TECHNICAL ASSISTANCE REPORT

KENYA

Climate Module of the Public Investment Management Assessment

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Abbreviations and Acronyms

C-PIMA	Climate module of the Public Investment Management Assessment
FAD	Fiscal Affairs Department
GDP	Gross domestic product
GHG	Greenhouse gas
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
KSH	Kenyan shilling
MDA	Ministry, department and agency
MTP	Medium-term plan
NCCAP	National Climate Change Action Plan
NDC	Nationally Determined Contribution
PFM	Public financial management
PIM	Public investment management
PIMA	Public Investment Management Assessment
PIMIS	Public Investment Management Information System
PPP	Public-private partnership
Q-CRAFT	Quantitative Climate Change Risk Assessment Fiscal Tool
USD	United States dollar

Preface

In response to a request from Dr. Chris Kiptoo, Principal Secretary of the National Treasury and Economic Planning of the Republic of Kenya, for capacity development (CD) support, a Fiscal Affairs Department (FAD) mission visited Nairobi during May 8-18, 2023. The FAD mission was led by Mr. Bryn Battersby and comprised Mr. Suphachol Suphachalasai (FAD), Mr. Imran Aziz and Mr. Matthew Quillinan (both AFRITAC East). The mission overlapped with an assessment of climate fiscal policies led by Ms. Dora Benedek (FAD).

The mission had several rounds of productive discussions with the following officials and members of their staff: at the National Treasury and Economic Planning with Principal Secretary Dr. Chris Kiptoo, the Climate Finance Unit (Peter Odhengo and Malik Aman) Macro and Fiscal Affairs Department (Musa Kathanje, John Njera and Geraldine Kyalo); The Public Investment Management Unit (Patrick Mugo, Mary Munyingi and David Kiprop) and the Budget Department (Victor Onyango and Dennis Masinde). Discussions were also held with the Ministry of Environment, Climate Change and Forestry, with Principal Secretary Eng. Festus Ng'eno; at the Energy and Petroleum Regulatory Authority, with Dr. John Mutua, (ag) Director of Economic and Regulation. The mission also met with officials from the Ministry of Energy and Petroleum, the Ministry of Labor and Social Protection, the Ministry of Mining, Blue Economy, and Maritime Affairs, the Ministry of Interior and National Administration, the Ministry of Education, the National Environment Management Authority, and the National Drought Management Authority. The mission also met with Diji Chandrasekharan, Onur Erdem, and their staff from the World Bank and other development partners.

The mission is grateful for the authorities' efficient support in organizing and facilitating the discussions. In addition, the mission is grateful to the IMF Resident Representative, Mr. Tobias Rasmussen, and his staff, Christine Odwogi, Elizabeth Kinyangi, and Jairus Kibet, for the efficient support and coordination provided before and during the mission.

Executive Summary

Climate change has already started to impact Kenya's economy, and its potential macroeconomic and fiscal implications are significant. Rising annual mean temperatures and changes in precipitation patterns will likely lead to increased risks and intensities of extreme weather events such as heavy rainfalls, floods, and droughts. The country has already witnessed damages and disruptions to its infrastructure due to droughts and floods, resulting in substantial social and economic costs. Climate events account for a significant proportion of natural disasters in Kenya, and the damage caused by these events underscores the urgency of investing in resilient infrastructure across sectors such as energy, water resources, agriculture, and tourism.

Despite its relatively small share of global emissions, Kenya has committed to ambitious climate mitigation goals, including reducing greenhouse gas emissions by 32 percent by 2030. The country is also striving to achieve 100 percent renewable energy by 2030. To support these goals and the adaptation plans, Kenya estimates that it will require approximately USD62 billion (around 55 percent of 2023 GDP), in funding by 2030, with a significant portion allocated to mitigation and adaptation projects.

Progress has been made in some key areas of public investment management practices in recent years, though gaps persist. Based on the 2018 Public Investment Management Assessment (PIMA), the authorities have developed guidelines and regulations for project appraisal and selection, and established a dedicated Public Investment Management (PIM) unit. Efforts have been made to calculate expenditure baselines and address asset maintenance, but concrete measures and integration of tools have faced delays. While there has been mixed progress in some areas, Kenya's public investment management foundation is much stronger than it was in 2018 and provides a platform for readily introducing climate sensitivity into these processes.

Kenya performs well in the climate-aware planning and coordination institutions of the C-PIMA, though there are gaps in other areas (Figure 0.1 and Table 1). Kenya has relatively strong climate-aware planning institutions and has well-designed coordination mechanisms, with effective governance processes established to mainstream climate change considerations into decision-making processes. However, gaps exist in project appraisal and selection, where climate-related aspects are not consistently assessed, and clear selection criteria are lacking. There are also gaps in climate-aware budgeting and portfolio management, and there is a need for better tracking and consolidation of climate-related expenditures. Fiscal risk management and analysis in Kenya also does not address risks associated with climate change or natural disasters more generally. Addressing these gaps will help to enhance Kenya's public investment management practices in the face of climate change and promote climate resilience effectively.

Several dimensions across the C-PIMA would improve with modest changes to the institutional framework. Project appraisal and selection processes should be modified to incorporate climate-related aspects and establish transparent selection criteria. Climate-related impacts should also be assessed in ex-post project evaluations. Mechanisms for tracking and consolidating climate-related expenditures that have already been designed could be implemented to ensure a comprehensive and accurate assessment of investment priorities. Risk management analysis could also readily encompass a more thorough

examination of fiscal risks associated with climate change and natural disasters. By addressing these recommendations, Kenya could begin to close gaps identified in the C-PIMA, providing an institutional framework that sets a basis for clear mainstreaming of climate throughout the public investment management cycle. Annex 1 provides a proposed comprehensive action plan for implementing these recommendations.

Figure 0.1. Kenya – Climate Public Investment Management Institutional Design

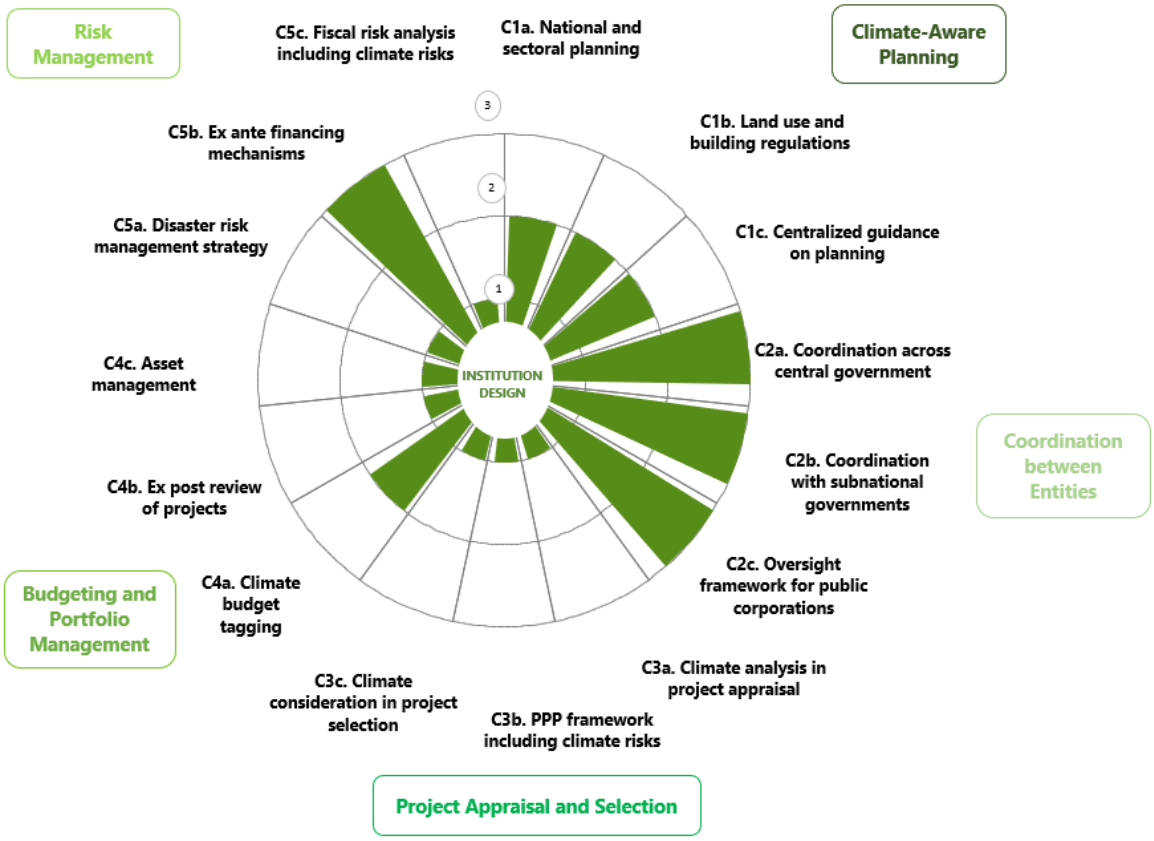


Table 1. Kenya – Summary of Climate Public Investment Management Institutional Design

Phase/Institution			Institutional Strength	Reform priority
PIMA Climate Change	C1	Climate-aware planning	MEDIUM. National public investment plans are broadly consistent with NDC, some centralized support is provided, and spatial plans incorporate climate-related risks. However, building regulations do not include climate-responsive measures, and centralized guidance does not address costing.	Low
	C2	Coordination between entities	HIGH. Kenya has a comprehensive coordination mechanism for mainstreaming climate change considerations in decision-making, though there is scope to improve its implementation.	Low
	C3	Project appraisal and selection	LOW. Project appraisal and selection criteria do not reference climate change. There is no framework to assess the climate-related risks of PPPs.	High
	C4	Budgeting and portfolio management	LOW. While some climate-related investment expenditure is visible in the budget, it is not consolidated or assessed, and there are no ex-post reviews that include the climate impacts of projects. Maintenance manuals do not incorporate climate change vulnerabilities.	High
	C5	Risk management	MEDIUM. Risks to public infrastructure are not assessed, and the Fiscal Risk Statement does not detail climate-change-related risks. The government maintains several ex-ante financing mechanisms.	Medium

Recommendations

	Recommendation	Responsible entity, priority, and timing
1	Develop and require the use of methodologies to assess the greenhouse gas (GHG) impact and climate change-resilience of projects in the project concept note and feasibility study template schedules of the Public Investment Management (PIM) regulations (2022).	PIM Unit Priority: **High** Timing: Dec. 24
2	Prepare specific selection criteria for projects entering the budget as part of the Sector Working Group process.	Budget Dept. & PIM Unit Priority: **High** Timing: Dec. 24
3	Update the 2014 Public-Private Partnership (PPP) regulations to provide specific guidance on the sharing of climate change-related risks in PPP contracts and strengthen alignment with the PIM regulations.	PPP Unit Priority: **Medium** Timing: Dec. 23
4	Implement the planned climate budget tagging framework and report climate-related investment expenditure in an annual climate budget statement.	Budget Dept.& IFMIS Priority: **High** Timing: Dec. 24
5	Incorporate a requirement for an assessment of the climate-related impacts of major projects in the ex-post evaluation template contained in Schedule 1 of the PIM regulations (2022).	PIM Unit Priority: **Medium** Timing: Dec. 24
6	Identify and document infrastructure assets in key sectors that are exposed to climate-related natural disaster risks as part of the process of establishing asset management structures across ministries, departments, and agencies.	National Assets and Liabilities Management dept. & National Disaster Management Authority Priority: **Medium** Timing: Jan 24
7	Expand the Fiscal Risk Statement to include long-term fiscal sustainability analysis under different climate scenarios, and the analysis of discrete fiscal risks related to climate change.	Macro and Fiscal Affairs Dept. Priority: **Medium** Timing: Jan. 24
8	Fill vacant positions in key units and provide training to staff on the PIM process and the incorporation of climate change in the preparation of project concept notes, feasibility studies, and ex-post project evaluation reports.	PIM Unit Priority: **High** Timing: December 2023

I. Introduction

1. This Climate Module of the Public Investment Management Assessment (C-PIMA) evaluates Kenya's public investment management practices in the context of climate change. The assessment builds upon the 2018 Public Investment Management Assessment and provides an update on the progress made in public investment management (PIM) reform in Kenya since then. The document examines the areas identified as weaker in the previous assessment and highlights the recommendations that have been acted upon. Additionally, it addresses the strengthening of critical cross-cutting areas such as legal frameworks, information systems, and capacity building to provide a stronger foundation for future reforms.

2. The C-PIMA assesses five key public investment management practices from a climate change perspective. These practices include climate-aware planning, coordination across the public sector, project appraisal and selection, budgeting and portfolio management, and risk management. The assessment aims to ensure that public investment aligns with climate objectives, facilitates effective decision-making and prioritization, incorporates climate-related analysis and criteria, identifies climate-related investment spending, and integrates fiscal risks associated with climate change and infrastructure into budgeting and risk management processes.

3. The document is structured into four main sections. The next part of this first section examines the progress made in PIM reform since the 2018 assessment. In the second section, "Climate Change and Public Infrastructure," the impacts of climate change on Kenya's infrastructure and the associated economic costs are analyzed. The third section, "Climate Change Objectives and Strategies," explores Kenya's climate change goals and strategies, including its Nationally Determined Contribution (NDC) and National Climate Change Action Plan (NCCAP). The fourth section provides a detailed evaluation using the Climate PIMA framework and offers recommendations for strengthening Kenya's public investment management practices in the face of climate change.

A. Recent Developments in Public Investment Management in Kenya

4. The 2018 PIMA was undertaken when PIM reform was in its infancy in Kenya. Since 2018, reform priorities have, to a large extent, focused on the weaker areas identified from the assessment (see Table 2).

Table 2. 2018 PIMA - Summary Heat Map Assessment

Phase / Institution			Design	Effect.	Rec.
Planning	1	Fiscal targets and rules			
	2	Planning			
	3	Coordination			
	4	Project appraisal			1, 2
	5	Alternative infra. provision			
Allocation	6	Multi-year budgeting			3
	7	Budget comp. & unity			
	8	Budgeting for investment			
	9	Maintenance funding			4
	10	Project selection			1, 2, 3
Implementation	11	Procurement			5,6
	12	Availability of funding			
	13	Portfolio mgt & oversight			7, 8
	14	Project management			
	15	Monitoring of public assets			

Source: Chaponda, T., et al. (2018), Kenya: Public Investment Management Assessment, IMF FAD Technical Assistance Report, March 2018.
Notes: Green is fully met, yellow is partially met, and red is not met for the institution criteria for institutional design (Design) and Institutional effectiveness (Effect.).
The Rec. column refers to the numbered recommendations assigned to the institution, discussed below.
See the PIMA Handbook at https://www.imf.org/en/Publications/Books/Issues/2022/07/12/PIMA-Handbook-Public-Investment-Management-Assessment-1st-Edition-50166 for detailed descriptions and criteria for each institution.

5. Following the 2018 PIMA, several recommendations were acted upon, in addition to critical cross-cutting areas to build a sufficient foundation for future reforms. Over the following five years, reform progress has benefited from capacity development support from the World Bank and the IMF. A summary of progress on the recommendations in the 2018 PIMA is presented below. While there has been significant progress, full staffing of the PIM unit and developing IT systems have taken longer than originally planned. Still, the update of policies, laws, regulations, and technical manuals has been completed as a basis for further reform efforts.

- **Recommendation 1. Develop standard guidelines for project appraisal and selection. Good progress.** PIM guidelines were issued in 2020 through a treasury circular and were later upgraded to regulations in 2022.[1] Guidance is provided on planning, allocation, and implementation procedures for different project sizes in terms of total project cost. Coverage includes national and county governments, public-private partnerships (PPPs), and state corporations. Several schedules are appended to the regulations to provide standardized appraisal formats for entities to follow, which are being inbuilt into the project database – the Public Investment Management Information System (PIMIS). The PIM unit is responsible for a central review of project submissions and assesses if projects are ready for selection for funding based on a set of project readiness indicators. Ongoing

[1] See https://www.treasury.go.ke/wp-content/uploads/2023/03/Published-PIM-Regulations.pdf.

reforms include capacity building for ministries, departments, and agencies (MDAs), counties and State Corporations to comply with the PIM regulations and to operationalize the PIMIS.

- **Recommendation 2. Establish a dedicated Public Investment Management Unit. Good progress.** The PIM unit was established in 2018. It currently has six \staff who were deployed from various departments in the National Treasury, against an approved structure of 69. Staffing skills include a mix of economists, accountants, and project specialists. The unit has five core functions, which include (i) formulating and coordinating policies and laws; (ii) strengthening PIM capacity and national and county government; (iii) developing and maintaining the project database (PIMIS); (iv) developing tools and methodologies for the appraisal of projects, and (v) playing a gatekeeping role to analyze, review and appraise proposed projects before approval. The gatekeeping role requires strengthening by ensuring the unit is fully staffed and trained, which is a work in progress following initial recruitment delays.[2]
- **Recommendation 3. Develop a methodology for calculating expenditure baselines. Some progress.** Efforts were made to calculate the existing stock of contractual commitments for ongoing projects, estimated at KSH9 trillion, of which KSH5.8 trillion (40 percent of gross domestic product (GDP)) remains to be funded by the Government of Kenya.[3] A vast number (between 300 and 500) of projects have stalled (estimated at KSH1.1 trillion (8 percent of GDP)), yet concrete measures on how to rationalize the project portfolio are yet to be made, with a task force being established to address this issue. At a budget-wide level, expenditure baselines and improved costing procedures are being introduced through the budget preparation manual. However, integrating these costing techniques into the Integrated Financial Management Information System (IFMIS) budget module has been delayed since 2019.
- **Recommendation 4: Improve cost estimates and funding security for the maintenance of assets Limited progress.** The adequate costing of maintenance requirements will be enhanced as part of the broader expenditure baseline process (recommendation 3), but due to delays in the integration of the costing tool, there has only been limited progress in this area. The maintenance of national roads using the road levy fund does provide targeted ring-fencing for maintenance, though this does not cover all investments.
- **Recommendation 5. Update the Public Financial Management (PFM) Regulations (2015) and the draft Public Procurement Regulations to give legal support for the strengthened PIM framework (July 2018). Some progress.** Amendments have been made to the Public Procurement and Asset Disposal Act, 2015 and the related regulations have been published. This includes greater emphasis on procurement guidelines for large investment projects and guidance on (i) multi-year procurement plans; (ii) updates to cost estimates for multi-year projects, and; (iii) the use of bills of quantity to verify cost estimates.
- **Recommendation 6. Extend the eProcurement module to provide a comprehensive database covering all procurement. Limited progress**. There have been several delays on how the IT system should be designed, which has meant reform targets have been missed. A pilot phase is due

[2] Delays were attributed to PIM functions being split across the treasury and planning, which has now been resolved as part of the PIM regulations.

[3] Parliamentary Budget Office. The Budget Summary for the FY2022/23 and the Supporting Information, April 2022.

to start in July 2023 for the FY24/25 budget process targeting five of the largest spending MDAs in the infrastructure and social sectors prior to a national rollout.

- **Recommendation 7. Explore the feasibility of integrating the e-ProMIS system with the IFMIS and roll out to MDAs. Some progress.** User requirements in for the PIMIS have been developed, which include the automation stages of the project cycle set out in the PIM regulations.[4] A testing platform of the system is now available to the public and for entities to enter project information, although this is not yet operational.[5] Public access to the system includes access to the number of completed, ongoing and stalled projects.
- **Recommendation 8. Develop a comprehensive PIM reporting framework for all major capital projects (Jan 2019). Some progress.** The PIM regulations (section 22) and the monitoring and reporting manual clearly set out in-year project monitoring requirements, but these are not fully operational. Manual submissions are submitted to the budget department and PIM unit, but the absence of the PIMIS has meant that this is a challenging process for effective project oversight.[6] Still, the anticipated introduction of the PIMIS should further strengthen this framework and enable systematic and customized reporting on all projects.

[4] See https://www.treasury.go.ke/wp-content/uploads/2021/10/DRAFT-PIMIS-USER-REQUIREMENT-STUDY-REPORT.pdf.

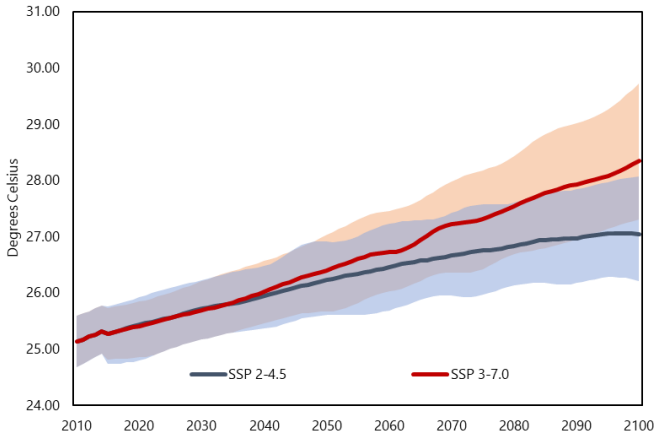
[5] See https://pimis.treasury.go.ke/.

[6] See https://www.treasury.go.ke/wp-content/uploads/2022/02/Project-Monitoing-Evaluation-Reporting-Manual.pdf.

II. Climate Change and Kenya's Public Infrastructure

6. Climate change is already affecting Kenya's economy and is likely to have significant macroeconomic and fiscal implications. Annual mean temperatures in Kenya have risen steadily at 0.21°C per decade since the 1960s and are projected to increase by 1.9-3.2°C towards 2100 relative to the 1995–2014 baseline across the 2-4.5 and 3-7.0 Shared Socioeconomic Pathway emission scenarios (Figure 1).[7] This would likely lead to an increased risk and intensity of heavy rainfalls and flood events, while water shortages will be exacerbated by prolonged droughts, particularly in the Arid and Semi-Arid Lands. The sea level has risen at a rate of 4.5 millimeters per year between 1993 and 2015. The sea level could rise further by 0.42-0.50 meters on average by 2100 under the above climate scenarios. These climate-related events could result in significant economic losses, damage to agricultural lands and infrastructure, and human casualties. Land degradation and soil erosion, worsened by recurrent floods, will negatively impact agricultural productivity, disproportionately affecting the livelihoods of the rural poor. The economic cost of climate change is estimated to create a long-term fiscal liability, equivalent to 2.0-2.8 percent of GDP each year.[8] The estimated costs of floods are about 5.5 percent of GDP every seven years, while droughts account for 8 percent of GDP every five years. Climate change can affect debt sustainability through the impact on the fiscal deficit of government spending on recovery and reconstruction and its negative effects on productivity in climate-sensitive economic sectors that scar long-term growth.

Figure 1. Annual Average Temperature Projections for Kenya
Degrees Celsius

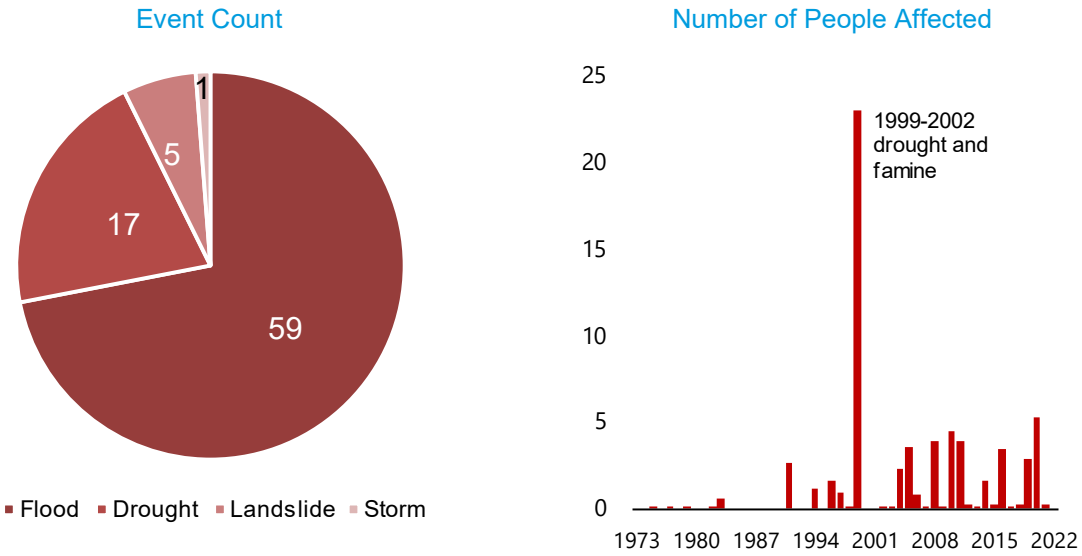


Source: World Bank Group, Climate Change Knowledge Portal. Note: Shaded area covers the 10 to 90 percentile band.
Note: A shared socioeconomic pathway (SSP) emissions refer to the projected levels of greenhouse gas emissions resulting from different scenarios of socioeconomic development, as outlined by the Intergovernmental Panel on Climate Change.

[7] World Bank Climate Change Knowledge Portal 2022.
[8] Kenya National Climate Change Action Plan 2018-2022.

7. Climate-resilient infrastructure is key to averting the impacts of climate change and natural disasters. Droughts and floods have already caused damages and disruptions to infrastructure in Kenya, resulting in substantial economic costs. About 67 percent of natural disasters in Kenya between 1964 and 2022 were attributable to climate events, and most of these have been drought-related (Figure 2). The prolonged drought during 2008–2011 cost over USD1.7 billion (4.1 percent of GDP) in recovery and reconstruction, affected 3.7 million people and caused USD12.1 billion in damages and losses (29 percent of GDP).[9] The 1999-2002 drought cost an estimated USD2.8 billion due to loss of crops and livestock, reduced hydropower generation and water supply, and forgone industrial production. Extreme weather events such as heavy rains and extreme temperatures can damage infrastructure across sectors, including energy, water resources, telecommunication, agriculture, and tourism. While water scarcity and rainfall variation affect hydropower generation capacity, heat waves in urban centers like Nairobi or Mombasa could lead to higher demand for air conditioning and cooling, putting power systems under stress. In coastal areas, sea level rise and storm surge could inundate and damage water supply, electricity infrastructure, roads, and ports.

Figure 2. Climate- and Weather-Related Natural Disasters in Kenya 1973-2022



Source: EM-DAT, CRED / UCLouvain, Brussels, Belgium – www.emdat.be

8. Given the climate trends, climate-related risks must be adequately considered in infrastructure planning, project design, and implementation. Climate events also have significant implications for the planning of infrastructure networks and the design and development of infrastructure projects across sectors. Compared to other countries, Kenya's infrastructure vulnerability to climate change and natural disasters is very high—the country ranks 143rd out of 182 countries in the world based on the ND-GAIN Index on infrastructure vulnerability.[10] Kenya has also made continued progress to further reduce the vulnerability of its infrastructure over the last two decades, for instance, through

[9] Global Facility for Disaster Reduction and Recovery.

[10] This particular sub-index does not rely on Doing Business indicators.

improved disaster preparedness and better planning of coastal and energy infrastructure and transport networks. Still, more must be done to make infrastructure resilient to growing climate-related risks and natural hazards.

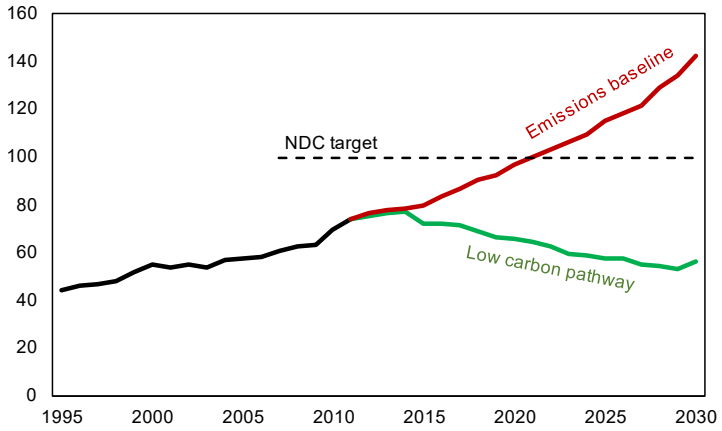
9. Kenya's electricity production has limited climate impacts, but more needs to be done to achieve the country's climate and development objectives. Kenya's power sector is largely driven by renewable energy, with about 82 percent of its installed capacity comprising various renewable technologies, mainly geothermal and hydropower and including solar and wind, while the remaining 18 percent is based on diesel fuel oil. There are vast opportunities to increase the share of renewable energy in electricity production, reduce greenhouse gas (GHG) emissions, and improve energy efficiency through the industrial, transport, and urban infrastructure.[11] Given future economic growth, closing infrastructure gaps while addressing climate mitigation challenges requires further transformation and major capital investments in key areas, as outlined in the NDC and the NCAAP, including promoting low-emission public transport, increased penetration of electric vehicles, and supporting infrastructure, integration of various renewable sources with energy storage alongside grid infrastructure modernization, investing in energy-efficient buildings, and better infrastructure planning across urban and rural areas. These need to be complemented by institutional reforms, funding strategies, enabling policies and regulations, and close coordination among institutions and stakeholders across the various sectors. Public investment plays a major role in Kenya's climate mitigation efforts, and mainstreaming climate change considerations into public investment management is instrumental in this process.

[11] Least Cost Power Development Plan 2021-2030; Kenya Updated Nationally Determined Contribution, December 2020; and Kenya National Climate Change Action Plan 2018-2022.

III. Kenya's Climate Change Objectives and Strategies

10. Despite its negligible share of global emissions, Kenya has committed to a robust climate mitigation goal and is deploying policy and investment measures to support its NDC. In its updated NDC, submitted to the United Nations Framework Convention on Climate Change in 2020, Kenya set a target of reducing GHG emissions by 32 percent relative to the business-as-usual level of 143 million metric tons of carbon dioxide equivalent by 2030 (Figure 3). Kenya has also committed to achieving 100 percent renewable energy in electricity generation by 2030. The NDC includes adaptation commitments and builds on the National Adaptation Plan 2015-2030.

Figure 3. Kenya's Greenhouse Gas NDC Target, Emissions Baseline, and Mitigation Potential
Million Metric Tons of Carbon. Dioxide Equivalent



Source: Kenya Ministry of Environment and Forestry, National Climate Change Action Plan 2018-2022

11. As an integral part of the formulation of the NDC, the government prepared and published the National Climate Change Action Plan 2018-2022 in 2018. Kenya's NDC estimates that the total funding required to support the implementation of climate adaptation and mitigation activities is USD62 billion from 2021 to 2030, equivalent to USD6.2 billion per year. USD44 billion is needed for mitigation and USD18 billion for adaptation, with funding expected to come from both domestic and external sources, including the private sector. The annual investment need is approximately 5.3 percent of 2022 GDP. However, the latest data shows that only USD2.4 billion (2.1 percent of 2022 GDP) was directed to climate-related investments in 2018, about one-third of the annual investment needed to achieve Kenya's NDC goals. In this context, it is important to ensure that necessary policy and reform steps are taken to create an enabling environment that promotes climate investment and ensure public investment management practices help to efficiently deliver projects to help achieve the country's climate goals.

12. Kenya has made significant progress in developing policies and investment measures to support its national climate change objectives. Table 3 presents Kenya's climate-related policies and plans, as well as the main stakeholder institutions that are relevant to public investment management process.

Table 3. Climate Change Strategies and Institutions in Kenya

Key Strategies and Plans	Coverage
NDC and National Adaptation Plan	Pursuant to Article 4 of the Paris Agreement, Kenya submitted its updated NDC in 2020 and communicated its commitments towards 2030 in the context of the objectives of the Paris Agreement to hold the increase of the global average temperature to well below 2C above pre-industrial levels while pursuing efforts to limit the increase to 1.5C. The NDC covers climate adaptation and mitigation and includes an economy-wide emission reduction target by 2030 relative to an official BAU. Kenya also prepared and submitted the National Adaptation Plan that provides detailed long-term climate adaptation action toward 2030.
National Climate Change Action Plan	The latest National Climate Change Action Plan (NCCAP) covers the period of 2018-2022. The NCCAP presents climate policy challenges and priorities, sets out strategies and climate action roadmaps, and outlines the governance framework and implementation arrangements across main government stakeholders. The NCCAPs are prepared according to the five-year cycle of the Medium-Term Plans (MTPs). The latest NCCAP underpins the updated NDC.
National Development Strategy	Vision 2030 provides Kenya's overarching long-term development vision and strategies for sectors that contribute to sustainable development and climate resilience. The MTP is a five-year national development plan which formulates flagship programs and projects across sectors for the planning period. The MTP III (2018-2022) includes a climate change perspective. The MTP IV is being finalized.
Sector Strategies and Masterplans	The Government of Kenya develops various plans and masterplans that target specific sectors and sub-sectors, including, e.g., the Least Cost Power Development Plan, Water Sector Master Plan, Water and Sanitation Investment Plan, Transport Masterplan, Integrated Energy Plan (forthcoming), Climate Smart Agriculture Strategy, and National Environmental Policy. These plans and strategies have important contributions and effects on the NDC.
Cross-sectoral plans and framework	The National Climate Change Framework Policy 2018 ensures the integration of climate change considerations into planning, budgeting, implementation, and decision-making at the national and county levels and across all sectors. The National Climate Finance Policy 2018 promotes the establishment of legal, institutional, and reporting frameworks to access and manage climate finance. The County Integrated Development Plans and the National Spatial Plan are key plans that cut across all climate-relevant sectors and provide guidance for public investment from the county and spatial perspectives.
Risk Management	The National Disaster Risk Management Policy 2017 provides an overall strategy and guiding principles for Kenya's disaster risk reduction and management agenda. It also sets out strategic policy objectives, institutional arrangements, and a coordination framework. The Climate Risk Management Framework integrates disaster risk reduction, climate change adaptation, and sustainable development. It promotes an integrated climate risk management approach as a central part of policy and planning at National and County levels.
Institutions	**Climate-Related Responsibility**
National Climate Change Council	The National Climate Change Council, chaired by the President and co-chaired by the Deputy President, is responsible for overall coordination and advisory functions, including guiding the implementation of the NCCAP. The Council shall, among others, "ensure the mainstreaming of climate change functions by the national and county governments" and "approve and oversee the implementation of the National Climate Change Action Plan (NCCAP)." Members of the Climate Change Council are set out in Section 7 of the Climate Change Act, 2016.
Climate Change Directorate	The Climate Change Directorate established in the Ministry of Environment and Forestry is responsible for the coordination of the implementation of the NCCAP. The CCD is the Secretariat of the Council and coordinates the technical implementation of climate change functions. This includes providing analytical support and technical assistance on climate change and coordinating the implementation of and reporting on the NCCAP 2018-2022.
Sector Ministries	State departments and national public entities are to establish Climate Change Units responsible for integrating the NCCAP into strategies and implementation plans and report to the Council on an annual basis on performance and implementation. All state departments and public entities will be required to report on the priority actions in the NCCAP. [Section 15(5) of the Climate Change Act].

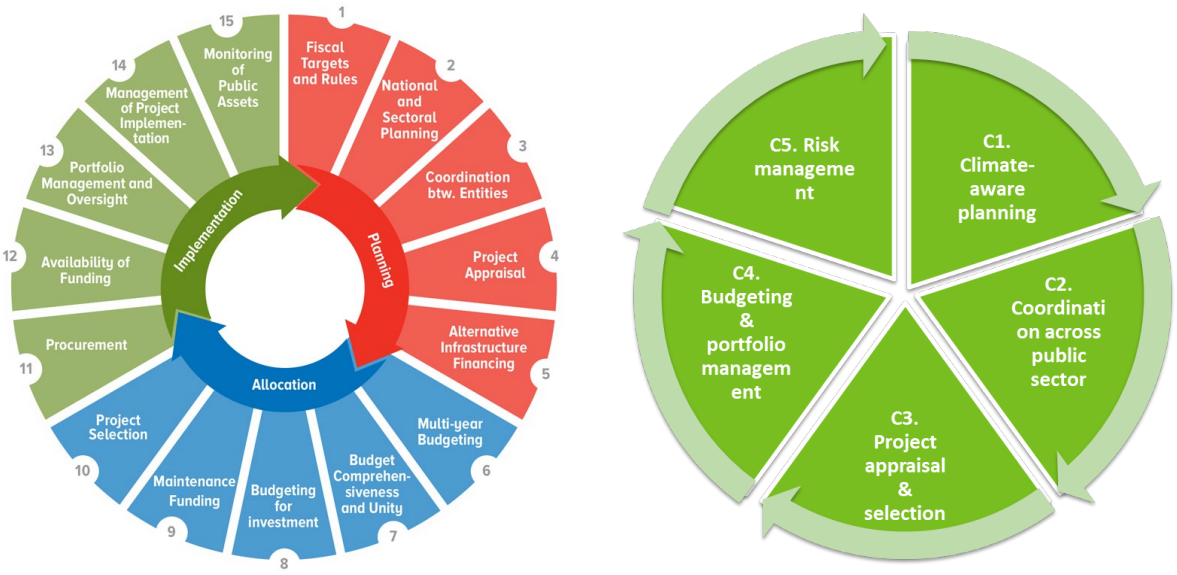
County Governments	County Governments are responsible for integrating and mainstreaming climate change into County Integrated Development Plans, designating a County Executive Committee member to coordinate climate change affairs, and reporting on the implementation of climate change on an annual basis. County governments are expected to establish Climate Change Units, led by the County Executive Committee member responsible for climate change that will oversee the implementation of climate change actions stipulated in the County Integrated Development Plans [Section 19 of the Climate Change Act].
National Treasury and Planning	National Treasury and Planning (NTP) is responsible for developing a strategy and making regulations setting out procedures and powers to identify sources of climate finance and to monitor use, and working with the Cabinet Secretary responsible for climate change affairs to develop incentives for the promotion of climate change initiatives [Section 25(9) and Section 26 of the Climate Change Act]. The Climate Change Fund is vested in National Treasury [Section 25(2) of the Climate Change Act]. The NTP has established Climate Finance and Green Economy unit to coordinate climate finance work within the ministry and across sectors/levels of government.

Source: IMF staff based on various documents from the Government of Kenya.

IV. The Climate PIMA Framework

13. The Climate PIMA assesses five key public investment management practices from the climate change perspective and is an extension of the existing PIMA framework. Figure 4 describes the main elements of the Climate-PIMA (RHS) and how it relates to the standard PIMA assessment (LHS).

Figure 4. Climate Public Investment Management Assessment Framework



12

14. The Climate PIMA covers the following specific issues:

- *C1. Climate-aware planning:* Is public investment planned from a climate change perspective? This is necessary to ensure that long- and medium-term plans contribute to meeting climate objectives and facilitate effective prioritization and decision-making.
- *C2. Coordination across the public sector:* Is there effective coordination of decision-making on climate change-related public investment across the public sector? In addition to the central government, subnational governments, public corporations, and private sector entities play key roles in realizing climate-related public investment. Climate adaptation investments will often take place at the subnational level, and both public corporations and private sector entities may play key roles, for instance in energy production.
- *C3. Project appraisal and selection*: Do project appraisal and selection include climate-related analysis and criteria? This is necessary to ensure that the most effective and efficient investments are prioritized and maximizes the climate impacts of public investments within available resources.
- *C.4 Budgeting and Portfolio management:* Is climate-related investment spending clearly identified in the budget and subject to active management and oversight? Because the climate benefits may be

[12] See Annex 2 for the Climate-PIMA Assessment Framework.

less tangible and more difficult to quantify than other project benefits, systematic and consistent management and oversight of benefits over the project lifecycle is critical.

- *C5. Risk management:* Are fiscal risks relating to climate change and infrastructure incorporated in budgets and fiscal risk analysis and managed according to a plan? The likelihood of climate-related disasters is expected to increase over time. The impacts of these risks on public infrastructure must be systematically assessed and monitored to facilitate adequate and effective risk mitigation by the government.

V. Detailed Assessment[13]

C1. Climate Aware Planning (Strength—Medium; Reform Priority—Low)

15. Some progress has been made in public investment planning since the 2018 PIMA. National and sectoral planning (institution 2 of the PIMA) originally received a medium score. The institution has improved slightly through the stronger formulation of measurable outputs and outcomes and the addition of performance indicators associated with specific public investment programs/projects. The MTP II (2013-2017), assessed under the 2018 PIMA, included cost estimates of public investment programs and some major capital projects. There were projects identified outside the MTP II and sectoral plans, while some unplanned projects received precedence in funding. The MTP III (2018-2022) has the same basic structure and characteristics as that of the MTP II (2013-2017), except there has been an improvement in the targets of programs and projects. It is worth noting that there are several major climate-related capital projects, financed by external sources (such as the Green Climate Fund and the Global Environmental Facilities), that are planned outside the scope of MTPs and are prepared through parallel processes.

16. National public investment plans are consistent with the NDC and the NCCAP for some sectors. The MTP III (2018-2022) recognizes the importance of implementing climate actions towards a low carbon and climate-resilient development and the need for effective disaster risk management. It outlines major programs and projects, as well as policy and institutional reforms, to be carried out to address climate change and strengthen disaster risk management. However, the MTP III is not fully consistent with the NDC and NCCAP. Although some sector investment plans in the MTP III (such as agriculture, environment, and water resources) are well aligned with the NDC, there is evidence of inconsistency between the MTP III and the NDC in the energy and transport infrastructure sectors. For instance, the MTP III planned to add new coal-fired power plants and develop nuclear power, whereas the NCCAP did not envisage these and planned to add only renewable energy during the 2018-2022 period. Energy, transport, and urban infrastructure projects planned in the MTP III do not address climate adaptation and mitigation, whereas the NCCAP proposed that these infrastructures are low-carbon and climate-proof.

17. The NCCAP is being updated with the MTP IV process, while a new Integrated Energy Plan is also being prepared under the MTP IV. Kenya has also developed the National Adaptation Plan, which underpins the NCCAP and the NDC. Other standalone sector and sub-sector plans include the Least Cost Power Development Plan (2021-2030), the Water Sector Master Plan 2030, the Water and Sanitation Investment Plan, and the Transport Masterplan (Figure 5). These investment plans make important contributions to the national climate change objectives. But they are not recognized in the NCCAP or the NDC.

[13] Figure 1 and Annex 6 provide the detailed scores for each dimension in the assessment.

Figure 5. Kenya's Climate-Related Public Investment Plans and Strategies

18. Climate-related risks are well integrated into spatial and urban planning, but climate-responsive measures are not required in the building regulations. The National Spatial Plan 2015-2045 is comprehensive and integrates climate adaptation and mitigation aspects and Kenya's national climate policy objectives. The plan cuts across key infrastructure sectors such as agriculture and land-use, energy, transport, rural and urban development, including the Arid and Semi-Arid Lands, and water resources management while incorporating climate change and disaster risks considerations. The National Urban Development Policy provides high-level strategic directions for urban planning and infrastructure and targets climate adaptation measures in urban areas. Although climate-related risks are mainstreamed at the policy and plan levels, the legal frameworks for spatial and urban planning do not explicitly consider climate change. Specifically, the Physical and Land Use Planning Act and Regulations 2019 and Urban Areas and Cities Act 2011 are silent on climate change. The National Building Codes 2022 contain guidance and procedures for disaster risk preparedness but not explicitly for key climate change factors such as floods, storms, and extreme temperatures. The codes also do not address energy efficiency improvements in buildings.

19. There is centralized support for government agencies on climate-aware public investment planning. The Ministry of Environment and Forestry prepared a curriculum called Mainstreaming Climate Change in National and County Policy, Planning and Budgetary Processes Climate change (see Box 5 in the cross-cutting section on capacity) to enhance the capacity of government officials at the national and county levels on climate mainstreaming. This curriculum is part of the National Capacity Building Framework, which is a mechanism to coordinate all stakeholder initiatives to build capacities within both national and county governments. There are other guidelines that support climate-aware planning, such as the Climate Finance Training Handbook and the Urban Planning for City Leaders Handbook. Costing of climate-related investments in Kenya is fragmented and conducted independently in various sector plans/strategies. The NDC includes overall estimates of investment requirements for climate adaptation and mitigation actions, but the aggregate cost estimates do not build on a concrete climate-related

investment plan nor major climate-related capital projects. There is no specific guidance or support on costing of climate-related public investment plans.

C2. Coordination Between Entities (Strength—High; Reform Priority—Low)

20. Coordination across entities (PIMA institution 3) was considered highly effective in the 2018 PIMA and has been strengthened with respect to climate change since that assessment. A robust legal framework provides for coordination between the national and county government. This is guided by Article 189 of the Constitution and operationalized by Section 187 of the PFM Act, 2012, which establishes the Intergovernmental Budget and Economic Council. The council provides a forum for consultation and cooperation between the national government and county governments and is the main forum for coordinating capital spending between the central government and the counties. The council makes decisions on the allocations of conditional and non-conditional grants but not on the investment plans or budgets of the counties. Counties have a semi-autonomous status, which gives them the discretion to determine their investment priorities independently of the national government. Information on their investment plans is published separately from the national government's plans, but these should be guided by the Medium-term Development Plan and incorporated into County Integrated Development Plans. Transfers to counties for investment purposes are not rule-based but are based on a transparent process. Counties may use equalization, conditional and unconditional grants to fund their capital investment plans, but they have considerable discretion about allocating these resources.

21. Kenya has established a comprehensive coordination mechanism for mainstreaming climate change considerations in central government decision-making. This is established in the Climate Change Act, 2016. The Act is focused on mechanisms to enhance climate change resilience and low carbon development for the sustainable development of Kenya. The Act requires all sectors of the national and county governments to mainstream climate change responses into development planning, decision making and implementation. The requirements include building resilience, disaster risk reduction, incentives for private sector contributions, promotion of low carbon technologies, mobilization and management of public resources, and integration of climate change into the exercise of power and functions of all levels of governance. Although public investment management and infrastructure is not specifically mentioned, the broad requirements of the Climate Change Act would require these processes to consider climate change considerations.

22. The Climate Change Act 2016 establishes several governance mechanisms to promote the mainstreaming of climate change in government decisions. The institutions and products include:

- A National Climate Change Council is responsible for several functions, including mainstreaming the climate change function by the national and county governments, approving and overseeing the implementation of the National Climate Change Action Plan, providing policy guidance, and setting carbon emissions reduction targets.
- A Climate Change Directorate under the Ministry of Environment, Climate Change and Forestry is responsible for providing analytical support to other ministries on climate change, maintaining a registry of mitigation actions, identifying strategies for addressing climate change, and mobilizing climate finance.

- Climate Change Units in each state department, national government public entity and county governments. The units are dedicated units with adequate staff and financial resources, headed by a senior, mandated to coordinate the mainstreaming of the climate change action and other climate change statutory functions and mandates into sectoral strategies for implementation. The Climate Change Units have been established in all key areas.
- The National Environmental Management Authority, established under the Environmental Management and Coordination Act (1999), is responsible for monitoring, investigating, and reporting whether public and private entities comply with the assigned climate change duties.
- A Climate Change Fund to finance research and actions to support mitigation and adaptation projects.

23. Still, while it is institutionally required, some areas do not appear to be fully mainstreaming climate change into their decision-making. For instance, in the development of PPP projects, there are tensions between the established legislation and processes and newer legislation and regulations, which need to be harmonized (see Institution C3). As noted, the mainstreaming requirement of the Climate Change Act's provisions are broad enough to require their inclusion in other areas, even if not specifically mentioned in their respective legislation.

24. The Climate Change Act 2016 also applies to county governments, but its implementation is incomplete. The Act requires county governments to mainstream climate change actions, interventions, and duties set out in the Act and the NCCAP into various sectors. In planning infrastructure projects, the county governments are required in development, updating and approval of the County Integrated Development Plan, and the County Sectoral Plans mainstream the implementation of the NCCAP, considering national and county priorities. Counties are required to integrate climate risk and climate change vulnerability assessment into all forms of assessment. Of the 47 counties, all but two (the urban counties of Nairobi and Mombasa) have established Climate Change Units, which are staffed and operational.

25. For state corporations, climate change is not explicitly mentioned in the relevant legislation, but the overall governing structure requires the consideration of climate change aspects in selecting and financing projects. State corporations are not specifically mentioned in the Climate Change Act. The State Corporations Act, 2015 also does not mention climate change. However, the State Corporations Act requires approval of annual estimates and proposals for funding projects by the responsible Minister with the concurrence of the National Treasury. As MDAs are required to mainstream climate change in decision-making under the Climate Change Act, this would require them by extension to consider climate change aspects in the approval of these projects.

26. Kenya has made significant progress in implementing the coordination requirements of the Climate Change Act, but gaps remain in fully operationalizing the Act. Establishing the Climate Change Council requires parliamentary ratification of its members, which has commenced but not completed. Regulations to establish the Climate Change Fund have been drafted but not yet passed by Parliament. More substantively, the Climate Change Units' exact role in decision-making and public investment processes is unclear, and there remain considerable challenges in the practical mainstreaming of climate change. Further, the effectiveness of some institutions is uncertain. For example, the Climate Financing Unit has six staff, but contracts for four staff have expired, which

significantly constrains the ability of the unit to perform its functions. There are also many entities with an interest in managing and building resilience to climate change with potentially overlapping functions, where the effectiveness of coordination will require clearly defined roles and responsibilities. For example, responsibility for natural disaster management (expected to be exacerbated by climate change) is shared between the National Disaster Risk Management Authority, Department for Arid and Semi-Arid Lands, County Governments, and non-state actors. Continued efforts to codify the roles and responsibilities of the Climate Change Units and build capacity in these entities will be critical to their effectiveness.

C3. Project Appraisal and Selection (Strength—Low, Reform Priority—High)

27. Good progress has been made toward developing a standard methodology and central support for project appraisal since the 2018 PIMA, although capacity building is required. Project appraisal (PIMA institution 4) had originally received a low score in 2018, but the dimension has been substantially strengthened with the establishment of the PIM unit, the publication of PIM regulations, and the economic appraisal manual. These appraisal formats are used at the pre-screening and feasibility stages to support project prioritization process and are utilized by entities across the public sector, including MDAs, state corporations, counties, and PPPs. The PIM unit plays an independent review role in vetting project proposals. However, compliance challenges exist due to capacity constraints, particularly at the county level. Limited staffing in the PIM unit and the absence of a functioning IT system limit the unit's effectiveness in its challenge function role and in supporting broader capacity building and training for wider stakeholders (see cross-cutting issues).

28. The appraisal of major infrastructure projects does not require climate-related analysis according to a standard methodology. The project feasibility study template includes an environmental and social assessment module that forms part of the appraisal process, but neither the PIM Regulations nor the economic appraisal manual contain any requirement for climate change-specific analysis of the infrastructure project. The National Environmental Management Authority has updated the 2003 Environmental Impact Assessment regulations, instructing that all project proposals include a climate change vulnerability assessment, relevant adaptation, and mitigation actions, but no specifics are provided.[14] Some sectors, such as roads and transport, are developing methodologies to integrate adaptation and mitigation measures, but these are only used upon the request of development partners and are not subject to a centralized appraisal process.[15]

29. The project concept note and feasibility study template should be updated with climate-sensitive elements to address the abovementioned gaps. A project concept note is a document prepared for the initial appraisal of a project idea to assess its relevance and suitability for funding or progress to the pre-feasibility stage. It forms the first appraisal step as part of project pre-screening and has a standardized format, which is appended as the second schedule of the PIM regulations. Given that

[14] The current draft regulations were developed in 2018, but these are yet to be gazetted. There is no evidence of a requirement for technical details relating to climate change adaptation (hazard analysis, risk mapping and screening, loss, and damage estimation) or mitigation (Business-as-usual GHG emissions and net GHG impacts, marginal abatement cost curves, or shadow prices of carbon). A technical manual for sectors is under development, but not disseminated.

[15] These include construction of roads to be resilient to adverse weather changes and the use of efficient materials for the construction of roads that can reduce the carbon footprint.

the project concept note is widely used, this would serve as a useful entry point to integrate climate-sensitive pre-screening. This would ensure that, in addition to the existing appraisal criteria, "green" sections (such as possible impacts of projects on GHG emissions and the exposure of projects to damage from climate-related disasters) would be added to assess whether climate change impacts are identified and whether the project could be made resilient to its effects before further design work is initiated. Table 4 below illustrates how Zimbabwe integrated climate sensitivity as part of its project concept note, and Annex 3 contains the full project concept note that was updated in Rwanda.[16]

Table 4. Extract from Zimbabwe's Project Concept Note

Item	Project information requirement
Alignment with climate change objectives	Highlight how the project is expected to contribute to climate change adaptation, resilience, or mitigation objectives outlined in the national development plans and strategies as well as the NDCs
Climate risk screening	Does climate change impose a high degree of risk to the project? Is the project located in an area prone to climate change related events? Do climate change scenarios suggest that these events' frequency and/or severity is likely to increase? What will be the implications, including the cost of infrastructure rehabilitation and the cost-of-service disruptions for the project, and for the service users.

Source: Zimbabwe Project Concept Note Form (2021).

30. The PPP legal and regulatory framework is well-defined and has remained largely unchanged since the 2018 PIMA assessment (PIMA institution 5). Kenya has a well-defined legal and institutional framework for the management of PPPs, which is becoming operational. The PPP Act 2013 provides the legal framework for PPPs, which was recently updated in 2021 and includes guidance on project identification, selection, prioritization, preparation, and appraisal. The functions of the PPP unit are embedded in the Act, and the unit is responsible for rating, compiling, and maintaining an inventory of PPP projects.

31. The PPP Act was developed before the PFM (PIM) Regulations (2022), and there is a need to harmonize the legal framework. This is important to ensure a unified appraisal and selection process for all project modalities and that the project concept note is used as the primary pre-screening gateway, irrespective of procurement method. The regulations to the updated PPP Act are currently under review and provide a good entry point for harmonizing the PIM legal framework. [17]

32. The PPP framework does not provide guidance on how climate change-related risks should be allocated between the government and PPP partners. There is no explicit consideration in the framework of how climate change-related risks will be allocated between government and PPP

[16] See Guidelines (minecofin.gov.rw) The UK Green book provides a detailed approach to accounting for climate change effects and is supported by supplementary guidance that directly links to the main steps. Further examples can be referenced here on the strategic assessment process with more technical steps to valuing the greenhouse gas emissions and assessing and management of adaptation risks. See The Green Book (2022) - GOV.UK (www.gov.uk)

[17] The mission was informed that the World Bank is currently supporting the PPP unit to update the PFM regulations.

partners beyond the standard environmental impact assessment of the project.[18] Standard force majeure clauses exist in PPP contracts, but these do not specify how costs from predictable climate change-related events will be shared nor how costs related to transition risks (such as changes in government policy) are allocated between the PPP partners.

33. The regulations of the PPP Act offer an entry point to include guidance on the sharing of climate change-related risks in PPP contracts for their effective management. Almost 90 percent of PPP projects are in the energy sector and rely on hydroelectric and water transmission projects, so they are susceptible to changes in rainfall and higher temperatures.[19] Climate change-related natural disasters could damage infrastructure, generate force majeure events for PPPs, and expose the government to discrete fiscal risks (see section C5). Including guidance on sharing climate change-related risks in PPP contracts is an important component of project appraisal and constitutes an important reform measure to strengthen the completeness and effectiveness of the PPP framework.

34. There has been some progress in formalizing project selection procedures since the 2018 PIMA, but a pipeline of prioritized projects does not yet exist (PIMA institution 10). The PIM unit is now responsible for a central review of major project appraisals, a new responsibility since the 2018 PIMA. The PIM regulations include broad project selection criteria for projects that have passed through the pre-screening and feasibility stages, and that can be accommodated within available fiscal space once ongoing project commitments have been accounted for. However, a pipeline of appraised and prioritized projects that have passed through these quality checks is not published or maintained as part of a project database.[20]

35. The project selection process includes a checklist of project readiness, but this does not contain specific climate change-related selection criteria.[21] Climate change-sensitive selection criteria would include checks on the consistency of the project with the government's climate change mitigation objectives and appropriate design to reduce exposure to adaptation risks. These are currently missing from the project selection criteria listed in the PIM regulations and do not form part of the medium-term expenditure framework budget circular or the sector working group guidelines.

36. Including climate-related elements as part of the list of decision criteria to guide project selection would strengthen the project section process. Specific climate-related elements could include the degree of harm or contribution to climate change commitments and the extent of adequate adaptation to identified climate risks. Lessons can be learned from Rwanda, which has recently updated its project selection criteria to be more climate change sensitive based on the use of multi-criteria

[18] Similarly, neither the 2018 Fiscal Commitments and Contingent Liabilities Framework nor the 2018 policy on Government support measures explicitly address climate related challenges. Some projects, through support from the World Bank are incorporating climate change related risks, but this is not explicitly incorporated as part of the PPP framework.

[19] Kenya PPP risk disclosure extract from the 2021 Fiscal risk statement, published as part of the Budget Policy Statement

[20] The PIM Regulations define a project pipeline as "a database of projects that has been appraised and granted necessary approvals in accordance with the regulations and uploaded into the Public Investment Management Information System". This system is not yet operational.

[21] Section 21 (4) list these as: (a) assurance that conditions precedent, including land acquisition, have been met; (b) that detailed designs have been completed and relevant approvals obtained; (c) that the project has received necessary regulatory approvals and (d) that detailed resource requirements to operationalize the project are planned for.

analysis. Box 1 and Table 5 summarize how this was done, and Annex 4 contains the full list of project selection criteria that was developed.

Box 1. Developing Project Selection Criteria in Rwanda

Rwanda recently developed a project prioritization and selection template using multi-criteria analysis. The two critical components of multi-criteria analysis are: i) the criteria - how projects are measured against a certain benchmark; and ii) the relative importance between the criteria - known as the 'weighting.' While all the criteria will have reached this advanced stage of the process because of their importance to the government and its programs, some of these will still be more important than others. The government determines the weighting to reflect that relative importance. Both the criteria and weighting may be changed on an annual basis.

In addition to standard criteria to guide whether a project is selected for financing, multi-criteria analysis in Rwanda was adapted to include criteria relating to climate change.[22] Two key criteria have been added to "green" the selection process, illustrated in Table 5.

Source: Mission

Table 5. Climate-Related Selection Criteria in Rwanda

Effect on the climate	Points
Carbon positive	3
Carbon neutral	2
Carbon negative but with maximum mitigation	1

Resilience to the effects on climate change	Points
No risk (or minor theoretical risk) from climate change	3
Small Risk / low impact from climate change but acceptable mitigations in place	2
Significant risk / low to medium impact from climate change but acceptable mitigations in place	1

Source: Government of Rwanda Guidelines.

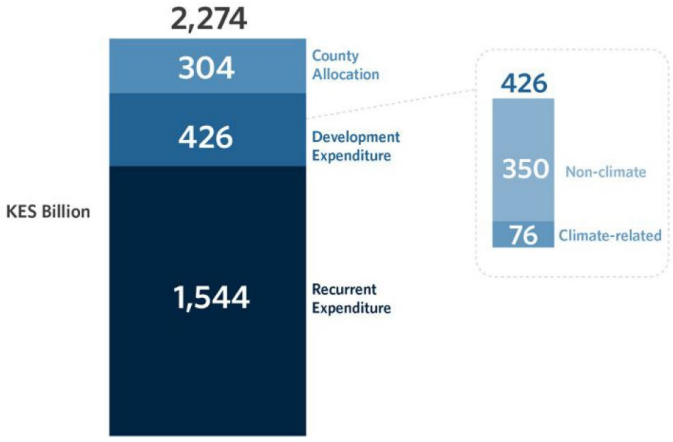
[22] Standard project selection criteria normally include elements such as consistency with government's policy priorities, expected net benefits, and fiscal affordability.

C4. Budgeting and Portfolio Management (Strength—Low; Reform Priority—Medium)

37. The 2018 PIMA highlighted shortcomings in adequate budgeting for maintenance and asset management (PIMA institution 9) and limited ex-post auditing of investment projects (PIMA institution 14). While there are currently no established procedures for consistently estimating maintenance expenses, the government is undertaking reforms to improve the costing of expenditure baselines, and as part of this, routine and capital maintenance will have to be calculated and justified. This is anticipated to be complete for the preparation of the 2024-25 budget. The draft budget preparation manual contains a maintenance section, which outlines routine maintenance and rehabilitation procedures. Government sector entities must maintain up-to-date fixed asset registers, but there has been variable conformity with this requirement across MDAs. Since 2018, there has been guidance from the National Treasury to improve compliance with these requirements and to submit asset information for centralized compilation in the Treasury, though compliance with these requirements remains limited. Ex-post audits of projects were reported to be limited to financial audits by the Office of the Auditor General in 2018. While some performance audits since 2018 now contain reviews of the design and implementation of infrastructure projects, these are not systematically undertaken. The National Treasury has produced templates for comprehensive project completion reports to develop guidance on each step of the public investment management cycle. However, publicly available completion reports and ex-post reviews of projects are still limited to those undertaken by development partners.

38. Some climate-related expenditures and projects are visible in budget documents, but these are not consolidated nor assessed from year-to-year. The Programme-Based Budgeting Supplement lists program outputs and performance indicators and estimates for program expenditure for individual climate-relevant programs. However, these data are not consolidated to provide an overall view of climate-related program expenditure in the budget. Similarly, the budget books list planned project expenditure for all projects, including climate-related projects, but no summary overview of climate-related development or recurrent expenditure exists. The Landscape of Climate Finance in Kenya presented a one-off analysis of the climate composition of government expenditure in Kenya for 2017-18. This analysis was undertaken through a manual review of development-related expenditure over the financial year. Climate-related expenditures represented 18 percent of development expenditure in that financial year (Figure 6).

Figure 6. Kenya's Climate-related Budget Expenditure in 2017-18



Source: The Landscape of Climate Finance in Kenya: On the road to implementing Kenya's NDC, March 2021

39. Kenya has designed a climate budget tagging system which would allow the identification and tracking of climate-related investment and recurrent expenditure. The tagging system was designed in 2014 and would see the addition of an analytical segment of four digits to the government's chart of accounts (see Box 2 and Figure 7). The data captured in this analytical segment would allow the compilation of data similar to that manually compiled and presented in the National Landscape document. In turn, this data could form the basis of a consolidated Climate Budget Statement that could accompany the Budget Statement and Budget Speech. However, the tagging system is yet to be implemented.

Box 2. Proposed Budget Tagging System in Kenya

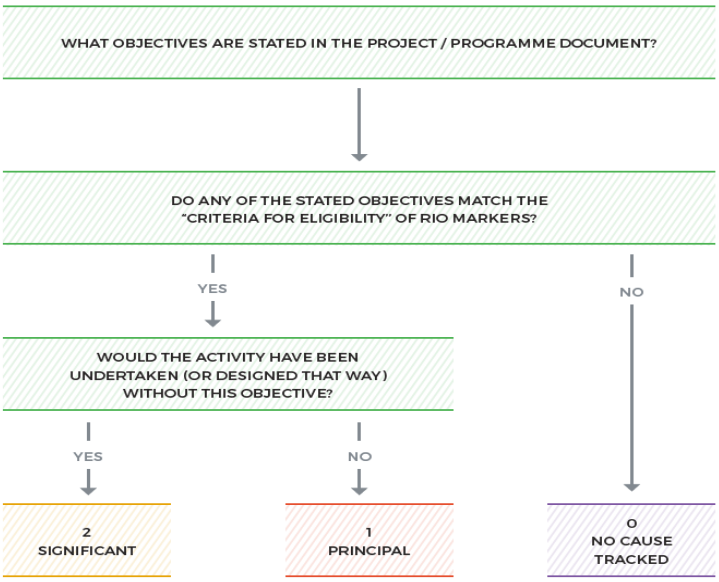
Kenya is proposing to track and report on climate-related expenditures in its budget tagging system by identifying and defining the objectives and outcomes of climate-related activities in the budget. This will include differentiating between climate mitigation and adaptation initiatives and determining if there are any climate co-benefits. They plan to use the OECD's Development Assistance Committee (Rio DAC) markers, which are standardized global reporting codes that flag the relevance of climate-related expenditures and facilitate the budgeting and tracking of funds. The Rio markers offer a three-tiered scoring system to indicate the policy objectives of the projects or programs being developed and implemented at various administrative levels.

The Rio DAC markers will be used to mark an activity as principal, significant, or not applicable/no cause to be tracked. An activity will be marked principal when the objective is explicitly stated as fundamental in the design or motivation for the activity, while significant when the objective is explicitly stated but is not the fundamental driver or motivation. An activity will be marked as not applicable/no cause to be tracked when it does not target the objective in any significant way. This system will promote greater consistency and transparency in climate finance reporting and allow for better estimation of the costs of climate co-benefits.

An eighth segment of the government's chart of accounts has been proposed to capture the coding of climate-related expenditure. The new four-digit analytical segment will provide flexibility to allow coding of expenditure using the Rio DAC approach as well as adding new types of analytical coding (for instance, on gender or nutrition-related expenditure).

Source: The Landscape of Climate Finance in Kenya

Figure 7. Illustration of Rio DAC Markers to Tag Climate-Related Expenditures



Source: The Landscape of Climate Finance in Kenya: On the road to implementing Kenya's NDC, March 2021

40. The analytical segment would be used to also identify and track expenditure in other priority areas, such as gender and child nutrition-related expenditure. This proposed extension to the Chart of Accounts is part of a broader package of adjustments to the accounts and the IFMIS that would also see easier identification of projects and enable accrual accounting. However, the implementation of these reforms has been persistently delayed, setting back plans to collect, track, analyze, and publish this data.

41. While the 2022 PIM regulations provide direction and guidance on ex-post evaluations, these do not address climate-related outcomes. The PIM regulations considerably strengthen the requirement for project completion reports and ex-post evaluations, with a project ex-post evaluation to be produced within five years after project completion and submitted to the National Treasury or County Treasury. A Project Evaluation Report Template is provided in the first schedule of the regulations, and Section 3 of the template includes a requirement for a summary of lessons learned "…in terms of financial, institutional capacities, partnerships with stakeholders, environmental and social sustainability." However, the template does not address climate-related outcomes specifically, such as whether GHG and climate-resilience outcomes were consistent with those anticipated in the feasibility analysis.

42. The government's existing asset management policies do not address climate-related vulnerabilities, but work is underway to develop and improve asset management and reporting. A fixed assets schedule that draws on asset registers maintained by MDAs is contained in Section 26.1 of the Consolidated Financial Statements for MDAs, and the section notes that the government is planning to develop asset management policies to provide guidance on the classification and valuation of these assets. In 2022, the National Treasury issued the Assets Management Indicator Guidelines in the Public Sector Performance Contracting for 2022/2023 to establish asset management structures and evaluation criteria for maintaining and updating asset registers. An Asset and Liability Reporting Template has also

been developed to standardize the submission of asset data across MDAs.[23] However, there is no guidance to include climate-related information on assets exposed to climate-related risks. Moreover, less than half of MDAs report fixed assets through the new processes.[24]

43. While climate-proofing of roads has taken place, there has been no overarching analysis of the vulnerability of the road network or other infrastructure assets to climate change impacts. Maintenance manuals in key infrastructure sectors do not yet account for climate-related costs and vulnerabilities. Still, work is underway in some MDAs. For example, the Roads Ministry is in the process of developing new road development manuals. Consultants have been engaged to update the standards and a new suite of manuals for road designers and specifiers. This should be ready by November 2023. As part of this process, new routine and periodic maintenance manuals are being developed, which are expected to address climate change vulnerability in the road network.

C5. Risk Management (Strength—Medium; Reform Priority—Medium)

44. PIMAs do not directly address risk management, however the 2019 Fiscal Transparency Evaluation Update assessment of Pillar III Fiscal Risk Management and Disclosure showed mixed results. Kenya discloses and analyzes fiscal risks, but the quantification and comprehensiveness of this analysis could be further improved. The government publishes information on many of the fiscal risks it faces, and while most of the major risks are described in the Statement of Specific Fiscal Risks annexed to the annual Budget Policy Statement, there is no overall quantification of their potential fiscal impact, and several risks and mitigation measures. Since the Fiscal Transparency Evaluation, the quantification of state corporations and PPP risks has improved, however more work is required in other major risk-related areas the country faces.

45. The Government of Kenya has made significant progress in the analysis of fiscal risks in recent years, but the analysis of climate change-related risks could be significantly improved. Recent improvements in fiscal risk management include:

- Detailed financial evaluations conducted for 18 high-risk state corporations and strengthening the state corporations section of the Fiscal Risks Statement.
- Improved PPP fiscal risks analysis and publication in the Fiscal Risk Statement.
- Improved coordination and assessment of specific fiscal risks through the creation of a Fiscal Risk Committee in the National Treasury, including supporting infrastructure such as a Fiscal Risk Register, a Fiscal Risk Unit, and a Fiscal Risk Working Group. Sector risk briefing papers have been developed, and thematic briefing papers are supported.

46. The National Disaster Risk Management Policy (2017) identifies the increased risk of natural disasters associated with climate change but does not specifically assess the impact on public infrastructure. Kenya is particularly prone to droughts and landslides, which are expected to become more frequent and severe with climate change. This policy aims to create an integrated and

[23] See https://www.treasury.go.ke/wp-content/uploads/2022/09/ASSET-AND-LIABILITY-REPORTING-TEMPLATES-FOR-THE-FY-2022-23.xlsx.

[24] Public Expenditure and Financial Accountability (PEFA) Assessment 2022, Republic of Kenya.

coordinated Disaster Risk Management system that focuses on preventing or reducing the risk of disasters, mitigating the severity of disasters, enhancing preparedness, rapid and effective response to disasters, and post-disaster recovery. This should include assessment of natural disaster-related risks to public infrastructure and promoting resilience. The policy applies to all state and non-state actors.

47. The policy has not yet been fully enabled in legislation and funding, which has limited the ability to conduct a planned National Risk Assessment (including on public infrastructure). An attempt was made in 2010 to conduct this assessment, but this ultimately did not proceed due to a lack of funding. A draft Disaster Risk Management Bill, 2021, would provide for the creation of a National Disaster Risk Management Authority. The authority has a broad remit to coordinate disaster prevention, preparedness, mitigation, response, and recovery activities. The Bill requires the National Disaster Risk Management Authority to collect comprehensive data on factors that cause or aggravate disasters, the risk factors underlying disasters and mitigating measures, and data on disaster loss and damage. It is expected that the establishment of the National Disaster Risk Management Authority and associated funding would allow for the conduct of a National Risk Assessment. However, climate-related risks are not specifically mentioned in the Bill.

48. The government has several current and proposed ex-ante financing mechanisms through legislated funds, which can be used to manage the exposure of the stock of public infrastructure to climate-related risks. This includes a Contingencies Fund, which has been used to respond to climate-related natural disasters, and a National Drought Management Emergency Fund. Although the current funds do not specifically mention public infrastructure, their broad mandates would allow this support, particularly in response to natural disasters. Box 3 provides an overview of the numerous current and proposed funds to either respond to climate-related disasters or build resilience to climate change impacts.

49. The proposed establishment of additional funds would increase the available sources of ex-ante funding in this area, but the proliferation of funds creates risk for coordination and public financial management and will need to be carefully managed. Both proposed funds are required by their establishing legislation and would be created and administered under the PFM Act. Draft regulations have been prepared for both funds and are awaiting parliamentary approval. Again, broad mandates would allow for the support of public infrastructure, particularly in building resilience.

50. Extrabudgetary funds can present potential problems by undermining the soundness of fiscal policy, fiscal discipline, and transparency. [25] This can reflect the lack of full and timely information on the activities of extrabudgetary funds as a result of their insulation from the regular budget process. Extrabudgetary funds are also sometimes associated with the dilution of accountability and control, and problems in reporting and consolidating fiscal data. One major risk from extrabudgetary funds is their tendency to proliferate into hundreds or thousands of individual units, thus atomizing political governance and fragmenting and undermining the overall quality of public financial management.

[25] Extrabudgetary Funds; by Richard Allen and Dimitar Radev; IMF Fiscal Affairs Department; IMF Technical Notes and Manuals TNM/10/09; June 11, 2010.

Box 3. Current and Proposed Climate-Related Funds in Kenya

Current Funds

- The Contingencies Fund was established under s. 208 of the Constitution and governed by ss. 19-23 of the PFM Act 2012. The Contingencies Fund is capped at KSH10 billion and is available for urgent and unforeseen events and threatens serious damage to human life or welfare, the environment and alleviates the damage, loss, hardship or suffering caused directly by the event. This includes damage to infrastructure, particularly that caused by natural disasters and threatened food, water or shelter and the disruption of services.
- County Emergency Funds are established under the PFM Act, 2012 to facilitate response to disasters at the county level. Each county assembly defines regulations for the administration of these funds and operational guidelines are entrusted to regulations approved by Parliament and the law relating to disaster risk management. The establishment of these funds is not mandated, and only 17 counties have established these funds.
- The National Drought Management Emergency Fund, established by the National Drought Management Authority Act, 2016. The fund is designed to improve the effectiveness of drought risk management in Kenya, and build resilience, preparedness, and timely response to drought at all stages. The fund has a broad mandate to fund projects, with an allocation of 50 percent to resilience, 40 percent to response and 5 percent to recovery interventions. The initial capital of the fund was set to be KSH2 billion, but it has not been fully funded.
- Five county governments - Garissa, Isiolo, Kitui, Makueni and Waji have established County Climate Change Funds that identify, prioritize, and finance investments to reduce climate risk and achieve adaptation priorities, including the allocation of a proportion of their development funding on climate change.
- The World Bank's Catastrophe. Deferred Drawdown Option (Cat. DDO) is a pre-approved credit line that can be accessed when a national disaster is declared following a natural hazard event. The existing Cat. DDO was exhausted during COVID-19, though a new one may be negotiated.

Proposed Funds

- The Climate Change Fund (as required by the Climate Change Act, 2016). This fund would consist of KSH500 million. The objective of the Fund is to provide financing mechanisms to priority climate change actions and interventions, including research, and finance interventions to implement climate change adaptation and mitigation actions and technical assistance to county governments.
- Disaster Management Fund (as required by the Disaster Management Bill, 2021. Both the Bill and the regulations establishing the fund are awaiting Parliamentary approval. The objects and purpose of this Fund shall be to mobilize resources towards efficient and effective disaster management, including facilitate disaster preparedness, mitigation, response, and recovery. The initial capital is expected to be KSH3 billion.
- One proposed function for financial support under the proposed Financing Locally-Led Climate Action Program would be to capitalize National and County Climate Change Funds.

Source: Government of Kenya Legislation.

51. The Fiscal Risk Statement published as part of the annual Budget Policy Statement includes sections on climate change and natural disasters, but significant scope exists for improvement. The climate change section asserts the risk associated with climate change but does not identify any specific risk (and not to infrastructure), focusing instead on access to climate financing to

mitigate risk. Likewise, the natural disaster section is largely qualitative and does not mention climate change-specific risks.

52. Fully fledged climate change fiscal risk analysis should include the analysis of risks to fiscal sustainability over the long term. The long-term analysis supports informing policymaking and tradeoffs involving long-term commitments that compete with other priorities. This includes identifying and quantifying long-term fiscal pressures and their impacts, informing areas for further analysis, and identifying mitigation measures. Usually, fiscal sustainability reports focus on demography-driven spending such as pensions, health care, social security, and education. However, the effects of climate change may negatively affect the ability of a government to sustain its spending and tax in the long run without threatening government solvency or defaulting on any of its liabilities. There are a range of approaches to the quantification of climate-related fiscal risks, which include:

- Analyzing the economic effects of climate change risks and the subsequent fiscal impact. This involves identifying the economic transmission channels through which the effects of climate change can impact the economy and using economic research and economic modeling to quantify these transmission channels. Box 4 provides examples of this approach adopted in other countries, while Annex 5 presents a preliminary analysis of Kenya's long-term macro-fiscal risks from climate change using the IMF's forthcoming Quantitative Climate Change Risk Assessment Fiscal Tool (Q-CRAFT).
- Analyzing the potential fiscal impact of climate-related natural disasters, particularly through reduced revenue and the need to fund post-disaster recovery and rebuilding.
- Analyzing other discrete or specific fiscal risks related to climate change. Discrete fiscal risk analysis should also be conducted on risks to specific climate-exposed sectors (including public assets held through state corporations and PPPs). This could include the impact of changing temperature and precipitation on the energy sector (for instance, the efficiency of hydropower and transmission lines), the effectiveness of water infrastructure, and potential damage to transport assets through floods and landslides.

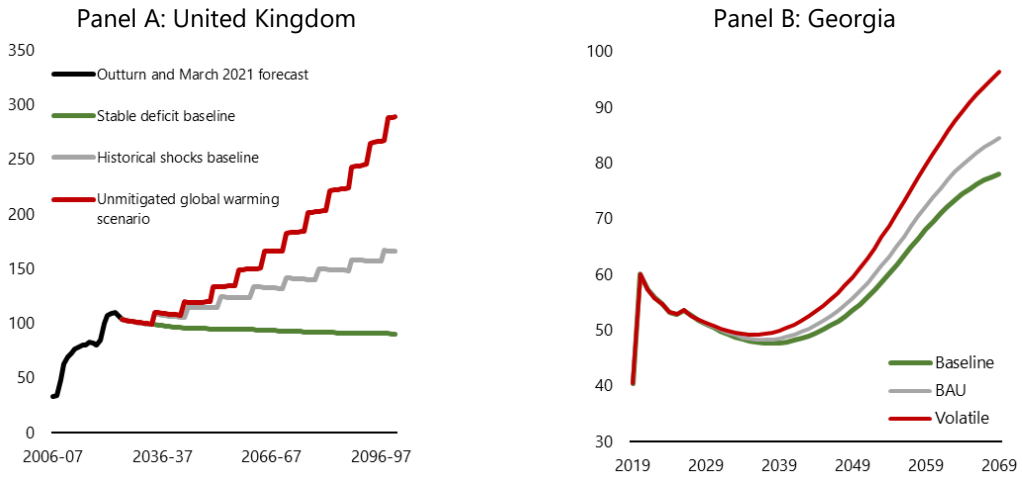
53. The existing fiscal risk management structure could undertake this risk analysis. The Fiscal Risk Working Group could add a climate change sector briefing paper for submission to the Fiscal Risk Committee and conduct a more detailed thematic analysis (including the recommended analysis above), drawing on expertise from stakeholders, including the Ministries of Environment (particularly the Climate Financing Unit), Agriculture, Transport, and Health.

Box 4. Climate Change Fiscal Risk Analysis in the United Kingdom and Georgia

In its 2021 Fiscal Risk Report, the *United Kingdom*'s Office of Budget Responsibility (OBR) outlines the fiscal implications and fiscal risks related to climate change. The OBR began by creating a simple long-term fiscal baseline for the budget deficit called the 'stable deficit baseline.' Based on historical experiences in the United Kingdom and worldwide, the additional impact of periodic fiscal risks was layered on top of that baseline, creating the "historical shocks baseline." The OBR then added an "unmitigated global warming scenario," which builds on the RCP8.5-scenario and assumes the cost of adaptation to be 0.3 percent of GDP a year. It also assumes the cost of natural disasters is twice as high and natural disasters occur twice as frequently (Figure 8). This simple framework provides illustrative scenarios that illustrate the potential fiscal scale of climate change risks in the United Kingdom.

In *Georgia*, the Ministry of Finance, with the support of IMF technical assistance, assessed the fiscal impact of climate change from three complementary perspectives. They first examined the growing impact of higher temperatures on the macroeconomy through lower productivity and its consequences for public finances. Second, they then modeled the fiscal cost of more frequent and severe natural disasters, particularly floods, landslides, and droughts, which Georgia is already predisposed to. Third, they qualitatively reviewed climate change-related discrete fiscal risks such as long-run power contracts, guarantees and on-lent loans to state-owned enterprises that may be affected by changing weather patterns. Their analysis found that climate change could reduce GDP per capita by 13 percent by the end of the century and increase public debt levels by 18 percent of GDP, both relative to the baseline.

Figure 8. Long-Run Fiscal Sustainability Analysis with Climate Change
(percent of GDP)



Source: UK OBR Fiscal Risk Report 2021, 2021, and Harris, J., et. al, "Georgia: Updating the Balance Sheet and Quantifying Fiscal Risks from Climate Change", IMF Technical Assistance Report, 2022.

Cross-Cutting Issues

Legal and Regulatory Framework

54. Public investment is governed by a comprehensive legal and regulatory framework that has recently undergone significant revision. The Public Finance Management Act (2012) lays the foundation for public investment management, which is specified in the PFM (Public Investment Management) Regulations (2022). The Public-Private Partnership Act (2013, and update 2021) establishes a PPP authority to oversee the implementation of PPP projects. Audit and procurement procedures are subsequently guided through a range of legislation. Table 6 below provides an overview of the legal and regulatory framework impacting public investment management in Kenya.

Table 6. Kenya's PIM Legal and Regulatory Framework

Act/Regulation/Policy	Year
Constitution of Kenya	2010
Public Finance Management Act	2012
Public Financial Management (National and County Government) Regulations	2015
Public Finance Management (Public Investment Management) Regulations	2022
Public Procurement and Asset Disposal Act	2015
Public Audit Act	2015
Public Procurement and Asset Disposal Regulations	2020
PPP Act	2013
State Corporation Act	2012
PPP Regulations	2014
Controller of Budget Act	2016

55. The PIM legal framework must work with the legal framework governing climate change-related processes. There is an extensive legal framework that public investment decisions must work within, which is reflected in Table 7.

Table 7. Kenya's Climate Change-Related Legal and Regulatory Framework

Act/Regulation/Policy	Year
Climate Change Act	2016
Climate Change Amendment Bill	2023
Climate Change Fund Regulations	2021
Energy Act	2019
Environmental Impact Assessment Regulations (Draft)	2018
Environmental Management and Coordination Act	1999
Fisheries Management and Development	2016
Forest Conservation and Management Act	2016
Irrigation Act	2019
National Disaster Risk Management Bill	2023

Act/Regulation/Policy	Year
National Drought Management Act	2016
Nationally Determined Contributions	2020
Physical and Land Use Planning Act	2019
Sustainable Waste Management Act	2022
The Physical Land Use Planning and Regulation	2021
Urban Areas and Cities Act	2011
Water Act	2016

56. Various areas of the legal and regulatory framework that are critical for infrastructure are currently being reviewed and drafted. The introduction of the PIM regulations and the more recent climate-related legislation has meant that older legislation requires updating for consistency. Three notable cases include the PPP, environmental impact assessment, and procurement regulations (see section C3). These review processes must be harmonized and expedited so as not to impact project planning and implementation processes.

57. Kenya relies on related environmental laws and regulations to support NDC implementation, so coordination is critical for effective climate-related investment management. These are cross-cutting and include a wide range of stakeholders, including the National Environment Management Agency, Ministry of Environment and Forestry, National Disaster Management Unit, Drought Management Authority, Ministry of Devolution and Arid and Semi-Arid Lands, and counties and state corporations and development partners. A clear demarcation of roles and responsibilities and coordination frameworks is required for investment management to be effectively coordinated.

Information Systems

58. As part of Kenya's broader PIM reform program, a new Public Investment Management Information System (PIMIS) is being developed. Part IV of the 2022 PIM regulation lays out the requirements for the PIMIS, including that it automates the public investment management process and that a web interface be provided for the public to access project information. The regulations also require that only projects processed through the PIMIS are to receive public and aid-related funding. The PIMIS is being developed as a comprehensive web-based system, building on the existing e-ProMIS (electronic Project Monitoring Information System) that has been used since 2010 and integrating with the IFMIS. The PIMIS will automate the standardized templates appended to the PIM regulations and schedules.

59. PIMIS is being designed to map all the PIM business processes and incorporates various approval levels to enable national and county governments to implement projects. The system covers the entire PIM cycle, including project identification, conceptual planning, pre-feasibility and feasibility, project selection for budgeting, implementation, monitoring, evaluation and reporting, closure, sustainability, and ex-post evaluation. The stock of ongoing projects will be migrated into the PIMIS to enable monitoring of financial and non-financial performance. The PIMIS is also expected to facilitate the prioritization of projects from the pipeline and provide estimated project costs.[26]

[26] See the PIMIS user requirement study at https://www.treasury.go.ke/wp-content/uploads/2021/10/DRAFT-PIMIS-USER-REQUIREMENT-STUDY-REPORT.pdf.

60. The introduction of the PIMIS provides an opportunity to automate the collection and reporting of information on climate-related and climate-sensitive public investments. The standardized and systematic inclusion of climate-related information in the project concept note could readily be collected in the new PIMIS system. This would enable the automation of analytical reports on the climate-sensitive projects under consideration, in the pipeline, or ongoing, which could then be drawn on as part of Kenya's monitoring, reporting, and verification for its NDC and National Adaptation Plan.

Capacity

61. Significant capacity building is required to mainstream climate change in budget decision-making to ensure the effectiveness of supporting instructions and frameworks. Table 7 provides an overview of the skills required to be developed over the medium term within the National Treasury and across MDAs and county governments. A significant capacity-building program will be required as climate change requirements are mainstreamed into standard planning, forecasting and budgeting processes. This should build on existing PFM reform and capacity programs, such as the 2023-2028 Public Financial Management Reform Program, the Ministry of Environment and Forestry curriculum on mainstreaming climate change (Box 5), and other externally funded institutional and capacity-building programs at the national and county level, such as the Financing Locally-Led Climate Action Program.

62. Continued capacity building is necessary to ensure staff can mainstream climate change into government decision-making. The Ministry of Environment and Forestry has prepared a curriculum on Mainstreaming Climate Change in National and County Policy, Planning, and Budgetary Processes (see Box 5) to enhance the capacity of the Government of Kenya at the national and county levels on climate mainstreaming. The capacity building program should incorporate the requirements in Table 8. Continued delivery and enhancement of this curriculum will be important in building capacity, particularly in the face of ongoing staff turnover and as staff are employed to fill existing vacancies.

Table 8. Capacity Development Requirements

Capacity building area	Target audience
Linking plans and development budgets in a clear and coherent way to incorporate climate-related interventions that cascade to budgets and effective monitoring and implementation	State Department for Planning, PIM Unit, Budget Department, Climate Finance Unit, MDAs, Counties
Appraisal techniques to incorporate impacts of projects on GHG emissions, and the exposure of projects to damage from climate-related disasters	PIM unit, MDAs, Counties
Developing project selection criteria that include climate change-sensitive criteria for decision-making during the SWG process	Budget Department, PIM unit, MDAs
Populating segment eight of the revised chart of accounts to support expenditure tracking of different policies, including climate-related budget expenditure.	Budget Department, Climate Finance Unit, IFMIS Department, Accounting Services, MDAs, Counties

Capacity building area	Target audience
Climate change fiscal risk analysis to include the analysis of risks to fiscal sustainability over the long term and the analysis of discrete fiscal risks related to climate change.	Macro and Fiscal Affairs Department, Climate Finance Unit, PPP unit, Government Investment and Public Enterprises, MDAs
Update of asset management structures across MDAs that are exposed to climate-related natural disaster risks	National Assets and Liabilities Management Department, National Disaster Management Authority, Accounting services.

63. Notwithstanding the recent strengthening of the fiscal risk function, further support is needed for climate change fiscal risk analysis. While the capacity to analyze fiscal risks has improved in recent years with the hiring of additional staff and the creation of new structures and training, the capacity to analyze fiscal risks from a climate perspective will need further strengthening. The National Treasury will likely require support to conduct long-term fiscal sustainability analysis and embed this in the Fiscal Risk Statement. Analysis of discrete fiscal risks is of particular concern, especially in state corporations and PPPs, given their low staffing levels relative to the sectors' size, their significant exposure to climate change risks, and the limited analysis done to date.

64. PIM capacity development is required throughout different levels of government. The focus of reform measures has been skewed towards developing the legal framework, technical manuals and guides, and the PIMIS. To date, there has been no targeted training of MDA, counties, or state corporations on how to adequately use the appraisal tools and techniques that have been introduced, which undermines quality and compliance. Plans are underway to fill this gap as part of the next PFM reform strategy, which is currently under development for 2023-2028, and the rollout of the PIM regulations is a major component of this.

65. Staffing needs to implement climate change requirements are substantial. For example, the Climate Financing Unit has an establishment of six staff, but contracts for four staff have expired or are about to do so. Similarly, around 60 vacancies in the PIM unit need to be filled to meet the unit’s ambitious objectives. With the establishment of Climate Change Units in all state departments and counties, there is a risk of stretching limited government staffing capacity.

Box 5. Training on Mainstreaming Climate Change

To give effect to the Climate Change Act, 2016, which requires all levels of government to integrate and mainstream climate change actions, interventions, and duties into various sectors, the Ministry of Environment and Natural Resources (in collaboration with the Kenya School of Government, the Council of Governors and relevant stakeholders) has developed a training curriculum to mainstream climate change into national and county policy, planning and budgetary processes.

This 10-day program targets national and county government officers involved in climate change-related activities. This includes County Directors, County Economic Planning Officers, and County Finance and Budgeting Officers. Staff from Non-Governmental Organizations and private sector staff involved in climate change-related activities are also targeted.

The course has four modules:

- **Introduction to Climate Change**. This module aims to equip participants with knowledge of the basics of climate change, climate science, and climate change impacts, including hazards/disasters, link to sustainable development, and response strategies to climate change.
- **Climate Change Policy and Planning.** This module will equip participants with knowledge and skills in mainstreaming climate change policies, legislations, and regulatory frameworks into planning processes. The participants should be able to link relevant Sustainable Development Goals and international conventions and agreements on climate change to planning.
- **Climate Change Financing and Budgeting.** This module will enable participants to recognize sources of climate financing and access modalities. It will promote the use of appropriate climate financing mechanisms and good governance in tracking climate-related budget expenditure.
- **Climate Change Monitoring, Evaluation, and Reporting.** This module will equip participants with knowledge and skills in monitoring, evaluating, and reporting climate change issues. The module will also enable participants to share lessons learned and disseminate information.

Source: Program Curriculum: Mainstreaming Climate Change in National and County Policy, Planning and Budgetary Processes, Department of Environment, Government of Kenya

Recommendations

Issue 1: The appraisal and selection of projects do not contain assessments of project mitigation and adaptation aspects.

Recommendation 1: Develop and require the use of methodologies to assess the GHG impact and climate change-resilience of projects in the project concept note and feasibility study template schedules of the PIM regulations (2022) and ensure these are used for the review of major projects in the FY2024-25 budget process. This should:

- Ensure sector-specific guidelines accompany the project concept note and feasibility study template.
- Start with the major sectors the government is prioritizing for emissions reduction and resilience to climate related risks (energy, agriculture, and road infrastructure).

(PIM Unit, by December 2024). Priority: **High**

Recommendation 2: Prepare specific selection criteria for projects entering the budget as part of the Sector Working Group process. This should include scoring and weighting for addressing the mitigation and adaptation aspects. Scoring templates and supporting guidance should be part of the medium-term expenditure framework circular. (Budget Department and PIM Unit by December 2024). Priority: **High**

Issue 2: There is no guidance on how climate change-related risks should be shared between government and PPP partners.

Recommendation 3: Update the 2014 PPP regulations to provide specific guidance on sharing climate change-related risks in PPP contracts and strengthen alignment with the PIM regulations. (PPP Unit, by December 2023). Priority: **Medium**

Issue 3: There is no systematic approach to identify and track climate-sensitive investments, and climate-related aspects are not included in asset management and ex-post reviews of projects.

Recommendation 4: Implement the planned climate budget tagging framework and report climate-related investment expenditure in an annual climate budget statement accompanying the detailed budget document and annual budget statement. (Budget Department and IFMIS, by December 2024). Priority: **High**

Recommendation 5: Incorporate a requirement for an assessment of the climate-related impacts of major projects in the ex-post evaluation template contained in Schedule 1 of the PIM regulations (2022). This evaluation should identify whether the GHG impacts and climate resilience of projects are consistent with the projections in the project concept note and feasibility study (see recommendation 1). (PIM Unit, by December 2024). Priority: **Medium**

Issue 4: There is insufficient analysis or awareness regarding the vulnerability of Kenya's infrastructure assets to climate-related risks. To understand the fiscal risks and government's exposure to climate-related infrastructure risks, assets in key sectors (such as energy, transport, communications, and health) that are susceptible to climate-related natural disaster risks should be identified as part of the process to establish a centralized schedule of MDA assets.

Recommendation 6. Identify and document infrastructure assets in key sectors (e.g., energy, transport and communications, and health) that are exposed to climate-related natural disaster risks, such as flooding, cyclones, and drought (National Disaster Management Authority, by January 2024) Priority: Medium

Issue 5: Fiscal risks from public` infrastructure associated with climate change are not adequately identified and analyzed.

Recommendation 7: Expand the Fiscal Risk Statement to include long-term fiscal sustainability analysis under different climate scenarios and the analysis of discrete fiscal risks related to climate change. (Macro and Fiscal Affairs Dept, by January 2024). Priority: **Medium**

Issue 6: PIM capacity development is required throughout different levels of government, and staffing needs to implement climate change requirements are substantial and have not been fully implemented, which constrains the ability of the institutions to perform their functions.

Recommendation 8: Fill vacant positions in key units and provide training to staff on the PIM process and the incorporation of climate change in the preparation of project concept notes, feasibility studies, and ex-post project evaluation reports (PIM Unit, by December 2023). Priority: **High**

Annex 1. C-PIMA Action Plan

Issue	Recommendations	Action	Priority	Responsibility	Timing
Project appraisal and selection					
1. The appraisal and selection of projects do not contain assessments of project mitigation and adaptation aspects.	1. Develop and require the use of methodologies to assess the GHG impact and climate change-resilience of projects in the project concept note and feasibility study template schedules of the PIM regulations (2022)	Design, develop and update the respective schedules in the PIM regulations. Train major MDAs as part of a pilot using the updated templates.	High High	PIM unit PIM unit	End-2023 End-2024
	2. Prepare specific selection criteria for projects entering the budget as part of the Sector Working Group process	Develop scoring and weighting for all selection criteria (including mitigation and adaptation aspects) and include scoring templates and supporting guidance as part of the MTEF circular and train MDAs as part of a pilot.	High	Budget Department	End-2024
2. There is no guidance on how climate change-related risks should be shared between government and PPP partners.	3. Update the 2014 PPP regulations to provide specific guidance on the sharing of climate change-related risks in PPP contracts and strengthen alignment with the PIM regulations	Develop stronger connections with the PIM regulations in terms of a single gateway for projects to be prioritized at the pre-screening phase (project concept note) Make explicit reference in the regulations how costs from predictable climate change-related events will be shared and how costs related to transition risks (such as changes in government policy) are allocated between the PPP partners.	Medium Medium	PPP unit PPP unit	End-2023 End-2023
Budgeting and Portfolio Management					

Issue	Recommendations	Action	Priority	Responsibility	Timing
3. There is no systematic approach to identify and track climate-sensitive investments and climate-related aspects are not included in asset management and ex-post reviews of projects	4. Implement the planned climate budget tagging framework and report climate-related investment expenditure in an annual climate budget statement that accompanies the detailed budget document and annual budget statement.	Populate the analytical segment of the revised chart of accounts with a set of policy areas, which include climate-related elements.	High	Budget Department with IFMIS	Immediately
		Undertake training sessions for pilot MDAs to align their budgets with the new analytical segment and publish results alongside the detailed budget document and annual budget statement.	High	Budget Department with climate Finance Unit	April 2024
	5. Incorporate a requirement for an assessment of the climate-related impacts of major projects in the ex-post evaluation template contained in Schedule 1 of the PIM regulations (2022). This evaluation should identify whether the GHG impacts and climate resilience of projects are consistent with the projections contained in the project concept note and feasibility study (see recommendation 1).	Design, develop and update the respective schedules in the PIM regulations.	Medium	PIM unit	End-2023
		Train major MDAs as part of a pilot using the updated templates.	Medium	PIM unit	End-2024
4. There is insufficient analysis or awareness regarding the vulnerability of Kenya's infrastructure assets to climate-related risks.	6. Identify and document infrastructure assets in key sectors (e.g., energy, transport and communications, and health) that are exposed to climate-related natural disaster risks, such as flooding, cyclones, and drought.	Undertake a full stock take of the existing asset register and identify and map infrastructure assets that are vulnerable.	Medium	National Assets and Liabilities Management department with National Disaster Management Authority	Early 2024
Risk Management					
5. Fiscal risks from public infrastructure associated	7. Expand the Fiscal Risk Statement to include long-term fiscal sustainability analysis under different climate scenarios,	Apply the QCRAFT tool to undertake an assessment of the macroeconomic and fiscal risks associated with climate change.	Medium	Macro Fiscal Policy Department	Early 2024

Issue	Recommendations	Action	Priority	Responsibility	Timing
with climate change are not adequately identified and analyzed.	and the analysis of discrete fiscal risks related to climate change.	Carry out analysis of discrete fiscal risks related to climate change (such as natural disasters and risks to PPPs and state corporations) Expand the outputs of the FRWG to include a climate change sector briefing paper for submission to the Fiscal Risk Committee and conduct a more detailed thematic analysis (including the recommended analysis above), drawing on expertise from the Climate Financing Unit.	Medium Medium	Macro Fiscal Policy Department Macro Fiscal Policy Department	Late 2024 Early 2024
Capacity Building to Mainstream Climate Related Public Investment					
6. PIM capacity development is required throughout different levels of government and staffing needs to implement climate change requirements are substantial, and have not been fully implemented, which constrains the ability of the institutions to perform their functions.	8. Fill vacant position in key units and provide training to staff on the PIM process and the incorporation of climate change in the preparation of policy concept notes, feasibility studies, and ex-post project evaluation reports	Fill the vacant positions in the PIM unit and Climate Finance Unit in accordance with approved staffing structures. Integrate capacity-building elements of the reform components listed in recommendations 1-7) for climate-related public investment management as part of major reform programs (2023-2028 Public Financial Management Reform Program and Curriculum on Mainstreaming Climate Change) and other externally funded institutional and capacity-building programs at the national and county level, such as the Financing Locally-Led Climate Action Program.	High High	PIM unit & Public Service Commission PIM unit, climate finance unit & PFM reform program heads	End 2023 End 2023

Annex 2. Climate PIMA Assessment Framework

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
C1. Climate-aware planning: Is public investment planned from a climate change perspective?				
C.1.a	Are national and sectoral public investment strategies and plans consistent with NDC or other overarching climate change strategy on mitigation and adaptation?	National and sectoral public investment strategies and plans are not consistent with NDC or other overarching climate change strategy.	National public investment strategies and plans are consistent with NDC or other overarching climate change strategy for ***some*** sectors.	National and sectoral public investment strategies and plans are consistent with NDC or other overarching climate change strategy for ***most*** sectors.
C.1.b	Do central government and/or sub-national government regulations on spatial and urban planning, and construction address climate-related risks and impacts on public investment?	Central government and/or sub-national government regulations on spatial and urban planning, and construction do not address climate-related risks and impacts on public investment.	Central government and/or sub-national government regulations on spatial and urban planning, ***or*** construction (through building codes) addresses climate-related risks and impacts on public investment.	Central government and/or sub-national government regulations on spatial and urban planning, ***and*** construction (through building codes) address climate-related risks and impacts on public investment.
C.1.c	Is there centralized guidance/support for government agencies on the preparation and costing of climate-aware public investment strategies?	There is no centralized guidance/support for government agencies on the preparation and costing of climate-aware public investment strategies.	There is centralized guidance/support for government agencies on the ***preparation*** of climate-aware public investment strategies.	There is centralized guidance/support for government agencies on the ***preparation and costing*** of climate-aware public investment strategies.
C2. Coordination between entities: Is there effective coordination of decision making on climate change-related public investment across the public sector?				
C.2.a	Is decision making on public investment coordinated across central government from a climate-change perspective?	Decision making on public investment is not coordinated across central government from a climate-change perspective.	Decision making on public investment is coordinated across budgetary central government from a climate-change perspective.	Decision making on public investment is coordinated across all central government, including externally financed projects, PPPs, and extra-budgetary entities, from a climate-change perspective.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
C.2.b	Is the planning and implementation of capital spending of SNGs coordinated with the central government from a climate-change perspective?	The planning and implementation of capital spending of SNGs is not coordinated with the central government from a climate-change perspective.	The central government issues guidance on the planning and implementation of capital spending from a climate-change perspective and information on major climate-related projects of SNGs is shared with the central government and is published alongside data on central government projects.	The central government issues guidance on the planning and implementation of capital spending from a climate-change perspective, information on major climate-related projects of SNGs is shared with the central government and is published alongside data on central government projects, and there are formal discussions between central government and SNGs on the planning and implementation of climate-related investments.
C.2.c	Does the regulatory and oversight framework for public corporations ensure that their climate-related investments are consistent with national climate policies and guidelines?	The regulatory and oversight framework for public corporations does not promote consistency between their climate-related investments and national climate policies and guidelines.	The regulatory and oversight framework for public corporations promotes consistency between their climate-related investments and national climate policies and guidelines.	The regulatory and oversight framework for public corporations requires that their climate-related investments be consistent with national climate policies and guidelines.
C3. Do project appraisal and selection include climate-related analysis and criteria?				
C.3.a	Does the appraisal of major infrastructure projects require climate-related analysis to be conducted according to a standard methodology with central support?	The appraisal of major infrastructure projects does not require climate-related analysis to be conducted according to a standard methodology.	The appraisal of major infrastructure projects requires climate-related analysis to be conducted according to a standard methodology.	The appraisal of major infrastructure projects requires climate-related analysis to be conducted according to a standard methodology, and a summary of appraisals is published or subject to independent external review.
C3b	Does the framework for managing longer-term public investment contracts, such as PPPs, explicitly address climate-related challenges?	The referred framework does not include explicit consideration of climate change for risk allocation or contract management.	The referred framework includes explicit consideration of climate change with respect to how risks are allocated between the parties in infrastructure contracts.	The referred framework includes explicit consideration of climate change with respect to how risks are allocated between the parties in infrastructure contracts, and contract managers in government departments and agencies

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
				are mandated to address climate-related challenges.
C.3.c	Are climate-related elements included among the criteria used by the government for the selection of infrastructure projects?	Either there are no explicit selection criteria or climate-related elements are not included among the criteria used by the government for the selection of projects for financing.	Climate-related elements are included among the criteria used by the government for the selection of all major budget-funded projects, and the criteria are published.	Climate-related elements are included among the criteria used by the government for the selection of all major projects, including externally financed projects, projects financed by extra-budgetary entities, and PPPs, and the criteria are published.
C.4 Budgeting and portfolio management: Is climate-related investment spending subject to active management and oversight?				
C.4.a.	Are planned climate-related public investment expenditure, sources of financing, outputs and outcomes identified in the budget and related documents, monitored, and reported?	Planned climate-related public investment expenditure are not identified in the budget and related documents.	Some planned climate-related public investment expenditures are identified in the budget and related documents, including investment expenditure funded externally, by extra-budgetary entities, and PPPs.	Most planned climate-related public investment expenditure, sources of financing, and outputs and outcomes are identified in the budget and related documents, including investment expenditure funded externally, by extra-budgetary entities, and PPPs, and expenditure on these projects is monitored and reported.
C4.b.	Are ex-post reviews or audits conducted of the climate change mitigation and adaptation outcomes of public investments?	No ex-post reviews or audits are conducted of the climate change mitigation and adaptation outcomes of public investments.	Ex-post reviews or audits are conducted for selected major public investments of either the climate change mitigation or adaptation outcomes.	Ex-post reviews or audits are conducted and published for selected major public investments of both the climate change mitigation and adaptation outcomes.
C4.c.	Do the government's asset management policies and practices, including the maintenance of	Neither the government's asset management policies and practices nor methodologies for estimating the maintenance needs of climate change-	Methodologies prepared by the government for estimating the maintenance needs of some climate	Methodologies prepared by the government for estimating the maintenance needs and associated costs of most climate change-exposed infrastructure assets address climate-

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
	assets, address climate-related risks?	exposed infrastructure assets address climate-related risks.	change-exposed infrastructure assets address climate-related risks.	related risks, and government asset registers include climate-related information of these assets.
C5. Risk management: Are fiscal risks relating to climate change and infrastructure incorporated in budgets and fiscal risk analysis and managed according to a plan?				
C5.a.	Does the government publish a national disaster risk management strategy that incorporates the potential impact of climate change on public infrastructure assets and networks?	Either there is no published national disaster risk management strategy, or the strategy does not identify the key climate-related risks to public infrastructure assets and networks.	The government publishes a national disaster risk management strategy that identifies the key climate-related risks to public infrastructure assets and networks in terms of hazards, exposure, and vulnerability.	The government publishes a national disaster risk management strategy that identifies and analyses the key climate-related risks to public infrastructure assets and networks in terms of hazards, exposure, and vulnerability, and includes the government's plans to mitigate and respond to these risks.
C5.b.	Has the government put in place ex ante financing mechanisms to manage the exposure of the stock of public infrastructure to climate-related risks?	The government has not put in place any ex-ante financing mechanisms to manage the exposure of the stock of public infrastructure to climate-related risks.	There is an annual contingency appropriation in the budget or other financing mechanisms that is available to meet the costs of climate-related damages to public infrastructure.	There is an annual contingency appropriation in the budget and other financing mechanisms that are available to meet the costs of climate-related damages to public infrastructure.
C5.c.	Does the government conduct and publish a fiscal risk analysis that incorporates climate-related risks to public infrastructure assets?	The government does not conduct a fiscal risk analysis that incorporates climate-related risks to public infrastructure assets.	The government conducts and publishes a fiscal risk analysis that incorporates a qualitative assessment of climate-related risks to public infrastructure assets over the medium term.	The government conducts and publishes a fiscal risk analysis that incorporates a quantitative assessment of climate-related risks to public infrastructure assets over the medium term and policies to mitigate these risks, and a qualitative assessment of the risks that may arise over the long-term.
Cross-cutting issues				
A	**IT support**. Is there a comprehensive computerized information system for public investment projects to support decision making and monitoring?			

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
B	**Legal Framework**. Is there a legal and regulatory framework that supports institutional arrangements, mandates, coverage, standards, and accountability for effective			
C	**Staff capacity.** Does staff capacity (number of staff and/or their knowledge, skills, and experience) and clarity of roles and responsibilities support effective			

Annex 3. Rwanda Project Concept Note

Notes: Green highlighted text reflects climate related elements that were introduced as part of the RSF reform measures

All the questions below to be answered by the Proposing Entity	Scoring Guidance
1. Purpose and Justification for a New Project	
1.1 How would the project fulfil specific objectives of Vision 2050 and the National Strategy for Transformation, Sector Strategic Plan, the Green Growth and Climate Resilience Strategy, or any other government policy? *(Your answer must include references to specific programs and include specific document references, with relevant page number and paragraph. Specific policy criteria such as job creation, gender and climate change should also be mentioned here. Climate Change issues in particular are an increasingly important feature of the government's investment spending priorities, so this must be considered in your response. State if the project relates to Nationally Determined Contributions)*	**Pass** = Reference has been made to national or sector and climate change strategies and a clear explanation has been provided about the links to the proposed project. **Return** = Reference has been made to national or sector and climate change strategies but the links to the proposed project is Return **Not Accepted** = No link was established between the proposed project and the national or sector and climate change strategies
1.2 Why is this new project needed? *(Describe the problem to be resolved or opportunity to be exploited) And how big is this problem or opportunity? (Include some basic number estimates to support the justification)*	**Pass** = The problem and its causes are explained fully (or opportunities are explained fully) with some evidence of scale. **Return** = There is inadequate numerical information about the scale of the problem or opportunity. **Not Accepted** = Does not describe the problem or opportunity or the problem / opportunity is described but is not significant

All the questions below to be answered by the Proposing Entity	Scoring Guidance
1.3 Could this problem or opportunity be dealt with by districts the private sector or an NGO? *(Write 'Yes' or 'No' and then explain your answer, making it clear why the sector ministry is the only possible implementer of the project.)*	**Pass** = It is clear that the sector ministry would be the best implementer of this project proposal **Return** = It is not clear whether the project could be best implemented by the sector ministry / private sector / NGO **Not Accepted** = No serious attempt to address the question
1.4 Could this project be implemented through a PPP? *(Answer 'yes' or 'no'. Explain the reason for the answer including any discussions held with relevant officials or experts)*	**Pass** = The answer provided is credible - if the answer is 'yes' then a summary of discussions with authorized officials or experts is included. **Return** = An answer is provided but without explanation **Not Accepted** = The answer is not credible - if the answer is 'yes' but without any substantiating evidence.
1.5 Why should this proposal be a priority now? *(Explain the urgency of the project and why it should be implemented in the coming financial year instead of the next one)*	**Pass** = The answer provided makes it clear that the project needs to be implemented urgently. **Return** = The project appears to be quite urgent, but the reasons are not well explained. **Not Accepted** = It is clear from the response that the project is not urgent.
1.6 What would be the consequences if this project proposal is not implemented? *(Explain what would happen if the project was not approved. The range of answers could include scenarios from 'little would change' to 'people would*	**Pass** = Consequences are clearly described and are significant **Return** = Consequences are described but are Return

All the questions below to be answered by the Proposing Entity	Scoring Guidance
die'. Consider specifically whether the project has any climate change related consequences)	**Not Accepted** = The consequences are not described or if they are described they are not significant
1.7 Is the project part of a Program and is any further expenditure required to make the project fully functional and operational? *(Answer 'Yes' or 'No.' If the answer is 'yes,' please provide details; if the answer is 'no' please explain why).*	**Pass** = The answer provided is clear and credible **Return** = The answer provided is not clear or is ambiguous. If the question has been answered with a <Yes> and no further information has been provided as requested **Not Accepted** = The question has not been answered
1.8 Have similar projects been developed in your sector before? *(Answer 'yes' or 'no.' If the answer is 'yes,' please explain the lessons learned from previous projects. If the answer is 'no' please explain what extra measures will be taken to manage this risk of the unknown)*	**Pass** = Either: There has been no precedent for the project in the area/sector, but credible mitigating measures have been described OR: There have been precedents and the outcomes were positive. **Return**= Mitigating measures are not included or described. **Not Accepted** = Either: there are no precedents for the project in the area/sector and no credible mitigating measures have been described OR: there have been precedents in the area/sector, but the outcomes were poor with no obvious mitigating measures.
1.9 What are the objectives of the project? *(Describe what the project aims to achieve and by when)*	**Pass** = Objectives clearly described **Return** = Objectives described but not precise enough **Not Accepted** = Objectives not described

All the questions below to be answered by the Proposing Entity	Scoring Guidance
1.10 What will be the Inputs and Activities? *(Inputs are the resources to achieve the activities. Activities can include design, construction, acquisition of equipment and services)*	**Pass** = Intended inputs and activities are described clearly and relate to the objective of the project **Return** = Inputs and activities are described but are not obviously linked to the objective of the project **Not Accepted** = Inputs and activities are not described
1.11 What are the Expected Outputs, Results, and Impacts of the Project? *(Outputs are physical evidence of the completion of the activities. Results may be described as the things that have been improved as a result of the project's successful implementation. Impacts may be described as how the project will affect the conditions requiring the project.)*	**Pass** = The Expected Outputs, Results and Impacts are clearly described and are related to the objectives of the Project. **Return** = The Expected Outputs, Results and Impacts are described but do not have enough information about quantity and time **Not Accepted =** No serious attempt to answer the question fully
1.12 Describe the intended methodology to realize the project. *(Describe the processes by which the results will be achieved. Start with a description of all the assessment and design work that will need to be completed and continue through to the commissioning and operationalizing of the project)*	**Pass** = The methodology is clearly described and includes all expected processes for a project of its type. **Return** = The methodology is described but there is not enough information or expected processes are missing **Not Accepted** = No serious attempt to answer the question
1.13 Describe the geographic location or locations included in the scope of the project and any location related risks. *(Explain if the project refers to one of more locations and explain the significance of the location(s) in relation to climate change vulnerabilities)*	**Pass =** The exact location of the project is clear **Return =** The general location of the project has been mentioned but the precise location is unclear **Not Accepted =** No attempt to answer the question

All the questions below to be answered by the Proposing Entity	Scoring Guidance
1.14 Who are the direct beneficiaries of the project and how many will there be? *(Direct beneficiaries are those people whose lives should be improved by the project. Please specify which groups will benefit according to the PEDS classifications, and how many. Ensure that the beneficiaries are aligned to the objectives written in 1.9. Explain how many jobs will be created in construction and later through the project activities. How many of these jobs can be classed as 'Green Jobs'?)*	**Pass** = The types of direct beneficiaries (including jobs created) are listed with an approximation of the numbers involved **Return** = Either the type of direct beneficiaries or the numbers are missing. **Not Accepted** = Neither the type of direct beneficiaries nor numbers are included.
1.15 Who are the indirect beneficiaries and how many will there be? *(Similar to the previous question which concerns direct beneficiaries; now answer this question concerning indirect beneficiaries)*	**Pass** = The types of indirect beneficiaries are listed with an approximation of the numbers involved **Return** = Either the type of indirect beneficiaries or the numbers are missing. **Not Accepted** = Neither the type of indirect beneficiaries nor numbers are included.
1.16 What Climate related impacts can be expected if the project is implemented? *(When answering this question, consider not only the emissions of greenhouse gases (GHGs) from the project, but also from its construction. Other impacts may relate to the specific choice of technology which should be considered as part of the initial option appraisal. For small projects not requiring a FS, state whether the project is carbon positive, carbon neutral or carbon positive and why. If in doubt, seek professional advice and attach it to this PCN)*	**Pass** = Either: Issues have been identified and possible mitigations explained, possibly requiring further studies or: the project clearly only presents minimal climate impacts **Return** = Issues have been identified but no mitigations have been explained or no evidence has been provided **Not Accepted** = No attempt to answer the question
1.17 What vulnerabilities to climate change need to be considered during the design of the project and how will they be mitigated? *(Climate change can induce extreme weather events and other consequences such as increased risks of*	**Pass** = Either: Vulnerabilities have been identified and planned further work on mitigations explained or: the project does not present any specific vulnerabilities and credible reasons have been explained

All the questions below to be answered by the Proposing Entity	Scoring Guidance
fires, floods, and other environmental degradations. Please consider how any possible extreme event might impact the project and what additional resilience may need to be designed and built into the project in order to protect the project physically and avoid service disruptions. If there are only limited or no vulnerabilities, you will need to explain why.	**Return** = Issues have been identified but no mitigations or plans for further investigations have been explained **Not accepted =** no attempt to answer the question
1.18 What other environmental impacts have been identified in the proposal and what further investigation on mitigations is planned? *(Most construction projects cause some environmental harm, describe these impacts. Also describe any environmental harm that might result from the long-term operation of the project. Describe any planned studies or impact assessment work aimed at minimizing harm)*	**Pass** = Either: Environmental issues have been identified and a plan of action to investigate and mitigate has been described or: The project does not present any specific concerns about environmental harm **Return** = Issues have been identified but no mitigations or further work have been described **Not Accepted** = No attempt to answer the question
1.19 Explain any gender issues that have been identified in the proposal and how they will be addressed. *(Consider the effect of the proposed project on gender issues, explain how they were identified, who was consulted and what strategies could help resolve them)*	**Pass** = Either: Gender issues have been identified, and further work on resolutions is explained or: the project does not present any specific gender issues **Return** = Issues have been identified but no resolution strategy or plans for further work have been explained **Not Accepted** = No attempt to answer the question
1.20 What other equality and equity issues are raised by this proposed project and how will they be addressed? *(Consider the effect of the proposed project on gender issues, those with mobility and disability challenges; and all other groups that may need to be considered for equal access to the facility or services*	**Pass** = Either: Equality issues have been identified, and further work on resolutions is explained or: the project does not present any specific equality issues **Return** = Equality issues have been identified but no resolution

All the questions below to be answered by the Proposing Entity	Scoring Guidance
proposed. Consider how these needs can be addressed in the planning and implementation of the project)	strategy or plans for further work have been explained **Not Accepted** = No attempt to answer the question
2. Financial Information	
2.1 Estimated Total Capital Cost to complete the project. *(Include all cost items required to make the project functional. Include all Studies, Design work, Construction, Land, Equipment, or any other costs to make the project operational. The full capital estimate must be included even when the project might be funded by ODAs or PPP and* should include a provisional estimate for providing climate resilience where vulnerabilities have been identified in 1.17	**Pass** = The data is clear, and estimates provided seem realistic for a project of its type and scale. **Return** = The information may be credible but requires clarification **Not Accepted** = The information is incomplete or is not realistic / credible
2.2 Capital Requirements for each year of the project's implementation. *(If the project can be completed in one fiscal year, then write the year with the capital amount being the same as the number in 2.1. If the project spans more than one fiscal year, write the year and the amount requested for each year until completion). ***When the project is expected to be funded by Dev Partners, it is essential that the amount and timing of counterpart funding is included in these estimates****	**Pass** = The data is clear, and estimates provided seem realistic. Total estimates are not simply divided by the number of years. **Return** = The information may be credible but requires clarification **Not Accepted** = The information is incomplete or is not realistic/credible.
2.3 Proposed Sources of Capital Funding *(Where will the capital for the project come from? If it will come from multiple sources, list all sources. List the actual monetary figure and the percentage of the total costs from each source. When denominated in foreign currency be clear about which one and how much. If a development partner is partly or wholly financing the project, you must present a letter of intent).*	**Pass** = The data is complete and clear. Total estimates add up to the same number in 2.1. When development partner financing is claimed, the letter of intent refers to the same project.

All the questions below to be answered by the Proposing Entity	Scoring Guidance
	Return = The information may be complete but requires clarification **Not Accepted** = The information is incomplete, or it is not realistic / credible, or totals do not add up
2.4 Would this project require capital expenditure on other projects in order to be fully operational and effective? *(Answer 'yes' or 'no'. Some projects rely on other related projects before they can be fully effective. If the answer given is 'yes' then explain what additional capital is required and when.*	**Pass** = Either a <NO> answer or a <YES> answer that is fully explained and appears credible **Return** = The information is complete but requires clarification. **Not Accepted** =Either the information is not provided in the event of a <YES> or in the case of a <NO> answer the answer does not appear credible
2.5 What are the estimated Recurrent Costs when the Project is Operational? *(Estimate the annual costs of running the project when it is operational. This should include salaries, utility costs, maintenance and other goods and services)*	**Pass** = The data is complete, clear and estimates provided seem realistic. **Return** = The information is complete but requires clarification **Not Accepted** = Either: The information is not complete or: it is complete but not realistic or credible
2.6 Is the project already included in the MINECOFIN's MTEF? *(The MINECOFIN maintains a Medium-Term Expenditure Framework (MTEF) to assist in budget planning for future years. The question is therefore asking if the proposed project is already envisaged in the current MTEF. If you do not know, ask a competent official in MINECOFIN)*	**Pass** = The answer is clear. If the answer is "yes" a suitable reference or explanation has been included **Return** = If the answer is "yes" no reference or explanation has been included.

All the questions below to be answered by the Proposing Entity	Scoring Guidance
	Not Accepted = If the answer is no or the question has not been answered
2.7 Sources of additional recurrent costs *(The most likely answer to this question is either State Budget or Local Budget - please write which one. In the case of an alternative source of funding, such as 'self-funding' please state the source. If non-budget funding is available, indicate how much and for how long)*	**Pass** = The data is complete, clear and the sources seem realistic **Return** = The information is complete but requires clarification **Not Accepted** =The information is not complete, or it is complete but not realistic or credible
2.8 Is land expropriation and / or re-settlement with compensation required? *(Answer 'yes' or 'no'. In the case of 'yes' please state the costs involved - which should have been included in 2.1 - and the legal status of the expropriation)*	**Pass** = The information is complete, clear and appears to be realistic **Return** = The information may be provided but requires clarification **Not Accepted** = The information was either not provided or it was provided but does not seem realistic
2.9 Estimated Direct Annual Revenue (if any). *(If the project generates revenues from its activities, please state how much in its first full year of operation and give some explanation or evidence to justify it.* *If there is no revenue - please write 'None').*	**Pass** = Either the answer is 'none' or: if it does, the number shown is justified with some evidence and is credible **Return** = The project generates revenues, but the number shown has not been justified **Not Accepted** = Either no attempt to answer the question or the project generates revenues, but the answer given lacks credibility)
3. Implementation Planning	

All the questions below to be answered by the Proposing Entity	Scoring Guidance
3.1 Planned timing of the project *(Give estimated dates - month / year - for the following stages: Preparation (including the completion of all studies) / Appraisal Complete; Procurement Process begins; Award of Contract; Works Begin; Works Finalize; Project becomes Operational)*	**Pass** = The plan is clear and appears to be realistic **Return** = The plan presented appears credible but requires clarification **Not Accepted** = Timings are not credible, or no information has been provided.
3.2 Early consideration of implementing options *(Whilst a full option appraisal is not possible at the pre-screening stage, some early consideration should be given to excluding technical options that may represent 'no-go areas' for the government. These may include options that would risk breaching environmental and climate change protocols and policies. Therefore, describe any work that has already been done on early option assessment)*	**Pass** = Evidence of option assessment work is presented and results in no conflicts with government policies and protocols **Return** = An option assessment has been done but the results are not clear **Not Accepted** = There has been no attempt to look at options for implementation.
3.3 List other sector ministries, government agencies, districts, utilities, or regulatory institutions that will need to be directly involved in the planning and implementation of the project including any legal issues that will need to be resolved. *(All projects rely on the cooperation of other agencies. Without that cooperation projects are often delayed. Please list the agencies that need to be involved and the degree to which they have been consulted already)*	**Pass** = All likely institutions are listed with clear information on legal / institutional issues to be addressed **Return** = Institutions listed but with some obvious gaps **Not Accepted** = No serious attempt to provide the information required or response not credible
3.4 List all other stakeholders in the project and explain how each one will be consulted. *(Stakeholders are individuals or entities that are either affected by the*	**Pass** = All likely individuals and entities are listed and plans for engagement are given

All the questions below to be answered by the Proposing Entity	Scoring Guidance
project or how specific interest or knowledge that maybe utilized in the design and planning of the project)	**Return** = Stakeholders listed but with some obvious gaps or no real plan for engagement **Not Accepted** = No serious attempt to provide the information required or response not credible
3.5 What are the main risks to achieving a successful project and how can they be dealt with? *(A risk is an unexpected event that could slow the project down and / or result in additional costs. Please list the things that could go wrong and would adversely affect the project. Additionally, building on the responses in 1.17, focus on climate change vulnerabilities, explain the scale and impacts of these risks materializing. Explain how the risks can be managed)*	**Pass** = The most likely risks are listed with credible management measures described, which may include commissioning further studies / investigations **Return** = Either: Some risks are listed but other likely risks are not or: the way forward is less than clear **Not Accepted** = No attempt to answer the question

Annex 4. Rwanda Project Selection Criteria

Scoring instructions for the prioritization and selection template

The proposed scoring criteria are subject to weightings which reflect the preferences of the Rwandan government. The percentage values show the relative importance of the nine chosen criteria. These percentage weightings are then simply converted to a multiplier to be used in calculating the scores of each of the criteria, for each project that is assessed. Green shaded elements reflect the climate related selection criteria.

Weights for the prioritization and selection criteria

#	Criteria	Percentage of the Total Score	Weighting Multiplier
1.	National Sector Priority	20	0.2
2.	Sector Ministry's own Priority	10	0.1
3.	Project Efficiency	20	0.2
4.	Effects on the Climate	15	0.15
5.	Resilience to the effects of CC	15	0.15
6	The Degree of Gender Balance	5	0.05
7.	Compliance with other ESG requirements	5	0.05
8.	Number and Type of Jobs Created	5	0.05
9.	Distribution of Benefits	5	0.05
	Total	**100**	**1**

All criteria can score a maximum of 3 points each meaning that the total maximum score for any project is 27. The relative importance between the different criteria is accounted for through the weighting system which is shown after the scoring tables. Criteria 1 and 2 are completely objective and scores should be the same across all scorers; criteria 3 - 9 require some judgment and for this reason the individual scores can be expected to vary. Individual scores are averaged, and the weighting applied to this average score. Scores are entered via an Excel spreadsheet where the average and weighted scores are calculated values. Information on how to score the nine criteria are illustrated below.

Criterion 1/9: ***'Government Sector (or sub-sector) Priority'*** **is scored as follows:**

National Sector (or sub-sector) Priority	Number of Points Awarded
National Top Priority Sector or Sub-Sector	3
National Second Sector Priority	2
All Other Sectors	1

Criterion 2/9: ***'Sector Ministry's own Project Priority'*** **is scored as follows:**

Sector Ministry's own Priority	Number of Points Awarded
Sector Ministry Top Priority Project	3
Sector Ministry 2nd Priority Project	2
Other Projects submitted by the Sector Ministry	1

Criterion 3/9: ***'Project Efficiency'*** **is scored as follows:**

Project Efficiency	Number of Points Awarded
50 or more beneficiaries per RWF1m	3
20-50 beneficiaries per RWF1m	2
Less than 20 beneficiaries per RWF1m	1

Criterion 4/9: ***'Effects on the Climate'*** **is scored as follows:**

Effects on the Climate	Number of Points Awarded
Carbon Positive	3
Carbon Neutral	2
Carbon Negative but with maximum mitigation	1

Criterion 5/9: ***'Resilience to the Effects of CC'*** **is scored as follows:**

Resilience to the Effects of CC	Number of Points Awarded
No risk (or minor theoretical risk) from CC	3
Small Risk / low impact from CC but acceptable mitigations in place	2
Significant risk / low to medium impact from CC but acceptable mitigations in place	1

Criterion 6/9: ***'Degree of Gender Balance'*** **is scored as follows:**

Compliance with other ESG Requirements	Number of Points Awarded
No concerns about gender issues	3
Minor gender issues identified but acceptable mitigations are in place	2
Significant gender issues identified but acceptable mitigations now in place	1

Criterion 7/9: ***'Compliance with other ESG requirements'*** **is scored as follows:**

Compliance with other ESG Requirements	Number of Points Awarded
No concerns about ESG compliance	3
Minor ESG issues identified but acceptable mitigations in place	2
Significant ESG issues identified but acceptable mitigations in place	1

Criterion 8/9: ***'Number and Type of Jobs Created'*** **is scored as follows:**

Number and Type of Jobs Created	Number of Points Awarded
More than 500 **or** more than 50 green jobs	3
100-500 **or** 10-50 green jobs	2
Less than 100 **or** 1-10 green jobs	1

Criterion 9/9: ***'Distribution of Benefits'*** **is scored as follows:**

Distribution of Benefits	Number of Points Awarded
National Project benefiting all citizens	3
Benefits more than 1 region outside Kigali	2
Benefits only 1 region or just Kigali	1

Interpreting results and selecting projects based on available fiscal space

Once the scoring is completed at the project level, these will be ranked based on the weighted score. The project with the highest weighted score will be first on the list; the project with the lowest weighted score will be last.

The aggregation will produce a list that also creates a cumulative capital value in the right-hand column. This will allow the easy identification of a 'cut-off point,' depending on the available fiscal space, at which all projects above the line can be accommodated and those below it cannot.

Rank	Project	Total Average score	Total Weighted Score	Capital Value (RWF)	Cumulative Capital Value
1	2	12.5	2.6	10,000,000	10,000,000
2	10	12.5	2.5	4,000,000	14,000,000
3	9	11.8	2.3	12,000,000	26,000,000
4	8	11.4	2.2	7,000,000	33,000,000
5	7	10.4	2.1	10,000,000	43,000,000
6	5	9.9	2.0	8,000,000	51,000,000
7	3	9.5	1.9	10,000,000	61,000,000
8	4	9.0	1.8	7,000,000	68,000,000
9	6	9.0	1.7	12,000,000	80,000,000
10	1	8.3	1.6	5,000,000	85,000,000

Notes: in the illustration above, if fiscal space available for the budget agency in the MTEF was RWF 45m, the first five ranked projects could be selected

Annex 5. Detailed Scores for the C-PIMA

C1. Climate-aware planning	
C1.a.	National and sectoral planning
C1.b.	Land use and building regulations
C1.c.	Centralized guidance on planning
C2. Coordination between entities	
C2.a.	Coordination across central government
C2.b.	Coordination withsubnational governments
C2.c.	Oversight framework for public corporations
C3. Projection appraisal and selection	
C3.a.	Climate analysis in project appraisal
C3.b.	PPP framework including climate risks
C3.c.	Climate consideration in project selection
C4. Budgeting and portfolio management	
C4.a.	Climate budget tagging
C4.b.	Ex post review of projects
C4.c.	Asset management
C5. Risk management	
C5.a.	Disaster risk management strategy
C5.b.	Ex ante financing mechanisms
C5.c.	Fiscal risk analysis including climate risks

The following color coding is used in presenting the scores:

Score	1	2	3
Color			

Annex 6. Preliminary Q-CRAFT Analysis of Macro Fiscal Risks from Climate Change

The Quantitative Climate Change Risk Assessment Fiscal Tool (Q-CRAFT) is used to quantify the long-term fiscal risks from climate change. Q-CRAFT first examines the impact of a range of climate scenarios on the macroeconomy (through reductions in productivity and consequent reductions in GDP growth) and uses those results to prepare a long-term fiscal sustainability model to identify the fiscal impact.

The climate scenarios are drawn from the latest vintage of the Intergovernmental Panel on Climate Change scenarios to reflect four eventualities: a Paris scenario, where global emissions match the commitments made in the 2015 Paris Summit to keep the global temperature increase to 2 degrees above pre-industrial levels; a moderate scenario where emissions continue to increase in line with current trends; a high scenario where countries scale back their implemented policies; and a hot scenario with the same emissions as the high scenario, but a more pessimistic (i.e., hotter) output from the climate models. The latter is a worst-case scenario consistent with fiscal risk analysis requirements and reflects uncertainty in modeling climate outcomes from emissions.

Preliminary estimates from the tool for Kenya indicate that Kenya's baseline with Paris commitments met is for a positive macroeconomic and fiscal path because of the strongly favorable demographics. However, there is a risk that this could be reversed under various climate change scenarios. Unless Paris commitments are met, Kenya's economy could be up to 4 percent smaller by the end of the century relative to the baseline under different climate scenarios. The effects of climate change on the macroeconomy are taken from the updated estimates of Kahn et al. (2021). Figure A1 compares the deviations from the baseline in real GDP growth and levels under the four scenarios considered. The Paris and moderate scenario presents a benign outlook for Kenya and is thus not discussed. In contrast, the hot scenario presents a pessimistic outlook that cannot be ruled out. Exploring such an extreme scenario is useful for fiscal risk analysis as it helps to define a boundary of worst-case but plausible possibilities.

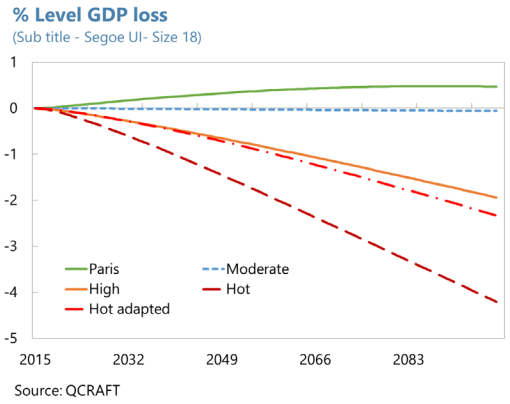
The fiscal implications of alternative climate scenarios are reflected in the revenue side of the budget. Under each of the climate change scenarios, revenue is assumed to decline in line with nominal GDP, so the revenue-to-GDP ratios held constant. In contrast, primary expenditure is assumed to be rigid and held unchanged from the baseline. These assumptions imply a worsening of primary net borrowing requirements over time.

Slower economic growth and worsening primary net borrowing result in gradual increases in the debt-to-GDP ratio over time (Figure A2). This is most acutely visible in the hot scenario, where debt-to-GDP ratio approaches 150 percent.

These preliminary estimates should be further explored and refined in subsequent work to ensure consistency with government projections and other analysis and could ultimately serve as a basis for inclusion in fiscal risk analysis and the Fiscal Risk Statement in Kenya (see Recommendation 7).

Figure A1. Macroeconomic Effects of Climate Change (2015-2099)
Deviations from the Baseline

(levels), percent



(growth rate), percentage points

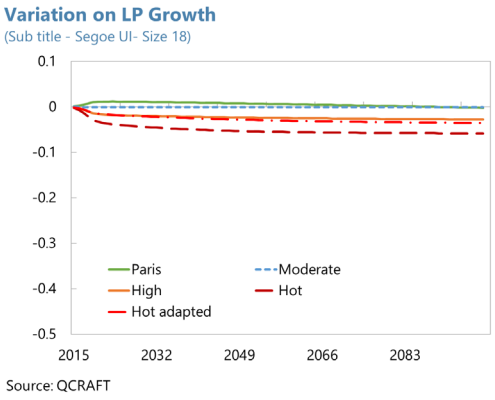
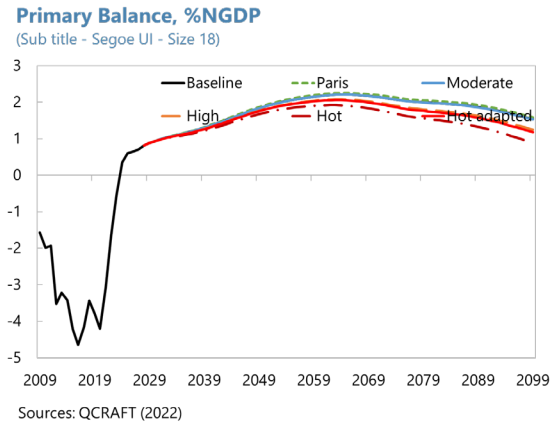
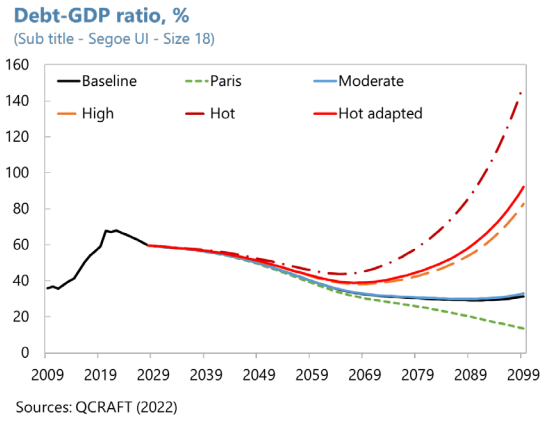


Figure A2. Fiscal Effects of Climate Change (2030-99)

Primary Deficit (percent of GDP)



Debt-to-GDP Ratio (percent)



Source: Kahn et al. (2021); IMF staff estimates.