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**Joint Annual Operational Review  
of Cooperation between**

**The Republic of Kenya  
and  
The European Community  
in 2004**

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

## Table of contents

1	Executive summary .....	3
2	Update of the political, economical and social situation.....	4
2.1	Update of the Political Situation.....	4
2.2	Update of the economic situation.....	4
2.3	Update of the social situation .....	6
3	Development agenda of the partner country .....	8
3.1	Restoring Economic Growth within the context of a sustainable macroeconomic framework .....	9
3.2	Strengthening the Institutions of Governance .....	10
3.3	Restoring and Expanding Infrastructure.....	10
3.4	Investing in the Human Capital of the Poor .....	10
4	Overview of past and ongoing cooperation.....	11
4.1	Focal sectors .....	11
4.1.1	Macroeconomic support .....	11
4.1.2	Rural Development and Agriculture .....	14
4.1.3	Roads and transport .....	16
4.1.4	Projects and programmes outside focal sectors.....	18
4.2	Utilisation of resources for Non State Actors.....	23
4.3	Utilisation of Envelope B .....	23
4.3.1	Compensation for unforeseen losses in the tourism sector .....	23
4.3.2	Disaster Preparedness.....	23
4.4	Other instruments .....	24
4.4.1	STABEX .....	24
4.4.2	Regional cooperation.....	24
4.4.3	Community Budget lines.....	25
4.4.4	EIB.....	25
5	Programming perspectives for the following years.....	25
6	Dialogue in country with the NAO and NSAs, and donor coordination.....	26
6.1	Dialogue in country with the NAO and NSAs .....	26
6.2	Donor Coordination.....	26
7	Conclusions of the joint annual report .....	26
Annexes: .....		29
1	Focal Sector Intervention Frameworks .....	29
2	Millennium Development Goal (MDG) Indicators.....	29
3	Financial Forecasts .....	29
4	EU Donor Matrix.....	29
5	Updated chronogramme .....	29

## 1 Executive summary

*The year 2004 presented considerable challenges for both Kenya and the EC Delegation. Against a background of increasing concerns about corruption and continued political divisions within the ruling coalition, progress in economic reform was slower than expected. The Delegation, meanwhile, faced protracted staffing vacancies in key areas: the Head of Finance and Contracts, the Head of Operations and the departure of the Head of Delegation in July.*

*The rate of economic growth, estimated at 2.6% of GDP in 2004, must be seen in the context of estimated population growth of over 2%. This would indicate that the economy is just about keeping pace with the estimated increase in population. A substantial acceleration in growth is required if the objectives of the Economic Recovery Strategy are to be achieved.*

*Continued concerns about corruption and the delayed progress on the Constitutional Review undermined confidence of the EU in the Government's commitment to reform. This resulted in the delay in the approval of the PRBSII programme and continues to create uncertainty about its implementation. From the middle of 2004 onwards, however, progress in reform improved with the rationalisation of functions between the Ministries of Finance and Planning, the revision of the budget timetable, the enactment of the Government Financial Management Bill, the revision of the Public Procurement Bill to fully encompass security/defence procurement and the establishment of the institutional structures of the KACC in full. Against this background, the Government successfully completed the first review of the IMF PRGF programme.*

*Relations with the NAO improved significantly following the arrival of the new NAO in July. However, it should be pointed out that there is a severe capacity problem within the NAO's office which must be urgently addressed. The Technical Assistant has departed and the Delegation and the NAO are in the process of recruiting a replacement. Relations with the Line Ministries, however, remain difficult. This situation is particularly true for the Ministry of Roads and Public Works where despite a myriad of meetings at all levels virtually zero progress has been made during 2004. The Ministry could be described as non-cooperative but actually it hinders good cooperation. There has been a change of Permanent Secretary during the year but this has not led to an improvement in the overall situation. Lack of cooperation was also encountered in the Delegation's relations with the Tourism Ministry despite the fact that the Tourism Trust Fund (financed by the Delegation) was identified as a major contributor to the tourism boom in Kenya in 2004. However this position improved significantly towards the end of the year following a reorganisation of Government which saw the entry of a new PS in the Ministry of Tourism. This is an area in need of urgent action in 2005.*

*Despite the difficulties in implementing the CSP outlined above, the Delegation was not far off its original targets for commitments and disbursements for 2004; the main contributors to the shortfall was the delay in the budget support programme and the initial contract payment for the works contract for the Maui Mahiu –Lanet Road. In addition, there were several success stories, notably the TTF and the Sultan Hamud Road-Mtito Andei Road in addition to the launch of major programmes in health and local government reform. Contacts with Non-State Actors continued, the Delegation is involved in supporting agriculture sector reform, judicial reform, the environment, public financial management, education and other important social and economic sectors.*

*Against this background of a somewhat mixed performance in 2004, it is vital that EC-GoK cooperation improves significantly during 2005 as the EDF9 End of Term Review (ETR) approaches. In particular, if the PRBSII Financing Agreement cannot be signed by the end of 2005, the €125 million commitment (in addition to the €25 million potentially available from Envelope B) will automatically be cancelled and returned to the NIP. This would mean that the ETR in 2006 would be undertaken against a backdrop of substantial uncommitted funds which risk being reallocated to countries with a better track record in implementing their CSP.*

## 2 Update of the political, economical and social situation

### 2.1 Update of the Political Situation

Political developments in 2004 continued to be dominated by the ongoing **constitutional review** process and revived concerns about corruption in Government. This has resulted in deep divisions within the ruling National Rainbow Alliance Coalition (NARC). This has caused significant delays in Parliamentary business and several important bills have suffered.

**Corruption** continued to be a major political issue during 2004. In April, a new scandal emerged, involving a company named “**Anglo Leasing Finance Limited (ALFL)**”, which was selected without competitive tender for a Ksh 2.7 billion project for passport and immigration screening equipment. The company appears to be a front for certain Kenyans to operate a scam involving upfront payment of a “commitment fee” of €1 million. These funds were eventually returned but the exact identity of the company directors remains unknown. Investigations continued during 2004 with investigators KACC despatched to cooperating third countries (USA, Switzerland and UK). Two Permanent Secretaries (Finance and Home Affairs) and three other senior officials (Head of Debt Management, Head of IT Services, Chief Finance Officer - Office of the President) were dismissed. A cabinet reshuffle followed in June, resulting in a new management team and NAO in the Ministry of Finance.

Following the deferral of the EDF Committee consideration of the PRBSII programme, the Government reacted positively to the need to engage more intensively with the EU on anti-corruption issues and the Head of Delegation, in the context of the EU Troika, met twice with the President on these issues in the latter half of the year. At the most recent meeting the President reiterated his resolve to fight corruption but pleaded for patience from the donor community in order to allow the due process of investigations to proceed.

A **Constitution Amendment Bill** was passed in August 2004. Under the terms of the Bill the Constitution of Kenya Review Act was to be amended to allow Parliament to assume control of the remainder of the review process and provided for a referendum on the draft constitution. Opponents of the Bill claim that removing the provision for approval by 65% of the electorate leaves the draft constitution too vulnerable to being watered down. The **Judicial Service Commission** ordered 50 magistrates facing corruption charges to retire from 12 March 2004. 82 magistrates, 23 judges and 43 paralegal officers were mentioned in the Ringera report on corruption in the judiciary.

### 2.2 Update of the economic situation

Real GDP **growth** for 2004 is estimated by the Central Bank at 2.6%. This represents a continuation of the recovery that began in 2003. However, this is far from the sustained economic growth path foreseen in the PRSP/Economic Recovery Strategy and required to underpin the reduction in **poverty** in the country. While this would nevertheless represent a significant improvement compared to the average annual growth rate of just over 1% over the previous 5 years, it is insufficient to generate the substantial increase in per capita incomes that is necessary for sustained poverty reduction.

Overall growth in 2004 appears to have been broad based with agriculture, manufacturing, services, building and construction, transport and communications all contributing significantly. While the higher growth rate represents a significant improvement compared to the average annual growth rate of just over 1% over the previous 5 years, it is insufficient to generate the substantial increase in per capita incomes that is necessary for sustained poverty reduction.

Rising **investment and saving ratios** are major targets for the first pillar of the ERS and cornerstones in the Governments macroeconomic scenario and growth forecast. Gross fixed capital formation fell to 12.5

percent of GDP in 2003 from 12.9 percent in 2002 and private consumption increased to 73.8 percent from 72.9 percent of GDP.<sup>1</sup> The saving ratio fell to 9.8 percent of GDP in 2003 from 13.6 percent in 2002.

The increased private sector activity is also reflected in domestic **credit expansion**. Credit to the private sector grew by 22.1 percent in the year to January 2005 compared with 9.8 percent a year earlier. The annual growth rate of household bank credit in January 2005 was 48.6 percent indicating high private consumption demand. Other sectors that registered increased credit included agriculture (14.9 percent), manufacturing (21.4 percent), building and construction (10.2 percent), transport and communication (16.3 percent), mining and quarrying (31.8 percent) and finance and insurance (28.0 percent). Bank sector credit to government slowed down significantly during 2004, registering an annual growth rate of – 2.5 percent in January 2005 compared with an increase of 24 per cent in the year to January 2004. This is a reflection of reduction in domestic borrowing by the Government to finance the budget deficit.

The **interest rate** on the benchmark 91-day Treasury Bill issue increased from an average of just under 1.7% in July 2004 to 8.3% in January 2005. The rapid rise in interest rates in the 2<sup>nd</sup> Quarter of the fiscal year fuelled speculative tendencies in the Government securities market. This undermined the Government's ability to achieve the targeted net domestic borrowing.

**Monetary policy** was loosened in July 2003 through the reduction in reserve requirements for commercial banks (from 10% to 6%). This led to an increase in the money multiplier with the year-on-year expansion of broad money (M3X) reaching 12.8% in January 2005 and real interest rates being sharply negative.

The strong **inflationary trends** that emerged during 2004 reflect a combination of both exogenous factors (drought-induced rise in food prices, increased in transport costs reflecting reinforced regulations in the public transport sector and the international oil price rise) as well as the monetary easing since mid 2003. Headline consumer price inflation was 11.6 percent and underlying inflation 3.5 percent in 2004. Inflationary pressures have fallen with the 12- month headline inflation rate declining for five consecutive months, falling to 14.9 percent in January 2005 from 19 percent in September 2004. The 12-month underlying inflation rate remained stable between October and December at just under 5%. The Central Bank of Kenya targets 5 percent for underlying inflation.

The current account on the balance of payments moved sharply into deficit during the year to September 2004 reflecting unfavourable terms of trade developments (oil price rise), strong import demand outstripping export growth and a decline in the services balance (despite the upturn in tourism earnings) compared to the same period of 2003, mainly reflecting a decline in current transfers (both official and private). The Kenya Shilling has depreciated against all major currencies since the beginning of 2004 reflecting both the underlying terms of trade deterioration and the domestic monetary expansion.

Net **domestic borrowing** by Government totalled Kshs. 8.8 billion during 2003/04, far below the targeted borrowing of Kshs. 45.3 billion, partly because of the over performance in revenue as well as the lower domestically financed expenditures. The higher revenues and lower expenditures resulted in a deficit of only KShs. 4.6 billion against the planned deficit of KShs. 42.8 billion.

The 2004/05 budget presented to Parliament had assumed that, based on the commitment during the previous Consultative Group meeting in late 2003, development partners would provide sufficient budgetary support to close a **financing gap** of Kshs. 35 billion. This, however, turned out not to be the case, and Government has had to revise revenues, expenditures and domestic and foreign borrowing in order to close the gap. The revised fiscal framework for 2004/05 is consistent with the one underlying the

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<sup>1</sup> According to the 1993 SNA revised national accounts, growth in 2003 for gross fixed investment was -7.8 percent and 1.3 percent for private consumption (constant prices).

**Poverty Reduction and Growth Facility (PRGF)** supported program with the IMF. The **financing gap** of Kshs.35 billion was covered by: additional revenues of Kshs. 19 billion based on the sharply higher than expected first quarter out-turn; projected new external financing of Kshs.7 billion from the World Bank and the African Development Bank; and additional domestic borrowing of Kshs.10 billion. The overall **fiscal deficit** (including grants) for 2004/05 is now forecast to increase to Kshs. 33.4 billion. The larger deficit will be financed by net external borrowing of Kshs.6.1 billion and domestic borrowing of Kshs. 32 billion, which excludes bank restructuring costs of Kshs.5 billion. Nevertheless, **domestic debt** will remain broadly unchanged from the previous year, at 22 percent of GDP.

The main (provisional) **revenue and expenditure trends** for the first half of the FY 2004/05 (until December 2004) are the following. Total revenue (excluding grants) was Kshs. 135.1 billion which was almost 30 percent higher than during the first half of the previous fiscal year. The main sources were income tax (Kshs. 44.6 billion) and VAT (Kshs. 36 billion). Total, recurrent and development expenditures were Kshs. 133 billion, Kshs. 116.3 billion and Kshs. 16.7 billion which corresponds to annual growth rates of 9.2 percent, 8.9 percent and 12.0 percent. Donor disbursements consisted of KShs 5.6 billion which was 46 percent lower than during the first half of the previous year. Mainly due to higher revenue than expected, KShs 2.9 billion of domestic debt was repaid.

The 2004/05 budget presented to Parliament had assumed that, based on the commitment during the previous Consultative Group meeting in late 2003, development partners would provide sufficient budgetary support to close a **financing gap** of Kshs.35 billion. This, however, turned out not to be the case, and Government has had to revise revenues, expenditures and domestic and foreign borrowing in order to close the gap. The revised fiscal framework for 2004/05 is consistent with the one underlying the **Poverty Reduction and Growth Facility (PRGF)** supported program with the IMF.

The overall fiscal deficit (including grants) for 2004/05 is now forecast to increase to Kshs. 33.4 billion or 2.6 percent of GDP, compared with the previous deficit of 0.2 percent of GDP. The larger deficit will be financed by net external borrowing of Kshs.6.1 billion and domestic borrowing of Kshs. 32 billion (2.5 percent of GDP), which excludes bank restructuring costs of Kshs.5 billion. Nevertheless, **domestic debt** will remain broadly unchanged from the previous year, at 22 percent of GDP.

### 2.3 Update of the social situation

**Recent economic developments may have worsened poverty indicators.** With real GDP growth broadly in line with the increase in population and the economy suffering from the effects of major negative shocks—the drought and the oil price increase—the poverty rate may have increased in the recent past. Moreover, progress on poverty alleviation has been hampered by delays in initiating major poverty reduction programs in the social and economic sectors. AIDS remains a major challenge.

**Non-income dimensions of poverty worsened.** In step with poor economic performance, key social indicators during the 1990s declined. Illiteracy rates increased as enrolment rates in primary school declined during the 1990s. Life expectancy declined from 57 years to 47 years between 1986 and 2000, while the situation in infant and child mortality and HIV/AIDS worsened. Preliminary results of the Kenya Demographic and Health Survey conducted in 2003 indicate that infant mortality increased from 62 per thousand in 1993 to 78 per thousand in 2003, while under five mortality rose slightly from 96 per thousand births to 114 per thousand in the same period. Trends in nutritional status of children under age three show that the percentage of stunted children (short for their age) increased from 29 percent in 1993 to 31 percent in 2003. Similarly, the percentage of children aged 12-33 months who were fully vaccinated dropped from 79 percent in 1993 to a dismal 52 percent in 2003. These national averages conceal substantial regional variations. For example, the proportion of children fully vaccinated in Nyanza, Western and North Eastern provinces falls below 50 percent as of 2003. Need to recognise the good performance with introduction of UPE

**Key determinants of poverty.** The key determinants of poverty in Kenya include location (rural/urban); household size; level of education of head of household, gender (male versus female headed households); agricultural output (cash crop farmers or subsistence farmers); access to land; and ownership of livestock and of selected durable farm

tools. Factors highlighted in participatory poverty studies as affecting household consumption include having low agricultural productivity and poor access to markets; being unemployed or earning low wages; living in areas with poor infrastructure (especially roads) and with limited availability of affordable basic services; living with HIV/AIDS or with a disability; being a member of a minority group that is discriminated against; and living in an area with a poor and cultural beliefs that deny women access to productive assets. The government recognizes that much is still to be done to understand the causes of poverty and to identify interventions that can effectively and rapidly reduce poverty.

The **Kenya Integrated Household Budget Survey (KIHBS)** should provide critical data for estimating the incidence, depth, distribution, and trends of poverty, and in addition, will also provide the baseline information towards undertaking a comprehensive poverty assessment in 2005/06.

The understanding of the **geographical variations in poverty** has grown considerably as a result of the production of poverty maps in 2003 that show not only the provinces with high proportions of poor people, but also the sub districts within provinces with such concentrations. This information could be used in future when developing targets and programmes for the poor. The shortcomings of the available poverty maps are inadequate they do not present information for the North Eastern province, the 1997 Welfare Monitoring Survey also did not provide information on this region. Being an ASAL region where extreme poverty is highest, adequate targeted poverty data would be critical in facilitating the IP-ERS poverty reduction interventions. Data from the planned Kenya integrated household budget survey will be useful in producing a complete poverty map in the future.

**Gender Dimensions of Poverty** is also critical in promotion of equity and access to the most vulnerable and disadvantaged group within the population. Social factors and cultural norms emphasize the unequal power status of men and women. Some traditions favour male dominance, resulting in low social status of women. Special efforts are needed to empower women to make them less vulnerable. As a result recent statistics on HIV/AIDS prevalence have indicated a higher percentage of infested women compared to men. Efforts are ongoing to mainstream gender in the Economic Recovery Strategy. Constraints, however, include lack of gender-disaggregated analysis, except for the fields of basic education and some areas of healthcare. In addition gender specific targets for defining improvements in the economic, social and legal situation are still lacking. The macroeconomic framework that forms the core of the Economic Recovery Strategy is still analyzed in gender-neutral terms.

An influential report in **inequality in Kenya** was published with the support of the Swedish International Development Agency in September. The report, entitled *Pulling Apart*, reveals that Kenya ranks among the top ten most unequal countries in the world and the fifth in Africa. Recent statistics show that income is heavily skewed in favour of the rich and against the poor.

The report finds the following:

1. Differences in income. The 10% richest households in Kenya control more than 42% of incomes, while the poorest 10% control 0.76% of income. This means that while the top rich Kenyan earns about 56 shillings, the bottom poor earns 1 shilling.
2. Differences in life expectancy. A person being born in Nyanza province can expect to live 16 years less than his fellow citizen in Central province. At the district level life expectancy in Meru is double that in Mombasa, 68.6 and 33.1 years respectively.
3. Differences in unemployment between men and women. For the age group 20-24 years, there are about 274,000 unemployed women in urban areas compared to about 73,000 in the case of men of the same age group.
4. Differences in HIV/Aids prevalence. In Nyanza province 15% of the population is infected with the HIV/AIDs virus while the infection rate in North Eastern province is negligible, estimated at about 0%.
5. Differences in school enrolment. Going by the enrolment rates, practically every child in Central province attends primary school compared to about one out of three children in North Eastern province. For secondary school the difference is even bigger.
6. Differences in access to water. The proportion of households with piped water in their houses in urban areas is five times that in rural areas, about 19.2% and 3.8% respectively.

7. Differences in the health reach. In Central province, there are about 20,000 people for every doctor while in North Eastern province there is one doctor for every 120,000 people.

8. Differences in immunisation and mortality. The coverage of child immunization in Nyanza province is less than half that in Central, that is, 38% compared to 79% respectively. There are about twice as many infants dying before their first birthday in Nyanza province compared to Rift Valley, that is, 133 and 61 deaths per 1000 live births, respectively.

9. Difference in gender outcomes. About 93% of women in North Eastern province have no education at all, compared to 3% in Central province. Of the 2,140 elected councillors in 2002, only 97 were women. Of the 210 elected Members of Parliament in 2002 only 9 are women.

10. Difference in poverty levels. Poverty levels can vary within and without regions. For instance, although the proportion of people living below the poverty line in Nairobi is 44%, poverty levels range from 8% in Nairobi west, Kibera Division to 77% in Makongeni, Makadara Division.

**Table 1 Key Indicators**

Indicator						Target (from PRSP/ERS)			
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Primary net school enrolment	73.7%	n.a	n.a	79.8%			81.5%	83.2%	85.0%
Primary completion rate	48.9%	49.8%		59.4%			59.7%	60.0%	63.0%
Primary school, enrolment in North Eastern province							24.5%	31.3%	
In-patient malaria mortality as % of total in-patient morbidity						15.2%	14.3%	10.0%	
Proportion of births attended by skilled personnel					42%	70.8%	75.6%	8.0%	
Children under 1 immunised against	76%	75%	75%	74%	n.a.	67.7%	74.5%	85.0%	
HIV/AIDS prevalence	13.1%	13.0%	10.2%		10.1%	9.2%	8.4%	8.0%	

### 3 Development agenda of the partner country

The strategic objectives of Economic Recovery Strategy ( ERS) are the restoration of economic growth, employment creation and social development. ERS comprises a four-fold strategy to meet these objectives over the medium term:

- Restoring economic growth within the context of a sustainable macroeconomic framework;
- Strengthening the institutions of governance;
- Restoring and expanding infrastructure;
- Investing in the human capital of the poor.

Implementing the strategy requires government policy and measures which are summarised as follows in terms of each of the four strategic pillars.



### 3.1 Restoring Economic Growth within the context of a sustainable macroeconomic framework

**Macroeconomic stability** is a prerequisite for strong private sector-led economic growth. Maintaining macroeconomic stability will also strengthen external confidence in Kenya's economy and improve the environment for foreign investment in Kenya. Fiscal policy includes maintaining a strong revenue position whilst avoiding a tax regime that is unduly burdensome on business, and containing the growth of expenditure while ensuring a shift in its composition toward infrastructure, social programmes and service delivery supportive of private sector activity. The resulting lower fiscal deficit will permit a gradual reduction in domestic borrowing by Government, which should restrain pressure on real interest rates and, therefore, encourage private sector investment. Reducing domestic debt to sustainable levels will reduce the domestic interest expenditure of the Government and thereby provide more room in the budget for additional expenditures in the key priority areas of ERS. Monetary policy, meanwhile, is aimed at maintaining low inflation, a comfortable level of international reserves and providing sufficient credit to the private sector.

In order to promote **private sector development** the Government will lighten legal, regulatory and institutional constraints and promote privatisation. In order to stimulate private investment, both foreign and domestic-sourced, Government plans to enact the Investment Code and establish an Investment Authority as a one-stop office for investors. The review will include the industrial labour framework particularly wage guidelines and minimum wage legislation and recommend changes that will reduce disincentives to hire unskilled labour.

**Privatization** should enhance Kenya's external competitiveness in general and particularly within the regional markets. It also reduces direct costs to the budget by eliminating transfers to public enterprises while reducing the potential contingent liabilities that could be borne by Government. The next step in the privatization process is to present a Sessional Paper to Parliament as a prelude to a revised Privatisation Bill to provide a transparent legal framework for privatization transactions. In this context, where privatization may not be the appropriate option, due to the strategic importance of the agencies concerned, increased private sector participation in the running of these agencies, through management concessions, will nevertheless be considered with a view to achieving efficiency gains. As a specific measure, Government plans to open up the telecommunications sector to more competition, thereby benefiting both consumers and producers through lower prices. As a first step in this direction, the Kenya Telecom Monopoly was allowed to expire at end-June 2004.

Increased public confidence in the **financial sector** and lower transaction costs will induce more intermediation between savers and investors and lower the cost of capital. The Budget Speech for 2004/05 contains several measures to strengthen the sector. Further measures that Government is planning include the enactment of the Micro Finance Institutions Bill, in order to help micro, small and medium size enterprises, as well as farmers, access financial services at affordable prices. Government also intends to review the NSSF Act in order to determine whether to convert it to a pension fund, expand coverage and thereby further increase the pool of private sector savings available to finance private sector investment.

A strong **commercial justice system** is indispensable to the promotion of private sector investment. Work to strengthen this system is already underway, led by Kenya's Law Reform Commission, under Government's Governance, Justice, Law and Order Sector Programme (GJLOS). A draft Companies Bill is being prepared.

Government will implement its "**Strategy for Revitalisation of Agriculture**" over ten years. Through this, Government will review and harmonise the legal, regulatory and institutional framework for agriculture, rationalise public sector agricultural institutions, prepare a new agricultural extension policy, implement a livestock development policy for ASALS; rehabilitate irrigation schemes; and implement the Cooperative Societies Act (2004) as a first step towards revitalizing cooperatives.

### 3.2 Strengthening the Institutions of Governance

Government will implement the provisions of the Anti-Corruption and Economic Crimes Act (2003) and the Public Officers Ethics Act (2003), adequately facilitate the Kenya Anti-Corruption Commission established in September, 2004, enforce asset declarations by senior public officers (as done in November 2003) and restructure the judiciary and police.

Government plans to recruit more **police** officers and modernize their equipment. It plans to renovate court buildings, establish small claims courts alongside traditional courts (through a bill to be tabled before Parliament), speed up case processing and reduce overcrowding in **prisons** through improved linkages between the various components of the GJLOS sector and improved prison facilities. It plans to strengthen the Judicial Service Commission.

An improved legislative framework for **Public Expenditure Management** is being put in place. These include the Government Financial Management Act (2004) and the Public Audit Act (2004). The Public Procurement and Disposal of Assets Bill (2004) is meanwhile before Parliament. The above laws will enhance accountability in public financial management practices; strengthen the independence of and operational capacity of the Controller and Auditor General; and empower the Directorate of Public Procurement to exercise his statutory oversight role.

### 3.3 Restoring and Expanding Infrastructure

In this area the Government will construct, rehabilitate and maintain roads, thereby sharply increasing the proportion of good roads. At the same time the Government has embarked on developing an energy policy that will ensure sufficient affordable energy supplies to support economic growth. It will also be necessary to strengthen the railway, port and airport infrastructure both directly and through concessioning arrangements with the private sector. In the water sector, the Government intends to construct, rehabilitate and maintain dams, pans, boreholes and irrigation systems, and implement the Water Act, 2000. Support is also being sought under the Intra ACP water facility for capacity building in water management

### 3.4 Investing in the Human Capital of the Poor

Government will continue to provide the funding necessary for **free primary education**. It will also support increased net enrolment and the attainment of target student/teacher ratios and student/text book ratios. Increased net primary school enrolment implies increased demand in the future for secondary and vocational education. Economic growth and development requires the human skills developed at these stages of education, so Government will endeavour to provide the necessary funds. Measures include the rehabilitation of secondary school classrooms and laboratories and the provision of bursaries to poor bright students.

**Health** standards in Kenya continue to lag far behind international norms, so Government intends to gradually step up health spending from the current 6 percent of total spending. In line with international practice it will shift the focus from curative care to preventative care, particularly in poorer areas and particularly through expanded immunization coverage. To encourage greater accessibility to the health care system and strengthen its affordability, the Government intends to increase the share of spending going to the health sector in order to facilitate an improvement in infrastructure, provision of drugs and more staff and training. Once the necessary infrastructure is in place, Government plans to introduce a scheme to replace the existing National Health Insurance Fund which seek to make health care affordable to every citizen of the country. In the meantime, to improve efficiency, Government plans to overhaul the drugs procurement and distribution system. These measures will be implemented within the framework of a sector wide approach currently being developed, that will result in a comprehensive National Health Sector Strategic Plan. As a result of its spending programmes, Government expects improvements in key health indicators: infant, child and maternal mortality rates, HIV prevalence rate and the malaria morbidity rate.

## 4 Overview of past and ongoing cooperation

Table 1. Financial Performance 2004 (€million)

	<u>2004 Forecast</u>	<u>2004 Actual</u>
Global Commitments	165.0	146.0
Individual Commitments	127.4	60.9
Payments	106.2	34.2

The targets for 2004 and 2005 are as follows:

Table 2. Financial Forecasts 2005-2006 (€million)

	<u>2005</u>	<u>2006</u>
Global Commitments	35.4	35.0
Individual Commitments	85.6	79.5
Payments	95.5	99.3

### 4.1 Focal sectors

#### 4.1.1 Macroeconomic support

##### a) Results

Following the Government reshuffle in June, discussion focused on two key areas: the closing of the financing gap and the rationalisation of the budget formulation responsibilities within Government. On the first issue, agreement was reached between the authorities and the IMF in September on a package to close the budget financing gap based on the following:

**Revenue** **KES 10.8 bn** reflecting the good first half revenue performance and tendency of KRA to underestimate revenue projections.

**Budget Support** **KES 7.2 bn** based on WB ERS credit (KES 6 bn) and African Development Bank (KES 1.2 bn). NB: the EC budget support first instalment (KES 4.8 bn) is factored in to the IMF programme.

**Borrowing-** The IMF accepted a relaxation in the borrowing requirement underlying the PRGF programme by **KES 10 billion**

**Expenditure** **KES 14.6 bn**

Despite this progress in restoring fiscal sustainability, the more fundamental objective of restructuring the budget in line with the ERS priorities has proved elusive. Against this background, the Government also rationalised the respective roles of the Ministries of Finance and Planning in the budget process as detailed in the Presidential Circular issued in September 2004. Following this, the Ministry of Finance revised the budget timetable reflecting the conclusions of the MTEF review study. The revised timetable seeks to engage Cabinet at an early stage in the budget process through the consideration of a Budget Outlook Paper which sets clear sectoral ceilings. The Public Expenditure Review process will then look at intra-sectoral allocation issues before the preparation of a more detailed Budget Strategy Paper that is to give detailed Ministerial ceilings. Based on this revised timetable the Consultative Group meeting was rescheduled from November 2004 to April 2005 to allow the Budget Strategy Paper to be prepared in time.

In late 2004 the Government prepared a zero draft of the ERS Annual Progress Report that will be presented to the Consultative Group meeting scheduled for April 11<sup>th</sup> and 12<sup>th</sup> 2005. The zero draft has since been revised to include key indicators of success for the delivery of ERS priorities.

Towards the end of the year, the Government Financial Management Bill (a pre-condition for budget support) was enacted that further strengthens the institutional framework for the elaboration and execution of the budget. Two other key areas of legislation are, however, taking more time: the Privatisation Bill has been shelved pending the preparation of a Sessional Paper to be considered by Parliament. This Sessional Paper has been, informed by the EU Communication on the Reform of State Owned Enterprises in Developing Countries- The Need to Consider all the Options. A draft of the Sessional Paper has been shared with the Delegation. In addition, the Public Procurement Bill has been revised following the Anglo Leasing affair in order to tighten up the provisions for defence and security procurement. It is now in Parliament awaiting enactment.

Regarding Public Financial Management, the Delegation participated in the second Public Expenditure Management Assessment and Action Plan (PEMAAP) mission with the World Bank , IMF , DFID, SIDA and KfW in April. This revealed that Kenya had achieved one additional benchmark compared to the previous year to reach 4 out of 16. Progress in establishing a well sequenced and prioritised reform programme for PFM was limited despite substantial efforts by the EC and other donors.

The audit of the €1 million STABEX advanced budget support completed in December 2004 generated a matrix of corrective measures that should now be incorporated into the Government's own reform programme.

#### **b) Progress in activities**

The approval of the PRBSII programme provides a strong focus for EU dialogue around macro reform issues. The Delegation continuously monitors progress in achieving these conditions closely with a view to being able to provide a firm commitment on disbursement around the time of the CG. This will, however, depend on progress.

The EC provided substantial capacity building support through support to an IMF official seconded through a multi-donor programme to the Ministry of Finance. In addition, the EC supported the October workshop on developing the public financial management reform programme in addition to consultancy support and staff comments on the draft Budget Outlook Paper. Support to consultancy on the BOP was offered in February and June to the Ministry of Planning and National development but only taken up in November by the Ministry of Finance following the rationalisation of budget functions within Government.

Regarding the ERS Annual Progress Report a core set of social sector indicators has been established with annual targets in line with the 7 indicators selected for the PRBSII programme. These are included in Table 1 above. The draft ERS APR does not yet include PFM indicators. The PER and the eventual Budget Strategy Paper should each progressively refine the annual targets to be adopted as part of the 2005/06

budget. These will then be adopted for the PRBSII variable tranches foreseen for 2006 and 2007. Linked to this, the Government made substantial progress in establishing a framework for undertaking the Kenya Integrated Household Budget Survey in 2005. The EC has formally indicated that it would be ready to provide some €1 million to support the KIHBS through a basket funding arrangement under the Management Support, Monitoring and Evaluation Project under the STABEX 1992/93 FMO

In the area of Public Financial Management, the Delegation is participating in the ongoing Country Integrated Fiduciary assessment that will be presented to the CG in April. The EC is financing a key component of this assessment – the Independent Procurement Review. In order to make further progress in this area, the donors have formed a group under the leadership of the EC to coordinate support in this area. A government focal point from Ministry of Finance in this context was appointed in February 2005.

The audit of the €1 million STABEX advanced budget support raised a number of issues regarding public financial management. This is not surprising, however, given that the programme was conceived and finalised in a very short space through intensive dialogue between the Ministry of Finance and the EC Delegation which did not allow the development of a full understanding and ownership of the programme across all of the targeted sectors. To some extent, this may explain the clear reluctance of the Ministry of Roads to cooperate with the audit process. Second, while the programme targeted the revised budget that was adopted by the in-coming Government in 2003, the weaknesses in budget execution that had emerged over the previous Government's tenure clearly persisted throughout the targeted fiscal year 2002/2003.

The audit concludes, however, that targeted RMLF expenditures (Ksh 1,483,243,083) and expenditures on the Kisi-Cemosit Road (Ksh 123,783,738) are ineligible. It is essential that this issue is addressed concretely before the EDF9 €25 million budget support programme can be implemented. Against this background, the Delegation and the NAO have engaged in discussions on the following:

- The Matrix of Corrective Measures should be mainstreamed within the Government's overall Public Financial Management reform programme.
- The Audit report should be presented by the Government to the Budget Support Technical Working Group at its next meeting.
- A Protocol of Regularisation between the GoK and the EC should be concluded which provides a schedule of payments of the amounts declared ineligible, that is compatible with the GoK macro-fiscal framework, into a joint account with the money used for programmes in support of areas identified in the Matrix of Corrective Measures or in line with the original FMO.

Support under the Protocol of Regularisation is being considered for the modernisation of the Teachers' Service Commission payroll database, capacity building to the Kenya Roads Board, basket funding support to the Public Financial Management Reform Strategy, and support to basic rural services and infrastructure through an extension of the Community Development Programme.

### **c) Integration of cross cutting themes**

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. At the same time, gender disaggregating of the PRBSII indicators will be closely monitored.

## 4.1.2 Rural Development and Agriculture

### a) Results

The fragmentation of the central government agriculture-related functions across a number of different ministries continues to negatively affect the implementation of a coherent strategy for the agricultural sector. The organisation of marketing of export crops, especially the coffee sector, has suffered from lack of a clear leadership at ministerial level. This situation undermines the industry's efforts to recover from a decade of low international prices and to develop a new sectoral strategy.

Nevertheless, the launch of the **Strategy for Revitalising Agriculture (SRA)** in March 2004, and the process engaged by the three ministries in charge of agricultural issues (Agriculture, Livestock and Fisheries Development and Cooperatives and Marketing) with the donor community is an important step towards a more coordinated action.

The establishment of an inter-ministerial **Agricultural Sector Coordination Unit (ASCU)** to concentrate efforts on implementing the SRA, with the support of a multi-donor funding, is in progress and should start early 2005. Among priority actions, the ASCU work plan includes: policy and legal framework review, review of state organisations, mainstream of SRA in the national budget etc...

Annual **State of the Environment Report for 2003** has been prepared by NEMA (National Environment Management Authority) and submitted to the Ministry of Environment and Natural Resources. The report is still to be submitted to Cabinet and be debated in Parliament. Work has commenced on the Annual report for 2004, which is expected to concentrate on land degradation issues.

The **Kenya Forestry Bill** was rejected by Parliament and cannot be re-presented for another 6 months. The rejection had more to do with political considerations rather than the actual content of the Bill, which will acknowledge the involvement of communities in forest management and address the proposed establishment of an alternative service to the present Forest Department. A number of donors are interested in providing substantial long term support, particularly the Finnish Government.

NEMA, with EC support, updated and completed its 5 year Strategic Plan. This has still to be officially launched in the public domain. EC support to NEMA is proposed in the new Community Development for Environmental Management Programme (CDEMP). The launch of regulations on Environmental Audit and Environmental Impact Assessment has been completed and accredited experts are being registered, with a number of organisations complying with Environmental Audit requirements.

The EU/UNDP/DFID **Poverty Environmental Initiatives Programme** is ongoing under UNDP management.

The award of the Nobel Peace Prize to Kenyan Environmentalist and Assistant Minister of Environment Wangari Maathai was greeted with great acclaim in the country and has helped to raise the profile of environmental issues. The amendment to the Wildlife Act was debated and approved by Parliament in December 2004 but was subsequently rejected by the President of particular concern was the lifting of the ban on commercial hunting

Progress in developing a comprehensive and coherent **decentralisation** strategy has been hindered by the protracted debate over a revised Constitution. The architecture of devolved governance in Kenya has been further complicated by the multiplicity of service delivery mechanisms for each individual sector such as roads (District Roads Committees), HIV/AIDS, the Constituency Development Fund and the environment (District Environment Committees) and water sector reforms. In addition, the ERS-IP foresees the creation of a further channel through the Social Action Fund. Nevertheless, the Government has made a preliminary analysis of the viability of the current 175 Local Authorities. The Ministry of Local Government intends to make progress in establishing optimal staffing plans for Local Authorities and the clearing the audit backlog in Local Authorities.

## **b) Progress in activities**

The completion of a livestock marketing study and a coffee value-chain study has provided clear guidance to both government and development partners with options for potential development actions to be undertaken. Nevertheless, the uncertain policy background (dominant role of non-productive parastatals, marginalisation of private sector) has prevented progress being made in agreeing interventions. Against this background, the SCIP II project (Ksh 1.65 billion), which provides credit to coffee farmers through a revolving fund managed by the Cooperative Bank, has been put in severe jeopardy by the structural problems faced by the coffee sector and the non-payment of loans by farmers. This reflects the problems in the coffee payments chain that emerged following the chaotic implementation of the Coffee Act 2001. This is detailed in the Coffee Study. In early 2004 the NAO requested a further audit of SCIP II with a view to assessing the possibility of providing a comprehensive write-off of outstanding loans under the programme. The EC agreed and suggested that terms of reference are drawn up under the SSPII programme. The Government has since requested that the EC funds be capitalised as part of Coop Banks' core capital. The Delegation is considering this request in the context of possible complementary support to the World Bank Financial Sector Restructuring Credit and, in particular, the commitment by the Government to develop a credible and sustainable strategy for Development Finance Institutions.

In addition to the two sub-sector studies completed in 2003, a cotton study was finalised in November 2004 and provides orientations for further cooperation with the government in this matter.

However, possible financial support from the European Commission to specific sectoral interventions will be limited, if any, due to lack of resources available under the current Programme (EDF and STABEX).

The Agricultural Research Project, conducted with KARI in the area of arid and semi-arid lands, has reached a successful conclusion. The final evaluation concluded that the main objective of the project has been satisfactory achieved (to enhance the economic integration of arid and semi-arid lands communities).

The preparation of a follow-up phase is at an advanced stage. A feasibility study was completed in December 2004 and the Draft FP is ready for presentation to the Delegation IQSP. Meanwhile the NAO and the delegation have approved the funding of a bridging phase from the balances of STABEX funds.

As the lead institution in Agricultural Research, KARI is expected to play a major role in the restructuring of agricultural research institutions. Research consolidation is mainly supported by KAPP (Kenya Agricultural Productivity Programme/WB).

During 2004 the Community Development Programme-Phase II was restructured to reflect AIDCO comments that the tranches foreseen under the Financing Agreement should be classified as advances rather than payments. Following this, a commitment of €3.5 million was made based on the 4<sup>th</sup> Work Programme resulting in payments of just over €1.7 million during the year. In addition, during 2004 the remaining CDP-Phase I projects were closed and 197 new projects approved. The programme also began structured collaboration with two Local Authorities in community-driven projects as a precursor to the EDF9 Local Government project. The project was subject to the regular AIDCO monitoring exercise which found that relevance (a), efficiency (b) and effectiveness had all improved since the previous monitoring exercise in 2002. This reflects the substantial efforts made by the PMU, the Delegation, the Board of Trustees and the NAO to restructure the project in the face of the huge problems encountered in 2002 (political interference, backlog of CDP1 projects, lack of transparency in the project selection process, inadequate planning of the project cycle etc.). The CDP II is due to end on 31<sup>st</sup> December 2006. This full period will be necessary to ensure the full disbursement of project investment funds. The resources to continue the PMU up to this period are not, however, available under the project. Against this background, a rider for the re-allocation of funds was recently sent to Brussels for approval.

The Biodiversity Conservation Programme project investment budget of €4 million is now fully committed, providing support to 37 projects in key ecosystems. Significant progress has been made in re-focusing project interventions in key ecosystems in line with recommendations of the Mid Term Review of 2003. In

addition, the financial modalities of the project were restructured along similar lines to CDPII during 2004. Thus, the commitment of just over €2 million was made based on the 3<sup>rd</sup> Work Programme and payments of just over €10,000 made. The project was subject to the regular AIDCO monitoring exercise which found that efficiency had increased significantly (from c to a) compared to the previous monitoring exercise in 2002. This reflects the exceptional qualities of the small PMU and more streamlined procedures applied to the appraisal/approval process. The programme is due to end in September 2005 but, in line with the recommendations of the monitoring report, a proposal is being considered to support the continuation of the programme until January 2006, to enable satisfactory completion of on-going projects.

The proposed Community Development for Environmental Management programme (CDEMP) for €13 million, comprising of two main elements, support to NEMA and the establishment of a Community Environment Facility (along the same lines as the BCP) was prepared in 2004. The Financing Proposal is likely to be approved by the NAO and the EC Delegation in early 2005 for considerations to be considered by the EDF Committee in May 2005.

As a pre-condition of support to NEMA under this programme, NEMA undertook the production of a comprehensive 5 year Strategic Plan to prioritise its functions, to guide future support and monitor progress. This was supported by EC technical assistance.

The Rural Poverty Reduction and Local Government Support Programme was signed in September 2004 by the Minister of Finance with the Minister of Local Government in attendance. The Inception Period was launched immediately thereafter with a dedicated TA recruited to support the Government in elaborating a call for proposals to all 175 LAs and tender documents for the TA to the PMU and the Kenya Local Government Reform Programme. The Minister of Local Government chaired a first donor group meeting with a view to establishing a sector wide support strategy. The EC chairs this group on the donor side.

### **4.1.3 Roads and transport**

#### **a) Results**

The poor state of the road infrastructure in Kenya has been identified under the PRSP consultations as a primary constraint to development in Kenya, and in particular agriculture and rural development.

The Kenya Roads Board (KRB) is charged with oversight responsibility over of the road network and coordinates its development, rehabilitation and maintenance. KRB is an executive body with majority private sector representation which was created in July 2000.

KRB has for four successive financial years, since July 2001, made fund transfers to the three road agencies nominated in the KRB Act (Roads Department, District Road Committees and Kenya Wildlife Service) from the Roads Maintenance Levy Fund, incorporated into the Kenya Roads Board Fund.

Unfortunately, these funds have had little or no impact, and roads have continued to deteriorate. It is hoped with the anticipated appointment of a new Executive Director of KRB early in 2005 KRB will address the key areas of its mandate, which are aimed at ensuring proper planning, accountability and sound management in respect of maintenance and rehabilitation of the road network, namely:-

- Reviewing and approving the Annual Road Maintenance Programme Budgets by Road Agencies prior to disbursing funds.
- Monitoring activities undertaken by road agencies and delivery of works by means of technical, financial and performance audits
- Ensuring that activities carried out are in accordance with KRB guidelines and criteria
- Causing timely implementation of annual statutory financial audits of RMLF expenditure in accordance with RMLF Act.

Following recommendations of a Roads Sector Stakeholder Workshop held in May 2002, the Kenya Roads Board with financial assistance from the EC procured a consultant to undertake a consultancy study



to develop a Roads Policy and Strategy. The study report which was completed in March 2004 recommended several policy actions including the creation of autonomous Road Agencies of the KRB as the next step of the institutional reform and implementation of a 15 year investment programme to year 2020. The Ministry of Roads & Public Works has given an undertaking to review the study report and draw up a **Roads Sector Strategic Plan** to be approved by Government by October 2005.

Under the Northern Corridor Rehabilitation Project (NCRP) I and II, funds amounting to €4.25 Million have been set aside for capacity building related to institutional reforms of the Roads Sector. A consultant is in the process of reviewing Government proposals for capacity building and training with a view to formulating an appropriate support package.

An Identification study was completed in 2004 for the 9<sup>th</sup> EDF Road Projects. These are:-

- i. Support to institutional reforms (allocation €2 million) involving technical assistance and capacity building to KRB financial management, harmonisation of existing policy initiatives and assisting Ministry to draw up Road Strategic Plan, legal review and change management support to proposed road agencies of the KRB
- ii. Reduction of the maintenance backlog of the Northern Corridor by periodic maintenance on 220 km of the Northern Corridor to cost € 42 million to be financed by EC (€ 35 million) and Government (€7 million). The next stage is to commission an economic study and detailed design.
- iii. Rehabilitation and improvement of 223 km of rural roads in tea and coffee growing areas of Central Kenya at a cost of € 34 million. The proposed project involves a co-financing arrangement between EC (€20 million), KfW (€10.6 million) and Government of Kenya (€3.4 million). The KfW is expected to commission an economic study and detailed design from March 2005.

Two important conferences took place during the year. A Road Sector Conference for stakeholders was held between 19<sup>th</sup> – 20<sup>th</sup> July 2004 and opened by His Excellency President Kibaki. A high level Road Sector GOK-Donor Conference also took place from 29<sup>th</sup> to 30<sup>th</sup> October 2004 and was officially opened by the Hon. Minister for Roads & Public Works. The reports of both conferences have not been released.

More work needs to be done to harmonise activities of various donors involved in the sector and to develop a common and rationalised approach on development funding, to avoid acting at cross-purposes.

## b) **Progress in activities**

### **Northern Corridor Rehabilitation Project NCRP I** (€79.5 m from 7 & 8<sup>th</sup> EDF)

Works on this € 60 million Sultan Hamud – Mtito Andei Road rehabilitation contract (131 km) commenced April 2003 and are scheduled for completion September 2005.

The first section of 27km was completed and opened to traffic on 1<sup>st</sup> May 2004 at a ceremony to mark EU Enlargement celebrations. By the end of 2004 a total of 69km (53% of total road length) was completed.

Physical progress is 3 month behind schedule mainly caused by to administrative obstacles which continued to persist during 2004. Delays continued to be experienced on contractual payments, and routine contract administration decisions, as well as granting of tax/duty exemptions for imported construction equipment and materials. A contract addendum to facilitate reimbursement of taxes and duties already paid has still not been finalised.

### **Northern Corridor Rehabilitation Project NCRP II** (€55m under 8<sup>th</sup> EDF)

Tenders for the works and supervision for the 95km Mai Mahiu – Naivasha – Lanet Road rehabilitation were launched in March 2004 through international open competition. The tenders for both contracts were evaluated and awarded in December 2004.

The KES 4.6 billion works contract was signed contract between Government and the contractor Ministry of Roads & Public Works and (Sogea-Satom) at a public ceremony on 17<sup>th</sup> December 2004. The EC will finance €46 million or 93% of the contract. Construction work is expected to commence in March 2005.

#### **EC/STABEX Roads 2000 Programme (KES 700m)**

The concept of small-scale labour-based contracting has been adopted under the “Roads 2000” maintenance programme, which has been focussing on maintenance and improvement of rural roads with decentralised planning and management to district levels, with the involvement of local communities.

The EC STABEX funded Roads 2000 project in Eastern Province commenced in 1997. The original programme duration of 36 months was extended a number of times eventually to 31<sup>st</sup> December 2004, by which time only 44% of the budget was disbursed.

.During the year 2004, a total of 5 labour-based road improvement/gravelling contracts were in progress under the administration of Ministry engineers in the Districts who were assisted by a supervision management consultant. Only two of the contracts were eventually completed by the end of 2004.

The low physical accomplishment of the project has been a source of concern to both GOK and the EC Delegation. A consultant (Gibb) was commissioned in 2004 to carry out a review of the programme, identify the shortcomings and recommend on an optimal implementation framework for a possible second phase of the project to utilise unspent balances.

#### **c) Cross cutting themes**

Implementation of accompanying measures in respect of environment protection are included along with the road works for NCRP I & II.

The EC Delegation has however been unsuccessful in its efforts to reach agreement with Government on a AIDS/HIV awareness and treatment pilot project on Sultan Hamud- Mtito Andei road.

Similarly, a proposal to commission rural community water supply schemes along Sultan Hamud – Mtito Andei road utilising water boreholes drilled for construction, has not taken off.

#### **4.1.4 Projects and programmes outside focal sectors**

Ongoing activities funded from the 8<sup>th</sup> 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. Under the 9<sup>th</sup> EDF support in the non-focal sectors, support is foreseen for Non State Actors and for the Private sector. While diverse in nature, these programmes play a major role in supporting ongoing important reforms and processes in Kenya.

##### **4.1.4.1 Governance and Legal Reform**

#### **a) Results**

With the new government coming to power in 2003, the **EC Democratic Governance Support programme** (DGSP, funded under the 8<sup>th</sup> EDF) was finally activated, and a PIU selected. In 2004 the design of almost all sub-projects was finalised, and several individual commitments were made.

The EC has been playing a prominent role in supporting, together with 16 other donors, the Government’s (SWAP) reform of Governance, Justice, Law and Order (GJLOS). The EC is also active in other donor forums related to Governance: Like Minded Donors (LIMID), Parliament donor group, and National Civic Education Programme (NCEP) groups.

### **b) Progress in activities**

The activity supporting the Constitutional review process (supporting drafters working for the Constitution of Kenya Review Commission) was finalised. Above all, most of the remaining DGSP activities were committed in the course of 2004: signature of the service contract for the audit of DGSP, signature of 23 grant contracts with NGOs selected after a call for proposals, signature of direct grant contracts with the Law Reform Commission (under Support to judiciary) and the Electoral Commission of Kenya. Also the Kenya National Assembly as well as the Kenya National Commission for Human Rights finalised their project proposals. Contracts should be signed as soon as possible, now that the DGSP Extension has been granted.

On 23<sup>rd</sup> December, the FA of the DGSP was extended and will now run until December 2006, which will allow for the implementation of all project activities and entering into new commitments.

### **c) Integration of cross-cutting issues**

The EC DGSP has integrated cross-cutting issues such as Human Rights and Gender. Human Rights are also targeted through the EC's planned support to the Kenya National Commission for Human Rights.

## **4.1.4.2 Institutional capacity building**

### **a) Results**

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. In response to a recent request by the NAO, a comprehensive review study of institutional structures, functions and capacity at the NAO (and other ministries) was contracted at the beginning of 2004 and carried out in the spring. The final report was not completely accepted by the NAO, who considered that there was too much blunt criticism in it NAO did not fully accept the report. By adopting a systemic approach, this study fed in the preparation of the upcoming projects (see below).

### **b) Progress in activities**

Concerning the strengthening of institutional capacity, EC support to Kenya includes related components in all sector-related programmes (mainstreaming). In addition, some horizontal Institutional Capacity support programmes have been implemented in 2004, and the new generation of assistance (to start in 2005) has been designed.

- The first programme is the **SSP II (Services Support programme)**, (funded under 8<sup>th</sup> EDF), which mainly aims at 1) providing technical assistance for studies, design work, monitoring and evaluation of project and 2) a training facility. The technical assistance facility has been very much used in 2004, in various sectors of EC support to Kenya. The 2<sup>nd</sup> part of the programme (Provision of capacity building and training facility – €400,000) was launched (tender) at the end of 2004.

- In addition, the NAO itself has continued to benefit in 2004 from the **NAO Support Package**, funded by STABEX, which provides financial facilities (€130,000) for capacity building, equipment, seminars, etc. (this project will run until September 2005).

- Finally, the EC Delegation has also prepared in 2004 the Identification Fiche and the Financing Proposal (FP) for the future **Technical Cooperation Facility**. The FP was submitted to HQ on 26<sup>th</sup> November 2004 and it is expected that the Financing Decision will be taken by February 2005.

### **4.1.4.3 Private sector development**

#### **4.1.4.4 Results**

In 2004, the Cabinet adopted a paper on Micro and Small Enterprise Policy. However it still has not been adopted by the Parliament. In addition the Government (represented by the Ministry of Trade and Industry) undertook to put together a Private Sector development Action Plan. It is expected that this action plan be finalised by the end of March 2005. In addition, the private sector and Government have started to meet regularly and KEPSA, the Kenya Private Sector Alliance for the first time feels that the Government has an open ear to their concerns, needs and expectations. In parallel, many development partners in the course of 2004 have approved new projects.

##### **a) Progress in activities**

Under the 9<sup>th</sup> EDF/NIP further support to the Micro-enterprise sector is envisaged (€6.5 m). A consultant was hired in 2004 to carry out a feasibility study, and propose a Financing Proposal (FP), which was delivered to the NAO in the summer. However it was not possible to submit an Identification Fiche and FP. Both the NAO and the EC were not satisfied with the Consultant's work on the FP, notably on proposed activities. There is a need for the ECD to fundamentally review the proposal and propose appropriate activities. In addition, the changing context (new policies, forthcoming Government action plan and new major donors support) will also have to be taken into account in the identification and formulation process.

##### **b) Integration of cross-cutting issues**

Micro enterprise support will continue to incorporate, as in the past MESP programme, gender and environmental issues into project design (for instance women entrepreneurship) and will continue to promote micro-enterprise development through sustainable environmental usage. At the same time, HIV/AIDS will be targeted.

### **4.1.4.5 Tourism**

#### **a) Results**

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), the formulation of a national tourism policy and an improved regulatory framework and the design of a Tourism Information and Statistics System.

EC support for re-positioning Kenya's Tourism Marketing, under the "*Tourism Institutional Strengthening and Market Promotion Programme*" (TISMPP), 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 lengthy absence of Managing Director and Marketing Manager, have been finally resolved in 2004. Additionally, a new Chairman coming from the private sector was appointed in November 2004, which is considered by the whole industry as a major step forward.

#### **b) Progress in activities**

The findings of the "*Impact and Performance Assessment of the MU*" have led to the CEO resignation in May 2004. Subsequently, an Acting CEO was seconded from the Ministry of Tourism and Information. Major events on the government side seriously affected the TTF activities. The reshuffle in June included a change of Ministers responsible for Tourism, a change of Permanent Secretary at the Ministry and a realignment of Ministry responsibilities (from Tourism & Information to Tourism & Wildlife). A month later, private sector members of the Board of Trustees (BoT) received notice from the Government of the

Termination of Tenure as Trustees. This decision was taken unilaterally. This decision was revoked on 31 August after a joint EC – NAO meeting, when those members were reinstated to the BoT. A Strategic Review and Planning workshop took place at the end of September and the whole programme was reviewed by the full BoT and the Management Unit. Action Plan and milestones have been clearly defined. It was agreed that the Chairmanship of TTF was passed over to the private sector and the long-term TA contract extended until the end of the project. In December, with full engagement and support of the EC Delegation and the NAO, a new CEO of TTF has been recruited.

In response to the terrorist attacks in Mombasa in November 2002 and the subsequent negative travel advisories, the EC positively responded to an urgent request of the Government by setting up a jointly funded Emergency Tourism Market Recovery Programme in 2003. The marketing campaign of Kenya in the EU market came to an end in March 2004 and was extremely successful. Recent reports prepared by KTB show a major increase in tourism earnings, i.e. from €220 million in 2003 to €400 million in 2004.

Finally, the Delegation undertook an appraisal of unexpected revenue losses and unforeseen budgetary expenditures arising from the security concerns in Kenya in 2003 (see section 4.3.1).

#### **4.1.4.6 Trade**

##### **a) Results**

Consultations between the Delegation and the Ministry of Trade and Industry have intensified, in particular in the wake of the preparations of the EPA negotiations and the Doha Development Round at the multilateral level. In the context of the EPA negotiations, Kenya participated in three regional meetings in 2004 (Mauritius, Kampala and Madagascar). A first area (fishery sector) for negotiations was agreed by the ESA members. On the international scene, Kenya hosted a mini-ministerial WTO meeting in February 2004 to push forward the DDA Round after the failure of Cancun.

The EC is providing support for Kenya's trade negotiations through the Trade Negotiation Support Programme (KEPLOTRADE), with the specific objective of providing support for the smooth functioning of Kenya's negotiation machinery, supporting a transparent mechanism of consultations with stakeholders and a back-up mechanism providing for demand-driven studies over the whole period of negotiations, and by providing training and capacity strengthening as required.

The EC Delegation assisted Kenya in hosting a pan-African seminar on Geographical Indications (GIs). African senior officials from the public and private sector attended the seminar and exchanged views on GIs. GIs, because of their potential in developing high value-added products, are viewed by the EC as useful tools for economic development in rural communities.

The EC also intensified consultations with the Government, private sector and the media on the Horticultural export industry. Over the past months, a number of Kenyan press articles have highlighted concerns over how Kenyan exports of horticultural products might be affected by food safety requirements in the European Union. Regretably, many of these articles contained misleading information, which have caused some confusion among the EU's highly valued trading partners in Kenya. As a result, both EU Trade Commissioners, Pascal Lamy and Peter Mandelson, wrote to the Kenyan Ministry of Trade and Industry to clarify the scope of the EU food safety directives. Contacts have been established with KEPHIS (Kenya Plant Health Inspectorate Service) to identify possible ways of assistance.

##### **b) Progress in activities**

A TA package under KEPLOTRADE was approved in August 2004. Three "training of trainers" sessions were set up and trained 60 people involved in the EPA negotiations. A general EPA impact assessment on the Kenyan economy was initiated with findings due to be ready in January 2005. Several public awareness campaigns at provincial level were organised and a Parliamentary awareness session took place in Mombasa. Discussions and preparations of position papers are still ongoing for the six clusters (agriculture, fishery, market access, development, services and trade related issues).

#### **4.1.4.7 Health**

##### **a) Results**

The main issue of the year has been the possible introduction of a National Social Health Insurance Scheme. It has been a hot topic in the Kenyan political debate as well as an issue for discussion between the various donors, at a technical as well as at a political level. The views of organisations differ greatly, which has been quite detrimental to the donor dialogue on other important health issues. By the end of the year, the Ministry of Health had presented the bill to the Parliament and it had been passed on to the President, who sent it back for further work on the financing on the scheme and on the upgrading of the Government health facilities which are in a dilapidated state. It is now in the Kenyan system and the donor group, at least at the technical level, have decided to try to move forward on the other items on the agenda.

Another key issue has been harmonisation of donor procedures and getting the Ministry of Health to take the lead in the new co-ordination framework. In this area, progress was made during the year. A new co-ordination framework was developed during June-July and was adopted by the Ministry of Health. Although it took some time to establish the relevant committees, it was an important step towards improved co-ordination. The donor group also took an initiative to meet and discuss ways of harmonising procedures, as many measures need to be taken by the donors themselves.

The third major topic has been the Global Fund for HIV/AIDS, TB and Malaria (GFATM). The debate around the Global Fund has hijacked a lot of the space in the health sector and there is still a need to greatly improve the management of these funds.

##### **b) Progress in activities**

Under the Financing Agreement No. 6339/KE the European Commission is providing 15 million Euro to project No. 8 ACP KE 030 in support of the health sector through the District Health Services and Systems Development Programme (DHSSDP). This Financing Agreement was signed already in 2002, but due to various reasons it took until 2004 for the programme implementation to start. In March 2004, a consultancy firm took up the task to establish a Project Management Unit and a Work Programme and Cost Estimate for the 2004 Inception Phase, was signed in July 2004.

During the Inception Phase, each district, 20 of them in the Eastern and Central Provinces of Kenya, made an assessment of the health problems and needs, and a profile was created for each district, which then formed the basis for the action plans (and the WPCE) for 2005. Through the process, it became clear that the capacity varies greatly between districts, and that the health needs are higher in the Eastern than in the Central Province. This has been taken into account in the resource allocation criteria, with the aim of favouring specifically disadvantaged districts that have a relatively higher burden of disease.

In addition, a proposal has been received from Kenya Medical Supplies Agency to utilize the interest accrued on the closed Kenya Family Programme (6 ACP KE 59 and 7 ACP KE 79). The proposal is under consideration.

#### **4.1.4.8 Education**

##### **a) Results**

Kenya is on track to meet the Universal Primary Education- UPE MDG, but the country can only do so if its new policies continue to be implemented effectively and if commitment is sustained. Huge challenges now face the Government, and the gains of the last two years are at risk without urgent further investment in the short to medium term to restore quality. These investments also need to be complemented by pro-poor reforms to achieve equity, efficiency and sustainability. For example, even though many schools, especially in urban areas, have experienced a massive influx of children, there are still about one million school-aged children in the urban slums and the Arid and Semi-Arid Lands (ASAL) areas who are out of school. School buildings are generally in a state of poor repair, and there are not enough classrooms or

latrines for the increasing numbers of children coming to school now. Some of the specific needs of girls (for example, for school sanitation) and of orphans are not yet adequately addressed, and the general picture remains of an inefficient system where high costs do not yet translate into high quality.

## **b) Progress in activities**

The Delegation is increasingly participating the education sectoral dialogue with a view to monitoring programmes having a potential impact on the indicators in PRBSII. Under the Community Development Programme, 46 projects (out of 169) supported the improvement of infrastructure and basic equipment for primary schools and technical training institutes (Youth Polytechnics) across the country amounting €0, 86 M. (€0, 1 M): The draft study to establish teacher staffing norms was submitted to the PS Ministry of Education and the Teachers' Service Commission by the consultants in December 2004. Towards the end of 2004 the Delegation also entered into discussions with the NAO and the Teachers Service Commission (TSC) on addressing the problems in teachers' payroll management as identified in the Audit for the STABEX Advanced Budget Support.

## **4.2 Utilisation of resources for Non State Actors**

### **a) Results**

The possibilities for Non State Actors' (NSAs) participation has certainly dramatically increased since the change of government at the end of 2002. Nevertheless, the means used for consultations and cooperation have not always corresponded to the declared ends. The Government has recently taken a more positive stance on involving NSAs in its policy formulation, and it is expected that this will progressively result in the increasing involvement of NSAs in policy implementation and monitoring. At the same time, however, it must be recognised that NSAs themselves remain weak.

### **b) Progress in activities:**

The CSP foresees a **support to Non-State Actors** (€2 m) and a corresponding Financing Proposal was finalised in 2004. This programme should be approved during 2005 and greatly assist in strengthening NSAs as a counterpart to the Government in delivering the ERS. NSAs active in specific sectors have been directly supported in 2004 under some sectoral support programmes in most of EC Sectors of assistance. This is the case for instance under the KEPLOTRADE project, under the Agriculture Research Support Programme (ARSP II), under the Community Development Programme (CDP2) and under the Democratic Governance Support Programme (DGSP).

## **4.3 Utilisation of Envelope B**

### **4.3.1 Compensation for unforeseen losses in the tourism sector**

The appraisal of unexpected revenue losses and unforeseen budgetary expenditures arising from the security concerns in Kenya in 2003 has been concluded and the findings forwarded to Brussels for further consideration.

### **4.3.2 Disaster Preparedness**

The CSP underlines the insufficient disaster preparedness in the country. In 2004 ECHO had to intervene (€3.85 million) to alleviate the consequences of the extended dry season and the subsequent drought. There is need to solve the cyclic drought-related food crises through long-term structural development. The creation of a Drought Contingency Fund could be a first step.

The Consultants undertaking the Feasibility Study for this Fund presented their initial findings based on their field visits in December. They highlighted the need to strengthen the Early Warning Systems to provide accurate and timely early warning of threats, the need for preparation of detailed contingency plans

for rapid reaction in the early warning and the need for district contingency funds to implement such plans. They stressed that it is essential that all three components work smoothly together for effective mitigation. The possibility of using envelope B for this Fund is still under discussion.

#### 4.4 Other instruments

##### 4.4.1 STABEX

Following a joint review of the STABEX project portfolio in the first half of 2001, the funds were largely refocused in line with the key priorities identified in collaboration with the Government of Kenya i.e.:

1. bridging financing/project preparation facilities in readiness for EDF/Stabex – funded specific programmes commencement.
2. specific support to the coffee sector
3. emergency responses in key sectors of EC/GoK cooperation.
4. support to public sector reforms, either in the overall planning and definition (e.g. TA support to PRSP) and institutional reforms (e.g. retrenchment programmes in KARI/KWS).
5. management and implementation capacity for the overall EC cooperation programme in Kenya.

Against the background of these broad strategic guidelines, the STABEX funds have been used in support of a wide range of interventions. Detailed descriptions of individual projects are provided in the sections above.

An audit carried out in 2004 revealed that the Delegation and the NAO had generally provided good management of the STABEX portfolio.

**Table 4. Overview of STABEX allocations in €uro mio (as at 31st December 2004)**

STABEX	Original Transfers + interest	FMO	Secondary Commitment <sup>2</sup>	Disbursed
1990 1 <sup>st</sup> tranche	43.3	39.4	42	41.7
1991 + 1990 2 <sup>nd</sup> and 3 <sup>rd</sup> tranche	66.3	61	39.5	37.8
1992/1993	50.2	45.5	33.7	32.4
1999	51.4	51.35	51.35	51.35
<b>Total</b>	211.2	197.2	166.5	163.2

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

##### 4.4.2 Regional cooperation

In this area the Delegation is actively involved in the management of the Pan African Control of Epizootic Diseases project (PACE). A Financing Agreement was granted by the D/CAO with an additional 5 MEUR

<sup>2</sup> Contract(s), Work Programme(s)



in October 2004. In addition, the Farming in Tsetse Controlled Areas (FITCA), came to a successful completion at the end of 2004. In the fish sector. Kenya is benefiting from 2 regional projects:

-Strengthening Fishery Product Health Conditions in ACP/OCT Countries. The establishment of a regional Uganda-Tanzania-Kenya Coordination unit is foreseen beginning of 2005.

- Implementation of the Lake Victoria Fisheries Management Plan by LVFO (Kenya, Tanzania and Uganda).

#### **4.4.3 Community Budget lines**

The newly de-concentrated dossiers were received in November 2004. This third step of the deconcentration includes NGOs Cofinancing and Decentralised Co-operation, Environment and Tropical Forest, Health, Gender and HRD projects. A total of 24 projects were transferred. Most files were complete and work has started to visit the project sites and assess progress.

#### **4.4.4 EIB**

The European Investment Bank – EIB – has been negotiating the opening in Kenya of a Regional Representation for East and & Central Africa. It will be one of three regional representations in sub-Saharan Africa to support its development financing activities, especially within the framework of the Investment Facility set up under the Cotonou Partnership Agreement between the European Union and the ACP states. The aim of the offices is to bring the EIB closer to its customers and reinforce its operations in the field. The other Regional Representations will be in Dakar, Senegal, for Western Africa, and Pretoria, South Africa, for the Southern Africa region and Indian Ocean.

In terms of its operations in Kenya in 2004, the EIB co-financed EUR 22 million in the Magadi Soda Pure Ash project of which, EUR 13m from the Investment facility and EUR 9m from the Bank's Own resources. In 2005 the Bank's main focus of operations in Kenya will be the power sector, through its power sector recovery project covering both generation and distribution, which will be cofinanced with the World Bank. The Bank will also work to support private small and medium scale enterprises through its Fifth Global Loan facility channelled through the Kenyan commercial bank sector.

### **5 Programming perspectives for the following years**

Programming perspectives are dominated by the prospects for implementing the PRBSII programme. If the PRBSII Financing Agreement cannot be signed by the end of 2005, the €125 million commitment (in addition to the €25 million potentially available from Envelope B will automatically be cancelled and returned to the NIP. This would mean that the ETR in 2006 would be undertaken against a backdrop of substantial uncommitted funds which risk being reallocated to countries with a better track record in implementing their CSP.

In addition, the recent audit of the STABEX portfolio reveals that about €20 million is available either in balances or identified projects which have yet to be committed. Against this background the NAO and the Delegation have embarked on the process of preparing a Framework of Mutual Obligations for these resources in line with the focal sectors of the CSP. This FMO should be completed by June 2005. Preliminary discussions between the Delegation and the NAO have focused on the possibility of using these resources in line with recommendations for the agricultural sub-sector studies (coffee, cotton and livestock) carried out in 2003. In addition, the NAO has requested that the EC considers the capitalisation of the Ksh 1.65 billion injection to the Cooperative Bank under the SCIP II programme. This could be considered in the context of support to the proposed rationalisation of Development Finance Institutions that is a key component of the Financial Sector Reform Credit (FSRC) that has recently been agreed with the World Bank.

## **6 Dialogue in country with the NAO and NSAs, and donor coordination**

### **6.1 Dialogue in country with the NAO and NSAs**

Dialogue with NAO has been steadily improving since the appointment of the new NAO in July. The NAO and his immediate management team have a substantial capacity but beneath them there is a perceived lack of capacity. The Technical Assistant provided by the Delegation has recently left and a contract will be concluded in early 2005 for additional technical assistance. While the institutional study which was carried out in early in 2004 to review the needs and the future organisation of the NAO's office was not fully accepted by the NAO, it is expected that this will nevertheless provide the basis for discussions on how to improve the efficiency of the relationship between the NAO and the Delegation.

The role of Non-State Actors in the democratic process has been better recognised in 2004. NSAs have been consulted and involved on the identification and formulation of an EC Support to Non-State Actors, to be funded under 9<sup>th</sup> EDF. In addition, they are being consulted and engaged in all sectors of EC Assistance to Kenya. The ECD has also developed its "NSA focal point" function within the course of 2004. Finally, they have been engaged in the Mid-Term Review Process. The MTR process can be seen as a case in point to illustrate the "issues" remaining on the table with the tripartite dialogue NSA/EC/GoK: representatives of the main civil society and Private sector organisations and umbrella bodies were consulted and invited to the MTR sectoral and general workshops and discussions. They were also invited to comment on the MTR conclusions. Nevertheless, the NSAs were consulted very late, and as a result were ill-prepared and did not contribute much to the content. There will be a crucial need in the years to come to radically improve the regularity and depth of the tripartite dialogue between GoK, NSAs and donors (one of the objectives of the 9<sup>th</sup> EDF Support to NSAs).

### **6.2 Donor Coordination**

Donor coordination intensified during 2004 as the EC Delegation participated actively in efforts to rationalise and streamline donor coordination structures that was committed at the CG in November 2003. The Delegation continued to maintain dialogue with other donors on on the elaboration of (and selected support to) key sector programmes including the Strategy for the Revitalisation of Agriculture, National Environmental Action Plan, National Roads Sector Strategy, Health Sector Strategy, Education Sector Strategy, Public Financial Management Reform Programme, Master Plan for the National Statistic Service, Water Sector Reform Programme, Local Government/Decentralisation Programme, Private Sector Development Strategy, National Tourism Policy and Institutional Framework, Energy in addition to low-cost housing and slum-upgrading.

In line with the efforts to improve Harmonisation, Alignment and Coordination (HAC), the Delegation participated actively in the dedicated HAC group and was instrumental in preparing a revised donor forecast format for use at the CG in 2005. In addition, the Delegation facilitated the creation of a Development Counsellors Group that has proved a useful forum for developing positions on EU development assistance. More recently, the Delegation has pursued the issues arising from the renewed commitment to complementarity, coordination and coherence of EU aid policy following the November 2004 Council Conclusions on this subject. Against this background, the Delegation is working with the EU MS on developing a Road Map that envisages an eventual common strategy and a common framework for implementation procedures. At the same time, in the spirit of openness and harmonisation, this process will also seek to maximise complementarity with all donors.

## **7 Conclusions of the joint annual report**

While 2004 was a difficult year in the relationship between the EC Delegation and the Government of Kenya there have been several positive points. The first is the very much improved relations between the Delegation and the NAO after the appointment of the new NAO in July. This relationship has seen the

Delegation and the NAO move forward together on several issues most notably the achievement of the pre-conditions associated with PRBS2. Second, several important projects went ahead during the year. Most notable among them was the signing of the works contract for the Mai Mahu-Lanet Road (€45m), the launching of the Health Programme (€15m) and the Rural Poverty Reduction and Local Government Support Programme (€1m). A third positive point was the impact of the Tourism Trust Fund and the BCP programmes within Kenya. The TTF, while not totally responsible for the tourist boom, was a major contributor to the very significant rise in tourism revenues. The Community Development Programme and Biodiversity Conservation Programmes, operating through the Community Development Trust Fund, have continued to provide highly appreciated support to small scale projects having a significant positive impact on livelihoods and environmentally sustainable development at the local level. The NAO and the Delegation are actively considering how to extend these programmes.

On the negative side corruption continues to be a major concern. In the course of the year the Anglo Leasing case and several other scandals seriously dented donor confidence. Although the Delegation took a balanced view of the fight against corruption, the approval of PRBS2 was delayed by the EDF Committee specifically on concerns about corruption. It must be agreed that excessive Government bureaucracy also impacted heavily on the ability of the Delegation to fulfil its mandates. Delays in establishing programmes, excessive times for payments and administrative burdens placed on contractors all adversely affected the management of programmes. This factor also contributed to poor relations between the Delegation and some line Ministries. This was particularly evident with respect to the Roads Ministry, the Tourism Ministry and the Agriculture Ministry. While to some extent these problems represent genuine capacity constraints and bottlenecks, there is nevertheless something of a crisis of confidence between the Delegation and several Ministries with which it must work closely. This is a matter of great concern that needs to be addressed urgently if the financial forecast for 2005 to be fulfilled. While problems of absorption capacity reflect a general need for public sector reform and increased Civil Service efficiency, the specific bottlenecks related to the implementation of our programmes should be addressed as a matter of urgency. In the absence of decisive measures to address these issues, the Delegation will be obliged to give due consideration to absorption capacity in the forthcoming programming exercise for the €20 million remaining STABEX balances.

The reform of the Civil Service must incorporate measures to streamline operations especially through improved efficiency and the installation of processes which speed up decision making. An effort must be made to reduce the number of signatories of payment orders. Also it is important to have set procedures between the NAO and the line Ministries. Capacity building is a must for all ministries but particularly for the NAO's office. Sectoral strategies should be developed for all outstanding areas but in particular for the roads and health sectors. The existence of sectoral strategies will be important when considering future funding opportunities. Finally, Non-State Actors should be brought into the process of project development in a more systematic way. They add to the holistic view of a project and are valid contributors to the process. They should also be involved in workshops aimed at learning lessons from specific initiatives. The presence of the EIB in Nairobi, meanwhile, should be utilised to reinforce complementarity with the Delegation's private sector support.

#### Operational Review Process and Conclusions

The Operational Review was marked by the following steps:

- Country Team meeting: 6 June 2005
- EDF Committee: 16 September 2005
- In-country review meeting: 1 December 2005

The assessment of the Country Team Meeting is summarised in the following table:

<u>Policy performance</u>	Good	Sufficient	Insufficient
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<b>Macroeconomic performance</b> a) results b) policy commitments		X X	
<b>Roads</b> a) results b) policy commitments		X	X
<b>Rural Development</b> a) results b) policy commitments	X X		

The EDF Committee accepted the Joint Annual Report.

The in-country review meeting discussions are summarised below:

*Macroeconomic support:*

The Financing Agreement for PRBS2 was signed shortly before the in country meeting. It was a positive step in the successful implementation of the EC-Kenya country strategy, but at the same time it also illustrated the difficulties in carrying out that strategy. The implementation of the provisions of the FA will be monitored by the EC.

The Government aims for an effective independent oversight authority. The anti-corruption action plan will be strengthened to become an anti corruption strategy.

*Roads*

The performance in this focal sector is hampered by lack of progress in the definition of a sector policy. The government has not taken any action on the institutional proposals, namely: creation of a Highway Authority, a Rural Roads Authority, and an Urban Roads Authority, the Kenya Roads Board would be in charge of managing the funds collected by the Roads Fund.

The NAO recognised that better coordination and leadership on the part of the Government was needed in this sector.

*Rural Development*

The commitment rate for this focal sector is high however implementation seems to be problematic in particular for the Rural Poverty Reduction and Local Government Support project. Kenya now had a good sector strategy with the Strategy for Revitalisation of Agriculture but that in the area of local government there is a need for capacity building.

*Non-State actors*

It is urgent to present a Financing Proposal for the €2 million 9<sup>th</sup> EDF project before the NSA are consulted on the 10<sup>th</sup> EDF programming. The NAO is committed to fast track the project.

*Programming perspective for 2006*

The first semester of 2006 will be a period of intense activity for the NAO and the delegation with the ETR and the preparation of the 10<sup>th</sup> EDF. The next CSP would be related to the development policy (ERS) and now the ERS was integrated in the budget process. For the Government roads remain a priority, in particular rural roads. They want to involve stakeholders (communities, tourism, etc) more in the development of the sector strategy.

**Annexes:**

- 1 Focal Sector Intervention Frameworks**
- 2 Millennium Development Goal (MDG) Indicators**
- 3 Financial Forecasts**
- 4 EU Donor Matrix**
- 5 Updated chronogramme**

## Focal Sector Intervention Frameworks

### INTERVENTION FRAMEWORK FOR FOCAL SECTOR: Agriculture/Livestock and Rural Development

Summary	Indicators	Source of verification	Hypothesis/Assumptions
<p><b>Aim:</b></p> <ul style="list-style-type: none"> <li>To reduce rural poverty by half by 2015</li> </ul>	% living below poverty level	National statistics PRSP reviews Welfare Monitoring Survey	Comprehensive PRSP monitoring and evaluation system established
<p><b>Specific Objective:</b></p> <ul style="list-style-type: none"> <li>To support the achievement of the PRSP growth target of 6% p.a. for the Agriculture and Livestock sector</li> </ul>	% growth of agricultural sector > = global growth	Reports by Ministry National accounts Employment reports Export statistics	Kenya Rural Development Strategy is translated into a Sessional Paper, adopted as a Policy document and effectively applied
<p>Expected results:</p> <p>Reduced role of state in agricultural production and marketing</p> <p>Institutional reforms and deregulation in selected sub-sectors</p> <p>Decentralised rural service delivery and infrastructure improved</p> <p>Capacity in Local Government increased</p> <p>Food crop production increased</p> <p>Enhanced quality of Kenyan agricultural export commodities</p> <p>Vulnerability of poor households reduced/reaction-capacity strengthened</p>	<p>Number of acts and laws reviewed, enacted and effectively applied</p> <p>% of the population with access to basic services infrastructure</p> <p>Nutritional scores improved in rural areas</p> <p>Share of commodities in exports increased</p> <p>Production of food crops increased</p>	<p>Reports by Ministry</p> <p>Assessment reports</p> <p>Food security surveys</p> <p>Trade/Exports statistics</p> <p>Project reports</p> <p>LATF returns</p>	<p>GoK/MoALD continued commitment to ministerial rationalisation, decentralisation and deregulation and other institutional reforms in the selected sub-sectors</p> <p>Establishment of the agreed programme management unit in MoALD</p>
<p>Identified Projects/Programmes:</p> <p>Community Development for Service Delivery</p> <p>Local Government Capacity Building</p> <p>Export sector programmes</p> <p>Community self-help programmes (CDP III)</p> <p>Livestock marketing study</p>	<p>Indicative Budget:</p> <p>25-35% from A envelope (plus STABEX and uncommitted balances of previous EDFs)</p>	<p>Feasibility/Preparatory studies</p> <p>Presentation of Financing Proposals</p> <p>% programmes committed</p>	<p>Results of preparatory studies are favourable</p> <p>Clear linkage to PRSP budgets established</p>

## INTERVENTION FRAMEWORK FOR FOCAL SECTOR Roads Infrastructure

Summary	Indicators	Source of verification	Hypothesis/Assumptions
<p><b>Aim:</b></p> <ul style="list-style-type: none"> <li>▪ Sustainable contribution by the roads infrastructure sector to poverty reduction, and economic and social development in Kenya</li> </ul>	<ul style="list-style-type: none"> <li>▪ Improvements in socio-economic development</li> <li>▪ Improved condition of Kenya's roads/infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>▪ National income, employment, public transport and roads statistics</li> <li>▪ UNDP report on human development</li> </ul>	<ul style="list-style-type: none"> <li>▪ PRSP policy recommendations are effectively translated into priority actions</li> <li>▪ Coherent transport sector policy/strategy adopted &amp; implemented</li> </ul>
<p>Specific Objective:</p> <ul style="list-style-type: none"> <li>▪ To reduce transport costs and time for users to access economic and social services thereby increasing accessibility, income and employment in rural areas</li> </ul>	<ul style="list-style-type: none"> <li>▪ Km of roads rehabilitated/maintained including part through labour based contracts</li> <li>▪ Road sector institutions are operating efficiently and fully accountable</li> <li>▪ Sufficient resources allocated for reconstruction and maintenance</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reports by Min of Roads</li> <li>▪ Annual statistics</li> <li>▪ Employment reports and special surveys/studies</li> <li>▪ Annual budget</li> <li>▪ Income and Expenditure of KRB (Fuel Levy Fund and Coffee+Tea Cess)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Institutional reforms continued</li> <li>▪ Axle load restrictions are enforced and privatized/contracted out</li> <li>▪ Tender procedures are respected</li> <li>▪ Participation of communities ensured</li> <li>▪ Timely payment of contractors and casual labour</li> </ul>
<p>Expected results:</p> <ul style="list-style-type: none"> <li>▪ KRB and DRC/s become fully operational and Roads Department replaced by a viable, autonomous Roads Agency</li> <li>▪ Roads network rehabilitated/maintained</li> <li>▪ Transport time shortened</li> <li>▪ Roads safety improved</li> <li>▪ Privatisation of Axle load enforcement, with overloading progressively stabilized at below 10%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of Acts and Laws reviewed, enacted and effectively applied</li> <li>▪ Maintenance/Rehabilitation programmes effectively implemented</li> <li>▪ Number of accidents reduced</li> <li>▪ Monitoring results</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government Gazette</li> <li>▪ Independent audits</li> <li>▪ Assessment reports</li> <li>▪ Annual budget</li> <li>▪ Road accident statistics</li> </ul>	<ul style="list-style-type: none"> <li>▪ GoK continued commitment to institutional reforms</li> </ul>
<p>Identified Projects/Programmes:</p> <ul style="list-style-type: none"> <li>▪ Completion of Northern Corridor Rehabilitation</li> <li>▪ Rural Roads Programme</li> <li>▪ Isiolo-Moyale Road study</li> <li>▪ Support to institutional reforms</li> </ul>	<p>Indicative Budget:</p> <ul style="list-style-type: none"> <li>▪ 20-30% from A envelope</li> </ul>	<ul style="list-style-type: none"> <li>▪ Feasibility/Preparatory Studies</li> <li>▪ Presentation of financing proposals</li> <li>▪ % programme committed</li> </ul>	<ul style="list-style-type: none"> <li>▪ Results of preparatory studies are favourable</li> <li>▪ EDF tender/contract procedures respected</li> </ul>

## INTERVENTION FRAMEWORK (Updated): Macro-Economic Support

Summary	Indicators	Source of verification	Hypothesis/Assumptions
<p><b>Aim:</b></p> <p>To contribute to the reduction of poverty by supporting the implementation of the PRSP/ERS</p>	<p>GDP growth rates</p> <p>Reduced poverty ratios</p>	<p>ERS/PRSP Annual Progress Report</p> <p>National accounts</p> <p>ERS/PRSP Annual Progress Report</p> <p>Kenya Integrated Household Budget Survey</p> <p>National population census</p> <p>Integrated Household Budget Survey</p> <p>Economic Survey</p>	<p>ERS/PRSP priorities clearly reflected in MTEF</p> <p>Available external resources</p> <p>Appropriate macroeconomic policies</p> <p>Governance issues addressed</p>
<p><b>Specific objectives:</b></p> <p>Support macro-economic stability and underpin fiscal restructuring</p> <p>Support improvements in service delivery in health and education.</p> <p>Strengthen public finance management</p>	<p>Domestic debt stabilised and reduced</p> <p>Social sector expenditures as share of budget increase</p> <p>Investment as share of budget increase</p> <p>O&amp;M as share of budget increase</p> <p>Public sector pay as proportion of budget reduced</p> <p>Core poverty programmes as % of total budget increased</p> <p>Reliability of budget as guide to future increased</p>	<p>ERS/PRSP Annual Progress Report</p> <p>National accounts</p> <p>Budget/MTEF</p> <p>Public expenditure reviews</p> <p>Public Expenditure Tracking Surveys</p> <p>National Audit Office reports</p> <p>Economic Survey</p> <p>PEM-AAP reports</p>	<p>PFM legislation enacted</p> <p>Government remains on track with IMF</p> <p>ERS/PRSP programmes are costed and reflected in Budget Strategy Paper</p>
<p><b>Expected results:</b></p> <p>Access to quality social services increased</p>	<p>Education (primary enrolment, completion etc.)</p> <p>Health (child immunisation, skilled attendance at birth etc.)</p>	<p>Education Management Information System</p> <p>TSC Form A: Age/sex/grade specific enrolment data: collected by TSC available 6 months after collection in Feb, May, Sept</p> <p>NACC ANC HIV/AIDS sentinel site surveys</p> <p>Routine HMIS – annually, for public facilities only</p>	
<p><b>Identified Projects/Programmes:</b></p> <p>Poverty Reduction Budget Support II</p>	<p><b>Indicative budget:</b></p> <p>€125 million</p>		



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

No	MDG Indicator	1994	1997	2000	2001	2002	2003	2004	2005	2006	2007	2008
									<b>ERS Target</b>			
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	<i>114</i>				
4.	Net Enrolment Ratio (Primary)		73.5 (Poor) 79.8 (NonP)	73.7	n/a	n/a	79.8	<i>81.5</i>				
5.	Primary Completion Rate											
	Boys	43.9	46.4	48.9	49.8	N/A	59.4	<i>59.7</i>				
	Girls	44.6	46.3	48.3			60.6	<i>60.0</i>				
		43.0	45.8	49.6			58.1	<i>59.1</i>				
6.	Girl/Boy ratios in:											
	Primary	0.97	0.97	0.97	0.97	0.97						
	Secondary	0.84	0.89	0.89	0.98	0.89						
	Tertiary			0.45	0.49							
7.	Proportion of births attended by skilled health personnel		35.4 (Poor) 52.3 (Non-P)	45				<i>70.8</i>				
8.	Proportion of 1 yr old children immunised against measles	80.7	75	76		76.7	80	<i>85</i>				
9.	HIV Prevalence among 15-24 year old pregnant women	20.1	17.2	17.7	13.0	10.2	9.4	<i>9.2</i>				
10.	Proportion of population with sustainable access to improved water source		43.3		49.0							


**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

Annex 3

		KENYA		EDF FORECATS 2005-2006 : NEW GLOBAL Commitments (including individual commitments & Payments)													(amounts in €)	
				FORECASTS 2005						FORECASTS 2006								
DECISION DATE	PROJECT TITLE (GLOBAL COMMITMENT)	AMOUNT	RISK	1st SEMESTER		2nd SEMESTER		TOTAL 2005		ESTIMATION of RISK FACTOR FOR PAYMENTS			1st SEMESTER		2nd SEMESTER		TOTAL 2006	
				INDIVID. COMMIT. A	PAYMENTS B	INDIVID. COMMIT. A'	PAYMENTS B'	TOTAL INDIV. COMMIT. A+A'	TOTAL PAYMENTS B+B'	Low L	Medium M L+M+H=B+B'	High H	INDIVID. COMMIT. C	PAYMENTS D	INDIVID. COMMIT. C'	PAYMENTS D'	TOTAL INDIV. COMMIT. C+C'	TOTAL PAYMENTS D+D'
TOTALS on NEW GLOBAL Commitments.		70.395.000		2.500.000	2.000.000	3.000.000	1.700.000	5.500.000	3.700.000	2.700.000	1.000.000	0	4.870.000	3.024.000	3.940.000	3.212.000	8.710.000	6.236.000
02-2005	9 ACP KE 5: Technical co-operation facility	4.000.000	1			1.000.000	200.000	1.000.000	200.000	200.000			1.000.000	500.000			1.000.000	500.000
05-2005	9 ACP KE : Community Development for Environmental Management	13.000.000	1	1.500.000	1.500.000	2.000.000	1.000.000	3.500.000	2.500.000	2.500.000			1.500.000	1.500.000	1.400.000	1.600.000	2.900.000	3.100.000
09-2005	9 ACP KE : Support to Non-State Actors	1.995.000	1			0	0	0	0	0			370.000	74.000	640.000	512.000	1.010.000	586.000
12-2005	9 ACP KE : Agricultural Research Programme	7.900.000	1			0	0	0	0		0		1.500.000	700.000	1.300.000	750.000	2.800.000	1.450.000
12-2005	9 ACP KE : Micro-Enterprise Support Programme II	6.500.000	2					0	0				0	0	500.000	100.000	500.000	100.000
12-2005	9 ACP KE : Transport Studies & Institutional Support	2.000.000	1	1.000.000	500.000	0	500.000	1.000.000	1.000.000		1.000.000		500.000	250.000	0	250.000	500.000	500.000



**KENYA**

**EDF FORECASTS 2005-2006: NEW INDIVIDUAL Commitments (including payments) on ONGOING PROJECTS.**

( amounts in € )

			FORECASTS 2005								FORECASTS 2006						
			1st SEMESTER		2nd SEMESTER		TOTAL 2005		ESTIMATION of RISK FACTOR FOR PAYMENTS			1st SEMESTER		2nd SEMESTER		TOTAL 2006	
YEAR GLOB. COMMIT.	ACCOUNTING NUMBER (GLOBAL COMMIT.)	TITLE INDIVIDUAL COMMITMENT	INDIVID. COMMIT. A	PAYMENTS B	INDIVID. COMMIT. A'	PAYMENTS B'	TOTAL INDIV. COMMIT. A + A'	TOTAL PAYMENTS B + B'	Low L	Medium M L+M+H =B+B'	High H	INDIVID. COMMIT. C	PAYMENTS D	INDIVID. COMMIT. C'	PAYMENTS D'	TOTAL INDIV. COMMIT. C + C'	TOTAL PAYMENTS D + D'
<b>TOTALS on NEW INDIVIDUAL Commitments</b>			<b>10.349.600</b>	<b>4.393.000</b>	<b>65.500.000</b>	<b>57.640.460</b>	<b>75.849.600</b>	<b>62.033.460</b>	<b>8.942.920</b>	<b>3.190.540</b>	<b>50.000.000</b>	<b>6.500.000</b>	<b>9.040.000</b>	<b>46.000.000</b>	<b>48.800.000</b>	<b>52.500.000</b>	<b>57.840.000</b>
1999	8 ACP KE 8	BIODIVERSITY CONSERVATION PROJECT			800.000	800.000	800.000	800.000	800.000							0	0
1999	8 ACP KE 9	NATIONAL MUSEUM OF KENYA SUPPORT PROGRAMME	315.000	150.000	0	165.000	315.000	315.000	150.000	165.000	0	0	0	0	0	0	0
2000	8 ACP KE 12	SUPPORT SERVICES PROGRAMME PHASE 2	400.000	80.000			400.000	80.000		80.000					320.000	0	320.000
2000	8 ACP KE 15	COMMUNITY DEVELOPMENT PROGRAMME PHASE 2 (CDP 2)			5.000.000	2.500.000	5.000.000	2.500.000	2.500.000				2.500.000	3.000.000	3.000.000	3.000.000	5.500.000
2000	8 ACP KE 18	TOURISM DIVERSIFICATION & SUSTAINABLE DEVELOPMENT PROGRAMME					0	0				2.500.000	1.250.000		1.250.000	2.500.000	2.500.000
2000	8 ACP KE 22	DEMOCRATIC GOVERNANCE SUPPORT PROGRAMME	175.000	140.000			175.000	140.000		140.000					35.000	0	35.000
2001	8 ACP KE 30	DISTRICT HEALTH SERVICES & SYSTEMS DEVELOPMENT PROGRAMME	6.495.000	3.600.000		1.600.000	6.495.000	5.200.000	5.100.000	100.000		4.000.000	3.095.000		2.000.000	4.000.000	5.095.000
2003	9 ACP KE 1	NORTHERN CORRIDOR REHABILITATION PROGRAMME (MAI MAHIU - NAIV)	1.464.600	423.000	500.000	575.460	1.964.600	998.460	292.920	705.540	0	0	195.000	0	195.000	0	390.000
2004	9 ACP KE 2	RURAL POVERTY REDUCTION AND LOCAL GOVERNMENT SUPPORT	1.500.000		9.200.000	2.000.000	10.700.000	2.000.000		2.000.000			2.000.000	3.000.000	2.000.000	3.000.000	4.000.000
2004	9 ACP KE 3	POVERTY REDUCTION SUPPORT PROGRAMME			50.000.000	50.000.000	50.000.000	50.000.000			50.000.000			40.000.000	40.000.000	40.000.000	40.000.000



EUROPEAID  
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KENYA

EDF FORECASTS 2005 - 2006: PAYMENTS, DECOMMITMENTS & EXTENSIONS on ONGOING PROJEC

(amounts in €)

YEAR of GLOB. Commit.	ACCOUNTING NUMBER of GLOB. Commit.	0 N° INDIV COMMIT	TITLE GLOBAL COMMITMENT	END date of Imple-mentat'	N° CAT. OLD RAP	EXTENS° REQUEST on GLOB. YIN	SITUATION END 2004			FORECAST DECOMMITMENTS 2005			FORECASTS on PAYMENTS 2005						FORECAST PAYMENTS 2006						
							GLOBAL COMMIT. AMOUNT ONGOING INDIV. COMMIT	INDIV. COMMIT. PAYMENTS ON ONGOING INDIV. COMMIT	RAC RAP	DECOMMIT. on GLOBAL	ESTIMATION OF RISK FACTOR			ESTIMATION OF RISK FACTOR			1 <sup>st</sup> SEMESTER A	2 <sup>nd</sup> SEMESTER B	TOTAL A+B	ESTIMATION OF RISK FACTOR			1 <sup>st</sup> SEMESTER C	2 <sup>nd</sup> SEMESTER D	TOTAL C+D
											Low X	Medium Y X*Y+Z = E	High Z	Low L	Medium M L+M+H = A+B	High H									
<b>TOTAL ON ONGOING GLOBAL COMMITMENTS</b>							<b>477.505.065</b>	<b>287.592.899</b>	<b>189.912.166</b>	<b>4.821.390</b>	<b>3.650.307</b>	<b>1.171.083</b>	<b>0</b>												
<b>TOTAL ON ONGOING INDIVIDUAL COMMITMENTS</b>							<b>249.567.670</b>	<b>142.061.757</b>	<b>107.505.913</b>	<b>14.275.492</b>	<b>13.749.758</b>	<b>526.734</b>	<b>0</b>	<b>26.410.701</b>	<b>22.570.513</b>	<b>48.981.214</b>	<b>26.325.902</b>	<b>21.904.632</b>	<b>750.680</b>	<b>9.535.858</b>	<b>7.677.353</b>	<b>17.213.211</b>			
1993	7ACP	KE18	0	REVIVAL AND DEVELOPMENT OF THE SWAHILI CULTURE ( EX 05 P010 ) REHABILITATION DE PETITES EXPLOITATIONS RIZIC				1.990.000	1.788.193	201.807	201.807	201.807				0							0		
1993	7ACP	KE26	0	( EX 05 P010 ) REHABILITATION DE PETITES EXPLOITATIONS RIZIC				23.179	23.179	0						0							0		
1993	7ACP	KE26	2	( EX 05 P010 C010 ) WP 89/90		8		1	0	1						0							0		
				Total Individual Commitment				1	0	1						0							0		
1993	7ACP	KE27	0	( EX 05 P012 ) LABORATOIRE DE RECHERCHE VETERINAIRE DE MARIA				194.803	82.556	112.247						0							0		
1993	7ACP	KE27	2	( EX 05 P012 C020 ) WP 90 91 MARIANANI VET LAB		8		26.988	0	26.988						0							0		
				Total Individual Commitment				26.988	0	26.988						0							0		
1993	7ACP	KE28	0	( EX 05 P013 ) KISIU VALLEY BOTTOM DEVELOPMENT ( EX 05 P013 C005 ) TA				272.808	272.808	0						0							0		
1993	7ACP	KE28	1	( EX 05 P013 C005 ) TA AGROPROGRESS (D)		8		130.000	109.174	20.826						0							0		
1993	7ACP	KE28	2	( EX 05 P013 C008 ) WP CE 88 89 EDEM CONSTRUCTION		8		118.883	118.882	1						0							0		
1993	7ACP	KE28	4	( EX 05 P013 C010 ) WP 89/90		8		-118.719	-118.720	1						0							0		
1993	7ACP	KE28	5	( EX 05 P013 C013 ) WP 90 91		8		142.645	17.406	125.239						0							0		
				Total Individual Commitment				272.808	126.740	146.068						0							0		
1993	7ACP	KE32	0	( EX 05 P036 ) MACHAKOS DEVEL-WATER SUPPLY PHASE 2				413	412	1						0							0		
1993	7ACP	KE32	1	( EX 05 P036 C012 ) WP BUDGET 1988/89		8		0	0	0						0							0		
				Total Individual Commitment				0	0	0						0							0		
1993	7ACP	KE33	0	( EX 05 P037 ) DEVEL.MACHAKOS RURAL DEVELOPMENT PHASE 2 ( EX 05 P037 C013 ) WP				33	1	32						0							0		
1993	7ACP	KE33	1	BUDGET 1988/89 TX=20,4836KE		8		1	0	1						0							0		
				Total Individual Commitment				1	0	1						0							0		
1993	7ACP	KE41	0	( EX 05 P068 ) CEILING INCREASE ON NORTHERN CORRIDOR TRANSPD				1.781.850	847.038	934.813	934.813					0							0		
1993	7ACP	KE41	8	T.A CONTRACT LOUIS BURAKUVYE		3		35.000	26.287	8.713	8.000			713	713			713					0		
				Total Individual Commitment				35.000	26.287	8.713						0							0		
1994	7ACP	KE45	0	RETURN & REINTEGRATION QUALIFIED AFRICAN NATIONALS PHASE III	19991231			765.000	765.000	0						0							0		
1994	7ACP	KE45	1	OIM VOIR 7 RPR 287		8		765.000	416.754	348.246						0							0		
				Total Individual Commitment				765.000	416.754	348.246						0							0		
1994	7ACP	KE53	0	ROAD SECTOR PREPARATORY PHASE				1.970.000	1.809.230	160.770	160.770					0							0		
1995	6ACP	KE58	0	FAMILY HEALTH PROGRAMME(CF 6 KE 59)	20030531			1.693.461	1.569.447	124.034	124.034					0							0		
1995	6ACP	KE58	2	MANAGEMENT OF TA SERVICES/SERVICE CONTR WITH GTZ/6/97-6/02	20020622	7		686.514	668.299	18.215						0							0		
				Total Individual Commitment				686.514	668.299	18.215						0							0		
1995	7ACP	KE78	0	FAMILY HEALTH PROGRAMME(CF 6 KE 58/59;7 KE 79)	20030531			500	0	500	500					0							0		
1995	7ACP	KE79	0	FAMILY HEALTH PROGRAMME(CF 6 KE 58/59;7 KE 78)	20030531			11.450.000	11.450.000	0						0							0		
1995	7ACP	KE79	1	FAMILY HEALTH FUND / 1.7.1998 - 30.6.2003	20030630	7		9.530.000	8.807.881	722.119	722.119					0							0		
				Total Individual Commitment				9.530.000	8.807.881	722.119						0							0		
1996	6ACP	KE80	0	MICRO-ENTREPRISES SUPPORT PROGRAMME. (6KE80+7KE90+7KE91)	20021231			2.382.129	2.315.870	66.259	66.259					0							0		
1996	6ACP	KE80	1	LANDELL MILLS (VOIR 7-ACP-KE-90 #2)	20001113	7		1.586.100	1.574.392	11.708	11.708					0							0		
1996	6ACP	KE80	2	WP (06.10.98-05.10.00) (VOIR 7-ACP-KE-90 #3)	20021231	8		525.000	416.822	108.178	108.178					0							0		
				Total Individual Commitment				2.111.100	1.991.214	119.886						0							0		
1996	7ACP	KE80	0	SUPPORT TOWARDS ESTAB. CORE FUNCT. & PROGS. WITHIN KIPPPA	20030331			1.993.000	1.823.958	169.042						0							0		



2000	8ACP KE8	1	BIODIVERSITY CONSERVATION PROGRAMME 5TH WORKPROGRAMME & COST ESTIMATE, 1 JULY 04 TO 30 JUNE 05	20040630			2.602.630	2.500.000	102.630				102.630		102.630				0	
2000	8ACP KE8	3		20050630			2.070.000	710.806	1.359.194				1.359.194		1.359.194				0	
	8ACP KE8	Total	Individual Commitment				4.672.630	3.210.806	1.461.824				0						0	
2000	8ACP KE9	0	NATIONAL MUSEUM OF KENYA SUPPORT PROGRAMME	20061231			8.000.000	1.899.700	6.100.300				0						0	
2000	8ACP KE9	1	TRANSTEC KES 114 684 884 1ST WORK PROGRAMME, 1 MARCH 2004 TO 28TH FEBRUARY 2005	20060114			1.586.000	882.489	703.511				234.503	234.503	469.006	234.503	234.503	234.505	234.505	0
2000	8ACP KE9	2		20050228			313.700	0	313.700				313.000		313.000					0
	8ACP KE9	Total	Individual Commitment				1.899.700	882.489	1.017.211				0							0
2000	8ACP KE12	0	SUPPORT SERVICES PROGRAMME PHASE 2	20060630			1.925.000	1.162.300	762.700				0							0
2000	8ACP KE12	1	NORDIC CONSULTING	20051231			1.162.300	418.036	744.264				520.000		520.000			520.000		0
	8ACP KE12	Total	Individual Commitment				1.162.300	418.036	744.264				0							0
2000	8ACP KE15	0	COMMUNITY DEVELOPMENT PROGRAMME PHASE 2 (CDP 2)	20061231			15.000.000	8.434.020	6.565.980				0							0
2000	8ACP KE15	1	MOU TRANCHE 1 EUR 4.000.000 COMMUNITY DEV. TRUST FUND	20040630			4.231.170	4.000.000	231.170				231.170		231.170					0
2000	8ACP KE15	4	4TH WORK PROGRAMME, 1 JULY 2004 TO 30 JUNE 2005	20050630			3.505.000	1.715.362	1.789.638				1.789.638		1.789.638					0
	8ACP KE15	Total	Individual Commitment				7.736.170	5.715.362	2.020.808				0							0
2000	8ACP KE18	0	TOURISM DIVERSIFICATION & SUSTAINABLE DEVELOPMENT PROGRAMME	20071231			12.000.000	11.933.997	66.003				0							0
2000	8ACP KE18	1	SERVICE CONTRACT EDF/8/TSDSP/1-2001	20070620			1.609.000	583.647	1.025.353				250.000	250.000	500.000	450.000	50.000			0
2000	8ACP KE18	2	TOURISM DIVERSIFICATION & SUSTAINABLE DEV. PROGRAMME INCLUDI	20031231			3.156.000	2.080.908	1.075.092	1.075.092	1.075.092		0							0
2000	8ACP KE18	4	WP & CE 2 JAN - DEC 2004 KSHS. 338,642,496.00	20041231			4.008.000	1.657.320	2.350.680	1.800.000	1.550.000	250.000	550.680		550.680			550.680		0
2000	8ACP KE18	6	AMS/451 FRAMEWORK CONTRACT, PERFORMANCE ASSESSMENT OF TOURIS	20040405			26.997	26.068	929	929	929		0							0
2000	8ACP KE18	7	TSDSP WORK PROGRAMME, 1 JANUARY 2005 TO 31 DECEMBER 2005	20051231			3.134.000	0	3.134.000				1.500.000	1.500.000	3.000.000	2.500.000	300.000	200.000		0
	8ACP KE18	Total	Individual Commitment				11.933.997	4.347.944	7.586.053				0							0
2000	8ACP KE19	0	POVERTY REDUCTION BUDGET SUPPORT (PRBS1)	20020629			11.400.000	11.400.000	0				0							0
2000	8ACP KE20	0	POVERTY REDUCTION BUDGET SUPPORT (PRBS1)	20020629			12.600.000	12.600.000	0				0							0
2000	8ACP KE21	0	POVERTY REDUCTION BUDGET SUPPORT (PRBS1)	20020629			11.000.000	10.000.000	1.000.000	1.000.000	1.000.000		0							0
2000	8ACP KE21	2	POVERTY REDUCTION BUDGET SUPPORT EUR 10.000.000	20020331			10.000.000	0	10.000.000	10.000.000	10.000.000		0							0
	8ACP KE21	Total	Individual Commitment				10.000.000	0	10.000.000				0							0
2000	8ACP KE16	0	STABEX 99 COFFEE -RAW OR ROASTED	20001231			39.013.154	39.013.154	0				0							0
2000	8ACP KE16	1	CONV TRANSFER STABEX18/99/KE (RAW OR ROASTED COFFEE)	20011231			39.013.154	39.013.154	0				0							0
2000	8ACP KE15	2	EXP - M. LUMINARI - AT	20030917			421.350	340.462	80.888				80.888		80.888			80.888		0
2000	8ACP KE20	1	POVERTY REDUCTION BUDGET SUPPORT EUR 12.600.000	20020331			12.600.000	5.600.000	7.000.000				0							0
	8ACP KE20	Total	Individual Commitment				52.034.504	44.953.616	7.080.888				0							0
2001	8ACP KE22	0	DEMOCRATIC GOVERNANCE SUPPORT PROGRAMME	20061231			5.000.000	2.665.000	2.335.000				0							0
2001	8ACP KE22	1	GRANT CONTRACT TO CKRC FOR THE CONSTITUTION DRAFTING TEAM	20040630			150.000	120.000	30.000				30.000		30.000			30.000		0
2001	8ACP KE22	2	FLEXIBLE FUND FOR DISBURSEMENT OF 23 GRANTS	20050831			1.543.000	1.199.368	343.632				300.000		300.000			300.000		0
2001	8ACP KE22	3	2ND WORK PLAN, 9.5 MONTHS TO 31 DECEMBER 2004	20050331			175.000	117.196	57.804				0							0

2001	8ACP KE22	4	KENYA LAW REFORM COMMISSION, GRANT CONTRACT	20060727			498.000	175.872	322.128				268.000		268.000		268.000			54.000	54.000
2001	8ACP KE22	5	ELECTORAL COMMISSION OF KENYA, GRANT CONTRACT	20060831			299.000	119.744	179.256				140.000		140.000		140.000			35.000	35.000
2001	8ACP KE22	6	KENYA NATIONAL COMMISSION ON HUMAN RIGHTS	20041130			0	0	0						0						0
	8ACP KE22	Total	Individual Commitment				2.665.000	1.732.180	932.820						0						0
2001	8ACP KE24	0	TECH ASSISTANCE TO OFFICE OF NAO	20030731			540.000	539.540	460	460	460				0						0
2001	8ACP KE29	0	NORTHERN CORRIDOR REHABILITATION PROGRAMME - PHASE 1: SULTAN	20020430			175.000	154.505	20.495	20.495	20.495				0						0
2001	8ACP KE29	1	COWI (AMS/451)	20020621			154.505	137.318	17.188				17.188		17.188		17.188				0
	8ACP KE29	Total	Individual Commitment				154.505	137.318	17.188						0						0
2001	8ACP KE23	0	FRANCHISE ART 195 A - CAFE VERT	20011231			12.033.326	12.033.326	0						0						0
2001	8ACP KE23	1	STABEX/13/REP LIV 2ND PR/KE - REPAYMENT AGREEMENT ART 195(A)	20011231			12.033.326	12.033.326	0						0						0
	8ACP KE23	Total	Individual Commitment				12.033.326	12.033.326	0						0						0
2002	7ACP KE101	0	NORTHERN CORRIDOR REHABILITATION PROGRAMME	20080331			58.860.394	58.857.000	3.394						0						0
2002	7ACP KE101	1	REHABILITATION OF SULTAN HAMUD-MITTO ANDEI SECTION OF NAIROB	20050612			58.857.000	39.622.600	19.234.400				10.000.000	9.234.400	19.234.400	10.000.000	9.234.400				0
	7ACP KE101	Total	Individual Commitment				58.857.000	39.622.600	19.234.400						0						0
2002	7ACP KE102	0	NORTHERN CORRIDOR REHABILITATION PROGRAMME	20080331			2.643.239	2.211.489	431.739						0						0
2002	7ACP KE102	2	SERVICE CONTRACT FOR SUPERVISION OF WORKS ON SULTAN HAMUD MT	20061231			1.855.000	649.585	1.205.415				301.353	301.353	602.706	301.353	301.353		301.353	301.353	602.706
2002	7ACP KE102	3	SERVICE CONTRACT FOR STUDY OF KENYA TRANSPORT SECTOR AND ROAD SECTOR DONOR-GOK CONFERENCE ON 29-30TH OCTOBER	20031111			299.000	249.019	49.981				49.981		49.981		49.981				0
2002	7ACP KE102	4	ROAD SECTOR DONOR-GOK CONFERENCE ON 29-30TH OCTOBER	20041031			3.800	0	3.800				3.800		3.800		3.800				0
	7ACP KE102	Total	Individual Commitment				2.157.800	898.605	1.259.195						0						0
2002	8ACP KE30	0	DISTRICT HEALTH SERVICES & SYSTEMS DEVELOPMENT PROGRAMME	20070630			15.000.000	1.348.629	13.651.371						0						0
2002	8ACP KE30	1	CONTRACT FOR CONSULTANCY SERVICES - SOLUZIONE	20070222			0	0	0						0						0
2002	8ACP KE30	2	TECHNICAL ASSISTANCE CONTRACT - SOLUZIONE	20040225			977.629	219.347	758.282				140.000	139.000	279.000	140.000	139.000				0
2002	8ACP KE30	3	START UP WPCE, JULY 2004 TO 31 DECEMBER 2004	20050228			371.000	176.781	194.219				194.219		194.219		194.219				0
2002	8ACP KE30	4	1 OPERATIONAL WORK PROGRAMME, 1 JANUARY TO 31 DECEMBER 2005	20051231			0	0	0						0						0
	8ACP KE30	Total	Individual Commitment				1.348.629	396.128	952.501						0						0
2002	8ACP KE31	0	NORTHERN CORRIDOR REHABILITATION PROGRAMME	20080331			9.996.367	6.287.000	3.709.367						0						0
2002	8ACP KE31	1	REHABILITATION OF SULTAN HAMUD TO MITTO ANDEI SECTION OF NAI	20050612			6.287.000	0	6.287.000						0				4.000.000	2.287.000	6.287.000
	8ACP KE31	Total	Individual Commitment				6.287.000	0	6.287.000						0						0
2003	8ACP KE33	0	DESIGN REVIEW OF TENDER DOCUMENTS AND ASSISTANCE WITH TENDER	20040501			199.500	189.790	9.710						0						0
2003	8ACP KE33	1	COWI, LETTER OF CONTRACT AMS451 NO. QUINCE/4/KE/INFRAS,	20040430			0	0	0						0						0
2003	8ACP KE33	2	COWI, LETTER OF CONTRACT AMS/451 QUINCE/4/KE/INFRAS, ASSISTA	20031208			189.790	151.832	37.958					37.958	37.958		37.958				0
	8ACP KE33	Total	Individual Commitment				189.790	151.832	37.958						0						0
2003	9ACP KE1	0	NORTHERN CORRIDOR REHABILITATION PROGRAMME (MAI MAHIU - NAIV	20110630			50.000.000	45.494.000	4.506.000						0						0



2003	9ACP KE1	1	SOGEA SATOM, REHABILITATION OF MAI MAHIU - NAIVASHA - LANET	20070616			45,494,000	0	45,494,000					7,549,500	10,000,000	17,549,500	7,549,500	10,000,000		5,000,000	5,000,000	10,000,000
	9ACP KE1	Total	Individual Commitment				45,494,000	0	45,494,000							0						0
2004	9ACP KE2	0	RURAL POVERTY REDUCTION AND LOCAL GOVERNMENT SUPPORT	20111231			21,000,000	132,140	20,867,860							0						0
2004	9ACP KE2	1	IDC, AMS/451 SERVICE CONTRACT	20050814			132,140	79,284	52,856						52,586	52,586	52,586					0
	9ACP KE2	Total	Individual Commitment				132,140	79,284	52,856							0						0
2004	9ACP KE3	0	POVERTY REDUCTION SUPPORT PROGRAMME	20091230			125,000,000	0	125,000,000							0						0
2004	9ACP KE5	0	TECHNICAL CO-OPERATION FACILITY - KENYA	20101031			0	0	0							0						0

# ANNEX 4

## EU Contribution to Kenya - CG 2005

## FY 2005-2006

DONOR	a	b	c	d	e	f	g	h	i	j	k	l	Total
1 AFD (France)		\$19,092,000	\$7,095,000		\$7,095,000								\$33,282,000
2 Belgium		\$250,000	\$250,000										\$500,000
3 Denmark	\$8,264,000	\$4,443,000	\$5,332,000	\$2,400,000	\$569,000	\$9,331,000						\$3,600,000	\$33,939,000
4 DIFD (UK)	\$1,170,000		\$900,000		\$9,326,941	\$8,722,800	\$20,340,000		\$16,200,000			\$45,017,690	\$101,677,431
5 European Commission	\$9,927,320	\$45,627,849	\$7,411,800	\$369,035	\$906,002	\$8,759,400				\$67,380,000		\$5,394,961	\$145,776,367
6 European Investment Bank												\$13,105,540	\$13,105,540
7 Finland	\$2,600,000	\$2,900,000		\$2,600,000								\$3,618,000	\$11,718,000
8 Germany	\$3,312,401	\$31,690,162		\$1,644,072	\$588,227	\$10,726,896	\$974,315	\$606,420			\$540,388		\$50,082,881
9 Italy	\$3,255,866		\$650,000				\$2,470,000				\$2,010,000	\$12,285,000	\$20,670,866
10 Natherlands												\$2,538,000	\$2,538,000
11 SIDA (Sweden)		\$13,605,766		\$5,000,000		\$3,600,000						\$3,834,636	\$26,040,402
<b>TOTAL</b>	<b>\$28,529,587</b>	<b>\$117,608,777</b>	<b>\$21,638,800</b>	<b>\$12,013,107</b>	<b>\$18,485,170</b>	<b>\$41,140,096</b>	<b>\$23,784,315</b>	<b>\$606,420</b>	<b>\$16,200,000</b>	<b>\$67,380,000</b>	<b>\$2,550,388</b>	<b>\$89,393,827</b>	<b>\$439,330,487</b>

a) Agriculture and Rural Development

b) Physical Infrastructure

c) General Economics

d) Public Safety, Law and Order

e) Public Administration

f) Health

g) Education

h) National Security

i) HIV-AIDS

j) General Budget Support

k) Other Cross Sectoral

l) Off Budget (NGO's)

ANNEX 5 KENYA	Instrument	% NIP	Amounts (meuro)				Target dates		
			Total	EDF9	EDF balances	STABEX	Identificat-ion	Appraisal	Financing decision
<b>EDF Co-operation Programmes</b>									
<b>EDF Co-operation Programmes</b>									
<b>FOCAL AREA 1 : Agriculture/Rural Development</b>		<b>16%</b>	<b>42</b>	<b>34</b>	<b>8</b>				
Rural Poverty Reduction and Local Government Support Programme			21	21			mars-03	juin-03	juil-04
Community Development for Environmental Management Programme			13	13			mars-03	oct-03	mai-05
Agriculture Research Support Programme			8		8		févr-04	nov-04	juin-05
<b>FOCAL AREA 2: Transport (Road Transport Sector)</b>		<b>41%</b>	<b>110</b>	<b>0</b>	<b>90</b>				
Maintenance Backlog Northern Corridor	PS/BFS		35		35		juin-03	août-06	oct-06
Rural Access Roads Rehabilitation	PS/BFS		20			20	juin-03	oct-06	oct-06
Mai-Mahiu Lanet			55		55				août-03
<b>FOCAL AREA 3: Macroeconomic support</b>		<b>65%</b>	<b>176</b>	<b>125</b>		<b>51</b>			
Poverty Reduction Budget Support 2	GBS		125	125		0	mai-03	sept-03	nov-04
Advanced Budget Support			51			51			juin-03
<b>4. Non-Focal sectors</b>	<b>PS</b>	<b>5%</b>	<b>13</b>	<b>11</b>	<b>2</b>				
MESP II			6,5	6,5			juin-05	sept-05	déc-05
Technical Cooperation Facility			4,5	4,5					mars-05
NSA support			2		2		janv-03	sept-04	sept-05
RESERVE									
EDF 9			170	170					
EDF balances			100		100				
EDF TOTAL		126%	270	170	100	na			
STABEX balances to be programmed			20			20			juin-05
STABEX TOTAL			91			91			
<b>TOTAL</b>			<b>361</b>	<b>170</b>	<b>100</b>	<b>91</b>			

PS Project Support

SBS Sector Budget Support

GBS General Budget Support

BFS Basket Funding Support

RECEIVED  
EC DELEGATION KENYA

22 FEB 2006

REF. NO. A/903	ADDR. TO	FOR ACTION
FOR INFO.	DC	FOR CIRC.

REPUBLIC OF KENYA  
MINISTRY OF FINANCE



Telegraphic Address: 22921  
FINANCE - NAIROBI  
Telephone: 338111  
When replying please quote

THE TREASURY  
P.O. Box 30007  
NAIROBI  
KENYA

Joseph

Ref. No: EA/FA 293/78/01  
and date

20<sup>th</sup> February 2006

Mr. Johan Cauwenbergh  
The Head of Operations  
Delegation of the European Commission  
P.O Box 45119  
NAIROBI

Dear

M. Cauwenbergh,

**Conclusions of the 2004 Joint Annual Operational Review**

After consultations with relevant line Ministries the Government concurs with the conclusions submitted by the Delegation on the 2004 Joint Annual Operational Review. We wish, however, to inform you that we are in the process of drafting a Matrix of Corrective Measures which will form the basis of the 2005 JAOR as well as the End Term Review. This will also enable the Government to prepare its position ahead of the East African Seminar to be held in Brussels next month.

A copy of the Matrix of Corrective Measures will be submitted to the Delegation for information.

Yours

Sincerely,

Joseph K. Kinyua, EBS  
PERMANENT SECRETARY/TREASURY