National Authorising Officer – Head of Delegation of the European Commission, Kenya

Joint Annual Operational Review

of cooperation between

The Republic of Kenya

and

The European Community

in 2003

Annual Review of the ACP-EU Convention and other cooperation activities

1 Executive summary

During 2003 the Government of Kenya strived to translate the political turning point marked by the 2002 elections into a concrete programme of economic and social renewal. This centred around the refinement of the PRSP and the publication of the preliminary Economic Recovery Strategy and associated Investment Programme. Towards the end of the year, Kenya reached an agreement with the IMF for a three-year PRGF programme of support, closely followed by the first Consultative Group meeting since 1997.

The EC stood ready throughout the year to provide support to this process. Highlights included the technical support to the Public Expenditure Review process, advanced budget support of €51 million designed to lay a platform for the IMF programme, progress in the Sultan Hamud – Mtito Andei section of the Mombasa-Nairobi highway, the launching of an emergency tourism marketing campaign for Kenya in Europe, and active participation in the preparations for the Consultative Group.

The signature of the CSP in October 2003 provides a solid framework for further progress in delivering a concrete programme of support to the Government's ERS/PRSP priorities. The CSP emphasises the importance of macroeconomic support and the associated improvements in public financial management. Support to rural development meanwhile seeks to support improved service delivery and sustainable development through support to enhanced capacity and accountability of key local institutions. Support to the infrastructure sector focuses on improved trunk road network and rural roads in order to reduce the costs of doing business whilst promoting regional integration.

This Joint Operational Review (JOR) was thus undertaken against a background of an ongoing process of steadily improving cooperation between the Government of Kenya and the EC. The process of elaborating the report followed a period of intensive contact between the NAO, the EC Delegation and implementing ministries and agencies, with participation of non-state actors.

The result of the JOR process is a proposal to retain the CSP without amendment. Both the EC and the Government of Kenya firmly believe that the cooperation programmes foreseen under the CSP are strategically well placed to make a decisive contribution to achieving the goals of the ERS/PRSP. Some minor amendments to the National Indicative Programme are proposed. The main thrust of the JOR is to identify and agree on measures to accelerate implementation. The JOR has highlighted a number of important issues that should be taken into account to accelerate the implementation of the programme. These include the following:

- Improved efficiency in the approval of project proposals and the processing of payments to be addressed through joint GoK-EU mechanisms.
- Improved dialogue on macroeconomic and fiscal policy issues with concrete steps from the Government of Kenya to form a Budget Support Donor Technical Coordination Group for donors who may wish to provide this form of assistance.
- Closure of completed programmes and reallocation of resources to the 9th EDF pipeline.
- Increased awareness of important cross-cutting issues in the implementation of the programme including , in particular, HIV-AIDS and gender issues.
- A new openness towards meaningful involvement of Non State Actors.

EC-GoK relations have improved significantly in the period since the 2002 elections and the momentum for reform is now gathering pace. Despite this good will and transparency, however, further work needs to be done in improving capacity on the Government side, and further refining joint working methods, if these much-improved relations are to be turned into a truly effective partnership.

2 The Policy Agenda of the partner country

The challenge of unwinding the structural impediments to growth and poverty reduction that have emerged over the past twenty years in Kenya is a medium to long-term process. As a first step in this direction, the new Government has elaborated its Economic Recovery Strategy for Wealth and Employment Creation 2003- 2007 (ERS). The ERS aims to build on the new Government's commitments by translating the nation-wide consultative process that resulted in the PRSP into a coherent programme of action. In this context, the ERS aims to provide a concrete growth strategy that will deliver 500,000 jobs per annum over the next 5 years.

The PRSP/ERS acknowledges that this will require an accelerated programme of structural reforms. The aim is to provide an enabling environment for private sector growth with the focus on tax and tariff rationalisation; market deregulation, investment in infrastructure, privatisation, and the promotion of transparency and accountability in public service in order to reduce the costs of doing business in Kenya. In this respect, the Government's demonstrable commitment in quickly passing the Anti-Corruption and Economic Crimes Act 2003 and the Public Officer Ethics Act 2003 sent an important signal to the international community and the private sector.

A further key policy initiative in this context is the recent elaboration of an Industrial Master Plan and National Investment Code which seeks to simplify and consolidate legislation relating to private investment. In addition, the Government has presented a Privatisation Bill to Parliament in order to elaborate a transparent institutional mechanism for privatisation. This foresees the creation of an independent Privatisation Commission to oversee and implement all privatisation transactions. The PRSP/ERS also devotes substantial attention to the need to provide a more stable framework for small enterprises as an important potential pole of employment growth.

The Government and donors are working out for the establishment of a Monitoring and Evaluation framework for the ERS/PRSP and to enhance harmonisation. It is hoped that this will provide the basis for a joint annual review process on progress in the ERS/PRSP implementation. The Government also intends to establish a Secretariat to enhance coordination and review mechanisms in relation to priority areas in the ERS/PRSP. This will serve as a basis for accelerating the move towards sector-wide approaches. Concrete proposals, building on the progress made at the Consultative Group Meeting, are currently underway.

3 Update of the political, economical and social situation

The political turning point after the elections in 2002 was accompanied by the launch of an ambitious reform agenda for economic and social renewal by the new Government. The Government affirmed its commitment on the policy of zero-tolerance to corruption with legal measures put in place at an early stage through the Anti-Corruption and Economic Crimes Act 2003 and the Public Officer Ethics Act 2003. This renewed commitment towards a reform programme also led to the signing of an agreement with the IMF in November 2003 for a three-year programme of support under the Poverty Reduction and Growth Facility. Nevertheless, IMF Board Members expressed concerns that the current coalition Government may not have the capacity to deliver the ambitious reform programme inherent in the PRGF. At the same time, the Government's attention to the reform programme in 2003 was diverted by a number of unfortunate external factors including the death of the Vice President and the subsequent mourning period and the travel advisories following threats of international tourism, and its negative effects on the tourism industry. In addition, internal divisions on the Constitutional Review process, now expected to be completed by October 2004, have taken up substantial time of both the Government and Parliament.

The economy grew by a modest 1.4 % in 2003 compared to 1.1% in 2002. Following a period of protracted decline, Kenya currently finds itself at an important turning point in its economic and social development. The 1980s and 1990s were distinguished by numerous policy failures and poor economic management, resulting in increased structural rigidities and distortions in the economy. With GDP growth averaging only 2.2% over the past decade, and population growth averaging 2.7% per annum over the same period, GDP per capita has declined on average by 0.5% per annum. In addition to declining per capita incomes, Kenya suffers from high social inequality. The proportion of the population living in poverty is estimated to have increased from 11.3 million (48% of the population) in 1990 to 17.1 million (56%) in 2002.

The prospects for a rapid upturn in growth, and a corresponding decline in poverty, are limited by the structural legacy of the previous decades. Thus, the continued systemic governance problems, weakened institutions and the deterioration in infrastructure act as severe constraints to investment and private sector development. The costs of doing business in Kenya are pushed up by high user fees for essential services, inefficiencies in the regulatory environment, a justified lack of confidence in the judicial system, and by grand and petty corruption. Moreover, a general lack of security reduces livelihood options and access to essential services, and deters tourists, and foreign and local investors alike The Kenya Private Sector Alliance estimates that Kenyan firms spend 4% of their operating income on security measures, while recent terrorist activity has had a further negative impact on perceptions of Kenya as a safe place to visit and do business.

In addition, the burden of disease (particularly malaria and HIV/AIDS) and the continued high fertility rate result in a reduced labour force and relatively high dependency ratio. The effect of HIV/AIDS on the economy and society is complex, and further analysis is urgently needed. But the World Bank estimates that the recent increase in mortality, largely the result of the HIV/AIDS epidemic and the persistent burden of malaria, has reduced Kenya's annual economic growth potential by 0.7%.

Finally, the over-extension of the public sector, rising domestic debt and the weakness of budgetary prioritisation have further damaged prospects for growth and poverty reduction. Approximately Ksh65 of every KSh100 collected from Kenyans in taxes is spent paying public servants and servicing Government debt. The wage bill (excluding the armed services) totals around 41% of Government expenditure, and debt servicing around 24%. Despite some piecemeal attempts at civil service rationalisation, the public sector wage bill is still increasing faster than GDP, and now stands at 8.5% of GDP. The ratio of public investment to GDP of about 3.5%, meanwhile, is one of the lowest in sub-Saharan Africa. At the same time, expenditure on operations and maintenance also remains low at about 4.5% of GDP.

In addition to the income-based measures of poverty, Kenya has also suffered from a general decline in human development indicators. Life expectancy has declined from 57 years in 1986, to 47 years in 2000. Infant mortality, meanwhile, has increased from 62 per thousand in 1990, to 78 per thousand in 2001. Against this background, recent estimates of growth potential indicate that, even under favourable assumptions, the Millennium Development Goal of cutting in half the proportion of the population living in poverty by 2015 (a reduction to 24.2%) is not likely to be attained. Kenya's performance with respect to the MDGs actually declined during the 1990s with the proportion of the population living in poverty increased (see Table 1). The non-income dimensions of poverty also deteriorated in Kenya during the 1990s, although Kenya's indicators of health and education remain better than many other Sub-Saharan African countries. Gender disparities have also persisted with women having on average, lower educational attainment, less access to health services, and a heavier workload than men

Primary school enrolment rates have declined since the early 1990s, although Kenya spends over 6 percent of its GDP on education, more than twice the low-income country average of about 3 percent of GDP. This trend has been recently reversed for primary education with the introduction, in January 2003, of Free Primary Education.

The dramatic decline in life expectancy (47 years in 2001 c.f. 57 in 1990) partly reflects the HIV/AIDS pandemic (the infection rate reached 13.5 percent of the adult population in 2000), but also has a gender dimension in that girls and young women are more likely to be infected than men. Infant and child mortality have worsened. Prevalence rates in pregnant women are currently around 10% nationally, and are roughly twice as high in Nyanza and Western provinces. Approximately 1.5 million Kenyans are living with HIV (of whom less than 10% know they have the virus), around 300 die from HIV/AIDS-related illness every day, and there are 1.2 million AIDS orphans. Recent data suggest that prevalence rates may now be stabilising or even falling, but most of those infected have not yet fallen sick, so the full impact of the epidemic has yet to be felt. . The health sector is being reformed with a view to ensuring access to basic drugs and quality service, although public expenditure on health remains extremely low at $5 per capita – well below the $20 normally considered the minimum required to deliver essential services – and only a small proportion of this is spent on preventive services in rural areas where it would have most impact. Against this background, the Government is considering the restructuring of the National Health Insurance Fund (NHIF). The Government has also increased awareness on HIV/AIDS and established a Cabinet sub-committee chaired by the President. A key challenge will be ensuring an effective and equitable distribution of anti-retroviral drugs (ARVs).

A recent report[1] prepared for the Government of Kenya which measures Kenya's progress towards the MDG goals, estimates the achievement by 2015 of six of ten indicators as "unlikely" without necessary improvements in the supporting environment, which is judged as "weak" in relation to four of these ten indicators (see Table 1). The ongoing MDG costing exercise, led by UNDP, has adopted Kenya as a pilot country and should provide further information on the resources required to bridge the gap between current trends and the MDG targets.

Kenya's statistical systems for monitoring of the above 10 MDGs are of variable quality and comprehensiveness. For several critical indicators, including poverty rates, child nutrition and access to improved water, data is only available from infrequent survey sources (WMS, KDHS etc) so that annual monitoring is not currently feasible. The most important gap in current statistical capability arises from the continued reliance for several indicators on infrequent surveys. Consideration is being given to addressing this problem through the introduction of an annual survey by the Central Bureau of Statistics (CBS). The Delegation is also discussing possible support to CBS with the NAO, focusing on refining the CBS Strategic Plan, co-financing the implementation of the proposed Integrated Household Budget Survey, and providing more medium term institutional support to CBS and the development of the National Statistical System.

[1] Progress Report 2003, MDG Goals: Kenya

Table 1. Millennium Development Goal (MDG) Indicators *Targets are in Italic*

No	MDG Indicator	1994	1997	2000	2001	2002	2003	2004	2005	ERS Target
1.	**Prevalence of Population under $1/day (local poverty line)**	40.25	52.32	56.7			56			
2.	**Prevalence of underweight children <5years**	15.3	12.3	14.1			20			
3.	**Under 5 Yrs Mortality Rate (per '000)**		112 (1998)	119.8	122	120	114	*114*	*112*	*100 by 2008*
4.	**Net Enrolment Ratio (Primary)**		73.5 (Poor) 79.8 (NonP)	73.7	n/a	n/a	79.8	*81.5*	*83.2*	*85 by 2007*
5.	**Primary Completion Rate** **Boys** **Girls**	 43.9 44.6 43.0	 46.4 46.3 45.8	 48.9 48.3 49.6	 49.8	 N/A	 59.4 60.6 58.1	 *59.7* *60.0* *59.1*	 *60* *60* *60*	
6.	**Girl/Boy ratios in:** **Primary** **Secondary** **Tertiary**	 0.97 0.84	 0.97 0.89	 0.97 0.89 0.45	 0.97 0.98 0.49	 0.97 0.89			 *100*	
7.	**Proportion of births attended by skilled health personnel**		35.4 (Poor) 52.3 (Non-P)	45				*70.8*	*75.6*	
8.	**Proportion of 1 yr old children immunised against measles**	80.7	75	76		76.7	80	*85*	*90*	*Raise FIC to 85%*
9.	**HIV Prevalence among 15-24 year old pregnant women**	20.1	17.2	17.7	13.0	10.2	9.4	*9.2*	*8.4*	
10.	**Proportion of population with sustainable access to improved water source**		43.3		49.0					*90% by 2006*

Notes:

1. Poverty Rate: 1994 and 1997 estimates based on local poverty line (not 1$) from Welfare Measurement Surveys; 2000 Estimate derived by KIPPRA from an econometric model;
2. Underweight Children: Sources: CHANIS (simple average of sub-age groups used for 1994 estimate)
3. Under 5 Mortality rate:
4. Net Enrolment Rate: Sources: 1997: WMS; later years from MOEST/TSC MIS
5. Primary Completion Rate: Source: MOEST
6. Girl/Boy ratios in education: Source: CBS Economic Survey cited in MOEST Report of the sector Review (Feb 2003)
7. Proportion of births attended by skilled personnel: Source: 1997: WMS
8. Measles Immunisation: Sources: KEPI Surveys and MOH HMIS
9. HIV Prevalence in 14-24 year old pregnant women: Source: NASCOP
10. Access to Water: Source: 1994: WMS; 1997: Second Report on Poverty in Kenya (2000)

ERS Targets are drawn from the February 2004 ERS Investment Plan Implementation Matrix

4 Overview of past and ongoing cooperation

The EC is Kenya's second largest development partner after the World Bank. On average, annual EC aid finances 10-15% of the Government's development budget. The implementation of the EC programme in Kenya accelerated on 2003 compared to 2002, but achievements remained behind forecasts as the following figures show:

Table 1. Financial Performance 2003 (€ million)

	2003 Forecast	2003 Actual
Global Commitments	50.4	52.2
Individual Commitments	140.4	10.8
Payments	36.4	25.0

The main reasons for the shortfall were the delays in finalising the Budget Support Programme and and the launch of the Mau Mahiu – Naivasha –Lanet Road works tender.

The targets for 2004 and 2005 are as follows:

Table 2. Financial Forecasts 23004-2005 (€ million)

	2004	2005
Global Commitments	173.5	41.5
Individual Commitments	127.4	87.0
Payments	106.3	139.4

The significant increase between these targets and the amounts achieved in 2003 underlines the size of the task ahead of the Government and the Commission. Steps will also be taken during 2004 to close old and dormant projects. Some 13 old and dormant projects will be closed this year, which will release €9.8 million for utilisation elsewhere.

4.1 Focal sectors

4.1.1 Macroeconomic support

a) Results

The IMF concluded negotiations with the Government on a three-year PRGF programme in June 2003 with the PRSP/ERS launched at the same time. A progress report on the PRSP/ERS process was prepared by Government and submitted to the IMF Board for consideration alongside the proposed PRGF programme in November 2003. The accompanying Joint Staff Assessment (JSA) concluded that progress in developing the PRSP/ERS represents a sound basis for continued IMF and World Bank assistance. Following this, a Consultative Group meeting was held in November 2003 that provided the opportunity for development partners to discuss the PRSP/ERS in detail with Government. Based on this, the PRSP/ERS Implementation Matrix has been revised and submitted to the IMF and WB in February. A further JSA is expected during March 2004. The first review of the PRGF programme was scheduled to coincide with the JSA but this has now been postponed until April at the request of the Government. It is understood that he Government requested more time to re-assess the macroeconomic and fiscal framework in the light of higher than expected expenditures (partly linked to wage developments) and lower than programmed donor receipts. The IMF now intends to present the results of the first review to the board in June, by which time the Government will also have presented its 2004/05 budget to Parliament.

At the same time, a key challenge facing the new Government is the need to reorient public finances in favour of pro-poor expenditures against a highly constrained fiscal background. The Government has therefore adopted a programme of medium-term fiscal consolidation in the context of the macroeconomic programme supported by the IMF PRGF facility. The PRGF programme covers the period 2003/04 to 2005/06 and seeks to restore fiscal sustainability by reducing borrowing and reversing the rise in the domestic debt burden. The programme also seeks to reorient public finances away from wages towards capital investment and the delivery of services for poverty reduction.

Thus, capital expenditure is projected to rise from 3.6% of GDP in 2002/03 to 7.6% of GDP in 2005/06. Expenditure on essential poverty-focused services, meanwhile, is projected to rise from 3.4% of GDP in 2002/03 to 4.6% of GDP by the end of the programme. In order to create the fiscal space for these increased outlays, the programme includes expenditure reduction measures focusing on public sector pay and non-core goods and services. The programme therefore focuses on revising the public sector pay determination machinery and further civil service reform with a view to reducing the civil service wage bill from 8.7% of GDP in 2003/04 to 7.6% of GDP in 2005/06. (See Table 2 for further details).

Table 3: Macroeconomic Indicators

Component	**Indicator**	**2000**	**2001**	**2002**	**2003 (Prelim.)**	**Target (from PRSP/ERS unless otherwise mentioned))**
Input	Expenditure restructuring in favour of social sectors (% GDP)	2.1%	2.1%	2.3%	3.4%	Increase from 3.4% of GDP in 2002/03 to 4.6% of GDP by 2005/06 Source IMF PRGF and ERS
	Public sector wage bill as a percentage of gross domestic revenue	8.6	8.1	8.4	8.5	Reduce public sector wage bill from 8.7% of GDP in 2003/04 to 7.6% of GDP in 2005/06. Source IMF PRGF and ERS
Output	Primary classroom construction and renovation (stock in ‘000)	175.3	188.3	186.0	200.6	No quantitative target in ERS but World Bank sector study estimates that an additional 15,000 to 25,000 are needed over the period 2003-06
	Number of rural health centres with full drugs kits (ration of kits delivered to ordered)		9697 (60%)	4247 (23%)	19,688 (294%)	No quantitative target in ERS Data from KEMSA/MoH
	ARV users				11,000	60,000 by 2004, 110,000 by 2005 Source ERS and NACC/Global Fund
Outcomes	Primary net school enrolment	73.7	n.a.	n.a.	79.8	Increase from 80% to 85% by 2007 Source ERS
	Fully immunised children under 1	76%	75%	75%	74%	From 74% to 85% by the end of the ERS period (2007)
	Malaria morbidity	35.1	31.2	31%	30%	Reduce by 10% per annum
	HIV/AIDS prevalence	13.4	13.0	10.2	9.4	Reduce to 10% by 2006

b) Progress in activities

The EC continues to support the Government in its efforts to develop a full PRSP through its encouragement of a results-based approach to budget support. Thus, during the formulation of the Poverty Reduction Budget Support Programme 2003-2006 (PRBS02) Financing Proposal, EC financed consultants worked closely with the Ministries of Health and Education in developing an annual series of indicators for health and education outcomes. This work is intended to feed into the Government's ongoing efforts to refine the ERS/PRSP Implementation Matrix.

At the same time, the EC has also provided substantial assistance to the Public Expenditure Review (PER) process in an effort to support expenditure restructuring which is a key plank of the PRGF programme. This has also served to underpin progress in reflecting ERS/PRSP priorities in the budget, as outlined in the CSP. The 2004/05 Budget Circular goes some way towards setting out an integrated timetable whereby the PER is seen as the basic input into the budget allocation process. To reinforce communication and understanding between Ministry of Finance (Budget) and Ministry of Planning (PER) an Inter-Ministerial Coordination Committee has recently been established which meets on a weekly basis.

As recognised in the CSP, credible prospects for improved Public Financial Management (PFM) are the basis for implementing budget support. This requires an agreed Action Plan to be established with clear and monitorable indicators of progress in its implementation. In this context, the EC participated in the Public Expenditure Management Assessment and Action Plan (PEM-AAP) benchmarking of Kenya's PFM systems in collaboration with the IMF, WB and DFID in April 2003. Following this, a draft PFM Action Plan was prepared and discussed at a workshop in June 2003 with the Minister and PS Ministry of Finance in attendance. This was based on the Country Financial Accountability Assessment (CFAA) update and the Public Expenditure Management Assessment and Action Plan (PEMAAP) exercise. Since then only limited progress has been made by the Government in both refining the Action Plan and implementing key recommendations of the PEMAAP. A PEMAAP update is scheduled for end March/early April 2004.

A draft Financing Proposal has been developed for a €120 million macroeconomic support programme over three years, plus a further €5 million for Institutional Support. The proposal focuses on supporting improvements in health and education sector outcomes in addition to improvements in public financial management. The FP is currently under consideration for approval by the EC. It should be highlighted, however, that disbursements are likely to be conditioned on the achievement of an additional two PEM-AAP benchmarks each year. The main macroeconomic developments and targets that PRBS02 will focus on are summarised in Table 2 above. It is anticipated that the accompanying Institutional Support will focus on support to the PER process and PFM improvements, in addition to enhancing the capacity of the Central Bureau of Statistics (CBS) in developing the Monitoring and Evaluation framework for the ERS/PRSP.

c) Integration of cross cutting themes

In view of the improved governance situation in Kenya since the 2002 elections, the new Government and the EC agreed to increase the emphasis on the macroeconomic support programme in the CSP, which at the same time placed greater emphasis on accompanying measures on governance and, in particular, improved public financial management.

This improved governance environment was recognized at the Consultative Group meeting in November 2003 in the statement on Governance, Public Expenditure Management and Fiscal Transparency that was delivered by the EC on behalf of participating development partners. The CG meeting congratulated the Government on the substantial progress that has been made in certain areas of governance that are essential to achieving the objectives of the ERS/PRSP, including the efficient allocation of resources, the effective delivery of services, and attracting investment. Such measures include creating a Ministry of Justice, establishing the Kenya Anti-Corruption Commission in the Office of the President, replacing procurement officers and removing judges and magistrates, passing the Public Officer Ethics Act and the Anti-Corruption Act, and seeking adoption of legislation on public audit, the procurement and disposal of public assets, privatisation, and financial management. Both the Government and partners agreed that strong implementation of the legislation will be key to success in the fight against corruption.

Participants at the Consultative Group meeting recognized that more progress was needed in other key areas of reform, and in this regard welcomed the Government's commitment to develop a more rational, transparent, and inclusive budget process; to institutionalise the PER in all Government ministries and to ensure that its results are reflected in the medium-term expenditure framework and in budgetary allocations; to strengthen capacity of local Governments to operate effectively within a decentralized framework; and to reform the civil services. In addition the Government informed partners that it is committed to completing the constitutional review process, and named a target date of June 2004. The challenge will be in implementing the reforms, so that budgetary allocations are truly pro-poor and public services are delivered effectively and efficiently. Development partners, civil society, and the Government agreed that all must work together to support of the reforms.

Since the CG, the Government has moved to bring the EC and other development partners into a closer relationship, building on the commitment to improved governance and improved donor harmonisation. The recent commitment by the Minister of Finance to hold Donor Coordination Group meetings every two months is a welcome step in this process. In addition, the Minister of Finance has proposed a review of the overall Government-donor coordination structure and mechanisms. More specifically, the Government has taken concrete steps in establishing a Budget Support Donor Technical Coordination Group for those multilateral and bilateral donors who wish to provide this form of assistance. The Government also proposes the formation of a small Joint Technical Working Group that will help to clarify the benchmarks for moving towards budget support, including the ERS objectives, and to provide a harmonised timetable for key decisions such as annual commitment levels, coordination of appraisal and tranche release procedures, among others. The Government also suggests a review, together with the existing Donor Technical Working Group, of necessary sectoral coordination procedures for priority areas in the ERS, as a basis for accelerating and strengthening the move towards Sector Wide Approaches.

In order to ensure all the above measures are put into place, the Government intends to establish a Secretariat to enhance coordination. The Secretariat will be facilitating preparation for and follow up on matters discussed in the Kenya Coordination Group and the Annual Consultative Group meetings as well as related issues such as facilitating the Public Expenditure Review (PER), and Public Expenditure Management Assessment and Action Plan (PEMAAP), Annual Progress Reports on the ERS, and monitoring progress on the donor harmonisation agenda.

The budget process is also becoming more open, with development partners, private sector and civil society explicitly included in the Sector Working Groups that are the focal point for budget preparation.

4.1.2 Rural Development and Agriculture

a) Results

Progress in agriculture and rural development would benefit from a more coherent vision on key issues affecting the sector. There is a lack of consensus on the role and organisational structure of the state in agriculture and rural development needs to be further addressed, including measures to build capacity of line ministries to address accompanying measures for an enabling environment. In agriculture this fragmentation manifests itself in confusion regarding the organisation of marketing of export crops (esp. coffee) and the role of a number of non-productive parastatals. The fragmentation of the central government agriculture-related functions across a number of different ministries (Land, Livestock and Fisheries, Agriculture, Cooperatives and Marketing, Regional Development, Water etc.) also exacerbates the difficulties in developing a coherent strategic vision for the sector.

A positive development to address this is the new Government Strategy for the Revitalisation of Agriculture (SRA) to be released early 2004. Under this new framework, a review will take place of all the different laws affecting the agricultural sector (currently around 117) to bring into one common framework. It is also foreseen that the ERS implementation matrix will help improve a coherent approach and consistent measurement of sector performance, addressing the current scarcity of data.

There is a need for Government of Kenya to create an enabling environment for development of private sector initiatives. Stronger links between private sector initiatives in the agricultural sector and EC support for micro-enterprise development will be explored under the current CSP.

In the same way, continuing uncertainty around the overall approach to decentralisation creates difficulties in supporting programmes in the wider rural development sphere. The Government has nevertheless stated that, irrespective of the outcome of the Constitutional Review, it intends to strengthen the role and capacity of Local Authorities in service delivery. At the same time, however, the recent establishment of the Constituency Development Fund raises issues regarding the coordination of local planning and the respective roles of the different arms of Government.

b) Progress in activities

Ongoing projects have enjoyed mixed success against the uncertain policy background outlined above. The Smallholder Coffee Improvement Programme Phase II (STABEX) project in favour of small holder coffee farmers has been severely undermined by the chronic structural problems in the coffee sector. The recently completed coffee study should provide a way forward on this.

Studies have also been carried out in the areas of livestock and cotton (underway). Further financial support towards implementing recommendations coming out of these studies will be considered.

The KARI project (Agricultural Research Support Programme II has developed a participatory approach in the design of research programmes and appropriate technologies for farmers in the arid and semi-arid areas, and contributed to the dissemination of research results. It is drawing to a successful close, and the final evaluation and the preparation of a follow-up phase are in progress. The formulation of a further stage is dependent on a clarification of research consolidation and the expected role of KARI in extension vis a vis the Ministry of Agriculture. Some of these issues are to be addressed in the new Strategy for Revitalisation of Agriculture.

The Community Development Programme 2 has been successful in mobilising the strong community self-help spirit which exists in Kenya. Nevertheless, the project needs to move more rapidly in translating commitments into disbursements. Revisions to the Financing Agreement are under preparation that should help this. Mandatory community contribution percentage level has also been reduced to address this problem. At the same time, the project is seeking to build partnerships with Local Government (LG), with some structural collaborations already taking place in order to draw important lessons on the LG approach to community-driven projects.

Table 4. Rural Development Indicators

Component	Indicator	2000	2001	2002	2003	Target
Input	Increased fiscal transfers to Local Authorities as percentage of income tax	2	5	5	5	No quantitative target in ERS: ‘proportion of budgetary resources controlled by local governments increased.’
	Number of District Environment Officers	-	-	-	32	No quantitative target in ERS but NEMA target is to appoint one for each of the 72 districts
	Rationalisation of agricultural research structures --establishments --staff numbers	8 7,158	9 6,934	9 6,626	7 6,055	No quantitative target in ERS but proposal to Cabinet under preparation
Output	Local Authorities Gross Fixed Capital Formation (GFCF) as percentage of Total Government GFCF	8.4%	7.9%	4.6%	5.1%	No quantitative targets in ERS: ‘proportion of budgetary resources controlled by local governments increased.’
	No. of LA capital projects	659	1291	1366	1584	
	District Environmental Action Plans prepared and approved	-	-	-	-	10 pilot districts to finalise APs in 2004/05, thereafter roll-out to other districts (NEMA)
	% of HH in 11 ASAL districts aware of (adopted) improved technologies		15.4 (0.8)	19.9 (3.0)	22.6 (9.0)	SRA target: 25% annual increase (first 3 years) of access to and use of information by farmers and private sector
Outcomes	Reduced Rural Poverty	53%				No quantitative target in ERS but likely to be set once Integrated Household Budget Survey completed.
	Real Agricultural sector GDP growth rate	-2.2	3.0	0.7	na	Growth rate accelerates to 3.1% annual average for 2004-07 (Strategy for Revitalising Agriculture)
	Rate of decline of forest cover (hectares of gazetted forest land excised)	0	67,724	0	0	No new excisions of gazetted forest; Excision of 67,724 is currently being challenged in court. Increase gazetted forest by 6074 ha in 2004/05 target of Ministry of Environment

The EC has been requested to support the elaboration of the Strategic Plan with work to be completed by June 2004 for the National Environment Management Authority (NEMA). It will also have to take into consideration the role of District Environment Committees. A financing proposal is also under preparation for a capacity building support programme.

In a similar way, the formulation of the Local Government support programme will have to take into account the recently established Constituency Development Fund. There is, however, confirmation from the government’s side that the Local Authority Transfer Fund (LATF) mechanism will remain a block grant to Local Authorities, conditioned on community participation through Local Authority Service Delivery Action Plans (LASDAPs).

c) Integration of cross cutting themes

Donors' coordination and dialogue with ministries concerned are in progress on several cross cutting issues such as agricultural policy, extension and private sector development and food security.

Initiatives in this sector have also included training on gender-sensitive research, involvement of Non State Actors in community development initiatives under CDTF, a more prominent role of NEMA is also foreseen under the 9th EDF with the Community Development for Environmental Management Programme under preparation. The capacity building needs for line ministries need to be looked at in further detail (an institutional strengthening study is underway). KARI capacity building includes both degree courses and shorter courses in participatory approaches.

The limited nature of quantitative targets and indicators for agriculture and rural development in the ERS, and the evolving Strategy for the Revitalisation of Agriculture, suggests that substantial work is needed in this area. It is hoped that the proposed EC Institutional Support programme, as part of PRBS02, will help develop a more robust monitoring and evaluation framework in rural development.

4.1.3 Roads and transport

The main areas of EC activities are the financing of technical assistance in support of the reform of the road sub-sector, and provision of capital funding towards clearing the maintenance backlog of the road network. The sector is characterised by poor road network condition and an inefficient management. The situation is due to the absence of a harmonised institutional framework, lack of appropriate maintenance policy and absence of transparency in financial management and procurement. Presently, the absorption capacity for development projects is estimated at below 5%, with the sector objective to raise it to 85% under the ERS period (2003-2007). A more prominent role for the private sector is also envisaged.

a) Results

In total, the EC is contributing towards reducing the backlog maintenance burden for the Northern Corridor and rural roads to the extent of €191.5 million over the period 2002 – 2007 in ongoing and planned programmes.

The key challenges facing the sector are:

- to strengthen the Kenya Roads Board (KRB) by establishing autonomous road agencies with defined responsibilities and clear separation of roles between KRB as a funding body and the agencies as implementing bodies;
- to increase the level of revenue for maintenance from the current Kshs. 8.04 billion to 10 billion which is deemed sufficient for routine and periodic maintenance of the core network (see Table 4);
- to secure capital funding for backlog maintenance rehabilitation to the tune of Kshs. 75 billion over the next 5 years through a proactive approach to mobilise both donor and private sector finance;
- re-establishing effective routine maintenance through increased use of private sector contracting , expansion of the Roads 2000 Maintenance Strategy which emphasises labour-intensive methods, and introduction of performance-based contracts and maintenance concessions (see Table 4);
- effective prioritisation and use of existing resources

- to harmonise road safety programmes and ensure enforcement of road safety regulations

Table 5. Roads Sector Indicators (Ksh Billion unless otherwise indicated)

Component	Indicator	2000	2001	2002	2003	Target/Assumptions
Input	RMLF funding meets budget and provides resources for maintenance and Roads 2000 Programme (Kshs. bn)	7.78	8.08	8.04	8.44	RMLF receipts targeted to rise from Ksh 8.6 (2003/04 to 8.7 and 8.8 in 2004/05 and 2005/06 respectively
	Capital funding secured for backlog maintenance rehabilitation from Government and Development Partners (Kshs. bn)	Gov: DP:	Gov: 1.34 DP: 1.26	Gov: 1.4 DP: 2.5	Gov: 2.5 DP: 5.7	Government development allocation increases from Ksh 2.5bn (03/04) to Ksh4.1bn (04/05) and KSH 5.9bn (05/06); Development Partner contributions increase from 5.7bn ((0304) to Ksh 8.9bn (04/05) and Ksh12.7bn (05/06)
	Expansion of Roads 2000 Programme	-	-	-	-	Ksh 2.6bn from RMLF and Ksh 3.4bn from Development Partners allocated to Roads 2000 activities during 2003-06
	Road Safety Measures are taken on schedule	-	-	-	-	Launching of Integrated National Transport Policy; Road Safety Campaigns and specific safety enhancing measures taken (eg introduction of speed governors, seat belts on PSVs in February 2004 etc)
Output	Progress in road rehabilitation, reconstruction and maintenance programmes through improved contract management and increased budget allocations	Contract Works Performance for 2000-03 • Resealing: 1,127km (Ksh bn 11.781) • Recarpeting: 100 (Ksh bn 1.534) • Rehabilitation/Reconstruction: 515km (Ksh bn 12.35) • Gravelling: 2301 km (Ksh bn 8160)				• 150 km of trunk roads rehabilitated per annum • 200Km of park roads rehabilitated per annum • 100 km of roads bituminised or gravelled per annum • 2,815 km of roads repaired under Roads 2000 programme
	Increase in length of roads maintained:					Data not available. Roads 2000 Programme to improve and maintain 17,000km of roads and create 50,000 jobs annually during 2003-6
	Implementation of specific road safety enhancements	-	-	-	-	PSV measures introduced in early 2004 are maintained and prove effective
Outcomes	Improved road network and reduced cost of transport	**2003 figures only (%)** Paved: Unpaved Good: 29.4 5.1 Fair: 37.0 38.0 Critical: 17.1 41.2 Failed: 16.5 16.3				Proportion of road network in critical or failed conditions reduced from 43% to 20% by 2006 Source: MRPW&H/KRB surveys
	Access to markets and social services for rural communities improved	-	-	-	-	No appropriate direct measure of these outcome indicators at present. MRPW&H uses output indicators on condition of rural roads as proxies. Possible element for inclusion in the proposed CWIQ surveys to be developed by CBS
	Road Safety Improved, number of fatalities reduced	2819	2780	2782	-	Number of fatalities reduced by 40% by 2005/6

There is an overall lack of available data in the sector, and information from implementing agencies is not systematically collected. This has also called into question the level of ownership of roads projects by communities and road users. The monitoring function of CBOs and NSAs could be explored in this regard. However, stakeholders and NSAs should be better defined along with the mechanisms to involve them in this sector.

KRB has published disbursement information several times in the print media and will continue to do so and to refine the information. The Road Agencies that are Government departments (e.g. Roads Department, Department of Urban Development in MOLG) have difficulties in producing audited accounts due to established government procedures. Their accounts are normally audited by the Controller and Auditor General. These difficulties will be overcome once all Roads Agencies are transformed into corporate entities. However, these new corporate entities will require a lot of support in their inception/transition phase.

There is also need for the different road maintenance initiatives to be harmonised. Capacity to implement should also be better anticipated and addressed in the design phase to avoid implementation delays.

b) Progress in activities

The EC recently financed a study to develop a comprehensive and coherent roads sub-sector policy and strategy in accordance with the recommendations of the Road Sub-Sector Stakeholders' Workshop held in May 2002. The study, undertaken under the auspices of Kenya Roads Board with broad stakeholder consultation was completed in February 2004 and it came up with recommendations for sector-wide institutional framework and policies for sustainable road maintenance. These Study Report is expected to be presented to the Minister for Roads, Public Works and Housing. Some of the key policy recommendations and strategies are;

- Creation of autonomous road agencies under KRB that are independent corporate entities with legal obligations for administration and management of main, rural and urban roads.
- Reclassification and gazetting of all public roads against the agencies charged with the statutory responsibilities for each
- Progressively increase funding for roads by raising the level of Road Maintenance Levy Fund and by incorporating road taxes, overloading and traffic fines, LATF component, cess, parking fees.
- Encourage private sector finance
- Establish a Road Safety Authority and strengthen road safety legislation
- Privatising axle load control
- Establishment of a Transport and Traffic Police Unit funded through vehicle licensing fees/fines
- KRB to finance road agencies on basis of realistic and achievable annual work programmes based on an agreed prioritisation criteria
- Implementation of schemes contained in the Nairobi Long-Term Transport Study including junction upgrading/signalisation
- Development of infrastructure for Non-Motorised Transport

Financing Agreements have been concluded for the Northern Corridor Rehabilitation Programme Phase 1 (€uro 79.5 million) and Phase. 2 (€uro 55 million). Construction works for the Northern Corridor Rehabilitation Programme Phase I (131 km Sultan Hamud – Mtito Andei Road) commenced on April 2003 and are scheduled for completion in September 2005. The tenders for the

Northern Corridor Rehabilitation Programme Phase II (96 km Mai Mahiu – Naivasha – Lanet Road) will be launched before mid 2004.

The Financing Agreement for the Kshs. 700 million EC/Stabex Roads 2000 Phase 1 Project in Eastern Province was extended to 31st December 2004 to facilitate completion of final lot of 6 labour-intensive roads improvement contracts.

In January 2004, the NAO commissioned an identification study by the Support Services Programme II (SSPII) Framework Consultant for the road sector activities under the 9th EDF NIP including the backlog periodic maintenance on the Northern Corridor, rural roads rehabilitation and feasibility studies/institutional support. A TA study on axle-load best option study is expected to be commissioned by Kenya Roads Board with EC funding.

d) Integration of cross cutting themes

Discussions are underway on a possible NGO grant contract for Aids/HIV awareness and prevention campaign on Sultan Hamud – Mtito Andei road rehabilitation project and Mai Mahiu – Naivasha – Lanet Road. Another aspect under discussion is the support to rural communities by eventually handing over to them boreholes which have been developed to supply water for the Sultan Hamud – Mtito Andei road contract.

4.2 Projects and programmes outside focal sectors

Under the 9th EDF support in the non-focal sectors is foreseen for Non State Actors and for the Micro-Enterprise sector. Ongoing activities funded from the 8th EDF (and STABEX) relate to support for democratic governance, institutional capacity development of the NAO's office, to the decentralisation of health services, the tourism sector, to the preservation of cultural heritage and for institutional capacity related to the EPA-trade negotiations.

While diverse in nature, these programmes play a major role in supporting ongoing important reforms and processes in Kenya, e.g. the governance/legal sector reforms, the EPA trade-negotiations, and in the recovery of sectors, considered as key for economic recovery and growth, the Tourism and the Micro-enterprise sector.

4.2.1 Governance and institutional capacity

The overall Governance situation has clearly improved substantially since the elections in December 2002 and the new Government's clear commitment to an anti-corruption agenda. In the context of the EC-supported programme, the improved dialogue on governance issues resulted in the immediate activation of the much-delayed Democratic Governance Support Programme. This has resulted in the delivery of important support to Parliament, the Constitutional Review process and the establishing of a flexible fund in support of non-state actors' advocacy and governance support organisations.

While the momentum for reforms and related programmes has been clearly gathering pace, pervasive institutional capacity weaknesses across ministries to implement and monitor programmes are acknowledged as a critical issue for improvement. EC support in all sectors includes capacity strengthening components, with one programme (SSP II) specifically focusing on making institutional capacity development sustainable at the NAO and line ministries involved in EC-programme implementation. Related to the latter, in response to a recent request by the NAO, a comprehensive review study of institutional structures, functions and capacity at the NAO and Line Ministries is now being carried out. By adopting a systemic approach, this study should help consolidating EC capacity support with a view to achieve a lasting and sustainable impact on implementation capacity of EC programmes across all ministries, also taking into account the Government's request for a harmonised donor support approach.

a) Results

- *Good governance* and the fight against corruption are a priority of the Government of Kenya with the Ministry for Justice and Constitutional Affairs and the Office for Governance and Ethics under the Office of the President taking the lead. The EC has been playing a prominent role on Legal Sector Reforms in supporting, together with other donors, the Ministry of Justice in its preparation of a sector-wide Governance/Justice/Law and Order/Sector (= GJLOS) Strategy and a short-term (12 months) priorities programme (STPP). Funding contributions to the GJLOS-STPP are to be made from the EC's Democratic Governance Support Programme (DGSP). Progress in implementing DGSP has picked up during 2003, with a PIU being operative since July 2003 and with the successful conclusion of a call for proposal under the DGSP-Flexible Fund.

- Whereas in the past the results of EC *institutional capacity building* support to the NAO and line ministries were mixed, this will be addressed in a comprehensive manner, once the currently ongoing review study is finalised and its findings and suggestions for a new EC support programme are discussed with the NAO, line ministries and stakeholders.

b) Progress in activities

- While *in the area of governance support,* good progress in the implementation of DGSP has been made during the second half of 2003, the loss of time through past delays could not be entirely compensated. In order of not to jeopardise the quality of projects through their hastened termination within the remaining seven months, the NAO is requesting a no-cost extension of the duration of the FA by 12 months beyond 31/12/2004.

- Concerning the *strengthening of institutional capacity*, EC support in Kenya includes related components in all programmes. The objective of one programme is specifically to make institutional capacity development sustainable: SSP II (Services Support programme) comprises studies, technical assistance, logistics and training to increase institutional capacity in EDF programme management at the NAO's office and other government ministries. On request by the NAO, a comprehensive review of institutional structures, functions and capacity at the NAO and Line Ministries was contracted in January 2004, which is to help designing a consolidated, comprehensive capacity support programme (including SSP II Training Component).

4.2.2 Non State Actors Support

The Government takes a positive view on involving Non State Actors (NSAs) in its policy formulation. The PRSP/ERS was based upon an extensive consultative process, which involved a series of national workshops with civil society and stakeholders, including the poor, in which the Delegation also participated.

The space for NSA participation has dramatically increased since the change of government at the end of 2002. During 2003, a NAO representative attended and engaged with NSAs at a number of information meetings and workshops, organised by civil society and economic and social partners to prepare the ground for more structured collaboration on the Cotonou Agreement. The consolidation of platforms and networks will take some time, however, given that the space opened up to them to participate in policy formulation and programme implementation is still a recent phenomenon.

The process of consultation and involvement of non-state actors will continue and be intensified during the coming months. They are also involved in the MTR process. Moreover, sector conveners were encouraged to help identify and involve NSAs during sector consultations for the MTR and in their future work.

With the 9th EDF CSP including direct financial support for non-state actors, a study is to be finalised in the first half of 2004, including options for funding, which, after discussion with NAO and stakeholders, will result in a draft Financing Proposal to be presented to HQ.

4.2.3 Health and Education

a) Results

In 2003 the EC provided support (TA) for the successful completion of PERs both by the Ministry of Health and the Ministry of Education, not least with a view to future 9th EDF Budget Support, which will be linked to results indicators in the Social Sectors.
- Concerning the *Health Sector*, past EC interventions were specifically linked to reproductive health care and HIV/AIDS in Kenya. On both, EC funding in 2003 could contribute to some improvements through the delivery of 3.5 million injectable contraceptives, which prevented the complete stock-out for year 2003 and by funding the printing and distribution of ½ million of AIDS-awareness text-books for primary and secondary schools. However, due to scarce public resources sustainability remains uncertain with the end of this type of support for reproductive health.

The start-up of implementation of the decentralised District Health Services and Systems programme (8th EDF) suffered from serious problems with a 14 months' delay in the completion of the PIU tender and award of contract (only at the end of January 2004) due to administrative difficulties experienced at the Ministry of Health.

- Concerning the *Education Sector*, past EC support has been limited to a small number of education projects, targeted at specific institutions, mostly for rehabilitation/ construction/ equipment of school classrooms under the Community Development Programme and for Technical Education under TESP.

b) Progress in activities

Actual implementation of the EC programme concerning the development of decentralized District *Health* Services and Systems is now about to begin.

In the education sector, progress in EC supported activities has been generally very slow, in particular in most components of TESP. Progress in EC supported TESP accelerated greatly in the last year and the two remaining programme components (Strathmore University and Eldoret Polytechnic) is advancing well and will be completed in 2004. Strathmore University already achieved the ISO 9000 certification under the Human Resource Development activity and is currently proceeding with the Infrastructure Development. The change in concept to a TA-assisted approach allowed the Eldoret Polytechnic to organise works (procurement, training, work tenders) and more ahead with the implementation of this programme component.

As part of the EC advanced budget support programme in 2003 the Government requested technical support in reviewing teacher staffing norms. This study should help establish greater efficiency in teacher deployment and help with progress in reducing geographic variations in Pupil Teacher Ratios. Terms of Reference have been developed and the study is currently out to tender.

4.2.4 Private Sector development, Tourism and Trade

a) Results

The EC has been supporting the micro-enterprise sector since 1997 in order to help establish wholesale lending to micro-finance institutions, strengthen institutional capacity of the Ministry of Trade and Industry and of micro-finance institutions and to strengthen market access and product development of micro-entrepreneurs and cottage industries in Kenya

When EC programme support for this sector through the *"Micro Enterprise Support Programme"* (MESP) came to an end in 2002, MESP has been transformed into a GoK Trust Fund ('MESPT'). Following the general elections and the inauguration of the new government, changes were made in the composition of the MESPT-Board of Trustees, and the Trust is about to start operating now.

Under the 9th EDF/NIP further support to the Microenterprise sector is envisaged. The sector is of high importance to the Government, which, during year 2003 prepared a Sessional paper on its MSE policy. Any EC-support was supposed to be linked to the new GoK SME-policy. The Sessional paper, having been finalised only in December 2003, is the entry-point for the consultancy, currently being contracted, which will result in a draft Financing Proposal for a MSE support programme, that will also take into consideration ongoing appraisals by WB and other donors.

EC support to the Tourism Sector has been taking the form of support for direct marketing of Kenya as a tourist destination, for product diversification (including eco-tourism/community-based tourism) and the formulation of a national tourism policy and an improved regulatory framework.

EC support for re-positioning Kenya's Tourism Marketing essentially focussed on strengthening *the Kenya Tourism Board* (KTB) in its marketing efforts and in adapting the Kenyan tourism product to market demands. Project management shortcomings within KTB, exemplified by the dismissal of the Managing Director, could not be entirely resolved through technical assistance.

EC support under the *"Tourism Diversification and Sustainable Development Programme"* (TDSDP) aims to assist GoK in the articulation of its tourism policies, the provision of institutional support, and marketing and development of new products. The *Tourism Trust Fund*, whose operations started in 2002, manages EC support and provides assistance in policy formulation. However, severe management weaknesses within the TTF Management Unit resulted in December 2003 in a decision by the Board of Trustees to request a comprehensive performance assessment of the TTF-MU which, will be carried out during the first 5 months of 2004.

The terrorist attacks in Mombasa in November 2002 and the subsequent negative travel advisories led to a dramatic reduction in tourist arrivals and a major setback for the tourism industry. The EC positively responded to an urgent request of the Government by setting up a jointly funded Emergency Tourism Market Recovery Programme. Essentially a marketing campaign in Kenya's major European source markets, the programme is reportedly successful (increased influx of tourists) and will come to a close in March 2004.

At the end of 2003 the Delegation responded to the Government request for a an appraisal of unexpected revenue losses and unforeseen budgetary expenditures arising from the security concerns in Kenya in 2003 ('Mobilisation of Envelope B')**,**

Kenya–EU Trade Relations and in particular the WTO-DOHA negotiations (pre and post Cancun Ministerial) and the EPA negotiations have become a very important issue for the Government as well as for the EC and the Delegation in Kenya. Consultations between the Delegation and the Ministry have intensified, in particular in the wake of the WTO-Cancun Ministerial and its follow up.

A particular concern for Kenya is the dis-investment and the relocation of business to neighbouring countries experienced in 2002 and the trend away from imports of investment-related capital goods towards consumer goods. The dynamics of Kenya's trade with and structure of exports to the EU has been another particular concern to the Government in view of the EU-ACP Trade negotiations. Both the Government and stakeholders have shown a keen interest in preparing thoroughly for these negotiations, but institutional capacity at the Ministry level has remained weak. The EC is providing support for Kenya's trade negotiations through the Trade Negotiation Support Programme (KEPLOTRADE), with the specific objective to provide support for the smooth functioning of Kenya's negotiation machinery, support a transparent mechanism of consultations with stakeholders and a back-up mechanism providing for demand-driven studies over the whole period of negotiations, and lastly, provide training and capacity strengthening as required.

b) Progress in activities

Concerning micro enterprise support the main activities in 2003 evolved around the orderly finalization of the MESP-programme, support for the start-up of the Kenyan Micro-Credit Trust Fund, participation in the GoK-donor consultations on the evolving MSE policy framework and preparation for the feasibility study with view to coming up with a MSE support programme (MESP II) under the 9th EDF.

Concerning the tourism sector, EC support activities mainly revolved around the design and implementation of the Emergency Tourism Market recovery programme, the drafting of a National Tourism Policy, and a regulatory and institutional framework and the funding of innovative Tourism Projects under TTF.

Following a request by Government in December 2003 to consider the mobilisation of the Envelope B related to unexpected revenue losses from Tourism and budgetary expenditures arising from the security concerns in Kenya in 2003, an appraisal mission was prepared, which is about to start in the first quarter of 2004 (see also Point 4.6.)

The design of and priorities for the EC programme support for Kenya's **trade negotiations** on EPA has been the result of stakeholder consultations in 2002. During 2003, KEPLOTRADE was supported under STABEX through TA, an expert-pool was identified, workshops were held and 11 background studies carried out.

c) Integration of cross-cutting issues

Future micro enterprise support will continue to incorporate, as the past MESP programme, gender and environmental issues into project planning and promoting micro-enterprise development through sustainable environmental usage.

4.2.5 Culture and National Heritage

National Museums of Kenya Support Programme (EDF 8) aiming at the restructuring of the National Museums of Kenya (NMK) in order to put the organisation on a secure and sustainable economic basis. The project targets to reform management practices and boost visitor numbers and revenue through infrastructure improvements and development of NMK's exhibitions and public programme.

Together with the *National Museums of Kenya Interim Support Programme* it supports GoK policy to improve the conservation of natural and cultural resources in order to enhance the diversification of tourism as an important source of income. The NMK restructuring component in particular supports the GoK's policy of staff rationalisation and improved management of parastatals.

a) Results

As prerequisite to the legal, institutional and management reforms and a pre-condition to the signing of the Financing Agreement, NMK Board approved the National Museums and Heritage Bill 2003. A further milestone was achieved when the Cabinet approved the Heritage Bill 2003 for publishing and submission to Parliament.

The “Rationalisation of NMK, Board Paper”, outlining the institutional and management reforms, was approved by the NMK Board in September 2002. NMK undertook substantial work regarding the institutional restructuring and in particular in drafting the new organisational structure of NMK. The new organisational structure was recently completed and awaits implementation, which could then be followed by the launch of the already prepared tender for Infrastructure Works and the approval and implementation of the Work Programme/Cost Estimate for the Public Programmes component.

b) Progress in activities

Based on the STABEX funded preparatory phase, the NMK Support Programme focusing on the implementation of legal re-drafting /harmonisation of NMK core legislation; staff rationalisation study; design and detailed planning of infrastructure rehabilitation programme and coordination/management support progressed throughout the year. Once GoK implement the remaining institutional restructuring components, strong input by the Project Manager and the T.A. supported PIU will continue to implement the staff rationalisation study and launch all other activities foreseen under the EDF 8 funded support programme.

4.3 Utilisation of resources for Non-State Actors

In addition to what has been detailed under section 4.2.2., NSAs are encouraged to engage with the different GoK sector conveners and implementers directly in order to fully participate in cooperation activities. This was initiated and encouraged at the launch of the MTR process with sectoral review meetings in 2004, and is expected to increase over time, through the support programme set aside for NSA information sharing and capacity building.

4.4 Utilisation of Envelope B

At present there are two proposals under consideration for the use of Envelope B resources: i) compensation for unforeseen losses related to security/terrorism threats, and ii) the establishment of a Disaster Preparedness Fund. In addition to these concrete proposals that are currently under appraisal, it might also be prudent to reserve some funds from envelope B for a follow-up to the Budget Support programme envisaged under the NIP.

4.4.1 Compensation for unforeseen losses

The impact of the terrorist threat and related travel advisories has been profound, with severe knock-on effects on the whole economy (in particular tourism employment, agriculture) and on the public finances. Tourism in particular has been negatively affected and is one of the most important foreign exchange earners in Kenya. In the short-term some of these effects are being addressed through an Emergency Tourism Market Recovery Plan, which GoK is jointly funding with the EC through the mobilisation of an extraordinary budget allocation of Ksh 250 Mio (see point 4.2.4.). The Government has also incurred additional unforeseen expenditures in the area of security, particularly at the major airports. In view of the unforeseen nature of these losses it has been suggested that this programme might be eligible under Envelope B. The outcome of the study, which is currently under preparation, will determine whether, and to what extent, Kenya can request support from Envelope B to cover these unexpected needs.

4.4.2 Disaster Preparedness

The need for a Disaster Preparedness programme is considered in the Kenya Country Strategy Paper. The CSP notes that insufficient attention to disaster preparedness in Kenya is one of the reasons why ECHO has had to intervene on frequent occasions, particularly for drought issues. Against this background the Delegation has engaged in discussions with the Government (OP-Arid Lands) and other donors on the possibility of establishing a Drought Contingency Fund. The possibility of using Envelope B for emergency assistance is foreseen in Cotonou, and since the relevant provisions in Cotonou on emergency assistance (Chapter 6) refer to the possibility of providing assistance to disaster preparedness mechanisms (Article 72.3.e), it has been suggested that this programme might be considered under Envelope B. Terms of Reference for a feasibility study are currently under preparation.

4.5 Other instruments

4.5.1 STABEX

Stabex resources (non-programmable aid) made available to Kenya by the 1990, 1991, 1992 and 1993 transfers were all programmed and consolidated into three main clusters which are governed by respective Framework of Mutual Obligations (FMO) and addenda. Funds are kept in various accounts in Brussels and in local banks. An overview of STABEX funds is presented hereunder:

Table 4. Overview of STABEX allocations in €uro (as at 31st December 2003)

STABEX	Original Transfers	FMO	Secondary Commitment[2]	Disbursed
1990	29,870,422	39,658,209	36,874,009	36,422,389[3]
1991	16,413,425	61,743,323	32,742,538	29,177,068
1992	16,739,704	One FMO for 92/93		
1993	22,706,721	45,673,721	23,026,604	20,711,795
1999	47,841,888	51,346,105	-	51,346,105
Total	133,572,160	147,075,253	92,643,150	86,311,252

NB: Transfer and FMO figures cary due to interest accrued in local and foreign accounts, exchange fluctuations and funds lost in Meridien Bank collapse

4.5.2 Regional cooperation

The Regional Indicative Programme of which Kenya is a signatory in accordance with art 160 of the Convention with the long tern view of promoting long term collective self –sustaining and integrated social , cultural and economic development.

In November 2002 the 9th EDF Regional Support Programme for Eastern and Southern African and the Indian Ocean was signed in Kampala on the one hand and COMESE, EAC, IOC , and IGAD on the other for an amount of EUR 223 million.

Kenya has benefited under the 6th, 7th and 8th Regional Indicative Programmes in the following sectors:

i) Road transport sector through rehabilitation of the Northern corridor:

- Northern Corridor Rehabilitation Phase I Sultan Hamud-Mtito Andei Road
- Northern Corridor Rehabilitation Phase II Mai Mahiu-Navaisha-Lanet Road

[2] Contract(s), Work Programme(s)
[3] These disbursements include accrued interest and counterpart funds

- Isiolo-Moyale Road

ii) Agriculture and Livestock with a focus on
- Livestock disease control and eradication (PACE)
- Farming in tsetse infected areas (FITCA) and cross border migrant pest control. (Financing Agreement for FITCA extended up to Dec 2004.)

iii) Fish sector. Kenya is benefiting from 2 regional projects:
- Strengthening Fishery Product Health Conditions in ACP/OCT Countries (Budget Euros 56.6 million)
- Implementation of Lake Victoria Fisheries Management Plan (Tanzania, Uganda and Kenya). Total budget: Euros 30 million.

v) Other regional programmes:
- Meteorological Transition in Africa covering 52 African countries.
- Collaborative MA Programme in Economics for Anglophone Africa.

4.5.3 Community Budget lines

The **NGO Co-financing budget line** provides financial assistance to Member State NGOs to support and build capacity of local NGOs to implement development projects at the grassroots level. Four co-financed projects underwent the Commission's internal monitoring process during the 2003 exercise

At present there are 17 on-going projects covering the period 1999/2002 amounting to a Commission contribution of €7.8 million. In 2003, two new projects received funding amounting to a Commission contribution of €1.5 million (70% of overall project cost). The new projects support empowerment of children with disabilities and a food security programme, involving dairy goats and capacity building programme in Mwingi District.

The following programmes are on-going under funding from the **Tropical Forests and Environment Budget Line**:

- On-farm forestry and natural resource conservation in 3 locations north of the Arabuko-Sokoke Forest, Malindi District
- Sound Forest Management and Conservation in Kenya: the Kenya Forest Working Group
- Loita/Purko Naimina Endiyo forest integrated conservation and development project

Management of the budget lines is currently under the direct responsibility of Commission Headquarters but will be deconcentrated to EC Delegations in September 2004.

4.5.4 EIB

The EIB to date has provided finance of € 391 million for investment projects in Kenya, in the framework of the successive Lomé Conventions. Reflecting the relative stability of the country's macro-economic environment and the quality of the financing proposals submitted, a large part of these funds - € 298 million or 76 % - was made available from the EIB's own resources, and the remaining € 93 million from risk capital resources. Kenya's dynamic small and medium scale private sector absorbed half of the total lending volume, under indirect financing schemes relying on selected intermediaries, given the usually modest size of the projects concerned. This focus grew particularly strong under Lomé IV, where such indirect lending accounted for 74 % of the total € 216 million of finance provided.

Indirect lending under Lomé IV was arranged mostly within the "Global Private Enterprise" (GPE) loans, of which the latest was signed at the end of 1999, and a small part under a finance agreement with Prefund, a venture capital provider. In this framework, the EIB in collaboration with the Central Bank of Kenya and a private management unit allocates funds to the intermediaries for long-term loans in foreign currency or in KShs, in amounts between € 10.000 and € 1.5 million, upon individual assessment of the projects submitted. The funds are accessible to private enterprises operating in commercial agriculture and horticulture, the industrial sectors, tourism and in related services sectors. Since 2002, health and education are also eligible. About 250 firms have been supported in this manner so far.

The EIB also contributed direct loans to the financing of large-scale projects, including under Lomé IV the construction of a steel sheet galvanising line by Mabati Rolling Mills Ltd. (finance of a total of € 9 million from both risk capital and own resources, signed in 1999) and the Olkaria II geothermal power project (a loan from own resources to the Government of Kenya of € 41 million, signed in 1999). Finally, funds were made available under Lomé IV to two European Development Finance Institutions in the magnitude of € 4.7 million from own resources and € 0.2 million from risk capital, for the construction of tea factories and to subscribe share capital of a financial institution respectively.

In 2003, the EIB's activities in Kenya were focused on the preparation of a structured finance operation for Magadi Soda Company, in co-financing with the IFC and FMO, to help improving the international competitiveness of Kenya's production and exports of natural soda ash. The Bank entered into a finance agreement of € 2 million with Co-operative Bank of Kenya, to support the financing of micro-sized private ventures. Already under the Cotonou Agreement, it approved an investment of € 8 million into a new regional venture capital fund, the Aureos East Africa Fund. Co-investors are the CDC group, Norfund and a number of other international finance institutions. From its operational headquarters in Nairobi, this fund targets Kenya, Uganda and Tanzania, acquiring stakes in private ventures. The implementation of the GPE IV finance contracts was continued, although on a lower pace reflecting investors' risk awareness and the reduced attractiveness of fixed rate borrowing, as proposed under the GPE scheme, given the competitive level of floating interest rates on the international markets and, since the middle of the year, also on the Kenyan Shilling market. € 1.1 million was disbursed for loans to five private companies, of which 3 schools.

5 Programming perspectives for the following years

During 2004 it is expected that €171.5 million will be committed in programmes and projects designed to implement the CSP. This amounts to over 90% of programmable resources (Envelope A) under the CSP. At the same time, EDF disbursements of about €140 million per annum are forecast for the period 2004 to 2006. In order for these forecasts to be realised, however, it must be stressed that improved efficiency will be required on both sides of the partnership. On the Government side, this should focus on increased responsibility for approval of projects by the NAO and increased delegation of implementation tasks to line ministries and other implementing agencies. On the EC side, this will require more predictable and efficient processing of financing proposals for approval and more timely management of tenders, contracts and payments.

5.1 Integration of new EC/EU policy initiatives

While the possibility of revising the overall strategy is not being considered at this stage, there are nevertheless a number of recent EC/EU policy initiatives that would help inform the design and implementation of the interventions in the focal sectors. This section covers a selection of these initiatives, focusing on those that were considered by the EC and the GoK to be most relevant in the context of the CSP.

***Governance support*:** Following the recent adoption of its communication on governance and development, the EC proposes to classify its development partnerships into three categories: post-conflict situations, difficult partnerships and effective partnerships. During the preparations and negotiations for the CSP in Kenya, the pervasive governance and capacity problems would arguably categorise Kenya as a difficult partner. The approach to governance in the CSP was therefore opportunistic, focusing on key strategic entry points where new and evolving structures gave some prospects for improved governance and an enhanced focus on poverty reduction. These included a commitment to institutional reforms in the context of the macroeconomic support programme (improved public financial management, statistical capacity building, civil service reform etc.); support to decentralisation through the Local Government reform agenda; support to the improved environmental governance through capacity building to the newly created National Environmental Management Authority, and support to more transparent administration of the road maintenance programme through the Kenya Roads Board. The signed CSP also added an explicit allocation for support to non-state actors.

EC-GoK relations have improved enormously in the period since the 2002 elections and the momentum for reform is now gathering pace. Despite this good will and transparency, however, further work needs to be done in improving capacity on the Government side, and further refining joint working methods, if these much-improved relations are to be turned into a truly effective partnership.

Illegal logging*:* In May 2003 the European Commission published an Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT) to combat the growing problem of illegal logging and the related trade in illegally harvested timber. This is of particular relevance to Kenya, where in October 2003 all of the country's 800 Forest Officers were suspended pending investigations into links with illegal logging. The Government and the EC are committed to working together to enhance environmental governance in Kenya, and consider that Community Development for Environmental Management Programme that has recently been appraised should make a valuable contribution in this area.

Climate change*:* Kenya is highly vulnerable to rainfall variability, both droughts and floods. This increases vulnerability across all sectors of the economy, especially in hydro-power generation and provision of water supply. The costs in terms of lost production and depleted infrastructure of the 1997/8 *El Nino* floods and *La Nina* drought to Kenya are estimated at over €4 billion. Although the occurrence of such extreme climatic events is outside of a country's control, it is possible to minimise their impacts through proper planning and investment. The EC Communication entitled "Climate Change in the context of development co-operation" entails a strategy to help developing countries meet the challenges posed by climate change. The Communication proposes an EU action plan aimed at integrating climate change concerns into EU development co-operation activities.

The Government of Kenya and the EC are committed to working together to develop this agenda in Kenya. While every effort is made in mainstreaming environmental concerns into the programme portfolio, the specific support that is under currently appraisal for the National Environmental Management Authority should enhance Kenya's capacity to meet the challenges of climate change. At the same time, the proposal to support the Drought Contingency Fund under Envelope B should be explored fully.

Gender*:* Gender issues lie at the heart of poverty in Kenya. More than half the population of Kenya live below the poverty line, affecting proportionally more women than men In particular the rise in female headed households and the disproportionate impact of the HIV/AIDS pandemic on women are further significant elements of this 'feminisation of poverty' in Kenya. This underlines the need to integrate gender concerns into project design and implementation. A fuller Gender Report is provided in annex.

5.2 Proposal for a review and adaptation of the CSP

In view of the relatively recent signing of the CSP (October 2003), the assessment of the ongoing programme and programming perspectives at this stage has not resulted in any significant impetus for a change in the strategy. The underlying analysis that led to the signature of the strategy in October 2003 remains largely valid and relevant. The CSP described the background to the weak economic performance over the past two decades, combined with continued population pressure, resulting in increased poverty. This is underpinned by the Government's reflections in the context of the finalisation of the PRSP/ERS in February 2004. The ERS/PRSP continues to emphasise the need for budgetary restructuring in favour of ERS/PRSP priorities, improved public service delivery and providing an enabling environment for increased private sector activity. The Government and the Delegation consider that the current strategy responds well to these broad concerns:

- the macroeconomic support programme seeks to reinforce the focus of policy on key poverty reduction goals whilst promoting expenditure restructuring;
- the rural development programme aims at promoting empowerment and accountability at local levels whilst reinforcing service delivery and agricultural productivity;
- the roads programme is designed to enhance the network of major trunk roads and rural feeder roads in order to reduce the costs of business.

Against this background, only relatively minor changes are proposed to the National Indicative Programme. These changes stem form the scaling down of the Local Government support programme (€34 million) from an initial 5 year programme to a more modest 4 year programme of €21 million. This change was largely made in view of the difficulty in managing longer programmes under the new EDF Financial Regulation, which states that all contracts must be concluded within 3 years of the global commitment for any project. It is proposed that the €13 million thus released be used to augment the macroeconomic support programme (€5 million) primarily linked to enhancing the capacity of Central Bureau of Statistics in implementing its Strategic Plan, but also to further support to the PER and public financial management improvements. The remaining €8 million would then go towards supporting a follow up to the ongoing Agricultural Research Support Programme (ARSPII). An updated chronogramme reflecting these proposals is provided in the annex.

6 Conclusions of the joint annual report

The Mid-Term Review (MTR) process started with the draft Joint Annual Report which was discussed during the Country Team Meeting of 29 April 2004. The Country Team deemed the performance of Kenya sufficient in the 2 focal sectors (rural development, transport) and in macroeconomic policy and supported the draft MTR conclusions stating that the CSP strategy remained adequate.

Comments and recommendations of the iQSG made on 30 July 2004 were included in the draft MTR conclusions. In the Interservice Consultation in August 2004, 16 DGs were consulted and 14 gave favourable opinions, 2 did not answer. Pertinent comments were taken into account. In parallel the NAO was consulted and endorsed the conclusions.

On 20 October 2004, the EDF Committee gave a favourable opinion on the MTR conclusions.

The in-country review took place in Nairobi on 30 November 2004 with the participation of the Minister of Finance of Kenya and of the Director for Horn of Africa, East and Southern Africa, Indian Ocean and Pacific in the European Commission

NSAs participated in the process actively through workshops and information meetings, and formulated resolutions with regard to policy issues relevant to the EC-Kenya Cooperation Strategy.

Many of the areas relating to new EC/EU policy initiatives and commitments are already addressed in ongoing programmes and projects, with funding from previous EDFs (e.g. in the water sector), budget lines (HIV/Aids) and the EIB (energy sector). Trade issues will be given greater emphasis in future EU-Kenya cooperation. Funding out of the Regional Indicative Programme will become available to support capacity building for EPA negotiations.

The MTR conclusions reveal that the choice of focal sectors remains valid and, consequently, no change of strategy is proposed.

The development of a coherent strategy for economic growth and the adoption of sectoral strategies in sectors where the EC is involved, like agriculture, the environment, SMEs, improve the prospects for future EC-Kenya cooperation. Thus, for the 9th EDF global commitments of €196 million or 78% of envelope A are approved as of end-2004, whilst disbursements have risen compared to the previous years. In addition to an ECHO project, under the B envelope two financing requests are being prepared, one to seek compensation for unexpected government losses after the terrorist attacks in December 2002 and one to contribute to a Disaster preparedness mechanism.

As a result of the review the European Community decided to increase the funds available under Envelope A by transfering €25 million from Envelope B. This reallocation will leave €26.6 million in the B envelope. An addendum to the Country Strategy Paper will be signed to this effect.

Project closures and decommitments need to be closely monitored as they impact on the programming perspectives until the end of the 9th EDF. During the in-country review of 30 November 2004 particular attention was paid to the conditions related to the budget support programme and how its outcome would affect the whole indicative programme.

Annexes:

1. Focal Sector Intervention Frameworks
2. Gender report
3. Financial Forecasts
4. EU Donor Matrix
5. Updated chronogramme

Annex 1 (Intervention Frameworks)
INTERVENTION FRAMEWORK FOR FOCAL SECTOR: Agriculture/Livestock and Rural Development

Summary	Indicators	Source of verification	Hypothesis/Assumptions
Aim: ▪ To reduce rural poverty by half by 2015	▪ % living below poverty level	▪ National statistics ▪ PRSP reviews ▪ Welfare Monitoring Survey	Comprehensive PRSP monitoring and evaluation system established
Specific Objective: ▪ To support the achievement of the PRSP growth target of 6% p.a. for the Agriculture and Livestock sector	▪ % growth of agricultural sector > = global growth	▪ Reports by Ministry ▪ National accounts ▪ Employment reports ▪ Export statistics ▪ Special surveys/studies	▪ Kenya Rural Development Strategy is translated into a Sessional Paper, adopted as a Policy document and effectively applied
Expected results: ▪ Reduced role of state in agricultural production and marketing ▪ Institutional reforms and deregulation in selected sub-sectors ▪ Decentralised rural service delivery and infrastructure improved ▪ Capacity in Local Government increased ▪ Food crop production increased ▪ Enhanced quality of Kenyan agricultural export commodities ▪ Vulnerability of poor households reduced/reaction-capacity strengthened	▪ Number of acts and laws reviewed, enacted and effectively applied ▪ % of the population with access to basic services infrastructure ▪ Nutritional scores improved in rural areas ▪ Share of commodities in exports increased ▪ Production of food crops increased	▪ Reports by Ministry ▪ Assessment reports ▪ Food security surveys ▪ Trade/Exports statistics ▪ Project reports ▪ LATF returns	▪ GoK/MoALD continued commitment to ministerial rationalisation, decentralisation and deregulation and other institutional reforms in the selected sub-sectors ▪ Establishment of the agreed programme management unit in MoALD
Identified Projects/Programmes: ▪ Community Development for Service Delivery ▪ Local Government Capacity Building ▪ Export sector programmes ▪ Community self-help programmes (CDP III) ▪ Livestock marketing study	Indicative Budget: ▪ 25-35% from A envelope (plus STABEX and uncommitted balances of previous EDFs)	▪ Feasibility/Preparatory studies ▪ Presentation of Financing Proposals ▪ % programmes committed	▪ Results of preparatory studies are favourable ▪ Clear linkage to PRSP budgets established

INTERVENTION FRAMEWORK FOR FOCAL SECTOR Roads Infrastructure

Summary	Indicators	Source of verification	Hypothesis/Assumptions
Aim: ▪ Sustainable contribution by the roads infrastructure sector to poverty reduction, and economic and social development in Kenya	▪ Improvements in socio-economic development ▪ Improved condition of Kenya's roads/infrastructure	▪ National income, employment, public transport and roads statistics ▪ UNDP report on human development	▪ PRSP policy recommendations are effectively translated into priority actions ▪ Coherent transport sector policy/strategy adopted & implemented
Specific Objective: ▪ To reduce transport costs and time for users to access economic and social services thereby increasing accessibility, income and employment in rural areas	▪ Km of roads rehabilitated/maintained including part through labour based contracts ▪ Road sector institutions are operating efficiently and fully accountable ▪ Sufficient resources allocated for reconstruction and maintenance	▪ Reports by Min of Roads ▪ Annual statistics ▪ Employment reports and special surveys/studies ▪ Annual budget ▪ Income and Expenditure of KRB (Fuel Levy Fund and Coffee+Tea Cess)	▪ Institutional reforms continued ▪ Axle load restrictions are enforced and privatized/contracted out ▪ Tender procedures are respected ▪ Participation of communities ensured ▪ Timely payment of contractors and casual labour
Expected results: ▪ KRB and DRC/s become fully operational and Roads Department replaced by a viable, autonomous Roads Agency ▪ Roads network rehabilitated/maintained ▪ Transport time shortened ▪ Roads safety improved ▪ Privatisation of Axle load enforcement, with overloading progressively stabilized at below 10%	▪ Number of Acts and Laws reviewed, enacted and effectively applied ▪ Maintenance/Rehabilitation programmes effectively implemented ▪ Number of accidents reduced ▪ Monitoring results	▪ Government Gazette ▪ Independent audits ▪ Assessment reports ▪ Annual budget ▪ Road accident statistics	▪ GoK continued commitment to institutional reforms
Identified Projects/Programmes: ▪ Completion of Northern Corridor Rehabilitation ▪ Rural Roads Programme ▪ Isiolo-Moyale Road study ▪ Support to institutional reforms	Indicative Budget: ▪ 20-30% from A envelope	▪ Feasibility/Preparatory Studies ▪ Presentation of financing proposals ▪ % programme committed	▪ Results of preparatory studies are favourable ▪ EDF tender/contract procedures respected

INTERVENTION FRAMEWORK (Updated): Macro-Economic Support

Summary	Indicators	Source of verification	Hypothesis/Assumptions
Aim: ▪ To create the conditions for accelerated, sustainable and equitable economic growth	▪ GDP growth rates ▪ Reduced poverty ratios	▪ National accounts ▪ PRSP reviews ▪ Welfare monitoring Survey ▪ National population census ▪ Integrated Household Budget Survey ▪ Economic Survey	▪ ERS/PRSP priorities clearly reflected in MTEF ▪ Available external resources ▪ Appropriate nacroeconomic policies ▪ Governance issues addressed ▪ Tariff harmonisation within EAC/COMESA
Specific objectives: ▪ To support improvements in pro-poor Service Delivery; ▪ Promote expenditure restructuring in favour of pro-poor programmes ▪ To promote public financial management improvements	▪ Increased quality and coverage of key public services ▪ Social sector expenditures as share of budget ▪ Investment as share of budget ▪ O&M as share of budget ▪ Public sector pay as proportion of budget ▪ Core poverty programmes as % of total budget	▪ National accounts ▪ Budget/MTEF ▪ service delivery surveys ▪ Public expenditure reviews ▪ Economic Survey	▪ Measurable progress to improve governance and the fight against corruption ▪ Government programme gets back on track with IMF ▪ Donor funding comes forward to support the programme
Expected results: ▪ Access to quality social services increased	▪ PRBS02 indicators in social sectors ▪ Education (primary enrolment, completion etc.) ▪ Health (child immunisation, skilled attendance at birth etc.)	▪ Budget, ▪ Public Expenditure reviews ▪ Service Delivery surveys ▪ Enterprises professional association reports	
Identified Projects/Programmes: Support contingent upon Kenya remaining back on track with IMF	**Indicative budget:** 73% of envelope A		

Annex 2: Gender Report

With an estimated 80% of Kenyans dependent of agricultural activity, studies indicate that 61% of rural women rely on agriculture, compared to 24% of men. However, women do not control land or assets, providing around 75% of the agricultural labour and yet owning a mere 1% of the land. The proposed National Policy on Gender and Development includes a review of land and inheritance laws aimed at improving women's rights in this area. Women are often not able to trade produce or livestock. Moreover membership of agricultural cooperatives is limited to land owners rendering most women ineligible; neither do they have good access to training and extension services. Women are also primarily responsible for water collection for domestic and agricultural use and for hygiene at the domestic and communal levels. In rural areas, the time spent collecting water, particularly in the Arid and Semi-Arid Lands can take up a large percentage of the day. This is one of a combination of factors leading to what has been described as women's 'time poverty', which prevents the take-up of opportunities in education and productive work.

In the area of health, the leading causes of mortality and hospitalisation in Kenya are currently malaria and respiratory infections of which the former affects women in greater numbers than men. The majority of Kenyans have no access to state health care and health sector expenditure has in recent times focussed on curative rather than primary and preventative care. This has a dual impact with regard to gender relations. Firstly, the burden of care for the sick and elderly falls mainly on women which has an impact on their socio-economic roles in other areas; and secondly, this has significant implications for women's health care, particularly maternal/reproductive health which suffers from lack of attention under a 'curative' agenda. Women are also particularly vulnerable to HIV/AIDS infection. Risk of infection is also increased by women's lack of education, males' multiple partners, customary practices around property inheritance and divorce. In Kenya, HIV/AIDS infection peaks at around age 25-29 for women and 30-34 for men. The effects for this particular age group of women are significant. This is the primary age of childbearing, which means greater mother-to-child transmission, and the problem of large numbers of orphaned children. Women also take on the vast majority of the burden of care when relatives and community members fall ill. The National AIDS Control Council has established a Kenya National HIV/AIDS strategic plan. This notes that at the incidence of HIV/AIDS was rising more quickly among women than men, and that specific gender dynamics were fuelling the epidemic. Specific gender-based strategies have therefore been developed by NACC to confront this issue.

In education, the female illiteracy rate is 24% - more than twice that of the male rate of 11%. Whilst primary school gross enrolment is relatively high for girls (97.3%), the numbers decrease through secondary and into tertiary education. This reflects the fact that although the government is in the process of implementing universal primary education, the introduction of Cost-Sharing in the education system has led to a high drop-out rate amongst girls from poor families.

In the area of infrastructure, Kenya suffers from limited intermediate transport and poor rural access roads. This has major implications for women who often do not have the same access to private transport as male family members and are at greater personal risk from sexual abuse and danger from attacks by wild animals whilst travelling. Public transport is a primary site of sexual harassment in Kenya, a factor that limits women's mobility and affects girls' attendance at school. Inadequate energy resources, the limitations of the rural electrification programme and poor telecommunications, also hamper women's productivity.

Against this background it is clear that, in line with the guidelines for the elaboration of EC-supported interventions, gender mainstreaming in support to development in Kenya under the CSP is essential. This is being addressed in the macroeconomic support programme through explicit disaggregation of indicators in health and education. In the area of rural development, the specific focus on empowerment, improved accountability and enhanced service delivery should allow women and women's groups to play a more active role in the local development planning process. In the roads sector, particular efforts are being made to take into account the impact of road works on the transmission of HIV/AIDS, which, as outlined above, has a more significant overall impact on women.

Annex 3 Financial Forecasts

Kenya		Amount in €		FORECAST 2004									FORECAST 2005					
				1st Semester		2nd Semester		TOTAL		Payments 2004 estimation risk factor			1st Semester		2nd Semester		TOTAL	
Title Project (Global Commitment)	Month 2004	Amount	RISK	indiv comm A	payments B	indiv comm C	payments D	indiv comm A+C	payments **B+D**	Low **L**	Medium **M** **B+D= L+M+H**	High **H**	indiv comm A	payments B	indiv comm C	payments D	indiv comm A+C	**payments B+D**
TOTAL (2004-2005)		**173.500.000**		**2**	**0**	**57.750.000**	**51.930.000**	**57.750.002**	**51.930.000**	**0**	**1.430.000**	**50.500.000**	**14.250.000**	**11.380.000**	**61.000.000**	**60.180.000**	**75.250.000**	**71.560.000**
2003																		
Northern Corridor Rehabilitation Programme Phase 1		**50.000.000**																
2004																		
Technical Cooperation Facility (TCF)	July	4.500.000	1			1.000.000	400.000	1.000.000	400.000		400.000			600.000	1.000.000	400.000	1.000.000	1.000.000
Budget Support/Institutional Support	September	125.000.000	1			50.250.000	50.250.000	50.250.000	50.250.000			50.250.000	250.000		50.000.000	50.000.000	50.250.000	50.000.000
Community Development for Environmental Management	October	13.000.000	2					0	0				3.000.000	500.000		500.000	3.000.000	1.000.000
Rural Services delivery Programme	September	21.000.000	2			4.000.000	500.000	4.000.000	500.000		500.000			1.500.000		500.000	0	2.000.000
Support to governance, non-state actors, reg. Initiatives	October	2.000.000	2			500.000	250.000	500.000	250.000			250.000	500.000	250.000	500.000	250.000	1.000.000	500.000
Agricultural Research programme	November	8.000.000	2			2.000.000	530.000	2.000.000	530.000		530.000		2.000.000	530.000	2.000.000	530.000	4.000.000	1.060.000
2005																		
Micro-Enterprise Support Programme II	2005 - February	6.500.000	2					0	0				1.000.000	500.000		500.000	1.000.000	1.000.000
Maintenance backing	2005 - February	35.000.000	2										7.500.000	7.500.000	7.500.000	7.500.000	15.000.000	15.000.000
		265.000.000																

EDF or LB	Title of Project	2003	2004	2005	2006	2007	Total 2003 - 2007	Comments
9A	Northern Corridor Rehabilitation Programme Phase 1	50.000.000	0	0	0	0	50.000.000	&RSA 5M foll. decomm of no.8 KE7(50)
9A	Budget Support/Institutional Support	0	125.000.000	0	0	0	125.000.000	
9A	Maintenance backing	0		35.000.000	0	0	35.000.000	(Northern Corridor R. Phase 2)
9A	Rural Services delivery Programme	0	21.000.000	0	0	0	21.000.000	PF reçue
9A	Community Development for Environmental Management	0	13.000.000	0	0	0	13.000.000	Formulation on going
9A	Support to governance, non-state actors, reg. Initiatives	0	2.000.000	0	0	0	2.000.000	
9A	Technical Cooperation Facility (TCF)	0	4.500.000	0	0	0	4.500.000	
9A	Micro-Enterprise Support Programme II	0	0	6.500.000	0	0	6.500.000	
9A	Agricultural Research programme	0	8.000.000	0	0	0	8.000.000	
		50.000.000	173.500.000	41.500.000	0	0	265.000.000	

Annex 4. Donor cooperation with Kenya

Break down by sectors

SECTORS	D	UK	US	UN	F	EC	B	C	DK	I	NL	J	S	WB	IMF	A	CYP	CZ	E	H	HEL	SLO	SF	P	PL
Education		X		X UNICEF		X		X		X		X		X											
Health and Population	X GTZ	X		UNFPA		X	X		X			X	X	X											
HIV/AIDS		X	X	X UNAIDS	X	X		X				X	X	X											
Water Supply and Sanitation	X KFW			X UNICEF	X				X	X		X	X	X											
Agriculture & Rural Development	X GTZ	X	X	X FAO	X	X	X		X			X	X	X											
Environment		X		X UNDP		X	X				X	X		X											
Roads/T ransport & Communications	X KFW	X			X	X			X				X	X											
Air Transport		X	X								X			X											
Decentralization	X	X				X							X	X											
Public Service Reform		X	X	X UNDP		X				X	X		X	X											
Legal Sector Reform (incl. AntiCorruption)		X	X	X UNDP		X		X			X		X	X											
Statistical Capacity Building	X	X		X UNDP		X							X	X											
Macroeconomic.Policy/ Budget Support		X	X			X							X	X	X										
Business/ Private Sector	X	X	X	X UNDP	X	X		X	X		X	X		X											
Banking & Financial Services	X	X			X									X											
Non-State-Actors	X	X	X			X	X		X		X														

Key: A=Austria, B= Belgium, C=Canada, Cyp= Cyprus, CZ = Czech Republic, D =Germany, DK =Denmark, E = Spain, EC= European Commission, F=France, H=Hungary, HEL =Greece, I=Italy, J=Japan, NL=Netherlands, P=Portugal, PL= Poland, SF= Finland, SLO= Slovakia, UK =United Kingdom, UN-United Nations, US=United States, WB = World Bank; IMF = Int. Monetary Fund

Annex 5 Updated chronogramme

KENYA	Instrument	% NIP	Amounts (meuro)				Target dates		
EDF Co-operation Programmes			Total EDF	EDF9	EDF balances	STABEX	Identification	Appraisal	Financing decision
EDF Co-operation Programmes									
FOCAL AREA 1 : Agriculture/Rural Development		20%							
Rural Poverty Reduction and Local Government Support Programme	PS		21	21			mars-03	juin-03	sept-04
Community Development for Environmental Management Programme	PS		13	13			mars-03	oct-03	oct-04
Agriculture Research Support Programme			8		8		mars-04	mai-04	nov-04
Sub Total 1			**42**	**34**	**8**				
FOCAL AREA 2: Transport (Road Transport Sector)		16%							
Maintenance backlog Northern Corridor	SBS		35		35		mars-04	juin-04	févr-05
Rural Roads	SBS					20	mars-04	juin-04	févr-95
Sub Total 2			**35**	**0**	**35**	**20**			
FOCAL AREA 3: Macroeconomic support		58%							
Budget Support Programme/Institutional Support	GBS/PS		125	125			mai-03	oct-03	sept-04
Sub Total 3			**125**	**125**	**0**				
4. Non-Focal sectors		6%							
MESP II	PS		6,5	6,5			avr-04	juil-04	févr-05
Technical Cooperation Facility	PS		4,5	2,5	2		avr-04	mai-04	juil-04
NSA support	PS		2	2			avr-04	juin-04	oct-04
Sub Total 4			**13**	**11**	**2**				
RESERVE									
TOTAL EDF		100%	215	170	45	20			
p.m. front-loaded budget support						51			
STABEX			71			71			
TOTAL			**286**		**0**				

PS Project Support
SBS Sector Budget Support
GBS General Budget Support