated local currency PA in the CBK through which eligible payments will be made. SDD with advice from the NT will discuss with the implementing agencies on agreeable mechanism for funds flow but the overall fiduciary responsibility remains with SDD.[20] Other national-level agencies will have all their planned activities funded and payment made from the PA at the SDD without funds being transferred. Once agreement is reached by the NT, SDD, and CoG, the Program will adopt any changes to funds flow and disbursement arrangements for funding to CoG. Details of disbursement modalities and requirements will be captured in the Disbursement and Financial Information Letter.

Procurement

26. **The procurement risk rating for the Program is 'Substantial'.** Key risks identified include the inadequate number of procurement staff assigned to the project procurement activities, lengthy administrative processes in evaluation and contract awards, and limited contract management capacity. To mitigate the identified risks, the SDD will deploy additional

[20] The necessary fiduciary and procurement reviews will be conducted to inform this process and any institutional strengthening activities be included in the PAP.

procurement staff to enhance capacity and streamline its internal procurement processes to improve procurement performance. The World Bank will provide regular and targeted capacity building to the SDD and county staff and monitor the performance of fiduciary systems for smooth Program implementation. The FSA provides more details on the development of the Project Procurement Strategy for Development, use of the Systematic Tracking of Exchanges in Procurement, institutional arrangements for procurement, procurement methods, fiduciary oversight by the World Bank, and contract management.

E. Expenditure Framework

27. **The breakdown of the Program Expenditure Framework is shown in Table 6.** The funds will be appropriated using the National Budget Framework, and the County Government Additional Allocation Act (CGAAA) will provide the legal and budgetary basis for the disbursement of the grants.

Table 6. Breakdown of Expenditures

Component	Total (US$, millions)
National Treasury - County-level support	3
State Department for Devolution	49
Level 1 Grant	24
Level 2 Grant	108
Public Service Commission	70
Controller of Budget	10
Commission on Administrative Justice	2
Total government program	**266**
o/w IDA PforR financing	**135**

F. Program Development Objective (PDO) and PDO-Level Results Indicators

28. **The objective of the operation is to strengthen county performance in the financing, management, coordination, and accountability for resources.** The proposed PDO-level indicators are described in Table 7.

Table 7. Program Outcomes and Indicators

PDO-Level Result	PDO-Level Indicators
Sustainable Financing and Expenditure Management	Participating counties that have increased own-source revenue collected by at least 5 percent annually over and above the rate of inflation (number)
Intergovernmental Coordination, Institutional Performance, and Human Resource Management	Participating counties that have put in place core governance arrangements to manage public funds (number)
Oversight, Participation, and Accountability	Participating counties with public investment management dashboards with citizen feedback mechanisms (number)

G. Disbursement Linked Indicators and Verification Protocols

29. **The Program has seven DLIs which represent the principal way in which PDO-level indicators will be met.** Each DLI is broken down into annual milestones, the achievement of which will trigger the associated disbursement. Table 8 presents the DLIs, their link to Program KRAs, and their corresponding amounts.

Table 8. DLIs

	KRA 1: Sustainable Financing and Expenditure Management	KRA 2: Intergovernmental Coordination, Institutional Performance, and Human Resource Management	KRA 3: Oversight, Participation and Accountability	Amount (US$, millions)
DLI	**DLI 1:** Average number of days it takes for NT, OCoB and CBK to process a county exchequer requisition once submitted			3.0
	DLI 2: Participating counties that have put in place core governance arrangements to manage public funds[21]			24.0
	DLI 3: Participating counties that have increased their own-source revenue by at least 5 percent annually, over and above the rate of inflation			25.5
	DLI 4: Participating counties that have prepared and are implementing action plans to reduce their stock of pending bills and maintain it at minimal levels			22.5
		DLI 5: Participating counties that have integrated their HR records, authorized staff establishment and payroll, and uploaded cleaned payrolls in the HRMIS		26.0
		DLI 6: Participating counties that are enhancing accountability for results through an integrated performance management framework		12.0
			DLI 7: Participating counties that have established public investment management dashboards with citizen feedback mechanisms	22.0
Total				**135.0**

30. **DLIs are linked to two types of conditional grants.** Level 1 Grants will be funded through DLI 2 and will support institutional strengthening while Level 2 Grants will be funded through DLIs 3 to 7 and will be used for county investments to support service delivery. The CGAAA will provide the legal and budgetary basis for the disbursement of the grants. These grants are expected to continue beyond the life of the Program as part of the DSP.

[21] In the first year, counties will: (a) sign a participation agreement and disclose it on the county website; and (b) prepare approved work plans, cash plans, and budgets consistent with the agreed methodology and standards. In subsequent years, these results will also include: (a) qualified or unqualified audit opinions (with action plans for addressing qualifications); (b) reports on implementation progress and use of Program funds; and (c) timely releases of KDSP II funds from the CRF to the SPA.

31. **The DLI grant envelope for the Level 1 Grant will be divided equally among counties that qualify.** Counties will be required to meet all results for the Level 1 Grant and the DLI amount is set at a fixed amount of approximately US$250,000 per qualifying county, for each year.

32. **The DLI grant envelope for the Level 2 Grant will be allocated according to a grant formula.** The grant allocation formula will balance between the following considerations: (a) heterogeneity in the level of progress in counties; (b) relative size of counties; (c) the need to incentivize counties to implement the key reform steps that will lead to results and promote sustainability; (d) achievement of the actual DLI results; and (e) the need to incentivize performance that goes beyond the target. In this respect, the following principles will be applied:

- 50 percent of the envelope is divided among counties having met the DLI result using the CRA formula;
- The other 50 percent is allocated based on the scores against the performance measures pertaining to each DLI result, weighted with the CRA formula (the latter to ensure that counties with the same score get the same relative increase to their base grant); and
- Meeting 'the DLI result' gives access to the base allocation, which can be further enhanced by above-average performance against the related performance measures (to be defined in the POM).

33. **Verification protocols for DLIs.** The Program DLIs will be verified by a reputable, third-party independent verification agent (IVA) recruited by the SDD through the IPF. Further details are in the POM.

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

34. **The SDD will be responsible for overall implementation, management, and coordination of KDSP II.** The other five coordination partners will be: (a) CoG; (b) NT; (c) IGRTC; (d) PSC; (e) SDPS; and (f) SDPDM.

35. **Implementation arrangements are consistent with intergovernmental structures and are informed by lessons learned under KDSP.** These institutional arrangements will include: (a) a National Program Steering Committee (NPSC) that will steer overall policy dialogue and strategic direction; (b) an NPTC[22] that will handle technical and operational issues; and (c) a National Program Coordination Unit (NPCU) for day-to-day management. Additionally, each county will have a County Program Steering Committee (CPSC), the County Program Technical Committee (CPTC)[23] and County Program Implementation Unit (CPIU) for management of county-level results. The Program Technical Committees at both levels will have membership from relevant technical agencies and departments (Program Implementation Teams) which will be organized into dedicated Results Teams for each KRA. To enhance information sharing, consultation, and coordination with other devolution programs in the country, the Program will leverage the DSWG and relevant Development Partner Working Groups. Details are provided in Annex 2.

36. **A participation agreement template providing more details on respective roles and responsibilities of participating government entities, which is aligned to the relevant legal frameworks, will be included in the POM.** The

[22] Will comprise National Technical Implementing Partner Teams (NTIPTs)
[23] Will comprise County Technical Implementing Partner Teams

POM will also clarify the necessary arrangements to ensure adequate financing for the MDAs to achieve results and will align with intergovernmental program agreements executed as required under the CGAAA.

B. Results Monitoring and Evaluation

37. **Program monitoring and reporting will be based on the Results Framework, DLI reporting requirements, and Program Action Plans (PAPs).** Reports to be produced will include the APA reports, semiannual reports, audits, and the midterm review report. M&E data will come from the Government's own systems as tracked by the county departments and NPCU. County governments will prepare reports and submit them to the NPCU with a copy to CoG, which will then prepare a single progress report. To ensure that reporting is comprehensive, accurate, and timely, there will be continuous TA, capacity building, and peer-to-peer learning. Further details are provided in the M&E plan (Annex 1).

C. Disbursement Arrangements

38. **Disbursements are subject to PforR procedures and will be based on the achievement of DLIs.** For the national-level agencies, the Program activities will be factored in their annual work plans and budgets (AWPBs) and will be financed using government funds. The SDD will work closely with the NT to ensure that the entity government budget allocation and exchequer are adequate to meet the DLIs. On achievement of the results, the IDA funds will be disbursed to the Consolidated Fund. For counties, Program funds will be channeled as conditional grants via existing SPAs that are open and used under KDSP II in line with the POM.

D. Capacity Building

39. **To support the effective delivery of capacity-building interventions, county governments will conduct annual self-assessments on capacity gaps and thereafter design and implement a capacity-building strategy that will form part of each county's annual reform action plans (IPF and PforR).** The annual reform action plans will also include any recommendations made through the PAPs. This will ensure the development and delivery of mutually reinforcing and cohesive capacity-building interventions and approaches that are sequenced, responsive, and adaptive to the capacity asymmetries across counties. The NTIPTs will facilitate and provide supply-driven policy and legislative development, prepare guidelines, and provide training on core institutional public sector capabilities. The NTIPTs, in consultation with the County Program Technical Implementation Teams, will also support demand-driven, nuanced TA and hands-on mentoring tailored to county needs.

40. **County governments will use their Level 1 Grants to finance capacity-building interventions related to the achievement of results in each KRA as per approved annual reform action plans.** Each county annual reform action plan will also include interventions to support strengthening capacities around gender mainstreaming, environmental, social, procurement, FM, and complaints handling. Counties will also use these resources to finance the procurement of office, information and communication technology, and specialized equipment (in accordance with the investment menu provided in the POM).

IV. ASSESSMENT SUMMARY

A. Technical (including program economic evaluation)

41. **KDSP II is strategically relevant and timely for Kenya's devolution process, because it is aligned with the next phase of the devolution agenda.** Having set up the basic institutional structures and foundations for the functioning of county governments, the focus is now on addressing governance bottlenecks to service delivery and improving the institutional performance of county governments. KDSP II will help unlock these bottlenecks. Building on the achievements of KDSP, the infrastructure investments in the Program will also address inequality by expanding access to key devolved services including transport, water, health, agriculture, and rural trade. Under KDSP, these investments led to improved health services including increased access to health services for over 1 million people and upgraded medical equipment; improved education services; improved water and sanitation services including reduced time for collecting water; increased food security, including reduction in post-harvest losses; improved road networks in historically marginalized counties; and improved social amenity facilities with the potential to reduce conflict in remote counties.[24]

42. **KDSP II is also strategically relevant for the World Bank's wider engagement in Kenya as it addresses portfolio-wide issues.** Through consultations with sector teams, systemic and governance challenges that cut across the World Bank's portfolio have been identified. These include delayed release of resources from the national government and weak county fiduciary functions to support project implementation. The Program will help unblock these challenges and contribute to better delivery of World Bank projects. Details are provided in Annex 2 and the Technical Assessment.

43. **KDSP II is technically sound.** The Program has been designed with a well-defined ToC which shows a clear and reasonable link between the proposed activities and the desired outcomes. The performance framework for the project has been finalized with inputs from stakeholders, and the Program activities are assessed as being appropriate for the delivery of Program results. As detailed in this Program Appraisal Document (PAD), the Program design has incorporated lessons learned from KDSP. As detailed in the Technical Assessment, the Program also incorporates lessons from other World Bank-financed devolved projects in Kenya and World Bank-financed projects in the region working on similar reforms in decentralized systems of governments including the Zambia Devolution Support Program (P178492); Nigeria: States Fiscal Transparency, Accountability and Sustainability PforR (P162009); and Malawi Governance to Enable Service Delivery Project (P164961).

44. **Economic rationale.** The economic assessment of the Program shows that substantial benefits are to be gained from the Program. First, counties could potentially increase their aggregate revenue collection by US$1.2 billion[25] through improved revenue collection and administration, and second, improved payroll management (including through automation) could save counties US$242 million[26] in payments to ghost workers. Further, there will be benefits in the form of infrastructure and service investments which will benefit priority-devolved service delivery sectors and will align with each county's development plans. The Program will also have significant nonquantifiable benefits associated with improved county systems, tools, and processes for budgeting, planning, expenditure management, HRM, and accountability.

45. **KDSP II will also support the World Bank's Corporate Commitments as follows:**

[24] KDSP Implementation Completion and Results Report.
[25] CRA and World Bank Comprehensive Own Source Revenue (OSR) Potential Tax Gap Study (CRA 2022).
[26] OAG county audit reports (2014–2022).

(i) **Paris Alignment.** KDSP II is aligned with the goals of the Paris Agreement on both adaptation and mitigation. In line with the PforR instrument method for assessing Paris Alignment, (a) climate hazards are not likely to have a material impact on the Program and (b) Program activities are not at risk of having a negative impact on Kenya's low-carbon development pathways. KDSP II is hence assessed to have low or no risk on both mitigation and adaptation:

a. **Assessment and reduction of mitigation risks.** Kenya contributes less than 0.1 percent of global greenhouse gases emissions annually. KDSP II will contribute to enhanced resilience and support Kenya's low-carbon development pathway by screening all proposed service delivery investments under the Program, including physical infrastructure investments, for climate risks and climate change mitigation impacts.

b. **Assessment and reduction of adaptation risks.** Kenya's vulnerability includes natural hazards such as repeated droughts and floods that are attributable to extreme climatic events and have devasting economic effects and infrastructure networks that are susceptible to climate shocks. KDSP II will contribute to improve Kenya's resilience by: (i) supporting county governments to incorporate climate and disaster risk into county planning and infrastructure investment; and (ii) screening proposed service delivery investments for climate risks and climate change adaptation impacts.

(ii) **Gender.** The Program will monitor progress on gender mainstreaming across the KRAs, Program Results Framework, and through the APA process. Gender gaps identified and the proposed interventions are shown in Table 9.

Table 9. Gender Gaps and Proposed Interventions

Gender Gaps[27]	Proposed Interventions
Programs for women's empowerment/efforts to improve service delivery are not addressing gendered constraints due to limited capacity of gender officers.	IRI-KRA 2: Counties that have undertaken training of gender officers aligned with approved training programs and budget
Investment dashboards generally do not disaggregate data on key indicators by sex or collect data on gendered constraints to service delivery, fueling knowledge gaps about women's access to services.	County project investment dashboards (with online citizen feedback interfaces). Dashboards will collect data on gender-related constraints to service delivery to inform more inclusive coverage.

(iii) **Citizen engagement.** KDSP II will build on the experience of ongoing and previous operations to enhance citizen engagement. KDSP helped establish citizen engagement processes through grievance redress mechanisms (GRMs) and participatory mechanisms. Financing Locally Led Climate Action Program (FLLoCA, P173065) continues to strengthen these mechanisms to prioritize citizen engagement in climate decision-making. Through the Kenya Accountable Devolution Program (P179680), participatory budgeting was rolled out to counties, public participation guidelines were developed, and a citizen engagement framework on social audit was piloted in World Bank-funded projects including the National Agricultural and Rural Inclusive Growth Project (P153349) and Kenya Climate Smart Agriculture Project (P154784). KDSP II will further support citizen engagement by incentivizing counties to establish and operationalize: (a) community-led project management committees; and (b) project investment dashboards with online citizen feedback interfaces. The feedback will be used by counties to improve their investments.

[27] Council of Governors and UN Women. 2022. *The Impact of Devolution on Women and Girls in Kenya.*

B. Fiduciary

46. **Fiduciary risk is rated 'Substantial'.** The Fiduciary Systems Assessment (FSA) revealed that the procurement and FM systems' capacity and performance are adequate to provide reasonable assurance that the Program funds will be used for the intended purposes with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. Main fiduciary risks include: (a) inadequate budget allocations and underfunding of approved budgets leading to pending bills and delayed procurement; (b) delay in fund flow to the counties; (c) accounting and reporting irregularities; (d) limited internal audit function; (e) delay in submission of audit reports and follow-up of audit recommendations; and (f) capacity gaps in procurement planning, processing, and contract management.

47. **Fiduciary risks are mitigated by the design of the Program.** The Program benefits from the experience of the SDD in implementing KDSP, adequate accounting systems, a clear Program Expenditure Framework, and acceptable audit capacity under the OAG to review the Program. Under KRA 1 of the Program, reliable and timely transfer of resources to the counties and automation of exchequer requests are supported, which strengthens the capacity over budget and fund flow. The Program also supports establishment of the SPMU which will strengthen the overall fiduciary function at the county level, addressing both FM and procurement capacity challenges. As part of the PAP, the Program will ensure capacity-building initiatives and annual risk-based internal audit review of the program. Credible annual workplan and procurement plans are critical for securing adequate budget; hence, the process and timeline of these will be included in the POM. The Program will prepare financial reports semiannually, which will help monitor the Program Expenditure Framework, and have an annual Program audit. The World Bank will continue to provide regular fiduciary capacity building throughout Program implementation and will monitor Program expenditures to ensure: (a) spending is in accordance with the Program Expenditure Framework; (b) no high-value contracts (involving procurement of goods, works, and non-consulting and consulting services whose estimated values exceed the applicable Operations Procurement Review Committee [OPRC] thresholds set out in the World Bank's Procurement Procedure) are included in Program expenditures; and (c) fraud and corruption complaints are monitored.

48. **The operation is subject to the World Bank anti-corruption guidelines.** The protocol for the application of the guidelines will be included in the POM. The public can channel complaints directly to the SDD or other oversight agencies. The SDD has a well-established fraud and corruption handling framework. The Program GRM established under KDSP will be continued under this Program. To ensure the proper reporting of fraud and corruption complaints, the Ethics and Anti-Corruption Commission (EACC) and the Commission on Administrative Justice (CAJ) will monitor the findings and recommendations on complaints handling and fraud and corruption mitigation measures. This will inform actions that may be included in the PAP during Program implementation. Both the EACC and CAJ will submit biannual reports to the World Bank, which will be a legal covenant in the Financing Agreement.

C. Environmental and Social

49. **KDSP II activities are expected to have positive impacts as they will contribute to strengthening county institutions' capacities to improve service delivery.** This is a hybrid operation, with both PforR and IPF components. For the PforR component, the World Bank has conducted the Environmental and Social Systems Assessment (ESSA) and the final ESSA was publicly disclosed on the SDD website and the World Bank external website on November 3, 2023. The ESSA has reviewed national and county systems and capacity for environmental, social, health, and safety (ESHS) management associated with the proposed subprojects or investments for the Level I and Level II grants.

50. **Experience from the implementation of similar PforRs shows that the capacity of county governments to supervise and manage E&S impacts requires strengthening.** This is particularly the case for screening and integration of

social risks in ESIAs, temporary displacement and relocation, grievance management, limited targeting, and inclusion of minority VMGs and other disadvantaged or vulnerable individuals and groups, management of labor welfare, community/occupational health, and safety issues. Further, the lack of clear guidelines on the management of temporary displacement and relocation on public land, grievance management, the integration of NEMA license conditions to the bidding and contract documents, labor welfare, and occupational health and safety aspects in contract management may increase the level of risk.

51. **Eligible investments to be financed include a range of infrastructure items, which are not likely to have significant adverse E&S risks and impacts.** The Program will not finance subprojects that are assessed to have substantial and high E&S risks. Certain types of infrastructure have been considered ineligible and placed on a 'negative' (or prescribed) investment menu/list, as listed in Table 10. This negative list will be regularly updated and further detailed in the POM. The PAP recommends the following: (a) developing, adopting, and training on the use of the ESHSRIM manual (annex to the POM) for managing ESHS risks and impacts; (b) deploying one full-time environmental specialist and one full-time social specialist in participating counties; (c) developing GRM structures based on guidelines provided in the ESHSRIM manual to improve grievance management; (d) including ESHS clauses in the bidding and contract documents for civil works; (e) targeting and including minority VMGs and other disadvantaged groups and individuals through meaningful public participation; and (f) the Program partners with relevant lead agencies: Directorate of Occupational Safety and Health Services, NEMA, National Construction Authortiy, and National Land Commission delivering capacity building on ESHS risk management to counties and contractors. See Annex 5 for details on the PAP.

Table 10. Eligible and Ineligible Activities for Level 2 Grants

Examples of Eligible Expenditures for Level 2 Grants (indicative infrastructure investments)

• Agriculture: Construction, rehabilitation, and equipping of agro-processing plants, dairy production parks, and fisheries
• County health
  ○ Construction, rehabilitation/upgrading, and equipping of county hospitals, dispensaries, and other health facilities
  ○ Purchase of ambulances and mobile clinics (within a maximum limit/threshold defined in the POM)
• Cultural activities, public entertainment, and public amenities: Construction, rehabilitation, beautification, and equipping of county libraries, museums, sports, cultural activities, parks, beaches, and recreation facilities
• County transport: Construction and rehabilitation/upgrading of roads and bridges
• Trade development: Construction, rehabilitation/upgrading, and equipping of markets
• Education: Construction, rehabilitation/upgrading, and equipping of Early Childhood Development Education, village polytechnics, and childcare facilities
• County public works: Construction and rehabilitation/upgrading of piping, drainage, toilets, gutters, and so on
• Firefighting and disaster management
  ○ Construction, rehabilitation/upgrading, and equipping of county fire stations
  ○ Purchase of fire engines (within a maximum limit/threshold defined in the POM).

Examples of Ineligible Expenditures for Level 2 Grants
• Activities on the negative list of the ESSA • Investments in loans, other micro-credit schemes, and other securities • Investments made outside the CIDPs and annual development plans • Recurrent expenditures, such as salaries, utility costs (for example, electricity and water), and rent • School bursaries and scholarships • Foreign study tours • Expenditures for infrastructure funded by other development partner programs/grants • Any subproject that may involve forced, physical and/or economic displacement or resettlement of more than 200 people.

52. **E&S staff capacity.** The NPCU is currently staffed with one social specialist; this is assessed as inadequate for KDSP II and requires strengthening. The NPCU will require full-time and experienced specialists: one environmental specialist, one social specialist, and one health and safety specialist. Counties will be required to have one qualified (and experienced) environmental specialist and one qualified (and experienced) social specialist on a full-time basis. In addition to key E&S staff, the NPCU will engage experts to support counties on a need basis for various ESHS risk management activities, including the preparation of Resettlement Action Plans and income restoration plans/reinstatement plans, the preparation of ESIA/ESMPs, and regular ESHS audits.

53. **The Environmental and Social Framework will apply to the Program's IPF component, which will finance TA activities.** This will include Type 2 and Type 3 TA activities as defined by the Operations Environmental and Social Review Committee (OESRC) Advisory Note for Technical Assistance and the Environmental and Social Framework 2019. These activities will result in significant positive E&S outcomes and have negligible E&S risks and impacts. The borrower prepared the Environmental and Social Commitment Plan (ESCP) and a Stakeholder Engagement Plan (SEP), which were disclosed on the SDD's website on November 3, 2023, and the World Bank external website on November 5, 2023. The ESCP includes elements of the Labor Management Procedures (LMP) and Sexual Exploitation and Abuse and Sexual Harassment (SEA/SH) Prevention and Response Action Plan. Thus, due to the nature of the proposed IPF component interventions related to the Type 2 and 3 TA activities, the overall environmental and social risk classification is considered as 'Moderate', environmental risk rating as 'Moderate', and social risk rating as 'Moderate'. Details are provided in Annex 4.

V. GRIEVANCE REDRESS SERVICES

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

VI. KEY RISKS

55. **The overall risk of the operation is Substantial.** The Program builds on the proven experience with KDSP and a commitment from the current administration regarding adherence to public sector efficiency and accountability reform agenda.

56. **Political and governance risk is rated Substantial.** Transition of the new administration after the August 2022 elections has come with change in county leadership. Revenue mobilization and fiscal consolidation remain a national priority. However, the reforms needed to tackle these challenges, some of which are anticipated in the Program such as strategic staffing for service delivery, will likely face pushback from some stakeholders. Mitigation measures will include continuous engagement with new leadership at both levels of government to ensure that political support for the proposed reforms is sustained throughout the Program. Performance measures will also target incentivizing the

achievement of results in areas where vested interests are likely to manifest (for example, OSR, county HRM, wage bill, and pending bills).

57. **Macroeconomic risk is rated Substantial.** While growth prospects are bright, fiscal pressures remain. The monetary policy has been tightened in response to inflationary pressures. The fiscal consolidation agenda may face challenges especially regarding the demand for more spending measures to reduce the high cost of living. The Program will provide conditional, performance-based support to counties. The reform areas that the Program will support regarding revenue mobilization and expenditure efficiency are designed to alleviate fiscal pressures over the medium term. The Program will leverage the Development Policy Operations and the International Monetary Fund Programs to monitor fiscal stability.

58. **Technical design of Program risk is rated Substantial.** The proposed activities will need to be carefully sequenced and coordinated to achieve the intended results. The technical risks include: (a) failure of counties to achieve several performance measures due to the lack of capacity; (b) delays in achieving downstream results due to incomplete upstream/prior tasks, including, development and/or finalization of national-level frameworks and processes; (c) procurement delays; (d) limited operations and maintenance budgets; and (e) weak county capacity on ESS. The proposed mitigation measures for these risks include: (a) capacity-building activities; (b) Program design that appropriately sequences activities; (c) a performance framework that incentivizes mitigation of the identified risks; (d) creation of results teams to ensure a coordinated approach to resolving bottlenecks; and (e) the PAP.

59. **Institutional capacity for implementation and sustainability risk is rated Substantial.** Implementation of KDSP II involves 47 county governments and several national-level technical lead agencies that will be providing TA to the counties. While the SDD's capacity for coordination can be strengthened, technical capacity in the KRAs will need to be drawn externally from the relevant technical lead MDAs such as the NT, PSC, SDPS, SDPDM, SRC, CRA, and OCoB, including those that provide support related to the implementation of Level 2 Grants. Coordination of implementation at the county level will also require extensive collaboration among the technical lead departments/agencies/boards for the KRAs such as the County Treasury and County Public Service Boards. Intergovernmental coordination will also be critical in ensuring that counties receive information and guidance on the Program as required. To mitigate these risks, the SDD and CoG: (a) have involved county representatives throughout the Program design; (b) have sensitized county leadership (including governors and county executive committee members on the design of KDSP II); and (c) will undertake continuous dialogue and capacity development with county governments. In addition, (a) technical lead agencies will be represented in the NPSC and the NPTC, and interagency joint work plans for TA to counties and the county level itself will be developed according to KRAs (not per agency) to ensure harmonized support to the counties and implementation by counties, respectively; (b) the SDD has been working with relevant MDAs in Program preparation; (c) the NPSC, CPSC, NPTC and CPTC will ensure that intersectoral coordination is effective during implementation; and (d) the NPCU will prepare an annual work plan agreed with MDAs supporting implementation including the CoG and IGRTC. The CoG will also play a critical role of coordinating engagement with counties.

60. **The fiduciary risk for the program is rated Substantial.** Key fiduciary risks identified relate to delayed and inadequate budget processes affecting implementation, funds flow, and procurement. There are funds flow delays at all levels with a risk of diversion of Program funds and delayed payment to contractors and service providers. Regarding procurement, gaps continue due to the lack of clearly defined qualification requirements and evaluation criteria, lack of effective complaints-handling mechanisms, irregular disclosure of procurement outcomes to the public, use of inequitable and unclear conditions of contract and non-standard conditions of contract formats, lack of procurement and contract management, monitoring and tracking arrangements, and limited contract management capacities. Mitigation measures include the provisions under DLI 1 which deals with timely information on conditional grant allocations, reduction of the

timelines for processing county requisitions, and capacity-building initiatives to support the gaps noted in financial management and procurement planning.

61. **The overall E&S risk of the program is rated as 'Substantial'.** This is due to the significant geographic dispersion of the participating counties and constraints around oversight, different scales of proposed investments, the potential direct and cumulative E&S risks and impacts of the proposed investments, the capacity of the Program coordination and implementation teams, gaps identified in the institutions responsible for managing ESHS risks in the country, the varying capacity of counties to roll out the proposed reforms, and the exclusion of VMGs and other disadvantaged groups from the public participation process and access to Program benefits and opportunities. The Program will finance infrastructure projects at the county level, in line with the Program's objectives. These investments will include the rehabilitation and construction of small- to medium-scale infrastructures in devolved sectors such as health, education, water, and agriculture. There will be civil works activities with potential E&S implications, such as physical and economic displacement, occupational health and safety, pollution, labor influx, and related impacts. Mitigation measures include policy development support, TA, capacity building, and training to counties to build their capacities to better manage these risks.

ANNEX 1. RESULTS FRAMEWORK MATRIX

Program Development Objective(s)

To strengthen county performance in the financing, management, coordination, and accountability for resources

PDO Indicators by Outcomes

Baseline	Period 1	Period 2	Period 3	Closing Period
Sustainable Financing and Expenditure Management				
Participating counties that have increased their OSR by at least 5% annually, over and above the rate of inflation (Number) DLI				
Jun/2023	Jul/2024	Jul/2025	Jul/2026	Dec/2027
n/a	0	21	30	30
Intergovernmental Coordination, Institutional Performance, and Human Resource Management				
Participating counties that have put in place core governance arrangements to manage public funds (Number)				
Jun/2023	Jul/2024	Jul/2025	Jul/2026	Dec/2027
n/a	21	30	45	45
Oversight, Participation and Accountability				
Participating counties that have established public investment management (PIM) dashboards with citizen feedback mechanisms (Number) DLI				
Jun/2023	Jul/2024	Jul/2025	Jul/2026	Dec/2027
n/a	0	25	30	30

Intermediate Indicators by Results Areas

Baseline	Period 1	Period 2	Period 3	Closing Period
Sustainable Financing and Expenditure Management				
Participating counties whose taxpayer registers and cadasters have been cleaned and updated into an automated revenue management system (Number)				
Jun/2023	Jul/2024	Jul/2025	Jul/2026	Dec/2027

n/a	3	15	25	25
Participating counties that have prepared and are implementing action plans to reduce the stock of pending bills and maintain it at minimal levels (Number) DLI				
Jun/2023	Jul/2024	Jul/2025	Jul/2026	Dec/2027
0	0	20	25	25
Average number of days it takes for NT, OCoB and CBK to process a county exchequer requisition once submitted (Days) DLI				
Jun/2024	Jul/2024	Jul/2025	Jul/2026	Dec/2027
0	35	30	20	20
Intergovernmental Coordination, Institutional Performance, and Human Resource Management				
Annual inter-governmental summit report submitted to Parliament and County Assemblies within 90 days of the end of the FY (Yes/No)				
Jun/2023	Jul/2024	Jul/2025	Jul/2026	Dec/2027
No	Yes	Yes	Yes	Yes
Participating counties that have integrated their HR records, authorized staff establishment and payroll, and uploaded cleaned payrolls in the HRMIS (Number) DLI				
Jun/2023	Jul/2024	Jul/2025	Jul/2026	Dec/2027
0	0	15	25	25
Participating counties that are enhancing accountability for results through an integrated performance management framework (Number) DLI				
Jun/2023	Jul/2024	Jul/2025	Jul/2026	Dec/2027
n/a	0	15	25	25
Participating counties that have undertaken training of gender officers aligned with approved training programs and budget (Number)				
Jun/2023	Jul/2024	Jul/2024	Jul/2024	Dec/2027
0	10	25	35	35
Oversight, Participation and Accountability				
Participating counties with project management committees established at ward level (Number)				
Jun/2023	Jul/2024	Jul/2025	Jul/2026	Dec/2027
n/a	15	30	40	40

Disbursement Linked Indicators (DLI)

Period	Period Definition	Timeline
Period 1	July 2024- June 2025	01-Jul-2024 to 30-Jun-2025
Period 2	July 2025- June 2026	01-Jul-2025 to 30-Jun-2026
Period 3	July 2026- June 2027	01-Jul-2026 to 30-Jun-2027
Period 4	July 2027- June 2028	01-Jul-2027 to 30-Jun-2028

Baseline	Period 1	Period 2	Period 3	Period 4
2 : Participating counties that have put in place core governance arrangements to manage public funds (Number)				
0	21	30	45	45
0.00	5,250,000.00	7,500,000.00	11,250,000.00	0.00
DLI allocation		24,000,000.00	As a % of Total Financing Amount	17.0%
3 : Participating counties that have increased their OSR by at least 5% annually, over and above the rate of inflation (Number)				
n/a	0	21	30	30
0.00	0.00	10,500,000.00	15,000,000.00	0.00
DLI allocation		25,500,000.00	As a % of Total Financing Amount	18.5%
4 : Participating counties that have prepared and are implementing action plans to reduce the stock of pending bills and maintain it at minimal levels (Number)				
0	0	20	25	25
0.00	0.00	10,000,000.00	12,500,000.00	0.00
DLI allocation		22,500,000.00	As a % of Total Financing Amount	18.5%
5 : Participating counties that have integrated their HR records, authorized staff establishment and payroll, and uploaded cleaned payrolls in the HRMIS (Number)				
0	0	15	25	25
0.00	0.00	9,750,000.00	16,250,000.00	0.00
DLI allocation		26,000,000.00	As a % of Total Financing Amount	18.5%
6 : Participating counties that are enhancing accountability for results through an integrated performance management framework (Number)				
n/a	0	15	25	25
0.00	0.00	4,500,000.00	7,500,000.00	0.00
DLI allocation		12,000,000.00	As a % of Total Financing Amount	8.8%
7 : Participating counties that have established public investment management (PIM) dashboards with citizen feedback mechanisms (Number)				
n/a	0	25	30	30
0.00	0.00	10,000,000.00	12,000,000.00	0.00
DLI allocation		22,000,000.00	As a % of Total Financing Amount	15.5%

1 : Average number of days it takes for NT, OCoB and CBK to process a county exchequer requisition once submitted (Days)				
0	50	30	20	20
50.00	1,000,000.00	1,000,000.00	1,000,000.00	0.00
DLI allocation		3,000,000.00	As a % of Total Financing Amount	2.2%

Monitoring & Evaluation Plan: PDO Indicators by PDO Outcomes

Sustainable Financing and Expenditure Management	
Participating counties that have increased their OSR by at least 5 percent annually, over and above the rate of inflation (Number)	
Description	The indicator measures the number of counties that have increased own-source revenue collected by at least 5 percent in a year over and above the rate of inflation.
Frequency	Annually
Data source	Controller of Budget
Methodology for Data Collection	Firm will carry out the APA.
Responsibility for Data Collection	NPCU

Intergovernmental Coordination, Institutional Performance, and Human Resource Management	
Participating counties that have put in place core governance arrangements to manage public funds(Number)	
Description	This indicator measures the number of participating counties that have met minimum conditions for the level 1 grant as per the APA
Frequency	Semiannually
Data source	IVA report
Methodology for Data Collection	Firm will carry out the APA.
Responsibility for Data Collection	NPCU

Oversight, Participation and Accountability	
Participating counties that have established public investment management dashboards with citizen feedback mechanisms (Number)	
Description	This indicator measures the number of counties with public investment dashboards with citizen feedback mechanisms.
Frequency	Semiannually
Data source	Implementing agency
Methodology for Data Collection	Firm will carry out the APA.
Responsibility for Data Collection	NPCU

Monitoring & Evaluation Plan: Intermediate Results Indicators by Results Areas

Sustainable Financing and Expenditure Management	
Participating counties whose taxpayer registers and cadasters have been cleaned and updated into an automated revenue management system (Number)	
Description	Measures the number of counties that have cleaned and updated their taxypayer registers and cadasters and uploaded them into an automated revenue management system
Frequency	Annually
Data source	IVA report
Methodology for Data Collection	Firm will carry out the APA.
Responsibility for Data Collection	NPCU
Participating counties that have prepared and are implementing action plans to reduce their stock of pending bills and maintain it at minimal levels (Number)	
Description	The indicator measures the number of counties that are implementing their pending bills action plans as defined in the APA and POM.
Frequency	Annually
Data source	County websites
Methodology for Data Collection	Firm will carry out the APA.

Responsibility for Data Collection	NPCU
Participating Intergovernmental Coordination, Institutional Performance, and Human Resource Management	
Annual inter-governmental summit report submitted to Parliament and County Assemblies submitted within 90 days of the end of the FY	
Description	Measures the submision of annual inter-governmental Summit report to Parliament and County Assemblies
Frequency	Annually
Data source	IGRTC progress reports
Methodology for Data Collection	IGRTC reports annually to NPCU based on methodology specified in the POM.
Responsibility for Data Collection	NPCU
Participating counties that have integrated their HR records, authorized staff establishment and payroll, and uploaded cleaned payrolls in the HRMIS (Number)	
Description	Measures the number of counties that have integrated their HR records, authorized staff establishment, and payroll data, and have uploaded them in the automated payroll system
Frequency	Annually
Data source	OAG, county websites, IVA report
Methodology for Data Collection	Firm will carry out the APA.
Responsibility for Data Collection	NPCU
Participating counties that are enhancing accountability for results through an integrated performance management framework (Number)	
Description	Measures the number of counties that are implementing a performance management framework that links budgets, M&E, performance contracting, and individual staff performance appraisal
Frequency	Annually
Data source	APA
Methodology for Data Collection	Firm will carry out the APA.
Responsibility for Data Collection	NPCU
Participating counties that have undertaken training of gender officers aligned with approved training programs and budget (Number)	
Description	The indicator measures the number of counties that have assigned budget for training gender offices and undertaken the training.
Frequency	Annually
Data source	IVA report
Methodology for Data Collection	Firm will carry out the APA
Responsibility for Data Collection	IVA
Oversight, Participation and Accountability	
Participating counties with community-led project management committees established at ward level (Number)	
Description	The indicator measures the number of counties that have set up community-led project management committees that are overseeing project identification, implementation, and monitoring.
Frequency	Annually
Data source	IVA reports, county website
Methodology for Data Collection	Firm will carry out the APA.
Responsibility for Data Collection	NPCU

Verification Protocol Table: Disbursement Linked Indicators

DLI 1: Average number of days it takes for NT, OCoB and CBK to process a county exchequer requisition once submitted (days)	
Formula	n/a
Description	This DLI will be met if the average number of days to process county exchequer requests is at or below the target and to the extent that these processes are fully automated. This will be detailed in the POM.
Data source/Agency	Reports submitted by the NT, OCOB, and CBK
Verification Entity	Independent firm (IVA) advice to NPTC and the World Bank. World Bank Quality Assurance Review (QAR) validates and confirms IVA results.
Procedure	As outlined in the POM
DLI 2: Participating counties that have put in place core governance arrangements to manage public funds	
Formula	US$250,000 × No. of participating counties that meet relevant MCs as per APA.
Description	No. of participating counties that have met MCs for the Level 1 grant as per APA1. This DLI will be met if the county has in the first year, (a) signed a participation agreement and discloses it on the county website and (b) prepared approved work plans, cash plans, and budgets consistent with the agreed methodology and standards. In subsequent years, these results will also include (a) qualified or unqualified audit opinions (with action plans for addressing qualifications), (b) reports on implementation progress and use of Program funds, and (c) timely releases of KDSP II funds from the CRF to the SPA.
Data source/Agency	APA report produced by the IVA
Verification Entity	IVA advice to NPSC and the World Bank. World Bank QAR validates and confirms IVA results.
Procedures	As outlined in the POM
DLI 3: Participating counties that have increased their OSR by at least 5% annually, over and above the rate of inflation (Number)	
Formula	US$500,000 × No. of participating counties that have increased their OSR by 5% over and above the rate of inflation, over a period of 12 months as per the APA
Description	No. of participating counties that have increased their OSR by at least 5% over and above the rate of inflation as per the APA
Data source/Agency	Revenue reports on county websites; reports from county automated revenue management system
Verification Entity	IVA advice to NPSC and the World Bank. World Bank QAR validates and confirms IVA results.
Procedure	As outlined in the POM
DLI 4: Participating counties that have prepared and are implementing action plans to reduce their stock of pending bills and maintain at minimum levels (Number)	
Formula	US$500,000 × No. of participating counties that are implemeting a pending bills action plan to reduce their stock of pending bills as well as pay commitments on time as per the APA.
Description	No. of participating counties that are implemeting a pending bills action plan to reduce their stock of pending bills as well as pay commitments on time.
Data source/Agency	County Debt Management Strategy; OCoB quarterly and annual reports
Verification Entity	IVA advice to NPSC and the World Bank. World Bank QAR validates and confirms IVA results.
Procedures	As outlined in the POM
DLI 5: Participating counties that have integrated their HR records, authorized staff establishment and payroll, and uploaded cleaned payrolls in the HRMIS (Number)	
Formula	US$650,000 × No. of participating counties that have integrated their HR records, authorized staff establishment and payroll, and uploaded cleaned payrolls in the HRMIS
Description	No. of participating counties that have integrated their HR records, authorized staff establishment and payroll, and uploaded cleaned payrolls in the HRMIS
Data source/Agency	Payroll audit, HR and skills audit reports, HR records, reports from the HRMIS
Verification Entity	IVA advice to NPSC and the World Bank. World Bank QAR validates and confirms IVA results.
Procedure	As outlined in the POM
DLI 6: Participating counties that are enhancing accountability for results through an integrated performance management framework (Number)	
Formula	US$300,000 × No. of participating counties that have have adopted and are implementing an integrated performance management framework

Description	No. of participating counties that have adopted and are implementing an integrated performance management framework
Data source/Agency	County Public Service Boards, Public Service Performance Management Unit, and CPSC
Verification Entity	IVA advice to NPSC and the World Bank. World Bank QAR validates and confirms IVA results.
Procedures	As outlined in the POM
DLI 7: Participating counties that have established public investment management dashboards with citizen feedback mechanisms (Number)	
Formula	US$400,000 × No. of participating counties that have established PIM dashboards with citizen feedback mechanisms
Description	No. of participating counties that have established PIM dashboards with citizen feedback mechanisms
Data source/Agency	NT and SDD
Verification Entity	IVA advice to NPSC and the World Bank. World Bank QAR validates and confirms IVA results.
Procedure	As outlined in the POM

ANNEX 2. SUMMARY TECHNICAL ASSESSMENT

This section provides a summary of the full technical assessment.

Strategic Relevance

1. **KDSP II is timely for Kenya's devolution process, aligned with the next phase of the devolution agenda in the country, and will address major challenges and bottlenecks to service delivery in county governments.** Given that the basic institutional framework for devolution is largely in place and county governments are well established, the next phase of devolution will focus on ensuring stable, enabled, and effective county government institutions and systems to deliver more and better services to citizens. This will require addressing challenges which are hampering effective functioning of county governments including financing and expenditure management, HRM, and accountability. KDSP II's reforms are targeted to address these issues.

2. **From a portfolio perspective, KDSP II will help strategically address governance challenges experienced in the delivery of World Bank-funded projects across the devolved sectors.** For instance, (a) delays in the transfer of conditional grants from national to county governments, which delays World Bank operations will be addressed through automating the county exchequer requisition system and incentivizing the national government to provide timely indicative information on conditional grants to counties; (b) low public participation for planning and delivery of World Bank-financed projects will be addressed through incorporation of citizen feedback in public investment management dashboards; (c) weak M&E of World Bank-financed projects will be strengthened through establishment of county project implementation committees and project investment dashboards; and (d) weak county shared services such as procurement, finance, and E&S that should support delivery of World Bank-financed projects will be strengthened in various ways including establishing SPMUs and enhancing E&S functions. KSDP II is also aligned with the Kenya CPF.

Technical Soundness

3. **The hybrid PforR and IPF approach is necessary to achieve Program results, and the allocation of Program expenditures appropriately balances both components.** As outlined in the main text of the PAD and the full technical assessment, the IPF component is necessary to better coordinate and sequence critical results at the national level. It will comprise around 10 percent of Program expenditures. On the other hand, the PforR component will incentivize one significant result at the national level, which will unlock further bottlenecks downstream, and county-level results. The grants to the counties have been designed to incentivize the most strategic institutional reforms and investments that have an impact on service delivery. Reflecting the fact that KDSP II is a devolved sector project, most of the Program funds will be allocated to the counties.

4. **The ToC is technically sound.** The selected reform challenges are underpinned by various analytical studies and reports (see Table 2.1) and have been strategically selected. The ToC shows a significant likelihood that, through the chain of chosen activities and outputs, the identified challenges will be addressed and the PDO achieved. The critical assumptions made are also plausible and well considered. As detailed in the PAD, the Program also builds on lessons and experiences from KDSP.

Table 2.1. Analytical Underpinnings for KDSP II

Analytical Underpinnings	Highlights of Key Findings/Recommendations	Link to KRA
Comprehensive Own Source Revenue (OSR) Potential and Tax Gap Study (CRA 2022)	Counties should • Create one legislation that provides for all the revenue streams and specifies relevant tax rates, fees, or charges; focus on raising tax on a few coherent sources with the largest potential; for user charges, develop pricing policies; and ensure local taxes have a clear policy rationale. • Focus on automating revenue management systems and strengthening IT connectivity; better integrating revenue management systems with IFMIS reporting; strengthening forecasting methods and transparency; and reviewing performance of revenue forecasts versus outturns. • Enact legislation to set out compliance obligations and powers in the County (revenue administration) Act. This can be based on the existing model and updated through the intergovernmental relations mechanisms; and boost information sharing arrangements with agencies whose data can contribute to the integrity of the county OSR tax base. • Put most effort into property rates collection as they have had the most potential to generate increased revenue (estimated in some counties as three times more revenue).	**KRA 1:** Sustainable Financing and Expenditure Management
Tax Administration Diagnostic Tool (TADAT) (GoK 2022)	• Eight counties have completed the TADAT assessment and the government has commenced assessing all county revenue administrations. Key findings of TADAT include inaccurate taxpayer registration databases, poor filing and payments compliance, manual tax systems or Local Authority Integrated Financial Operations Management Systems that are not integrated to the IFMIS, and inoperative risk management systems. Improvements in the gaps will result in increased revenue generation: more reliable and accurate taxpayer data, effective risk management, improved voluntary compliance and timeliness of tax payments, efficient revenue management, and increased accountability and transparency.	**KRA 1:** Sustainable Financing and Expenditure Management
Making Devolution Work for Service Delivery in Kenya (World Bank 2022)	• The study proposes a joint plan of action where national and county governments can address residual ambiguities or disputes over functions; enhance the adequacy, efficacy, equity, and reliability of county revenues; improve intergovernmental coordination; promote devolution beyond the county government to point of service delivery; adopt a strategic, result-oriented, and coordinated approach to HRM reforms in the county governments; enhance structures for meaningful public participation; enhance county planning, budgeting, and execution; and invest in data to build the evidence base for devolved sectors through increased focus on disaggregated sector data, development of service delivery norms and standards, disaggregated financial reporting norms, and strengthened devolution results monitoring.	**All results areas**

Analytical Underpinnings	Highlights of Key Findings/Recommendations	Link to KRA
Kenya Public Expenditure Review 2020: Options for Fiscal Consolidation after the COVID-19 Crisis (World Bank 2020)	• Revenue collection is declining due to a slump in economic activity and due to distortive tax policies and higher spending on service delivery. A two-pronged approach that includes restoring revenue potential and efficiency in expenditure management is therefore necessary to achieve fiscal savings. • Further priority actions to support fiscal consolidation include cleaning the public sector payroll, rationalizing allowances, and harmonizing organizational functions and structures across the public sector.	**KRA 1:** Sustainable Financing and Expenditure Management **KRA 2:** Intergovernmental Coordination, Institutional Performance, Human Resource Management
Draft National PFM Reform Strategy Medium-Term Review Report (unofficial draft, preliminary findings)	• The review shows progress in reforms regarding revenue, budget absorption, wage bill, institutional arrangements on PIM and procurement, quality of financial reporting, and timeliness of audits. The areas highlighted for continued improvements include project planning and execution, ex ante audits and budget controls, procurement data and contract management, integration of e-procurement and IFMIS, compliance with norms and standards for public service management, quality of audits for schools and health facilities, enhancement of the PFM systems for transition to accrual accounting and performance reporting, publication of financial statements, and use of performance audits.	**All results areas**
The public sector wage bill study lessons learned from state corporation and county governments (SRC 2019)	• There is widespread use of both automated and manual HRM systems. It is essential to mainstream and strengthen the use of an integrated HRMIS for the public sector that incorporates existing functionalities in the Integrated Payroll and Personnel Database and Government Human Resource Information System across public sector institutions to reduce wastages and curb abuse of resources.	**KRA 2:** Intergovernmental Coordination, Institutional Performance, and Human Resource Management

5. **KDSP II will strengthen climate governance at the county level through actions that complement the FLLoCA program (P173065).** FLLoCA is the World Bank's primary operation to strengthen sub-national climate change governance in Kenya. It supports counties to integrate climate change considerations into planning, budgeting, implementation, and decision-making, including by strengthening the understanding of climate risk and vulnerability linked to investments. KDSP II will complement FLLoCA's activities by enhancing the links between county planning and budget execution through the establishment of project management committees, civilian anti-corruption oversight committees, and service delivery user committees. KDSP II will also support the development of county project investment dashboards, which will track all investments, including those implemented as per climate action plans, supported by FLLoCA.

6. **KDSP II will also support climate change mitigation, adaptation, and greater resilience through all its components (Table 2.2) and through the eligible investment menu for Level 1 and Level 2 Grants.** Examples of eligible climate-related expenditures under both grants include climate risk screening, incorporating energy saving/efficient materials in physical infrastructure developments, and developing infrastructure maintenance plans that incorporate climate risk preparedness.[28] These will be defined in the POM.

[28] Examples of maintenance plans provisions include investment in early warning systems and purchasing of insurance to address financial consequences of climate variability.

Table 2.2. Climate-Change-Related Components

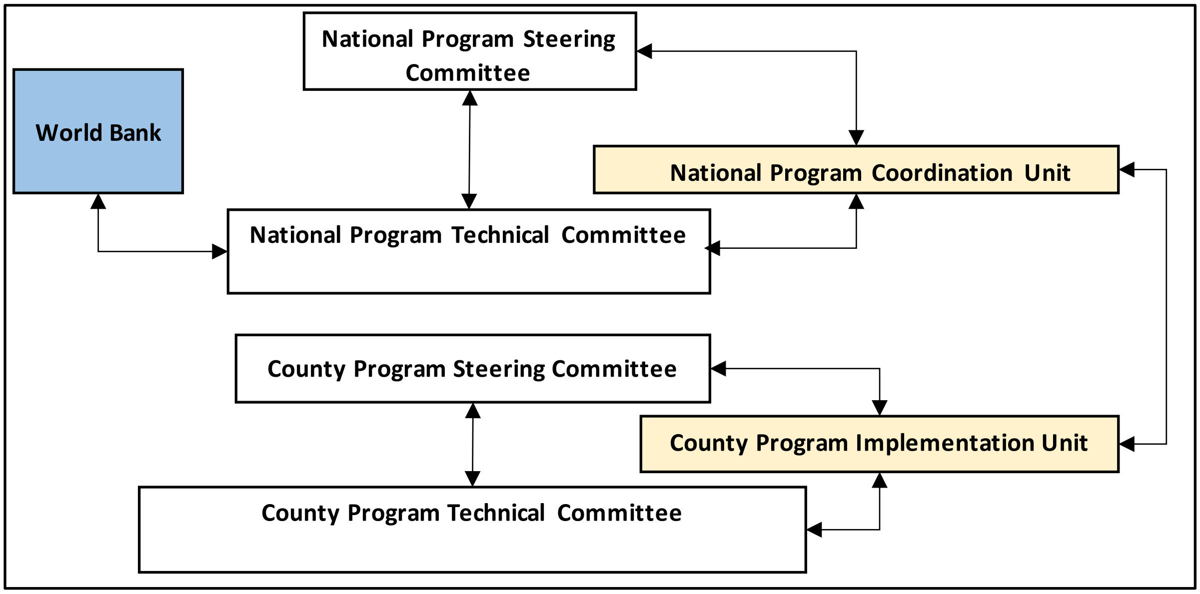
Component	Intervention
IPF	• Build capacity to mainstream climate risk into public investment projects including analyzing climate and disaster risks using scientific data, identifying and assessing potential climate mitigation and adaptation measures, and incorporating these measures into project design and appraisal. • Review and adopt county PIM framework (regulations, guidelines, and circulars) that include climate screening protocols.[29] • Conduct county project stocktaking that will include an assessment of climate-smart investments.[30] • Operationalize intergovernmental and county intergovernmental sectoral forums—this will include supporting the intergovernmental approach to climate change. • Include climate change adaptation and mitigation as part of curriculum, manuals, and modules and institutionalize leadership and governance training for senior county officials. • Develop job descriptions and schemes of service for E&S specialists.
PforR	• Conduct screening of proposed infrastructure investments which will incorporate assessment of climate risks and proposed mitigation and/or adaptation measures. • Develop and regularly update a county project dashboard that will include specific identification/categorization of climate-smart investments to enable tracking of climate investments. • Provide capacity building for Project Implementation Committees and Civilian Anti-Corruption Oversight Committee on climate risk screening and adaptation measures.

Institutional Arrangements

7. **The implementation arrangements for KDSP II will reflect lessons learned under KDSP and will be consistent with the existing intergovernmental architecture to ensure more efficiency, better coordination, and ownership (Figure 2.1).** At the national level, arrangements will include: (a) NPSC;[31] (b) NPTC;[32] (which will include NTIPTs and representatives of county government caucuses that are relevant for Program results); and (c) an NPCU. At the county level, implementation arrangements will include a CPSC, CPTC, and CPIU.

[29] Climate screening protocols will cover the various stages of PIM, that is, planning, coordination, appraisal and selection, resource allocation, and implementation, and will include guidelines on assessing public investments for climate exposure, impact, adaptive capacity, and overall risk rating.
[30] Both mitigation and adaptation investments will be eligible, for example, investment in cleaner and more energy-efficient technology that supports the reduction of greenhouse gas emissions or investment in critical infrastructure, technology, and activities to increase resilience and help adapt to the consequences of climate change.
[31] (a) Provides overall policy guidance, oversight, and strategic direction including interagency coordination conflict arbitration; (b) endorses annual work plans and budgets; and (c) endorses the APA results for World Bank confirmation.
[32] (a) Handles technical and operational issues and deliberating and preparing items for decision-making by the NPSC; (b) reviews program implementation progress and financial accountability reports; (c) reviews and verifies APA reports; (d) identifies and addresses technical issues in implementation; and (e) advises the NPSC on strategic matters as requested, among other responsibilities.

Figure 2.1. KDSP II Institutional Arrangements



8. **Overall, the proposed institutional arrangements are assessed as fit for purpose for the following reasons:** (a) The SDD is the mandated government body to coordinate devolution programs in the country; (b) the CoG has strong convening power and technical expertise to backstop the Program activities; (c) the member agencies of the NPSC have substantial experience with KDSP and complete understanding of Program modalities; (d) the establishment of NTIPTs will support holistic approaches to ensure that activities are not siloed according to institutions; (e) the structure of the NTIPTs is agile and flexible, allowing co-option of national agencies, as required; (f) counties have CPIUs and experience with performance-based grants; and (g) KDSP management structures serve as a tested model for proposed KDSP II arrangements.

Grants Mechanism and Investment Criteria

9. **Details on the grant cycles and reporting mechanisms will be provided in the POM.** Both grants will be aligned to county planning and budgeting cycles, and reporting templates and standards will be detailed in the POM. Through the reporting formats, counties will see how their performance has had an impact on their allocation, to stimulate competition and enhance performance.

10. **County performance will be assessed and scored through the APAs, which will be conducted annually by the IVA**. APAs will: (a) identify counties that achieve the results of DLI 2; (b) identify counties that meet the MCs for the investment grant, that is, get access to DLIs 3 to 7; and (c) assess, through a set of performance measures to be specified in the POM, the relative performance of counties against DLIs 3 to 7. Further details on scoring guidelines will be provided in the POM. Based on the assessment findings, the IVA will assign a score to each county and calculate the formula-based allocation that will be awarded. The IVA will then submit its report to the NPSC for verification. This will then be approved by the World Bank.

11. **Investments and activities proposed for funding under both levels of grants will be screened for eligibility.**[33]

(i) **Institutional strengthening activities proposed under the Level 1 Grant will be screened to ensure alignment with Program results.** Examples of eligible activities will include Program coordination and preparation activities including Program-related Technical Committee meetings and consultations; TA; development and review of policy and regulatory frameworks; development of guidelines and regulations; improvement, development, and rollout out of management information systems; training; and learning and knowledge exchange platforms. On the other hand, large capital expenditures and recurrent costs will not be funded. Details will be provided in the POM.

(ii) **Investments proposed under the Level 2 Grant will be screened for alignment to county development plans, feasibility, value for money, and other E&S concerns.** Investments will be made across devolved sectors and will be selected at the beginning of the Program by participating counties. Examples of eligible and ineligible expenditures are provided Table 10. Additionally, there is recognition that investments in infrastructure have high potential for addressing youth employment in areas/counties that experience skill gaps in construction and rehabilitation of facilities. To this end, counties will be encouraged to partner with relevant national government programs such as the National Youth Opportunities Towards Advancement (NYOTA, P179414) Program.[34] Details will be provided in the POM.

Results Framework and M&E Capacity

12. **The Results Framework is assessed as technically strong.** The Program has the right mix of components and an appropriate choice of reform measures and indicators and is appropriately structured to deliver the desired results. Although the Program is ambitious in scope, the activities, performance measures, and indicators have been sufficiently rationalized as having the potential to catalyze deeper institutional reforms. The development of the Results Framework was a highly consultative process, further increasing confidence in its design.

13. **The Program will build on the M&E capacity that counties have gained through their engagement in and implementation of KDSP and other World Bank programs.** The Program will provide capacity-building support to national MDAs and county governments in any remaining gaps, including: (a) data collection; (b) data quality and integrity control; and (c) linking of data to inform decision-making processes. The Program will require that an M&E specialist be included in the NPCU and each CPIU.

Program Expenditure Framework

14. **The expenditure framework is assessed as fiscally sustainable.** The Government's medium-term fiscal trajectory is sound. The overall cost of the Program over the next four years is US$266 million and eligible expenditures are compatible with the description of the KRAs. The breakdown of the Program Expenditure Framework is shown in Table 6

[33] Screening and approval of proposed investments will also be coordinated with other World Bank devolved sector projects to avoid duplication of financing and enhance coordination, given that other projects are financing similar investments. KDSP II will also leverage the expertise available in Project Implementation Units for existing projects to harmonize approval processes.

[34] This can be done by (a) linking youth beneficiaries from NYOTA intervention with job opportunities created by these investments and (b) providing work-based learning opportunities within the county to increase the skills pool for ongoing and future projects. The success of these partnerships will be continuously reviewed.

in the PAD. The funds will be appropriated using the National Budget Framework, and the CGAAA will provide the legal basis for the disbursement of the grants.

15. **All PforR resources to counties will be allocated in the form of conditional grants as part of the government budget allocation process.** Conditional grants form part of the national share of government resources and will therefore appear under the SDD budget. Actual disbursement of the grants will depend on the APA results. These conditional grants will need to appear in the CGAAA and be transferred to the counties on the notification of the APA results by SDD. The Level 1 and 2 Grants will be reflected in the annual budgets of counties that qualify and achieve targets set out in DLIs 2 to 7. DLI 1 will incentivize the national government to disburse resources on a timely basis.

Economic Rationale

16. **The Program is prepared against the realities of the constrained fiscal space in Kenya and could create fiscal space for much-needed development expenditures.** As detailed and quantified in the main text of the PAD and in the full Technical Assessment, limited resources for county development activities due to insufficient OSR, weak expenditure management, and weak accountability controls have mounted pressure on the national government to increase transfers to county governments. Yet, fiscal space at the national government level is similarly constrained due to rising public debt, a rising wage bill, low accountability for public funds, and the effects of global shocks. KDSP II could ease this pressure by providing counties with resources.

17. **The economic evaluation of the Program indicates that substantial benefits can be gained from the Program activities, including increased availability of funds for frontline service delivery, investment in service delivery priorities, and other nonquantifiable institutional benefits.** Although it is difficult to cost the value of governance and PFM reforms, the reforms supported under the Program could lead to increased revenue collection, improved expenditure management, and increased accountability for use of county resources. For example, counties could potentially increase their aggregate revenue collection by US$1.2 billion[35] through improved revenue collection and administration, and improved payroll management (including through automation) could save counties US$242 million[36] in payments to ghost workers. Additionally, through the approved investment menu, KDSP II will fund investments in priority service delivery sectors, including physical infrastructure. Lastly, KDSP II will have nonquantifiable institutional benefits in the form of strengthened institutional capacity, processes, and systems.

[35] CRA and World Bank Comprehensive Own Source Revenue (OSR) Potential Tax Gap Study (CRA 2022).
[36] OAG county audit reports (2014–2022)

ANNEX 3. SUMMARY FIDUCIARY SYSTEMS ASSESSMENT

1. **The FSA concludes that the current systems with proposed risk mitigating measures provide reasonable assurance** that the procurement and FM systems, capacity, and performance are adequate to ensure that the Program funds will be used for the intended purposes with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. A detailed standalone FSA has been prepared, which is the basis for this summary.

2. **Exclusion of high-value contracts.** High-value contracts have not been noted in the Program boundary. High-value contracts involving procurement of goods, works, and non-consulting and consulting services whose estimated values exceed the applicable OPRC thresholds[37] set out in the World Bank's Procurement Procedure are excluded from the PforR Program.

Review of Fiduciary Performance of Implementing Entities

3. **Planning budgeting and procurement.** The government budgeting is anchored in robust legal frameworks through the PFM Act 2012, PFM Act Regulation 2015, and the CGAAA. However, there are gaps noted which might affect the implementation of this program such as inadequate budget allocations, revision of budget and delays in reporting. These are reviewed by the Controller of Budget annually and recommendations are proposed for implementation by the implementers. The detail provision on budgeting process through the POM and regular follow up is expected to mitigate the risks arising from such gaps.

4. **Based on this assessment, the fiduciary risks regarding planning and budget are substantial.** Mitigating measures include: (a) the provisions under DLI 1 which deal with timely information on conditional grant allocations, inclusion of these under the Budget Policy Statement, and reduction of the timelines for processing county requisitions through a fully automated exchequer requisition system; (b) minimum condition to access Level 1 Grant that requires an approved county government workplan, cash plan, and budget which ensures that budget requirements are clearly defined; (c) use of semi-annual reports to monitor use of fund and absorption of budget; and (d) capacity-building initiatives to support the gaps noted in FM and procurement planning.

5. **Treasury management and funds flow.** The assessment noted delayed transfer of resources from the NT to the MDAs and counties and from the CRF to the SPAs at the counties. Commingling of funds at the consolidated accounts also is a challenge to secure timely transfer of resources. These challenges were noted under KDSP and other World Bank-financed operations.

6. **Based on this assessment, the fiduciary risk regarding treasury management is substantial.** The identified risks are mitigated through full automation of exchequer releases to the counties, the introduction of performance measures of timely release of resources from the CRF to SPAs and the timely preparation of comprehensive AWPB, and cash projection and procurement plan to be captured in the POM.

7. **Accounting and financial reporting.** The Program will use existing government accounting and financial reporting systems through use of core PFM systems. Transactions will be captured in the IFMIS and will be supported with the existing fiduciary staff at the implementing entities. The FM Procedures Manual and the provisions of the PFM Act and

[37] Involve procurement of: (a) works, estimated to cost US$75,000,000 equivalent or more per contract; (b) goods estimated to cost US$50,000,000 or more per contract; (c) information technology systems and consulting services, estimated to cost US$50,000,000 equivalent or more per contract; and (d) consultants' services, estimated to cost US$20,000,000 equivalent or more.

Regulations guide the implementation of the Program. Key risks identified are capacity gaps in the finance units of the counties and gaps in the financial statements as highlighted in audit reports.

8. **Based on this assessment, the fiduciary risk over accounting and reporting is 'moderate'.** The identified risks will be mitigated by the capacity gaps assessments to be carried out by the counties and the financing required to be included in the AWPB; the establishment of SPMUs to strengthen the fiduciary function in general; and submission of regular reports (semiannual) to the World Bank for review and monitoring. Through the IPF, capacity-building sessions are planned at the start and during implementation of the Program to improve the quality and accuracy in the preparation of financial statements.

9. **Procurement processes, procedures, and contract management.** The procurement activities under the PforR will be undertaken by the respective county governments in accordance with the Public Procurement and Asset Disposal Act (PPADA) 2015 and Public Procurement and Asset Disposal Regulations 2020, which have provisions to ensure that overall procurement objectives of fairness, equity, transparency, competitiveness, cost-effectiveness, and value for money are realized in all procurement and disposal activities. Further, the PPADA requires that contract managers be appointed for every procurement contract and contract implementation team for every complex and specialized procurement contract. The assessment showed varied compliance and noncompliance levels with these prescribed requirements among the sampled counties. Weaknesses identified include use of nonstandard contract formats, splitting of procurements, use of inappropriate evaluation criteria, poor documentation of procurement processes, weak procurement and contract management capacity, frequent transfers of project procurement staff, and limited technical and procurement capacity for complex and high-value contracts. The risks arising from inadequate contract management and administration include unwarranted variations of costs, delayed execution and completion of contracts, unwarranted contractual disputes, avoidable contractual claims, and escalated program costs.

10. **Based on this assessment, the fiduciary risk over procurement processes and contract administration is 'substantial'.** The risks will be mitigated by capacity-building initiatives to be supported through the IPF and PAP to enhance the limitations in procurement.

11. **Internal control and internal audit.** The Program benefits from the well-established internal control framework of the Government and the FM Manual developed under KDSP I. The rolled-out IFMIS facilitates more strengthened internal control at all implementing entities. However, the external audit reports for the MDAs and counties continue to reveal weaknesses, including poor management of assets, long outstanding items for reconciliation including pending bills, misclassification of expenditure, unauthorized expenditure, lack of risk management policy framework, delayed implementation of audit recommendations, unsupported expenditure, and weak controls on staff imprest, among others.

12. **The overall internal control risk is rated as 'Substantial'.** The Program will benefit from the support that the internal audit function gets from the World Bank-financed GESDEK program which aims to enhance quality assurance, risk management, and audit follow-up. Specific under this program are the following: (a) the capacity-building plan to be developed by the counties will be leveraged to ensure gaps in finance and internal audit are captured; (b) the FM Manual will be prepared to ensure robust procedures based on the lessons learned under the closed KDSP I; and (c) as part of the PAP, development of the Risk Management Policy Framework for the counties and risk-based internal audit is included. Capacity enhancement of the fiduciary agencies, including capacity building of the Internal Audit Department (IAD) at the MDAs and county level will be conducted at the start and during implementation through the IPF component.

13. **Program governance and anticorruption arrangements.** All MDAs are required to report on corruption indicators on a quarterly basis. Noncompliant institutions are not issued compliance certificates and their overall annual

Performance Contract scoring is lowered. The EACC has a well-functioning and accessible complaints management system. The SDD has a well-established fraud and corruption handling framework. The Program will be implemented in accordance with the memorandum of understanding signed between the World Bank and the EACC in September 2014. Implementing agencies will collaborate with the World Bank to provide all records that the World Bank may need regarding the use of Program financing. The POM will provide details on criteria for functional GRM, and capacity building will be provided through the IPF. In the last five years (January 2017–January 2023), the EACC has received several complaints against the SDD, PSC, NT CoG, and county governments. The complaints mostly relate to misappropriation of funds, procurement irregularities, abuse of office, and bribery, among others. These cases are under various stages of investigation and will be followed up through the semiannual reporting arrangements with the CAJ and EACC.

14. **External financial and procurement auditing.** External audit is carried out by the OAG in line with auditing standards of the International Organization of Supreme Audit Institutions (INTOSAI). This is supported by the legal and regulatory framework under Section 29 of the Public Audit Act 2015. Audits are required by law to be submitted within 6 months of the fiscal year end. The SDD will prepare a consolidated program financial statement which will be presented to the OAG for audit. Accordingly, a Program audit will be conducted by the OAG. The assessment noted delays in submission of external audit reports, significant audit qualifications for entity reports under the MDAs and counties, and delays in implementation of external audit recommendations.

15. **Based on the assessment, the overall audit risk is rated as 'Substantial'.** These risks will be mitigated through the following: (a) Program audit reports will be submitted by the SDD for Program-specific financial statements; (b) securing unqualified and qualified audit opinion is a minimum condition starting from the second year of implementation; and (c) follow-up and implementation of audit recommendations, is a performance measure under DLI 5. In general, the capacity of the OAG is being strengthened under the ongoing GESDEK where submission of audit reports to Parliament has reduced from 10 months to 5. Capacity building for the MDAs and county project teams will be conducted at the beginning and during implementation to address some of the weaknesses highlighted in the audit qualifications.

16. **The PAP includes the fiduciary actions to mitigate the associated risks.**

ANNEX 4. SUMMARY ENVIRONMENTAL AND SOCIAL SYSTEMS ASSESSMENT

1. **Introduction.** The ESSA was carried out in 15 out of 47 counties between July and August 2023. The sampling criteria considered counties with registered and unregistered community land, where VMGs are present, and social risk management (SRM) committees have been formed or inducted and present lessons learned and best practices in governance. The objective of the ESSA was to assess the capacity of the borrower systems at both national and county levels to plan and implement effective measures for KDSP II ESHS risk management. The assessment also determined if any material measures are required to strengthen the performance of the system in ESHS management and identified actions to strengthen the Program design and embedded these in the PAP, as outlined in Annex 5. Summary findings are presented in the following paragraphs, with detailed ESSA findings in the main report.

2. **Program risk rating.** The Program will finance infrastructure projects at the county level, in line with the Program's objectives. The scope of the subprojects will include the rehabilitation and construction of small- to medium-scale infrastructures in devolved sectors such as health, education, water, and agriculture. There will be civil works activities with potential E&S implications, such as physical and economic displacement, occupational health and safety, pollution, labor influx, and related impacts. The overall risk of the Program is rated as '**Substantial'** due to the significant geographic dispersion of the participating counties and constraints around oversight, different scales of proposed investments, the potential direct and cumulative E&S impacts associated with the proposed investments, the capacity of the Program coordination and implementation teams and gaps identified in the institutions responsible for managing ESHS risks in the country, the varying capacity of counties to roll out the proposed reforms, and the exclusion of VMGs and other disadvantaged groups from the public participation process and access to Program benefits and opportunities.

3. **E&S mitigation measures.** To mitigate the potential E&S risks of the Program, the principles of exclusion in PforR Programs have been adopted. In this regard, potentially high-risk investments which are sensitive, or which have likely significant, adverse, or unprecedented impacts on the environment or people, are ineligible for financing under the Program. The exclusion principle applies to Program activities that meet the criteria regardless of the borrower's capacity to manage such effects. In the PforR context, exclusion means that an activity is not included in the identified investment menu. Also, an activity is not included if it requires completion of noneligible activity to achieve its contribution to the PDO and/or DLI. The six core principles under the PforR will apply to all investments as a mechanism for avoiding, minimizing, or mitigating adverse ESHS risks/impacts.

4. **Potential adverse ESHS risks and impacts.** The Program is expected to have direct and indirect effects on the physical environment. The potential negative ESHS impacts during implementation include, but are not limited to, the following: (a) localized noise and air pollution (dust and emissions) from construction activities; (b) soil contamination and underground water pollution from spillage of oil and fuel associated with construction works, soil erosion, and sedimentation of waterways especially during construction of roads and storm water drains; (c) land degradation impacts from sourcing of construction material from quarry and borrow pits for use in civil works, disturbance, loss of existing vegetation, and potential impact to fauna species; and (d) occupational health and safety incidents/accidents to workers at construction sites and community health and safety risks to the public. During the operation, the potential risks and impacts include clogged drains, poor maintenance of the facilities, generation and poor disposal of waste management, and community health and safety.

5. **Potential social benefits.** Overall, the Program has significant positive social impacts, as it will increase effectiveness and efficiency of the counties in service delivery by strengthening transparency and accountability in the management of public resources; improve the processes of public participation and disclosure of information; augment alternative dispute resolution mechanisms and existing GRM systems to receive and facilitate the resolution of concerns

and grievances throughout the public investment cycle promptly and effectively; strengthen county SRM structures to mitigate social risks and impacts, enhance opportunities, and increase the overall social performance in counties.

6. **Potential social risks and impacts.** The proposed investments may pose potential negative social effects, including loss of land, livelihoods, and other assets, and restrictions on land use; labor influx and related impacts; inadequate targeting and inclusion of minority VMGs and other disadvantaged or vulnerable individuals and groups; and social conflicts due to execution of projects for the achievement of DLIs.

7. **The ESSA established the following:**

(a) Kenya has well-developed and robust written systems consistent with the six PforR Core Principles,[38] which, if effectively applied, will enhance the ESHS opportunities under the Program.

(b) Social risks and impacts management functions are fragmented across various institutions with no coordination mechanisms. Further, the newly formed SRM unit at the Ministry of Labor and Social Protection is still evolving.

(c) The counties have benefited significantly from training of E&S persons under KDSP, Kenya Urban Support Program (KUSP) I, KISIP I and II, and FLLoCA. However, there is still low-level commitment toward E&S sustainability.

(d) The counties have established the environment, climate change, and natural resource management departments, with limited functionality and coordination across the board.

(e) The existing county GRM systems are fragmented and non-institutionalized, thereby impeding timely resolution of complaints.

(f) There is inadequate targeting and inclusion of minority VMGs and other disadvantaged or vulnerable individuals and groups in participation and accessing Program benefits.

(g) Limited monitoring and reporting on E&S risks and impacts management potentially affect the identification and implementation of mitigation measures.

8. **E&S mitigation measures.** These measures include screening to exclude subprojects[39] which would result in high risks and significant negative E&S impacts which are irreversible or unprecedented on the environment and/or affected people regardless of the borrower's capacity to manage such effects; strengthening the ESHS systems of county and national-level agencies that will be involved in the implementation of the Program; and developing an ESHS Management Manual with protocols to guide the management of E&S risks and impacts. In facilitating effective ESHS management for KDSP II, systems will be strengthened, and institutional capacities enhanced. The Program will develop an Environmental,

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[38] Core Principle 1: Promote E&S sustainability in the Program design; avoid, minimize, or mitigate adverse impacts, and promote informed decision-making relating to the Program's E&S impacts.
Core Principle 2: Avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources resulting from the Program.
Core Principle 3: Protect public and worker safety against the potential risks associated with (i) construction and/or operations of facilities or other operational practices under the Program; (ii) exposure to toxic chemicals, hazardous wastes, and other dangerous materials under the Program; and (iii) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards.
Core Principle 4: Manage land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement and assist the affected people in improving, or at the minimum restoring, their livelihoods and living standards.
Core Principle 5: Give due consideration to the cultural appropriateness of, and equitable access to program benefits, giving special attention to the rights and interests of the Indigenous Peoples and to the needs or concerns of vulnerable groups.
Core Principle 6: Avoid exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.

[39] Table 10 highlights an indicative exclusion list.

Social, Health and Safety Management Manual with guidelines, standard operating procedures, and templates, to guide Program interventions.

9. **The IPF component will finance Type 2 and Type 3 TA activities.** Type 2 TA activities supporting "the formulation of policies, programs, plans, strategies or legal frameworks" will include guidelines for county project management, project management committees, and county project stocktaking, providing business process and technical requirements for county investment dashboard, climate change risk screening and preparedness (including assessment of the climate resilience of existing infrastructure assets), HR and skills audit, integrated performance management, and revenue mapping. Type 3 TA activities, "Strengthening borrower capacity," will include: (a) training and capacity building of county officers on e-procurement, IFMIS modules on exchequer requests and pending bills; (b) developing training modules and manuals for county public service Boards and CASBs; (c) digitization and integration of the NEMA ESIA process to the county approval systems for efficiency in the approval process. These activities will result in positive E&S outcomes and have negligible E&S risks and impacts. The borrower has prepared the ESCP and a SEP. The ESCP includes the elements of the LMP and SEA/SH Prevention and Response Action Plan. The SEP and ESCP capture the requirements of ESS 10 and ESS 7. These will be mainstreamed in the stakeholder engagement systems being supported under KRAs 1, 2, and especially 3 and citizen engagement measures.

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

ANNEX 5. PROGRAM ACTION PLAN

Action Description	Source	DLI#	Responsibility	Timing		Completion Measurement
Adopt the Devolution Sector Plan (2024-2028)	Technical	NA	SDD	Due Date	15-Dec-2023	Yes/No
Reporting on Fraud and Corruption	Fiduciary Systems	NA	NPCU in coordination with EACC and CAJ	Recurrent	Semi-Annually	Yes/No
Monitor the CAJ and EACC annual certification process	Fiduciary Systems	NA	NPCU	Recurrent	Yearly	Yes/No
Publish Procurement Plans	Fiduciary Systems	NA	NPCU and CPIU	Recurrent	Continuous	Yes/No
Annual fiduciary review (internal audit review)	Fiduciary Systems	NA	NPCU and CPIU	Recurrent	Yearly	Yes/No
Finalisation of KDSP II Program Operations Manual	Technical	NA	SDD and World Bank	Other	Condition of effectiveness	Yes/No
Develop the ESHRSM manual	Environmental and Social Systems	NA	SDD and NPCU	Other	Condition of effectiveness	ESHRSM manual and its training program developed; Verification protocols and relevant indicators included in APA

Strengthen county public participation guidelines prepared under KADP; GMs, and project-level governance structures, to mainstream aspects of gender, disability, minority VMGs, and other disadvantaged groups.	Environmental and Social Systems	NA	NPCU and CPIU	Other	Before disbursement of Level 2 grants	Minutes of engagements held; Signed list of participant; Data on projects benefitting these groups; Constitution of ward-level governance structures
Assess existing national and county ESHS structures and recommend measures to institutionalize ESHS systems; develop and manage functional sub-project level GM structures.	Environmental and Social Systems	NA	NPCU and CPIU	Other	Within 1 year after program effectiveness	Recommendations provided
Deploy adequate, qualified, experienced, and full-time specialists, including 1 environmental and 1 social specialist at	Environmental and Social Systems	NA	SDD and CPIU	Other	Condition of Program effectiveness	Yes/No

both NPCU and CPIU						
Training participating counties staff and SPMUs on Procurement; FM; internal audit; fraud and corruption; and complaints handling	Fiduciary Systems	NA	SDD/NPCU in coordination with CoG	Recurrent	Continuous	Yes/No