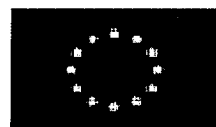


**National Authorising Officer –
Head of Delegation of the European
Commission, Kenya**

**Joint Annual Operational Review
of Cooperation between**

**The Republic of Kenya
and
The European Community
in 2006**



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

Abbreviations

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 Programme
ANC	Ante-natal care
APR	Annual Progress Report
ARSP	Agricultural Research Support Programme
ASALs	Arid and semi arid lands
ASCU	Agricultural Sector Coordination Unit
AU/IBAR	African Union /Inter-African Bureau for Animal Resources
BCP	Biodiversity Conservation Programme
BoT	Board of Trustee
CCM	Country Co-ordinating Mechanism
CDEMP	Community Development for Environmental Management Programme
CDP	Community Development Programme
CDTF	Community Development Trust Fund
CEO	Chief Executive Officer
CEP	Country Environmental Profile
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
DFID	Department for International Development
DGSP	Democratic Governance Support Programme
DHSSDP	District Health Services and Systems Development Programme
DMI	Drought Management Initiative
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
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
ETC	Educational Training Consultants
EU	European Union
FIDA	International Federation of Women Lawyers
FMOs	Frameworks of Mutual Obligation
FP	Funding proposal
FPE	Free Primary Education
FTI	Fast Track Initiative
FY	Financial Year
GAVI	Global Alliance of Vaccines and Immunisation
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
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
KARI	Kenya Agricultural Research Institute
KASAL	Kenya Arid and Semi-arid Lands
KDHS	Kenya Demographic and Health Survey
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 für Wiederaufbau
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
KPLC	Kenya Power and Lighting Company
KRB	Kenya Roads Board
KTB	Kenya Tourism Board
LATF	Local Authorities Transfer Fund
LRC	Law Reforms Commission
MCM	Matrix of Corrective Measures
MDF	Management Development Foundation
MDG	Millennium Development Goal
MESPT	Micro-Enterprise Support Programme Trust
MoALD	Ministry of Agriculture and Livestock Development
MoTI	Ministry of Trade and Industry
MPs	Members of Parliament
MS	Member States (of the EU)
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
NSAs	Non State Actors
PACE	Pan-African Programme for the Control of Epizootics
PEM-AAP	Public Expenditure Management - Assessment and Action Plan
PFM	Public Financial Management
PMU	Project Management Unit
PRBS	Poverty Reduction Budget Support
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PS	Permanent Secretary
PSD	Private Sector Development
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 Revitalising Agriculture
SSA	Sub-Saharan Africa
SSP	Support Services Programme
STABEX	Stabilisation of export earnings
SWAp	Sector Wide Approach
TA	Technical Assistant /Assistance
TB	Tuberculosis
TCF	Technical Cooperation Facility
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
VSO	Volunteer Service Overseas
WB	World Bank
WPCE	Work Plan and Cost Estimate
WTO	World Trade Organisation

Table of Contents

Abbreviations	ii
Executive Summary	1
2.0 Update of the Political, Economic, Social and Environment Situation	2
2.1 Political Update	2
2.2 Economic Update	2
2.3 Social Update	4
2.4 Update of the Environmental Situation	5
3.0 Overview of Past and Ongoing Cooperation	5
3.1 Focal Sectors	5
3.1.1 Agriculture and Rural Development	5
3.1.2 Transport and Infrastructure	8
3.1.3 Macro-economic Support	10
3.2 Projects and programmes outside focal sectors	11
3.2.1 Governance and Legal Reform	11
3.2.2 Institutional Capacity Building	12
3.2.3 Private Sector Development	12
3.2.4 Tourism	13
3.2.5 Trade	14
3.2.6 Health	14
3.2.7 Education	15
3.3 Utilisation of resources for Non – State Actors	15
3.4 Utilisation of B envelope	15
3.5 Other instruments	16
3.5.1 STABEX	16
3.5.2 Regional Cooperation	17
3.5.3 Community budget lines	17
3.5.4 European Investment Bank	18
3.5.5 Intra-ACP co-operation	18
3.5.5 ECHO	19
3.6 Assessment of Performance Indicators	19
3.6.1 Rural Development, Agriculture and Environment	19
3.6.2 Infrastructure	21
3.6.3 Trade	23
3.6.4 Health and Education	23
3.6.5 Macro economic sector	24
3.6.6 Tourism	24
4.0 Donor Coordination and Harmonisation	24
5.0 Dialogue in Country with NSAs, NAO and Parliament and Local Authorities	25
6.0 Conclusions	26
1 Annexes	27
1.1.1	29
1.1.2	29
Annex 11: Project Sheets	30

Executive Summary

The year 2006 presented some challenges for both Kenya and the EC Delegation. Considerable improvements have nevertheless been attained. Concerns prevailed about alleged corruption and Government involvement in press freedom and other public interests were deeply worrying to the EC. The bureaucracies and delays within the ministries had a noticeable effect on the EDF projects.

The rate of economic growth of 6% was the highest growth rate of Kenyan economy in the last two decades. This growth is as a result of improvement in most sectors and tourism taking lead in successful efforts to market the country abroad. Though this is encouraging, a substantial acceleration in growth is required if the objectives of the Economic Recovery Strategy are to be achieved as well as contribute towards achievements of the MDGs.

The relationship between the Government of Kenya and the EC delegation improved considerably through regular meetings during the year. The NAO office remained understaffed. The EC delegation continued support with the provision of technical assistance to the office mainly through training on programming. The new innovative assistance combining training and on-the-job coaching and programming under SSPII prepared the ground for the comprehensive Technical Cooperation Facility (TCF).

Implementation of programmes at the line ministries levels improved. In the Ministry of Roads and public works, there was a clear improvement in the year with regard to physical works, on road sector infrastructure and road sector reform support processes especially with regard to maintenance strategies. Relationship between the commission and the Ministry of Local Government has increased significantly. Initially there were delays in the implementation of the Rural Poverty Reduction and Local Government Support Programme. The project coordinator was replaced early in the year and since then project management and coordination has been substantially strengthened. Relations with Ministry of Trade and Local Government continue to be good. However, the KEPLOTRADE programme suffered financial management challenges in 2006 and most planned activities had to be postponed but towards the end of year they received additional technical assistant to address the financial management issues.

Despite the difficulties in implementing the CSP outlined above, the result was not far from its original targets for commitments and disbursements for 2006: the main contributor to the shortfalls are the administrative delays that hinder progress by various state agencies notably in the Sultan Hamud – Mtito Andei road. Quality of design studies and consistency remain a key issue in works progress especially in the Mai Mahiu – Naivasha – Lanet Road. There has been progress in the implementation of the SWAps processes for education; in health sectors implementation of DHSSDP programme in the target areas has also been good. The Government increased its commitment to including the Non State Actors, during the CSP preparation and in development consultations in general. The NSAs and above all the Civil Society remains divided, thus there is need to improve the relations. The delegation continued its support to agriculture sector reform, good governance, rule of law and democracy, the environment, public financial management, education and other important social and economic sectors.

Against this background of somewhat mixed performance in 2006, it is vital that EC-GoK cooperation improves significantly during 2007 as the EDF10 approaches. It would be necessary if the Government were to make necessary efforts to improve their involvement with NSAs. Though there is recognition that some strides have been made in dealing with governance issues and corruption, it is still important for the Government to recommit itself and show results for its efforts in the fight against corruption.

2.0 Update of the Political, Economic, Social and Environment Situation

2.1 Political Update

Year 2006 was predicted at the onset to become a year of preparation and sounding out of positions ahead of the general and presidential elections that will take place in December 2007. As the present administration focused on the positive economic growth, the opposition targeted the stalled constitutional reforms. Two Parliamentary by-elections held in March and July 2006 were largely successfully handled.

Although there is recognition that some strides have been made in dealing with governance issues, e.g. corruption, there is still a need to follow-up on investigations and where appropriate go ahead with prosecutions. The effective and commendable way in which Kenya handled the Annual Peer Review Mechanism within NEPAD, which delivered its report on Kenya in June, was a sign of openness and a step back from previous autocratic controls. However, incidents of Government involvement in press freedom and other public interests were deeply worrying to the EU, i.e. the raid against the Standard media house in March 2006.

The year also saw Kenya affected by the war in Somalia and its ongoing aftermaths. The insecurity situation worsened throughout the country as situations deteriorated in the Mt Elgon and Tana River areas. As the police put on a crack-down on criminals, escalating violent crime in Nairobi and surrounding areas prompted the sharpening of some countries' travel advisories to Kenya. In light of this, it is highly important that the Government demonstrates its commitment and addresses this major issue of concern and that envisioned reforms in the area of law enforcement and the rule of law, notably under GLOS (Governance, Justice, Law and Order Sector) Programme are allowed to bear significant results.

2.2 Economic Update

Macroeconomic changes, structural reforms, quality of public finances and budgetary expenses: Economic growth in 2006 was at 6 percent compared to 5.8 percent in 2005 which is the highest growth rate of the Kenyan economy in two decades. Kenya's recent growth has exceeded the average rate in non oil-producing Sub-Saharan Africa. However, faster sustained growth is needed to achieve the Millennium Development Goals (MDGs). According to the IMF, halving poverty will require an annual average growth rate of at least 7 percent.

During the fiscal year 2005/06 the Government budget deficit amounted to a modest 3.5 percent of GDP, in line with budgeted amounts, and compared with a surplus of 0.1 percent in the fiscal year 2004/05. However, revenue and expenditure developments deviated substantially from target showing growth rates of 7.6 percent (target: 18.4 percent) and 26.1 percent (target: 36.7 percent) respectively. The planned reallocation from recurrent to development expenditure, which is crucial for achieving the poverty reduction targets of the ERS, did not fully materialize with development expenditures 50 percent higher than during of the previous fiscal year, compared to a budgeted growth rate of 114 percent.

Table 1: Economic performance indicators

Indicator	Results						Targets*	
	2000	2001	2002	2003	2004	2005	2006	2007
1. Population (in Millions)	29.5	30.9	31.5	32.2	32.8	33.4		
2. Population growth (in %)	3.0%	4.6%	1.9%	2.2%	2.5%	2.5%		
3. GDP per capita (in Ksh)	33,283	33,767	32,549	32,845	33,764	35,045		
4. Growth of GDP/capita (in %)	-0.2%	1.5%	-3.6%	0.9%	2.8%	3.8%	4.0%	4.1%
5. Gross capital formation as % of GDP	17.4%	18.8%	15.3%	16.4%	16.9%	16.8%		
6. External debt as % of GDP	42.2%	40.1%	37.0%	37.7%	36.6%	32.1%		
7. Exports as share of GDP	22.2%	22.1%	23.9%	23.8%	26.2%	26.7%		
8. Trade balance as % of GDP	-11.7%	-14.0%	-8.7%	-8.7%	-11.7%	-13.2%		
9. Inflation	10.0	5.9	2.0	9.8	11.6	10.3		
10. Exchange rate (Kshs to 1 USD)	76.2	78.6	78.7	75.9	79.3	75.6		

Sources: *Economic Survey 2005; Central Bank of Kenya Monthly Review March 2007; Budget Outlook Paper 2007/08 – 2009/10.*

Inflationary pressure in terms of overall inflation increased from 7.6% in December 2005 to 15.6% in December 2006, while underlying inflation, which excludes food and non-alcoholic drinks, fuel, power and transport and communications prices, decelerated from 4.9% in January to 4.3% during the same time period. Despite the pick-up in headline inflation, developments in the underlying inflation rate appear to confirm the view that inflation has been kept under control.

Having strengthened considerably against the Euro and US Dollar throughout 2005, the Kenya Shilling fell by 7.1% against the Euro and strengthened by 4.1% against the dollar in 2006. The deficit in the current account widened from US\$ 270M in 2005 to US\$ 986M in 2006 following a widening deficit in the trade account which was mitigated by an increasing surplus in the services account. It is generally very difficult to assess the correct value of exchange rates and identify misalignments, but the large and widening difference in growth rates for exports and imports might indicate that the current valuation of the Kenya Shilling is negatively affecting the medium term competitiveness of the Kenyan economy. However, the IMF ascertains that the recent appreciation of the Kenyan shilling has so far not undermined export competitiveness.¹

Integration into the World Economy and negotiation positions with regard to the EPAs:

Trade statistics indicate that EU/Kenya trade continued to grow in 2006. Kenya exports to the EU increased by 10% during the year with horticulture exports, again, spearheading this growth. According to provisional data (9 months) close to 30% of Kenya overall exports were destined to the EU, and over 85% of these were agricultural products where Kenya of course benefits from preferential market access.

Kenya continues to lead the way in the EPA negotiations within the Eastern and Southern Africa (ESA) region, and has made a strong commitment to finalise the negotiations within the

¹ IMF analysis suggests that Kenya gained competitiveness in merchandise exports over the period 2002-05 and that the recent exchange rate appreciation has been broadly in line with economic fundamentals.

commonly agreed timeframe of end 2007. Kenya stands to benefit from an EPA which is primarily about regional integration as Kenya is trading more with its regional neighbours (COMESA) than with the EU.

Tourism experienced resurgence in 2004-2006 and has been one of the drivers in economic recovery. Tourism has become the leading export surpassing coffee and tea. In 2006 tourist arrivals increased by about 14%. The recovery has been attributed to the successful efforts to market the country abroad. In 2006 the sector recorded the highest growth rate at 14.9% while the overall economy recorded a 6.1%.

2.3 Social Update

The latest MDGs Status Report for Kenya was released in 2005, hence no updated information is available for 2006. The Kenya National Bureau of Statistic, supported by the EC, DANIDA, DFID, USAID and UNDP, released in April 2007 the « Basic Report on Well-being in Kenya » based on the “Kenya Integrated Household Budget Survey (KIHBS) 2005-2006”. This survey is considered to be more comprehensive and re-fined than the previous ones especially regarding its coverage of expenditure items. The main findings on welfare and poverty lines are the following:

Poverty in absolute numbers: In the 1997 Welfare Monitoring Survey (WMS III) the projected population for Kenya was 26 million while in 2005/06 the projected population is 35.5 million individuals. In 2005/06 the share of rural and urban population went from 0.81 and 0.19 to 0.79 and 0.21 respectively. In terms of absolute numbers 85 % of all poor people (16.6 million) live in the rural areas. In terms of share, rural areas account for disproportionately for 91.3 percent of the total hardcore poor². Hence, poverty in Kenya is largely rural. However, according to the report, a comparison of the results from the 1997 WMS III and the KIHBS shows that absolute poverty declined by about 6% with a bigger decline in urban than in rural areas. As regards hard core poverty there was a 10% decline, more pronounced in the rural areas.

Poverty Over time and Space: Comparing the welfare surveys of the last 15 years certain noticeable patterns emerge comparing rural poverty by provinces. Central Province retained its position of having the least prevalence of overall poverty since 1992 with approximately a third of its population being poor, while Coast has lost rank 3 in 1992 to rank 6 in 2005/6. The most alarming poverty trends are displayed by Coast and North Eastern where overall poverty portrays an ever-increasing trend in all surveys. The current regional ranking shows that the proportion of the population below the absolute poverty line was lowest in Central province, followed by Rift Valley, Nyanza, Eastern, Western and North Eastern provinces. The report states that poverty in Kenya has been on the decline in the last few years due to a gradual recovery in the economy growth and to the fact that the retail prices of key food commodities have registered low annual increases while real output of the same commodities has increased.

The conclusion of the report highlights, along with the need for investments in food security, infrastructure, water, safety nets, and measures to boost economic growth, the promotion of family planning interventions to avoid that the current economic gains do not translate to higher population growth.

Although the results of this survey are rather positive as regards the poverty trends, the total figures on poverty are still overwhelming and the GoK has a huge task to reach the agreed MDGs.

² Households were deemed to be hardcore poor if they could not afford to meet their basic food requirements with their total expenditure (food and non-food).

2.4 Update of the Environmental Situation

A succession of poor rainfall seasons preceding both the 2006 long and short rains, in the arid and semi-arid lands of Kenya (80% of Kenya's land mass) adversely affected a critical source of food and income for most households. There has been an overall improvement in the food security status after both the 2006 short and long rains for pastoralists, agro-pastoral and marginal farmers.

The 2006 long rains (February to June) brought some respite to the drought stricken areas, 19 of the 26 districts received normal rainfall levels. However, spatial and temporal distribution was uneven; rainfall performance was 50-75 percent below normal in the north-western and northern parts of the country, leading to below normal agricultural production. The long rains improved pasture, browsing areas and water availability for livestock and domestic use but harvest from the little crop planted was affected by unreliable rainfall. The long rains account for 30% of annual crop output in these marginal agricultural livelihood zones. Crop output is estimated to have declined by an average of 65% due to the untimely start of the season, irregular distribution, and early cessation of the rains; poor crop husbandry, pest infestation, wildlife damage and displacement of farmers due to insecurity in different areas.

The performance of the short rains was good (late October to January 2007), in most areas. Rainfall intensity was above normal, with good spatial and temporal distribution which started the recovery process after several seasons of drought. Flooding in the eastern part of the country and in the Lake region resulted in an outbreak of Rift Valley Fever and poor crop production respectively. In addition, the mixed farming and agro-pastoral livelihood zones experienced extensive crop damage during the floods. National production however is predicted to be 15% higher than the long term average, predicted to amount to a surplus of over 300,000 MT nationally

The preparation of the **Country Environmental Profile** was finalised in April 2006 and presented to stakeholders. The profile identified key environmental issues, policy environment and institutional framework, and donor cooperation in environment-related programming and interventions. The profile has been used in preparing the draft Country Strategy Paper 2008-2013.

The **Forestry Act 2005** (Cap 385) was enacted by Parliament in 2005 and enforced in 2006. The Act acknowledges the role of communities in forest management through community forest associations and outlines the proposed establishment of the Kenya Forest Service. There is significant donor interest towards supporting re-organisation and new structures as provided by the new Act, among them being the Finnish Government, and DANIDA /SIDA support through EPS.

3.0 Overview of Past and Ongoing Cooperation

3.1 Focal Sectors

3.1.1 Agriculture and Rural Development

a) Results

2006 has been the year of the Strategy for Revitalising Agriculture (SRA) popularisation and appropriation by the various ministries and services in charge of its implementation. There is clear progress in the global understanding of the paradigm shift that SRA implementation involves, although efforts of communication and inter-ministerial cooperation need to be pursued. However, despite the fact that the rural sector budget allocation was significantly increased, there is still little reflection of SRA priorities in the budgeting exercises (annual budgeting and MTEF) of the rural development group of ministries.

An intense activity of dialogue and coordination has been undergoing during this period, on the side of the concerned ministries and that of the development partners alike. The Agriculture Support Coordination Unit (ASCU), supported by a development partners' basket fund, has been strengthened in its role of spearheading the SRA implementation process. A number of studies, such as an ASCU functional analysis and a SRA Implementation Process Review, contributed to better define roles and missions of the various stakeholders, including the private sector, involved in this complex process. Progress has also been made on a number of SRA priorities in terms of policy definition and framework of implementation, such as the harmonisation of the Agricultural Regulatory Framework and the National Agricultural Sector Extension Policy implementation framework.

A multi-donor support is foreseen, in the form of basket or pool funding, to foster SRA implementation through support to ASCU and to a SRA Medium Term Investment Plan, with an EC contribution of €2M over a 3 year period. (STABEX balances). It is hoped that multi-donor support is the first step towards a more coordinated approach of the rural development sector, and will pave the way towards possible EC Sector Budget Support or Programme-based support of the rural development sector, as stipulated in the Country Strategy Paper 2008/2013.

Coffee Sector:

During the year, a number of long awaited reforms were implemented in the coffee industry. The new regulations allowing for direct sales and an increased number of marketing agents is contributing to market liberalisation. The increase in the coffee world market prices has benefited the coffee industry in general and coffee smallholder producers to a lesser extent, and can facilitate the necessary restructuring of the whole cooperative sector. A €5 M support project "*Quality coffee production and commercialisation support programme*" (Stabex FMO 1991) is being finalised with stakeholders.

Sugar Sector: Under the "**EC assistance under the accompanying measures for Sugar Protocol countries**", Kenya was allocated €0.3M for TA support to elaborate a strategy for the development and revitalisation of the sugar sector for the year 2006. A consultant was appointed and started work on 10 November and finished on 21 December 2006. A workshop was called with all the stakeholders on 15 December and the comments were incorporated into the Draft Adaptation strategy as well as the Draft EC Response Strategy as a result of the joined effort of all stakeholders of the Sugar Industry.

On 23 December 2006 an addendum was signed to the TA Contract in order to separate the national strategy from possible support from the European Commission. EC funding should be designated in a separate document as well as update the strategy in view of the guidelines received from Brussels. The consultant will start work in February 2007 and finalise the National Adaptation Strategy which will form a decision for the support to be requested for the year 2007.

The FA for the **Community Development for Environmental Management Programme (CDEMP)** was signed September 2005 (€ 13M) for the implementation of two components; the Community Environment Facility (under CDTF), and the Capacity Building Facility (implemented by NEMA). The CEF started well and is on course, while the CBF has faced a number of challenges leading to delays in programme implementation. A long-term TA was recruited for CBF in November 2006. The Delegation has been an active participant in the regular joint meetings of the Environment Donor Coordination Group.

b) Progress in Activities

Agricultural research: The financing agreement of € 7.9M for the KASAL programme was signed in May 2006 and was launched by the Minister of Agriculture and the Head of Delegation at the KARI headquarters on 18th September 2006. Support to Agricultural Research is brought through the Kenya Arid and Semi Arid Lands (ASALs) research project. The overall goal is to reduce poverty in Arid and Semi-Arid lands through substantial and sustainable improvements in rural livelihoods. The programme purpose is to generate and validate agricultural knowledge and technologies for ASALs through Research for Development led by the Kenya Agricultural Research Institute. Particular attention is paid to the development of models that can enhance adoption of research results among farmers and pastoralists. The project team from the Government side has been recruited and a consultancy support approved to prepare Grant proposal/contract through the Stabex funds to be ready by the 1st quarter of 2007. An implementation protocol has been approved for the preparatory phase for the first six months through the Stabex funds and the approval of the PE (Kshs. 48.6M) for the 6 months period is foreseen in January 2007.

Community Development Trust Fund: Four programmes are implemented under CDTF; CDP II, CDP III, BCP and CDEMP-CEF. CDTF continued its operations as per government gazette legal notice number 303. In 2005, on the recommendation of the CDTF Board of Trustees, GoK requested EC's agreement to jointly open the trust fund to other donors. A formal approval process was launched in 2006, however an amended legal notice is yet to be gazetted.

Community Development Programme II (CDP II) ended in December 2006. End of Programme evaluation was carried out in September 2006. The follow up programme - **CDPIII** commenced in January 2007 although start up activities, including wide media publicity and the launch of the call for proposals (Nov. 2006 to Jan. 2007), were carried during the final quarter of CDP II. CDP III received 3,609 proposals (January 2007).

The Biodiversity Conservation Programme's (BCP) was extended (from Sept. 2005) to March 2006 at the request of the BoT. The extension was funded from STABEX resources. Recommendations from the final evaluation of BCP (of July 2006) have since been incorporated into the new CDEMP /CEF. Although BCP closed at the end of March 2006, 3 of its projects required additional support and CEF has continued to oversee their completion and handover.

CDEMP: The programme was officially launched in March 2006. While CEF took off well, CBF lagged significantly. There appears to be limited understanding on how project funds should be channelled thus the request for funds submitted through the Ministry for the start up PE has not been effectively processed. The work of the long-term TA has been affected by lack of operational funds.

CEF's inception period commenced in April 2006. After a wide publicity campaign, a call for proposals was launched during the 2nd PE (July 06-June 07) and closed in October 2006, with 2,303 proposals received. Desk appraisals were undertaken in November /December 2006. Initial field appraisals of quality submissions have concentrated on clustering proposals around important water catchment areas as recommended in the final evaluation of BCP.

The **Rural Poverty Reduction and Local Government Support Programme** was signed in September 2004 by the Minister of Finance. Responsibility for implementation of the Project lies with the Ministry of Local Government (MoLG). Initially, the MoLG had not adapted well to the administrative demands entailed by the Project which among others resulted in huge delays in the tenders for the PMU and the Kenyan Local Government Support Programme (KLGRP). Since the previous Project Coordinator was replaced in early 2006 project management and coordination has been substantially strengthened. A Start-up Work Programme was implemented in the first half of 2006, the KLGRP Technical Assistant started his assignment in September 2006 and

submitted the Inception Report and the PMU Technical Assistant took office in January 2007. The 1st Call for Proposals (CfP) was launched and evaluated in late 2005, but contracts for the beneficiary LAs were signed only in mid 2006 and the first tranche paid in September 2006. The second CfP was launched and evaluated in late 2006.

The number of Local Authorities to be awarded a grant from the Poverty Reduction Fund (PRF) has been increased to 63 compared to 30 as foreseen in the Financing Agreement. This increases the burden of Monitoring, Evaluation and Capacity Building by the Rural Service Delivery Advisers, but is deemed to be manageable. The Project Coordinator decided to cancel the third CfP and a request has been sent to Headquarters to decommit the remaining balance of the PRF of Euro 4,694,710 from the project.

c) Integration of Cross-cutting Issues

Gender is a cross cutting theme in agriculture development and the KASAL programme. The programme will build on KARI's capacity and experience in mainstreaming gender in agricultural research and ensure that different roles and needs of women are taken into account in the design and programme implementation at the regional and community levels. An analysis of the possible *environmental impacts* of the KASAL research project has been made. The main environmental issues to be considered are related to the way in which agricultural and pastoral technologies and practices influence and depend on the natural resource base of soil, water, biomass and biodiversity.

Gender remains a cross-cutting theme in development initiatives implemented through CDTF. The diverse interventions and programmes are keen to mainstreaming gender in community development and ensure that different roles and needs of all groups are considered. All CDP III proposals are evaluated for environmental implications and initial CEF projects are concentrating on the country's critical water catchment areas.

3.1.2 Transport and Infrastructure

a) **Results**

Transport/Roads Infrastructure: The year 2006 was marked by good progress with regard to physical works on road sector infrastructure and road sector reform support processes (policy/budgetary reform especially with regard to maintenance strategies, implementing legislation, capacity building), which are the main identified targets of EC aid in the 2000-2006 CSP. GoK's new road sector policy was finalised and endorsed by Parliament (Dec 2006)³, to be followed by legislative acts establishing independent road authorities (forecast Dec 2007)⁴. The policy was a culmination of several months of collaborative effort between GoK and the Road Sector Donor Co-ordination Group (EC/WB lead donors), building on the recommendations of a 2004 EC funded policy and strategy study. Further support to this process is anticipated within 2007. Furthermore, a Road Sub-sector Investment Plan for the period 2007– 2020 has been prepared on the basis of an EC funded consultancy. Another EC funded study provided recommendations, endorsed by GoK/MoRPW on reform of the axle load control systems in place. Technical assistance support has been provided to the Kenya Roads Board with regard to the reform process, Road Maintenance Management Systems (RMMS), and the Roads 2000 maintenance strategy (reported under STABEX). Various types of laboratory equipment were supplied to the MoRPW in the framework of capacity building activities. More work needs to be done to harmonise activities of various donors involved in the sector and to develop a common

³ "Sessional Paper no. 5 of 2006 on The Development and Management of the Roads Sub-sector for Sustainable Economic Growth

⁴ Highway, Rural and Urban Roads

and rationalised approach on funding, to avoid acting at cross-purposes, especially with non-OECD members.

National Museums of Kenya Support Programme: While the initially set objective (efficient & durable management base & institutional capacities for recovery & sustainable development) have not been entirely achieved by the end of 2006, there is progress with regard to policy reform/legal framework and infrastructure works. A new “National Museums and Heritage Act” has been approved by the Parliament and the President in September 2006, a restructuring plan of the National Museums has been approved and awaits its execution, while infrastructure works and exhibition development are currently ongoing. The new management structure has been initiated but the issue of funding of retrenchment (STABEX) is still inconclusive due to the lack of confirmed commitment on counter-part funds by GoK. There is no specific donor co-ordination platform for this subject.

b) Progress in activities

- (i) **Northern Corridor Rehabilitation Project (NCRP I)**, reconstruction of a 131 km section of Sultan Hamud – Mtito Andei (between Mombasa and Nairobi). **Contractor:** STRABAG, **Supervision:** GAUFF Engineers. **Start:** April 2003 - **End:** Feb 2006 (the road was officially opened by the President of Kenya). While the project is a technical success, administrative delays by various state agencies and departments hindered progress, viz. complicated tax exemption procedures, payment delays and slow technical decision-making. The above points outweigh the need for a procedural manual on the rights and obligations of public bodies and contractors in the roads sector. **Commitment:** € 79.5M from 7th & 8th EDF (€ 1,436,646 Studies/Conferences, € 75,687,802, Works and € 2,090,000 Supervision). 2 riders (correction of over commitment and budget increase/time extension). Payments of 95% of the total commitment up 30/04/2007.
- (ii) **Northern Corridor Rehabilitation Project (NCRP) II**, reconstruction works for the 95km Mai Mahiu – Naivasha – Lanet (between Nairobi and Malaba), **Contractor:** Sogea-Satom, **Supervision:** Mouchel Parkman **Start:** 22/07/2005 - **End:** 14/10/007. **Commitment:** € 54,77 from 9th EDF (€ 2,413,604 Studies/Supplies, € 50,350,000 for Works and € 2,007,000 for Supervision). 2 riders (budget increase for works and supervision). Payments of 60% of the total commitment up to 30/04/2007. Rider to the contract has been proposed (€ 3 M) for additional elements (bridges over railway). Though included in the original design, later removed by GoK under the assumption of poor railway performance. Re-introduced given the current efforts for revival of railways. Quality of design studies and consistency in its adoption remain key issues in works programmes.
- (iii) **Northern Corridor Rehabilitation Programme Phase III (€ 57 M)** Periodic maintenance for 193 km between Timboroa and Malaba. (between Nairobi – Malaba) **Total:** € 73.15 M to be financed by EC (€ 57M) and Government (€ 16.15 M). The formulation studies (economic study and detailed design) were launched in August 2006 and completed in March 2007. The Financing Proposal has been submitted to Brussels
- (iv) **Maintenance/Rehabilitation Investment Plans:** A Road Sub-sector Investment Plan for the period 2007– 2020 has been prepared on the basis of an EC funded consultancy (MoRPW, Oct 2006, € 134,070).
- (v) **Study/Axle Load control:** GoK/MoRPW endorsed recommendations on legislative framework, physical facilities and management organization for efficient heavy vehicle axle load controls in Kenya, on the basis of an EC funded study (Axle Load Control Best Options for Kenya, Roads Board, Feb-May 2006, € 137,996).
- (vi) **Capacity Building/Technical Assistance:** Support to the Kenya Roads Board finance, to support implementation of road sector reform process, development of a comprehensive Road Investment Programme, further development of Road Maintenance Management

Systems (RMMS), procurement/monitoring of the Roads 2000 maintenance strategy including assistance in the procurement and start up phase of the proposed EC financed R2000 Phase 2 project. (€ 145,740).

- (vii) **Capacity Building/Supplies:** Road Monitoring and Laboratory Testing Equipment for Ministry of Roads & Public Works. Seven lots of supply/installation/training contracts were executed (€ 1,876,106).

National Museums of Kenya Support Programme: The project is implemented through Programme Estimates and a PMU/TA contract. The infrastructure works in the Nairobi Museum, Lot 1: Museum Galleries and Lot 2: Offices will be finished by the end of June and April 2007 respectively, the exhibition development is behind the expected time schedule and it anticipated that only 4 out of 12 exhibitions will be finished by the end of the project. Short term expert missions were implemented for supporting the design of the exhibition galleries, but their impact has been weakened by lack of proper analysis of the local situation and certain reluctance for collaboration by the museum staff. **Start:** 19/06/2001 - **End:** 31/12/2007. **Commitment:** € 7.67M from 8th EDF (3,662,169 for PE/TA, €3.797M for Works and € 213,000 for Supervision). 2 riders (TA budget and time extension). Payments of 53% of the total commitment up to 30/04/2007.

c) **Integration of cross-cutting Issues**

Transport/Roads: Implementation of accompanying measures in respect of environmental protection are included along with the road works for NCRP II works contract for Mai Mahiu – Naivasha – Lanet road, in accordance with an EIA/EMP submitted in 2005 by MoRPW and approved by NEMA. On the job training of 6 Contracting Authority staff is ongoing under Mai Mahiu – Naivasha – Lanet road project. Specific financial provisions shall be incorporated into the NCRP III works tender documents for HIV/AIDS awareness and VCT treatment activities targeting the site staff as well as populations in the proximity of the works and transit truck drivers.

National Museums of Kenya Support Programme: Identified activities included institutional reforms through management and organisational restructuring. On-the-job training and capacity building by international experts was also implemented.

3.1.3 **Macro-economic Support**

a.) **Results**

A major part of EC support to Kenya under the 9th EDF (€125M) is the provision of **General Budget Support**. The purpose of the Poverty Reduction Budget Support Programme (PRBSP) II is to contribute to the reduction of poverty by supporting the implementation of the Development Strategy of the Government (ERS) through linking financial support to the outcomes of reforms. The ERS includes specific targets for Government policy and provides the basis for the EC to link implementation of PRBSP II to the outcome of reform programmes. In particular, PRBS II focuses on three inter-related objectives:

- i.) Support macro-economic stability and underpin fiscal consolidation. PRBS II is closely linked to the IMF PRGF Programme which seeks to support the Government's efforts to maintain macroeconomic stability and pursue fiscal consolidation.
- ii.) Support improvements in service delivery in health and education. The programme contributes to the resources available for expenditures in ERS priority areas by creating clear incentives to realize the key development targets in health and education.

iii.) Strengthen Public Financial Management (PFM). PRBS II supports the ongoing implementation of the Government medium-term PFM reform strategy by creating incentives to achieve further progress in PFM.

Signature of the Financing Agreement of PRBS II and payment of the 1st tranche was conditioned on a demanding list of pre-conditions to be fulfilled by the Government which included - among others - substantial improvements in the budget preparation process; the enactment of the Government Financial Management Bill, the Public Audit Bill, the Public Procurement and Disposal of Assets Bill and the Privatisation Bill as well as progress in implementation of the Governments Public Financial Management Action Plan through achieving 2 additional PEMAAP benchmarks. In particular, the enactment of the Procurement Bill was at that time widely regarded as crucial in unlocking PRBS II.

Disbursement of the second tranche had been postponed by the delayed conclusion of the 2nd review of the IMF PRGF Programme which eventually was approved by the IMF Board on 10th April 2007 after the Kenyan authorities had taken a couple of governance related actions as cabinet approval of the Governance Action Plan and the posting of contract awards on government websites. The conditions for disbursement of the variable part of the 2nd tranche are progress in PFM reforms and indicators of progress in Education and Health. According to recent analysis by the Delegation, the social sector achievement stands at 35% which includes 7.5% for Health and 27.5% for Education. The health sector missed all targets, but - for HIV/AIDS - substantial improvement was identified. For education, the Net Enrollment Rate indicator was fully achieved and substantial improvement is recognized for the overall Primary Completion Rate indicator.

On PFM, one additional 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%. Hence the overall disbursement share for the variable element of the 2nd tranche is 67.5% or correspondingly € 20.25M. In addition, implementation of the Matrix of Corrective Measures - which emanated out of the Audit of the STABEX 1999 Budget Support Programme - has been deemed satisfactory by an Implementation Progress Report prepared in early 2007.

b.) Progress in Activities

The Financing Agreement was eventually signed by the NAO on 30th November 2005 after a one year delay and the first tranche of Euro 50 million was paid on 27th December 2005. Conclusion of the second review of the IMF PRGF Programme had not been reached throughout 2006 until Board approval in early/mid 2007 which fulfils the general condition of implementing the 2nd tranche. The Delegation is currently finalizing the Payment Dossier for approved by Headquarters in order to initialize payment of the 2nd tranche.

3.2 Projects and programmes outside focal sectors

3.2.1 Governance and Legal Reform

The **EC Democratic Governance Support Programme (DGSP – 8th EDF- €6.6M)** was extremely dynamic in 2006, its last year of implementation (ended Dec 2006). The 9 Governance NGOs beneficiaries of the second CfPs implemented the very successful and visible pilot project on fostering participation in the management, monitoring and evaluation of decentralised funds. The programme was coordinated by a research institute, KIPPRA (the Kenya Institute of Public

Policy Research and Analysis) under a service contract (for technical assistance, research, advocacy and communication /awareness). As for the feasibility study for a NSA GJLOS⁵ Facility (service contract with Intermedia NCG), it culminated in a framework programme document (Nov 2006). The projects implemented by the Electoral Commission of Kenya, the Kenya National Commission on Human rights, the Kenya Law Reform Commission and the Parliament all ended between August and October. A notable voter registration campaign led by ECK and funded by us was extremely successful in September 2006 and led to a significant increase in registered voters. September / December 2006 (as well as the first semester 2007) was devoted to wrapping up, de-commitments, final audits and DGSP closure.

The Delegation is actively involved in 4 **donor** forums: the umbrella DGDG democratic Governance Donor group and the subgroup related to the SWAp GJLOS, elections, Parliament. The delegation also follows closely the discussions in the donor groups related to civic education and trafficking. These initiatives have resulted in tight donor coordination, and often joint actions. The EC DGSP has integrated **cross-cutting issues** such as Human Rights and Gender. In addition, Human Rights are also specifically targeted through the EC's planned support to the KNCHR. Gender is specifically targeted in each of the 9 NGOs funded under the second call.

3.2.2 Institutional Capacity Building

EC support to Kenya includes institutional capacity strengthening components in all sector-related programmes (for instance, funding for a seconded IMF official – dealing with budget preparation- has been provided to the Ministry of Finance through a multi-donor programme).

In addition, horizontal Institutional Capacity support programmes were implemented in 2006: The **Services Support Programme Phase II (SSPII – 8th EDF, 1.6M€)** ended in June 2006. The Technical Assistance Facility was completely used up, with a final assignment in spring 2006 related to the design of Keplotrade 2. As for component 2, the training / capacity building programme, which took place in the first semester 2006, it was instrumental in providing key EDF and PCM Trainings (among others), and facilitating the consultation and drafting process for the CSP 2008-2013.

Under the **Technical Cooperation Facility (TCF – 9th EDF- 4M€)**, an envelope for ad-hoc technical assistance allowed us to carry out several assignments in 2006 (while waiting for the long-term framework service contract to start): TA to the Kenya Road Board, TA to the Health sector, evaluation of EU-ACP energy facility, and provision of TA to the NAO. After major delays, the NAO finally submitted in Oct 2006 a draft start-up PE for the NAO office costs/training/conference and seminar (the implementation started in Nov 2006) and draft ToRs for the framework service contract (for a TA and training facility, whose tender dossier was published in Dec 2006 – contract just signed in May 2007).

Several TA assignments were also funded under the **Stabex 92/93 Management Support Monitoring, Audit and Evaluation** budget line.

3.2.3 Private Sector Development

MESP Trust (Micro and Credit Lending Facility): Following the successful translation into a revolving fund, MESP Trust in 2006 attracted funding from DANIDA for wholesale lending with specific target to the agricultural sector. There is foreseen support for capacity building for growth oriented enterprises also from DANIDA, through MESPT. Between 2005 and 2006 the loan

⁵ GJLOS : Governance, Justice, Law and order Sector

portfolio increased from Kshs 378 M to Kshs 508 M, a growth of 34%, disbursements increased by 88% from Kshs 203M to Kshs 383 M.

K-REP Development Agency: The K-REP Development Agency qualified for a grant under the **9th EDF Regional Programme EU-ACP microfinance**. The total grant is € 295,000; implementation started in September 2006 and will end in December 2008. The key activity is capacity building of grassroots user owned Financial Services Associations (FSAs) or village banks, for the expansion of outreach in unserved markets and diversification of financial services to the poor. KRDA has so far (two quarters) prepared three training courses and a total of 200 FSAs board members and staffs have been trained.

b) Progress in Activities:

Under the **9th EDF/NIP**, the financing proposal for **Assistance to Micro and Small Enterprises, € 7 M**, was revised to incorporate comments from headquarters. The revised proposal was discussed with, and endorsed by the Ministry of Trade and Industry and the NAO and is in the pipeline for approval by Brussels on 10th May 2007. The programme has three areas of intervention; (i) Institutional and capacity building of Business Associations and other NSAs involved in promoting and developing MSEs, Business Development Services providers and Micro Finance institutions; (ii) The dissemination of business Information through the support of Business Information Centres or other similar initiatives; (iii) Specific sectoral support targeted, primarily, at agro-processing, packaging and value addition, mainly in the horticulture and fisheries sectors. The programme fits within goal 5 of the PSDS and all interventions will be harmonised with activities foreseen in the strategy.

c) Cross Cutting Issues

The forthcoming programme, Assistance to Micro and Small Enterprises, mainstreams gender and HIV/Aids and has a strong leaning for assistance to women entrepreneurs.

Donor Coordination:

The Ministry of Trade and Industry finalised and launched the Private Sector Development Strategy (PSDS). The Strategy has five goals; (i) improve Kenya's business environment, (ii) accelerate institutional transformation, (iii) facilitate economic growth through trade expansion, (iv) improve productivity and (v) support entrepreneurship and indigenous enterprise development. The PSDS provides the framework for all private sector interventions and has strengthened coordination of interventions to the sector. The mapping of current and foreseen donor support is now finalised, and the gaps for future interventions are now evident.

3.2.4 Tourism

Tourism continues on the recovery path and is one of the drivers foreseen in Vision 2030.

Tourism Diversification and Sustainable Development Programme: Following the recruitment of a new CEO in 2005, the TDSDP recorded a good performance in approval and disbursement of funds to new projects the disbursement levels. By the end of 2006 TTF had approved a total of 48 projects with a total budget of € 6.97 M. In 2006 a new finance and administration manager was recruited at TTF. However, the challenges still remain due to prior poor financial management and lack of an MIS system. Though the system is now in place, it will take time to reconstruct past records especially for 2005.

Tourism Institutional Strengthening and Marketing Promotional Programme: There were no disbursements to the Kenya Tourist Board for the Annual Marketing Plans for 2005 and 2006. The delays in disbursement were occasioned by insufficient financial reporting. By the end of 2006 KTB was yet to fully justify expenditures incurred for the 2004 annual marketing plan. For the 2005 annual marketing plan an agreement was reached to pay the claim based on actual expenditures.

Tourism Sustainability Programme (TSP) € 3 million: The protocol of implementation of the TSP is under discussion with the Ministry of Tourism and Wildlife and the NAO. The programme will be funded from Stabex 1992/93 balances.

3.2.5 Trade

a) Results

Close collaboration between the Delegation and the Ministry of Trade and Industry continued, in particular as the EPA negotiations in the ESA region intensified. On the international scene, Kenya played an active role in the WTO as a key member of G90, and continued behind the scenes to push for the resumption of the Doha Round. The EPA negotiation process culminated in the first text based joint ESA/EU negotiation session in September 2006 in Mombasa. This milestone meeting reached a joint position on development and identified the key points of convergence as well as the remaining key negotiation challenges. Kenya continued to show strong leadership in the ESA group, and this leadership remains of the utmost importance if the two sides are to conclude the negotiations in the jointly agreed timeframe.

The EC continued to provide support for Kenya's trade negotiations through the Trade Negotiation Support Programme (KEPLOTRADE), with the specific objective of facilitating the functioning of Kenya's negotiation machinery, supporting a transparent mechanism of consultations with stakeholders and a back-up mechanism providing for demand-driven studies over the whole period of negotiations, and by providing training and capacity strengthening as required. Phase II to the KEPLOTRADE programme was designed in early 2006 and the legal framework committing €4.25M to this new programme was signed in August 2006. Implementation of the programme did not commence in 2006 but tendering for long term technical assistance contract was initiated.

The EC continued active consultations with the Government, private sector and the media on the horticultural export industry. The EC, jointly with KEPHIS (Kenya Plant Health Inspectorate Service) and Kenya Ministry of Agriculture designed a new support programme to facilitate capacity strengthening of KEPHIS with the key objective to further improve the competitiveness of the Kenyan horticulture industry in the world markets. The private sector was closely consulted in the design process. The new STABEX financed € 2.4 M support programme is estimated to commence in first half of 2007.

b) Progress in Activities

The KEPLOTRADE programme suffered from financial management challenges in 2006 and most planned activities had to be postponed due to cash-flow management difficulties. The majority of the activities that materialised were linked to logistical support for the ongoing negotiations. Towards the end of the year, KEPLOTRADE agreed to receive additional technical assistance to address the back-log in financial management issues. Good progress was made while the work still continues in 2007. Phase I of the programme expired in November 2006.

3.2.6 Health

a) Results

Kenya is making efforts to achieve the health-related MDGs. However, performance for most of the key health indicators remains poor. Life expectancy is on the decline at 48.9 years for females and 47.1 years for males, and its likely to fall further due to the impact of HIV/AIDS. Overall morbidity and mortality remain high, while immunization coverage of children under 5 years old recorded at 65.9% is still considerably low. The challenges are being addressed through the National Health Strategic Plan II 2005-2010 (NHSP II) and the health SWAp process.

b) Progress in Activities

Since 2004, the Ministry of Health has been implementing a € 15M EC funded Health Services and Systems Development Programme (DHSSDP). During 2006, the programme experienced management problems that called for a total overhaul of the PMU staff and TA services. Despite this, implementation of activities in the target area has been good. In the review period, PE 3 and NGO Grant Scheme component was launched with three NGOs receiving grants. The programme has been aligned to the NHSP II and the SWAp process. It will end in June 2008.

3.2.7 Education

a) Results

Kenya continues to make great strides in education sector reforms since the NARC government came to power in 2003. This has seen net enrolment rate in primary school rise to 83.2% in 2006 and expansion of education facilities at all levels of the sector. Implementation of the Education SWAp-Kenya Education Sector Support Programme (KESSP) entered its second year in July 2006. A Joint Review of the Education Sector (JRES) carried out in October 2006 concluded that good progress has been made in most of the KESSP Investment Programmes despite delays in donor funding. This has made Kenya benefit from the Fast Track Initiative (FTI) Catalytic Funds.

b) Progress in Activities

The Delegation has been actively involved in the Education SWAp process, in its second year of implementation, as well as dialogue with the Ministry of Education through the donor coordination group. It has also been monitoring key education indicators identified as triggers for PRBS II variable tranches. As at November 2006, the Delegation had committed about € 3.9M for community projects in the education sector to improve basic infrastructure under the CDP II.

3.3 Utilisation of resources for Non – State Actors

In addition to the direct support to Civil society organisations under DGSP and other sectoral programmes in 2006, the year was focused on finalising the future Support to NSAs (**NSA –NET - 9th EDF – €6M**). Consultations, design and final negotiations with government took a total of three years. In 2006, the Government changes its position 4 or 5 times vis-à-vis this programme, which led to additional delays. A good compromise Financing Proposal was finally approved and sent to Headquarters on 17th May 2007. The overall envelope was increased from 2 to €6 M, activities in the fields of electoral processes and civic education were added, but some other activities related to a future NSA GJLOS facility had to be taken out (and might be funded under Community Budget lines).

3.4 Utilisation of B envelope

In February 2006, €4.6M from envelope B was approved for the Drought Management Initiative Project. In May 2006 this amount was increased by an additional €13,096,659 due to the increased needs in the country for addressing drought related crises. This brought the total for the DMI to €17, 696,659.

The DMI project addresses two issues that are crucial for sustainability. Firstly, it adds on to existing government initiatives that have been shown to work effectively and that continue to receive support from the Government and donors such as the World Bank. Secondly, it ensures an uninterrupted continuum of linking relief, rehabilitation and development (LRRD). It builds on ongoing activities, in particular the World Bank funded Arid Land Resource Management Programme (ALRMP), and the ECHO funded projects for drought disaster reduction, preparedness and emergency.

In January 2006 the Feasibility Study for the project was submitted in its final format. The PIF for the DMI was approved in February 2006. November 2006 saw the submission of the project to the EDF Committee where it was approved. The process to recruit a long-term TA was launched based on the approval of the use of the suspensive clause in the latter part of 2006. The recruitment process for a short-term technical assistant began in the last quarter of 2006 in order to ensure that once the Financing Agreement had been signed by both the EC and the Government of Kenya the project would be able to start operating.

Throughout 2006 numerous meetings were held both informally with other donors and formally with a wide range of stakeholders from Government line ministries, NGO and UN agencies to discuss the issue of droughts in Kenya and to coordinate initiatives on drought prevention and preparedness. The EC and ECHO also held numerous coordination meetings on the DMI, looking at the development of an LRRD (Linking relief rehabilitation and development) strategy as part of the DMI.

In November 2006 a draft copy of the administrative agreement between the EC and the World Bank for €8.5 M (for the Drought Contingency Fund component of the DMI) was submitted to the World Bank.

3.5 Other instruments

3.5.1 STABEX

During year 2006, STABEX funds were used in the following programmes; i) The Biodiversity Conservation Programme's (BCP) 6 months extension (September 2005 - March 2006) which included audit and the final evaluation - € 200,000. ii) Community Development Trust Fund (CDTF) technical assistance (TA) contract, for one year. iii) The implementation of the Community Development Programme III - a 3-year phase wholly funded under STABEX 1992-93 and 99 FMO funds - a total commitment of € 10 M.

Under Stabex 1990 FMO, the European Commission continues to fund the KIPPRA, Kenya Institute for Public Policy Research and Analysis (Kenya Endowment Fund, € 5 M, over 10 years). A new commitment of €4.25 M out of FMO STABEX 1992/93 balances was concluded for continuation of support to trade capacity building (KEPLOTRADE) while design of a support programme to Kenya Plant Health Inspectorate Services amounting to €2.4M (FMO STABEX 1990 and 1992/93) was finalised.

EC/STABEX Roads 2000 Project Phase II (€ 10.5 M): The Protocol of Implementation was signed between EC Delegation and NAO on 20th July 2006. The project is part of the country-wide Roads 2000 Maintenance Programme which has a district-based strategy to bring roads in the rural road network to a maintainable standard by a combination of selective spot improvements to remove transport bottlenecks, partial road rehabilitation of priority road sections, periodic maintenance re-gravelling and establishment of effective maintenance with the optimum use of local resources, principally labour as a first choice. The EC Stabex Roads 2000 Project targets 8 coffee and tea producing districts of Eastern Province (Embu, Mbeere, Tharaka, Meru South, Meru Central, Meru North, Machakos, and Makueni). The project will be 3.5 years duration from January 2007 to June 2010. Preparatory activities commenced in 2007 with the procurement of a management consultant who will prepare a project implementation plan and undertake technical management of the project. Physical works are expected to commence 1st semester of 2008. The EC/STABEX Roads 2000 Project Phase 2, is expected to have the following components:

- Roadworks component comprising: Routine maintenance, Spot improvement, rehabilitation of short sections not exceeding 5 km, Environmental, social and safety issues.
- Capacity building component comprising training of Roads Department staff and medium small-scale labour based contractors for road works
- Technical Assistance component comprising a service contract with a consulting firm to carry out the management of the project.

Central Rural Road Rehabilitation Project (€ 21.25 M): The European Commission, the German aid agency Kreditanstalt für Wiederaufbau (KfW) and Government of Kenya (GOK) signed an Implementation Protocol on 14th March 2006 for a jointly co-financed project involving the upgrading of 222 km of key rural roads in coffee and tea growing areas of Central Kenya to bitumen standard. The project cost is € 36,728,000. The EC will contribute € 21.25 M from Stabex resources while KfW will contribute €12.078 M and GOK € 3.4 M. The project will be 4 years duration from January 2007 to December 2010. Procurement of the project design/supervision consultant was underway during 2006. Actual physical works are expected to commence 1st semester of 2008.

c) Integration of Cross-cutting Issues

Environmental mitigation actions are to be integrated into the works contracts in accordance with prevailing legislation. Cross cutting issues like HIV/AIDS and economic empowerment of women and other disadvantaged groups adequately addressed.

3.5.2 Regional Cooperation

EC continued to support the following programmes in education sector, whose details of the same are shown in the Annex:

- i) Support to Collaborative Masters Programme (CMAP) in Economics for Anglophone Africa Phase II (€ 5.725 M).
- ii) Support to Collaborative Doctoral (PhD) Programme (CPP) in Economics (€ 1M).

3.5.3 Community budget lines

The Delegation is running annually between 35/40 budget lines project with different duration and budget, and in various fields. The Delegation evaluates the numerous proposals received, prepares the new contracts and monitors and evaluates the projects. For detailed information about the numerous projects please consult CRIS where all the projects have been updated. In 2006 new proposals were selected and contracts were prepared under the following budget lines:

- Co-financing with European Development NGOs – Action in Developing Countries - both block grants and projects: 5 new contracts were prepared for a total amount of € 4.4 million.
- Aid for poverty-related diseases (HIV/AIDS Tuberculosis and Malaria) in developing countries: 1 new contract for € 4.4 million.

The Delegation fits these projects within the overall national policy framework, priorities and strategies for the various sectors.

3.5.4 European Investment Bank

In its lending activities in Kenya the EIB focuses on two main areas, private industry promotion including assistance to small and medium-sized enterprises (SMEs), and support to public infrastructure development, notably in the sector of electricity generation and distribution.

The EIB's lending to SMEs takes the form of "global loans" – lines of credit under which selected commercial and development banks can draw long-term funds in foreign currencies or in Shillings to finance loans to private businesses for their investment projects. The partner banks are responsible for the project appraisal and fully bear the credit risk. In 2006, the EIB completed the appraisal of a new global loan from resources of the Investment Facility, expected to be signed in 2007.

The Bank also provides funds for equity investments to promote the small-scale segment of the private enterprises sector. In August 2006 US\$ 5M were committed to the Business Partners International Kenya SME Fund (BPI-K), created under the joint initiative of IFC and Business Partners International (BPI), of an overall size of US\$ 15 M to be invested in young Kenyan SMEs. The fund's investment activities have started in 2007. The Bank also continued to be involved as a significant shareholder in the Aureos East Africa Fund, a private equity provider operating at regional level. Aureos made US\$ 10 M investment decisions in 2006 of a total of US\$ 9 M equivalent in Kenyan companies.

In the field of public infrastructure development the Bank followed up closely on the preparation of investment projects in the framework of Kenya's Energy Sector Recovery Project, with a view to implementing two existing loan agreements signed in 2005. One for a loan of up to US\$40.8 M granted to the national electricity generating company KenGen will be used to increase the capacity of geothermal power generation at the Olkaria II station by adding one 35 MW steam turbine generator. The second loan, of €43M granted to the Government of Kenya for on-lending to the national power distributing company KPLC, will part-finance the upgrading of the Kenyan electricity distribution network. Disbursement of the two loans is scheduled for 2007 alongside contributions from the World Bank (IDA), AfD and NDF. In 2006, the EIB started the appraisal of a modernisation and upgrading programme of Nairobi's Jomo Kenyatta International airport undertaken by the Kenya Airports Authority.

The Bank's new operations in Kenya are being prepared in close cooperation with the Bank's Regional Representation for Central and East Africa, opened up in Nairobi in May 2005.

3.5.5 Intra-ACP co-operation

ACP-EU Water Facility: The overall objective of the Water Facility is to contribute to poverty reduction and sustainable development. The specific objective is to boost the sustainable delivery of water and sanitation infrastructure and improve water governance. The facility has three components; (i) Improving water management and governance, (ii) Water and sanitation infrastructure, and (iii) Civil society initiatives. Two calls have so far been issued, resulting in the following projects in the case of Kenya:

- **1st Call for Proposals:** 7 projects were selected for award with an overall budget of approx. €14.5 M and total grant value of about €10 M. The grant size per project ranges between € 0.5 M and €2.8 M while the implementation period is between 3 to 5 years.
- **2nd Call for Proposals:** 8 projects were selected for award with an overall budget of approx. € 40.5 M and a total grant value of about €23.5 M. The grant size per project ranges between €1.5 M and €10 M while the implementation period is between 2.5 to 5 years. Negotiations with the different applicant are on its way and none of the contracts has been awarded. Projects are expected to be operational in the last quarter of 2007.

ACP-EU Energy Facility: The overall objective of the ACP-EC Energy Facility is to contribute to achieving the Millennium Development Goals, in particular the goal on poverty, through increased access to energy services by the poor rural population. The three specific objectives are: (i) Improved access to modern energy services by poor rural people, with priority for the unserved population living in scattered settlements, villages, rural towns, peri-urban areas and remote islands, using the grant funds to leverage additional investment or scale up successful programmes, (ii) Improved governance and management in the energy sector by strengthening poverty related policy making in the energy sector and across sectors, the institutional and legal framework and the capacity of key stakeholders, (iii) Facilitation of future large-scale investment programmes in cross-border interconnections, grid extensions and rural distribution.

The provisional results for Kenya applicants of the EF call for proposals are: 6 projects selected for negotiation with an overall budget of approx. € 24 M and total grant value of about €11 M. The grant size per project ranges between € 0.35 M and € 2.8 M and the implementation period is between 1 and 5 years. Projects are expected to be negotiated in 2007 with an aim of concluding contracts by the end of the same year.

Implementation related to the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFTAM) was revitalised in 2006 after efforts were made to address its management problems. Efforts to strengthen governance structures have yielded more transparency in its operations. To this end a governance manual has been elaborated and is currently under discussion. The Country Coordinating Mechanism (CCM) has been quite active enabling Kenya to participate well in the process.

In November 2006 a new regional Partnership on Health Millennium Development Goals was signed in Brussels for a total EC contribution of € 23.9 M including a contribution for Kenya of €2.1M for 4 years. The purpose of this programme is to enhance national capacity for formulation and implementation of health policies including a strengthened engagement of the health authorities in PRSPs, SWAPs and budget support processes, in order to scale up programmes to accelerate the achievement of the MDGs.

3.5.5 ECHO

3.6 Assessment of Performance Indicators

3.6.1 Rural Development, Agriculture and Environment

Community Development Programme II: The programme finalised disbursement of all investment funds to community development projects throughout the country. In the final 6 months intensive efforts were devoted to monitoring, capacity development, completion and handing over of projects. In a few diverse cases, the regional offices engaged government offices to mainstream sustainability considerations while in other cases, follow ups were instituted for accountability. Visibility was emphasised especially during hand-overs. At the close of CDP II in December 2006, full disbursement of investment funds had been achieved to a total of 273 individual projects. 240 projects (88%) were completed and handed over and a small balance of 33 projects (12%) remained to finalise works and reconcile financial returns.

Community Development Programme III: CDP III is at its formative stages – the CfPs closed in January 2007 and generated a substantial response. Over 3,609 proposals have been received of which 691 qualified for appraisal. The programme target is to implement only 150 projects based on the financial limits.

CDEMP: The programme was successfully launched. CEF operations commenced in April 2006 with the approval of the start up PE although full recruitment and procurement was not completed until 2nd PE (July 06-June 07). The programme is well on course. However, the slow start up of CBF has affected this component. In December 2006 a workshop held under NEMA provided the overall implementation direction for the CBF. Efforts are being made to align the component to these developments.

Regional Projects: PACE Regional and SERECU; the two projects were being implemented by AU/IBAR and were finalised in 2006. The operational aspect of the Regional PACE Programme has come to an end in November 2006 and the FA will terminate in 28 February 2007. The programme has made a major contribution towards eradication of transboundary diseases in West, central and East Africa. By and large, the programme has fulfilled/complied with all the indicators.

The Somali Ecosystem Rinderpest Eradication Coordination Unit (SERECU) has laid the foundation for verification whether the rinderpest virus is circulating in the ecosystem region comprising Ethiopia, Kenya and Somalia. Indicators are: APPLICABLE FROM 2007

SES disease intervention network operational, surveillance plans harmonised, active disease reporting system operational in all SES countries, country dossiers prepared and submitted to OIE; laboratory capacity in place SERECU Financing proposal has been presented for support of € 4.0M to start in 2007. (Furthermore the PACE has contributed to the fight against Avian Influenza (AI) by supporting several international meetings as well as by supplying equipment for Kenya through the National PACE programme.)

During 2006 two new regional livestock related programmes have been drafted (SPINAP concerned with AI and PAN SPSO) which will come into operation during 2007

Coffee sector: The cooperative sector plays a key role in the coffee industry in Kenya, providing the world market with some of the best quality coffees and contributing to the subsistence of most of the small scale coffee producers. In view of supporting the needed changes in the coffee cooperative sector, the Gok and the EC Delegation commissioned a study for the review of the apex cooperative organisation, the Kenya Planters Cooperative Union (KPCU) with the aim of restructuring it. ToRs were drafted and the study is foreseen to start early 2007.

Following consultations with stakeholders and line ministry, progress has been made towards the formulation of a sector programme for coffee (A draft Stabex Implementation Protocol € 5 M is under preparation).

Agricultural research: Financing Agreement for € 7.9M (KASAL Project) was signed and the project launched in September 2006 by the Minister of Agriculture and the HOD. Support to Agricultural Research is brought through the Kenya Arid and Semi Arid Lands (ASALs) research project. The overall goal is to reduce poverty in Arid and Semi-Arid lands through substantial and sustainable improvements in rural livelihoods. The programme purpose is to generate and validate agricultural knowledge and technologies for ASALs through Research for Development led by the Kenya Agricultural Research Institute. Particular attention is paid to the up scaling of technologies at farm level and strengthens capacity at KARI to support development in the ASAL areas. Short term technical assistance has been recruited to assist the Coordinator to develop a grant contract and also define a six month preparatory phase using the Stabex funds which is foreseen to start in January 2007. KARI has recruited all the required team and has started the preparatory work.

Sugar Sector: Under the “EC assistance under the accompanying measures for Sugar Protocol countries”, Kenya is working towards an elaborate strategy to revitalise the sugar sector for the year 2007. The strategy outcome will inform the decision for support to be requested for the year 2007. Definition of the Country sugar strategy in line with the sugar implementation protocol was started with the award of the consultancy which was to finalise the sugar support to start in 2007.

Agriculture Donors’ Coordination and Policy: Since the launch of SRA in March 2004, efforts have been made towards a more coordinated approach in the sector. Progress remains slow as the sector is faced with notable fragmentation of responsibilities between various ministries and numerous donors’ interventions, thus making coordination difficult. The Interministerial Agriculture Sector Coordination Unit (ASCU) sees its role reinforced and receives support from the development partners to fully play its role as a catalyst of SRA implementation. The GoK and the EC Delegation are considering a transitional phase towards sector budget support or programme-based support, in line with the new CSP 2008/2013, funded from Stabex funds (Implementation Protocol, € 2 M, is under preparation).

PACE Kenya and animal health: Finalised the support to PACE (Kenya) project by handing over the project officially to Ministry of Livestock Development and started the closure of the project to be finalised in 2007. Cars, motorbikes and laboratory equipments worthy KSHS. 44 M were handed over to continue strengthening of the Director of Veterinary Services (DVS) to provide services.

Within animal health privatisation, support to KVAPS has continued to provide loans to vets joining the private sector, a study was finalised which has given a clear roadmap towards reforming the scheme into a microfinance institution which will be sustained by the beneficiaries; it will be implemented in 2007.

3.6.2 Infrastructure

MONITORING INDICATORS (FOR CSP 2003-2007)	RESULT	CONTRIBUTING ACTIONS	PERIOD BUDGET
TRANSPORT/ROAD INFRASTRUCTURE			
<p><i>Specific Objective</i> Road sector institutions are operating efficiently and fully accountable</p> <p><i>Expected results</i> Number of Acts and Laws reviewed, enacted and effectively applied.</p>	<p>GoK’s new road sector policy was finalised and endorsed by Parliament (Dec 2006), to be followed by legislative acts establishing independent road authorities (forecast Dec 2007). Further work on the development of Road Maintenance Management Systems (RMMS); and general support and monitoring of the Roads 2000 (rural roads) maintenance strategy.</p>	<p>Gok/Donors: The policy was a culmination of several months of collaborative effort between GoK and the Road Sector Donor Co-ordination Group (EC/WB lead donors), building on the recommendations of a 2004 EC funded policy and strategy study.</p> <p>TA: Support to the Kenya Roads Board</p>	<p>All 2006</p> <p>12-Month Sept 2006 – Aug 2007. € 145,740</p>
<p><i>Expected results</i> Studies (Axle Load Control)</p>	<p>Recommendations on legislative framework, physical facilities and management organization for efficient heavy vehicle axle load controls in Kenya</p>	<p>EC Study: Axle Load Control Best Options for Kenya Roads Board</p>	<p>Feb-May 2006 € 137,996</p>
<p><i>Expected results</i> Sufficient resources allocated for reconstruction and maintenance.</p>	<p>A Road Sub-sector Investment Plan for the period 2007– 2020 has been prepared. Capacity building for MoRPW testing laboratories.</p>	<p>EC Study: Preparation of a Road Sub-sector Investment Plan for the period 2007– 2020 (client MoRPW).</p> <p>EC Supplies: Road Monitoring and Laboratory Testing Equipment for MoRPW. 7 lots</p>	<p>Oct 2006 € 134,070</p> <p>€ 1,876,106</p>

		of supply, installation, training contracts).	
Expected Results Km of roads rehabilitated / maintained including a part through labour based contracts	See under b) Progress in Activities		
NATIONAL MUSEUMS OF KENYA SUPPORT PROGRAMME			
Overall Objective Legal framework buildings & equipment heritage preservation, presentation, celebration & marketing activities Expected Results Building works completed	A new "National Museums and Heritage Act" has been approved by the Parliament and the President in September 2006. A restructuring plan of the National Museums has been approved and awaits its execution; major infrastructure works and exhibition development are currently ongoing.	EC TA/PMU: Transtec EC Works: Lot 1: Museum Galleries and Lot 2: Offices	

b) Progress in Activities

Title of Project/Programme	Effectiveness in Implementation	Causes for Delays	Commitments & Payments
TRANSPORT/ROAD INFRASTRUCTURE			
Northern Corridor Rehabilitation Project (NCRP I) Reconstruction of a 131 km section of Sultan Hamud – Mtito Andei (between Mombasa and Nairobi) Contractor: STRABAG Supervision: GAUSS Engineers	Works commenced in April 2003 and finalised on Feb 2006 (the road was officially opened by the President of Kenya).	While the project is a technical success, administrative delays by various state agencies and departments hindered progress, viz. complicated tax exemption procedures, payment delays and slow technical decision-making. The above points out the need for a procedures manual on the rights and obligations of public bodies and contractors in the roads sector.	Start: April 2003 - End: Feb 2006 (the road was officially opened by the President of Kenya). r. Commitment: € 79.5M from 7th & 8th EDF (€ 1,436,646 Studies/Conferences, € 75,687,802, Works and € 2,090,000 Supervision). 2 riders (correction of over commitment and budget increase/time extension). Payments of 95% of the total commitment up 30/04/2007.
Northern Corridor Rehabilitation Project (NCRP II) Reconstruction works for the 95km Mai Mahiu – Naivasha – Lanet (between Nairobi and Malaba) Contractor: Sogea-Satom Supervision: MouchelParkman	Works commenced on 22/07/2005 and expected to be completed by 14/10/007.	Rider to the contract necessitated by additional elements (bridges over railway). Though included in the original design, later removed by GoK under the assumption of poor railway performance. Re-introduced given the current efforts for revival of railway.	Start: 22/07/2005 - End: 14/10/007. Commitment: € 54,77 M from 9th EDF (€ 2,413,604 Studies/Supplies, € 50,350,000 for Works and € 2,007,000 for Supervision). 2 riders (budget increase for works and supervision). Payments of 60% of the total commitment up to 30/04/2007. Rider to the contract has been proposed (€ 3 M) for additional elements (bridges over railway).
Northern Corridor Rehabilitation Programme Phase III (€ 57 M) Periodic maintenance for 193 km between Timboroa and Malaba.			Total: € 73.15 M to be financed by EC (€ 57M) and Government (€ 16.15 M). The formulation studies (economic study and detailed design) were launched in August 2006 and completed in

(between Nairobi – Malaba)			March 2007. The project Financing Proposal has been submitted to Brussels.
NATIONAL MUSEUMS OF KENYA			
National Museums of Kenya Support Programme (€ 7,67 M)	The infrastructure works in the Nairobi Museum, Lot 1: Museum Galleries and Lot 2: Offices will be finished by the end of June and April 2007 respectively, the exhibition development is behind the expected time schedule and it anticipated that only four out of twelve exhibitions will be finished by the end of the project by the museum staff.	Short term expert missions were implemented for supporting the design of the exhibition galleries, but their impact has been weakened by lack of proper analysis of the local situation and certain reluctance for collaboration	Start: 19/06/2001 - End: 31/12/2007. Commitment: € 7, 67 from 8th EDF (3,662,169 for PE/TA, € 3,797,000 for Works and € 213,,000 for Supervision). 2 riders (TA budget and time extension). Payments of 53% of the total commitment up to 30/04/2007.

3.6.3 Trade

a) Ongoing activities

KEPLOTRADE I – Implementation of the programme continued until November 2006, with closing down activities being limited to supporting participation in the on-going EPA negotiations. Additional resources were provided to assist the programme in financial management related issues, a weakness that hampered technical implementation of the programme throughout phase I.

b) New interventions in the pipeline:

KEPLOTRADE II – Phase II to the STABEX funded trade capacity building programme was designed in mid-2006 with wide participation of stakeholders. The Protocol of Implementation committing € 4.25 M of STABEX 1992/93 resources was signed in August 2006 and procurement process for the long-term technical assistance contract commenced soon after. Active implementation of Phase II was not able to commence due to shortcomings in financial management of Phase I. Implementation of Phase II is foreseen to start in 2007.

HORTICAP – design for a new intervention in the field of trade facilitation and capacity building in the horticulture sector commenced in late 2006. The new programme is seeking to enhance the capacity of the Kenya Plant Health Inspectorate Services (KEPHIS) to provide services which will allow the horticultural industry to comply with market regulations and standards. A financial allocation amounting to € 2.4 M is proposed to be committed from STABEX 1990 and 1992/93 resources for this new programme. Implementation will commence in 2007.

3.6.4 Health and Education

Indicators in both health and education sectors are clearly defined in NHSP II, Annual Operations Plans (AOPs), KESSP and the ERS. In addition, key performance indicators in the sectors identified as triggers of GBS variable tranches have been assessed annually. In the Health sector, the indicators include Infant mortality: measured by fully immunized children as % of less than 1 year population; HIV/AIDS prevalence: measured by proportion of pregnant women aged

between 15-24 years attending ANC who are HIV positive (%); maternal mortality: measured by percentage of pregnant women attending ANC (at least 4 visits) and reduction of the burden of disease: measured by Inpatient malaria morbidity as a percentage of total inpatient morbidity.

For education sector, the performance indicators include: Primary Net Enrolment rate (NER): measured by primary net enrolment rate; Increase in enrolment for North Eastern province: measured by NER in North Eastern province and primary school drop outs: measured by primary completion rate.

Generally, the education sector has performed well as it has achieved key targets such as increasing enrolment and completion rates significantly among others. While the health sector has done a lot of work to achieve its targets, the key targets mentioned above were elusive. However, there was a marked improvement in the fight against HIV/AIDS. Distribution of condoms and ARVs and establishment of VCTs has been quite successful.

3.6.5 Macro economic sector

The indicators for PRBS2 are entirely result oriented and cover achievements in the social sectors (Health and Education) and Public Financial Management (PFM). For the social sectors, they are drawn from the ERS, regularly monitored through the Annual Progress Report and are closely related to the MDGs. However, some indicators are not as well defined as one would wish and data collection and processing systems have weaknesses and do not always cover nationally. Generally, the measurement of changes in social sector indicators is unlikely to reflect the impact of current policy initiatives for some time to come as it takes time for the impact of programme inputs to be reflected in the system. The selection of social indicators will be reviewed for the next General Budget Support Programme under EDF 10.

The PFM indicators are based on the previous GoK PFM Action Plan, which addresses aspects of Budget Formulation; Budget Execution; Budget Monitoring and Evaluation and exploit the benchmarking framework which is widely used internationally and was established in the Kenya April 2003 PEM-AAP Review. The 16 PEM-AAP benchmarks provide suitable indicators for progress in PFM as they each provide an indication, based on defined, quantified and objective criteria, for the improved functioning of the system of PFM, and thus constitute outcome indicators for PFM reforms. However, since the start of PRBS2, the PEM-AAP benchmarks have been replaced by the 32 PEFA indicators which cover a broader area of PFM (including revenue) and constitute the medium term Monitoring and Evaluation system of the Government PFM reform strategy. For the forthcoming General Budget Support Programme, PFM indicators will probably be selected from the PFM reform programme.

3.6.6 Tourism

The indicators are very large in number and not sufficiently prioritized. For mainly that reason, they are difficult to utilize for regular Monitoring and Evaluation and to get a clear understanding of the effectiveness, impact and sustainability of the project. Often, they are not specified and difficult to measure.

4.0 Donor Coordination and Harmonisation

The delegation continued being an active member in the Harmonisation and Coordination (HAC) group throughout. In 2006 the Delegation participated in the preparation of the Kenya Joint Assistance Strategy (KJAS) in collaboration with the KJAS partners: Canada, Denmark, the European Commission (EC), Finland, France, Germany, Italy, Japan, the Netherlands, Norway,

Spain, Sweden, the United Kingdom, the United States, the African Development Bank, the United Nations, and the World Bank Group.

The delegation also was active in the formulation of the Division of labour among the members of the Donor Community. In the Proposed sector presence of KJAS partners, the delegation is the Lead donor in 5 sectors mainly – Public Financial Management, Roads and transportation, Urban, local Govt, Decentralisation, Democratic and Governance and Agriculture and Agriculture and Rural Development. The Delegation is an active donor in ten different sectors.

5.0 Dialogue in Country with NSAs, NAO and Parliament and Local Authorities

The Delegation continued to actively participate in the Private Sector Development Donor Group which was a key stakeholder in designing a Private Sector Development Strategy in Kenya. Endeavours continue to adopt this strategy and its implementation plan as the joint framework of donor support to private sector and trade development in future.

NSAs are being consulted and engaged in all sectors of EC Assistance to Kenya. They have also in particular been well consulted concerning the finalisation in 2006 of the NSA-NET and the Micro Enterprise Support programme (to be funded under 9th EDF^o. A wide NSA consultation process also took place for the programming of EC assistance to Kenya (CSP-NIP 2008-2013) which took place between May and September 2006. In addition supporting NSAs under future Governance and NSA Programme, the 10th EDF assistance will ensure that Support to NSAs occurs in all sectors, with a specific envelope foreseen under each field of intervention. The “**NSA focal point**” in the delegation as also stepped up her function, notably with more and more regular meetings with NSAs from all over Kenya and regular sending of information. The Delegation has also been instrumental in awareness and information sharing on EC Budget lines support to NGOs.

Relations between the GoK and NSAs in 2006 have improved following consultations during the preparation of the NSA-NET and the 2008-2013 CSP. At the same time, the NSAs and above all Civil Society remains divided, and the perspective of the 2007 elections do not help in this regards. There is need to ensure that efforts are made to improve relations with the NSAs - on coordination, and governance. There are nevertheless some positive signs of vibrant organisations getting together (for instance CSOs against corruption and for political accountability, push for the implementation of the Ndung'u Report, private sector organisations' bi-monthly meeting with Government). One cannot but hope that the upcoming 9th EDF NSAs support will assist in this regard. There will be need in future to do even more to improve the regularity and depth of dialogue between GoK, NSAs and donors. Balanced, well structured and networked, competent, solution-seeking and active NSAs are a prerequisite and a support for an accountable and efficient government in Kenya.

Dialogue with the NAO had notable challenges in 2006. The capacity of the NAO's office remained low, notably because of lack of staff (only two programme officers), misunderstandings within the team, and a high turnover (the second officer who had been there for a year left mid 2006). There was also high turnover on the TAs to the NAO. There were delays from both the NAO and the EC side, and misunderstandings between the NAO's office and the Delegation. The constant changes in the TA to the NAO also imposed challenges on the output of staff. There was also substantial lack of capacity in the line Ministries, and limited knowledge on EDF procedures, but several EDF procedures and PCM Training were conducted in 2006, which improved the situation a bit. An informal network of people in PIUs implementing EC programme was even constituted and should be encouraged.

Regular EC-NAO meetings (always including HoO and sometimes HoD) and Technical Assistance to the NAO have certainly helped in facilitating the relationships, unblocking some

dossiers and solve other delicate issues. The new innovative assistance combining training and on-the-job coaching and programming under SSPII prepared the ground for the comprehensive Technical Cooperation Facility (TCF).

Dialogue with local Government : Through implementation of the RPRLGS Programme, policy dialogue with the Ministry of Local Government has been intensive in particular on the Kenyan Local Government Reform Programme which is carrying out reforms in decentralization and financial management of Local Authorities and is supported by EC funded technical assistance. As implementation of the Poverty Reduction Fund is in its initial stage, contacts and dialogue with individual Local Authorities through field visits is still limited. The Delegation is also in touch with the ALGAK, the Association of Local Government Authorities of Kenya.

6.0 Conclusions

Having achieved a growth rate of 6%, the highest in the Kenyan economy in the last two decades, a faster growth is still needed for the Government to achieve the Millennium Development Goals. The government has tried to deal with governance issues especially corruption but a lot of investigations are needed and prosecution where necessary. The Government handled the Annual Peer review Mechanism within NEPAD in an effective and commendable way. Delays that were initially experienced in the implementation of the Poverty Reduction and Local Government Support programme have now been eliminated after the replacement of the previous Coordinator. The project management and coordination has now been substantially strengthened.

On the other hand, insecurity worsened in some areas through out the country. The government needs to demonstrate its commitment in addressing these issues and that envisioned reforms in the area of law enforcement under the GJLOS (Governance, Justice, Law and Order Sector) Programme should bear significant results. Dialogue between the NAO and the EC had challenges in 2006. The capacity in the NAO's office was low. There were some delays from both the NAO and the EC, lack of capacity in the line Ministries and limited knowledge on EDF procedures, but several EDF procedures and PCM training were conducted this has helped improve the situation. Regular EC-NAO meetings and Technical Assistance to the NAO have helped in facilitating the relationships, unblocking some dossiers and solve other issues.

NSA have been engaged in all sectors of EC assistance to Kenya, in particular they were consulted in the finalisation of the NSA NET and the Micro Enterprise Support Programme under the 9th EDF. Further consultations have also taken place in the programming of the CSP 2008-2013. The delegation has also taken an active lead in the KJAS formulation process in collaboration with other donors. The final KJAS document will be finalised by August 2007.

In conclusion, the government and the EC need to incorporate measures to streamline GoK/EC cooperation. Capacity building is needed within the line ministries especially in the NAO. It is important to have an increase in the number of staff in the office and also ensure that there is limited turnover of both the NAO staff and TAs. An alternative to this would be to engage local TAs who will ensure that the NAO capacity is sustainable. For faster and better management of the programmes within the Government, sectoral strategies and implementation plans should be developed and put in place for all outstanding areas.

1 Annexes

- Annex 1: Kenya at a Glance
- Annex 2: 9th EDF (grants) and other previous EDFs (F&C – Susanne Osterland)
- Annex 3: Regional Project (ARD, S&E, I, Governance)
Source; Otto Moller (ARD), Maria-Jose (S&E), Vanessa Dick (Governance)
- Annex 4: EIB Projects (EIB – Philippe Brown)
Source; EIB – Cocuzza or Philippe Brown
- Annex 5a: Use of General Budget Support, Kenya (Macro-economy – Jan Hansen)
- Annex 5b: Use of Counterpart funds /STABEX, Kenya (F&C – Betty Gatheca)
- Annex 6: Budget Line Projects (Maria-Jose, and Vanessa Dick)
Source; S&E Section, Macro, Governance & Private Sector Section
- Annex 7: Indicative Timetable for Commitments and Disbursements (F&C – Susanne Osterland)

Annex 3 Regional Projects

Support to the Collaborative Doctoral (PhD) Programme in Economics (Project No.: 9 ACP RPR 021): The overall objective of the project is to foster a community of professional and/or economists with expertise to shape and determine Africa's development agenda. It is premised on the purpose to strengthen teaching and research capacity in sub-Saharan Africa to reduce reliance on overseas training, and is designed to complement existing doctoral programmes through a competitive process following successful completion of Masters-level course work in Economics.

The project is implemented by the African Economic Research Consortium (AERC) and involves eight universities, four of which act as centres for mounting the PhD programme. It is implemented over a period of 30 months commencing June 3, 2005 to December 31, 2007. The EC contribution is € 1M (11.3% of the total budget). The project has been implemented efficiently. The number of PhD students enrolled reached 132 with at least 12 having defended their thesis.

Pan African Programme for the Control of Epizootics (PACE)

The overall objective of PACE, as stipulated in the Financing Agreement, is to contribute to poverty alleviation efforts and to the development of the livestock sector in Africa through the creation of a conducive atmosphere for securing the health of the populations. PACE also aims to remove the main obstacles to the development of the livestock sector.

The PACE programme carried out its extension phase from November 2004, after the Funding Agreement was extended up to 28 February 2007. The budget allocated to PACE by the European Development Fund (EDF) was initially € 72 M, with the largest part of this budget (67%) going to

activities carried out at country level. This budget was increased to € 77 M for the extended period.

Activities in 2006 can be summarised as follows:

1- Strengthening Animal Health Policies, Evaluation of Veterinary Services and the Role of Livestock breeders in the Surveillance of Animal diseases

PACE organised in collaboration with AU-IBAR, FAO and OIE a seminar on the role of the Animal Health Policies, Evaluation of Veterinary Services and the Role of Livestock breeders in the Surveillance of Animal diseases aiming at securing an Africa-wide consensus on animal disease surveillance policies by pooling the efforts of public Veterinary Services, private veterinarian and farmers.

2- Sustainable financing of the epidemio-surveillance networks

PACE contributed to build capacities in participating countries by sensitising national decision makers on the imperative need to unattainably finance the epidemio-surveillance and disease surveillance activities. Recent evaluation indicates that this initiative was translated into effect for the following countries Benin, Burkina Faso, Côte d'Ivoire, Ghana, Guinea, Mali, Mauritania and Senegal in West and Central Africa, Tanzania, Uganda, Kenya, Eritrea, Sudan and Ethiopia.

3- Establishment of documentation and elaboration of IBAR's Communication strategy

The PACE programme designed and prepared a comprehensive documentation on the implementation, management and achievements in order to constitute the memory of the seven-year implementation of the programme. As a result a digital library database system within IBAR Intranet was set up.

4- Control of Highly Pathogenic Avian Influenza (HPAI)

PACE supported the elaboration of HPAI control programmes and managed the avian flu crisis in the affected countries. As a result the Integrated National Action Plans for HPAI for ACP countries were harmonized and 28 support missions for the prevention and control of Highly Pathogenic Avian Influenza were conducted in Nigeria, Egypt, Niger, Cameroon, Burkina, Cote d'Ivoire, Chad, Cameroon, Benin, Togo, Ghana, Mali, RCA, Equatorial Guinea, Ethiopia, Kenya, Eritrea.

5- Rinderpest eradication

Since the beginning of the activities of PACE Program, 29 member countries out of 30 have set up or revitalized their national ESS and declared the whole country or a zone of the country provisionally free from Rinderpest. By May 2006, Twenty-one PACE member countries were recognized by the OIE free from disease, 2 of them on a zone basis. Twelve of which, were recognized free from infection, and 5 on historical basis. In 2006, Côte d'Ivoire, Ghana, Mauritania, Niger, Tanzania and The Gambia applied for recognition of Rinderpest free from infection. At the same time Cameroon, Central Africa Republic (CAR), Gabon and Ethiopia (countrywide) applied for recognition of freedom from disease. The OIE Rinderpest Ad hoc group considered all these dossiers in September 2006.

6- Activities of the Somali Ecosystem Rinderpest Eradication Coordination Unit (SERECU)

The overall achievements of SERECU were to i) establish rinderpest surveillance systems in the Somali ecosystem, ii) harmonized rinderpest eradication approach iii) applied by veterinary delivery systems in the region and iv) prepare a final rinderpest eradication strategy.

7- Establishment of the Animal Resource Information System (ARIS)

1.1.1

The PACE programme supported the development of an integrated database system (PID/ARIS) and its installation in 28 member countries. One of the objectives of ARIS is to facilitate and harmonise disease reporting procedures and formats.

8- Assessment of the financial situation

1.1.2

PACE is a regional project funded by the European Commission through 6 budget lines from the 7th, 8th and 9th European Development Fund (EDF). The last 4 months November 2006 – February 2007 were used to undertake and complete the administrative and financial closure of the PACE programme.

Annex 11: Project Sheets¹

Project Summary

Name	NORTHERN CORRIDOR REHABILITATION PROGRAMME Phase I
Reference	FED/REG/11994
Sector DAC	21020 - Road transport
State	Ongoing
Geographical zone	REG - Regional EDF
EU contribution	79,500,000 EUR
Last updated	16/02/2006
Decision date	
Commitment date (BL)	
Starting date	
Expected end date	
Financial convention reference	11994
Delegation and person in charge	KE - Kenya SOEZEN, Yasmin AIDCO C/1

1. Description

The overall objective of the proposed programme is: A sustainable, safe road network, which facilitates economic growth and improves living standards in Kenya and in neighbouring landlocked countries.

The project purpose - Northern Corridor rehabilitated, operating under legal traffic conditions and under regular maintenance, with similar transit formalities thus resulting in lower freight costs.

Activities/main components:

- Reconstruction of Sultan Hamud – Mtito Andei section of the Northern Corridor (131km).
- Works Supervision
- Technical assistance to project and to road sector reforms, monitoring axle loads

The proposed programme will produce the following results: Project road section reconstructed, road sector reform activities supported, and reduction in number of overloaded vehicles.

2. Origin, context and key assessments

The basic problem to be addressed is that of improving the Northern Corridor to sustainable working conditions. Specific problems to be addressed include insufficient domestic funding of maintenance resulting in routine and periodic maintenance backlog; poor management of the road sector at large; high road accident rates; ineffective axle load enforcement.

The EC intervention is to assist the Government to clear the substantial rehabilitation backlog in the road network. Domestic funding of maintenance is being covered through the fuel levy and transit tolls. The current revenue level of KES 15 billion per annum (€ 165 M) is deemed sufficient to substantially fund road routine maintenance of the maintainable network from domestic resources. The Kenya Roads Board which became operational on 1st July 2001 administers the Road Maintenance Levy Fund is developing procedures to guide better prioritisation and management of the funds for road maintenance.

To complement these efforts, under the programme, the EC financed a study for Transport Policy and Roads Sub-sector Strategy in 2003-2004. The recommendations of this study are expected to result in radical policy, legislative and institutional reforms by Government.

Also under the Programme Phase, an Axle Load Control Best Options Study was carried out in 2006 which made recommendations on policy and legislative reforms as well as physical facilities necessary for efficient axle load controls in Kenya.

3. Summary of project implementation

- i. The works contract was awarded to Strabag International for sum of KES 4,642,112,700.71 (€ 60.97 M).

¹ The annex is extracted from CRIS (only excluding the financial data in the project summary – which did not have information)

- ii. Physical works commenced 1st April 2003. The original completion due of 30th September 2005 was later extended to allow for additional physical works. The main road works were substantially completed in January 2006 and fully opened to traffic. The final Contract sum was € 83.39 M.
- iii. The Supervision services contract was awarded to RRI-Beller/Gauff Consultants (cost € 1.96 M).
- iv. The consultancy study on Transport Policy and Roads Sub-sector Strategy was successfully undertaken between June 2003 and March 2004 at a cost of € 0.299 M.
- v. Service contract for an Axle Load Control Best Options Study (€ 0.151 M) was awarded by the EC on behalf of the NAO. The 3-month study commenced in January 2006 and was concluded in May 2006.
- vi. Service contracts for formulation studies on 9th EDF Northern Corridor Rehabilitation Programme Phase III were financed under NCRP II and I.

4. Changes in the context and in the key assessment areas

- Kenyan Government road sector reform programme has stalled for some time. The consultancy study on Transport Policy and Roads Sub-sector Strategy was part of the effort by EC and Donors to kick-start the process.
- The Government set up a committee in May 2005 to harmonise the EC study recommendations with those of other parallel studies leading to the production of a sessional paper in 2006, which was ratified by Cabinet and endorsed by Parliament in November 2006.

5. Progress in achieving objectives

- Works Contractor and the Supervising Consultant were procured through international competitive bidding process, and the works were successfully delivered.
- Sector studies on Sector Policy and Axle Load control were undertaken and accepted by GOK.

6. Financial execution

- 99 % programme funds committed
- 97% of works contract sum paid.

7. Issues arising and action required

- Administrative delays including bureaucratic taxes/duties exemptions procedures, delayed payments and slow issuance of technical instructions continued to the end of the project.
- GOK failure to establish routine maintenance operations on the completed road.
- Govt. was not proactive in staff training. Opportunities for Government trainees on the works project were never utilised.
- Enforcement of transport regulations (axle load, road safety) remains unsatisfactory and ineffective. Government is expected to implement the recommendations of Axle Load Control Best Options Study including eventual privatisation of management.

8. Crosscutting and other issues

- The major environmental issues include reinstatement of quarries and borrow-pits were addressed in compliance with local legislative requirements and environmental mitigation measures contained in the contract under guidance of the supervisory consultant's Environmental Expert.
- Reluctance by Contracting Authority led to failure to operationalise an HIV/Aids awareness and STD treatment initiative for the construction workers under grant funding arrangement.
- Contracting Authority accepted request by Tana & Athi River Development Authority (TARDA) to take over water boreholes already sunk by the Contractor for establishment of a sustainable community water supply /tree nursery project.

- **Project Summary**

Name	NORTHERN CORRIDOR REHABILITATION PROGRAMME Phase II (MAI MAHIU - NAIVASHA - LANET ROAD)
Reference	FED/REG/12557
Sector DAC	21020 - Road transport
State	Ongoing
Geographical zone	REG - Regional EDF
EU contribution	55,000,000.00 EUR
Last updated	16/02/2006
Decision date	
Commitment date (BL)	
Starting date	
Expected end date	
Financial convention reference	12557
Delegation and person in charge	KE - Kenya SOEZEN, Yasmin AIDCO C/1

1. Description

The overall objectives of the proposed programme are: A sustainable, safe road network, which facilitates economic growth and improves living standards.

The project purpose is improvement of traffic conditions on the Northern Corridor between Mai Mahiu and Lanet, with regular and adequate maintenance, resulting in lower operating costs and greater road safety.

Activities/main components:

- Rehabilitation of the Mai Mahiu - Naivasha - Lanet road (95km)
- Supervision of works;
- Drawing up of a pavement management system and a five-year rolling trunk road maintenance programme for the system in Kenya;
- Development of road safety study action plan
- Management training needs assessment/ capacity building programme for appropriate staff

The proposed programme will produce the following results: Constructed/rehabilitated project road; rolling 5-year maintenance programme; improved management, improved road safety.

2. Origin, context and key assessments

The basic problem to be addressed is that of improving the Northern Corridor to sustainable working conditions. Specific problems to be addressed include insufficient domestic funding of maintenance resulting in routine and periodic maintenance backlog; poor management of the road sector at large; high road accident rates; and ineffective axle load enforcement.

The EC intervention is a continuation of previous support to the Government to clear the substantial rehabilitation backlog in the trunk road network. Domestic funding of maintenance is being covered through the fuel levy and transit tolls. The current revenue level of KES 15 billion per annum (€ 165 M) is deemed sufficient to substantially fund road routine maintenance of the maintainable network from domestic resources. The Kenya Roads Board which became operational on 1st July 2001 administers the Road Maintenance Levy Fund is developing procedures to guide better prioritisation and management of the funds for road maintenance.

To complement these efforts, this project provides for counterpart training for Government road sector personnel in construction, development of a road maintenance programme and training.

Appropriate road safety features are incorporated in the design of this road, which has one of the highest accident rates in Kenya.

3. Summary of project implementation

- i. Works contract for rehabilitation of Mai Mahiu-Naivasha – Lanet road (95km) commenced 14th March 2005, with an original completion date of 14th September 2007 and cost € 45.5 M. Under addendum no. 1 of September 2006, the completion period was extended to 14th October 2006 and contract sum increased to € 66,565,101
- ii. Service contract for works supervision is ongoing. The cost of this component is € 1.964 M.

- 1
2
3
4
5
6
7
8
9
- iii. As part of an institutional capacity building/training initiative, seven supplies contract for Laboratory and Road Condition Monitoring Equipment were procured in 2006 at a cost of € 1.876 M. Most of these contracts for equipment supplies/installation and training currently have been successfully executed.
 - iv. Under this programme, the Study for Preparation of the Road Investment Plan (2007-2020) was executed from January 2006 to September 2006.

4. Changes in the context and in the key assessment areas

- Works contractor and construction supervising consultant appointed after successful international competitive bidding process.
- Construction supervision by private consultants is expected to ensure that the works are carried out in accordance with specifications and plans
- Govt. has deployed a batch of staff on attachment to the supervising consultants for on-the-job training within the works contract staff reached.
- The component for improving road safety was in order to prevent duplication of effort omitted owing to multiplicity of donors (World Bank and SIDA) and players already involved.

5. Progress in achieving objectives

- Works contract in progress, physical progress being achieved. 74% of the road works completed.
- Laboratory and Road Monitoring Equipment currently being procured in support of improving pavement management systems and enhancing Government capacity on road maintenance.

6. Financial execution

- Commitments of NCRP II Programme funds – 99.7%
- Certified payments on works equivalent to 59% of contract sum by 31st December 2006.

7. Issues arising and action required

- Late issuance of tax/duty exemption by Government contributed to initial start-up delays and continues to dog the project. EC raised the issue with NAO during meeting of 16th November 2006.
- Substantial change in scope of works effected due to late decision to construct road-over-rail bridges resulting in contract addendum no. 1 for additional 33% financial increase.

8. Crosscutting and other issues

- The major environmental considerations shall involve reinstatement of quarries and borrow-pits. The Contracting Authority has obtained NEMA approval for action plan on environmental mitigation measures as required by law.

Project Summary

Name	EC STABEX ROADS 2000 PROJECT PHSE. II
Reference	STABEX
Sector DAC	21020 - Road transport
State	Ongoing
Geographical zone	Eastern Province, Kenya
EU contribution	10,500,000 EUR
Last updated	04/05/2007
Decision date	
Commitment date (BL)	
Starting date	
Expected end date	
Financial convention reference	Stabex FMO 1990 & 1991
Delegation and person in charge	KE - Kenya SOEZEN, Yasmin AIDCO C/1

1. Description

Under the terms of the Stabex (1990 and 1991) FMO, the Government and the Commission agreed to apply the resources to support of coffee sector reforms and basic rural infrastructure and services in coffee producing and other export crop areas. In this way coffee farmers and other export-oriented agricultural producers will directly benefit through enhanced productivity gains and improved livelihoods.

The EC Stabex Roads 2000 project will be funded from Stabex resources and be implemented over a 3.5 year period from January 2007 to June 2010 at a cost of KES 1,615,000 with EC Stabex contribution being € 10,500,000 (approx. KES 980,000,000).

The overall objective of the road transport sector interventions is to reduce transport costs and time for road users to access economic and social services thereby increasing accessibility, income and employment in rural areas.

The specific objective of the EC Stabex Roads 2000 project is to reduce transport costs and time for road users to access economic and social services thereby increasing accessibility, income and employment in rural areas.

The project purpose is improvement of traffic conditions on rural road network in 8 coffee and tea producing districts of Eastern Province (Meru Central, Meru South, Meru North, Tharaka, Embu, Mbeere, Machakos and Makueni Districts), resulting in roads that are in a maintainable condition resulting in lower operating costs and greater road safety.

2. Origin, context and key assessments

The Roads 2000 Programme is consistent with the Kenya Government's Economic Recovery Strategy for Wealth and Employment Creation (ERS) which seeks amongst other actions to provide access and reduce transportation costs for the majority of Kenyans through the improvement and maintenance of low volume roads while providing local employment by using local resources, principally labour as a first choice

The national Roads 2000 Strategy for 2005 – 2010 aims to improve accessibility within agriculturally productive rural areas through rehabilitation and selective upgrading of key road links and application of routine and periodic maintenance using local resources and predominantly local small-scale labour-intensive contracting. It has the following key targets:-

- To increase the maintainable road network by 10% annually during the plan period.
- Establish sustainable and cost effective routine maintenance on 20,000 km of unpaved roads nationally in 2005 increasing to 37,000 km by 2010.
- Generate 150,000 part time jobs annually
- Improved quality and cost effectiveness of road conditions.

GOK has committed to provide KES 3.5 billion per year from Road Maintenance Levy Fund for Roads 2000 Programme. Development partners have pledged KES 7 billion spread over the 5 year plan period.

The proposed project will benefit the local farmers, community groups, and rural private sector enterprises in the areas served by the roads through ensuring all-weather accessibility to markets, hospitals and schools and reduction of cost of transporting coffee, tea and other cash crops to market and for export.

A number of donors are currently active in supporting the Roads 2000 Maintenance Strategy in 45 out of the 72 districts, namely:-

- AFD - Muranga, Nyandarua, Maragwa Districts in Central Province
- AfDB – 8 districts in Rift Valley Province
- Danida – 7 districts in Coast and Eastern Province (Part of Agricultural Support Programme)
- KfW - 6 districts in Rift Valley and 1 district in Nyanza Province.
- EC – 8 districts in Eastern Province
- SIDA - 11 Districts in Nyanza Province

3. Summary of project implementation

The EC/STABEX Roads 2000 Project Phase II shall have the following components:

- 1) Road works component comprising Routine maintenance, spot improvement, Partial rehabilitation, rehabilitation of short sections not exceeding 5 km, environmental, social and safety issues
- 2) Capacity building component comprising Training of Roads Department head office and provincial staff, district supervision staff and small-scale contractors for roadworks, procurement of basic equipment
- 3) Technical Assistance component comprising a service contract with a consulting firm to carry out the management of the project. The Technical and Financial audits will however be contracted out separately by the Kenya Roads Board.

The following expected results;-

- Km of road improved
- Km of roads under regular routine maintenance
- Number of trained supervision staff
- Number of active trained local contractors

4. Changes in the context and in the key assessment areas

- Selection and prioritisation of roads to be upgraded and rehabilitated is done through a District Stakeholder forums under the auspices of the District Roads Committees
- Rehabilitation and maintenance contracts will be awarded to local small-scale labour-based contractors to increase employment generation.
- Project Management supervision by private consultants is effective in ensuring that the works are carried out in accordance with specifications and plans

5. Progress in achieving objectives

- Procurement of the project Management Consultants commenced with the publication of Forecast Notice and Procurement Notice under EDF procedures in January 2007 and February 2007 respectively. The consultants are expected to be mobilised in August 2007
- Training of labour-based contractors to commence 2nd semester 2007
- The Consultants are expected to assist the MoRPW District Staff to prepare implementation programmes, budgets, work plans and civil works tender documents during the 2nd semester of 2007
- Rehabilitation civil works implementation are to start 1st semester 2008

6. Financial execution

- No disbursements as at 31st December 2006

7. Issues arising and action required

- Government to expedite procurement of Management Consultants
- Government to allocate counterpart funding to Districts covered under the project

8. Crosscutting and other issues

- Environmental mitigation measures shall be incorporated in the contract documents in accordance with existing legislation

- As women are very much involved in marketing agricultural produce in these areas, they will particularly benefit from the improved roads, which traverse through high potential agricultural areas.
- Affirmative action in labour recruitment should ensure that women trainees and labourers attain the stipulated 30% target for women in the labour force under the national Roads 2000 Strategy 2005-2010.

Project Summary

Name	CENTRAL KENYA RURAL ROADS REHABILITATION PROJECT
Reference	STABEX
Sector DAC	21020 - Road transport
State	Ongoing
Geographical zone	Central Kenya
EU contribution	21,250,000 EUR
Last updated	04/05/2007
Decision date	
Commitment date (BL)	
Starting date	
Expected end date	
Financial convention reference	Stabex FMO 1990 & 1991
Delegation and person in charge	KE - Kenya SOEZEN, Yasmin AIDCO C/1

1. Description

The proposed project for Rehabilitation of Rural Roads is one of the three interventions covered under Road Transport Infrastructure focal sectors of the NIP for Kenya under the 9th EDF. The project is co-financed with the Federal Republic of Germany through KfW and the Government of Kenya.

The overall objective of the current intervention is to reduce transport costs and time for road users to access economic and social services thereby increasing accessibility, income and employment in rural areas.

The specific objective of the Central Kenya Rural Roads Rehabilitation Project is to improve accessibility within agriculturally productive rural areas through upgrading key roads totalling 220 km to bitumen standard in coffee and tea growing areas of Meru central, Meru North, Meru South, Embu and Nyeri Districts of Central region of Kenya.

The total cost of the project is € 36.728 M to be co-financed by **European Commission** (€ 21.25 M), the Federal Republic of Germany through **Kreditanstalt für Wiederaufbau** (KfW) (€ 12.078 M) and the **Government of Kenya** (€ 3.4 M).

2. Origin, context and key assessments

Agriculture dominates the Kenyan economy. Its contribution to GDP remains in the range of about a third despite slight decline in recent years. Coffee and tea are the most important cash crops and major exports by Kenya. The drop in export earnings in the last few years may be attributed to several main factors, including low international coffee prices, escalating costs, lower productivity, declining production, poor maintenance of infrastructure, quality reduction and lower funding for research.

During the PRSP consultation process local communities identified the poor condition of the road network as a major factor influencing worsening poverty and declining economic performance due to impeded or denied access to economic and social facilities.

In the roads transport infrastructures sector, EC intervention aims to reduce transport costs and the time required for users to access economic and social services, thereby increasing accessibility, incomes and employment in the rural areas. Priority actions include support to develop a coherent transport sector policy and strategy; to enhance institutional support for road sector management reforms, and to

rehabilitate and improve rural access roads and bridges, particularly through labour-based small contractors and local communities.

3. Summary of project implementation

Arising out of a KfW Feasibility Study on Transport Infrastructure in Mt. Kenya Area completed in 2003 and an EC 9th EDF Transport Infrastructure Identification Study undertaken in 2004. The under-listed roads were identified for upgrading to bitumen standard within the project;-

Greater Meru Roads:	Nyeri District
• Meru to Marimba, 18km	• Giakanja to E1686, 9.1km
• Marimba to Kionyo, 7.5km	• D434 to E511, 5.6km
• Marimba to Nkubu, 11km	• E1686 to Konyu, 5.5km
• Nkubu to Mitunguu, 15km	• Konyu to Othaya, 8.6km
• Kionyo to Chogoria, 25.5km	• Othaya to Karima, 5.7km
• Meru to Mikinduri, 27.0km	• E511 to Kagere, 9.2km
• Meru to Mitunguu, 35.5km	• E571 to E511, 2.4km
• Mikinduri to Maua, 29.5km	• C70 to Mumbuini, 7.7km

The Client will be the Permanent Secretary, (MoR&PW) and the overall supervision will be by the Chief Engineer (Roads) who will be responsible for ensuring success of the programme and the quality of the works

The Chief Engineer (Roads) shall appoint his authorised representative (the Consultant) to supervise and measure the construction works on the ground.

KfW will administer the project funds on EC's behalf and its own behalf. The design and works supervision service contracts have been awarded through restricted invitation to tender following prequalification, and works contracts shall similarly follow open tender procedures consistent with EDF procedures. Consultants employed for the designs shall undertake the works supervision for the same roads.

KRB will be responsible for follow-up to ensure technical quality compliance in the roadworks.

4. Changes in the context and in the key assessment areas

An economic analysis taken by KfW during the feasibility study stage of the project (Greater Meru Roads only) indicated a weighted average EIRR of 11.3% based on normal traffic projections alone. It is anticipated that agricultural production would generate substantial additional benefits.

With regards to socio-economic constraints, the project will address the high rural unemployment, as well as people's access to markets and social services and infrastructure.

The proposed project will benefit the local farmers, community groups, and rural private sector enterprises in the areas served by the roads through ensuring all-weather accessibility to markets, hospitals and schools and reduction of cost of transporting coffee, tea and other cash crops to market and for export.

5. Progress in achieving objectives

- Administration Agreement was signed between EC and KfW on 20th December 2005 outlining the co-financing arrangement and the role of implementing agency for KfW.
- Procurement of the project Design and Supervisory Consultants was concluded in January 2007. The consultants are expected to be mobilised by mid 2007.
- Rehabilitation civil works implementation are expected to start during the 1st semester 2008

6. Financial execution

- An advance payment of € 4,000,000 has transferred from EDF /Stabex accounts to KfW who are the implementing agents for the project.

7. Issues arising and action required

- Government to expedite award of contract and mobilisation of the Design/Supervision Consultants
- In order to ensure sustainable maintenance of the road sections rehabilitated and completed under this Programme, the Government will conclude performance based routine maintenance contracts with local private sector construction contractors for a period of 5 years following completion of upgrading works.
- Road Maintenance Levy Funds allocations should be progressively increased in order to assume responsibility for financing routine and periodic maintenance of the roads upgraded, with effect from the beginning of the financial year following completion of the improvement.

8. Crosscutting and other issues

- Environmental mitigation measures shall be incorporated in the contract works documents in accordance with existing legislation

Project Summary

Name	NATIONAL MUSEUM OF KENYA SUPPORT PROGRAMME (NMKSP)
Reference	FED/KE/10925
Sector DAC	41040 - Site preservation
State	Ongoing
Geographical zone	KE - Kenya
EU contribution	8,000,000.00 EUR
Last updated	10/05/2006
Decision date	
Commitment date (BL)	
Starting date	19/06/2001
Expected end date	31/12/2007
Financial convention reference	10925
Delegation and person in charge	KE - Kenya SOEZEN Yasmin L-41 04/121 BRU tel: +32 2 2992767 fax: +32 2 2996191 e-mail: Yasmin.Soezen@ec.europa.eu

1. Description

The overall objectives of the proposed programme are: To contribute to the preservation of Kenya's national heritage (culture, history and ecology) and halt the deterioration of assets. This will also help promote tourism and thereby economic growth with the alleviation of poverty.

The project purpose is to establish solid and durable management and the financial base for recovery and sustainable development at the National Museums of Kenya through an integral restructuring package encompassing some rebuilding, management improvements and the adoption of attractive, modern, cost effective, responsive and properly marketed service delivery practice.

Activities/main components:

Human resources development and training; TA, Public Programmes; Infrastructure

The proposed programme will produce the following results:

Management reforms will have been implemented and a new organisational structure introduced; financial base of the institution will have improved through increased revenue from visitors, merchandise and franchising, cost reductions and the introduction of cost effective measures.

Collections will be better conserved and a well-trained human resource pool in charge of collections will have been established; presentations of collections will have been improved and new exhibitions mounted. NMK will play a more effective role in the preservation of culture.

2. Origin, context and key assessments

Based on a need assessment "National Museums of Kenya Interim Support Package (short term)" financed through the "1990 Countervalue Funds KCB" the Projects Financing Proposal (under 8th EDF) was prepared. The Draft Decision of the Commission was reached on 08.12.1999.

The Financing Proposal was prepared in February 2000 and includes the following measures as "Preconditions" to be implemented by the Government of Kenya:

Legal Reforms (Heritage Bill): update the legal framework of Heritage management to be better suited with the contemporary context in Kenya and internationally; grant the NMK the necessary financial autonomy for sustainable development under Government control.

Retrenchment programme: Rationalisation of staff numbers and improvement of ratio between professional staff and support staff.

The Financing Agreement however, recognises the constrictive condition of pre-conditions and relaxes those to "Accompanying Measures".

3. Summary of project implementation

Implementation of the main programme: The Technical Assistance team was mobilised in January 2002. A detailed Logical Framework Analysis was conducted with the museum professional staff. The Inception Report was produced and approved. The third Programme Estimate is currently implemented.

Legal and Management reforms: Establishment of new management structure (Retrenchment Programme); new marketing and commercial strategy; legal restructuring (new Heritage Bill, exemption from chapter 5 i.e. state corporation act) has been finalized in September 2006.

Human Resources Development: New employment and training policy, performance management; in-house training and coaching activities as well as external training is currently carried out under Programme Estimate 3.

Education and Public Outreach Programme: development of institutional vision for education, collection management and research; development of new exhibitions in the Nairobi Museum is currently carried out under Programme Estimate 3.

Infrastructure developments: new buildings in the Nairobi museum focusing on safeguarding the collections; increasing visitor numbers and revenue. Two construction contracts were carried out, one building was handed over in April 2007 (LOT 2), the second building is in the final stage (LOT 1).

4. Changes in the context and in the key assessment areas

The FA was extended with a No-Cost-Time extension until 31 December 2007. The exhibition development implementation is going slower than anticipated and it is expected to have only four exhibitions in place by the end of the project.

5. Progress in achieving objectives

Progress is according to schedule. The Public Programmes and Human Resource Development component is implemented currently with its third Programme Estimate. The Infrastructure component is in implementation with one of the main buildings already handed over. The new organisational structure for NMK is approved and should be implemented, however, not all necessary funds for the retrenchment are available and therefore the implementation is slow. The Heritage Bill was approved by the parliament and signed by the president in September 2006.

6. Financial execution

Several budget reallocations have been done both at FA and contract level.

7. Issues arising and action required

None

8. Crosscutting and other issues

None