Government of Kenya
Ministry of Finance

European Union
Delegation of the European Commission
to the Republic of Kenya

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

Joint Annual Operational Review of Cooperation between

The Republic of Kenya and The European Community in 2007

Annual Review of the ACP-EC Partnership Agreement and other cooperation activities

Abbreviations

AAP	Assessment and Action Plan
ACP	African Caribbean and Pacific
AERC	African Economic Research Consortium
AFD	L'Agence Française de Développement
AI	Avian Influenza (bird flu)
ALRMP	Arid Lands Resource Management Project
ANC	Ante-natal Care
APR	Annual Progress Report
ARSP	Agricultural Research Support Programme
ASALs	Arid and Semi Arid Lands
ASCU	Agricultural Sector Coordination Unit
ASMEP	Assistance to Small and Micro Enterprises
ASSP	Agricultural Sector Support Programme
AU	African Union
AU/IBAR	African Union /Inter-African Bureau for Animal Resources
BCP	Biodiversity Conservation Programme
BOPA	Budget Outlook Paper
BoT	Board of Trustee
BSP	Budget Strategy Paper
CBK	Central Bank of Kenya
CCM	Country Co-ordinating Mechanism
CDEMP	Community Development for Environmental Management Programme
CDF	Community Development Fund
CDP	Community Development Programme
CDTF	Community Development Trust Fund
CEO	Chief Executive Officer
CEP	Country Environmental Profile
CfP	Call for Proposal
CMAP	Collaborative Masters Programme in Economics for Anglophone Africa
COMESA	Common Market for Eastern and Southern Africa
CPP	Collaborative PhD Programme in Economics
CSOs	Civil Society Organisations
CSP	Country Strategy Paper
DANIDA	Danish International Development Agency
DCF	Drought Contingency Fund
DCU	Donor Coordination Unit
DFID	Department for International Development
DGSP	Democratic Governance Support Programme
DHSSDP	District Health Services and Systems Development Programme
DMI	Drought Management Initiative
DP	Democratic Party
EAC	East African Community
EC	European Community
ECHO	European Commission Humanitarian Aid
ECK	Electoral Commission of Kenya
EDF	European Development Fund
EFA	Education for All
EIB	European Investment Bank
EIDHR	European Initiative for Democracy and Human Rights
EMCA	Environment Management and Coordination Act
EPA	Economic Partnership Agreement
ERS	Economic Recovery Strategy
ESA	Eastern and Southern Africa
ETC	Educational Training Consultants
EU	European Union
FA	Financing Agreement
FIDA	International Federation of Women Lawyers
FMIS	Financial Management Information System
FMOs	Frameworks of Mutual Obligation
FP	Funding Proposal
FPE	Free Primary Education

FTI	Fast Track Initiative
FY	Financial Year
GAP	Governance Action Plan
GAVI	Global Alliance of Vaccines and Immunisation
GBS	General Budget Support
GDP	Gross Domestic Product
GER	Gross Enrolment Ratio
GFTAM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GJLOS	Governance, Justice, Law and Order Sector
GNP	Gross National Product
GoK	Government of Kenya
GSPK	Governance Strategy for Building a Prosperous Kenya
GTZ	Gesellschaft für Technische Zusammenarbeit
HAC	Harmonization, Alignment and Coordination
HDI	Human Development Index
HIV/AIDS	Human Immuno-deficiency Virus /Acquired Immune Deficiency Syndrome
HMIS	Health Management Information Systems
HPAI	Highly Pathogenic Avian Influenza
HQ	Headquarters
IDA	International Development Association
IMF	International Monetary Fund
IP-ERS	Investment Programme for Economic Recovery Strategy
JFE	Joint Facility for Electives
JRES	Joint Review of the Education Sector
KACC	Kenya Anti Corruption Commission
KANU	Kenya Africa National Union
KARI	Kenya Agricultural Research Institute
KASAL	Kenya Arid and Semi-arid Lands
KDHS	Kenya Demographic and Health Survey
KECOBAT	Kenya Community Based Tourism
KenGen	Kenya Electricity Generating Company Limited
KEPHIS	Kenya Plant Health Inspectorate Service
KEPLOTRADE	Kenya European Union Post-Lome Trade Programme
KES	Kenya Shilling
KESSP	Kenya Education Sector Support Programme
KfW	Kreditanstalt fūr Wiederaufbau
KIHBS	Kenya Integrated Household Budget Survey
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KJAS	Kenya Joint Assistance Strategy
KNA	Kenya National Assembly
KNCHR	Kenya National Commission on Human Rights
KPCU	Kenya Planters Co-operative Union
KPLC	Kenya Power and Lighting Company
KRB	Kenya Roads Board
KRDA	Kenya Rural Development Agency
KREP	Kenya Rural Enterprise Programme
KTB	Kenya Tourism Board
LA	Local Authority
LATF	Local Authorities Transfer Fund
LRC	Law Reforms Commission
LRRD	Linking of Relief Rehabilitation and Development
MCM	Matrix of Corrective Measures
MDF	Management Development Foundation
MDG	Millennium Development Goal
MESPT	Micro-Enterprise Support Programme Trust
MIP	Multi Annual Indicative Plan
MoALD	Ministry of Agriculture and Livestock Development
MoLG	Ministry of Local Government
MoTI	Ministry of Trade and Industry
MPs	Members of Parliament
MS	Member States (of the EU)
MT	Metric Ton
MTAP	Meteorology Transition Africa Project

MTEF	Medium Term Expenditure Framework
MTR	Mid-Term Review
NACC	National Aids Control Council
NAO	National Authorising Officer
NC	Northern Corridor
NCRP	Northern Corridor Rehabilitation Programme
NDF	Nordic Development Fund
NEMA	National Environment Management Authority
NER	Net Enrolment Ratio
NGO	Non-governmental organisation
NIP	National Indicative Programme
NMSPK	National Museums Support Programme of Kenya
NSAs	Non State Actors
NSC	National Steering Committee
ODA	Official Development Assistance
ODM	Orange Democratic Movement
ODM-K	Orange Democratic Movement - Kenya
PACE	Pan-African Programme for the Control of Epizootics
PE	Programme Estimate
PEM-AAP	Public Expenditure Management - Assessment and Action Plan
PFM	Public Financial Management
PIP	Project Implementation Plan
PMT	Project Management Team
PMU	Project Management Unit
PNU	Party of National Union
PoI	Protocol of Implementation
PPOA	Public Procurement Oversight
PRBS	Poverty Reduction Budget Support
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PS	Permanent Secretary
PSD	Private Sector Development
PSDS	Private Sector Development Strategy
RIP	Regional Indicative Programme
RMLF	Road Maintenance Levy Fund
RPR&LGSP	Rural Poverty Reduction and Local Government Support Programme
SERECU	Somali Ecosystem Rinderpest Eradication Co-ordination Unit
SES	Somali Eco-System
SID	Society for International Development
SIDA	Swedish International Development Authority
SRA	Strategy for Revitalizing Agriculture
SSA	Sub-Saharan Africa
SSP	Support Services Programme
STABEX	Stabilization of Export Earnings
SWAp	Sector Wide Approach
TA	Technical Assistant /Assistance
TB	Tuberculosis
TCF	Technical Cooperation Facility
TDSDP	Tourism and Diversification and Sustainable Development Programme
TSP	Tourism Sustainability Programme
TISMPP	Tourism Institutional Strengthening and Market Promotion Programme
TSC	Teachers Service Commission
TTF	Tourism Trust Fund
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
US	United States (of America)
USD	United States Dollar
VCT	Voluntary Counselling and Testing
VSO	Volunteer Service Overseas
WB	World Bank
WPCE	Work Plan and Cost Estimate
WTO	World Trade Organisation

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1 Executive Summary

The year 2007 which began so optimistically ended despairingly as the country descended into unprecedented post-election violence at the beginning of 2008, which led to more than 1,000 people being killed and an estimated 300,000 displaced from their homes. The political fundamentals had not created the stability that the indicators had suggested. Whilst GDP grew by 7.0% in 2007, and GoK expenditure on social services increased by 17.2 % and recurrent expenditure on health and education also increased (14% and 12.7% respectively) vast inequalities remain, particularly in the rural areas. Despite progress being made with certain MDGs, poverty levels have not changed significantly since the 2004 UN Development Report which reported that Kenya's richest earn 56 times more than its poorest: the top 10% of the population controls 42% of the country's wealth, while the bottom 10 % own 0.76 %.

As evidenced by the Kofi Annan led mediation efforts, there are still ongoing concerns about key Governance issues such as the slow implementation of the necessary legal framework in most sectors, delayed prosecutions on Anglo Leasing and Goldenberg scandals, growing pains within the Grand Coalition, the poor involvement of Non-State Actors in the government agenda, and weak coordination among line ministries that continue to hamper the important and necessary initiatives financed from EDF resources. However, despite Kenya's ongoing struggle with these challenges, the World Bank continued to praise Kenya's economic reforms, and commendations both locally and internationally were received for its Universal Primary Education Programme and for expanding access to primary health care. Moreover, significant efforts continue to take place in the coordination of development assistance with strengthened donor consultative groups and committees in place. In particular, the efforts with respect to the Kenya Joint Assistance Strategy (KJAS), and in the Donor Consultative Group and HAC illustrate relevant developments in building coherence. Relations between the Government of Kenya and the EC Delegation remained effective throughout the year regardless of understaffing within the NAO's office.Despite the difficulties in implementing the CSP, the result was not far off its original targets for commitments and disbursements for 2007. The Delegation continued supporting agriculture, road and water sector reform, good governance, rule of law and democracy, the environment, public financial management, education and other important social and economic sectors. Strong progress was reported in the two key focal areas (Agriculture and Roads and Transport) and also in Macroeconomic Support. In the non-focal areas good progress was also reported in Health, Education, Trade and Tourism and the Governance, Justice Law and Order Sector (GJLOS) SWAP Programme, supported by the EC Democratic Governance Support Programme (DGSP) achieved several milestones in 2007, despite the fragile and delicate political environment.

Against the backdrop of the post-election violence and the creation of the newly formed Grand Coalition Government it is vital that Delegation and the GoK work together to ensure effective and efficient implementation of the **CSP 2008-2013** under the 10th EDF, *endorsed at the end of 2007. This will be vital in contributing towards creating true economic and political stability and ensuring that the new coalition government recommits itself to deliver on its joint promises to fight poverty and corruption. There is also an ongoing need to improve and enhance current efforts to encourage continued Donors' partnership with the government for positive economic, governance and social achievements.*

Update of the Political, Economical, Social and Environmental Situation[1]

1.1 Political Update

For most Kenyans, 2007 began optimistically with high hopes that Kenya's multiparty political system, along with economic growth and an increasingly independent media and improved legislature, would continue to steer the country on its path towards political stability. However, persistent governance and democracy concerns from civil society, escalating conflicts in neighbouring Somalia and the Somali region of Ethiopia, and the run-up to the December elections contributed to a growing atmosphere of instability across the region, and strengthened fears about political unrest within Kenya.

In the first half of the year Kenya closed its northern borders to refugees due to conflict in Somalia and a crackdown on terrorism culminated in expulsion and deportation of terrorism suspects. In June 2007 Kenyan police launched a crackdown on illegals sect which had been long accused of engaging in mafia-like economic and political activities and acquiring funds through protection rackets and extortion on the delivery of basic services to the most impoverished urban dwellers. In November 2007, the Kenya National Commission on Human Rights alleged that there had been a number of extrajudicial police killings related to the operations of the Mungiki sect. The police denied all responsibility.

Kenya has traditionally had an assertive and independent parliament, but as with previous years it continued to display a strong fractious nature. For instance, the President successfully rejected two publicly controversial bills passed by parliament, one a restrictive media bill and the other a bill limiting the activities of the Kenya Anti-Corruption Commission (KACC); and parliament voted almost unanimously to award a significant pay rise to its own members. On the political party front, the ruling party National Rainbow Coalition (NARC) and the former ruling party, Kenya African National Union (KANU) disintegrated further in 2007, leading to the formation of the Party of National Unity (PNU), the Orange Democratic Movement (ODM) and ODM-Kenya. ODM emerged during the constitutional referendum I November 2005 where opposed Members of Parliament campaigned and succeeded against the proposed new Constitution. During the December 2007 general elections, ODM had Raila Odinga as its presidential candidate while ODM-Kenya had Kalonzo Musyoka, both of whom served as cabinet ministers under President Kibaki. President Mwai Kibaki ran for a re-election on a PNU ticket. PNU affiliate parties include KANU, Safina, Democratic Party of Kenya (DP) and NARC-Kenya among others.

The run-up to the December elections was far less violent than that of past election years and much of the canvassing passed without incident. The 27 December 2007 elections attracted the highest number of parliamentary aspirants, with 2,548 candidates vying for the 210 parliamentary seats, compared to 1,033 in 2002, and 15,332 civic candidates contesting 2,486 seats. The elections also attracted the largest number of women candidates, with 269 seeking parliamentary seats, compared to 44 in the 2002 General Elections, while another 1,478 vied for civic seats. Nine parties fielded presidential candidates, whilst a record 108 political parties sponsored candidates to vie for parliamentary seats and 117 parties fielded civic candidates. At the constituency level, some seats had as high as 33 parliamentary candidates; there were very few seats with only two or a very small number of candidates. The promotion of temporary registration exercises and the continued registration throughout the year brought the number of registered voters to an estimated 82 % of the total eligible voter population. The Electoral Commission of Kenya (ECK) accredited 4,000 observers and 2,000 local and foreign media representatives.

The 27 December 2007 elections had a voter turnout of 70.4 % of the registered voters. The polls were closely contested, with Mwai Kibaki of PNU garnering 47 % of the vote, and his

[1] Unless specified otherwise data used in this section was drawn from the *Economic Survey 2008*, prepared by Kenya National Bureau of Statistics and *Africa Economic Outlook: Kenya*, 2008 prepared by OECD.

closest challenger Raila Odinga (ODM) garnering 44 %. The new parliament has also the highest number of women legislators -15 in total - since independence. The poll's outcome saw over 60 % of the last parliament's members voted out, including 20 cabinet ministers and several seasoned politicians. ODM emerged stronger, with 99 seats, while PNU had 43 seats, ODM-K 16 seats and KANU 14 seats. Overall, the opposition ODM and its affiliates garnered 104 seats, while PNU and government affiliate parties had 103 seats. However, the credibility of the presidential-vote tallying was described as questionable by both domestic and international observers, particularly the lengthy delay by the ECK in announcing the official results. The EU Election Observation Mission reported in its Preliminary Statement on 1 January 2008 that the Elections had fallen short of key international and regional standards for democratic elections. Most significantly, the observers stated that the elections were marred by a lack of transparency in the processing and tallying of presidential results, which raised concerns about the accuracy of the final result of this election.

The 2007 General Elections, which had provided an opportunity to consolidate and further develop the electoral and wider democratic process that had received acclaim for the conduct of the 2002, instead sparked widespread and ethnically motivated violence resulting in over 1 000 deaths, more than 300 000 people displaced, and widespread destruction of property in early 2008. With estimates of the economic cost of the crisis at around $1.5bn[2] the violence could drive an estimated 2 million Kenyans into poverty, reversing the economic and democratic gains made over the last few years, and will have an impact on poverty reduction strategies in the short-to-medium term.

After intensive and difficult mediation efforts led by the former Secretary General of the UN, Kofi Annan, the way was paved for the formation of a Grand Coalition Government through the signing of the National Peace Accord which encompassed a list of agenda points that addressed the underlying causes of the post election crisis and committed the signatories to discuss and implement actions towards a lasting peace.

1.2 Economic Update

The Kenyan economy grew at an estimated rate of 7.0% in 2007, up from 6.4% in 2006 (see Figure 1 and **Annex 2** for more macroeconomic and other key indicators). The renewed growth has mainly been on account of the **Economic Recovery Strategy** (ERS) which ended in 2007 (to be superceded by **Vision 2030**) which restored investor confidence in the Kenyan economy, farm prices improved and rural electrification proceeded in many parts of the country. However, the post-election political unrest is expected to impact this upward growth and most analysts are predicting limited growth (4.4%) in 2008 and an acceleration to 6.5% in 2009. The likelihood of growth increasing again in 2009 is largely as a result of the impetus to be provided by Vision 2030 which emphasises investments in infrastructure and other key sectors. Per capita income also increased over this period to USD 456 in 2007, up from USD 439 in 2006.

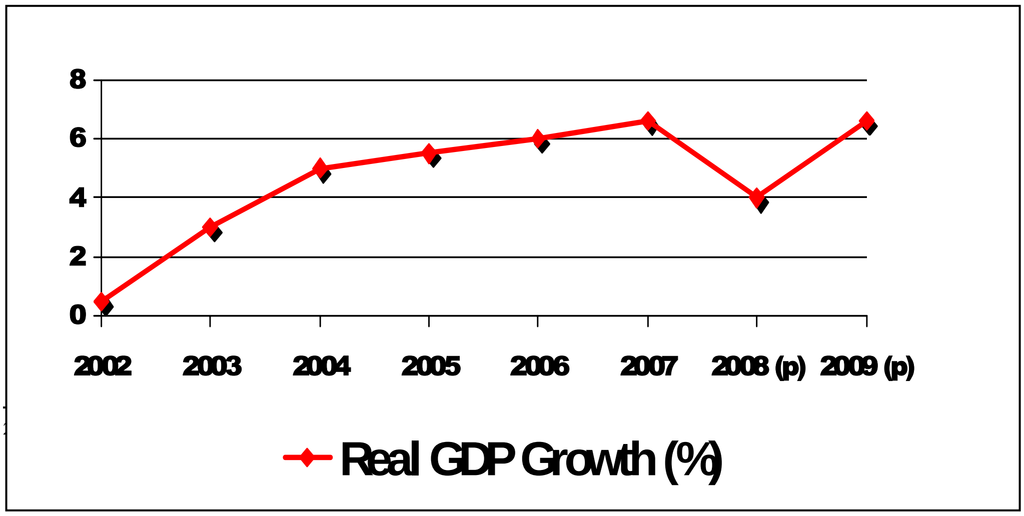

Figure 1: Real GDP Growth (Source: Africa Economic Outlook: Kenya, OECD, 2008)

Growth in 2007 was supported by transport and communication (23.3%), taxes on products (23.2%), wholesale and retail trade (15.7%) and manufacturing (8.8%). The contribution of agriculture as a source of GDP growth declined further with a drop from 17.4% in 2006 to 8.1% in 2007. The Agricultural sector recorded a slow real growth of 2.3% in 2007 from a revised growth of 4.4% in 2006. The sluggish growth was largely attributed to delayed long rains and low volumes of short rains in 2007. However, wheat production increased by 6.4%, tea production increased by 16%, and coffee production increased by 10.6% in 2007 from 2006 levels. The glut in world prices nevertheless meant decreased revenues in both the coffee and tea sectors in 2007.

The stringent macroeconomic policies pursued by the government over the last five years saw the appreciation of the Kenya Shilling against the major world economies and the easing of inflationary pressure for much of 2007. The **Kenya Shilling** weakened against the Euro but strengthened against the US Dollar in 2007 as compared with 2006 (Figure 2). Against the Euro the Kenya Shilling depreciated by 2% (from KES. 90.57 in 2006 to KES 92.59 for 2007) and against the US Dollar it increased by 7% (from an annual average exchange rate of KES.72.10 in 2006 to an average annual rate of KES 67.32 in 2007) attributed partly to foreign exchange demand, the worldwide weakening of the US dollar and positive market sentiment about the growth prospects of the Kenyan economy. However, the strength of the Kenya Shilling impacted on Kenya's competitiveness relative to its main trading partners, particularly in the horticulture sector, which saw an increase by 16.8% in exports (particularly in vegetable exports which increased by 37.8% in 2007 from 2006).

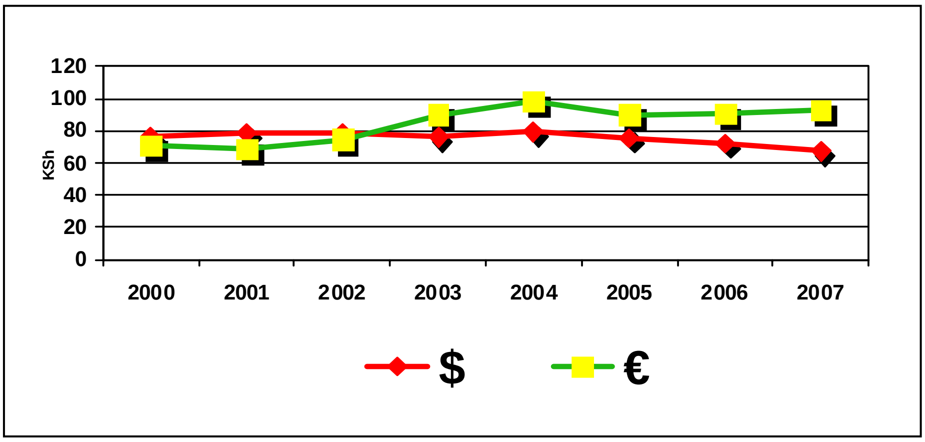

Figure 2: Exchange Rate, Ksh/US$/€ (Source: CBK, February 2008)

In 2007, the headline inflation rate was 9.8%, compared to 14.5% in 2006. However, the core inflation rate (excluding food and energy) remained close to the 5% target, largely due to prudent fiscal and monetary management and the strengthening of the Kenya shilling against the US dollar. Inflation is projected to rise to 10.1% in 2008 before declining to 7.4% in 2009, however, these targets are unrealistic as a result of significant short-term risks to the outlook for inflation. In particular, further volatility in world crude prices would have an impact on domestic prices through increased energy prices, the rise of global food prices and the long-term disruptive impact of post-election violence on the domestic economy. Although average annual inflation for 2007 stood at 9.8% by December 2007, as Figure 3 illustrates there has been a sharp increase in the overall inflation rate since the last quarter of 2007.

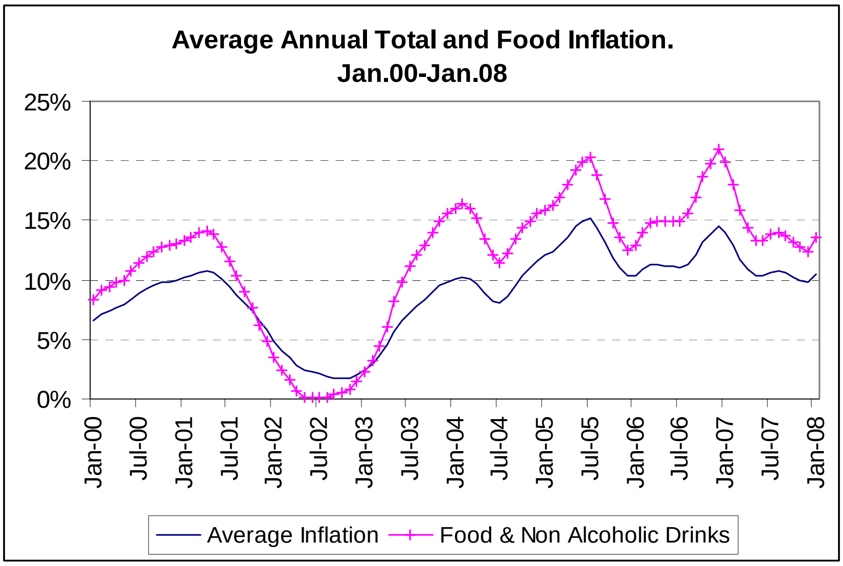

Figure 3: Average Annual Total and Food Inflation (Source: World Bank, May 2008)

The Kenyan government continues to pursue prudent fiscal policies over the medium term, focusing on strong revenue collection underpinned by deepening tax administration reforms. It plans to contain the growth of total expenditures, thus creating the fiscal space to shift resources from recurrent to capital expenditures. In particular the government plans to shift resources significantly towards Vision 2030 priorities, contain domestic debt and continue its efforts to alleviate poverty, particularly in the rural areas.

The government budget, which was 24.8% of GDP in 2005/06 is estimated to have declined to 22.9% in 2006/07, was projected to rise to 25.6% in the election year of 2007/08, mainly due to the increased development budget to support infrastructure development. Data is not yet however available to demonstrate the effectiveness and efficiency of this increased expenditure. Expenditure on social services also increased over the same period (17.2% from 2006/07 to 2007/08). The overall fiscal balance on a commitment basis (excluding grants) for 2006/07 recorded a deficit equivalent to 1.7% of GDP against a target deficit of 5.6% of GDP. This compares to a deficit equivalent to 3.3% of GDP in 2005/06. In line with the Poverty Reduction Strategy Paper (PRSP), the government of Kenya identified core poverty projects and programmes in the budget, which are given priority and cushioned from budget cuts. The overall expenditure on these programmes by end 2006/07 was KES 50.9 billion.

The improved performance in the various sectors of the Kenyan economy is reflected in the creation of more jobs. Overall, the economy generated 496,000 jobs in 2006, equivalent to an improvement of 5.7% over 2005 levels. A large proportion of this labour force was absorbed in the informal sector, which generated an estimated 418,000 jobs. Employment in the public sector continued on the declining trend in spite of selected recruitment in the civil service. However, the 2005/06 Kenya Integrated Household Budget Survey (KIHBS) reports that of the economically active population (15 – 64 years of age) only 12.7 million were gainfully employed whilst 1.9 million were categorised as unemployed and a further 5.3 million as “inactive”. Thus Kenya still faces significant challenges in providing employment opportunities for more than a third (37%) of its potential workforce.

1.3 Social Update

Kenya has an estimated population of about 37.2 million, of whom approximately 43% are under the age of 15 years and a further 4% are estimated to be over 60 years of age. By 2006 one in five Kenyans (21%) were reported to be living in the urban areas, suggesting a very gradual urbanization of the population as in 1990 only 18% of the Kenyan population were reported to be living in urban areas.

Official data suggests that there has been some reduction in poverty since the late 1990s, but the extent of this improvement is fairly limited. A recent World Bank Report (May, 2008) reports a reduction from 52% to 46% of the population overall, but does warn that all poverty data was collected prior to post-election violence and the steep rise in food prices discussed above. A large disparity can be noticed between the provinces with Nairobi reporting the lowest poverty headcount (estimated at 20%) and North Eastern the highest (estimated at above 70%) in the most recent provincial surveys conducted in 2005/06. This situation will not improve in the short-to-medium term especially in the wake of significant unemployment amongst youth (aged 15-30 years) which was more than 50% in North Eastern versus 30% in Nairobi in the same year. Nevertheless, the World Bank reports that there has been a gradual improvement in access to basic services, particularly in urban areas (e.g. garbage disposal has improved from 2% in 2003 to 10% in 2006, electricity is now available to 32% of urban households as opposed to 11% in 2003).

Official data on the status of MDGs in 2007 is not available as the final report is still under compilation (see **Annex 2** for progress on MDG indicators). As with 2006 and prior years, Kenya continued to increase budgetary allocation of resources to the most important MDG sectors: agriculture, education, health, infrastructure, and the environment. Expenditure on the social services for 2007/08 is expected to increase by 17.2%. For MDG 1 (eradicating extreme poverty and hunger), the Kenya Integrated Household Budget Survey showed a decline in poverty from 56 % in the late 1990s to 46 % in 2006. This is however against a backdrop of a Gross National Income per capita that steadily increased since 1990 (from USD880 to USD 1,300 by 2006).

Education

Recurrent expenditure for secondary education is expected to increase nearly eightfold and development expenditure in the Ministry of Education is expected to increase by 28% in 2007/08. Achievement of MDG Goal 2 therefore continues to be on track with the Free Primary Education (FPE), which continues to ensure increased enrolment rates across the country (90% of girls and 95% of boys enrolled in primary school in 2007). Kenya has also been highly successful over the years in promoting literacy, adult literacy rates stood at 73.6% by 2005, although disparities still exist between the North (where literacy rates remain low) and Central and Southern Kenya (where literacy rates are much higher). The government has taken measures to offer free tuition to secondary school students, beginning in 2008. Efforts are also being made to recruit more teachers so as to improve on the teacher pupil ratio. However, teacher salaries remain very low and continue to hinder recruitment efforts.

The number of both primary and secondary schools increased by 0.7% and 14.6% respectively from 2006 to 2007. Early Childhood Centres also increased from 36,121 in 2006 to 37,263 in 2007. The number of primary pupils increased by 7.8% over the same period, as did the total enrolment of secondary schools students (up by 14.6%). Total number of primary and secondary school teachers saw similar growth between 2006 and 2007 (6.2% and 4.5% respectively). Technical, Industrial and Vocational Training institutions, critical for developing Kenya’s currently small skilled workforce, also showed an increase in enrolment over this period (up by 7.5% from 2006) (for more Education indicators see **Annex 2**).

Health

Recurrent expenditure to the Health Sector is expected to increase by 14% for the year 2007/08 from that provided in 2006/07. This has led to a 13.2% increase in health institutions since 2006, the construction of which were funded by the Constituency Development Funds

(CDF). Registered medical personnel increased by 3.9% over the same period, as did the number of medical personnel in training (a 15.3% increase between 2006 and 2007).

Kenya has increased the immunization coverage for 1-year-olds to over 80 % (78% in 1990 to 84% in 2006) and upgraded facilities in health centres. There was an overall increased access to drugs. Free antiretroviral drugs are now availed for up to 260,000 people (by 2006 48% of HIV-infected pregnant women and 27% of people with advanced HIV infections were receiving treatment) (for more health indicators see **Annex 2**). Budgetary allocation for drugs has also increased, while over 4,080 additional health personnel have been deployed to rural and needy areas to scale up health services. In addition, the government has improved referral services by increasing the number of ambulances, and has also implemented financial management reforms to improve efficiency and service delivery countrywide. Other measures undertaken include the provision of over 202 million treated mosquito nets and indoor residue spray campaigns. The training of community workers, and information, education and communication campaigns have also assisted in creating awareness.

Co-ordinated HIV/AIDS combating efforts resulted in a 50% reduction in the prevalence rate from 13% in 2001 to 6.7% in 2003, with awareness at 98 %. Current estimates indicate that HIV/AIDS infections have further dropped from 5.9% in 2005 to 5.1% in 2006. The introduction of Voluntary Counselling and Testing (VCT) sites and centres has increased considerably, from three in 2000 to 105 in 2002 and then to over 700 VCT sites in 2005, spread across the country.

However, there are still challenges that need to be addressed. Life expectancy in Kenya has steadily declined since 1996 from 61 to 53 years of age for both sexes, neonatal mortality is about 34 per 1000 live birth, and the maternal mortality ratio per 100 000 live births was 560 in 2006. Reasons for these high rates are complex, but include HIV and AIDS, poverty (in particular ongoing food security challenges, especially those in the Northern part of the country) and inadequate health facilities in the rural areas.

Environment

Management of the country's environment remains a huge challenge despite concerted efforts over the past several years that saw the establishment of NEMA after the Environment Management and Coordination Act (EMCA) was made law, and the Forest Act that saw the transformation of the Forest Department into Kenya Forestry Services. The enforcement of the EMCA and Forest Act remain problematic and issues of land ownership, illegal logging, poor waste management, construction of buildings in ecologically sensitive sites, over-fishing amongst many other types of illicit exploitation of Kenya's remarkable wildlife and fauna are still noticeable. From the forests to the drylands, industries to the urban settlements, sustainable management of the environment continues to draw the attention of actors and stakeholders with limited coordinated actions to address the challenges.

Efforts by Nobel Laureate Prof Wangari Mathaai to raise the awareness of Kenyans on environmental issues have not fully taken off. It is hoped that the coalition government will better address issues of environmental sustainability especially as the main environmental challenges are primarily governance-related issues, such as land rights, enforcing the rule of law and protecting the fundamental environmental rights of all Kenyans.

Although NEMA has been in the forefront of trying to institutionalize critical environmental management practices, it lacks sufficient capacity and resources (both financial and human) to provide guidance and enforce the law. Based on this realization and the need to have a focused action, the Ministry of Environment and Natural Resources launched the National Steering Committee (NSC) for the development of Kenya's overarching environmental policy. The launch was carried out in August 2007. The EMCA sub-group, which is a sub-set of the HAC, provided important inputs to this launch and take off[3]. The steering committee has a timetable to consult widely and draft a policy document to be ready for review, consideration and adoption in June 2008.

In the year under review expenditure on water and related services increased by 10% attributed to increased funding in the sub-sector from the government and the increased involvement of communities in the management of water affairs. Access to improved drinking water (MDG 7) continues to improve since 1990, from 41% of the population in 1990 to 57% by 2006. Improvements, albeit very gradual, can also be seen in access to improved sanitation (39% in 1990 to 42% in 2006).

[3] Through the Community Development for Environmental Management Programme /Capacity Building Facility (9 ACP KE 006) through NEMA, the EC continued to support the enhancement of the institutional capacity essential for informed environmental policy formulation.

2 Overview of Past and Ongoing GoK-EC Cooperation[4]

2.1 Focal Sectors

2.1.1 Rural Development, Agriculture and Environment

Policy issues: The agriculture sector is a key sector in the country's economy, contributing to the GDP directly and indirectly through linkages to agro-based manufacturing, transport, wholesale and retail trade… Although the sector in general has shown strong growth in 2007 there are severe structural problems in the sector that needs to be addressed. The **Strategy for Revitalising Agriculture (SRA)** launched in March 2004, is the main vehicle for this work. The EC was instrumental in defining the **SRA** and its relation to the MDGs and continues to support the. Agricultural Sector Coordination Unit (ASCU), which is overseeing the common global Agricultural Sector Support Programme (ASSP).

Basket funding or coordinated parallel programmes, such as the ASSP-EC Contribution three year project is primarily used to support this important initiative. Some progress has been made since the launch of the strategy, though more progress on the actual implementation of the strategy had been expected in 2007. The sector still suffers from fragmentation of responsibilities among several Ministries, making coordination of overall implementation complex, although some progress has been achieved in realigning plans and strategies to the SRA. The Government was **slow in undertaking relevant legal reforms** in most areas with over 110 laws governing the agricultural sector alone. Importantly, several key Acts relating to the agricultural sector, most notably those concerning sugar and coffee were not enacted. Moreover, the draft land policy has not been finalized and this could impact negatively on sustainable rural development in Kenya as will the failure to resolve longstanding disputes over land ownership, many of which were seen by analysts as fuelling the post-election violence in December[5].

Despite the establishment of the National Environment Management Authority (NEMA) in 2003 national environmental policies remain insufficient to enhance diversity in development, hence have negative effects on a sustainable rural development.

Economic: The year 2007 was a very successful year for the Agricultural sector in Kenya, particularly for both the Coffee and the Sugar sector.

Coffee Sector: The quantity of coffee auctioned at the Nairobi Coffee Exchange rose by 3.4% from 50,528 MT in 2006 to 52,269 MT in 2007. The average auction price however declined from USD 2,631.2 per MT to USD 2,333.3 per MT over the same period, largely as a result of overall global supply adversely affecting price. A reform of the coffee sector regulations is under preparation, aiming at a more liberalised market through direct sales. Nevertheless, good governance and professional management of the cooperatives is key to improving markets and benefit the smallholder producers directly. Quality at all stages of the supply chain is a strategic issue to respond to market requirements.

Following an audit of STABEX FMOs, an envelope of € 5M has been made available to support coffee sector reforms. A **Coffee Quality Production and Commercialisation project** (STABEX, €5M) has been prepared and Programme of Implementation (PoI) and Programme Estimate (PE) are due to be signed in early 2008. A short-term consultancy is to be undertaken for detailed design of operational implementation early 2008. In anticipation of the coffee sector support project, a study on **Restructuring Kenya Planters Cooperative Union (KPCU)** was launched at the beginning of 2007.

[4] Operational details for this section of the Review are taken from the EC Delegation's *External Assistance Management Report*, January 2008 and submissions provided by relevant GoK Ministerial officials.

[5] See for instance *Crisis in Kenya: land, displacement and the search for 'durable solutions'*, Humanitarian Policy Group Policy Brief 31, Overseas Development Institute, April, 2008.

Sugar Sector: Domestic production of sugar continued its upward growth, as output increased by 9% in 2007 from 2006 (475,671 MT in 2006 to 520,404 MT), boosted in part by the introduction of the sugar safe guard measures by the government. The bulk of production is absorbed by the local soft drink industry, which increased its production by 17% in 2007 from the previous year. Despite the steady growth in the sugar sub-sector, local sugar production is being constrained by a number of factors including outdated technology, high transport costs, illegal sugar imports and excess supply in the international sugar market (Monthly Review, CBK, January 2008).

The **EC Response Strategy for Sugar 2007-2013** and the MIP 2007-10 (€6.23M) under the AMSP for Kenya was approved and signed. The Assessment and Action Plan (AAP) 2007 (€502,000) Financing Agreement (FA) is expected early 2008. The institutional assessment of the Kenya Sugar Board according to Act 56 of the Financial Regulations is expected to allow for implementation of a decentralised management system.

Progress of Projects and Programmes: Agricultural programmes were implemented **within the existing government framework**, however, the electioneering period of the last half of the second semester (year 2007) impacted negatively on the EC supported programmes. Under Community development for Environmental Management programme (CDEMP – 9 ACP KE 006), the Community Environment Facility released the first tranche of payment to 16 projects. However, limited implementation took place between the months of September and December 2007 as political rallies dominated the period. Equally affected were activities related to community consultations within the Capacity Building Facility.

Notwithstanding the latter, a number of notable successes can be identified. Through CEF, 21 projects were approved during the year. This was 60 % of all the 35 projects earmarked for support under the programme in the Financing Agreement. Due to clustering of many project proposals to a single project, the target of 35 projects was lowered to 25 projects. By the close of 2007, CEF had committed 97.9% of its investment budget on 21 projects, and 16 financing agreements signed. Under CEF the adoption of a catchment approach to programming has been considered innovative. However, mobilizing the communities to understand the value to teaming has been quite lengthy and time consuming.

Through the support to the National Environment Management Authority (NEMA), the **Capacity Building Facility** (CBF) witnessed significant delays due to bureaucracy and communication problems between the NAO and the Ministry of Environment and Natural Resources, hampering the requests for and release of PE 1 payments. Some 31.5% of the allocation was expended during the PE period. PE 2 was signed during the 2nd Semester and an advance of €391,408 paid. However, the component has been rather slow coupled with managerial and focus challenges. A call for proposals which had been launched in November 2006 closed on 31 January 2007. This call enlisted a significant response - 3,609 proposals were received; in 2007 alone, 420 were field-appraised out of a target of 520 and 81 projects approved out of a total of 150 (total commitment of € 2.3M of the total investment budget of € 5.6M) and 75% of the approved projects were operationally launched. Of these, the distribution was as follows; primary education (61%), secondary education (15%), technical training (2%), water and sanitation (6%), economic infrastructure (5%), health (10%) and integrated /targeted projects (1%). In total, € 211,000 had been committed to the projects – representing 40.2% of the community investment resources.

The EC and the African Union signed a FA for the **PAN-SPSO programme** (€ 3.35 M) concerned with Sanitary and Phyto-sanitary standard setting to be implemented by the African Union (AU) in several countries. A six month inception phase starts early 2008. The SERECU I programme has maintained a **regional approach towards eradication of Rinderpest** globally and the SERECU II financing proposal has been submitted to HQ for approval. This regional approach is coordinated by AU/IBAR in Nairobi through regional and national institutions foreseen to contribute strongly to the control of trans-boundary diseases. The lessons and networks developed during the concluded PACE Kenya programme to develop an emergency response for the support of the avian influenza surveillance and awareness for Kenya. Extension of the SERECU PE enabled activities of SERECU I to continue up to 28 February 2007A six month Implementation Protocol (STABEX) was prepared for the main €7.9M **KASAL** (Kenya Arid and Semi-Arid Lands Research) project, to finalise preparation for the grant and TA contracts. The TA tender was launched internationally and should be finalised early 2008. The **Grant Contract for the KASAL programme** for € 5.6M was signed and KARI has begun implementation. Planning and preparation was finalized in addition to preparation of the TA contract to be signed early 2008. All regional centres have finalized their plan of operations to be implemented using the grant to upscale research findings for the Arid and Semi-arid areas in Kenya.

KARI has finalised the rehabilitation of the regional research centres (Marsabit, Kiboko and Katumani) and established the project management units. The farmers/pastoralists and institutions have established links and proposals for support in the implementation of the activities at the beneficiary level. Service delivery has started and will be strongly enhanced by the conclusion of the long term TA to assist KARI within the framework KASAL project.

The Rural Poverty Reduction and Local Government Support Programme (RPRLGSP) supports the Government of Kenya's efforts to reduce poverty through support to the demand side of decentralized governance (empowerment of communities) in addition to the supply side (institution building support to local government). The €16 million programme represents the EC's main intervention in the focal area of rural development under the Kenya 9th EDF NIP. This initiative has three Programme Components:

a) Support to KLGRP – A Technical Assistance team provides direct support to the KLGRP team, ensuring the transparent and efficient financial management of the Local Authority Transfer Fund (LATF) and improved community participation in Local Authorities (Las).

b) Capacity Building to Ministry of Local Government (MoLG), LAs and communities – This support focuses on a number of areas, including financial management and reporting, project management, and community participation.

c) Poverty Reduction Fund – A performance-based Poverty Reduction Fund (PRF) has been established to encourage improved compliance with the basic principles of the reform programme and relevant capacity building. The selected projects are mainly in the water and sanitation sector (water systems, sewer systems) and construction and upgrade of markets. Other projects included are construction of roads, health centres, tourism centres and agricultural projects

The Programme advocates policy development issues, in the fields of decentralisation, good governance and service delivery performance improvement. Most of the PRF projects funded within this Programme have an environmental impact. In their direct support to LAs, the Programme Managers ensure that the respective LAs deal with these environmental issues appropriately and seek the intervention of the environmental monitoring institute, NEMA as required.

However, the TA who is supporting the Ministry of Local Government in improving the intergovernmental fiscal transfer systems and financial management of LAs, and who took office in Jan 2007 uncovered significant problems in several Local Authorities and at various stages of project implementation during initial visits. The NAO/Project Coordinator cancelled the 3rd Call for Proposal (CfP) due to slow implementation and €4.7M was decommitted from the project. All remaining commitments were successfully carried out before D+3 deadline (18 Aug 2007).

Constraints

Challenges facing the Agricultural and rural sector, and which will require appropriate interventions in the short to medium term, include:

- Insufficient coordination among rural development sector ministries in implementing the Strategy for Revitalizing Agriculture (SRA).
- Slow path of institutional and legal reforms.
- Food security long-term interventions not well defined and focusing too much on food aid.
- Major outbreaks of notifiable livestock diseases like the Rift Valley Fever and the threat of avian flu affecting negatively the economic growth and trade.
- Agricultural research for development has not been well funded in the national budget and especially not for the Arid and Semi Arid Lands (ASALs) which form more than 75% of the area of Kenya.
- Limited and uncoordinated support by relevant ministries to the programmes.
- Inadequate absorption capacity in selected projects owing to operational and interpretation challenges.

A major constraint facing the LA sector in general, and the RPRLGSP in particular, is the high staff turnover of officials in the LAs, adversely affecting the transfer of skills learned in training sessions. The officials are often not well remunerated and less motivated. As a result, service delivery of LAs to the citizens is inadequate and insufficient. Linked to this, an additional major constraint is the lack of technical support (including systems and training) the LAs receive from higher levels of government, support that is needed to improve the LAs' performance in service delivery. Overall, there is an urgent need for the government to re-define the roles of the LAs in service delivery.

Conclusions: Agriculture has in general shown a high growth in 2007. Nevertheless, to reach a sustainable level of growth there is a need to address new policies/legislation on land, a functioning sector programme involving all relevant public and private actors and a long-term strategy for food security. Despite being a backbone to the economy, the budget allocations to agriculture is below the expected level to effectively reactivate the sector. Agreed priorities of SRA implementation and inter-ministerial coordination are not well reflected in the annual budget and MTEF.

Significant progress has been achieved in the CDEMP programme towards its alignment in policy support and contribution towards MDG-7. The programme targets environment, poverty and policy. Through CEF, the key water towers in the country are targeted. Fast-tracking community involvement in environmental management is the lifeline to environmental conservation and sustainability of ecological systems in the country. The programme continues to maintain this focus.

The demand for technical services-in terms of maintaining physical assets and training is apparent. The development and implementation of a computerised Financial Management Information System (FMIS) under the KLGRP has positively changed the way the pilot LAs do business and improved their accountability, governance and transparency of their operations.

Monitoring of projects is also a key component as the transparency and accountability at LAs have significantly improved, providing an interesting model in the LG sector in terms of good governance and effective service delivery

Successes were nevertheless observed in the sector including:

- Attempts to introduce sectoral planning and budgeting within the government national budget.
- An agriculture donors coordination team well elaborated and functioning.
- The improvement of the financial management systems in LAs, and improved community participation.

- Approval and signing of the sugar reforms support project (6.23 million Euros) to be implemented by KSB.
- A Preparatory phase project preparing for **Sector Budget Support in the agricultural sector (ASSP EC Contribution STABEX, €2M)** has been finalised. Implementation protocol and PE signature is expected Jan 2008.
- Newspaper articles by the Ministry of Livestock, African Union on the activities and support from EU to the PACE Kenya and the **PACE Regional programmes was extensively covered** in all the main three papers in 2007.
- Launches of the **KASAL programme** at the national KARI HQs and the Marsabit regional centre were well covered in both print and electronic media raising awareness of EC support to the arid and semi-arid lands.
- Significant community-based projects roll-out under CDPIII and CEF and increased involvement in environmental planning and policy preparations through community consultations (under CBF).

2.1.2 Roads and Transport

Policy: The Vision 2030, replacing the ERS that came to an end in 2007, is a strategy compromising successive five-year plans, the first of which provides for increased investments in infrastructure and other key sectors and emphasises the need to continue to address the poor state of the road infrastructure in Kenya. The Roads sector has been strengthened by the enactment of the Kenya Roads Act in September of 2007, following a multi-annual stakeholder consultation process in which the Delegation played a key facilitating role. The gradual streamlining of policy and institutional reforms included in the Roads Act are expected to promote a favourable environment in terms of initiating discussions related to a sector support oriented approach within the 10th EDF. Request for services (Framework Contract) to conduct identification studies with regard to the four different type of road related infrastructure interventions (regional corridors, Nairobi urban rural and game reserves) and a preliminary assessment study with regard to modalities of a sector support approach was launched in Dec 2007 and expected to be completed in the course of 2008.

The implementation of policy and institutional reforms related to the new road agencies, the conclusion and implementation modalities of the national road investment plan, axle load control and the national road safety programme remain of strategic importance in the context of the on-going policy dialogue between GoK and (in particular the lead) donors involved in the sector and are expected to dominate tin the following period. Other transport related issues are expected also to enter this wider on-going dialogue, i.e. railways, ports also in the context of regional transport facilitation etc.

The addition of water and energy projects funded through the respective ACP-EU facilities, have enriched and diversified the EDF infrastructure portfolio in the country. However, it is recognized that the fact that these new projects have not come through CSP funding but rather through an intra-ACP EDF might have posed difficulties with regard to ownership by GoK. Continuous information flow and various exchanges, especially with the NAO and the Ministry of Water have assisted in gradually addressing this matter. It is interesting to note that given the substantial budgetary support extended to water Services Boards and the Water Services Trust Fund by the water facility funding, the latter projects are expected to be of particular added value to the implementation of reform measures the Water Act (2002).

Progress In the **Northern Corridor Rehabilitation Programme (NCRP) Phase I,** the Sultan Hamud – Mtito Andei Road (131km, Euro 79.5 million) was completed and officially opened in 2006, the financial audit was completed in 2007 and an ex-post evaluation is anticipated for 2008.

NCRP phase II (Mai Mahiu - Naivasha - Lanet Road, 95km, total budget of € 50.36M, out of which 46m EDF contribution) commenced in March 2005, and at the end of 2007 the deadline for completion had been postponed to May 2008 due to expansion in the scope of works (rail-over bridges, flyovers etc) and the demanding nature of works in the section between Naivasha – Lanet. In the course of the year an additional €3M (rider to the FA) destined to the works contract was approved by both GoK and the Commission. A Technical Audit was launched in order also to support MoRPW/NAO in negotiating relevant claims/contract extension**,** and an additional

NCRP phase III aims at the rehabilitation of Timboroa – Eldoret – Webuye - Malaba road sections (193km, Western Kenya, total budget of € 71.5M out of which € 57M 9th EDF contribution); the Financing Agreement was signed by both the Commission services (Jul 2007) and the GoK (Nov 2007). Formulation studies have been completed and the Works Tender Forecast Notice was published in December 2007 for anticipated award of contracts during the 2nd semester 2008. It is worthwhile mentioning the significant progress in the accompanying measures (budgetary provision for GoK contribution, establishment of boards of new road agencies, update of statutory audits, and a more proactive approach with regard to reforms related to axle load control) agreed between the EC and GoK in the relevant FA.

Addenda enlarging the **Implementation Protocol for the Roads 2000 Project – Phase II** (Eastern Province[6]) and the **Central Kenya Rural Roads project** (co-funded with KfW[7]), have been signed, by €5M and €1.25M respectively.. For the first, a tender and award of contract for supervision of the project was concluded in 2007 following the authorization of the auditing of implemented rural roads programmes funded under Phase I.

For the latter (**Central Kenya Rural Roads Project),** preparatory consultancy studies were undertaken in 2007. Start of the KFW funded activities is anticipated for mid-2008.

Water facility projects emanating from the 1st Call for Proposals, (total budget **€14.6M, EDF contribution €9.6M)** were about to conclude their first year of implementation. The 2nd Call (with a **total budget of €42.2M, EC contribution €22.4M**) was under progress. Out of nine negotiated projects, two grant contracts, one administration agreement (World Bank), and five FA (state actors) were approved by AIDCO/C by **Dec 2007,** while project (WSP-AF) was rejected.

In terms of the **9 ACP RPR 49 ACP-EU Energy Facility** a first Call for proposals was made (**total budget €21.2M, EC contribution €8.8M**). Out of five negotiated projects, three grant contracts were approved by **Dec 2007 (with a total budget €6.4M, EC contribution €3.7M)**. Other contracts remain in the pipeline for first semester 2008.

The National Museum Support Programme concluded in December 2007. All infrastructure works were completed, but only part of the initially planned exhibitions to be available by the end of the project was realised (now anticipated to be finalized by the Museum administration). However, three major exhibitions and three temporary exhibitions were successfully held and all budgeted funds were utilised. Audits for all relevant PIU/PEs are under implementation. The Audit for the infrastructure component is anticipated for the beginning of 2008.

Following various meetings with involved stakeholders, **a solution was agreed regarding closure** of PEs relating to **Meteorological Transition**. Pending issues are final payments of

[6] Current total budget is € 17.3 M of which € 10.5 M STABEX contribution

[7] Current total project budget is € 36.7 M of which € 21.25 M from STABEX while KwF contributes € 12 M

relevant supply contracts and Programme Implementation Unit/Technical Assistance (PIU/TA) contract (final report submitted) due to a need for consultation between the relevant regional beneficiary organisations.

Constraints: Some **delays in the conclusion of implementation of the NCRPII** (planned for September 2007, now anticipated for May 2008) due mainly to the change in the scope of works. Moreover, the implementation of all initially **planned exhibitions in the National Museum was not completed** in 2007 (that is by end of FA), both due to over-ambitious planning and co-ordination problems between the museum staff and the TA/PIU, and remaining works shall now be completed by the museum authorities.

A further constraint within the infrastructure focal area was under the **ACP-EU Water Facility.** After submission of the first annual reports by projects, revised reports were requested for a number among them. Field missions were under-implemented due to the absence of a Project Officer on long term leave. The NAO **denied VAT/tax exemptions** for **EU-ACP Water Facility (WF) projects** because the NAO was not a signatory to the contracts.

Conclusions: Infrastructure remains a clear priority for the country and the modalities for investment of 10th, EDF provisions to this effect (project approach, sector support) is expected to occupy discussions between the NAO, line ministries (Roads Transport) and key agencies (Kenya Roads Board, new agencies) including the follow up policy and institutional reform actions. Considerable progress was achieved in Delegation funded infrastructure initiatives, albeit that post-election violence lessened, at least temporarily, the gains achieved in 2007. Road infrastructure programmes, by their very nature, ensure high visibility for the Delegation through publicity billboards such as those mounted along the Mai Mahiu – Naivasha – Lanet road (NCRP II). The partial-opening of the **Nairobi Museum** enjoyed wide press coverage and positive feedback on the Commission's support for the high profile cultural heritage project.

It is anticipated that gains made in 2007 will be consolidated in the infrastructure sector through additional activities planned for implementation within 2008 and 2009, including the launching of additional ACP-EU Water facility projects

2.1.3 Macro-economic Support

Policy: Kenya’s legal and regulatory framework for Public Financial Management (PFM), along with its institutional arrangements, has many features that facilitate sound PFM practice. And indeed there have been significant improvements in many areas in recent years, including strengthening of the same legal and regulatory framework. But for PFM system to impact significantly on the achievement of outcomes of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery, more work needs to be done. The quality of **dialogue in macroeconomic and fiscal policy** between **GoK and Development Partners improved substantially** during PRBS2 (Budget Support) implementation period. Despite acclaim for the quality of the Budget Preparation Process and Government pre-Budget Papers (Budget Outlook Paper (BOPA) and Budget Strategy Paper (BSP)) in 2006 significant slippage occurred in 2007 with both papers being of lower quality, budget execution characterised by deviations in budgetary and outcome figures, and no substantial progress in PFM reforms.

Progress: A major part of EC support to Kenya under the 9th EDF (€125M) was the provision of **general budget support,** which continues to provide a window for **EC support to the government's budget** and achievements in social sectors. At the same time, General Budget Support (GBS) has a strong focus on the dialogue around macro reforms, as the signing of the Financing Agreement with the Government of Kenya was dependent on the fulfillment of a number of pre-conditions by the Kenyan authorities. A key area of reform required for the implementation of the PRBS II programme was the reform of the budget process.

Payment of the **2nd tranche PRBS2** (estimated amount of €38M) was anticipated early 2007, but materialized in late 2007 (28th of December) due to delay in approval of IMF PRGF agreement (paid amount €40.625M) due to late conclusion of Review 2 of the IMF PRGF Programme, ongoing Governance concerns and requests from HQ for additional data and corrected analysis – as result of which the funds will only be effectively used in 2008.[8]

Implementation of the Government **PFM Reform Strategy was slow due to lack of political commitment** and low capacity of the Reform Secretariat.

The Delegation also signed a Trust Fund Agreement with the World Bank contributing €4.75M to the common pool for a Capacity Building Component attached to PRBS2 to support PFM reform.

Constraints: In 2007 the government of Kenya met some of the eligibility conditions and qualified for the disbursement of the 2nd fixed and first variable tranche under the Poverty reduction budget support programme of € 40.265 M. The positive assessment was triggered by the 2nd review of the IMF PRGF Programme which was approved by the IMF Board on 10th April 2007 after the Kenyan authorities had taken a couple of governance related actions. The conditions for disbursement of the variable part of the 2nd tranche are progress in Public Financial Management reforms (assessed at 100%) and indicators of progress in Education and Health (assessed at 30% and 75% respectively). On PFM, one additional Public Expenditure Management - Assessment and Action Plan (PEMAAP) benchmark has been met (Integration of medium-term Forecasts in Budget Preparation), with two more having made substantial progress (Budget Execution and Efficiency and Effectiveness of the Public Procurement System) implying an achievement of 100 %. Nevertheless, engagement with development partners during the budget process has been limited. In general, the overall macroeconomic policy dialogue has been less intensive. Budget execution is still characterized by significant deviations between budgetary figures and outcomes.

EC and World Bank signed an agreement under which the EC will provide €4.75M as financial support for the PFM reform programme initiated by the GoK. However, a review of the PFM reform programme in November 2007 showed a lack of coordination between different components and slow pace of implementation.

2.2 Projects and Programmes outside Focal Sectors

Ongoing activities funded from the 8th EDF (and STABEX) relate to, institutional capacity development of the NAO's office, the decentralisation of health services, the tourism sector, and the preservation of cultural heritage and for institutional capacity related to the EPA-trade negotiations. Under the 9th EDF support in the non-focal sectors, in addition to assistance to the NAO and to the whole EC/Kenya cooperation, support is also 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.

2.2.1 Governance including Legal Reform

The GoK continued to make progress in implementing structural reforms, despite delays in passing key legislative reform bills by the last parliament and lack of action on corruption related scandals (in particular the Goldenberg and Anglo Leasing affair which had led to two cabinet ministers resigning in 2006). The Governance Action Plan (GAP) for the Governance Strategy for Building a Prosperous Kenya (GSPK) is being implemented, albeit not all

[8] As disbursement of the variable part of the Tranche 2 is above 65%, the remaining amount will be added to the Tranche 3

aspects yet, for instance with the creation of the Public Complaints Standing Committee. The GAP sets out time-bound, specific and prioritised anti-corruption interventions in the broad areas of: prevention; investigation and recovery of corruptly acquired assets; strengthening prosecutorial capacity; and improving governance in priority sectors. The implementation of these measures is expected to result in a measurable improvement in the fight against corruption in the short- and medium-term. The GAP is in line with the broader GJLOS Medium Term Strategy (2005-2009). The GJLOS Programme has achieved several milestones in 2007, despite the fragile and delicate political environment.

The last parliament approved the Political Parties Bill 2007 in September 2007, the enforcement of the Witness Protection Act 2006, and the establishment of a Public Complaints Standing Committee in June 2007 so as to increase transparency and public access to government information. Also, national prosecution policy and guidelines were approved. All these actions were enshrined into the GJLOS programme as key 2007 milestones. In 2007 GJLOS also finally became a full fledged MTEF sector, and now includes activities related to Parliament, national audit office and election reform.

The government continued to deepen public financial management reforms during 2007, while scaling down the role of the state in the economy. As a result of these reforms in 2007, Kenya was awarded the UN Public Service Award in the category of "Improving Transparency, Accountability and Responsiveness in the Public Service" for introducing comprehensive performance contracts across all cadres in the public service and introducing a requirement that all ministries deliver on services to the public in 100 days. In addition, the Ash Institute for Democratic Governance and Innovation at Harvard University's John F. Kennedy School of Government nominated the Kenyan government for an international award for improved performance in the public service, in particular the introduction of performance based contracts for senior government officials.

In addition, the Public Procurement Oversight Authority (PPOA) is now operational, as required under the Public Procurement and Disposal Act. During 2007, the government further moved to improve the business environment in order to enhance private-sector development, by eliminating 205 business licenses and simplifying another 371 under the new Licensing Laws (Repeals and Amendment) Act, 2006. The number of licenses that have been removed and simplified since 2006 now stands at 315 and 379 respectively, out of a total of 1,325. In 2007, Kenya was ranked among the top ten global reformers in the ease of doing business by the World Bank's Doing Business Report 2008 as a result of these licence reforms and even though a further 900 licenses still need to be reviewed. The latest Transparency International Corruption Perceptions Index (2007), in which Kenya is ranked a 150th out of 179 countries, highlights ongoing challenges faced by businesses in the business environment.

Development Partners (including the EC Delegation) continued to have strong reservations about the state of Governance in Kenya and dialogued with the GoK on the need to strongly prioritise certain fundamental aspects of governance which included better protection and promotion of human rights (for instance against violations or extra-judicial killings by the Police), fundamental freedoms (for instance on the need for access to information), ensuring free and fair elections (particularly acute in light of the December 2007 elections), ensuring a clear separation of powers, strengthening the rule of law (notably fighting against impunity and improving the capacity of the judiciary), ensuring quicker and better legal reforms (for instance on money laundering), and fighting effectively against petty as well as grand corruption. Moreover, pressure remains on GoK to continue to strengthen its Public Financial Management systems and to continue to engage with NSAs. These ongoing difficulties continue to pose difficult challenges for joint GoK-Delegation work, in particular efforts by **the Delegation to create visibility** for **PRBS2** tranche disbursement.

For the **Democratic Governance Support Programme (DGSP**) a final evaluation took place in late 2006 and a final report was delivered end of January 2007. Overall, the programme received a very positive evaluation encouraging new generations of programmes based on DGSP. Findings have been taken into account in finalisation of 9th EDF NSA NET and will be taken into account in 10th EDF identification and formulation. However, there are a number of relatively small financial issues to be finalized, both on de-commitments and payments (notably with two NGOs refusing to reimburse some funds). The handling of these financial issues by the Contracting Authority, the NAO and the Delegation is difficult as PMU is no longer operational (the Financing Agreement ended in December 2006). After clarification received from auditors, a decision will have to take place on how to deal with these three individual cases.

Three of the DGSP projects (including support to the Law Reform Commission and the National Commission on Human Rights) were enshrined into the multidonor funded SWAP GJLOS Programme. As part of the GJLOS multi-donor programme, the EU also funded, on behalf of all donors, the GJLOS Medium Term Review (evaluation took place in late 2006 and the final report was in January 2007). After the post election crisis, a review of the GJLOS programme will take place (in 2008). EC will then envisage supporting a revised GJLOS programme under its 10th EDF Governance programme (in addition to supporting civil society)

The Financing Agreement for support to **NSAs – NSA-NET** (9th EDF - €6M) was signed by the NAO in November 2007. Following a special request from the Ministry of Justice, the **NSA GJLOS Facility** component was taken out (the facility was not yet operationalised at the time). There is a possibility to reintroduce the component in the Programme, now that there exists a Civil Society for Democratic Governance (CSDG) Facility is up and running (already supported by SIDA and the Netherlands and run by the UNDP). In the meantime, the Thematic Budget Line Programme NSA and Local Authorities in development has been able to call for proposals in fields related to GJLOS and the EC delegation expects to be able to fund approximately four or five Civil Society Organisations active in GJLOS related areas (including national cohesion) or in decentralised funds.

2.2.2 Institutional Capacity Building

The 9th EDF-funded **Technical Cooperation Facility (**€4.8M, as increased by a rider approved in 2007) has three main components: a Technical Assistance Facility, and training and capacity building facility, and a budget for conferences and seminars. Not much has happened in 2007. The TA Facility notably aims at assisting with preparation of the 10th EDF. Under the "ad hoc" TA facility (an envelope set aside for TA needs prior to the start of the big service contract in June 2007), several service contracts took place in the course of 2007: the service contracts with a short term TA to the NAO run to end of February 2007, TA to Kenya Roads Board and TA to Health ran to July 2007 to December 2007 (respectively, and assistance to the evaluation of the EU-ACP Energy facility took place early 2007).

As per the decentralised operation component, after a slow 2006, a start-up PE ran from November 2006 till 1st of May 2007. Given the D+3 deadline (6 February 2008), two PEs (including support to the NAO office and training activities) were submitted to the delegation before end of January 2008, however both were rejected. Due to the late submission of an agreed version of the PE's, a significant amount of funding is no longer available under the TCF.

Regarding the big TA and training service contract, the NAO delegated the second phase of the tender evaluation to the EC. A successful evaluation run by the Delegation took place in February 2007. Delays in the preparation of the contract meant it was only endorsed at the end May 2007 and as a result activities instead of starting in February only began on 4th June 2007, and apart from TA to the NAO, not much has happened under this contract in 2007 although a roadmap for preparation of the 10th EDF as well as proposals for dealing with operational challenges regarding implementation of the EC Assistance Programme have been drawn up by the TA..

A challenge to the future of this facility was dealt in December 2007 with the resignation of the **Long Term experts to the NAO office.** This situation put in jeopardy the role of the TCF. A new TA was nevertheless approved in 2008 and should start work at the NAO in July 2008. In addition, TA and training activities are currently in operation.

While the current political situation puts preparation of the 10th EDF programmes at high risk, a rider to the FA (for a cost extension of Euro 800,000 and a time extension of nine months) was approved by HQ in July 2007, extending the operational phase to end July 2009, allowing a good bridging period with 10th EDF TCF.

Under the "ad hoc" TA facility (an envelope set aside for TA needs prior to the start of the main service contract in June 2007), several service contracts took place in 2007: the service contracts with a short term TA to the NAO run to end of February 2007, TA to Kenya Roads Board and TA to Health ran to July 2007 to December 2007 (respectively, and assistance to the evaluation of the EU-ACP Energy facility took place early 2007).

2.2.3 Private Sector Development

In January 2007, the Private Sector Development Strategy (PSDS) was officially launched. The PSDS identifies five goals in line with Vision 2030. The activities in the 9th EDF support to Small and Micro enterprises Financing Agreement are included in Goal 5 of the PSDS, but the financing agreement was only signed during the last quarter of 2007. The development partners supporting the PSDS implementation have undertaken to harmonise all the support to (PSDS) and have set up a Donor Coordination Unit (DCU) and a multi donor Catalyst Fund managed by the UNDP. The catalyst Fund is meant to be a quick disbursing facility to fast track implementation of activities identified as quick wins in the PSDS.

The EC participated actively in the DCU, but its participation in the Catalyst Fund is limited due to EDF rules and procedures. Thus despite the commitment for harmonised interventions, the Assistance to Small and Micro Enterprises (ASMEP) programme cannot contribute to the pool Catalyst Fund to fast track implementation as the scope for harmonisation of EC development aid with other donors is still constrained by 9th EDF guidelines. There would be scope for efficiency gains if greater harmonisation were effectively possible. ASMEP implementation modalities are overly complicated and inappropriate, therefore, the Delegation together with Ministry of Trade decided to revise the FA and submit these changes to HQ for approval.

With respect to the **EU-ACP Micro Finance Programme** (€295,000), the support to KREP Development Agency grant contract was signed on 8 September 2006 and during 2007 implementation was on schedule. Kenya Rural Development Association (KRDA) met the benchmarks for the first year, and the second assessment is in the pipeline. The largest component of the programme is implemented through the private indirect decentralised method.

2.2.4 Tourism

Tourism experienced resurgence in 2004-2007 and has been one of the drivers in economic recovery. The growth momentum was sustained in 2007, recording a remarkable growth rate of 16.4%. Data for the first quarter of 2008 suggests that this growth will not be sustained as a result of the post-election violence. However, the government has embarked on a major tourism marketing effort and it is hoped that this will shift existing negative images of Kenya abroad.

Policy: In 2007 the Tourism bill was drafted proposing significant reforms and restructuring of the sector, including the proposal for the formation of a Tourism Development Fund to take over the revenue collecting function. Based on the Tourism Policy, a National Strategic plan for the Ministry of Tourism & Wildlife was also finalised. The proposed development of a national framework for tourism area plans in Kenya is a project in the pipeline and is anticipated to be undertaken with GoK funding in the 2008/9 financial year. After extensive research and consultation, the Environmental Impact Assessment Guidelines and Regulations for the Tourism sector (as specified in the EMCA) have been completed and will shortly be placed in Kenya Gazette by the Ministry. During 2007 a permanent consultative forum between the Public and Private sector, i.e. Kenya Tourism Federation and other vital associations in the industry was established. This has been achieved through Institutional capacity development assisting the associations to carry out their mandate. In addition progress is being made to ensure that reliable research and statistics is available for the tourism industry. During the year, two key studies were commissioned and their findings published: Kenya Tourism Economic Impact Analysis Study and Kenya Air Access Study. The data has contributed to the way industry stakeholders base their decisions on resource allocation and marketing of the destination allowing informed decision making.

Progress: The GoK and Delegation have been working together within this sector under the EC funded **Tourism and Diversification and Sustainable Development Programme (TDSDP),** and managed by TTF. Following the recruitment of a new CEO and a new Finance and Administration Manager in 2006, the TDSDP (€12M programme recorded significant progress). **The o*verall objective of the programme*** is to contribute towards poverty reduction and private sector growth in Kenya through maximization of economic and social benefits of tourism, while ensuring sustainable use of natural resources and optimization of tourist satisfaction. The programme thus aims to establish a diversified, equitable and environmentally sustainable tourism product base, in order to foster local economic development, provide incentives for continued environmental conservation and maximize opportunities provided by development of new marketable assets. Total EC contribution to this programme over the six year period is €12 million for two components namely, the Enabling Environment (i.e. Policy and Regulatory Framework) and the Product Quality, Sustainability and Market Acceptability.

Under Product Quality, Sustainability and Market Acceptability, a total of 62 projects have been financed to date with a total value of KES 533,257,297 leaving an outstanding balance of KES 272,164,903 due for disbursement in 2008. The first payment of PE 5 for **TDSDP** of €1.5M was foreseen for 2007 but will materialise in late 2008 following a no cost extension rider of PE 4. The projects are distributed in various regions in Kenya and included innovative and diversified products such as Rock Art in Suba district and water sports in Tudor and Masinga dam. Community based products in Namunyak in Samburu and Ole Lentile sanctuary lodge in Laikipia which were launched as high end tourism products in partnership with private investors.

It is now recognized that tourism must be developed and managed in a controlled, integrated and sustainable manner, based on sound planning. With this approach, tourism can generate substantial economic benefits to an area, without creating any serious environmental or social problems.

These uncontrolled developments may have brought some short-term economic benefits as well as over the longer term; however, they have resulted in environmental and social problems and poor quality tourist destinations. Towards this end, TTF supported a total of 14 Tourism and Conservation plans valued at Ksh 176, 362,476. Of these, three key regional tourism development plans were completed, namely Western/Nyanza, Amboseli/Tsavo and the Tana Basin Tourism Development Plans. The Rimoi National Reserve General Management Plan which was adapted to the KWS planning framework for protected areas was completed during the year and will be instrumental to opening up the new mid rift circuit. Other plans, such as the Got Ramogi forest conservation plan and Samburu Tourism development plan work is still in progress and will be instrumental to developing the capacity of host communities' engagement in conservation and tourism efforts. Most significant was the approval for the development of the Maasai Mara tourism development plan which will be legislated as a model for tourism development in Kenya.

The year 2007 also witnessed four public launches within the tourism sector: (i) Hand over of a vehicle to the Kenya Community Based Tourism (KECOBAT); (ii) The study on the economic impact of tourism; (iii) The National AVI (bird watching) tourism product of Kenya project; and (iv) The inauguration of a community based project in Laikipia.

With respect to Delegation funding in 2007 there were no disbursements for the 2006/07 Programme Estimates (PE) for the marketing component Tourism Institutional Strengthening and Market Promotion Programme (**TISMPP**) due to backlog in reporting and the funds for the PE had to be partially de-committed. The PE 2007/2008 was endorsed only in November 2007 due to absence of adequate auditing and closure of previous PEs. This has created delays in many TTF funded projects. The Kenya Tourist Board confirmed there was no spending for PE 4 (€3.36M), funds may be de-committed and made available for the final PE 5.

Challenges: This sector continues to face several critical challenges which could diminish the gains made in previous years and undermine the long-term sustainability of an important contributor to Kenya's economic growth, the challenges include:

- The need to create awareness among Kenyans to develop unique and diversified tourism products;
- The need to enhance business development skills of the applicants especially in designing competitive tourism products;
- The need for a National regulatory framework to co-ordinate and regulate Tourism development plans that have been launched in the various regions in Kenya;
- The need to develop a long term tourism development fund which would enhance the sustainability of new markets and innovative product development; and
- Ensuring that internal capacity to manage and account for the received funds is strengthened.

Moreover, as EC support for the sector under TDSDP and managed by TTF, will come to an end in 2008, it is imperative that the future of collaborating institutions, like the TTF, is quickly determined.

2.2.5 Trade

Policy: A series of trade initiatives were effectively dealt with in close partnership between the Ministry of Trade and Industry and the Delegation. In May 2007, a COMESA summit held in Nairobi, took an important step towards harmonization of regional integration processes in Eastern- and Southern Africa by adopting a Common External Tariff structure identical to that of the EAC. The 97% duty- and quota-free access to EU markets under the Lome Provisions (extended by a WTO waiver) lapsed on 31 December 2007. In anticipation, the Customs Union of the East African Community (EAC) and the EU initialed an EAC/EC

Framework Agreement and Economic Partnership Agreement (EPA-FA) on 27 November 2007 in Kampala, Uganda. The Framework Agreement is to act as a stepping-stone towards an Economic Partnership Agreement (EPA) and covers trade in goods, market access, development co-operation and fisheries. Whilst the agreement has yet to be ratified the EU has introduced an Internal Market Regulation (Council Regulation 1528/2007) which extends duty-free-quota-free treatment to Kenya and other EPA countries as of 1st Jan 2008.

Progress: Kenya exports to the EU continue to increase. Exports grew by 3% while the EU share of Kenya overall exports has decreased steadily, as Kenya has continued to diversify its export destinations with COMESA market being now more important than the EU.

Close collaboration between the Ministry of Trade and Industry and the EC Delegation continued throughout 2007. The Delegation participated in a **joint donor appraisal of the GoK PSDS Implementation Plan** and in the context of the PSD Donor Group committed to support this strategy through ongoing PSD/Trade interventions, and 10th EDF funding. Initial preparation of the 10th **EDF** commitment for Trade/PSD commenced within the Delegation, with consultative processes with local stakeholders to be completed by mid-February 2008, the political situation in the country permitting. Global commitment for the new Trade and Private Sector Development Programme has been indicated with High Risk in Forecast Annex to this report, and given the current volatile situation, no forecast on individual commitments in 2009 for this global commitment have been provided.
Within the PSDS, strong cooperation was also witnessed. The launch of the PSDS in January 2007 and the subsequent translation of this to the Implementation Plan (PIP) ensures future collaboration between the Government, the private sector and the development partners.

The EC funded Horticap programme was launched in November 2007. This trade facilitation programme aims to increase the capacity of the Kenya Plant Health Inspectorate Services, and thereby enhance the compliance of the Kenya horticultural produce with international standards (STABEX 90 FMO - € 1,582,160 and STABEX 92/93 FMO - € 817,090 totalling Euro 2,399,250). The project will strengthen the infrastructural and technical capacity building and collaborative linkages. This will positively impact on the horticultural export industry thereby increasing its performance in the global market. As a consequence rural farmers, who are the major producers of horticultural produce should realise improved income and thereby improved living standards which is consistent with the funds' objective. Additionally the project will promote trade in safe agricultural produce through enforcement of sanitary and phytosanitary requirements as well as food safety standards. It is the first European Commission programme in Kenya to be internalized and actualized by a Project Management Team (PMT) using local structures with no fulltime Technical Assistant. It is putting in practice a new concept to facilitate project implementation through a Delegation Agreement (DA), whereby responsibility is transferred to the recipient, hence, *Public Direct Decentralization Labour Operation of the FMO*

The EC funded KEPLOTRADE programme remains instrumental in providing support to the Kenya EPA negotiation team and assisted greatly in ensuring that the Kenya negotiation positions were firstly backed by economic rationale and secondly owned both by the national stakeholders, as well as the regional co-negotiators. However, weakness in **financial management capacity in MoTI / Keplotrade** has resulted in inability to close old commitments for the period 2004 – 2006 and implementation of Phase II of the programme has been delayed at a time when support to EPA negotiations would have been crucial. Nevertheless, additional ST-TA was deployed to counter these difficulties.

2.2.6 Health

Kenya is making efforts to achieve the health-related MDGs as noted above. Under the Financing Agreement No. 6339/KE, the EC provided €15M to project No. 8 ACP KE 030 in support of the health sector through the District Health Services and Systems Development

Programme (DHSSDP). The project ends in June 2008 and the final PE 4 signed in September 2007 is under implementation. A rider for **FA extension was signed** by AIDCO in January 2007.

There were delays in implementation due to changes in the staff and the management of the PMU, late signing of a rider for PE 3 and delayed request for PE 4 advance payment. An audit for PE 2 and part of PE 3 finalised. A special audit for the PMU was conducted. The final evaluation and audit will be finalised before end of June 2008. Despite the delays implementation, the Programme has had tangible impact, notably with regard to health infrastructure.

The delegation has also approved a proposal and a grant contract of €1.7M signed in July 2007 for an initiative under **Reproductive and Sexual Health**.

2.2.7 Education

The successful completion and launch of the Education SWAp-Kenya Education Sector Support Programme (KESSP) in July 2005 has put the country on track to achieving the EFA and MDGs goals. The Delegation has been actively involved in the Education SWAp process as well as dialogue with the Ministry of Education in monitoring key education indicators identified as triggers for PRBS II variable tranches. The Delegation has also committed about € 2.9M for community projects in the sector as at May 2008 to improve basic infrastructure from under the Community Development Programme III.

2.3 Utilisation of Resources for Non-State Actors

Following direct support to civil society organisations under DGSP (8^{th} EDF) and other sectoral programmes, the CSP (9^{th} EDF) foresaw **support to Non-State Actors** and a corresponding 4-year Financing Proposal was submitted to HQ in May 2007. The Financing Agreement **(€6M)** for **NSA support – NSA-NET (9^{th} EDF)** was signed by the NAO in November 2007. It includes support to decentralised funds, gender, elections, HIV-AIDs, Health and peace building, as well as horizontal support to NSAs for their capacity, networking and dialogue with government.

In addition, Delegation provided support to NSA by:

- A joint contribution agreement with UNDP for €0.5M to the **Elections Assistance basket fund** to support the General Elections 2007 (under NSA NET but important enough to be singled out).
- **EIDHR (European Initiative for Democracy and Human Rights – support to indigenous people): Support to MPIDO the Maasai Pastoralist Organisation was ongoing g in 2007. The same year, the organisation received a Human Rights Award by the Kenya National Commission on Human Rights**
- **NGO Co-financing (Nov 2006 call for Proposal):** In total 68 concept notes evaluated early 2007 and 20 recommended. Out of these 9 grant contracts worth €7.1M were awarded mid-2007 .
- **Support to NSAs and Local Authorities in Development (NSA-LA):** Kenya's Thematic Strategy targeting Social Sector and Governance was prepared and submitted to HQ in June 2007. Kenya was allocated €3.375M under the 2007 budget. A consultation with NSAs on the strategy was held Oct/Nov 2007 and preparation for a launch of in-country call for proposals finalised in December 2008. It is expected that from the allocated budget 10 and 15 projects will be funded.

2.4 Utilisation of Envelope B and other instruments

The Drought Management Initiative Project (DMI) **€17.696M**

Following the signing of the financing agreement, the PE 1 was prepared during the first six month period with the work being supported by a short- term Technical Assistant. This was finalized once the long-term technical assistant came on board and was finally signed in September 2007. The opening of a bank account for the project was an extremely slow process and delayed the approval of the PE. In line with the Paris Declaration, the DMI set up a reduced PIU aimed at coordination of all drought related initiatives in order to provide a boost to support human resources with the Ministry and the ALRMP.

The Administrative Agreement between the World Bank and the EC was finally signed in September to provide an **€8.5M** top up to the ALRMP Drought Contingency Fund following a great number of delays.

As part of the DMI's component for **Linking of Relief Rehabilitation and Development** (LRRD) of **€4M,** a number of NGO's previously supported with emergency funding by ECHO were invited to submit concept notes proposing a progression from their emergency activities into rehabilitation and development activities for two of the most food insecure districts (Turkana and West Pokot).

In earlier sections of the review it was noted that STABEX funds were used in the following programmes:

- Community Development Programme III
- Coffee Support Programme
- Keplotrade programme
- Implementation Protocol for the Roads 2000 Project – Phase II
- Central Kenya Rural Roads
- KEPHIS

The Delegation also manages EDF regional projects (details provided in the Annexes), is actively involved in intra-ACP cooperation (primarily the ACP-EU Water facility), and manages a number of community based budget line projects. In addition, Kenya receives grants from the GFTAM and GAVI (both in the Health Sector).

3 Dialogue in Country with the NAO and NSAs, and Donor Coordination

3.1 Collaboration between NAO and EC Delegation

In general, the relationship between the EC and the NAO office has improved in 2007 though the limited capacity within the GoK, mainly due to limited number of staff and high staff turnover at the office of the NAO affected operations. Lack of knowledge of EDF procedures within line ministries, and weaknesses in communication within and between ministries are challenges that still hamper the efficient operations of the two parties. Although there were reports of frustration with delays in the processing of requests to the EC Delegation and confusion over handling of VAT on EC funded initiatives, the number of 'pending issues' has been fairly limited and regular meetings between EC and the NAO have assisted in the resolution of most issues.

Suggestions have been made on how to deal with the above challenges of the institutional set-up, such as **decentralisation** of certain decision - making powers towards the line ministries, and direct relation for certain operations between staff of the delegation and implementing parties are under consideration, and subject to discussion between GoK and the ECD. In order to coordinate ongoing collaboration effectively a joint plan of action will need to be prepared by the NAO in consultation with the Delegation within the year 2008.

3.2 Dialogue with NSAs

In the view of the development partners, including the EC, relations between GoK and the NSAs remain relatively weak – and the Development Partners are of the opinion that efforts should be made to improve relations between GoK and the NSAs - on coordination, and governance. All parties agree that balanced, well structured and networked, competent, solution-seeking and active NSAs are a valuable contribution to an accountable and efficient government' in Kenya.

The EC Delegation contributed significantly to the design of a future **NSA GJLOS Facility** (Governance, Justice, Law and Order Sector), now operational (since beginning of 2008) as a component of the broader Civil Society for Democratic Governance (CDSG) Facility. This facility will be used as a joint donor tool to support CS active in Governance.

3.3 Donor Coordination

Net Official Development Assistance (ODA) to Kenya has increased significantly over the past three years from $654 million in 2004 to $943 million on 2006 (latest official OECD data available). The largest donor remains the United States of America, followed by the European Development Fund and the United Kingdom (Figure 4). Gross ODA is primarily bilateral in nature, with the bilateral share accounting for 76% in 2006. Programmatic assistance receives the bulk of ODA (approximately at third), followed by the Economic, Infrastructure and Services sector (about 15%) and Health and population sector (about 12%).

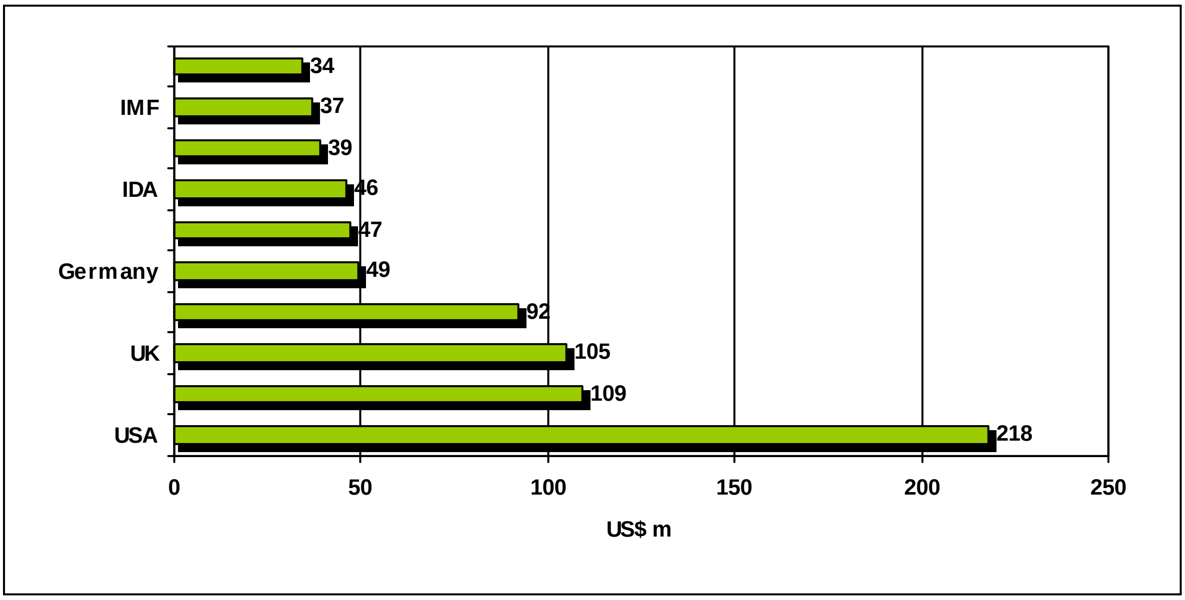

Figure 4: Top Five Donors of gross ODA (2005/06 average) - Source: OECD-DAC, 2008

Amid much fanfare the **GoK and Development partners** (including the EC Delegation) launched a **Joint Assistance Strategy** and signed **Partnership Principles** for harmonisation, alignment and coordination of donor aid in **September 2007.** The Delegation participated actively, in the preparation of **ToR for lead donors and Sector groups** (sub-groups of HAC) within the donor community and pushes in a coordinated effort, with EU MS, the EU Code of Conduct forward.

Other examples of active donor coordination by the Delegation included:

- Rural Development Sector development partners dialogued with GoK on aligning and coordinating efforts towards supporting the **National Strategy for Revitalising Agriculture (SRA).**
- The Kenya Food Security Meeting (KFSM) monthly meetings with GoK, NGO's, UN agencies and other donors providing up to date information on the food security status of the country.
- Environment Donor Coordination dialogue with GoK on aligning and coordinating efforts towards **supporting environmental policy and management.**
- Election donor group - The EC Delegation contributed €0.5M to the UNDP managed fund **2007 Elections Assistance Programme (under 9th EDF NSA NET)**. The contribution was for domestic observation activity**.**
- The private sector development donor group prepared a matrix showing the ongoing and foreseen interventions for private sector development over the next five years. An Aide Memoire following the **joint appraisal of the PSDS PIP proposes a pooled fund** mechanism for financing the private sector development strategy. The pool would be mainstreamed within the government budget. As a blue-print for support to the sector. A result will be reduction in transaction costs and increased co-ordination between different donor initiatives. EDF 10 support will be targeted within the **jointly agreed PSDS framework** while work will continue to ensure that initiatives are aligned to the structures of the strategy implementation to the maximum extent possible.
- The previously inactive Budget Support Development Partner Group was merged with the PFM Development Partner Group under the leadership of the **EC which was elected Chair of the PFM Development Partner Group.**

Evidence of the Paris Declaration being implemented within Kenya includes:

- Monthly donor meetings were held with agendas focused on **coordination and alignment.**
- Draft Code of Conduct for Agricultural and Rural Development Sector emphasized the carrying out of **joint reviews on sector performance** and/or along thematic areas to substitute individual missions.
- Joint missions were undertaken in the framework of the **SWAps on Health, Education and Community Development, and the GJLOS programme (joint IV Annual Review)**
- In September GoK and Development partners launched a **Kenya Joint Assistance Strategy (KJAS)** and signed **Partnership Principles** aimed at strengthening collaboration and significantly improving prospects for sustained growth and poverty reduction.
- Development Partners in the Health Sector and the GoK signed the **Health SWAP Code of Conduct** in August 2007.
- The Delegation **liaised with DANIDA / SIDA** on implementation modalities of the EPS and in particular Component 3 in which CDTF is involved.
- Active participation of donors such as the EC in **helping to draft the Road Sector Policy** (approved Oct 2006), and the legislative framework (Kenya Roads Act approved in Sept 2007) and was party to discussions on modalities for establishment of new road authorities.
- **Joint donor/GoK annual review mission for Roads** 2000 programme (rural roads) took place Sep 2007 and follow-up National Coordination meetings in October 2007.
- Donors were regularly informed of project progress during bi-monthly **water technical working groups** concerning the ongoing and planned ACP-EU Water Facility projects in Kenya.
- There was **increased participation with GoK and Donor** Coordination groups on **Water and Sanitation** owing to the increased water portfolio and its potential role in the implementation of the Kenya Water Act.

4 Conclusions and Recommendations

The future of the development work environment is challenging as a result of the post-election violence. Nevertheless December 2007 saw the **CSP 2008-2013** being signed, the culmination of several years of bilateral effort to arrive at a development aid plan between EU and GoK for the 10^{th} EDF. It is hoped that this plan will enable the Delegation to continue to assist the Government of Kenya in addressing the social, economic and political inequalities that became so apparent as a result of the post-election violence.

Whilst the challenges are enormous, the year under review saw strong progress in the two key focal areas (Agriculture and Infrastructure), ongoing reforms of the Public Financial Management systems, and the implementation of most aspects of the Paris Declaration (including progress being made to align to country strategies, establish joint reviews and missions, and ensure effective and efficient division of labour amongst donors

On a less positive note however, the issues of governance, excessive delays in processing payments due to low quality and incompleteness of documentation, the ongoing absence of meaningful participation of NSAs in the official development agenda, and ongoing concerns about internal capacity to manage and account for the received funds will continue to hamper efficient and successful implementation of joint GoK-EC funded initiatives.

Learning from the above, the following recommendations are made:

1. The scope for harmonisation of EC development aid with other donors is still constrained by 9^{th} EDF guidelines. There is scope for efficiency gains if greater harmonisation is possible.
2. Implementation modalities are often overly complicated and inappropriate, (e.g. ASMEP. Where possible, the Delegation together with appropriate Ministry should revise the FA and submit these changes to HQ for approval.
3. Demands for capacity development and skilled technical assistance remains high and programmes need to have this component embedded within them as a cross-cutting issue.(
4. Absence of appropriate legislative framework in certain sectors makes development initiatives vulnerable and will undermine the sustainability of progress achieved in the past.
5. An ad-hoc review be conducted of the **CSP 2008-2013** to ensure it adequately meets the governance challenges posed by the post-election violence and to ensure that the **CSP** is in line with the political and developmental goals need for Kenya.
6. Establish a participatory feedback mechanism for regular monitoring of accompanying measures agreed in FAs etc.
7. The issue for NAO office functioning / decentralization and agreeing on a specific short-term action plan towards improvement
8. EC visibility promotion by GoK

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Annexes