KENYA NATIONAL SAFETY NET PROGRAM FOR RESULTS

Integrated Fiduciary Assessment

THE WORLD BANK

The Integrated Fiduciary Assessment of the Kenya National Safety Net Program for Results was prepared between November 2012 and May 2013 by a team comprised of Winston Cole, Henry Amguni and Joel Munyori with contributions from Maina Gathu and support from Sarah Coll-Black, Michael Munavu, Cornelia Tesliuc, and Will Wiseman. The report was edited by Fiona Mackintosh. Material and feedback were gratefully received from colleagues within the Ministry of Gender, Children and Social Development, the National Drought Management Agency, the Ministry of Finance and development partners.

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ACRONYMS

AIE	Authority to Incur Expenditure
ARB	Administrative Review Board
ASAL	Arid and semi-arid lands
ASCA	Accumulating Savings and Credit Association
BSD	Budget Supplies Department
CBK	Central Bank of Kenya
CT	Cash transfer
CT-OVC	Cash Transfer for Orphans and Vulnerable Children
DfID	Department for International Development (UK)
DLI	Disbursement-linked indicator
EACC	Ethics and Anti-Corruption Commission
EFC	Error, fraud, and corruption
FC	Fraud and corruption
FM	Financial management
FRA	Fiduciary Risk Assessment
FRP	Financial Regulations and Procedures, 1989
FSA	Financial Services Association
FSD	Financial Sector Deepening Trust (Kenya)
GAC	Governance and anti-corruption
GoK	Government of Kenya
HSNP	Hunger Safety Net Programme
IAD	Internal Audit Departments
IFMIS	Integrated Financial Management Information System
INT	Integrity Vice Presidency, World Bank
INTOSAI	International Organisation of Supreme Audit Institutions
IPRS	Integrated Population and Registration Services
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
KENAO	Kenya National Audit Office
MFI	Micro-finance Institution
MGCSD	Ministry of Gender, Children, and Social Development
MIS	Management information system
MOF	Ministry of Finance
MSDNKAL	Ministry of State for the Development of Northern Kenya and Arid Lands
MTEF	Medium-term expenditure framework
MTP	Medium-term plan
NCPWD	National Council for Persons with Disabilities
NDMA	National Drought Management Authority
NGO	Non-governmental organization
NIMES	National Integrated Monitoring and Evaluation System
NPRS	National Population Registration System
NSNP	National Safety Net Program
NSPP	National Social Protection Policy
OPCS	Operations Policy and Country Services, World Bank
OPCT	Older Persons Cash Transfer
PAP	Program Action Plan
PCK	Postal Cooperation of Kenya
PFS	Program financial statements
PforR	Program-for-results
PEFA	Public Expenditure and Financial Accountability
PFM	Public financial management
PPDA	Public Procurement and Disposal Act
PPDR	Public Procurement and Disposal Regulation
PPOA	Public Procurement Oversight Authority
PSP	Payment service provider
PWSD-CT	Persons with Severe Disabilities Cash Transfer
RFP	Request for Proposal
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperatives
SCOA	Single chart of accounts
SWG	Sector working group
UFS-CT	Urban Food Subsidy Cash Transfer

EXECUTIVE SUMMARY

The Government of Kenya (GoK) has a number of well-established social insurance schemes and safety net programs, but their coverage has tended to be low and their effectiveness limited. The coverage of cash transfer programs has grown significantly but remains low in comparison with the size of the population in need. The Government of Kenya's five main cash transfer programs are the Older Persons Cash Transfer Program (OPCT), the Cash Transfers to Orphans and Vulnerable Children (CT-OVC) program, the Hunger Safety Net Program (HSNP), the Urban Food Subsidy Cash Transfer (UFS-CT), and the Persons with Severe Disability Cash Transfer (PWSD-CT). The World Bank is proposing to support the government with a US$250 million Program for Results (PforR) operation in support of the National Social Protection Policy (NSPP). This policy aims to strengthen operational systems while expanding the coverage of cash transfers by creating a framework around which the five principle cash transfer programs will increasingly be coordinated and harmonized.

This assessment uses the DRAFT Guidance Notes on Program-for-Results Operations prepared by the Operations Policy and Country Services (OPCS) department of the World Bank. The assessment reviews the fiduciary aspects of the government's National Safety Net Program in a manner consistent with the OP/BP 9.00, Program for Results (P4R). The assessment is designed to assess a specific risk and core governance issue for the cash transfer programs, which is whether the "right people are being paid the right amount at the right time." Irregularities could arise from three primary sources: (i) the provision or input of incomplete or inaccurate personal/household data at the point of targeting or application; (ii) any delay or leakage in payments to beneficiaries; and (iii) the failure to notify or act on a subsequent change in beneficiaries' circumstances. Various risk mitigation measures are proposed that aligned with disbursement-linked indicators (DLIs), which are presented in Table 5.1. Each DLI for the PforR operation has an allocated financing amount and an indicative timing of disbursement. Annex 3 presents an overview of the proposed DLIs.

The fiduciary systems for the five CT programs have both strengths and challenges. According to this assessment, the strengths include: (i) sector-wide planning and budgeting through the Sector Working Groups (SWGs), the Medium-term Planning (MTP) framework, and the Medium-term Expenditure Framework (MTEF); (ii) increasing computerization through the Integrated Financial Management Information System (IFMIS); (iii) current efforts to develop and roll out a single registry linked to the management information systems (MISs) for the five cash transfer programs; (iv) the ongoing development and intended roll out of program MISs for the CT programs implemented by the Department of Gender and Social Development in the MGCSD; (v) the upgrading of the MIS for the CT-OVC and the HSNP; (vi) independent external audit arrangements by the Kenya National Audit Office (KENAO); and (vii) the fact that the procurement performance of the cash transfer programs will have little or no impact on the implementation of the program. However, a number of challenges still remain. These include: (i) a lack of ring-fenced resources for the administration, supervision, and monitoring of cash transfer program activities; (ii) inadequate internal audit coverage for the programs and limited use of risk-based auditing; (iii) funds and cash flow management inefficiencies at the ministry and program levels; and (iv) inadequate capacity and experience in the MGCSD to execute and manage procurement contracts.

The NDMA is a newly formed organization but was assessed as having adequate FM capacity. The overall risk rating was assessed as low. The Authority has qualified accountants led by a Finance Manager. There is a qualified internal auditor and the internal control arrangements are assessed as effective with an independent board providing management oversight. The budgeting, accounting and funds flow arrangements are in line with GOK procedures and no material weaknesses were noted. The external audit is carried out by the SAI KENAO. The GOK is planning to establish the *National Drought and Disaster Contingency Fund* (NDDCF) as a trust fund under the National Treasury. The NDDCF will

be managed by a Board of Trustees who will include independent members to provide management oversight. An FM assessment will be carried out when the NDDCF is set up

International evidence shows that safety nets are more effective when both beneficiaries and non-beneficiaries are able to hold decision-makers and front-line implementers to account. Well-functioning complaints and grievance mechanisms have proven to be effective in promoting this demand-side accountability both in Kenya and around the world. The PforR operation will support the government in establishing and maintaining a well-functioning complaints and grievance mechanism within the National Safety Net Program (NSNP). The government is currently designing complaints and grievance systems for the OPCT, the PWSD-CT, and the UFS-CT, while also upgrading the system currently used in the CT-OVC. A module on complaints and grievances is also being added to the management information systems (MISs) for each of the programs to provide program managers with a regular stream of information on the complaints and grievances lodged and/or recorded at the national level and the actions taken in response. This, together with regular reporting on complaints and grievances by county-level officials, will help program managers to follow up on and resolve any complaints or grievances.

The CT-OVC has dealt with complaints and grievances in several different ways, both internally and externally. These various grievance channels are currently being reviewed by program managers with the aim of streamlining these procedures. Plans to strengthen the complaints and grievance system over time are supported by four DLIs that relate to both supply-side and demand-side elements of the use of those systems. The enhanced systems are expected to be completed during the preparation phase and will be reflected in the program's operations manuals.

A desk fraud and corruption (F&C) analysis of the current design, operation, and payment arrangements of the programs revealed both strengths and weaknesses. The strengths include involving local committees in vetting applications and the public visibility of the targeting mechanisms and the transparency of the beneficiary lists, both of which have the potential to prevent and detect fraud. F&C controls will further be strengthened by plans to support the new NSNP with improved management information systems at the program level, a new single registry to share information on beneficiaries across all five programs with links to the National Population Registration System (NPRS), and electronic payment mechanisms using two-factor authentication.

If it is decided to engage new payment service providers (PSPs) for the NSNP, this is likely to pose a risk to the NSNP if there are any delays in the procurement and contract award processes as this would have disrupt the delivery of payments to beneficiaries. While the MGCSD had previously gone through the procurement and contract management of the current PSP, this experience demonstrated that the ministry has insufficient technical and procurement capacity to successfully undertake the procurement process without external technical support. The process also revealed that, due to market constraints, the response by potential PSPs may be discouraging. As a mitigation measure, the Bank has agreed with the Government of Kenya that a full-time expert will be put in place before the start of the project (financed by a development partner) to help the MGCSD to select the PSPs and to increase its capacity to supervise the implementation of the contract.

Due to the nature of the challenges, the combined overall fiduciary risk for the NSNP has been assessed as substantial. The Program Action Plan contains risk mitigation measures to increase capacity and improve systems and procedures centered on transparency, accountability, and participation. These specific mitigation measures are reinforced by relevant disbursement-linked indicators (DLIs) that will be monitored during the program's implementation. Technical assistance will be provided to help to address the key risks. *The public financial management (PFM) system complemented by the program-specific mitigation measures is adequate to support the operation.*

Mitigation policies at the national level will be discussed, agreed, and documented between the Bank and the Treasury during negotiations, and this will form part of the Financing Agreement. Also, the Bank's fiduciary team will work closely with Government counterparts as part the PFM dialogue and program

implementation support. The fiduciary team already provides continuous hands-on capacity building in financial management through the governments' e-development learning institute at the Kenya School of Government.

To further address the fraud and corruption risks associated with the NSNP, the government has agreed that the five programs that constitute the NSNP will be implemented in accordance with the Anti-Corruption Guidelines for PforR Operations[1], which consist of three basic elements: (i) sharing information on F&C complaints lodged through the complaint and grievance mechanisms for the five cash transfer programs with the Bank, which will be shared by the Social Protection Secretariat as part of its regular reporting on the NSNP; (ii) ensuring that no firms or individuals which have been debarred or suspended by the World Bank bid on procurement under the NSNP; and (iii) allowing the World Bank's Integrity Vice Presidency (INT) to investigate any F&C allegations against the program. Finally, the Bank will agree with the Treasury and with KENAO (the Kenya National Audit Office) during negotiation on the terms of reference for an annual Program Financial Statement audit to be completed and made public by the borrower in a timely and reliable manner. The Bank will also make the audit report available to the public in accordance with its Access to Information Policy.

Summary Risk and Mitigation Measures

Primary Risks	Key Mitigation Measures
1. Provision or input of incomplete or inaccurate personal/ household data at the point of targeting/application	Local committees are involved in vetting applications. The public visibility of the targeting mechanisms and the transparency of the beneficiary lists have the potential to prevent and detect fraud. Management information systems at the program level are being improved, and a new single registry with links to the National Population Registration System (NPRS) is being created to share information on beneficiaries across all five programs and with the civil registry. Regular monitoring will be carried-out by an independent third party.
2. Delays or leakage in the payment of beneficiaries	A full-time expert will be put in place before the start of the project to help to select the PSP and to increase capacity to supervise contract implementation. A Payment Working Group will support the programs to improve the timely movement of funds through government systems. Development partners will ensure the timely and synchronized release of funding for the cash transfer payroll. Program MISs will use agreed standards for internal controls on the payroll. The PforR operation will promote the use of PSP making payments electronically through two-factor authentication. The PSPs will be required to comply with the country's new regulatory framework for the provision of payment services. The PSPs will be required to use mainstream payment infrastructure. The de facto standard is two-factor authentication using a magstrip card and a PIN (personal identification number). The PSPs will be required to adhere to performance standards on the timely delivery of transfers to beneficiaries. The complaint and grievance mechanisms will be strengthened.
3. Failure to be notified or to act on a change in a beneficiary's circumstances.	The new MIS will contain automatic triggers when beneficiaries achieve predictable exit criteria (for example, when they exceed the maximum age level for the CT-OVC). The operation will support the government in establishing and maintaining a well-functioning complaints and grievance mechanism within the National Safety Net Program (NSNP).

[1] Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing", dated February 1, 2012

1 BACKGROUND AND THE PROGRAM'S INSTITUTIONAL ARRANGEMENTS

1.1 Program Description

1. The Government of Kenya (GoK) operates a number of well-established social insurance schemes and safety net programs, but their coverage has tended to be low and their effectiveness limited. The coverage of cash transfer programs has grown significantly but remains low in comparison with the size of the population in need. The GoK's five main cash transfer programs are the Older Persons Cash Transfer Program (OPCT), the Cash Transfers to Orphans and Vulnerable Children (CT-OVC), the Hunger Safety Net Programme (HSNP), the Urban Food Subsidy Cash Transfer (UFS-CT), and the Persons with Severe Disability Cash Transfer (PWSD-CT). Collectively they have increased their coverage by more than tenfold since 2005 and currently provide regular support to 1.4 million people or 3 percent of the population. Despite these gains, cash transfers cover only a fraction of the absolute poor population (an estimated 8 percent of the total population in 2010).

2. In response, the government through its National Social Protection Policy aims to strengthen operational systems while expanding the coverage of cash transfers. To realize this policy objective, the government proposes to establish a National Safety Net Program (NSNP) by creating a framework around which the five main cash transfer programs will be increasingly coordinated and harmonized. The government intends the NSNP to focus on these five programs because of their commonalities and the opportunity that they represent to provide more effective safety net support to Kenyans.

3. The main objective of the NSNP is to improve the welfare and resiliency of beneficiaries, with the aim of reducing poverty and vulnerability in Kenya. The NSNP will target poor households that are particularly vulnerable because of where they live (the ASALs of Northern Kenya or informal settlements of major urban centers) or because of their circumstances (households caring for orphans and vulnerable children, people with severe disabilities, and older people). The objective of the NSNP is to be achieved by implementing activities in the following six areas:

- The most vulnerable and poorest households enrolled in the NSNP.
- NSNP beneficiaries receive appropriate, reliable and accessible payments.
- Citizens are able to appeal and complain to improve program performance.
- Programs are responsive to shocks.
- Monitoring and learning system is functioning.
- Cash transfer sector is harmonized and government-managed.

4. Most of the program activities will be carried out initially on a program-by-program basis, but as the NSNP proceeds, the government will exploit opportunities to share functions across programs (as outlined in the sixth area of focus: "the cash transfer sector is harmonized and government-owned"). This will lead to an increasingly consolidated approach to safety net support in Kenya.

1.2 Institutional Framework and Implementation Arrangements

5. The cash transfer programs are fragmented and are largely uncoordinated. These cash transfers are implemented by two ministries, namely the Ministry of Gender, Children, and Social Development (MGCSD) and the Ministry of State for the Development of Northern Kenya and Arid Lands (MSDNKAL). The four programs housed in the MGCSD are divided between the Department of Children's Services (which implements the CT-OVC) and the Department of Gender and Social Development (which implements the OPCT, the PWSD-CT, and the UFSP-CT). Each of these departments has dedicated staff at the central and district levels, but their numbers and skill mix are not sufficient for the programs to be implemented effectively. The Hunger Safety Net Programme is managed

by the National Drought Management Authority (NDMA) a state corporation under the MSDNKAL, and is implemented by non-governmental organizations (NGOs).[2]

6. In addition to these implementing agencies, a National Draught and Disaster Contingency Fund (NDDCF), which is to be established as a Trust Fund under the Ministry of Finance with separation of power from the NDMA, will be fund the scale-up of the NSNP in response to shocks. The Deed of Trust establishing the NDDCF and the legal notice to gazette its Regulations have been already drafted and is pending Ministry of Finance approval. The objective of the NDDCF is to improve the effectiveness and efficiency of the drought management system and the disaster response system in the country. The management of the NDDCF shall be carried out by a Board of Trustees constituted by Permanent Secretaries of the Ministries of Northern Kenya and Other Arid Lands, Special Programmers or such ministry charged with disaster response, Finance and at least three other members with expertise on drought management and crisis response. The Board of Trustees shall be responsible for determining the policy of the Fund and controlling its operations and shall hold the Fund in trust for the National Drought Management Authority and the agency responsible for disaster response. The day to day management of the activities and the administration of the NDDCF will be the responsibility of a Managing Director selected through competitive recruitment.

1.3 Program's Expenditure Framework

7. In order to meet the objectives of the National Social Protection Policy (NSPP), the government intends to increase the coverage of the five cash transfer programs of which it is constituted. It has developed a Medium-term Expenditure and Financing Framework (MTEFF) for the NSNP to support this process. The current version of the MTEFF[3] shows that, over the next five years (FY2012/13-FY2016/17), the annual budget of the NSNP will increase from Ksh 8.04 billion (US$95.76 million) in FY2012/13 to Ksh 17.49 billion (US$208.22) in 2016/17. Of this, the overall government investment will amount to Ksh. 13.66 billion (US$162.62 million), which it is estimated will be equivalent to 0.32 percent of GDP in 2016/17. The government plans to use these resources to: (i) increase the overall coverage of beneficiaries from 1.65 million to 2.97 million in 2016/17 and (ii) take over the transfer financing that is currently provided by development partners, which will increase its financing of the sector from 39 percent to 78 percent. This incremental approach will mean that the government will gradually be able to reduce its reliance on external financing, thus building the long-term sustainability of the NSNP. Based on current projections of GDP growth, this proposed increase in government financing to the NSNP can reasonably be financed from general revenue. There is also strong development partner commitment to social protection in Kenya, which has translated into financial commitments in the MTEFF. As a result, the World Bank deems the expenditure framework to be sound.

8. The Parliament, during the 2012-2013 financial year, appropriated an initial capital in the sum of Kenya Shillings 2 billion for the NDDCF and any further contributions to the Fund shall be appropriated through the development budget for each financial year. Other sources will include funds provided by donors by way of grant, loans or concessions

1.4 Program's Fiduciary Arrangements

1.4.1 Financial Management

9. The Government of Kenya has undertaken several initiatives to improve its public financial management (PFM) systems. For instance, the *Strategy for the Revitalization of Public Financial*

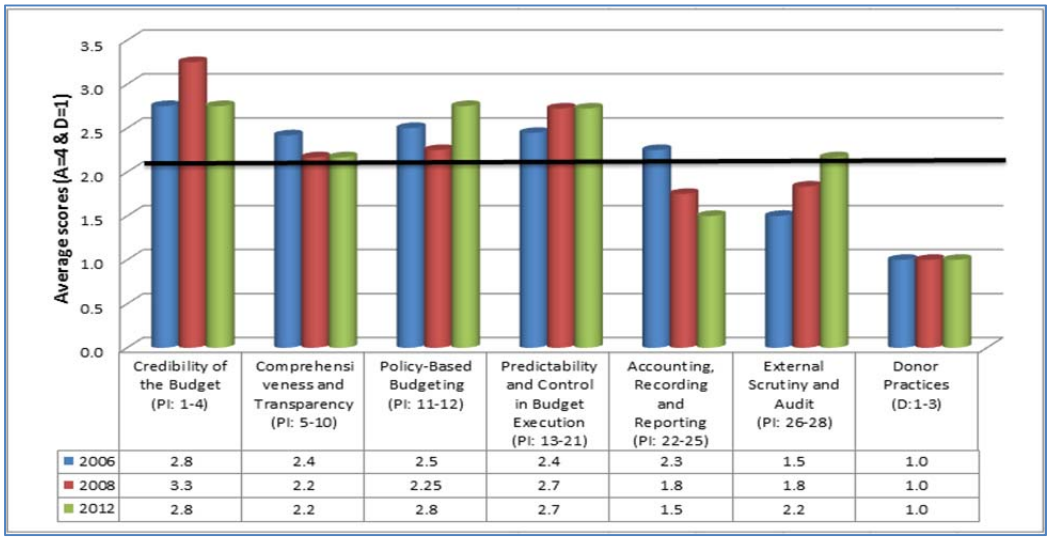
[2] The HSNP was originally implemented by the Arid and Semi-Arid Land (ASAL) Secretariat under the MSDNKAL. Responsibility for the HSNP shifted to the NDMA in February 2013 following its establishment. The Technical Assessment provides more details of these institutional arrangements.

[3] The figures referred to in this paragraph are drawn from the current version of the program MTEFF (Version 9 April 2nd). This framework will continue to be reviewed and revised over the coming months.

Management System in Kenya, which covered the period 2006-2011, was developed to guide reforms in the PFM sector and to further build on the institutional transformation that the government was undertaking. However, the Public Expenditure and Financial Accountability (PEFA)[4] Performance Indicators for Kenya for 2006, 2008, and 2012 show mixed results as shown in Figure 1.1 below.

10. These findings show improvements in several indicators including budget credibility, policy-based budgeting, budget execution, and cash/debt management, while there are concerns in the area of accounting and reporting. External scrutiny and audit is also weak but is improving, mainly because Parliament is discussing the audited appropriation accounts more promptly but there is still little follow-up on audit queries by the Executive. Other challenges that policymakers intend to address in the government's PFM reform strategy for 2012-2017 are: (i) weaknesses in internal control systems; (ii) governance and anti-corruption (GAC) risks, specifically risks of possible fraud and corruption; (iii) weaknesses in financial reporting in projects; and, (iv) delays in disbursements. Notably, FM arrangements at the lower levels of government tend to be rather weak with little management oversight. This weakness is, however, largely mitigated for the NSNP by the fact that lower levels of government currently have very limited involvement in the management of program funds for the five cash transfer programs that constitute the NSNP.

Figure 1.1: Kenya's Average PEFA Scores for 2006, 2008, and 2012



	Credibility of the Budget (PI: 1-4)	Comprehensiveness and Transparency (PI: 5-10)	Policy-Based Budgeting (PI: 11-12)	Predictability and Control in Budget Execution (PI: 13-21)	Accounting, Recording and Reporting (PI: 22-25)	External Scrutiny and Audit (PI: 26-28)	Donor Practices (D:1-3)
2006	2.8	2.4	2.5	2.4	2.3	1.5	1.0
2008	3.3	2.2	2.25	2.7	1.8	1.8	1.0
2012	2.8	2.2	2.8	2.7	1.5	2.2	1.0

11. The vision behind the latest PFM reform strategy is "a public financial management system that is efficient, effective, and equitable for transparency, accountability, and improved service delivery." It contains seven thematic areas: (i) resource mobilization; (ii) resource allocation; (iii) accounting and reporting; (iv) audit and oversight; (v) fiscal decentralization; (vi) a legal and institutional framework; and (vii) strengthening the Integrated Financial Management Information System (IFMIS) (referred to as IFMIS re-engineering). The government is already in the process of implementing key reform measures such as the roll-out of the IFMIS, the movement of designated project accounts to the Central Bank of Kenya (CBK), and the introduction of electronic fund transfer (EFT) payments through the G-Pay/T-24 systems. The Public Financial Management Act 2012 strengthens the legal framework for PFM by clarifying the roles and responsibilities of the various PFM institutions with regard to reporting, transparency, and accountability for public funds. These measures will provide reasonable fiduciary assurance for implementing the NSNP.

[4] PEFA is a global partnership of bilateral and multilateral donors including the World Bank formed to assess the condition of countries' public expenditure, procurement, and financial accountability systems and to develop a practical sequence of reform and capacity-building actions (http://www.pefa.org/).

12. The ongoing Bank-financed projects in the safety net sector rely on Kenya's PFM systems to a large extent, and the proposed operation will use the existing PFM systems with additional capacity strengthening and the adoption of program-specific systems and procedures to mitigate the weaknesses in the general PFM system. These are detailed in the relevant sections below.

1.4.2 Procurement

13. Public procurement in Kenya is governed by the Public Procurement & Disposal Act of 2005 (PPDA 2005) and the associated regulations of 2006, which came into force in January 2007. The Act established the Public Procurement Oversight Authority (PPOA) to regulate public procurement and the Administrative Review Board (ARB) as an independent body responsible for handling procurement complaints. The PPDA 2005 and the associated regulations establish the relevant administrative organs within the procuring entities, the procedures for undertaking procurement, and the mechanism for handling complaints from aggrieved bidders in the procurement process. However, due to structural weaknesses in the law and other legislative changes, the government is in the process of reviewing the procurement law so as to: (i) align it with the new Constitution enacted in August 2010; (ii) eliminate inherent weaknesses to conform to international good practices; and (iii) accommodate emerging contemporary needs in the public sector. This process commenced in June 2012 and is expected to be completed by December 2013.

14. The Public Procurement Complaints, Review, and Appeals Board established in 2001 by another Act is continued under the PPDA as the Public Procurement Administrative Review Board (Review Board). The PPDA also established that an aggrieved participant in a procurement proceeding who claims to have suffered or to be at risk of suffering a loss or damage may submit a request for the Review Board to hear his or her case.

15. Procurement planning is mandatory for all government procurement entities. Thirty days before the end of the fiscal year, user departments are required to forward their annual procurement requirements in the form of a preliminary departmental procurement plan to the Accounting Officer (AO). The intention behind this is to integrate procurement planning with the budget process and to base it on approved or indicative budgets. Only those procurements that are included in each agency's approved procurement plan may be implemented, provided that the requests for procurement are in the proper format and that financing is assured. The PPOA provides the format for the procurement plans to the user departments complete with instructions. Within the framework of the PPDA, procurement planning is recognized as an important instrument for controlling the use of the budget and for achieving value for money. An assessment by the PPOA of the MGCSD in June 2012 showed weaknesses in procurement planning with excessive use of Request for Quotations (RFQs). The program action plan will include the preparation of consolidated procurement plans integrated with the budgeting process to avoid *ad hoc* procurement actions.

2 PROGRAM'S FIDUCIARY PERFORMANCE AND SIGNIFICANT FIDUCIARY RISKS

16. This chapter considers the fiduciary and procurement risks for the Kenya National Safety Net Program.

2.1 Financial Management Risk Considerations

17. This section assesses the arrangements for the NSNP's financial management by comparing them to the most vital elements of an open and orderly financial management system.

18. However, given that most of the resources for the NSNP will used to finance the cash transfer to beneficiaries, this section focuses on the processes by which this will be done, that is, the cash transfer payroll and payment system.

2.1.1 Planning and Budgeting

Overall FM objective - the program budget is realistic, is prepared with due regard to government policy, and is implemented in an orderly and predictable manner.

19. Planning for the four cash transfer programs implemented by the MGCSD is done by the Sector Working Groups.[5] This process is part of the government's Medium-term Expenditure Framework (MTEF) process in which budget ceilings are established. The annual work plans and budgets for the CT-OVC are drafted by the OVC Secretariat in close consultation with staff from the MGCSD (the parent ministry) and participating development partners. As is the case with all state corporations, the NDMA budget appears as a single budget line in the printed estimates under its parent ministry. The budgeting and planning process follows standard government procedures. DFID financing to the HSNP, which has until this fiscal year been 'off budget', will be integrated into the government's planning and budgeting process as Appropriations in Aid.

20. Except for the CT-OVC program, the earmarked budgetary resources for the other CT programs under the MGCSD are subsumed under the expenditure line item "Other Current Transfers, Grants, and Subsidies." As a result, the budget for the operational costs[6] of the three programs is not "ring-fenced" from other operations of the ministry, meaning that it is in competition with all other ministry activities for resources.

Conclusion

21. *The planning and budgeting risk is assessed as moderate.* Based on the overall availability of resources and the government-wide prioritization of safety net expenditure, the safety net budget reflects the resources required to achieve the expected results. There are no major discrepancies between the budget allocation, releases, and actual expenditures, but the NSNP needs to be explicitly identified in the budget, including their operational costs. The MGCSD has proposed to the Treasury that they should set up specific program codes, based on the Standard Chart of Accounts (which are listed in Annex 1) as this will allow for more explicit planning, budgeting, management control, tracking, and reporting for the five cash transfer programs that constitute the NSNP. The adoption of these codes will also ensure that each of the programs has a dedicated operating budget. Once established, these codes will be used by the MGCSD and the NDMA.

2.1.2 Accounting and Financial Reporting

Overall FM objective - adequate program records are maintained, and financial reports produced and disseminated for decision-making, management, and program reporting.

22. Despite the implementation of additional modules and the roll-out of the re-constituted IFMIS, in-year budget execution reports are not consistently produced for the four CT programs run by the MGCSD. NDMA is in the process of obtaining an IFMIS connection from Treasury.

23. The Ministry normally submits their "appropriation accounts" to the Auditor General for external audit within three months of the end of the fiscal year. The NDMA similarly submits "appropriation accounts" to its parent ministry by the end of September each year for consolidation and for audit purposes. However, as Kenya has not yet adopted the International Public Sector Accounting Standards (IPSAS), these appropriation accounts fall short of international standards in terms of their structure and disclosures. The PFM Act 2012 provides for the establishment of a National Accounting Standards Board whose function is to prescribe and publish accounting standards for use in Kenya and to determine accounting policies that accord with generally accepted international accounting principles.

[5] Treasury Circular No 6/2012 dated August 3, 2012: Sector Composition
[6] These are costs other than the salaries of the civil servants implementing the projects.

24. The CT-OVC has its own separate and stand-alone finance module in the MIS that is used for all program-specific accounting and financial reporting (in addition to IFMIS). An FM consultant prepares reports by exporting the information to MS Excel and formatting it to meet the quarterly reporting requirements of the World Bank.[7] For the HSNP, all accounting and financial reporting has been carried out under the guidance of the UK Department for International Development (DfID) with little, if any, participation by the Kenyan government. Once the HSNP is brought "on-budget," the National Safety Net Program (NSNP) will follow a common accounting and financial reporting framework for all the cash transfer programs.[8] More specifically, as part of its Memorandum of Understanding with government, DFID will regularly submit financial reports on the HSNP, using the Standard Chart of Accounts, which will be captured in the budget as Appropriations in Aid. The financial reporting for the NSNP will be generated automatically from the IFMIS based on the Standard Chart of Accounts, which will have a unique program code for the NSNP (as detailed in Annex 1). These reports will be produced every six months and shared with the World Bank.

25. In the past, accounting and bookkeeping, including financial reporting for the four CT programs housed at the MGCSD have not been under the direct supervision and responsibility of the ministry's principal accountant. For the NSNP, all accounting and financial reporting for the four CT programs will be the responsibility of the MGCSD's Principal Accounts Controller, while that for the HSNP will fall under the head of the Accounts Department

Management Information Systems (MIS)/ Single Registry

26. For the three cash transfer programs under the Department of Gender and Social Development within the MGCSD, the CT payrolls used to be prepared and maintained in a large series of Microsoft Excel spread sheets. However, these three programs have started to use management information systems (MISs), which have been designed based on the open-source software used by the HSNP.[9] The three programs have been generating the payrolls from the MIS since February/March 2013. The CT-OVC program is also moving its data onto the enhanced MIS (also based on the HSNP's MIS). The program MISs will be used for: (i) targeting, registration, and enrollment; (ii) payment processes; (iii) change management processes; (iv) complaints and grievances processes; and (v) monitoring and reporting. This will create common functionality and reporting capability across the five programs.

27. The program MISs are all linked to a web-based central database commonly referred to as the single registry. The single registry is designed to link to the individual program MISs to provide a single platform where common and essential information to all five programs can be stored, analyzed, and reported. More specifically, the implementation of the single registry provides a common SQL database[10] where authentication will be maintained by assigning each beneficiary with a unique number across the five programs of the National Safety Net Program. The single registry is designed to interface with the Integrated Population and Registration Services (IPRS) database, which will enable the programs to cross-reference the national ID numbers of adults in the beneficiary households, the possession of which has been made mandatory for enrollment into the NSNP. Later, it will also be linked with the National Integrated Monitoring and Evaluation System (NIMES). The single registry will be managed through centralized user management within the Social Protection Secretariat. The single registry will help policymakers to monitor the entire NSNP.

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[7] The CT-OVC is currently financed by the World Bank through a Sector Investment Loan (SIL), CR-4553, which is rated satisfactory.

[8] It is anticipated that all financing to the NSNP will be "on-budget" from the FY13/14 budget onwards.

[9] The Technical Assessment provides more information on the MISs used by each of the programs and the process by which the MISs for the four programs in the MGCSD were upgraded.

[10] Structured query language (SQL) is a special purpose programming language that has become the standard choice of software for storing financial records and other logistical information.

Conclusion

28. *The accounting and financial reporting risk is assessed as moderate.* A complete set of financial statements are not prepared in accordance with an internationally accepted financial reporting framework such as the IPSAS framework. Also, the IFMIS has yet to be used to prepare financial reports. There are a few remaining weaknesses in the current CT payroll systems, but the development of the program-level MISs and the single registry will help to address them by harmonizing the social protection sector's MISs and making them more effective and efficient. The PforR operation has been designed to promote the establishment of the single registry and use by the program MISs of agreed internal controls on the payroll.

29. The Treasury will deploy a suitably qualified and experienced accountant to the Social Protection (SP) Secretariat for the purposes of receiving and consolidating the periodic financial reports from the MGCSD's CT programs and the NDMA's HSNP. The illustrative periodic (semi-annual and annual) financial statements that can be seen in Annex 2 will be included in the design of the re-constituted IFMIS for FY13/14. The reports will be shared with stakeholders within the timelines that will be stipulated in the NSNP legal financing agreement. To ensure that report submission deadlines are met, the principal accountants will need to ensure that the financial reports for each of the CT programs are submitted in a timely fashion to the SP Secretariat Accountant to be consolidated. This is expected to significantly reduce the risks that have previously been observed related to accounting and financial reporting. There is also a specific DLI on program financial reporting that will be critical in monitoring progress in this area of fiduciary management.

2.1.3 Treasury Management and Funds Flow

Overall FM objective - adequate and timely funds are available to finance program implementation.

30. Figure 2.1 illustrates the funds flow process for the government's Treasury. The flow of funds is the same to all four cash transfer programs in the MGCSD, with only minor modifications for the OPCT that involve the National Council for Persons with Disabilities (NCPWD). The NCPWD has delegated its implementation responsibility to the MGCSD because of its own lack of capacity, but the budget and exchequer releases are recorded in the books of the NCPWD. Under the CT-OVC program, there are also Appropriations in Aid from UNICEF that go directly from the donor to the payment service provider (PSP).

31. For the HSNP, DfID, which until recently was the sole program financier but has now been joined by AusAID, contracted the Financial Sector Deepening Trust (FSD) Kenya to manage the flow of funds to beneficiaries. DfID moves its funds to FSD Kenya, which in turn has contracted with a PSP, Equity Bank, which pays out the transfers to the beneficiaries through its branches and agency banking network.[11] When the DfID financing for the HSNP is brought on-budget, it will be recorded as an Appropriation in Aid.

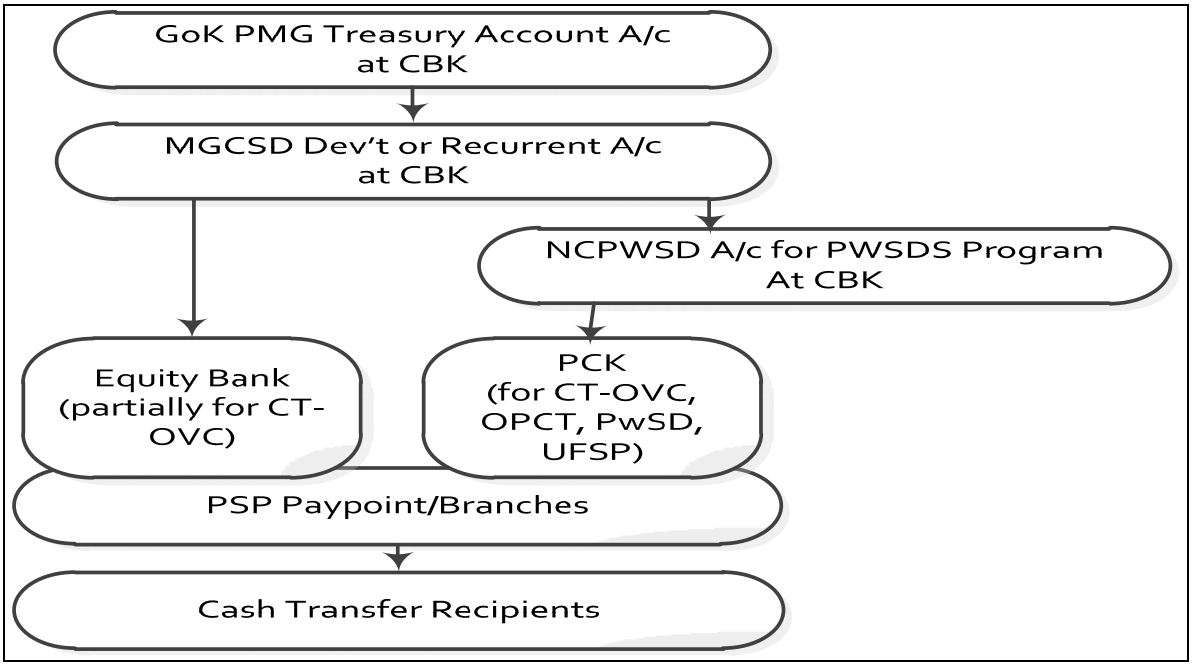
32. For NDDCF, the expenditure on agreed projects and activities shall be paid according to a standing Memorandum of Understanding with the National Drought and Management Authority and the Government agency responsible for disaster response and in compliance with Government Financial Management Regulations. The Memoranda of Understanding will set out pre-agreed criteria for expenditure, including the levels of finance and the triggers to release funds.

33. The PfR aims to support establishing a segregated account in the NDDCF that can be accessed, when an agreed set of early warning indicators are triggered, to scale-up cash transfer support to populations affected by draught. This approach is particularly relevant for the HSNP, which operates in drought-prone areas. Drought contingency finance will be channeled from the NDDCF thorough NDMA

[11] The contract to support the payment process under the HSNP 2 is currently being tendered.

to the HSNP against clearly defined contingency plans and procedures. As the NDDCF is not yet established, upon receipt of the documentation to demonstrate the achievement of this DLI, the World Bank will assess the adequacy of the fiduciary systems in place. As needed the Bank and Government may revise the Program Action Plan to address any identified risks in the proposed arrangements.

Figure 2.1: Funds Flow from the Government's Treasury to the Cash Transfer Programs



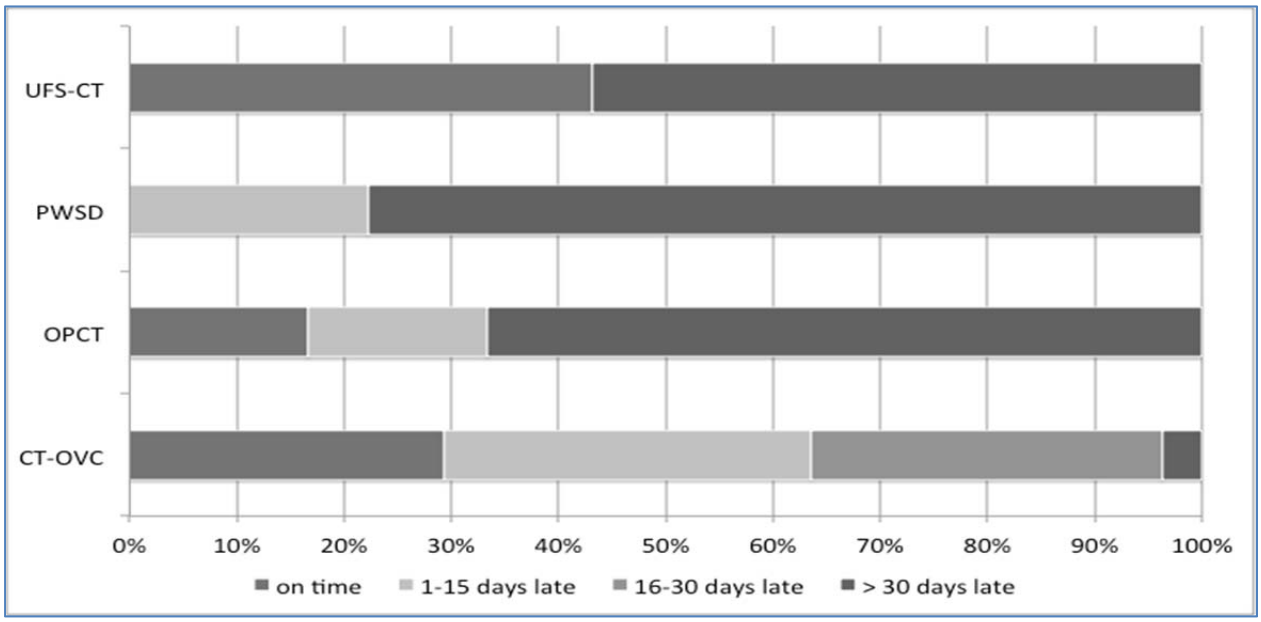
Note: The Payment Service Providers are currently Equity Bank and the PCK (Postal Corporation of Kenya).

34. Except for the usual government-wide delays in Exchequer releases in the first quarter of every year (July-September), the cash transfer programs do not suffer from any major delays in the flow of funds from the Treasury. However, there are five inter-related delays at the ministry and PSP levels that have substantial knock-on effects. These are: (i) the late processing by the technical departments of Exchequer requisitions for the cash transfer programs; (ii) the late disbursement of cash transfer payroll funds to the PSP; (iii) the late delivery/submission of cash transfer payrolls to the PSP; (iv) a resulting delay in the distribution cash transfer payrolls by the headquarters of the PSP to its decentralized pay-points or branches; and (v) the last minute notification to the beneficiaries that their transfers are available to be collected, causing slow movement of funds to the eventual beneficiaries. These delays as shown in Figure 2.2 are largely due to the manual nature of the payrolls for the OPCT, the PWSD-CT, and the UFS-CT and a lack of senior staff in the ministry's technical departments who are required to review payrolls for quality control and assurance. In the CT-OVC, delays happen because the various institutions fail to synchronize the release of their funds, especially the government. This means that the payroll cannot be processed until all of the funding has been received.

35. These delays are a serious constraint to the achievement of the programs' objectives. According to the available data, only 26 percent of transfer payments are made during the payment window period, with 25 percent of payments being more than one month late. International evidence has shown that late and irregular payments undermine beneficiaries' ability to make the best use of transfers and increase the financial and time costs that beneficiaries have to incur to collect their payments.[12] Therefore, increasing the timeliness of payments has been adopted as a DLI for the operation with related implementation activities.

[12] For example, Gilligan et al (2009)

Figure 2.2: Timeliness of Transfers Paid by Programs Managed by the MGCSD (October 2011-September 2012)



Source: World Bank (2013)

Payment Service Providers

36. It is important to give special consideration to the payment mechanism used to deliver cash transfers because it has a direct impact on the effectiveness and efficiency of the program for both beneficiaries and funders. New technologies, especially electronic technologies, have reduced the costs of making transfer payments and increased their reach. In order to make a payment to a recipient, the following process is often followed.

(i) Program manager selects the beneficiary households using a targeting methodology. Beneficiaries are then enrolled in the program and their details are entered into the program MIS.
(ii) The program MIS is used to generate a payment list or payroll.
(iii) The payment list is sent to the PSP.
(iv) The PSP delivers the transfer to the recipient at a paypoint using a payment instrument, payment device, and an authentication process,[13] and then records the transaction either offline or online.
(v) The PSP sends its payment records to program manager (national-level secretariats for the five programs that constitute the NSNP) for the reconciliation to be completed.[14]

37. All five programs have outsourced the delivery of their transfer payments to a payment service provider, and thus the payment process for the NSNP is independent of government. The Postal Corporation of Kenya (PCK) was contracted in 2006 as the payment service provider (PSP) for the CT-OVC and has since become the PSP for the four programs managed by MGCSD. The HSNP was launched in 2008 and uses Equity Bank to deliver its transfer payments through a network of payment

[13] The *de facto* standard for national and international payments is two-factor authentication using a magstripe card and a PIN. The widespread adoption of M-PESA demonstrates that PINs can be used by populations with widely varying levels of literacy, numeracy, and financial capability.
[14] One of the internal payroll controls in the program MISs includes the production of a "payroll reconciliation report" after each payment cycle which compares the amount actually paid to beneficiaries according to the PSPs to the amounts transferred to the PSP and identifies any balance to be refunded to the program.

agents. The CT-OVC has also contracted with Equity Bank to make payments to some beneficiaries.[15] The main elements of these two payment systems are described in Table 2.1. A DLI has been established to encourage the selection of PSPs that can make payments electronically using two-factor authentication. Equity Bank already meets this standard.

Table 2.1: Payment Mechanisms Used in Cash Transfers in Kenya

	Postal Corporation of Kenya	**Equity Bank**
Programs	CT-OVC, OPCT, PWSD-CT, UFS-CT	CT-OVC, HSNP
Paypoints	Post office branches	Equity Bank agents / HSNP agents
Payment Instrument	-	Smart card
Payment Device	-	POS
Authentication Process	One-factor	Two-factor
Authentication factors	National ID/Program ID	Smart Card + biometric
Communication Channel	Offline	Online/offline
Reconciliation Process	Manual	Electronic
Cost per Transfer	Ksh 60	Ksh 100
Cost as % of Value of Transfer	1.5%	CT-OVC 2.5%/ HSNP 2.9%

Conclusion

38. *The funds flow risk is assessed as substantial.* Clear roles and responsibilities and mechanisms for ensuring the smooth flow of funds are in place, but unpredictability in the availability of funds causes payment delays that can reduce the positive impact of the program on already vulnerable beneficiaries. Making the principal accountant at the MGCSD responsible for the financial management of the four CT programs is expected to reduce some of the internal delays by: (i) facilitating timely Exchequer requisitions and the delivery of funds to the Treasury; (ii) the timely delivery of both funds and payrolls to the PSPs; and (iii) more coordinated communication with program funders and PSPs about CT payroll funding and reconciliation purposes. The adoption of the improved program MISs will streamline the preparation and reconciliation of the payroll, which will help to increase the timeliness of the payments. The government is establishing a Payment Working Group to support these efforts to identify the causes of the delays in the flow of funds and to find ways to address them. It is anticipated that these efforts will enable the government to achieve the DLI on the timeliness of payments (and are thus in the action plan of the Technical Assessment).

39. Under the NSNP, the government intends to address some weaknesses in the current payment systems by: (i) complying with the country's new regulatory framework for the provision of payment services, specifically that PSPs must comply with banking regulations; (ii) using mainstream payment infrastructure (the *de facto* standard is two-factor authentication using a *magstrip* card and a PIN); and (iii) developing performance standards on the timely delivery of transfers to beneficiaries. More details are provided in the Strategic Assessment of Payment Services Report commissioned as part of the preparation of the NSNP.[16] The Payment Working Group will also be mandated to put these recommendations into practice. As noted above, reforms in these areas will be promoted through DLIs of the PforR operation.

[15] The aim was to pilot this approach before rolling it out to all beneficiaries.
[16] Pulver (2012)

2.1.4 Internal Controls (including Internal Audit)

Overall FM element objective - There are satisfactory arrangements to monitor, evaluate, and validate program results and to exercise control over and stewardship of program funds.

Internal Audit

40. The capacity and independence of the internal audit function is critical for ascertaining the efficacy of internal controls, which is important for determining the effective and efficient use of program resources. The internal audit function falls under the direction of the Internal Auditor-General who is responsible to the Permanent Secretary of the Ministry of Finance. Internal audit (IA) staff are located in ministries and district offices and have dual reporting responsibilities – they report both to the Internal Auditor-General (IA-G) and to the senior management/accounting officer in the ministries, departments, and agencies (MDAs) where they are located. The four internal auditors in the MGCSD are insufficient to comprehensively cover the ministry's activities. NDMA has recruited a qualified internal auditor, who reports to the Board through the Audit Committee. There are plans to hire more internal audit staff.

41. The operational independence of the Ministerial Audit Committee (MAC), which in the case of the MGCSD last met in May 2012, is compromised by its composition as the individual members have executive duties. However, it is important to note that this is a country-level policy shortcoming in the composition of the MACs as stipulated in Treasury Circular No. 16/2005. An Audit Committee has been established that reports to the Board of the NDMA. The CT-OVC has a Fiduciary Risk Registry that management is supposed to use to follow up on audit queries. However, while managers provide written responses to most audit reports, action does not always follow.

42. No comprehensive program-specific internal audit reviews have been completed for the programs, except for the CT-OVC. The draft information systems audit report (Sept 2012) on the CT-OVC payroll revealed anomalies related to: (i) duplicate ID numbers; (ii) duplicate names; (iii) irregular payment amounts; and (iv) weaknesses in internal controls. These are being followed up by the Internal Audit Department (IAD), to start building their information system audit skills, and by the CT-OVC Secretariat. The findings of the draft audit have informed the development of the internal controls on the payroll, as discussed below.

Internal Controls

43. The CT-OVC follows the internal control procedures of both the government and of the relevant development partners. The program has a comprehensive operations manual with adequate statements of the segregation of duties and authorization controls and internal check mechanisms. However, these mechanisms exclude the beneficiary payroll, the preparation of which has several weaknesses. For example, the payroll is prepared by the system administrator and the FM consultant only. No other ministry personnel can be involved in the preparation of the payroll as they have not been trained in the use of the MIS. Therefore, if these two officers are unavailable, then the CT-OVC is likely to face implementation challenges.

44. For the other programs in the MGCSD, there are many cases of non-compliance with the government's established internal control regulations, processes, and procedures as revealed by internal audit reports over time, especially in the districts. An Operations Manual for the three programs implemented by the Department of Gender and Social Development is being drafted that will define the internal control procedures for the programs and address the weaknesses identified by this Assessment and the Technical Assessment. Finally, the NDMA largely uses GOK internal control procedures.

Conclusion

45. *Internal controls risks are assessed as high.* Internal audit coverage for the CT programs is inadequate, with only limited use being made of risk-based audit approaches. Internal audits should in future focus on reviewing (including through field visits), classifying (for example, intentional versus

unintentional or fraud versus a mistake), and coming up with recommendations to enhance controls to ensure that only eligible beneficiaries are paid the correct amount and at the right time. The World Bank and development partners will provide the IADs of all five CT programs with technical assistance to enhance their capacity to undertake risk-based audits of the programs, including the capacity to conduct information systems audits. Also, more audit personnel will be requested by the responsible ministries from the Treasury. The terms of reference to guide this work will be agreed with the World Bank during appraisal.

46. The accounting and financial reporting risk mainly relates to internal controls over the CT payrolls. Despite the internal control weaknesses and the low capacity at the district level, the centralized payroll reduces the overall impact of these risks on the program. With the strengthening of the MISs and establishment of the single registry, this risk will be substantially mitigated. For example, the program MISs have been designed to include mandatory checks at specified points from targeting to enrollment as well as mandatory controls on the payment process. These consist of: (i) before enrollment, ensuring that the households selected to be included in the programs are not benefitting from any other cash transfer programs and that their national IDs are valid; (ii) before the preparation of the payroll, determining if any beneficiaries are no longer eligible (for example, if the children in the household are now too old to benefit from the CT-OVC); (iii) before the payments are made, producing a pre-payroll control report to identify any duplicate ID numbers and names and any suspicious payment values that need to be investigated; and (iv) after making the transfer payments, identifying any *ex-post* cases of payments being made to those households with the same ID number, names, or suspicious values as were identified in the *ex-ante* payroll report[17] and reconciling the payroll.[18]

2.1.5 Program Audit

Overall FM objective - adequate independent audit and verification arrangements are in place and take account of the country context and the nature and overall risk assessment of the program.

47. The independence of the Kenya National Audit Office (KENAO) is assured under the 2010 Constitution and its role and powers are defined in the Public Audit Act 2003 (Rev 2009, Cap 412A).[19] Under the Kenya Constitution, all public funds are subject to an independent audit by KENAO. Beyond the certification of accounts, the Constitution under Article 229(6) requires the Auditor-General to confirm whether or not public money has been applied lawfully and in an effective way. However, KENAO does not have the financial and professional expertise required to perform its mandate effectively and this is acknowledged in its strategic plan for 2012-2015.

48. KENAO uses manuals that prescribe a risk-based approach to auditing, and this is supported by a range of planning forms that specify the audit approach, the risk, and the assessment of materiality. However, their focus is on financial audits and they do not fully comply with the International Standards of Supreme Audit Institutions (ISSAI). The government's financial statements do not clearly identify the basis of accounting used by KENAO.[20] Also, the Accounting Standards Framework Implementation Guide for SAIs: Departmental and Government-wide Financial Reporting (INTOSAI GOV 9210) provides templates for government annual reports but also allows for modifications to suit the specific

[17] Ideally, this report would generate no duplicate IDs and names based on the actions taken in response to the pre-payroll control report. However, as there is a history of the government issuing duplicate national ID numbers and there are many common names in Kenya, this report may reveal some "genuine duplicates" based on the IPRS register. This report will ensure that these duplicates are investigated and reported.

[18] These are described in more detail in the Aide Memoire for the Pre-Appraisal Mission for the National Safety Net Program for Results and will be reflected in the operations manual for the five programs.

[19] www.kenyalaw.org. The Public Audit Act is under review to bring it in line with the new Constitution.

[20] According to INTOSAI GOV 9200, all reports should clearly disclose the basis of accounting followed.

context and circumstances of the reporting government. However, there is a wide variation in the layout, format, and content adopted or enforced by KENAO.

49. The Bank-supported CT-OVC has been subject to audits by KENAO since its inception, covering both its Secretariat and its field operations. The audit reports and management letters are submitted to the Bank within six months of the end of the financial year, and no major audit issues have been raised in the recent past. The other three cash transfer programs in the MGCSD are audited by KENAO as part of the ministry's Appropriation Accounts, and KENAO's report for 2010/11 gave a disclaimer of opinion to these three programs (the most unfavorable category of opinion).[21]

50. The Public Audit Act requires an audit report to be submitted to Parliament within six months of the end of the financial year (in other words, within three months of receipt from Treasury) but this deadline has not been met for the audit report on the Consolidated Summary Appropriation Accounts in recent years. Since the audit report for this operation is expected to be part of the government's normal system, there is a risk that the NSNP's financial statement will not be submitted on time.

51. The Fiduciary Risk Assessment (FRA) of the HSNP commissioned by DfID in December 2010[22]observed that, while the program was serving its intended purposes, several key fiduciary concerns remained. These included: (i) the absence of appropriate program management and oversight such as the monitoring of expenditures and comparing actual outlays with the budget; (ii) the absence of key reconciliations between the MIS and other program information systems; (iii) the reliance on only two key staff to perform procedures, controls, and systems maintenance that were not documented in the operations manuals or program guidelines; (iv) the absence of any formal process review and external audit mechanisms; and (v) the fact that the state of the program's information systems and key staff capacity will not allow any significant increase in the scope of the cash transfer program as could be expected in any follow-up HSNP2 operation. In addition, the National Audit Office of the UK Government conducted review of the HSNP in 2012.

Conclusion

52. *Program audit risk is assessed as moderate.* KENAO'S independence is specified in the Constitution, which gives it a clear mandate to audit all public funds and report directly to Parliament. However, the failure by the Executive to act on previous audit queries has bred cynicism about the audit process. There is need to extend KENAO's coverage to fully cover financial, compliance and performance audits applying the International Standards of Supreme Audit Institutions (ISSAI).[23] A Performance Audit Unit has been established within KENAO, the staff of which are currently being trained.

53. The Bank will agree with the Treasury and KENAO during negotiation on the terms of reference for an annual Program Financial Statement audit of the NSNP to be completed and made public by the borrower in a timely and reliable manner. The Bank will also make the audit report available to the public in accordance with its Access to Information Policy. In addition, it will provide technical assistance to

[21] The "disclaimer of audit opinion" by the National Audit Office was not on the three programs but on the ministerial accounts of which these programs form a part. Budgeting and expenditure has not to date been adequately segregated in the ministerial accounts to allow identification of the spending under these three programs and the disclaimer of audit opinion did not, we believe, relate to these programs. Going forward the programs will be appropriately segregated using the chart of accounts and will allow the NSNP to be subject to a separate stand-alone audit.

[22] The approach adopted for this assessment was to obtain an understanding of, and thereafter to document, the HSNP's fiduciary management and other information systems with a view to determining their robustness and their fiduciary risks. The report acknowledges that an FRA provides substantially less assurance than an audit.

[23] http://www.issai.org/composite-347.htm

KENAO to enhance their capacity for undertaking program audits, including information systems audits of the CT program MISs and the single registry, as detailed in the action plan.

2.2 Procurement Management Risk Considerations

54. This section assesses the key elements of the procurement arrangements for the five cash transfer programs that constitute the NSNP in terms of their timeliness, cost-effectiveness, competitiveness, and compliance with applicable rules, including the handling of complaints. In assessing procurement performance, it was recognized that the single most critical procurement in a cash transfer operation is the hiring of a new PSP for which there would have to be advance planning and the preparation of the relevant bidding documents to ensure that there is no disruption to the payment of cash transfers to beneficiaries.

2.2.1 Procurement and Management of the Contracts of Payment Service Providers

55. All of the five cash transfer programs are currently using payment service providers for cash transfer services. As discussed above, the MGCSD has contracted with the PCK to deliver all cash transfers for which it is responsible. In November 2011, it also contracted with Equity Bank to provide cash transfer services for the CT-OVC, and it has started to transition beneficiaries from PCK to Equity Bank payments. The competitive selection process for Equity Bank took more than two years to be completed partly due to: (i) a lack of technical and procurement capacity within the MGCSD and (ii) the fact that there were very few qualified firms offering similar services in Kenya. However, as a result of going through this process, the MGCSD now has relevant experience in the procurement, contract management, and administration of payment service providers. For its part, the NDMA has no past experience in the selection of a payment services provider given that the HSNP has been implemented outside the government's procurement system, which will continue to be the case in phase 2 of the HSNP.

56. The NSNP will face the risks associated with hiring a new payment services provider, which is anticipated given the factors discussed in paragraph 39. It will be necessary to build the technical and procurement capacity of the MGCSD[24] to enable them to undertake the procurement exercise, the efficiency and quality of which will be critical to the implementation of the program. In the event that the MGCSD decides to maintain the existing payment service providers to cover the NSNP, it will be necessary to ensure that they have sufficient technical, financial, and managerial capacity to manage the increased scope of the program. In this regard, the government is establishing a Payments Working Group and will contract with a payments expert to assist the Social Protection Secretariat. To mitigate risks of bankruptcy or insolvency the PSP shall be required to draw and maintain sufficient insurance policies that cover the firm and its associated agents' operations and cash in transit and to make public disclosure of their organizational structure and shareholding.

2.2.2 Procurement Activities for Operational Purposes and Support for the Program

57. Other procurable expenditures under the NSNP will include the procurement of goods, minor works, non-consulting services, and the consultant services required for the general administration of the sub-programs. These procurements will be relatively simple in nature, and most will be for common, readily available goods and commodities and non-consulting services normally procured by most government entities and activities with which both ministries, particularly the MDCSD, have considerable experience. Works contracts, if any, will involve low value and simple repairs and alterations to buildings to create an adequate and good working environment for program staff. However, given the level of existing capacity within the MGCSD, the procurement of large value and complex consultant assignments

[24] Procurement of the PSP for HSNP phase 2 is currently ongoing. This contract will be compliant with the new financial regulations, described in paragraph 34. As such, it is anticipated that the NDMA will not be required to procure a new PSP in the near future.

for such tasks as monitoring and evaluation may pose a challenge. Technical assistance may therefore be necessary during the selection process and also after the contract is awarded to strengthen contract administration and management. Notably, however, it is anticipated that no high value procurement will be carried-out by the NDMA for the HSNP, as these contracts have been put in place as part of the HSNP Phase 2 preparation process by DFID. As a result, the focus under the HSNP will be operational expenditure.

58. The estimated value of contracts for goods, works and services for the NSNP will be below the OPRC thresholds, and the value of procurement relative to the overall cost of the program is also very low, with the vast majority of financing consisting of transfers to beneficiaries. Overall, there is fairly low risk of the procurement function having a negative impact on the proposed operation, with the notable exception of the risks associated with the procurement of a new PSP.

2.2.3 Procurement Process and Procedures

59. The assessment and the Bank's past experience with the MGCSD have established that procurement in some cases is not initiated through purchase requisitions as required. Furthermore, there were delays in internal approvals, leading to significant delays in the award of contracts of, in some cases, more than six months. The MGCSD's contracts were found to be riddled with inconsistencies in key milestone dates, conflicting contract provisions, and unclear specifications and terms of reference. Contract management was also found to be weak, with some contracts having been significantly delayed while others expired before being completed satisfactorily.

60. These problems may be due to inefficiencies in the internal administrative processes of the procuring entities. The government has put in place a dual system of performance contracting (measuring organizational performance) and a performance appraisal system (measuring individual performance) with the aim of providing institutions and their staff with an incentive to increase the efficiency of the procurement process.

2.2.4 Use of Standard Bidding and Request for Proposal Documents

61. The PPOA has a complete list of standard tender documents available in printed form as well as for downloading from its website. These are for goods, works, and non-consulting services, standard requests for quotations, and standard requests for proposals (RFPs) for the selection and recruitment of consultants. Also, several manuals on procurement policy, records management, procurement planning, procurement of works, and procurement of non-intellectual services, as well as pre-qualification documents can also be found on the PPOA's website. Procuring entities are required to use the standard tender documents and similar documents, which are usually modeled after the World Bank's standard bidding documents or similar documents. They are generally helpful, although they often contain simple mistakes, indicating a failure to pay attention to details.

2.2.5 Controls and Integrity

62. The PPOA undertook a procurement assessment of the MGCSD in June 2012 focusing on the following indicators: (i) institutional arrangements; (ii) procurement processes; (iii) mandatory reporting to the PPOA; and (iv) control and management of stores and inventory. The assessment found several weaknesses including the appointment of the relevant operational and oversight committees, a lack of clarity in the roles and functions of the procurement unit and the user departments, and a lack of effective oversight of the procurement process by the Tender Committee..

2.2.6 Procurement Capacity

63. Our assessment revealed that both ministries have established procurement units, but their staff, though adequate for day-to-day operations, may be not be adequate for implementing the NSNP. The MGCSD procurement unit has a staff complement of nine staff comprising the head of the unit, the

deputy head, and seven procurement officers. The staff has attained various academic and professional qualifications necessary for the effective implementation of the program, but they lack the requisite hands-on experience in the procurement and management of large consultancy assignments and other complex procurable activities. The program Secretariats also have weak capacity in the areas of preparing technical specifications and terms of reference, initiating technical reviews/revisions, and supervising and administering contracts. The units may therefore require external assistance in the preparation of bidding and RFP documents and in managing the contracts after they have been awarded.

2.2.7 Filing and Recordkeeping

64. Our assessment of the two ministries' procurement filing systems revealed that they were not well organized or systematically maintained. Also, because of limited storage space, they are stored in several different locations, which could cause difficulties in retrieving documents when needed and may further compromise the confidentiality of the procurement process and security of the records. Procurement reviews conducted by the PPOA between 2010 and 2012 also identified weaknesses in procurement filing and recordkeeping that include a lack of complete and comprehensive lists of tenders undertaken, the storage of procurement records in different locations, a lack of contracts management records, and inadequate storage space and inappropriate filing.

2.2.8 Contract Management

65. Contract management is often weak as a result of inattention to detail or inexperience on the part of the relevant ministry staff who may not have had any training in basic contract management practices. As a result there are often considerable delays in implementing contracts, with some even extending beyond the initial contractual period. However, our assessment found that any contract cost overruns were limited in value. This is because the law provides for variations beyond the initial contract price to be reviewed and approved by the tender committee up to a maximum of 15 percent of the contract price, with the provision for retendering contracts that exceed the threshold.

2.2.9 Complaints Handling Mechanisms

66. In assessing procurement performance, the fiduciary assessment team took account of the fact that the most critical procurement in any cash transfer program is the selection of a PSP. The assessment found that there are systems and procedures for handling bidder's enquiries and complaints in both ministries and that the procuring entities are taking adequate remedial action on any Review Board decisions and observations made following appeals. The Review Board refers any procurement complaints perceived to involve fraud and corruption to the Ethics and Anti-corruption Commission (EACC) and the Criminal Investigation Department (CID) of the police for investigation. Three committees are responsible for handing procurement related complaints within the ministries; (a) Complaints and Grievance Mechanism Committee established at project level; (b) Departmental Anti-Corruption Advisory Committee; and (c) Ministerial Anti-Corruption Advisory Committee. Complaints and/or grievances can sent directly to any of these committees or written submissions dropped-off in suggestion boxes located strategically on each floor of the ministries' buildings. The committees meet on a monthly or on need basis. If complaints are not resolved at the entry level, they are escalated to a higher committee. Complaints that require further investigations or those that relate to fraud and corruption are submitted to the EACC by the ministry's accounting officer. Firms sanctioned under the Bank's fraud and corruption policy are ineligible for award of contracts financed by the Bank. The government shall therefore be required to check the names of the recommended firms against the debarment list posted in the Bank website http://www.worldbank.org/debarr prior to award of contract and share the information with the relevant decision making organs of the ministry. The mechanisms for handling other complaints under the program are dealt with in the fraud and corruption section below.

Conclusions

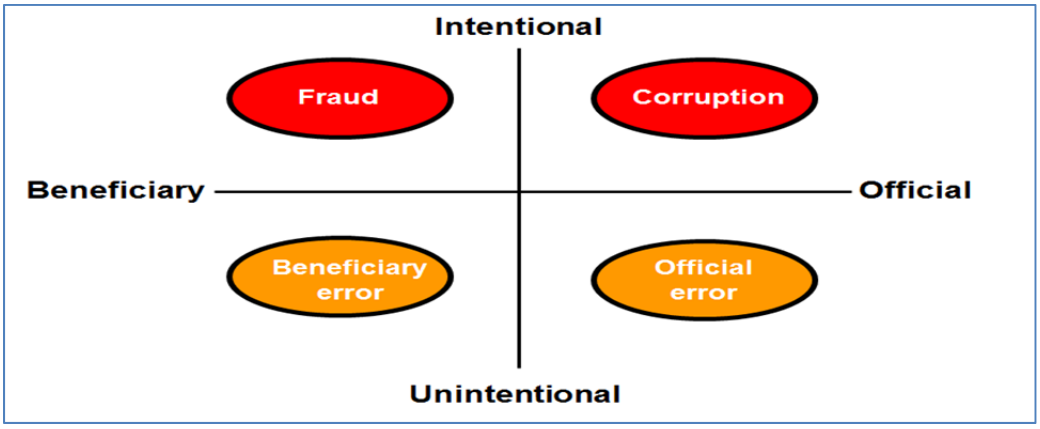
67. The overall procurement risk for the program is rated as *substantial*. The findings of this assessment highlight the following risks: (i) deficiencies in the existing legal and regulatory framework (which is beyond the scope of this operation); (ii) risk related to inadequate capacity and experience within the relevant ministries to execute and manage contracts properly; (iii) a failure to use open competition in the procurement and selection of contractors; (iv) poor quality evaluation reports and delayed internal administrative processes; and (v) fragmented and disorganized procurement filing and recordkeeping. This review proposes a number of risk mitigation, capacity-building activities, and other mitigation measures to address these risks, which are in the action plan.

3 FRAUD AND CORRUPTION

68. The core governance question for cash transfer programs is whether the "right people are being paid the right amount at the right time." Each cash transfer should be designed with this central concern in mind. However, the evidence shows that some level of error, fraud, or corruption (EFC) is inevitable in all cash transfer programs. An International Benchmarking Study found that fraud and error rates in five OECD countries ranged between 2 to 5 percent of overall expenditure, with fraud and error rates of 5 to 10 percent for means-tested social protection programs. These figures represent lower bounds as they come from countries and programs with high administrative capacity.

69. In the context of targeted cash transfer programs, most irregularities arise from: (i) the provision or input of incomplete or inaccurate personal/household data at the point of application or (ii) the failure of beneficiaries to notify the program of a change in their circumstances or the failure of the program to act on this information. Whether these irregularities constitute error, fraud, or corruption depends on the perpetrator and the degree of intent. These definitions are illustrated in Figure 3.1below, where the horizontal axis represents the perpetrator and the vertical axis the degree of intent.

Figure 3.1: Fraud and Corruption Matrix



70. Where the irregularity is the result of a *genuine mistake or oversight* by the beneficiary or administrator, it would constitute beneficiary error or official error respectively. However, where the irregularity is due to *deliberate action or inaction* by the beneficiary or administrator, it would constitute fraud (beneficiary) or corruption (administrator). Controls for dealing with EFC include:

(i) *Preventing* error and fraud getting in to the system ("getting it right" from the outset): planning and design, procedural guidance, training of staff, and communication and awareness campaigns.
(ii) *Detecting* error and fraud that has crept in ("putting it right"): risk-based audits, whistle-blowing, and investigations.
(iii) *Deterring* individuals from contemplating fraud ("keeping it right" from then on): public sanctions.

71. The sections that follow provide an assessment of how the five cash transfer programs that constitute the NSNP achieve these objectives.[25]

3.1 Fraud and Corruption Analysis of the National Safety Net Program

72. As discussed in the Technical Assessment for the Kenya National Safety Net Program, there are some similarities in the design and implementation of the five cash transfer programs that make up the NSNP. Regarding their design, each has a specified targeting mechanism with eligibility and exit criteria, and each is managed by a national-level secretariat and is administered by local and district committees. Community-level meetings are used in all programs to verify the eligibility of households for support from the programs. Payments are made through payment service providers, which are independent of the government, based on payrolls prepared by the national-level program secretariats. Each program has, or is in the process of establishing, a complaints and grievance mechanism.

73. It is difficult to determine the extent to which F&C actually occurs in the five programs of the NSNP as there is no apparent systematic recording, collection, or analysis of F&C data. Previous reviews have referred to low rates of F&C in the various cash transfer programs, but there have been some incidents of F&C in all of the programs including: (i) CT-OVC transfer recipients in households with no orphan or vulnerable child; (ii) allegations of discrimination, corruption, and nepotism in the OPCT; (iii) suggestions of ghost beneficiaries in the UFS-CT because 10 percent of the sample selected for the evaluation could not be located; (iv) over 5 percent of UFS-CT beneficiaries being recipients of other CTs as well; (v) changes reported in the status of OVCs that had not been processed on the payroll; (vi) some OPCT recipients with higher incomes than non-recipients; and (vii) local chiefs demanding bribes from beneficiaries when they would go to collect their transfer from the pay point or when they were being registered. Additionally, anecdotal evidence from the CT-OVC suggests that several cases of corrupt practices by program officials or community volunteers have been identified and acted upon, including in some cases, prosecution. There was less evidence of F&C in the HSNP, which has been attributed to the program's detailed operations manual.

74. All programs undertake regular monitoring and are subject to fiduciary controls, as detailed in the sections above. Also, the programs all have the same implementation stages, namely, targeting, registration/enrollment, payment, change management, exit, and replacement, as described above. These similarities mean that it is possible to adopt a common approach to preventing, deterring, and detecting F&C throughout the NSNP. Table 3.1 presents the existing and planned controls to minimize the opportunities for fraud and corruption in the programs of the NSNP.

Table 3.1: Current and Planned Controls to Minimize Fraud and Corruption

Stage	Current	Planned
Registration/ Enrollment	- Targeting methodology, including community involvement. - Enrollment form asks about participation in other CT programs. - Corruption can be reported on the MGCSD website but procedures are vague.	- Stronger ID verification (use of national IDs mandatory). - Automatic controls in MIS to identify households registered in more than one program. - Single registry to identify duplicate IDs. - The single registry cross-check IDs against the IPRS database. - Improved and standardized complaints and grievance channels.
Payment	- Same transfer value helps beneficiary to know how much to expect and reduces scope for error and short changing by	- MISs to flag irregular amounts outside norm to be scrutinized before payment. - Extension of electronic payments.

[25] With regard to broader questions relating to the efficiency and effectiveness of targeting, payments, complaint and grievance mechanisms, and monitoring and evaluation, please see the Technical Assessment of the NSNP.

	agents/carers. - Pre-payment payroll checks at the national level. - Post-payment reconciliations. - Termination after three successive failures to collect transfers. - Internal audit scrutiny. - Complaints and corruption reporting.	- Extension of two-factor ID authentication for collection of payments. - Ex- ante and ex-post-payroll checks to duplicate payments or irregular payment amounts. - Improved and standardized complaints and grievance channels.
Change/Exit	- Form for notifying change exists - Beneficiaries and local committee members told about the need to notify the program of any change in their circumstances.	- The new MIS to automatically remove beneficiaries of the CT-OVC from the payroll if the beneficiary has reached the maximum eligible age.
Replacement	- Waiting lists controlled at the district level. - Revalidation of households before enrollment.	- Management of waiting list improved. - Recertification in response to monitoring reports and complaints and grievances.

75. As described in the table above, measures for mitigating F&C include: (i) increasing beneficiaries' awareness of their rights; (ii) empowering beneficiaries at the local level by establishing Beneficiary Welfare Committees/Rights Committees in all programs; (iii) improving grievance and appeals procedures; and (iv) improving monitoring by introducing a common M&E framework, that includes standard spot checks by program officers and an annual external review of program implementation. All of these measures have been incorporated in the DLIs for the PforR operation to reduce the risk of F&C, specifically with the aim of: (i) improving targeting, (ii) establishing the single registry and ensuring that program MISs use agreed internal controls on the payrolls; (iii) increasing the use of electronic two-factor authentication by payment service providers; and (iv) improving grievance and appeals systems.

3.2 Appeals and Complaints Mechanisms for Citizens

76. International evidence shows that safety nets are more effective when both beneficiaries and non-beneficiaries are able to hold decision-makers and front-line implementers to account. Well-functioning complaints and grievance mechanisms have proven to be effective for promoting this demand-side accountability both in Kenya and around the world. The 2008 service charter of the MGCSD outlined a series of commitments by the MGCSD along with a complaints mechanism that people can use if they feel that these commitments have not been fulfilled. In addition to this, two of the five programs that make up the NSNP have established complaints and grievance procedures. These are formal mechanisms for beneficiaries and non-beneficiaries to give feedback to program managers on how the program is being implemented. The HSNP has established Rights Committees that are responsible for ensuring that the beneficiaries of the program are aware of their rights and for collecting any complaints and appeals and sending them to program managers for action. The CT-OVC has dealt with complaints and grievances in several different ways, both internal and external, as outlined in Table 3.2. The external complaints system was managed by an independent firm. The CT-OVC has also established Beneficiary Welfare Committees (BWCs), which play a similar role to the HSNP Rights Committees.

77. Demand-side accountability requires that both beneficiaries and non-beneficiaries be aware of the mechanisms that are available for making complaints about aspects of the program. The CT-OVC and the HSNP have distributed service charters to program beneficiaries and communities. These, together with the use of *barazas* (open community meetings) and awareness-raising sessions, help to ensure that beneficiaries and their communities have the necessary information to understand how the programs work.

78. To strengthen the complaints and grievance system for the NSNP, the MGCSD has designed program-specific complaints and grievance arrangements for the OPCT, the PWSD-CT, and the UFS-CT,

which are being documented in the revised operations manuals. These three programs will use a harmonized complaint and grievance system based on that used by the CT-OVC. For this, Locational OVC Committees, which support the targeting process, and BWCs are being established to field complaints from program communities, escalating sensitive complaints to higher levels for action, and a hotline will be operated by the Social Protection Secretariat to provide a route for people to raise concerns with the programs that is independent from program managers. In addition, these three programs are formulating Service Charters that will inform beneficiaries of their rights and entitlements under the programs. All five programs that constitute the NSNP record the complaints and grievances that were lodged at national-level or escalated to national program managers in a dedicated module in their management information systems (MIS). This will enable consolidating reporting by the Social Protection Secretariat, which will be carried-out on a six-monthly basis and shared with the World Bank and partners. These reports will classify the complaints and grievances lodged, including those related to F&C.

Table 3.2: CT-OVC Complaints and Grievance Procedures

Complaints and Grievance Procedures		Types of Complaints Received
Internal	**External**	
Verbal complaint submitted on Form C1 and sent to: District Children's Officer District Commissioner Location OVC Committee Central Program Unit Health clinics or schools	Postal complaints SMS hotline Telephone hotline Email complaints account	Late cash payment from the PCK Recipient not sharing with beneficiaries Complaints against LOC members Enquiries about program procedures Appeal against households not being selected Program not selecting those most in need

79. The PforR operation will support the government's aim to ensure that these complaints and grievance mechanisms are functioning well. A DLI has been established to promote the establishment and maintenance of the programs' complaints and grievance mechanisms and to promote awareness of the complaints and grievance mechanism in the communities supported by the NSNP.

80. It is important to note that the complaints and grievance mechanisms for the five programs that constitute the NSNP are designed to complement the government's anti-corruption architecture, particularly as the NSNP will refer cases of suspected corruption to the relevant authorities for investigation. The 2010 Constitution has provided a foundation for addressing Kenya's longstanding governance challenges, including improving the checks and balances between the three branches of government, strengthening the independence of the judiciary, increasing public access to information, and introducing a new bill of rights. The Constitution established the Ethics and Anti-Corruption Commission (EACC), which replaced the Anti-Corruption Commission, and increased the oversight of the Auditor General. In parallel, the country is reforming the public financial management (PFM) system, as discussed above, which should help to prevent corruption. Despite these gains, the EACC is mandated only to investigate but not prosecute cases of corruption, which is the responsibility of the Director of Public Prosecution and the number of corruption cases prosecuted remains low. Moreover, sustained investments are required to ensure that the provisions in the constitution are implemented as intended.

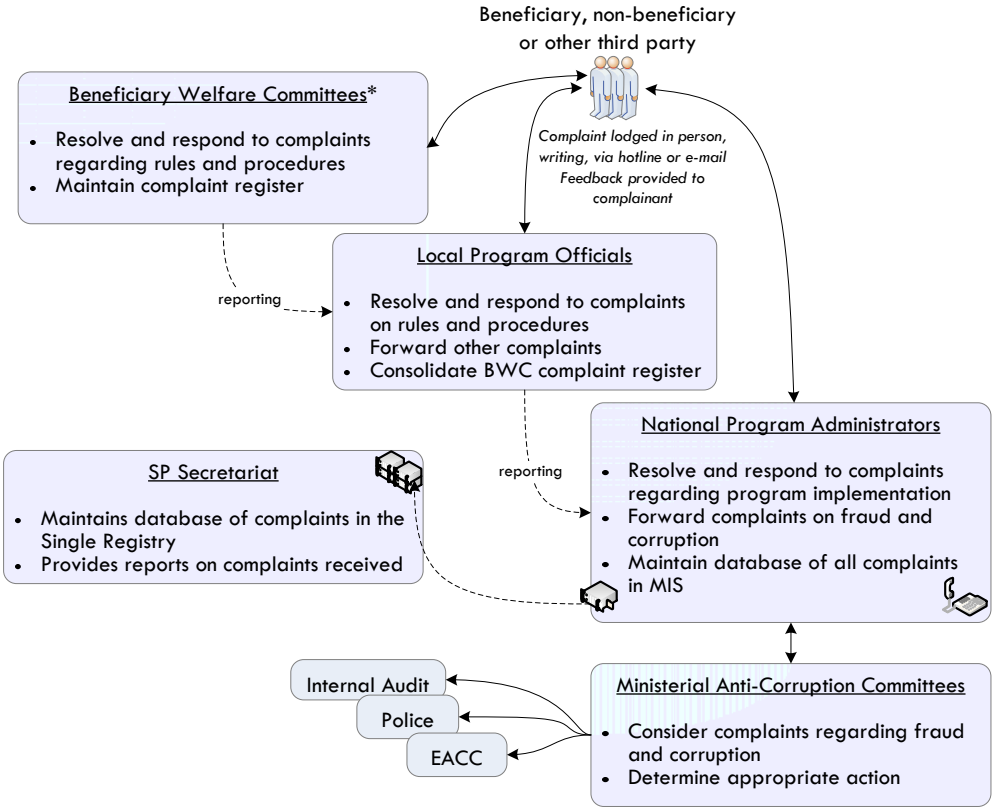
81. The EACC received 5,230 reports in FY2011/12, of which 2,183 were deemed to fall within the mandate of the Commission to investigate and 173 were forwarded to other investigative agencies. Of the complaints received, 12 percent related to allegations of bribery, 8 percent to the embezzlement of public funds, 7 percent to abuse of office, and 5 percent to procurement irregularities.[26] During the same year,

[26] Ethics and Anti-Corruption Commission Annual Report 2011-2012. Other types of complaint received include: administrative issues (21%). civil issues (17%), criminal offences (6%), fraudulent disposal of public property (6%), and other offences (8%).

2,663 cases were under investigation, of which 236 were completed and forwarded to the Director of Public Prosecution. The vast majority of the remaining cases (1,809) were still under investigation.

82. Figure 3.2 presents an overview of how the complaint and grievance mechanisms of the NSNP fit within this broader context and how, as a result, any complaint and grievance related to fraud and corruption will be channeled via the national program staff to the Ministerial Anti-Corruption Advisory Committee and then to the relevant investigative body.

Figure 3.2: Flow of Complaint and Grievances under the NSNP



83. *Notes:* *The HSNP has established Rights Committees that play the same role as the Beneficiary Welfare Committees. To further address the fraud and corruption risks associated with the NSNP, the government has agreed that the five programs that constitute the NSNP will be implemented in accordance with the *Anti-Corruption Guidelines for PforR Operations*[27], which consist of three basic elements: (i) sharing information on F&C complaints lodged through the complaint and grievance mechanisms for the five cash transfer programs with the Bank, which will be shared by the Social Protection Secretariat as part of its regular reporting on the NSNP (see Figure 3.2); (ii) ensuring that no firms or individuals which have been debarred or suspended by the World Bank bid on procurement under the NSNP, which will be confirmed through the internal and external audit of the NSNP; and (iii) allowing the World Bank's Integrity Vice Presidency (INT) to investigate any F&C allegations against the program.

4 INSTITUTIONAL ARRANGEMENTS

84. This section provides a summary of the adequacy of institutional capacity (including staffing and budgeting) to carry out the fiduciary responsibilities set out under the NSNP.

[27] Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing", dated February 1, 2012

85. The government has developed a robust monitoring and evaluation (M&E) framework for the National Safety Net Program. This framework draws on the existing M&E frameworks of the five cash transfer programs, particularly the HSNP and the CT-OVC. It will monitor progress towards the achievement of the program's outputs and outcomes by collecting and analyzing data on a common set of indicators. Progress towards these indicators will be monitored regularly through reports generated automatically from the single registry. It will also employ a system of external spot checks to ensure that program implementation is independently monitored on an annual basis. This will be done by a third party contractor and will include the performance of the payment system and the grievance and appeals system. Steps are also being taken to strengthen the capacity of the programs to carry out the planned M&E activities as detailed in the Technical Assessment. Collaboration with the Office of the Controller of the Budget, which has the mandate for budget monitoring, will be required.

86. Additionally, the impact of the NSNP on beneficiary households will be assessed by means of a set of impact evaluations. To enable changes to be tracked over time, the ongoing impact evaluations for the HSNP and CT-OVC program will continue, with each producing results every year, on opposite cycles, thereby creating an annual stream of information on the impact of the two programs. Given the similarities between the five cash transfer programs in terms of how they are being implemented, these two impact evaluations should yield insights that are applicable throughout the NSNP.

87. Overall capacity in the sector remains low, and this is compounded by significant fragmentation of responsibility for the various CT programs. With regard to implementation capacity, the five cash transfer programs are implemented by separate secretariats housed in two different ministries with separate implementation arrangements at the district level. This contributes to a situation in which the number of staff and the skill mix within each secretariat is less than is required for effective program implementation. With regard to coordination and oversight capacity, the sector is coordinated by the Social Protection Secretariat.

88. The government has commissioned an options paper to explore how to strengthen the implementation capacity of the four cash transfer programs managed by the MGCSD. Development partners, including the World Bank, are supporting capacity-building efforts in many of the secretariats, including the Social Protection Secretariat. In this case, the PforR operation itself will significantly strengthen the Social Protection Secretariat by giving it a clear mandate to coordinate the proposed NSNP**.** Existing World Bank financing to the CT-OVC program will be used to deliver capacity-building support to the NSNP during its first year of operation.

5 MITIGATING MEASURES

89. The P4R operation has been designed to address many of the key risks and constraints revealed by this assessment, while other key risks will be addressed through a time-bound action plan in Table 5.1. Annex 3 describes the DLIs and the rationale behind their adoption. This action plan contains the critical mitigation measures to be undertaken by the implementing agencies. The applicable F&C mitigation measures are included within the various financial management and procurement aspects of the action plan. Some fiduciary measures that are to be addressed in the program action plan are aligned with specific DLIs, where applicable.

90. Mitigation measures of country-level policy nature will be discussed with the Treasury and agreement documented during negotiation to form part of the Financing Agreement and the fiduciary team as part our PFM dialogue and program implementation support will work closely with Government counterparts to ensure proper. The fiduciary team also on a continuous basis delivers hands-on financial management capacity building at the government's e-development learning institute at the Kenya School of Government.

Table 5.1: Action Plan for the Kenya National Safety Net Program for Results

Risk Sources	Actions Required	Responsible	Due by	Links to DLIs
Planning and Budgeting				
Inadequate appropriation for the program in the annual budget – the new Single Chart of Accounts (SCOA) has elements that can support program-based budgeting and can facilitate analysis of budgets and expenditure by economic, geographic, programs, projects and fund source-donor classification. (http://www.ifmis.go.ke/index.php/33-latest-news/75-scoa). However, the recent Indicative Program-based Budget for 2012/13-2014/15 launched by Treasury does not provide clear information on the safety net programs.	Improve the Program-based Budget by identifying/ring-fencing the CTs as sub-programs of the NSNP. Annex 2 shows how the new SCOA can be used within the various responsible administrative units, clearly indicating funding sources and the associated economic inputs including operational and M&E costs. This will provide the basis for addressing the fragmentation of responsibilities and make it possible to prepare consolidated program financial statements (PFSs). MGCSD has proposed this budget structure to the BSD.	Budget Supplies Department/ MGCSD	Beginning of FY 2013/14	*Harmonizing cash transfer programs to increase sectoral coherence*: All financing on-budget and government financing for all programs
Accounting, Reporting, and Information Systems				
Financial reports can be misleading due to delays in capturing district-level transactions. Financial reports are not prepared according to International Public Sector Accounting Standards.	Adopt International Public Sector Accounting Standards (IPSAS): The Social Protection Secretariat (responsible for providing sector-wide oversight and coordination) will be responsible for preparing the PFSs based on its 'access rights' to the IFMIS that will be provided by Treasury. Annex 3 provides illustrations of the PFSs that will be used as the basis for reporting in IFMIS. MGCSD has proposed this PFS template to Treasury. To increase the reliability of the PFSs, the MISs will incorporate the relevant full coding-blocks of the SCOA so that the costs of CTs (specifically the payroll) as generated by the MISs can be easily cross-checked against postings to the IFMIS general ledger. Interfaces between the MISs and IFMIS should be pursued to improve the timing of the processing of CT payments and to reduce manual error.	Treasury Accounting Standards Board IFMIS Dept	June 2013	*Harmonizing cash transfer programs to increase sectoral coherence:* Regular comprehensive program reporting
Manual vote-books still maintained and relied on rather than the IFMIS.	Stabilize the IFMIS: Ensure that the IFMIS is fully operational for all recording, accounting, and reporting purposes.	Treasury/ MGCSD	Beginning of FY 2013/14	Ditto

Risk Sources	Actions Required	Responsible	Due by	Links to DLIs
Weak validation controls and different MIS platforms. The Excel-based CT payrolls have weak security controls.	Roll out the single registry and upgraded MISs. Ensure that the single registry and MISs are fully tested and operational for processing the CT payrolls. The five programs are currently generating the payroll from the upgraded MISs. Internal payment controls will include *ex-ante* and *ex-post* exception reports that will be automatically generated by each MIS payroll. The list of beneficiaries will also be 'cleaned' of duplications as part of the process of migrating the data from the excel-files to the upgraded MISs.	Treasury/ MGCSD/ NDMA MGCSD/ NDMA	June 2013 June 2013	*Strengthening program systems to ensure good governance*: - Strengthened MISs to improve fiduciary controls and monitoring
Lack of information systems management capacity in the implementing entities. Weak information systems and audit capacity.	Ensure that the SP Secretariat can self-sustain the single registry. Ensure there is enough capacity in place at the program level to handle program-specific MISs through structured hand-over to staff from consultants after upgrading the MISs and ensure the provision of continuous training, maintenance, and support. Periodic information systems audits by IAD and KENAO, which are currently under the IFMIS project, with technical assistance provided to increase their information systems audit capability.	SP Secretariat IAD KENAO	June 2013 Periodic (at least half-yearly)	Ditto
Treasury Management, Funds Flow, and Payment of Beneficiaries				
Inadequate funds made available for program implementation.	Address internal causes of delays in funds flows. Ensure Exchequer Requisitions for the CT payrolls are finalized and submitted to the Treasury by a specified date. The Payment Working Group comprising MGCSD, NDMA, the SP Secretariat, and the Treasury is already working on this.	Treasury/ MGCSD/ NDMA	Immediate	*Strengthening program systems to ensure good governance*: Adoption of more robust payment mechanisms and making timely payments to beneficiaries.

Risk Sources	Actions Required	Responsible	Due by	Links to DLIs
Main vulnerability is corruption or extortion by paying agents/ caregivers/ local officials.	The MIS will flag irregular amounts outside the norm for scrutiny before payment. Extension of the use of electronic payments. Extension of the use of two-factor ID authentication when beneficiaries collect their transfer payments. Enforcement of the rule requiring the termination of beneficiaries from the program after three successive failures to collect their payments. Strengthen complaint and grievance mechanisms. Regular monitoring by national-level program staff and third-party annual assessment of program implementation.	MGCSD/ NDMA/ SP Secretariat	Immediate	*Strengthening program systems to ensure good governance*: Ensuring that functioning grievance and appeals mechanisms are in place.
The current criteria on changes to beneficiaries' status and on exiting the programs because of a household's improved economic circumstances are vague and undefined, which risks people continuing to receive CTs for longer than they should.	Ensure that the criteria regarding changes in status that affect eligibility are clear and develop explicit communication to existing and new beneficiaries, and officials on what changes need to be reported and how. This should include an unambiguous explanation of what constitutes improved circumstances. Periodic recertification of eligibility. The new MIS will contain automatic triggers when beneficiaries achieve predictable exit criteria (for example, when they exceed the maximum age level under the CT-OVC).	MGCSD/ NDMA? SP Secretariat	Continuous	*Strengthening program systems to ensure good governance*: Ensuring compliance with eligibility criteria.
While the eventual roll out of the single registry and upgrading of the program MISs will considerably strengthen the accuracy and timeliness of the CT payrolls, the MGCSD should take interim measures to address the underlying senior staff challenges involved in conducting manual quality control reviews of the payroll.	The supporters of the NSNP should ensure timely and synchronized release of funding. Consistent with the recommendations of the Technical Assessment: (i) extend the use of automation in the reconciliation process; (ii) monitor the timeliness of payments; (iii) ensure greater predictability in the release of funds from Treasury (same priority as salaries and emoluments).	Development partners Treasury	Immediate	*Harmonizing cash transfer program to increase sectoral coherence:* Moving forward with program consolidation.

Risk Sources	Actions Required	Responsible	Due by	Links to DLIs
Internal Controls (including Internal Audits)				
Comprehensive internal audit reviews have not been done since the inception of the CT programs.	The Internal Audit Unit should adopt a more structured risk-based approach, develop standard audit programs, and plan specific audits for the CT programs in accordance with specific terms of reference to be developed and agreed with the Bank. The operations manuals for the CT programs should include sections on program-specific controls.	IAD	Ongoing	*Strengthening program systems to ensure good governance:* Regular comprehensive program reporting.
While program managers provide written responses to most audit reports, action does not always follow.	Publish Treasury Memorandum in response to audit queries by the implementing agencies	MGCSD NDMA	Beginning of FY 2013/14	Ditto
External Audit				
Currently the focus is on financial audits but not on performance audits that would examine the effectiveness of the programs.	Extend concept of audit to cover not only financial but also compliance and performance audits by applying the International Standards of Supreme Audit Institutions (ISSAI).	KENAO	Beginning of FY 2013/14	Ditto
Insufficient financial resources affect the scope of audit.	Secure adequate resources to undertake field audits at the beneficiary level. Build information systems audit capacity and ensure the adequacy of the governance framework for the development of the single registry.	KENAO	Beginning of FY 2013/14 Continuous	*Strengthening program systems to ensure good governance:* Strengthened MIS to improve fiduciary controls and monitoring.
Procurement				
Inadequate staffing	Recruitment/secondment of qualified staff to manage the program.	MGCSD NDMA MOF	Beginning of FY 2013/14	No DLI
Inadequate capacity	Intensive training focusing on identified areas of weaknesses.	MGCSD NDMA	Continuous	No DLI

Risk Sources	Actions Required	Responsible	Due by	Links to DLIs
Procurement planning	Preparation of consolidated procurement plans integrated with the budgeting process	MGCSD NDMA, MOF	Continuous	No DLI
Recordkeeping and filing	Use of organized and structured filing and recordkeeping systems.	MGCSD NMDA	Continuous	No DLI
Office environment	Provision of adequate storage space and restricted access to procurement records.	MGCSD NDMA	Beginning of FY 2013/14	No DLI
Procurement reporting and oversight	Enhanced procurement oversight and reviews by the PPOA. While the revision of the procurement law remains a priority within the broader public procurement system, it falls beyond the scope of action in the context of the NSNP.	PPOA MOF	Continuous	*An improvement in the functioning of the complaints and grievance mechanism*
Lack of clarity in the complaints handling mechanism	Ensure that all the different decentralized complaint handling mechanisms will be aggregated at the central level by a responsible agency, which will be in charge of sharing them with the Bank. Clearly outline and communicate the existence of the complaints handling mechanism to all Stakeholders	PPOA MOF MGCSD NDMA	Beginning of FY 2013/14	*An improvement in the functioning of the complaints and grievance mechanism*
Contract Management	(a) Short-term: prepare an Operational Manual with clear procedures and guidelines to staff involved in managing contracts; (b) Long-term: expedite roll-out of IFMIS with a procurement component that provide procedures and guidelines necessary for monitoring contracts performance	MGCSD NDMA	Beginning of FY 2013/14	*An increase in the percentage of payments disbursed to Payment Service Providers on time & An increase in the percentage of NSNP payments made electronically using two-factor authentication.*

Risk Sources	Actions Required	Responsible	Due by	Links to DLIs
Selection of new Payment Service Providers	Engagement of a TA to support in Implementing Agencies in the selection process of the PSPs (to be financed through the existing CT-OVC Project)	MGCSD NDMA	June 2013	*An increase in the percentage of payments disbursed to Payment Service Providers on time & An increase in the percentage of NSNP payments made electronically using two-factor authentication.*

ANNEX 1: PROPOSED CHART OF ACCOUNTS CODES

Class (1)	Vote (3)	Administrative (9)	Funding (8)	Program (8)	Economic (7)	Geographic (7)
1	**118**	**118002802**	**21501102**	**09040101**	**2710201**	**3010101**
Development	Ministry of Gender, Children, and Social Development	Cash Transfer for Orphans and Vulnerable Children	Foreign Borrowing (drawdowns through Exchequer)	Cash Transfer for Orphans and Vulnerable Children	Social Security Benefits in Cash [a/]	Mombasa (airport ward)
1	**118**	**118001702**	**21501102**	**09040201**	**2710201**	**3020100**
Development	Ministry of Gender, Children, and Social Development	Older Persons Cash Transfer	Foreign Borrowing (drawdowns through Exchequer)	Older Persons Cash Transfer	Social Security Benefits in Cash	Kwale County (Msambweni Constituency)
1	**118**	**118001703**	**21501102**	**09040301**	**2710201**	**3030100**
Development	Ministry of Gender, Children, and Social Development	Urban Food Subsidy Cash Transfer	Foreign Borrowing (drawdowns through Exchequer)	Urban Food Subsidy Cash Transfer	Social Security Benefits in Cash	Kilifi County (Kilifi North Constituency)
1	**118**	**118001704**	**21501102**	**09040401**	**2710201**	**3040100**
Development	Ministry of Gender, Children, and Social Development	Cash Transfer for Persons with Severe Disabilities	Foreign Borrowing (drawdowns through Exchequer)	Cash Transfer for Persons with Severe Disabilities	Social Security Benefits in Cash	Tana River County (Garsen Constituency)
1	**XXX**	**XXXXXXXXX**	**12039126**	**09040501**	**2710201**	**3100100**
Development	NDMA	NDMA	DfID: Current Grants from Foreign Governments - direct pyts treated as (AIA)	Hunger Safety Net Programme	Social Security Benefits in Cash	Marsabit County (Moyale Constituency)

Note: Should correspond to 2,721 social assistance benefits in cash (IMF-GFSM, 2001:72,179).

ANNEX 2: ILLUSTRATIVE PROGRAM FINANCIAL STATEMENTS

Kenya National Safety Net Program (NSNP)
Consolidated Program Financial Statement (PFS)
Statement of budget performance

	A	B	A-B	C	C/A	D	E	A-(C+D+E)
CT Programs (components)	**Approved budget** *(from Hyperion)*	**Exchequer releases to date** *(from Hyperion or CM?)*	**Un-released Budget**	**Actual to date** *(from GL)*	**% budget utilized**	**Commitments** *(inpaid POs from P2P)*	**Obligations** *(unpaid invoices from P2P)*	**Available budget**
1. Cash Transfer to Orphans and Vulnerable Children (CT-OVC)								
2. Older Persons Cash Transfer (OPCT)								
3. Persons with Severe Disabilities (PWSD)								
4. Urban Food Subsidy Program (UFSP)								
5. Hunger Safety-Net Program (HSNP)								
Totals								

[insert system print date/time stamp]

This report can also be designed to present information in aggregate/individually by the various SCoA segments and to produce GFS reports

Kenya National Safety Net Program (NSNP)
Consolidated Program Financial Statement (PFS)
Statement of Receipts and Payments

	Cash Transfer to Orphans and Vulnerable Children (CT-OVC)	**Older Persons Cash Transfer (OPCT)**	**Persons with Severe Disabilities (PWSD)**	**Urban Food Subsidy Program (UFSP)**	**Hunger Safety-Net Program (HSNP)**	**Totals**
CASH BALANCE B/F						
RECEIPTS						
GoK						
00001001: Exchequer						
00002001: Revenues generated by National Government Entities as AIA						
00004118: AIEs from other Votes (inter-entity transactions between Votes) - MGCSD						
00004158: AIEs from other Votes (inter-entity transactions between Votes) - MNKAL	-	-	-	-		
Loan						
21501102: IDA						
Foreign Borrowing (drawdowns through Exchequer - economic item 5120102)						
Grant						
12039126: DFID						
Current Grants from Foreign Governments - direct pyts treated as (AIA) economic item 1310299						
Total receipts						
PAYMENTS						
2100000: Compensation of employees						
2200000: Use of goods and services						
2600000: Grants and other transfers						
2700000: Social security benefits						
3100000: Acquistion of non-financial assets						
Total payments						
CASH BALANCE C/F						

Detailed sub-items can be obtained from General Ledger printouts

ANNEX 3: THE RATIONALE BEHIND THE DISBURSEMENT-LINKED INDICATORS (DLIS)

Disbursement-linked Indicator	Rationale
I. Expanding Cash Transfers to Promote More Comprehensive and Equitable Coverage	
DLI 1: Number of additional households enrolled in the NSNP	The government aims to gradually expand the coverage of cash transfer programs as a way to fully realize the constitutional right to social assistance. Presently, each program sets expansion targets based on its available budget according to differing principles and therefore, despite increasing geographic overlap among programs there is little consideration for how programs work in the same area and the overall equity of coverage. Furthermore, there has been limited long term planning for all five program resulting in unpredictable government funding and a heavy reliance on donor funding for two of the five programs. This DLI aims to ensure that the government coordinates expansion among programs and on the basis of objective poverty and vulnerability criteria. It also aims to ensure that government financing to the NSNP is predictable, that commitments are made in advance, and that the government finances an increasing proportion of the NSNP, thus ensuring long-term sustainability.
II. Strengthening Program Systems to Ensure Good Governance	
DLI 2: Percent of program beneficiaries who conform to the targeting criteria for the program in which they are enrolled	The cash transfer programs that constitute the National Safety Net Program have clearly defined eligibility criteria. Reviews have found that the programs generally select beneficiaries who meet these criteria. There are concerns, however, that in some areas targeting has been rushed or implemented poorly, resulting in the inclusion of beneficiaries who are not eligible for program support, however there is no up-to-date information on targeting accuracy for all five programs. This DLI aims to strengthen the implementation of targeting and recertification by the five programs. To incrementally improve the quality of targeting under the NSNP, progress in this area will be measured twice.
DLI 3: Single registry is fully operational with program MISs using agreed standards for internal payroll controls.	The current targeting and verification procedures provide limited scope to use already existing data to corroborate household eligibility for program support. Moreover, while the programs' MISs are used to generate the payrolls, there has been little use made of their potential to support internal controls and minimize leakage. This DLI aims to (i) strengthen the verification of beneficiary eligibility by adopting a single registry to share information on beneficiaries among the five programs and with the civil registration system, and (ii) improve the internal controls on the program payrolls. As this DLI aims to strengthen core operating systems, it will be assessed once early in the life of the operation to confirm that the system is operational, with more complex system requirements being assessed during Year 3 of the operation.
DLI 4: Percent of NSNP payments made electronically using two-factor authentication	An essential component of a cash transfer program is a payment mechanism that delivers payments securely to the intended recipients. While the payment mechanisms for the cash transfer programs have improved significantly, the majority of payments are made using a paper-based system with only limited authentication of beneficiaries' identity. This DLI aimed to gradually increase the use of payment service providers (PSPs) that (i) make payments electronically and (ii) use two-factor authentication.
DLI 5: Percent of payments disbursed to Payment Service Providers on time.	To be an effective safety net, the NSNP needs to provide regular, predictable payments to beneficiaries. Analysis shows that payments made by the five cash transfer programs are often late, in other words, they arrive after the scheduled dates for the payments. A main source of these delays is (i) the length of time it takes to perform reconciliations at the end of each payment cycle and (ii) the late release of funds by the Ministry of. These two factors result in the late disbursements by the programs to the PSPs. This DLI aims to ensure that an increasing proportion of payments are made to beneficiaries within the scheduled payment period, by improving the timeliness of disbursements to PSPs.

DLI 6: Functional complaint and grievance mechanisms	International evidence shows that safety nets are more effective when citizens are able to hold decision-makers to account. Experience in Kenya shows that this can be achieved by having a well-functioning complaints and grievances mechanism. Two of the five cash transfers have a complaints and grievance mechanism, which is being strengthened, while the other three programs are in the process of establishing them. For a complaints and grievance mechanism to function well, beneficiaries need to be aware of their rights and responsibilities under the program. Evidence shows, however, that many beneficiaries are not aware of the program's procedures for addressing their concerns. This DLI aims to promote the establishment and maintenance of well-functioning complaints and grievance mechanisms within the NSNP, including promoting an understanding of these mechanisms among beneficiaries.
III. Harmonizing Cash Transfer Programs to Increase the Coherence of the Safety Net Sector	
DLI 7: The government finances the HSNP in line with policy commitments	Safety nets are, by design, long-term interventions that require multi-annual commitments and financing by government to ensure long-term security. Unlike the other four programs, the HSNP is fully donor-financed. The government has made a commitment to begin financing the HSNP but this has yet to be realized. This DLI aims to initiate government financing to the HSNP to promote the financial sustainability of the program.
DLI 8: Strategy for consolidating the cash transfer programs	The four programs currently implemented by the MGCSD each have dedicated staff, but their numbers and skill mix tend to be insufficient. Meanwhile, the programs aim to reach similar target groups and many operate in the same geographic area. This DLI promotes the adoption of a plan to consolidate these four cash transfer programs to take advantage of any economies of scale and streamline implementation arrangements, and the subsequent implementation of this plan.
DLI 9: System for scaling up the NSNP as part of the national drought risk management system	At present, none of the five cash transfer program has the ability to rapidly scale up its coverage or increase the amount of support it provides in response to shocks. This limitation undermines the ability of these programs to provide effective safety net support to poor and vulnerable households. While the government aims to create the systems and procedures for the NSNP to scale-up in response to shocks, as a first step, these efforts will focus on creating this capacity in the HSNP, which operates in drought-prone areas. This DLI therefor aims to create such a drought-response capacity within the HSNP, closely linked to the government's existing drought risk management system.

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