

United Nations Development Programme
Country Programme Action Plan of the Government of Kenya
2006-2007 Annual Work Plan

Title: 2KEN/04/041/A/99 Effective Economic Reform Monitoring, Policy Analysis and Design

Short title: 2KEN/04/041/A/99 Economic Reform Monitoring

Number: 2KEN/04/041/A/99

ATLAS project: 00040086

ATLAS award: 00036751

Estimated annualized budget:

		USD	EUR
EC	2006/7	164,707	131,017
UNDP	2006/7	20,000	15,873
GoK	2006/7	107,404	85,241
Total		292,111	232,131

UNDAF outcome: 2 - Capacities of key national governance institutions enhanced

ACC/UNDP sector & subsector/goals and service lines: 020 General Development Issues/022 Monetary and Financial Issues and Policies

Implementing partner: Ministry of Finance

Collaborating parties: European Commission Delegation in Kenya (EC), International Monetary Fund

Estimated start date and duration: 12 August 2006 to 11 August 2007

Summary – i) Outcome, ii) Outputs, iii) Activities, iv) Inputs:

i) The long-term outcome of this project is to strengthen the capacity of the Ministry of Finance to effectively monitor and analyse macro-economic and fiscal developments and undertake appropriate policy analysis and design for sustainable growth. ii) The project will have two immediate outputs a) strengthened capacity of the Economic Affairs Department; b) economic reforms and policy option papers on macro-fiscal areas; iii) The activities required to produce these outputs include a) provision of *technical support* to oversee the implementation of activities of the Economic Affairs Department by a high-level specialist to manage the Department; b) production and distribution of monthly economic monitoring reports by the Department; c) provision of advice to the Minister for Finance and Permanent Secretary to the Treasury on macro-economic and fiscal policies d) formulation and implementation of monetary policies in collaboration with the Central Bank of Kenya iv) The inputs required to realise the outputs include a high-level expert with the relevant skills, knowledge and experience;

Approved on behalf of

UNDP

Elizabeth Lwanga
Resident Representative

Date

8 JAN 2007

Name/Title

Elizabeth Lwanga
Resident Representative



UN
DP

KENYA

Ministry of Finance

[Signature]

Joseph K. Kinyua
Permanent Secretary

I - Situation Analysis

The Government of Kenya is committed to enhance transparency, accountability and responsibility of all stakeholders in the implementation of the Economic Recovery Strategy (ERS). The mandate for monitoring the implementation rests with the Ministry of Planning and National Development and the monitoring effective utilization of public resources and expenditures lies with the Ministry of Finance.

To respond to the Government's efforts to situate adequate capacity within the Ministry of Finance to monitor, to analyze and to evaluate the implementation of economic reforms the Government established Economic Reform Monitoring task force at the Ministry of Finance in 2004. The task force was charged with the responsibilities to monitor and analyze the implementation of the government's macro-economic (fiscal, monetary and external) policies and structural reform program and advising the MoF on measures to keep the economic reform program on track. A technical advisor was recruited to head the Task Force, and later he was made the Director of the then Fiscal and Monetary Affairs Department.

The Economic Affairs Department (EAD) of Ministry of Finance (MoF) was created in 2005 to continue the work of the Fiscal and Monetary Department. The objective of the creation of the EAD was to strengthen the capacity of the Ministry of Finance to perform its role of monitoring and analyzing macroeconomic development and policy implementation, and developing policy options to address deviations from macroeconomic targets under one department. The EAD is mandated to develop and manage fiscal and monetary policies and co-coordinating the preparation of the national budget and the revenue estimates in collaboration with the Kenya Revenue Authority, including assisting in the preparation of an integrated fiscal framework, tracking budget implementation and outturn analyses, towards developing the financial programming framework. While the EAD is located in the MoF, it works very closely with other relevant departments in the Government: Ministry of Planning and National Development (MoPND), the Office of the President (OP) and the Central Bank of Kenya (CBK).

The Director of EAD was appointed to the position of the Economic Secretary after one year, doubling as the Director and the head of the Department. His main responsibilities as Head of EAD included the following:

- 1) Chairing the Budget Technical Committee: The committee is charged with vetting/analyzing all the budget proposals set to the Treasury from all Ministries, the private sector, and private individuals for inclusion in the annual budget.
- 2) Coordinating Budget Monitoring Unit: The unit monitors budget implementation and prepares Quarterly Budgetary Reviews
- 3) Monitoring and Advising on Macro-economic Policies: The department is responsible for monitoring and advising on inflation, interest rates, exchange rates and developing the medium-term fiscal framework.
- 4) Liaising with the Central Bank of Kenya management: developing a monetary framework that takes into account the need to contain inflationary pressure, strengthen the external reserve position and provide enough credit to the private sector.
- 5) Assisting in the New Budget Process: The department contributes to the new budget process of linking the Government's priorities to the budgetary allocation.
- 6) Monitoring Programme: The Department monitors the implementation of the IMF-supported PRGF program as well as the World Bank supported ERS Support Credit and the Financial Sector Support Credit.
- 7) Contributing to the Financial Sector Reforms: The Department is responsible for implementing several reforms in the financial sector including a financial sector strategy, a development finance institutions strategy, operationalizing the micro-finance unit in the department and the restructuring and eventual privatization of the National Bank of Kenya.

United Nations Development Programme
Country Programme Action Plan of the Government of Kenya
2006-2007 Annual Work Plan

- 8) Chairing an interministeral/agency team assigned with the task of developing a one-year anti-corruption Action plan for 2006/07.
- 9) Oversight Responsibilities of the Kenya Revenue Authority, the Capital Markets Authority, The Retirement benefits Authority, the Insurance Commission and the Prices and Monopolies.
- 10) Building and Retaining Technical Capacity in the Department
- 11) Participating actively in the discussions of the National Economic and Social Council

II. Strategy

The objectives of this project are to strengthen the capacity of the Ministry of Finance to effectively monitor and analyze macro-economic and fiscal development and undertake appropriate policy analysis and design for sustainable growth. This will lead to an effective tracking and reporting on the use and application of public resources for poverty reduction initiatives (CPAP paragraph 49, iv).

This objective and outcome will be reached through the following:

a) Strengthening the Capacity of the Economic Affairs Department

A highly qualified and experienced economist has been seconded from the International Monetary Fund (IMF) to lead the Economic Affairs Department. This project plans to continue the secondment of the economist to Head the Department but also work as the Economic Secretary to advise the PS – Treasury and the Minister on macro-economic issues.

The lack of capacity within the Department has been a main challenge. To address this capacity problem, several economists have been recruited and two seconded from the CBK, who will benefit from the seasoned support of the Economic Secretary to boost their capacities and in turn that of the Ministry.

The structure of the Department has also been improved with formulation of three divisions dealing with issues of (i) Fiscal and Trade Policy and Inter-government Relation, (ii) Monetary and Financial Sector and (iii) Fiscal Administration and Private Sector. Each division is lead by a Division Head, who is responsible for the work program in the respective areas. This delegation of authority has also contributed to the capacity building within each Department. Nevertheless to strengthen the functional elements of the management support from the Head of the Department will be needed for at least an additional year to fully operationalize the divisions' activities.

b) Producing Economic Reforms and Policy Option Papers on macro-fiscal areas

EAD is the lead agency for Economic Reform including the Financial and Legal Sector Technical Assistance Program (FLSTAP) funded by the World Bank and Dfid. The Department also coordinates the preparation of the Budget Outlook Paper (BOPA), and the Budget Strategy Paper (BSP). These documents are then presented to various stakeholders including Permanent Secretaries, Members of the Sub-Committee of the Cabinet, Members of Parliament and other citizens, and form a basis of the budget process.

The Macro and Financial Sector Division of the EAD monitors and analyses macro-economic developments, undertakes sectoral growth forecasts, prepares monthly economic policy briefs for the public and analyses of monetary policy developments.

III. Management Arrangements

United Nations Development Programme
Country Programme Action Plan of the Government of Kenya
2006-2007 Annual Work Plan

1. The Ministry of Finance will be the implementer of this AWP. In its role as the Implementing partner, the Ministry of Finance will be responsible for planning and overall management of the project; reporting and accounting; and monitoring and evaluation of the project activities.
2. Financial Accountability: The Implementing Partner shall be responsible for ensuring that the allocated resources for the Annual Work Plan are utilized effectively in funding the envisaged activities. It shall have a tracking system that it will maintain records and controls for the purpose of ensuring the accuracy and reliability of the Annual Work Plan's financial information. The tracking system in place shall ensure that envisaged disbursements are within the approved budgets. The tracking system shall track the disbursements and the commitments besides capturing expenditure records through direct payments and support services made by UNDP on behalf of the Implementing Partner.
3. UNDP will procure any services under the AWP.
4. Cost recovery: The cost of the support services provided by UNDP CO will be recovered from the project on the basis of the Universal Price List.
5. Financial Reporting: UNDP at the end of the month will submit to the Implementing Partner a detailed expenditure report with a copy of support documentation. The Implementing Partner should verify the disbursements and revert to UNDP for any correction to be made.
6. Fiduciary Compliance: In managing the Annual Work Plan resources, the Implementing Partner has fiduciary and compliance responsibilities to the funding institutions. It also has compliance responsibility for funding institutions' reporting procedures.
7. The Audit Requirements: All nationally executed Annual Work Plans must be audited at least once in their lifetime. The objective of the audit is to provide the United Nations Development Programme Administrator with the assurance that United Nations Development Programme resources are being managed in accordance with:
 - a. The financial regulations, rules, practices and procedures for the Annual Work Plan or project;
 - b. The Annual Work Plan activities, management and implementation arrangements, monitoring evaluation and reporting provisions; and the requirements for implementation in the areas of management, administration and finance.
 - c. The requirements for implementation in the areas of management, administration and finance.
8. Thus an audit of this Annual Work Plan must confirm and certify that:
 - I. Disbursements are made in accordance with the Annual Work Plan;
 - II. Disbursements are valid and supported by adequate documentation;
 - III. An appropriate system for internal control is maintained by the Implementing Partner and can be relied upon;
 - IV. Annual Work Plan financial reports are fair and accurately presented;
 - V. The Annual Work Plan monitoring and evaluations reports are prepared as required;
 - VI. Annual Work Plan disbursements are duly verified by the implementing partner and
9. The United Nations Development Programme takes the responsibility to audit the project. A reputable firm sub-contracted by UNDP will conduct the audit. Funds for audit expenses are budgeted within the Annual Work Plan. In the event of such an audit, the Implementing Partner will ensure that auditors are given all records and information that they will need to perform a meaningful performance audit.

United Nations Development Programme
Country Programme Action Plan of the Government of Kenya
2006-2007 Annual Work Plan

10. It is the responsibility of the Implementing Partner to ensure that all audit observations are attended adequately. The implementing partner may include the activities of this project in the normal audit for their use. UNDP activities for procurement of goods and services shall be subjected exclusively to the internal and external-auditing procedures provided for in the financial regulations, rules and directives of UNDP.
11. Procurement of Goods and Services: Kenya's Government established rules and procedures governing procurement may be used when Government procures, as long as it does not contravene UNDP's rules and procedures. However, UNDP must be informed of procurement processes within the IP and UNDP must be represented in procurement committees that are held to evaluate quotations and bid offers.

Monitoring and Evaluation

12. Tracking of the achievement of benchmarks/indicators for each activity will monitor the performance of the Annual Work Plan. Monitoring of specific Annual Work Plan activities will be the responsibility of the Implementing Partner. The aim will be to provide timely information about the progress, or lack thereof, in the production of the outputs and achievement of the Annual Work Plan objectives. The mechanisms that will be used to monitor the Annual Work Plan will include:
 - I. Quarterly progress reports, including also both technical and financial information, prepared by the Implementing Partner; the format of the report shall follow UNDP standards;
 - II. Annual progress report, including also both technical and financial information, prepared by the Implementing Partner at the end of the year; the format of the report shall follow UNDP standards;
 - III. Final report including also both technical and financial information, prepared by the Implementing Partner at the end of the year; the format of the report shall follow UNDP standards;
 - IV. Field visits undertaken jointly by Implementing Partner and United Nations Development Programme.
 - V. An evaluation of the activities implemented under the Annual Work Plan may be carried out.

Legal Context

13. The United Nations Development Programme's Country Programme Action Plan for Kenya 2004-2008 (CPAP) shall be the instrument referred to as such in Article 1 of the Standard Basic Assistance Agreement between the Government of Kenya and the United Nations Development Programme, signed by the parties on 17 January 1991. The Annual work plan constitutes an annex to the CPAP.
14. The UNDP Rules and Regulations shall regulate the Annual Work Plan general management. Revisions which involve significant changes in the immediate objectives, activities or outputs of the project, shall be made to this Annual Work Plan with the signature of the United Nations Development Programme Resident Representative only, provided he or she is assured in writing that the other signatories of the Annual Work Plan have no objection to the proposed changes. Revision which do not involve significant changes in the immediate objectives, activities or outputs of the project, but are caused by the rearrangement of inputs already agreed to or by cost increases due to inflation, by be made to the Annual Work Plan with the signature of the Resident Representative only.

Publicity and Publications

15. Unless UNDP or EC requests or agrees otherwise, the Implementing Partner and other collaborating parties shall take all appropriate measures to publicize the fact that the project has

United Nations Development Programme
Country Programme Action Plan of the Government of Kenya
2006-2007 Annual Work Plan

been funded by EC, GoK and UNDP. Information given to the press, project beneficiaries, all related publicity materials, official notices, reports and publications, shall acknowledge that the activity was carried out with funding from the EC, GoK and UNDP, and shall display in an acceptable way the EC, GoK and UNDP logos. In addition, all publications must be reviewed by EC and UNDP before publication, and shall bear the appropriate UNDP disclaimer.

Work Plan and Budget

The work plan and budget is detailed in the Annual Work Matrix on page 7.

Annual Work Plan Matrix 2006-2007
 2KEN/E06/206 Capacity building of Ministry of Finance
 ATLAS project:

Expected Outputs	Key Activities	Monitoring Actions	Success Indicators	Time schedule 2006-2007				Collaborating Party	Planned Budget		
				Q 4	Q 1	Q 2	Q 3		Input Description	Budget USD	Budget EUR
Strengthened capacity of the Economic Affairs Department	Supporting the setting up of an operational EAD in the Ministry of Finance Contracting an Economic Advisor as the Head of EAD and Economic Secretary	Economic Secretary contracted	Economic Secretary contract signed	X	X	X	X	EU, IMF, CBK, other Department of MoF, national Macro-fiscal institutions,	11 months salary of the Economic Secretary	157,220	124,778
Economic reform and policy option papers on macro-fiscal areas produced	Economic Secretary participating in various macro-fiscal forums	Economic monitoring reports produced and published	Reports received on time	X	X	X	X	EU, IMF, CBK, other Department of MoF, national Macro-fiscal institutions,	1 months salary of the Economic Secretary & management and admin costs	20,000	15,873
UNDP 5% management fee								GoK	Costs and allowances for personnel	107,404	85,241
								EC		7,487	6,239

Annual Work Plan Matrix 2006-2007
 2KEN/E06/206 Capacity building of Ministry of Finance
 ATLAS project:

Expected Outputs	Key Activities	Monitoring Actions	Success Indicators	Time schedule 2006-2007				Collaborating Party	Planned Budget			
				Q 4	Q 1	Q 2	Q 3		Source of Funds	Input Description	Budget USD	Budget EUR
TOTAL											292,111	232,131

EU Exchange rate August 2006: EUR 1,26 USD