Republic of Kenya - European Community

Country Strategy Paper
and
Indicative Programme

for the period 2008-2013

The Government of the Republic of Kenya and the European Commission hereby agree as follows:

(1) The Government of the Republic of Kenya (represented by Hon. Amos Kimunya, EGH, Minister for Finance), and the European Commission (represented by Mr Eric van der Linden, Head of Delegation), hereinafter referred to as "the parties", held discussions in Nairobi from May 2006 to October 2007 with a view to determining the general approach to cooperation for the period 2008–2013.
During these discussions, the Country Strategy Paper and an Indicative Programme of Community aid in favour of the Republic of Kenya were drawn up in accordance with Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, and revised in Luxembourg on 25 June 2005. These discussions complete the programming process in the Republic of Kenya.
The Country Strategy Paper and the Indicative Programme are annexed.

(2) As regards the indicative programmable financial resources which the Community plans to make available to the Republic of Kenya for the period 2008-2013, an amount of **€383m** is scheduled for the allocation referred to in Article 3.2(a) of Annex IV to the ACP-EC Partnership Agreement (A allocation) and of **€16.4m** for the allocation referred to in Article 3.2(b) (B allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of Annex IV to the ACP-EC Partnership Agreement.

(3) The A allocation is intended to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community assistance. The Indicative Programme in Part 2 concerns the A allocation. It also takes into consideration financing from which the Republic of Kenya benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.

(4) The B allocation is intended to cover unforeseen needs, such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B allocation will be triggered in response to specific mechanisms and procedures and therefore does not yet constitute a part of the Indicative Programme.

(5) Resources can be committed within the framework of this Country Strategy Paper and National Indicative Programme upon the entry into force of the 10th EDF multi-annual financial framework for the period 2008-2013 of the revised ACP-EC Partnership but not before 1 January 2008. Financing decisions for projects and programmes can be taken by the Commission at the request of the Government of the Republic of Kenya within the limits of the A and B allocations referred to in this document. Financing decisions can also be taken on the basis of Article 15(4) in conjunction with Article 4(1)(d) of Annex IV to the ACP-EC Partnership Agreement for support to non-State actors or on the basis of Article 72(6) of the ACP-EC Partnership Agreement for humanitarian and emergency assistance funded from the B allocation. Financing decisions will be taken and implemented in accordance with the rules and procedures laid down in the EC Council Regulations on implementation of the 10th EDF and in the Financial Regulation applicable to the 10th EDF and in Annex IV to the ACP-EC Partnership Agreement.

(6) The European Investment Bank may contribute to implementation of this Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Articles 2(c) and 3 of Annex Ib to the ACP-EC Partnership Agreement regarding the 10th EDF multi-annual financial framework for the period 2008-2013.

(7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation will undertake an annual operational review of the Indicative Programme and a mid-term and end-of-term review of the Country Strategy Paper and the Indicative Programme in the light of needs and performance at the time.
The mid-term review will be undertaken in 2010 and the end-of-term review in 2012. Following the completion of the mid-term and end-of-term reviews, the Community may revise the resource allocation in the light of prevailing needs and performance.
Without prejudice to Article 5.7 of Annex IV concerning reviews, the allocations may be increased in accordance with Article 3(5) of Annex IV in order to take account of special needs or exceptional performance.

(8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the revised ACP-EC Partnership Agreement and the 10th EDF multi-annual financial framework for the period 2008-2013, will be regarded as definitive within eight weeks of the date of signature, unless either party communicates the contrary before the end of this period.

Done at Lisbon on 9 December 2007

For the Government of
the Republic of Kenya

Amos KIMUNYA
Minister for Finance
National Authorizing Officer

For the European Commission

Louis MICHEL
Member of the Commission in charge of
Development and Humanitarian Aid

ABBREVIATIONS

ACP	African, Caribbean and Pacific
AEAF	Aureos East Africa Fund
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
APRM	African Peer Review Mechanism
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	Balance of Trade
BoT	Board of Trustees
BPI-K	Business Partners International - Kenya
CBK	Central Bank of Kenya
CBO	Community-Based Organisation
CBP	Capacity-Building Programme
CCM	Country Coordinating Mechanism
CDE	Centre for the Development of Enterprise
CDEMP	Community Development for Environmental Management Programme
CDP	Community Development Programme
CDTF	Community Development Trust Fund
CEF	Community Environment Facility
CEO	Chief Executive Officer
CEP	Country Environmental Profile
CET	Common External Tariff
CMAP	Collaborative Masters Programme in Economics for Anglophone Africa
COMESA	Common Market for Eastern and Southern Africa
CPIA	Country Policy and Institutional Assessment
CPP	Collaborative PhD Programme in Economics
CSOs	Civil Society Organisations
CSP	Country Strategy Paper
CTA	Centre for the Development of Agriculture
DANIDA	Danish International Development Agency
DBR	Domestic Budget Revenue
DCF	Drought Contingency Fund
DFID	Department for International Development (UK)
DGSP	Democratic Governance Support Programme
DHSSDP	District Health Services and Systems Development Programme
DMI	Drought Management Initiative
DRI	Debt Relief International
DS	Debt Sustainability
DSA	Debt Sustainability Analysis
EAC	East African Community
EADB	East African Development Bank
EC	European Commission
ECHO	European Commission Humanitarian Aid Office
ECK	Electoral Commission of Kenya
EDF	European Development Fund

EFA	Education For All
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EIDHR	European Initiative for Democracy and Human Rights
EMCA	Environmental Management and Coordination Act
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
EU	European Union
FDI	Foreign Direct Investment
FIDA	International Federation of Women Lawyers
FMO	Framework of Mutual Obligations
FP	Financing Proposal
FPE	Free Primary Education
FTI	Fast Track Initiative
FY	Financial Year
GAA	German Agro-Action
GAVI	Global Alliance for Vaccines and Immunisation
GBS	General Budget Support
GDP	Gross Domestic Product
GER	Gross Enrolment Ratio
GFTAM	Global Fund to Fight Tuberculosis, AIDS and Malaria
GJLOS	Governance, Justice, Law and Order Sector
GNI	Gross National Income
GNP	Gross National Product
GoK	Government of Kenya
GTZ	Gesellschaft für Technische Zusammenarbeit
HAC	Harmonisation, Alignment and Coordination
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immuno-deficiency Virus/Acquired Immune Deficiency Syndrome
HMIS	Health Management Information Systems
HPAI	Highly Pathogenic Avian Influenza
HQ	Headquarters
ICAP	Investment Climate Action Plan
ICRC	International Committee of the Red Cross and Red Crescent
ICT	Information and Communication Technology
IDA	International Development Association
IFC	International Finance Corporation
IFMIS	Integrated Financial Management and Information System
IGAD	Inter-Governmental Authority on Development
IMF	International Monetary Fund
IOM	International Organisation for Migration
IP-ERS	Investment Programme for Economic Recovery Strategy
IPO	Initial Public Offer
IRAI	IDA Resource Allocation Index
IXGS	Imports and Exports of Goods and Services
JAOR	Joint Annual Operational Review
JFE	Joint Facility for Electives
JRES	Joint Review of the Education Sector
KARI	Kenya Agricultural Research Institute
KASAL	Kenya Arid and Semi-Arid Lands
KBI	Kenya Bribery Index
KCA	Kenya Community Abroad
KDHS	Kenya Demographic and Health Survey
KenGen	Kenya Electricity Generating Company Limited
KeNHA	Kenya National Highways Authority

KEPHIS	Kenya Plant Health Inspectorate Service
KEPLOTRADE	Kenya/European Union Post-Lomé Trade Programme
KeRRA	Kenya Rural Roads Authority
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
KPA	Kenya Ports Authority
KPLC	Kenya Power and Lighting Company
KR	Kenya Railways
KRA	Kenya Revenue Authority
KRB	Kenya Roads Board
K-REP	Kenya Rural Enterprise Programme
KTB	Kenya Tourism Board
KURA	Kenya Urban Roads Authority
LATF	Local Authorities Transfer Fund
LRC	Law Reforms Commission
LTDS	Long-Term Debt Sustainability Indicators
LVFMP	Lake Victoria Fisheries Management Plan
M&E	Monitoring & Evaluation
MCM	Matrix of Corrective Measures
MDF	Management Development Foundation
MDG	Millennium Development Goal
MEFMI	Macroeconomic & Financial Management Institute of Eastern and Southern Africa
MENR	Ministry of the Environment and Natural Resources
MESPT	Micro-Enterprise Support Programme Trust
MFIs	Micro-Finance Institutions
MoALD	Ministry of Agriculture and Livestock Development
MoCM	Matrix of Corrective Measures
MoRPW	Ministry of Roads & Public Works
MoT&C	Ministry of Transport and Communications
MoTI	Ministry of Trade and Industry
MPs	Members of Parliament
MS	Member States (of the EU)
MSEs	Micro- and small enterprises
MTAP	Meteorology Transition Africa Project
MTEF	Medium-Term Expenditure Framework
MTR	Mid-Term Review
NACC	National Aids Control Council
NAO	National Authorising Officer
NARC	National Rainbow Coalition
NCRP	Northern Corridor Rehabilitation Programme
NDCF	National Drought Contingency Fund
NDF	Nordic Development Fund
NEAP	National Environmental Action Plan
NEMA	National Environment Management Authority
NER	Net Enrolment Ratio
NGO	Non-Governmental Organisation
NHSSP	National Health Sector Strategic Plan
NIP	National Indicative Programme
NLP	National Land Policy
NPV	Net Present Value
NSAs	Non-State Actors

ODA	Official Development Assistance
ODL	Open and Distance Learning
OVC	Orphans and Vulnerable Children
PACE	Pan-African Programme for the Control of Epizootics
PCM	Project Cycle Management
PEC	Poverty Eradication Commission
PEM-AAP	Public Expenditure Management - Assessment and Action Plan
PFM	Public Financial Management
PIP	Pesticide Initiative Programme
PMU	Project Management Unit
POPs	Persistent Organic Pollutants
PRBS	Poverty Reduction Budget Support
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PS	Permanent Secretary
PSD	Private-Sector Development
PTA	Preferential Trade Area
PV	Present Value
RBM	Results-Based Management
RIFF	Regional Integration Forum Facility
RIP	Regional Indicative Programme
RMLF	Road Maintenance Levy Fund
RPR&LGSP	Rural Poverty Reduction and Local Government Support Programme
SEA	Strategic Environmental Assessment
SERECU	Somali Ecosystem Rinderpest Eradication Coordination Unit
SES	Somali Ecosystem
SIDA	Swedish International Development Authority
SMEs	Small and Medium-sized Enterprises
SRA	Strategy for Revitalising Agriculture
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
TIVET	Technical, Industrial, Vocational and Entrepreneurship Training
TSC	Teachers Service Commission
TTF	Tourism Trust Fund
TWGs	Technical Working Groups
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UPE	Universal Primary Education
US	United States
USAID	United States Agency for International Development
USD	United States Dollar
VOC	Vehicle Operating Costs
VSO	Volunteer Service Overseas
WB	World Bank
WPCE	Work Plan and Cost Estimate
WTO	World Trade Organisation

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SUMMARY

Based on the principles of the Cotonou Partnership Agreement, the government of Kenya (GoK) and the European Commission (EC) prepared the Country Strategy Paper (CSP) for 2008-2013 under the 10th European Development Fund (EDF) in close consultation with non-State actors (NSAs) and development partners, in particular EU Member States. The CSP is aligned with Kenya's medium-term objectives and strategies and with the EU's development policies and priorities and also reflects the objectives of increased regional integration. As far as possible the CSP is harmonised with the response programmes of other development partners, as articulated in the draft Kenya Joint Assistance Strategy (KJAS) to enhance coherence and complementarity, in particular between the Commission's and the Member States' external support.

Kenya's development strategy is articulated in the Investment Programme for Economic Recovery Strategy (IP-ERS), the home-grown version of the Poverty Reduction Strategy Paper (PRSP), and in various related sector strategies and policies. Vision 2030, which builds upon the achievements of the ERS, is built on three pillars – economic growth, equitable social development and strengthened democratic political system. Good fiscal performance, macroeconomic reform and stability, reform of governance institutions and increased fiscal discipline exerted by the Medium-Term Expenditure Framework (MTEF) combined with consultations with stakeholders during the budgeting process have led to a successful recovery of the economy and increased investment in social services which, if sustained, will improve the economic opportunities and well-being of all Kenyans.

The CSP provides a comprehensive and coherent framework for EC-Kenya cooperation in the medium term and, as far as possible, combines all relevant resources and aid instruments. The indicative allocation for programmable resources (A envelope) totals €383m and the B envelope for unforeseen needs is €16.40m.

The response strategy was developed in a highly participatory manner and takes into account the past performance of EC assistance, the views of non-State actors and the findings and recommendations of the evaluation of the CSP for 2003-2007. The proposed support focuses on sector, regional and global strategies developed by the GoK and includes capacity- and institution-building in the public and civic domains. Evaluation and monitoring are based, to the maximum extent, on existing GoK procedures and coordinated between the GoK and the HAC group, which includes Member States.

During preparation of the CSP two focal sectors were identified: Regional economic integration by means of transport infrastructure and agriculture and rural development. Non-focal sectors will support capacity-building for: (i) improving governance and strengthening non-State actors; (ii) economic growth through trade and private sector development. Macroeconomic support lies at the core of the CSP to deepen economic growth within a regional perspective and to support equitable social development. General and sector budget support are the main aid instruments, supplemented by project support where possible under joint financing arrangements with other development partners, in particular Member States.

PART 1 THE COUNTRY STRATEGY PAPER

1. FRAMEWORK FOR RELATIONS BETWEEN THE EC AND KENYA

1.1. General objectives of the EC's external policy

In accordance with Article 177 of the Treaty establishing the European Community, Community policy in the sphere of development cooperation is to foster:

- the **sustainable economic and social development** of the developing countries, and more particularly the most disadvantaged among them;
- the **smooth and gradual integration** of the developing countries into the world economy;
- the **campaign against poverty** in the developing countries.

Europe maintains a coherent role as a global partner, inspired by its core values, in assuming regional responsibilities, promoting sustainable development and contributing to civilian and strategic security. The European Union has developed a broad spectrum of external relations tools, such as the common trade policy, cooperation under bilateral and multilateral agreements, development cooperation, humanitarian aid and financial assistance, as well as the external aspects of internal policies (energy, environment, transport, justice and home affairs, etc.). EU external action, including the Common Foreign and Security Policy, common trade policy and cooperation with third countries, provides a framework both for integrating all EU instruments and for gradually developing a set of common actions based on common positions in the broader sphere of political relations.

Enlargement has entrusted the EU with even greater responsibilities, as regional leader and as global partner. It will therefore strengthen its capacity to promote **human rights**, **democracy** and the **rule of law** as well as its capacity to focus on the fight against poverty, both in its own neighbourhood and through its multilateral and bilateral policies, which are mainly aimed at sustainable development and political stability. Thus, the EU will achieve genuine coherence between its domestic and its external agendas, contributing thereby to **global security and prosperity**.

1.2. Strategic objectives of cooperation with the Republic of Kenya

In an effort to support development in partner countries, the EC has been initiating relevant support policies, such as measures to deliver aid better and faster. In three Communications published in March 2006, the EC proposed practical measures to improve the effectiveness of development assistance. These proposals followed up the commitment given by the EU – in the 2005 Paris Declaration - to scale up aid substantially and to improve its impact and the speed of delivery in order to meet the challenges of the MDGs by 2015. The three Communications are:

- "*Delivering more, faster and better*" which presents a specific action plan and, for each action, sets out a working agenda for 2006-2007.
- "*Joint multi-annual programming"* which proposes a joint EU framework for programming development aid to improve its effectiveness.
- "*Financing for development and aid effectiveness*" which monitors the EU's performance against its commitments, in terms of the volume of aid and effectiveness of its delivery.

Because of the limited progress made towards achieving MDGs, in June 2005 the EU adopted an ambitious initiative for *more aid* to the developing world, as outlined in its "EU Strategy for Africa". It provides a long-term, strategic framework for interaction between Europe and Africa at all levels: with pan-African institutions such as the African Union, with regional organisations and with national authorities. It defines how the EU can best support Africa's own efforts to promote sustainable development and achieve the Millennium Development Goals. The Strategy rests on three pillars: (i) **promoting peace**, **security** and **good governance** as central prerequisites for sustainable development; (ii) supporting **regional integration**, **trade** and **interconnectivity** to promote economic development; and (iii) improving access to basic **social services** (health and education) and protection of the **environment** to achieve MDGs 1-6 faster. In December 2005 the EU revised its development policy statement, the "European Consensus", which outlines common strategic objectives shared by the Member States.

The Treaty objectives are confirmed in Article 1 of the *ACP-EU Partnership Agreement*, signed in Cotonou on 23 June 2000 and revised in Luxembourg on 25 June 2005. The overarching objective of the *Cotonou Agreement* is to implement a common strategic approach to poverty reduction, consistent with the objectives of sustainable development and the gradual integration of ACP countries into the world economy. Cooperation between the Community and Kenya is geared to pursuing these objectives, taking into account the fundamental principles set out in Article 2, in particular encouragement of **"ownership" of the strategy** by the country and populations concerned, and the essential elements and fundamental element, as defined in Articles 9 and 11b of the Agreement. To complement the Treaty and the Cotonou Agreement, the *European Consensus on Development* sets the general policy framework at EU level. The primary and overarching objective of EU development policy is the **eradication of poverty** in the context of sustainable development, in line with the international agenda and paying particular attention to the Millennium Development Goals (MDGs). **Human rights** and **good governance** are other important objectives.

Better aid effectiveness is important to achieving poverty eradication. Therefore the EU will advance **coordination**, **harmonisation** and **alignment**. It will promote better donor complementarity by working towards joint multi-annual programming based on partner countries' strategies and processes, common implementation mechanisms, joint donor-wide missions and the use of co-financing arrangements. The EU will take a lead role in implementing the Paris Declaration commitments on improving aid delivery and it will capitalise on new Member States' experience to strengthen their role as donors. Policy coherence for development will advance and the purpose is that all **EU non-aid policies make a positive contribution** to developing countries' efforts to attain the MDGs.

The principle of **concentration** will guide the European Community country and regional programming. This means selecting a limited number of priority areas of action, through dialogue with partner countries, rather than spreading efforts in too many sectors. In this context the European Community will be primarily active in the following nine areas, taking into account its comparative advantages in a number of these: trade and regional integration; the environment and the sustainable management of natural resources; infrastructure, communications and transport; water and energy; rural development, territorial planning, agriculture and food security; governance, democracy, human rights and support for economic and institutional reforms; conflict prevention and fragile states; human development; social cohesion and employment.

The mainstreaming effort will be strengthened for four cross-cutting issues: (i) **good governance**, **democracy**, **human rights**, the **rule of law** and support for **NSAs**; (ii) the **rights** of children and indigenous peoples and gender equality; (iii) **environmental** sustainability; and (iv) the fight against **HIV/AIDS**. In each field of assistance, a reasonable financial envelope will be earmarked to ensure that mainstreaming is put into action.

1.3. Main bilateral agreements

The Cotonou Agreement builds on the achievements of the four Lomé Conventions, which for more than 25 years formed the basis for cooperation between the European Union and ACP countries. Due to major upheavals on the international stage, socio-economic and political changes in the ACP countries and the spread of poverty, with instability and potential conflict as its consequences, a rethinking of cooperation became necessary. Eighteen months of negotiations culminated in June 2000 with the signing of a new aid and trade agreement between the then 15 European Union Member States and 77 African, Caribbean and Pacific (ACP) countries – including Kenya - in Cotonou (Benin).

The Cotonou Agreement was concluded for 20 years, with a financial protocol and the possibility of revision every five years. Negotiations to revise the Agreement were launched in May 2004 and concluded in February 2005. The overriding objective of the revision process was to enhance the effectiveness and quality of the ACP-EU partnership. The new partnership establishes a clear link between the political dimension, trade and development and is based on five interdependent pillars: a comprehensive **political dimension**; a sharper focus on **poverty reduction**; a new framework for **economic and trade cooperation**; greater participation by **non-State actors**; and a reform of **financial cooperation**. The Economic Partnership Agreement (EPA) due to enter into force in 2008 will further enhance the partnership envisaged in the Cotonou Agreement. The first financial protocol (€13.5bn), to which the balance from previous funds (€9.9bn) was added, provided substantial financial resources. Loans worth €1.7bn from the European Investment Bank's (EIB) own resources took the total financial resources allocated to ACP countries for the period 2000-2007 up to €25bn. For the 10th EDF, the total ACP allocation is €24.39bn.

2. COUNTRY DIAGNOSIS

2.1. Analysis of the political, economic, social and environmental situation

2.1.1. Political and institutional situation

Kenya is governed by a democratically elected central government. General elections take place every five years and the last ones were held in 2002. For administration purposes the country is divided into eight provinces. Kenya enjoys a **participatory democracy** and **political pluralism**, which is related to the approach of the current leadership, despite some differences associated with the constitutional referendum of November 2005. The Constitution Review Bill would have addressed important issues such as electoral reform, human rights, presidential powers and the country's regional and district administration.

The next general elections are scheduled for 2007. The government has expressed its commitment to controlling election-related violence and to ensuring fair coverage of the election preparations and process. It will also be the responsibility of the government to safeguard the independence of the ECK during the process. Adoption and implementation of the Political Parties Bill before the 2007 elections would be an important step towards free and fair elections.

The government is committed to fighting **corruption**; the national anti-corruption plan is in place, incorporating legal and financial measures. Measures being implemented under this plan include enhancing the effectiveness of anti-corruption investigation agencies, building adequate prosecution capacity to handle corruption cases, making wealth-declaration public in order to discourage abuse of public offices and continuing to investigate economic crimes. The recent Africa Peer Review Mechanism (APRM) Country Report on Kenya highlights major achievements and also draws attention to specific challenges in connection with governance. However, the 2006 Transparency International Report ranks Kenya 142nd out of 160 countries on the corruption index. Kenya is nevertheless taking the APRM report seriously.

Tied to governance is the African Peer Review Mechanism (APRM), which reviewed Kenya's governance situation in July 2006. The review concluded that a number of **interlinked governance issues require a holistic and urgent approach:** managing diversity in nation-building; gaps in implementation of constitutional reform and consensus-building; corruption;

poverty and wealth distribution; land issues; gender inequality; youth unemployment; and transformative leadership.

Governance is one of the main issues for discussion between the government and development partners. Many governance reforms fall under a sector-wide approach (SWAP) known as GJLOS (Governance, Justice, Law and Order Sector Reform Programme, coordinated by the Ministry of Justice and Constitutional Affairs). The programme is focusing on policy and legal reform and strengthening governance institutions. So far **notable progress has been made** on several acts and policies to strengthen governance institutions, including: (i) ratification by Kenya of the status of the International Criminal Court in March 2005; (ii) reorganisation of the Department of Public Prosecution; (iii) preparation of a draft National Crime Prevention Strategy; (iv) development of strategic plans for the Ministry of Justice and Constitutional Affairs and for the State Law Office; and (v) Anti-Corruption and Ethics Acts. However, despite some progress, Kenya's police and prisons continue to be poorly rated and public prosecution is still weak and limited. The government recognises that new bills still need to be enacted, notably on political parties, witness protection, crime and money laundering, anti-terrorism, marriage, sexual offences, matrimonial property, domestic violence, gender equality, companies, insolvency, partnership, landlords and tenants, small claims courts, traditional courts and private prosecutions.

General security, above all in urban areas, often linked to high poverty levels, remains a challenge and the government is seeking to address this problem. In 2005 the government embarked on an extensive fight against firearms (new bills, amnesty for surrendering weapons, recovery of arms and fight against arms smuggling). A "Nairobi - safe city" project is striving to improve security and community policing in the capital and other urban centres. Related to this, crime statistics are being updated to give more reliable information for measuring progress in the field.

Skirmishes, partly tribal-related, have been noted over water, grazing and livestock. **Conflicts** are aggravated by drought, remoteness and trans-border migration to gain access to scarce natural resources. This has been felt particularly in the north and north-eastern parts of the country. The government is stepping up security in these areas and has launched several initiatives to improve preparedness and to address the underlying causes of conflicts. Land ownership and land rights issues are being addressed.

Development partners, including some EU Member States, have been supporting the government's efforts to reduce the risk of further **terrorism** attacks. The government has been assisted with improving security at key entry points into the country, such as the main airports, the port of Mombasa and border areas. However, there have been concerns about effective control of access to airports and national borders. The government is tackling terrorism with the anti-terrorism police and other means. Adoption of key anti-terrorism bills will reinforce these efforts. Via the Inter-Governmental Authority on Development (IGAD) and other regional groupings, the government has been playing a leading role in stabilising regional disputes.

2.1.2. Economic and commercial situation

Economic situation, structure and performance: The government's medium-term **fiscal policy** is built around three pillars: (i) a revenue policy framework that aims at maintaining **domestic revenue** at above 21% of GDP; (ii) an expenditure strategy that is gradually reducing the ratio of **current expenditure to GDP** while allowing expansion of poverty-reduction programmes and capital expenditure in the MTEF; and (iii) reducing the **budget deficit** to less than 3% of GDP.

The economy has begun to show signs of **accelerated growth** after reversing the poor performance of the last decade. Real GDP growth rose to 5.8% in 2005, from 4.9% in 2004 and 3.0% in 2003, in spite of a resurgence of drought in 2004 and 2005. This was supported by growth in key sectors including tourism, transport and communications, construction, manufacturing and trade. GDP growth in 2005 was supported by **increased private consumption** and **gross capital formation**. Other key macroeconomic variables have continued to improve. Between 2004 and 2005 the overall **inflation rate declined** from 11.6% to 10.3%, **credit to the private sector grew** by 10.3% and **credit to central government declined** by 7.7%. The total outstanding stock of **public debt declined** by 1.4% and employment increased in the formal and informal sectors, although below the target by 5.9%.

While **fiscal reform** is by no means complete, reforms in tax administration have yielded good results and **domestic revenue has increased**. In FY 2004/05 a small overall budget surplus of 0.1% of GDP (including grants) was recorded due to above-target revenue growth, but also substantial under spending in the development budget. **Total revenue grew** by 13.6% in FY 2004/05, whereas **expenditure grew at a slower rate** of 9.8%. In 2005/06 development spending increased significantly, but still below target. Related to this, the **budget deficit (including grants) widened** to 3.3% of GDP.

Structural and sectoral changes in the economy: Over the last five years the contributions made to economic growth by individual sectors have changed. The contribution made to GDP by **agriculture and forestry** declined from 27.2% in 2001 to 24.2% in 2005, while that made by **manufacturing increased** from 9.8% to 10.5% and that by **services increased** from 29.4% to 31.8%. Meanwhile, the share of **gross fixed capital formation increased** from 15.8% in 2003 to 18.6% in 2005, while the share of **private final consumption declined** from 77% to 76.1% and of the government from 18.1% to 17.1%. In addition, the country continued to **integrate smoothly into the world economy**. The share of exports of goods and services in GDP increased from 23.8% in 2003 to 26.7% in 2005 while that of imports of goods and services increased from 29.8% to 37.4%.

The economy is **expected to grow strongly** with real GDP of 6.0% in 2007. The sectors expected to drive the growth include manufacturing, tourism, construction, trade, transport and communications. The 12-month underlying **inflation rate** – which excludes food, fuel and transport prices – has been more stable and kept within the Central Bank of Kenya’s official target of 5%.

The **Kenya shilling strengthened** against the Euro and the US dollar during 2005 (exchange rate up from 1€ = KES 105 in 2005 to 1€ = KES 91 in early 2007). This is attributed partly to higher interest rates, increased foreign exchange inflows and an upward revision of the growth prospects for the Kenyan economy. The strength of the Kenya shilling is widely regarded as having a **negative impact on Kenya’s competitiveness** against its main trading partners, particularly in the horticulture sector.

Kenya’s **current account deficit widened** from 0.5% of GDP in 2003/04 to 1.9% in 2004/05. The 18.3% increase in exports was more than offset by a 32% increase in imports, as a result of the acceleration of domestic economic recovery and higher oil prices. However, because of high private-sector capital inflows, only a small deficit was registered on the overall balance of payments. For FY 2005/06, exports and imports increased by 13.1% and 22.7% respectively.

Private-sector development:

While progress has been made on implementation of the Economic Recovery Strategy (ERS) for Wealth and the Employment Creation Strategy, **more effective implementation** is required in order to alleviate constraints to private-sector growth and achieve the targets set in the ERS. Some of the current issues are the poor **investment climate**, lack of structured **dialogue** between the public and private sectors, limited access to trade **finance for MSEs**, inadequate and poor quality **infrastructure**, low **productivity** of enterprises, poor penetration of **export markets** and limited **diversity** of exports (base), poor **service delivery** to the public and poor **graduation and evolution** of enterprises.

Tourism:
Tourism earnings **increased significantly,** by 51.9%, from KES 25.8bn in 2003 to KES 39.2bn in 2004, while international visitor arrivals grew by 18.7% from 1 146 100 to 1 360 700 over the same period. This trend has been sustained and figures for 2006 indicate that the sector international arrivals grew by 8.2% to 1.6 million visitors while earnings increased by 14.9%to KES 56.2billion from 48.0 billion in 2005. A slight growth in the tourism industry has a **multiplier effect** on trade, transport, manufacturing, agriculture and other sectors of the economy.

Agriculture, livestock and fisheries:
Agriculture is the most important sector in the Kenyan economy and **one of the main driving forces** for economic and social development. It contributes **26% of gross domestic product (GDP)**, 27% via linkages to agro-based and associated industries. **It employs 80% of the total labour force**, generates 60% of foreign exchange earnings, provides the vast majority of industrial raw materials and makes up about 45% of government earnings. Kenya's agriculture is predominantly **small-scale farming,** mainly in the high-potential areas, and accounts for 75% of total agricultural output and 70% of marketed agricultural produce. Production is on farms averaging 2 to 3 hectares for subsistence and commercial purposes. 16% of the land is of high to medium agricultural potential, with adequate and reliable rainfall and with crop land occupying 31%, grazing land 30% and forest 22%. The remainder is used for game parks, urban centres, markets and homesteads. 84% of Kenya is arid and semi-arid land (ASAL) and farming is constrained by low and erratic rainfall.

The livestock industry contributes 42% of agricultural GDP. The livestock herd is estimated to be over 60 million head. Livestock farming employs over **50% of the agricultural labour force**. Over 60% of all livestock is found in ASAL areas where it occupies 90% of the population of 7 million people. Five million people are engaged in livestock farming in high- to medium-potential districts. The livestock industry generates foreign exchange from exports of live animals, hides, skins and dairy products. The sector also supplies the domestic market (meat, milk, dairy and other produce) accounting for 30% of the total marketed agricultural produce.

Fisheries: The sector is mainly freshwater (lakes, rivers and dams) contributing 96% of the annual estimated fish catch of 150 000 mt, worth about 5% of GDP. 50 000 people are directly employed in this sector, mainly as fishermen, traders, processors and employees. Aquaculture, though, is still in its infancy, producing about 1 000 mt a year. On the local and regional markets, tilapia is the species most traded fresh. Other species traded in commercial quantities on the local market include omena, Nile perch, tuna, kingfish, shrimp and lobster.

Implementation of economic and other reforms: A number of reforms have been implemented and others are being finalised. The Public Procurement and Disposal of Assets Act was enacted in 2005, while the Anti–Money Laundering Bill has been submitted to parliament. Other reforms include enactment of the Privatisation Act 2005, passage of the Insurance (Amendment) Bill – aimed at introducing the insurance regulatory authority – the launch of the Government Public Financial Management Reform Strategy, initiation of performance contracts and results-based management (RBM) for civil servants and implementation of reforms under GJLOS.

Trade policy, external environment and EPAs: Trade continues to play a key role in Kenya's economic development. Kenya's export base is **founded on agriculture and livestock production,** with the ten largest products accounting for approximately 80% of total export earnings. The bulk of the products are exported in primary form. Although the share of primary exports in total exports declined from 70% in 2000 to 63% in 2005, adding value to exports remains a formidable challenge.

Kenya's economy is driving the growth of the EAC (East African Community), which became a customs union in 2005 with a common external tariff (CET). Kenya was also among the first nine countries to join the COMESA Free Trade Area. Under the multilateral trade negotiations, Kenya is providing **leadership within the ESA EPA framework** with the EU and in the WTO. A number of supply-side constraints remain to be attended to in order to maximise the potential benefits of trade liberalisation for the Kenyan economy.

Trade: Kenya's trade comprises trade in goods and trade in services.
Trade in goods accounted for an average of 48% of total foreign exchange earnings and of 20% of GDP over the period 2000 to 2005. Exports have grown steadily, from KES 134.5bn in 2000 to KES 244bn in 2005, but imports have remained higher than exports leading to a balance-of-trade (BOT) deficit, standing at KES 149bn in 2005. Regional integration under COMESA and EAC trade arrangements has played a key role in stimulating export growth with **total exports bound for the regional market accounting for 35%** of total exports in 2005. The EU has been a major destination market for Kenya's exports and accounted for 23% of Kenya's total trade (imports + exports) in 2005. This is a sign of the **positive impact of the preferential tariff regime** which Kenya's products have been granted on the EU market for the last 25 years or more.

Trade in services has made a significant and stable contribution to GDP, accounting for about 54% of GDP in 1998 and 51% by 2005. The most important sub-sectors are wholesale and retail trade and repairs, transport and storage, education, business services and construction.

State of infrastructure: Improving infrastructure (transport, water, energy, telecommunications and information technology) is a critical goal of the IP-ERS Investment Programme for Economic Recovery Strategy, both for national growth and to service land-locked countries in the region. Some progress has been made on **development, rehabilitation and maintenance of roads** throughout the country although about 30% of the roads are still in **poor condition**. The Road Maintenance Levy Fund has set a target of KES 15bn per year to cater for periodic and routine maintenance of the road network. However, additional funding of about KES 31.4bn per year will be required for backlog maintenance and rehabilitation.

Rail transport is the second most important mode of transport for both freight and passengers and comprises around 2 778 km of track. Kenya Railways (KR) also handles transit traffic to and from other countries in the region. Competitiveness and service delivery **are expected to be improved** following the granting of a 25-year concession to a South African Consortium to manage the Kenyan and Ugandan Railways, which began in November 2006.

Kenya has a relatively **well-developed air transport** system and remains an important regional hub with many local, foreign and private operators running services. To handle the growth in international and domestic air traffic, the Kenya Airspace Master Plan identifies several challenges including **rehabilitation and maintenance of airport facilities**, achieving international safety and security standards and improving airports' operational and management capability.

Marine transport consists of the port facilities in Mombasa plus shipping and inland waterway transport and container depots in Nairobi, Kisumu and Eldoret, which are managed by the Kenya Ports Authority (KPA). However, KPA faces a number of challenges, including the **competitiveness** of the port of Mombasa against Dar es Salaam, **clearance times** and **corruption**. The proposal is to establish a Maritime Regulatory Authority to oversee maritime activities in the country. The potential of inland and regional waterway transport is only partially tapped on Lake Victoria.

The government faces a major **challenge to improve the power supply coverage**, in particular in rural areas where only 5% of households are covered. The challenges include high oil prices and weak transmission and distribution infrastructure. Reforms are planned to foster competition in this sector, diversify energy sources and cut costs.

The **telecommunications sector is continuing to expand strongly** following extensive investment, particularly in mobile telephony services, Internet service providers and radio and television operations. These have also generated new support businesses. Growth in the sub-sector is exemplified by the more than **trebling of the mobile phone subscriber base** from about

1.6 million in 2002 to 5.6 million in 2005. By contrast, **fixed-lined connectivity declined** to an estimated 0.9 lines per 100 persons in 2004 from 1.0 in 2003. In the medium run the relatively high telephone costs are expected to decrease following commitment and investment in the Eastern Africa Submarine Cable System – an optical undersea cable system connecting countries in eastern and southern Africa and in the Horn of Africa with the rest of the world.

Infrastructure situation

The GoK recognises that the transport sector is a facilitator of rapid economic growth and reconstruction, poverty eradication and wealth creation for the country.

Over the last decade rail services have deteriorated due to financial, technical and operational difficulties compounded by the dilapidated state of track and insufficient rolling stock (locomotives and wagons).

Pipeline transport: the 800 km oil pipeline from the port of Mombasa via Nairobi to Eldoret transports 3.5 million m^3 of petroleum per year (2005).

Air transport: There are 156 public aerodromes and airfields in Kenya. Nine of them are managed by the Kenya Airport Authority and the rest are considered financially unviable. Three are international airports. Passenger traffic through international and domestic airports reached an all-time high of 5.9 million passengers in 2005. In addition, 272 372 tonnes of cargo was handled as air freight. A KES 10bn project funded by the World Bank for expansion of Nairobi Jomo Kenyatta international airport commenced in 2006 and will increase passenger capacity.

Maritime transport: Kenya has one seaport (Mombasa) which handles import/export cargo for Kenya, Uganda, Rwanda, Burundi, eastern DRC and southern Sudan. The port handles 13.3 million tonnes of cargo per year (2005).

Road transport: Road transport carries about 85% of all cargo and passenger traffic in the country. The public road network in Kenya currently measures about 177 800 km. A survey of roads in 2004 showed that only 70% of the network is in a serviceable/maintainable condition. Periodic and routine maintenance is now expected to be fully met by a recent increase to the fuel levy in the national budget for FY 2006/2007.

2.1.3. Social situation, including decent work and employment

Social context: Kenya ranked 152nd (out of 177 countries) in the 2006 Human Development Report, with an HDI of 0.491 and a rank of 60 (out of 102 developing countries). In 2004 life expectancy at birth was estimated at 47.5 years. The combined primary, secondary and tertiary gross enrolment ratio in 2004 was 60%, with a gross enrolment rate of 105.8% for primary schools and 29.8% for secondary schools.

As of 2006 Kenya's population growth rate is estimated at 2.57% per year.[1] Family planning has received limited attention from the authorities. Currently over 70% of the population is under 30 years old, making policies addressing **issues facing children, youths and young adults important** to Kenya's development. 43% of the population is under 14. Some of the key issues facing youth include a labour market that is generating far fewer jobs than the number of entrants to the labour force, the school drop-out rate for girls and diseases, such as HIV/AIDS, that pose a serious threat to well-being. Orphans and vulnerable children (OVC) are a particular challenge. The government created a Ministry of Youth in 2005 to focus on the specific issues facing Kenyan youth.

Women in Kenya face particular problems arising from poverty, domestic violence, HIV/AIDS and discriminatory practices in terms of access to education, inheritance, land, financial services

[1] The figure varies, depending on the source.

and employment. The government is promoting gender equality by means of reforms of policy and programmes, one of the most important of which is the free primary education programme. The government is addressing the issues of gender equity and mainstreaming, via the Ministry of Gender, Sports, Culture and Social Services and the National Commission on Gender and Development.

Education: Free primary education (FPE) has been a **success story**. At 82.1% the primary net enrolment rate (NER) in 2004 exceeded the ERS target of 81.5% and recorded an increase of 2.3 percentage points compared with 2003. The need for expansion of school infrastructure and the human resources implications of the FPE policy are immense. A number of constraints stand in the way of FPE: overcrowding in schools; late or non-disbursement of funds by some development partners; marked gender and regional enrolment disparities; and the devastating impact which HIV has had on the sector, with a high number of OVC. One major initiative to improve performance in the years ahead is the recent launch of the Kenya Education Sector Support Programme (KESSP) which will support the government in strengthening management and delivery of education services and improve access to and the quality and relevance of education and training.

Education situation

The overall goal is to achieve education for all (EFA) by 2015 in line with the national and international conventions. The sector faces the challenge of limited resources to achieve this goal. The Ministry of Education has several key strategic issues, which include access, equity, quality and relevance, completion and transition rates, affordability, management and teacher issues. Greater private-sector participation in education is critical for future expansion which will require a review of the regulatory framework with regard to private-school registration.

Health: Although the government was successful in **increasing spending** on health compared with previous years (currently standing at about 9%), it **fell short** of the 15% target to which it committed itself in the Abuja Declaration. Life expectancy is 51 years, the under-five mortality rate is 12% and nearly half of the youths in Kenya will not reach the age of 60. About 6.7% of the adult population is infected by HIV/AIDS. Progress towards MDG 4 (child mortality) has been negative, at 59.3% of the expected rate.

The latest data from the Ministry of Health (MoH) indicate **poor performance in the health sector against the IP-ERS targets**. For instance, the percentage of children under one year fully immunised was unchanged from the previous year and around 10 percentage points below the target. Similarly, the proportion of births attended by skilled health personnel was also well below target (42% against a target of 70.8%). Nor was the malaria target met. The Ministry has produced its second strategic plan (NHSSP II) which seeks to enhance management, create an enabling environment for private-sector and community involvement in health provision and establish an M&E framework. Progress has been made on HIV, though the rate of new infections remains high. The HIV prevalence amongst 15-24 year old women attending ANC was 10% against a target of 9.2%. This is being addressed in the National AIDS Strategic Plan for 2005-2010.

The health system is **still too fragile** to face all these challenges. One of the main reasons is that public financing of equitable health services is low. Estimates suggest that below €30 per capita per year it is not possible to finance a health system capable of retaining qualified health workers, providing essential medicines and equipment and allowing universal provision of basic health care. With low public financing, currently standing at €8 per capita per year (a quarter of the minimum needed), the government cannot provide basic health care services. Even with low quality and access to care, the government charges user fees for some basic health services, which pose a barrier to the many poor living on under €1 per day.

Health situation
The government is providing health services to Kenyans throughout the country. The private sector, missions and other not-for-profit organisations account for roughly 40% of the service provision and are thus important partners in the health sector. A coordination framework was agreed upon in 2004. The Joint Inter-Agency Coordinating Committee, chaired by the Minister of Health, provides guidance on health with explicit links to other sectors. In the MTEF, the health sector will receive increased funding from the GoK budget. For the 2006/07 budget year, KES 35bn was allocated to the health sector, which is equal to 8.99% of total expenditure. The allocation to this sector is forecast to rise to KES 43bn in 2008/09, equivalent to 9.4%. This still falls short of the target set in NHSSP II of 12% by 2010 and, even more so, of the 15% recommended in the Abuja Declaration.

Labour: There was an estimated **net increase** in the number of jobs created between 2003 and 2004 to 437 900, of which 36 400 were in the formal sector. The number of women in wage-earning employment rose from 521 200 in 2004 to 532 300 in 2005, taking their share in the total to 29.4%. Education, followed by agriculture and forestry, were the major female employers. The majority of females employed in the formal sector (57.3%) were working in community, social and personal services in 2005, when there were 404 600 regular female employees. Involvement of **women in decision-making positions remains a challenge** both in government and in private institutions.

The government continued its efforts to maintain a leaner work force and privatise non-strategic public enterprises in order to **contain the public-sector wage bill**. Public-sector employment declined in central government and the Teachers Service Commission, which are the main employers, resulting in an overall decline of 0.6% in wage-earning employment in this sector, which slipped back to 654 200 in 2005 compared with 658 200 in 2004.

The informal sector continues to play an important role in absorbing the unemployed. However, as **job creation in the formal sector has been improving** steadily, **growth in the informal sector has been slowing down**. Employment in the informal sector has grown by 37.2%, from an estimated 4 668 700 persons in 2001 to 6 407 200 persons in 2005. The ease of entry and exit, combined with the low technological requirements in this sector, make it fertile ground for job creation.

On **vulnerable groups**, the government has been implementing projects targeting the marginalised and vulnerable as part of the IP-ERS core programme to combat poverty. These projects and programmes are focusing mainly on OVC, youths, women and the disabled. Although a variety of initiatives have been taken, a number of problems must be faced: the **lack of a policy framework** in some areas; inadequate technical and financial capacity in the implementing agencies; and a lack of statistics on vulnerable groups which hampers planning and budgeting. The Poverty Eradication Commission (PEC) was relaunched in January 2005 to spearhead the war on poverty.

2.1.4. Environmental situation

The main environmental issues affecting Kenya are: (i) natural **resource degradation**; (ii) **loss of biodiversity** in the country's main ecosystems, including wetlands, forests and marine ecosystems; and (iii) the **socio-economic** environment: falling socio-economic indicators on health (high prevalence of major diseases, i.e. HIV/AIDS, malaria and TB), access to water and access to education. Most of the environmental challenges are of a regional nature based on shared resources, including pastoralism, trade and road networks. Other **trans-boundary** environmental issues include: (i) persistent organic pollutants (POPS); (ii) transboundary movements and disposal of hazardous wastes; (iii) reduction of substances that deplete the ozone layer; (iv) trade in endangered species; and (v) wetlands of international importance.

Resource degradation has been caused mainly by: (1) heightened **pressure on limited resources** (land, water and energy) which, in turn, is caused by (i) skewed **landownership**, (ii) lack of a comprehensive **land policy** regulating ownership, tenure and management, (iii) high **dependence on agriculture and livestock** for livelihoods and inadequate alternative job opportunities and (iv) population growth; (2) low land **productivity** in agriculture, especially in subsistence systems; (3) unsustainable **use of resources**; and (4) inadequately designed and managed **settlement schemes**.

The increased **pressure on natural resources in the ASALs** has led to degradation of these fragile ecosystems, increased erosion by wind and water and declining water sources. The increasing pressure on natural resources is leading to a marked recurrence of **resource-based conflicts**.

Kenya currently has a **sound environmental legislative framework** in place. The Environmental Management and Coordination Act (EMCA) came into force in 1999. The Act is administered by the National Environmental Council and implemented by the National Environmental Management Authority (NEMA). At national level the Ministry of the Environment and NEMA are directly responsible for dealing with environmental issues.

The Country Environmental Profile (CEP) study by the EC recommended support for the following areas: food security and rural development, the social sector, transport, trade and the environment, macroeconomic reforms and regional cooperation.

2.1.5. Kenya in the international context

Kenya is a signatory to international conventions on human rights, the environment, gender equality, refugees, labour law, the International Criminal Court, terrorism, organised crime, including trafficking in human beings, and corruption. The relevant conventions are listed in Annex 7.

An estimated 250 000 Kenyans work in western countries (see Annex 4: Migration Profile) and remit an estimated USD 700m per year. Kenyans are also working in the Gulf countries, mostly in low-skilled jobs. Kenya hosts about 240 000 refugees, mostly from Somalia and South Sudan. Kenya is a signatory to the international convention on refugee protection and has adopted a refugee-sensitive approach, with the result that refugees and asylum-seekers have been granted asylum and protected.

Kenya is a member of IGAD. With many of the countries in the region involved in internal and armed border conflicts, IGAD is promoting food security, economic cooperation and conflict management. Kenya played a key role in facilitating the signing of the Comprehensive Peace Agreement for South Sudan and formation of the Transitional Federal Government in Somalia.

Kenya is a member of the East African Community (EAC). The member countries view regionalism as a strategy for trade development and are keen to promote economic cooperation and sustainable use of natural resources and to support peace and security initiatives. The EA Customs Union, established in January 2005, also includes a common external tariff.

Kenya is a member of COMESA. It is geared to promoting cooperation and regional economic integration through trade development. With a population of 385 million, COMESA has the potential of a major integrated trading block. The Economic Partnership Agreement (EPA) negotiated between countries of Eastern and Southern Africa and the EU will further reinforce regional economic integration, foster south-south trade and attract increased investment. The EPAs are therefore an important tool towards increased growth, employment creation and development to Kenya and the region.

Kenya is an active member of the Regional Integration Forum Facility (RIFF), a policy framework jointly supported by the World Bank, IMF, African Development Bank and EC. Kenya is also a founder member of the World Trade Organisation (WTO).

Kenya was one of the first countries to be reviewed under NEPAD's African Peer Review Mechanism (APRM) on good governance.

2.2. Poverty-reduction analysis

Policy background: Inequality in Kenya is multi-dimensional and the only way to reduce poverty is by long-term sustained economic growth which addresses equitable income and wealth distribution, improved access to social services, human rights and political participation. To address poverty, the government is committed to **strengthening the conditions for private-sector development** by means of investment in transport infrastructure and communications and increasing the share of public resources for education and health. Resources for the agricultural sector will be boosted. On the MDGs, the government has prepared a longer term development strategy (Vision 2030) setting out its objectives.

Income and wealth: The proportion of Kenyans living below the poverty line of 1 dollar a day is still very high at 46%. Statistics show that the distribution of **income and wealth is skewed** in favour of the well-off. Disparities between urban and rural conditions are striking, with urban households more likely to have access to basic services.

Income opportunities – rural poverty dimension: Incomes in agriculture are lower than in other sectors. Furthermore, poor people depend on natural resources (land and water) for their livelihoods. Consequently, **rural poverty remains high**, especially in ASALs which make up 80% of Kenya's land mass.

Urban unemployment – urban poverty dimension: There are significant disparities in unemployment between urban and rural areas and between men and women. Much as the economy is growing, job creation is progressing slower than expected and the **majority of the urban population is unemployed or self-employed** in the informal sector, with lower wages. Slum-dwellers also spend a larger proportion of their income on food and water.

Income versus access to services: With the introduction of **universal primary education** in 2002 primary school enrolment increased from 67% in 2000 to more than 83% in 2006. The primary school attendance ratio for the top wealth group is 86% compared with 61% for the lowest. A similar pattern is observed for secondary school. Women are far less likely to complete secondary education and to find jobs in the formal sector.

Although health indicators have improved, they have not hit the targets set. The proportion of under-weight children decreased from around 33% in 2000 to 28% in 2004. The under-five mortality rate decreased only slightly to 110 per 1 000 live births. **Access to potable water is stagnant**, partly due to the increased population, at 48% in 2004. In both health and access to safe drinking water, disparities between the rich and poor are very wide.

Regional disparities, social well-being and gender dimension: Regional disparities are vast and reflect differences in economic development opportunities compounded by inequality in access to social services. The poverty maps indicate that **poverty varies widely between rural areas** from a mean constituency headcount of 31% in Central Province to 65% in Nyanza Province. The poorest rural residents of Nyanza Province suffer double the poverty incidence faced by their least poor rural counterparts in Central Province. Among the 210 constituencies, the poverty headcount ratio ranges between 16.5% for the least poor constituency (Kabete in Central Province) and 84% (five times higher) for the poorest (Ganze in Coast Province).

Analysis of the Gini coefficients for constituencies indicates that the index ranges from 0.30 to 0.43 (the higher the figure, the higher the inequality). Areas with **low levels of poverty exhibit the highest levels of inequality**. Ganze with a poverty index of 84% (the highest in the country) has the lowest inequality index (about 0.33), whereas Kabete constituency with the lowest poverty index (16.5%) has the highest inequality index on 0.43. In rich areas resources are held by just a few individuals.

A person born in Nyanza Province can expect to live 16 years less than a person born in Central Province. 93% of adult women in North Eastern Province have no education at all, whereas only 3% of adult women in Central Province have never been to school. Disparities between urban and rural areas in access to basic (medical, education, water and electricity) services are striking.

2.3. Kenya's development strategy

Kenya's development strategy is articulated in the IP-ERS, a multi-faceted medium-term development framework that aims to support economic growth, equity, poverty reduction and good governance. The IP-ERS is built around four pillars (see points (a) to (d) below), which are reviewed and updated annually. The ERS had a five year implementation plan, 2003-2007 and is being replaced by Vision 2030 which builds upon the achievements of the ERS. The Vision 2030 is built on three pillars – economic growth, equitable social development and strengthened democratic political system.

(a) Strengthen economic growth: The overall objective is to restore economic growth within a stable and sustainable macroeconomic framework of low inflation, fiscal sustainability and healthy balance of payments. The specific objectives include reducing net domestic borrowing, enhancing both the efficiency and effectiveness of public expenditure, by improving transparency and accountability in use of public resources and refocusing public spending on priority activities, and increasing domestic savings and investment. Continuation of appropriate fiscal and monetary policies and institutional reforms should ensure a stable macroeconomic environment that could support economic recovery and attainment of high and sustainable economic growth of at least 6% to 7% in the medium term and 10% over the long term. Trade liberalisation and greater commercialisation are considered the main vehicles for this and Kenya intends to continue to play a leadership role within the Eastern and Southern African region in the EPA negotiations with the EU and as a dynamic member of the G90 group in the Doha Development Round of the WTO. At regional level Kenya is part of the EAC customs union with Tanzania, Uganda, Burundi and Rwanda and is fully engaged in the COMESA economic integration process. The Private Sector Development Strategy is one of the medium term policy blue prints designed to achieve the private sector led interventions identified in the Vision 2030.

The **Private-Sector Development Strategy** (PSD) is anchored in five strategic goals: improving the business environment, increasing economic growth by means of trade expansion, transforming the institutions responsible for delivering services to the private sector, improving productivity and promoting development of entrepreneurship and indigenous enterprises.

The *2005 Investment Climate Action Plan (ICAP)* outlines the specific targets and timelines to achieve these goals. It targets activities that can **improve the investment climate**, including: managing insecurity; addressing the poor state of roads; fast-tracking construction approvals; streamlining licensing procedures; improving business registration; improving land administration; improving power hook-ups; updating company law; and improving customs and tax administration.

Within Kenya's private sector, **tourism is a strategic "quick win"** for the economy and holds great potential for poverty reduction. However, the sector is also highly vulnerable and susceptible to external shocks. Inappropriate pricing will lead to a fast decline. To minimise vulnerability and enhance sustainability, the government and private operators are developing a *medium-term* *tourism policy*, which aims to reposition tourism as the leading sector. Sustainability will be achieved by diversifying and promoting previously untapped regions to distribute tourism earnings widely throughout Kenya with maximum participation by local communities.

Trade: medium-term policy objectives

The overall goal is export-led growth geared to eradication of poverty by means of:

- a review of the legal and **regulatory framework** to support competitive trade and industry;
- **regional integration**;
- multilateral trade **policy reforms;**
- development of a **national trade policy** framework;
- **rationalisation and coordination** of the process of formulation and implementation of trade policy/facilitation.

Private-sector development (PSD): medium-term policy objectives

- Create a business environment **conducive** to growth by alleviating major constraints;
- Enhance the growth and **competitiveness** of the MSEs;
- Facilitate development and maintenance of **infrastructure**;
- Provide appropriate **education, training, awareness** and **capacity-building** programmes for local communities;
- Encourage participation by Kenyans in **ownership and operation** of PSD;
- Reposition PSD to make a substantial **contribution to employment** and GDP;
- Promote investment opportunities by encouraging and developing private and community **entrepreneurship**.

Tourism: medium-term policy objectives

- **Distribute** tourism earnings widely throughout Kenya;
- Ensure maximum **coordination** between conservation programmes of government agencies and non-governmental conservation organisations;
- Develop **facilities** and **products** in national parks and game reserves in accordance with well designed park management plans;
- Maintain cultural attractions and provide for reinvestment of revenue from park fees.

(b) Improve physical infrastructure: Improvement of the state of the road infrastructure is a key strategic objective to foster economic growth and social development. The Kenya Roads Board (KRB) is responsible for maintenance funding and general supervision of the road network. It also ensures proper planning, accountability and sound management. In the medium term, the government aims to complete road sector reforms, including legislation, implementation of a road investment policy, strategy and plan, institutional restructuring and legal reviews. This will contribute to establishment of a SWAP. To reform the roads sub-sector, three autonomous statutory road authorities have been established to develop and manage roads:

i) the Kenya National Highways Authority (KeNHA) for major roads (Classes A, B and C);
ii) the Kenya Rural Roads Authority (KeRRA) for rural areas and small town roads; and
iii) the Kenya Urban Roads Authority (KURA) for cities and municipalities.

With the assistance of development partners, the government has drawn up a road policy, strategy and long-term road investment plan (for 2007–2020). The new policy gives priority to maintenance and also proposes to transfer implementing responsibilities to the three authorities to be operated on commercial business principles. The Ministry of Roads and Public Works will concentrate on policy matters and retain only a nominal direct labour capacity for training and emergency works. The three authorities will receive funding for road maintenance from the Road Maintenance Levy Fund via the Kenya Roads Board (KRB), with funds for rehabilitation and new development coming from the Exchequer.

Investment decisions on rural roads will be guided by the positive impact on production, on domestic and external trade and on social development. Under the countrywide Roads 2000

Programme on rural road maintenance, bottlenecks in rural access roads are to be given priority by public stakeholder forums. Subsequent improvements and maintenance work will be undertaken by local small-scale contractors with a mix of labour-intensive and appropriate technology and equipment–based applications.

Transport: medium-term policy objectives

- Reduce **transport costs** and travel time by improving the condition of the roads;
- Optimise, increase and enhance **preservation** of existing road assets;
- Create an **environment conducive** to increased private–public partnerships;
- Enhance **road safety** and cater adequately to the needs of non-motorised traffic;
- Enhance ownership by means of **stakeholder participation** in the road sector; and
- Achieve an optimum **institutional framework** for effective implementation.

(c) Improve governance: Good governance is a pillar for sustainable development. Democracy and political governance and strengthening governance institutions are being addressed, in particular under the GJLOS programme. Its medium-term strategy for 2005-2009 is coordinated by the Ministry of Justice and Constitutional Affairs and implemented by a SWAP. **Governance** efforts are targeting appropriate **anti-corruption** legislation, better rule of law with the aid of a **strong judiciary**, enhanced local governance by **devolution** and sweeping public-sector reform. The government objectives (see Annex 9) were set in the GJLOS Medium-Term Strategy which was approved after a broad consultation process.

Governance: medium-term policy objectives

1. Political **governance and accountability** reforms;
2. Human rights reforms: **empowering the poor**, marginalised and vulnerable, by means of rights-based approaches;
3. Justice reforms: **equal access** to justice for all, including commercial law reforms;
4. Law and order reforms: focus on **crime prevention** and broader police and penal reforms;
5. Reform-oriented capacity-building: emphasising sector-wide **attitude and culture change**;
6. Civil service reform: to enable the civil service to play its part in Kenya's **socio-economic development** and enhance coordination;
7. Decentralisation and local government reform: **devolution of expenditure** to improve social services delivery, governance and citizens' participation.

(d) Invest in human capital: The government has committed itself to allocating an increasing share of its resources to poverty-reduction programmes, in particular to education and health. Provision of **quality primary education** for all remains a key priority and the government will continue to provide funding for free primary education. To mitigate challenges, *inter alia* in the KESSP the government outlines 23 **investment programmes** with a pro-poor focus, which include primary school instruction material and infrastructure, water and sanitation, school health, nutrition, hygiene and feeding and HIV/AIDS awareness. In addition, **expansion of secondary schools** and **tertiary training facilities** will be supported to match the output from primary schools adequately. The SWAP to *education* indicates how the government plans to enhance access, equity and quality at all levels of education and training.

The government acknowledges the important roles played by **technical, industrial, vocational and entrepreneurship training** (TIVET) in skills development, job creation and poverty reduction. However, the sub-sector's growth has been haphazard and uncoordinated due to lack of a unified policy, legal weaknesses and inadequate funding. TIVET curricula have been inflexible and outdated. As a result there is a mismatch between the skills learned and the skills demanded by industry. To address this, the government will involve stakeholders in developing a national skills training strategy and will devise mechanisms and apply appropriate incentives to promote private-sector investment in development of TIVET by means of research, training and joint projects.

The government intends to enhance the accessibility and affordability of **quality basic health services** for all Kenyans with special emphasis on the poor and the vulnerable. Health spending will be gradually increased in line with MTEF projections and with internationally agreed norms. Under National Health Strategic Plan II (2005-2011), resources will be **shifted from curative to preventive** services and investment in expanding services in rural areas, focusing on *reducing inequalities in health care and reversing the downward trends in health-related impact and outcome indicators*.

The *Kenya National* ***HIV/AIDS Strategic Plan*** *for 2005–10* aims to build on the recent results in terms of reducing infection rates to ensure that the progress is not reversed. The priority is to prevent new infections among vulnerable groups. The strategy also targets **improving the quality of life** of people infected and affected by HIV/AIDS by improving treatment and care, protecting rights and increasing access to services. Mitigating the **socio-economic impact** of HIV/AIDS is another priority.

A major part of the population is engaged in agriculture. The government is therefore seeking to revitalise this sector, aiming at 3% to 4% annual growth with the aid of a multi-faceted and coordinated sector approach under the Strategy for Revitalising Agriculture (SRA). Its six priority areas include: (i) reviewing and harmonising the legal, regulatory and institutional framework; (ii) restructuring and privatising non-core functions of para-statal institutions and Ministries; (iii) improving delivery of research, extension and advisory support services; (iv) improving access to quality input and financial services; (v) improving access to both domestic and external markets; and (vi) formulating food security policy and programmes. The SRA will involve stakeholders in planning and implementation with a view to supporting sustainable and sound management of natural resources.

To promote productivity and diversification in agriculture, in 2004 the government developed the SRA, which aims to transform the sector to profitability and to add to its capacity to attract private investment and generate employment. The Agricultural Sector Coordination Unit (ASCU) is responsible for leading the reform process and coordinating activities across sub-sectors. Implementation of the SRA is a huge challenge for the government and development partners.

The SRA aims to **make Kenya's products more competitive on international markets** and improve producers' incomes. It recognises the declining performance of agriculture. The main challenges facing this sector are the inappropriate policies and legal framework, weak market orientation, poor management leading to scarcity and degradation of natural resources, inadequate community and private-sector organisation and empowerment, poor rural services and inadequate social infrastructure. Moreover, the continued marginalisation of the low-productivity areas results in recurring high-level food insecurity.

Agriculture, among other sectors, faces a serious problem in the form of child labour. Many children either drop out of school or do not even enrol. The government will work on mainstreaming child labour prevention into other national laws and policies. This needs to permeate into the Education Act, the Children's Act, the Industry Act and policy documents like the orphans and vulnerable children policy.

Education: medium-term policy objectives

- Ensure that **all children**, especially girls, those in difficult circumstances and those from marginalised/vulnerable groups, have access to free and compulsory primary education by 2010;
- Improve the **quality** of education and training so that recognised and measurable learning outcomes are achieved, especially in literacy, numeracy, essential and relevant life skills by 2010;
- Ensure that the learning needs of all, both youths and adults, are met by means of **equitable access** to **appropriate learning** and **life-skills** programmes by 2015;
- Promote and popularise **information and communication technology (ICT)**, ODL at all levels of education and training and also science and technology education;

- Improve the quality, efficiency and **relevance of teaching, learning and research** at **universities and TIVET** institutions by 2010;
- Increase the proportion of **women in teaching, administration and research** at all levels of higher institutions by 2010;
- Increase the proportion of persons with **special needs** in teaching, administration and research at all levels of higher institutions by 2010;
- Introduce **new working methods** which will provide **linkages** between all higher education and training institutions and communities by 2010.

Health: medium-term policy objectives

- Increase **equitable access** to health services;
- Improve the **quality** and **responsiveness** of health services;
- Improve the **efficiency and effectiveness** of service delivery;
- Enhance the **regulatory capacity** of the Ministry of Health;
- Foster **partnerships** on improving health and delivering services;
- Improve the **financing** of the sector.

Agriculture: medium-term policy objectives

- **Continue** paying attention to development of rural areas and agriculture in an effort to address poverty, unemployment and food and nutritional insecurity;
- **Review and harmonise** the legal, regulatory and institutional framework in the sector with the aim of removing barriers to production, processing and marketing of agricultural produce;
- Restructure the agricultural research system to make it more **responsive** and **efficient** in technology development and transfer;
- Take measures to **improve access** to quality inputs and address value addition to make the produce competitive.

2.4. Analysis of viability of current policies and medium-term challenges

The IP-ERS annual reviews highlight encouraging results in relation to economic recovery, fiscal performance, sustaining the revenue-to-GDP ratio and growth of key economic sectors. Regional integration and access to international markets provide major opportunities for Kenya to increase its trade in goods and services, partly boosted by a well-trained labour force. Increased public investment in human capital will sustain economic and social development. The government has successfully undertaken a number of budgetary, public expenditure reform and deregulation measures and reforms of para-statal institutions, including divestiture and introduction of performance-based contracts in public agencies. Governance institutions have been strengthened and accountability in public expenditure improved. A democratic space has been opened up, media are expanding and well developed and ICT is playing an increasingly important role in economic and social life. Efforts have been made to analyse current policies concerning leading sectors of the economy and identify the medium-term challenges.

Transport and economic infrastructure: The transport infrastructure, although improved by recent reforms, investment and backlog maintenance, will need to be maintained. Furthermore, the **slow pace of upgrading and rehabilitation of the regional links** between Kenya and Uganda, Tanzania, Ethiopia and Sudan and international markets is still inhibiting growth in the East Africa region. The major challenges facing the roads sub-sector are: misapplication of funds, sub-standard work by some contractors, failure to follow a sustainable road maintenance discipline, politicisation of road development, poor accountability and general bureaucratic inefficiency on the part of public institutions responsible for implementing road works and, finally, the speed and success of the reforms in the road transport agencies.

In the case of **rail transport**, successful concessioning of Uganda Railways jointly with Kenyan Railways will remain a challenge. The two corporations have handed over their operations to the Rift Valley Railways under the concession arrangements.

The **energy sector** faces the challenge of improving access to and the reliability of power supplies. Parliament enacted a new energy policy in 2005, aiming at reducing Kenya's high power costs, increasing the reliability of supplies and expanding the network. Encouraging **private-sector participation** in generating and distributing energy is another critical aspect.

Private-sector development: The main challenges facing private-sector development and competitiveness in Kenya include uncompetitive infrastructure and utilities, the inefficient legal and regulatory framework for business operations, cumbersome trade facilitation procedures, low levels of labour productivity, a constraining macroeconomic business environment, crime and corruption, poor governance and an unfriendly environment for micro- and small enterprises.

In the short to medium term economic growth is constrained by the **strong Kenyan shilling which makes exports less competitive** vis-à-vis trading partners. Revenue from divestitures will need to be compensated by sustained government tax revenue to maintain investment in social service delivery. The public-sector wage bill, albeit decreasing, is constraining public investment capacity. Civil service reform will be needed to make funds available for the investment required in transport infrastructure, social services and agriculture, while at the same time retaining essential staff in the civil service.

Social development: Continued investment is required in basic social services in order to broaden the opportunities for development and achieve the MDGs. Following the introduction of free primary **education**, the sector faces a variety of major challenges: overstretched facilities, overcrowding in schools, high and skewed pupil-teacher ratios, gender and regional disparities, an increased number of orphans due to HIV/AIDS, diminishing community support and poor quality. In addition, secondary school facilities are not expanding adequately to match the output from primary schools.

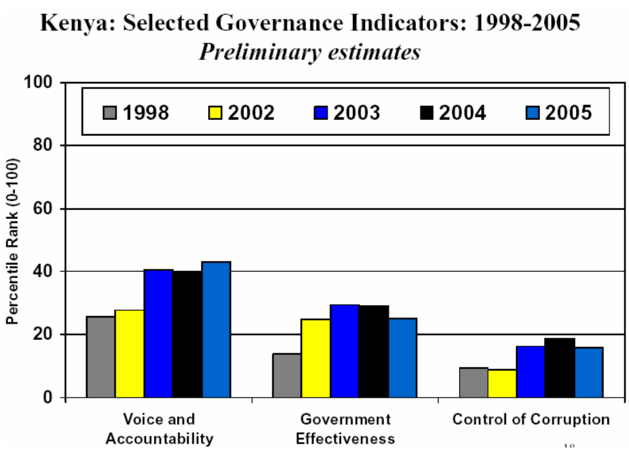
The government initiated a sector-wide approach to **water** planning in October 2006, with broad participation by stakeholders. Water-sector reforms are widely supported by international donors with a strong driving force from within the Ministry of Water and Irrigation (MWI). Implementation of the ACP-EU Water Facility is supported by the MWI. Access to safe water and improved sanitation services are challenges for Kenya. The *2002 Water Act* envisages providing water services on a commercial basis, separating the roles of service provider, regulator and oversight body. Revenue from users has doubled in cities. The current issues are: improving the services, upgrading the network, consolidating reforms, expanding the network in urban areas, developing rural water supplies and creating capacity to manage and maintain the services once the infrastructure is established.

Enhancing agricultural productivity and rural development: Fundamental policy changes include institutional, legal and regulatory reforms which are necessary to achieve the PRSP objectives. The reform process is rather slow due to the complexity of the sector, with too many Ministries involved and the far-reaching implications of a number of reforms.

Support for decentralised systems and strong **community involvement** are considered key elements of successful delivery of services to rural communities. Increased capacity on the part of local authorities, direct financial support for community initiatives and gender parity along with decentralised policies are essential for implementing the SRA and accelerating meaningful rural development.

Kenya is regularly hit by **drought** which reduces agricultural production and increases food insecurity. This stress has increased tensions and conflicts between competing communities in areas with limited natural resources. Drought preparedness, prevention and mitigation must be improved. Sound environmental management practices related to agriculture, livestock, fisheries, forestry and wildlife are required to ensure sustainable production, income and job generation, particularly in the ASALs.

Governance: Improving governance is a critical focus for the government of Kenya. A comprehensive action programme on governance has had positive effects on governance outcomes and Kenya has improved its ranking on three out of six indicators, according to the 2006 governance indicators analysis by the World Bank Institute (see below). **Weak control of corruption** remains the principal challenge.



Source: Kaufmann D., 2006

The main challenges highlighted include: slow progress in addressing the colonial legacy and enhancing national unity; balancing resources for development programmes across the country; delays in constitutional review; absence of broad-based and inclusive political parties founded on truly national agenda; lack of confidence and trust in public institutions; corruption; high incidence of poverty and pervasive unemployment; under-representation of women in key leadership positions; lack of efficient public-sector service delivery and enforcement mechanisms; ineffectiveness of the Parliamentary Oversight Committees; and limited access to finance for small businesses.

By virtue of their scale and scope, the governance challenges facing Kenya put great strain on the government's capacity to deal effectively with diverse issues at macro level, although since 2003 the government has progressively been pursuing a clear strategy focusing on the most critical areas. The strategic activities have, with reasonable success, been targeted on **transparency and accountability in public services**, capacity-building in governance institutions, human rights and civic education. Experience so far suggests that substantial results will require sustained efforts and genuine commitment to accelerate and deepen success.

The government's efforts to improve governance have been facing a number of institutional and legislative challenges and obstructions, especially in the fight against corruption. However, the government remains committed to systematically addressing these challenges by implementing further reform measures under the medium-term National Anti-Corruption Plan and the Governance Action Plan (GAP) for July 2006–December 2007. The GAP is one of the tools for implementing the National Anti-Corruption Action Plan.

The **slow pace of decentralisation** constrains the responsiveness and accountability of social service delivery at local level. Kenya's decentralisation path is diverse, combining deconcentration, devolution and delegation to the district governments, provinces, constituencies and para-statal institutions. More **accountable service delivery** at local level would enhance trust on use of public resources and contribute to a stable political environment.

Land is critical to economic, social and cultural development in Kenya. It is crucial to attaining economic growth, poverty reduction and gender equity. Kenya has no clearly defined or codified *national land policy* (NLP). Moreover, land administration and management are based on an outdated legal framework. Resolution of land administration and management problems will be critical for sustainable economic recovery and also for minimising **conflicts and tensions** between various communities and contributing to national unity in diversity. It is imperative that the NLP process be geared towards clear definition and determination of the following core issues:

- insecure land tenure, in particular for the urban and rural poor, for women, for households affected by HIV/AIDS, for pastoralists and for other vulnerable groups in both urban and rural areas;
- poor land administration, characterised by limited access to land information due to poor quality records, protracted technical processes, lack of transparency and user friendliness;
- weak and/or ineffective mechanisms for fair, timely, affordable, transparent and accessible resolution of land disputes;
- persisting fragmentation, with 80% of small farms consisting of less than 2 hectares, making them uneconomic;
- poor governance in land administration, management and dispute resolution;
- diverse land tenure regimes with little harmonisation.

The government recognises that a *national land policy* must be formulated to lay the foundation for equitable growth. It has initiated the process within the national land policy secretariat, but extensive consultations between stakeholders will be required in order to reach agreement. Development of a land information system would improve land administration and management. Capacity-building in local and district land control tribunals would open up access to justice for Kenyans involved in land disputes.

Development partners: Kenya's development partners are working towards **harmonisation** and **alignment** of their support with the IP-ERS to improve the effectiveness of their response. Better **coordination** of aid will further enhance coherence and reduce transaction costs. These efforts will also stimulate **"silent" partnerships** (or delegated cooperation) and greater use of aid instruments such as basket funding and budget support to sector-wide programmes. Various joint **financial arrangements** for government institutions are also in place or planned.

3. OVERVIEW OF COOPERATION AND POLITICAL DIALOGUE, COMPLEMENTARITY AND CONSISTENCY

3.1. Overview of past and present EC cooperation

The 9th EDF CSP evaluation analysed performance at strategic levels. Overall the strategy was assessed as relevant and in some sub sectors, such as community development, governance and trade, the comparative advantage of the EC has been well recognised. The overall assessment rated both the effectiveness for the two focal sectors and general budget support as satisfactory; however, efficiency and sustainability were rated as weak.

3.1.1. Focal sectors

a) ***Agriculture and rural development**:* According to the CSP evaluation, a distinction could be drawn between two sub sectors: agriculture and livestock farming on the one hand and community development (including local government) on the other. Overall performance on the community development side has been satisfactory, while in the agriculture sector some delays have been incurred in approval of the research programme. Since the launch of the SRA in March 2004, efforts have been made towards a SWAP in this sector, though they have been slow. The sector faces marked fragmentation of responsibilities across various Ministries making coordination difficult. With the coordination of ASCU, implementation of the SRA is expected to be effective and positive. National thematic working groups have been established, with private-sector participation, in order to facilitate review of regulatory frameworks for agricultural commodities and organisations and to coordinate research and extension. On agricultural research, the EC initiated a €7.9m programme under the Kenya Arid and Semi-Arid Lands (ASALs) research project. The overall goal is to reduce poverty in ASALs by means of substantial and sustainable improvements in rural livelihoods. The purpose of the programme is to generate and validate agricultural knowledge and technologies for ASALs with the aid of research for development. It pays special attention to developing models that can enhance adoption of research results amongst farmers and pastoralists. It intends to build up KARI's capacity and experience in mainstreaming gender into agricultural research.

The government is in the process of undertaking crucial reforms in the coffee sector to liberalise the market by allowing direct sales. Nevertheless, good governance and professional management of cooperatives is the key to improving markets and benefiting smallholder producers directly. Government budgets to support reforms in the coffee sector have been set aside.

Under the "EC assistance under the accompanying measures for Sugar Protocol countries", Kenya developed an elaborate strategy to revitalise the sugar sector for 2007. The outcome of this strategy will inform the decision on the support to be requested for 2007. Major issues that continue to affect the sector include: inadequate diversification at farm and factory levels, minimal privatisation, high inefficiencies and low productivity. This has lead to **high pricing of Kenyan sugar**.

Following the 2005 consultations between the EC and the Kenya government, a **country environmental profile** (CEP) was developed to identify and assess issues for consideration during future programming. The profile highlights key environmental challenges, policies, strategies and possible programme options. It establishes key linkages between the environment and poverty reduction, hence constituting a major source of **baseline data for policy dialogue and cooperation**.

On the basis of *The State of the Environment Report* for 2004 by NEMA, the EC, under the **Community Development for Environmental Management Programme (CDEMP)**, is supporting NEMA with preparing and implementing a five-year Strategic Plan. A number of other donors are involved in supporting NEMA and a coordinated approach is being implemented. A donor coordination group is already in place.

In 2005 Community Development Programme (CDP) II achieved total commitment of its investment funds (€10m) and disbursement of 56%. Sectors supported included education, water and sanitation, health, economic infrastructure and integrated programmes targeting the poorest and most vulnerable communities in the country. The Biodiversity Conservation Programme (BCP) ended in March 2006 and has been succeeded by the €13m Community Environment Facility (CEF), funded under the CDEMP.

In line with the government's focus on **drought**, prevention and preparedness mechanisms, the EC is supporting efforts to institutionalise and operationalise a National Drought Contingency Fund from the B envelope of €17.6m in order to address chronic food insecurity.

In collaboration with the Kenyan government, the EC is supporting the Rural Poverty Reduction and **Local Government Support** Programme, signed in September 2004. The programme is designed to cover 175 local authorities and aims to support decentralisation strategy by building enhanced delivery capacity.

b) ***Roads and transport:*** Although assistance to the roads sector was highly relevant given the situation in Kenya, the design of the strategy showed some problems. It underestimated the risks and overestimated the commitments of the government to take forward the reforms in this sector. Ownership by the government has improved and clear steps are being taken to implement the sector strategy, including maintenance. Over the period 2004-2006 notable progress was made on the physical road works and the road sector reform.

- Formulation studies were commissioned for the Northern Corridor Rehabilitation Programme (NCRP) III to cover 220 km financed by the EDF (€57m).
- At the same time implementation of a programme to upgrade 223 km of rural roads in tea- and coffee-growing areas of Central Kenya took off, at a cost of €36.728m (EC contribution €21.25m), in collaboration with KfW.
- Under NCRP I (€79.5m - 7th and 8th EDF) the 131 km Sultan Hamud–Mtito Andei road rehabilitation works contract (€75.5m from the EDF) was officially opened in February 2006.
- Under NCRP II (€55m - 9th EDF) the 95 km Mai Mahiu–Naivasha–Lanet road rehabilitation contract was due for completion in October 2007.
- The second phase of the EC/STABEX Roads 2000 rural roads project in Eastern Province (€10.5m - STABEX) was implemented from FY 2006/2007. The project will apply the Roads 2000 maintenance strategy, taking a network approach incorporating routine maintenance, prioritised partial rehabilitation and spot improvements making maximum use of small-scale contracting for job creation.

Implementation of accompanying measures on environmental protection has been considered in the road works under NCRP I and II. It is in the interest of the stakeholders to mainstream water infrastructure and hand it over to communities along the funded roads. HIV/AIDS awareness and treatment activities are also considered. A number of legal and institutional systems are still weak or inadequate. Encouraged and advised by the EC, the government is making efforts to address the bottlenecks by means of legal and policy reforms covering the roads sector.

c) ***Macroeconomic support:*** A large proportion of the EC support to Kenya under the 9th EDF took the form of **general budget support** (GBS). The Poverty Reduction and Budget Support (PRBS II) programme totalled €125m. The EC was the only donor in this field. The 9th EDF evaluation rated both the relevance of the EC budget support and its negotiation process satisfactory. The effect of the budget support could not be assessed as only the first tranche was disbursed (€50m, December 2005) but the negotiations on the EC budget support have produced a good dialogue and achievements on macroeconomic and public financial management reforms (for which financial support was provided) and also on governance. It is in the interest of the government to ensure fiscal sustainability and to reorient public finances towards capital investment and delivery of services.

In June 2004, the Commission and the NAO launched an independent audit of the previous STABEX 92/93 Advanced Budget Support Programme. By highlighting various deficiencies in Public Expenditure Management and ineligible expenditure the audit report provided valuable lessons for future budget support programmes. In particular, the audit designed a Matrix of Corrective Measures (MoCM) to enhance transparency, efficiency and accountability of PFM in the sectors supported by the programme. Full implementation of the MoCM was also one of the overall conditions for the disbursement of the second instalment of PRBS II.

The second review of the IMF PRGF Programme which constitutes the general condition of implementing PRBS II was not concluded in 2006 due to perceived challenges in governance, while macroeconomic performance and progress with structural reforms has been deemed satisfactory. The IMF Board eventually approved the 2nd review on April 10th 2007 after the Kenyan authorities took governance related actions, including cabinet approval of the Governance Action Plan and the posting of contract awards on government websites. Notwithstanding recent challenges in political governance, Kenya has made progress in PFM reform. The monitoring of the implementation of the MoCM concluded that all 46 corrective measures have either been substantially completed (92%) or transferred to the PFM reform programme (9%)., In addition, further PFM Performance Benchmarks have been achieved and a comprehensive PFM Reform Programme has been developed and officially launched. The dialogue and cooperation between development partners and the government in PFM is well advanced with regular discussions taking place. Prospects of building on this scenario depend critically on the political will and leadership to further advance the reform agenda.

Use of budget support as a financing method provides a good framework for public policy, public expenditure and alignment of development partners around government procedures by integrating their support into the national budget and enabling donors to focus on the "big picture". By putting money through national processes and adopting common reporting procedures, existing government structures and procedures, especially in the area of PFM, are strengthened and the transaction costs of delivering aid are potentially lower than for other forms of aid. However, budget support also means planning risks as it involves the decision to disburse large amounts. Support for national policy and strategy lies at the heart of general budget support programmes; the PRSP (ERS/Vision 2030) outlines a coherent programme of action. The ERS Implementation Matrix, approved by the World Bank and IMF Boards in May 2004, has been tracked through two subsequent annual progress assessments – for 2004 and for 2005.

The EC has continued to provide technical assistance to the government in the field of macroeconomics, including for the Independent Procurement Review, the findings of which provided valuable input to the Public Procurement and Disposal of Assets Act 2005. The EC co-funded Kenya's 2005 Integrated Household Budget.

3.1.2. Projects and programmes outside focal sectors

The various budgets (EDF, STABEX, EC budget) several of which are using Calls for Proposals, result in activities in many sectors outside of the focal sectors.
Ongoing activities funded from the 8th and 9th EDF and STABEX are providing support for democratic governance, institutional capacity-building, including in the NAO's office, decentralisation of health services, tourism, preservation of cultural heritage and institutional capacity related to the EPA-trade negotiations. Support for NSAs and specific support for the private sector are also factored into the 9th EDF. While diverse in nature, these programmes have played a major role in supporting reforms and processes in the country.

a) ***Governance and support for NSAs:*** Under the 8th EDF the EC funded the Democratic Governance Support Programme (DGSP) (€6.6m), which ran from mid-2003 to the end of 2006. The DGSP supported 31 NGOs in their activities relating to democracy. Their work brought a noticeable increase in: public participation in governance, empowerment of local communities and lobbying and advocacy; community monitoring of grassroots development projects; and defence of human rights. The programme is also supporting other NGOs under the National Civic Education Programme. It has continued to engage various public bodies, including the Law Reform Commission, the Kenya National Assembly, the Electoral Commission of Kenya and the Kenya National Commission on Human Rights to improve capacity and technical operations. The NSAs-NET (€6m - 9th EDF) will build on the DGSP's achievements.

b) ***Institutional capacity-building:*** The EC is supporting institutional capacity-building in all sector-related programmes. Some horizontal capacity support programmes were implemented over the period 2003-2007. Between 2005 and 2006 three types of assistance were provided: the NAO support package, Service Support Package (SSP) II and *ad hoc* technical assistance. In 2006 the Technical Cooperation Facility (€4m) started. It has three main components: a Technical Assistance Facility; a Training and Capacity-Building Facility; and a budget for conferences and seminars. In 2005 the EC also contributed to substantial capacity-building by supporting the costs of secondment of an IMF official to the Ministry of Finance.

c) ***Private-sector development:*** The EC-financed Micro-Enterprise Support Programme Trust (MESPT) facilitates credit provision to MSEs from MFIs. In 2005 MESPT disbursed KES 217.5m as loans. Further support to micro-enterprises from the 9th EDF (€7m) started in 2007. It is concentrating on capacity-building in private-sector/MSE associations, MFIs, dissemination of business information and support, notably in the horticulture and fisheries sectors (paying special attention to women). In addition, in response to an EU-ACP call for proposals on capacity-building in micro-finance institutions, launched in mid-2005, the K-REP Development Agency received funding for a "village banks" project (2006-2008).

d) ***Tourism:*** EC support is focusing on direct marketing of Kenya as a tourist destination, product diversification, formulation of a national tourism policy and regulatory framework and design of a Tourism Information and Statistics System. Kenya's tourism marketing was repositioned under the "Tourism Institutional Strengthening and Market Promotion Programme" (TISMPP), which focused on strengthening the marketing efforts by the Kenya Tourism Board (KTB) and on adapting Kenyan tourism products to market demands. The recent recovery of the sector can to a large extent be credited to an EU-funded Tourism Market Recovery Programme (2003/04). With support from the EC, preparation of the National Tourism Policy was completed in 2005. As part of the Tourism Diversification Programme, development of Tourism Area Plans started in 2005.

e) ***Development of trade and horticultural exports:*** As the EPA negotiations have intensified, Kenya has shown strong leadership in the ESA group and many of the negotiating positions have been informed by technical studies carried out under the KEPLOTRADE Programme. The EC is providing support for Kenya's trade negotiations, with the specific objective of supporting smooth operation of Kenya's negotiating machinery, a transparent mechanism for consultations with stakeholders and a back-up mechanism for demand-driven studies and providing training and capacity-building as required. The EC has been active in joint consultations with the government, private sector and the media on horticultural exports. In 2005 the EC financed two workshops for stakeholders to discuss pertinent issues on EU food safety regulations. The EC designed a programme to support KEPHIS to strengthen sanitary and phyto-sanitary measures and requirements for horticultural products for the export market.

f) ***Health:*** The EC is active in various consultations and activities: in collaboration with donors and the government, the EC supported formulation of the National Health Strategic Plan for 2005–2010 with the aid of effective stakeholder consultations coordinated by the Ministry of Health. Since 2004 the EC has been funding the health sector (€15m) under the District Health Services and Systems Development Programme (DHSSDP), for which the Financing Agreement was signed in 2002. The programme covers 20 districts in two provinces. A SWAP for the sector is also ready.

g) *__Education:__* The Education SWAP – known as the Kenya Education Sector Support Programme (KESSP) – was successfully finalised and launched in July 2005. It aims at achieving EFA and MDGs. KESSP was developed to consolidate and sustain the gains made by the free primary education (FPE) policy and to address the challenges facing the sector. The document lists 23 investment programmes to be implemented in five years (from 2005 to 2010) at an estimated cost of €5.9bn. The Commission is involved in the education SWAP and also in dialogue with the Ministry of Education to monitor key education indicators identified as triggers for the PRBS II variable tranches. The EC has also committed about €3.8m to community projects in this sector to improve the basic infrastructure from 2001-2005 under CDP II. In 2005 the Commission funded the teacher staffing norms study.

3.1.3. Utilisation of the B envelope

In January 2007 the EC signed the Financing Agreement with the GoK to implement the Drought Management Initiative (DMI). The project aims at improving the effectiveness and efficiency of drought management systems in Kenya. In particular, the project is assisting the government with institutionalising a National Drought Contingency Fund (NDCF) that will make funding available in timely fashion as appropriate to mitigate the impact of drought-related crises. The project provides resources to boost the existing Drought Contingency Fund under the Arid Lands Resource Management Programme (ALRMP) of the Office of the President, Ministry of State for Special Programmes. It also provides resources to assist with legalising and institutionalising the NDCF.

3.1.4. Other instruments

__a) STABEX:__ The Commission has continued to use STABEX funds on a number of programmes to support the 9th EDF strategy. Action has focused on:
- roads: Roads 2000 phase II (€5m) and the Central Kenya Rural Roads Programme (€1.25m);
- rural development and agriculture: horticulture (€2.4m), coffee-sector reform (€5m) and support for the ASCU/Strategy for Revitalising Agriculture (€2m);
- budget support: advanced budget support in FY 2003-2004 (€51m).

__b) Regional and intra-ACP cooperation:__ In the 9th EDF Regional Strategy for Eastern and Southern Africa, Kenya has benefited under each sector:
(i) economic integration: the Regional Integration Support Programme has enhanced regional harmonisation and standardisation and strengthened the capacity for EPA negotiations;
(ii) infrastructure: the 9th EDF RIP is funding a share of NCRP II; and
(iii) management of natural resources: the Regional Programme for Sustainable Management of the Coastal Zones of the Countries of the Indian Ocean and the Lake Victoria Fisheries Management Plan (LVFMP).

Kenya has also benefited from intra-ACP cooperation, *inter alia* under the Pan-African Programme for the Control of Epizootics (PACE - €77m), the Pesticide Initiative Programme (PIP) and Strengthening Fishery Health Conditions in ACP/OCT countries.

__c) EU Facilities:__ Two Facilities have started operations – the ACP-EU Water Facility and the ACP–EU Energy Facility. Two calls for proposals under the Water Facility have been issued: Kenya attracted eight projects at a total cost of €40.5m in the first call with a contribution from the Water Facility of €23.5m. Implementation of projects under this Facility is expected to run until 2012. The Energy Facility, for which Kenya is eligible, is generating projects that will bring the country new energy initiatives and is likely to run on until 2012.

__d) Community thematic budget lines:__ Three budget lines are relevant to Kenya: (a) co-financing with European development NGOs – action in developing countries - both block grants and projects; (b) the Programme on the Environment and Tropical Forests in Developing Countries; and (c) aid for poverty-related diseases (HIV/AIDS, tuberculosis and malaria) in developing countries. Complementarity and coordination are ensured between the EDF support and the budget line projects. The Commission also fits these projects within the overall national policy framework, priorities and strategies for the various sectors.

e) ***ECHO:*** ECHO has been in the forefront in providing humanitarian aid to respond to crises in Kenya, supporting various agencies to mitigate the effects of drought and secure the livelihoods of the populations affected. Particular attention has been paid to avoiding disrupting the beneficiaries' coping mechanisms. Between 2002 and 2006, €16.6m was allocated to Kenya under five funding decisions (including €3.8m from the 9th EDF in 2004). Under these decisions, ECHO provided funding for the World Food Programme, UNICEF, ICRC, DRC-DK, COOPI, CORDAID-NL, CARE-UK, GAA, Merlin, AAH-UK, MSF-B, Oxfam Intermon, VSF-B, ACH-E and Oxfam GB. These organisations intervened in the Northern, North-Eastern, Eastern and Coastal Regions and in parts of the South Rift Region. The key components have been: logistical support for food relief distribution; water and sanitation; health and nutrition; livestock-related food security with the aid of veterinary services and emergency off-take; and flight services. The initiatives have been successful in saving lives in the areas affected, especially during the 2005-06 country-wide droughts. A €2m decision was the latest in the series and the funds are earmarked for drought recovery projects.

f) ***European Investment Bank:*** The EIB is providing support for economic growth in Kenya, mainly in two areas: private enterprise promotion, including assistance to small and medium-sized enterprises (SMEs), and public infrastructure development, notably for electricity generation and distribution. Kenya is one of the larger recipients of EIB assistance in the ACP States, having attracted total financing of €217m under the fourth Lomé Convention. New financing of €102m has been granted so far under the Cotonou Agreement.

3.2. Programmes of the Member States and other donors

The government is working closely with donors to maximise development efforts. Harmonisation of programmes and alignment with government policies are further strengthened by the Kenya Joint Assistance Strategy (KJAS), and the Partnership Principles. China and Malaysia are recent entrants in the donor arena and are as yet not participants in the HAC. Other initiatives are in place in the form of thematic donor sub-groups set up to consult and share ideas on consistency and approaches. Various programmes in relation to the IP-ERS are listed in Annex 6 as part of the harmonisation road-map together with a matrix of sectors in which donors are active.

3.3. Coherence with other EC policies

Looking beyond the frontiers of development cooperation, the EC is aware that non-aid policies can have an impact on developing countries. EU policies in areas such as trade, agriculture and food safety, the environment, governance and migration have a direct bearing on the ability of Kenya to progress towards the MDGs.

Security and conflict prevention: Security is a precondition for development. The EC has enhanced its policies to support good and effective governance and is promoting cooperation on fighting corruption, organised crime and terrorism. The government has contributed significantly to regional peace and stability, notably in the Sudan. The Commission strongly supports initiatives in this area and will play a facilitating role where possible.

Agriculture: The EC is continuing its efforts to minimise the level of trade distortion caused by its measures to support agriculture. The EC is actively assisting Kenya to meet the sanitary and phyto-sanitary (SPS) standards, in order further to increase exports of agricultural and fisheries products. In addition, efforts are being made to ensure consistency with a number of relevant all-ACP programmes dealing with SPS challenges.

The EC adopted the accompanying measures for the Sugar Protocol in 2005. In Kenya sugar reforms are being addressed by developing a response strategy for the "Adaptation Strategy to forthcoming changes in the EU sugar regime." Kenya launched the strategy in 2007. The overall sugar strategy is expected to be implemented during the timeframe of this CSP.

Trade and regional integration: The EC recognises the dependence of ACP countries on a number of export commodities and is developing accompanying measures to help local producers and processors adapt to the higher hygiene and food safety standards required in international trade. The forthcoming EU policy on Aid for Trade, along with the ongoing EPA negotiations, will guide programming of future EU support in this field.

The EC is working closely with Kenyan counterparts towards concluding the negotiations on Economic Partnership Agreements (EPAs) by the end of 2007. Implementation of the EPAs will be supported by development cooperation, in particular by reinforcing supply-side capacity and competitiveness. The EC will actively follow the national joint discussions on Aid for Trade.

Environment: The December 2005 European Consensus on Development highlights the need for a stronger approach to address the environment and sustainable management of natural resources as a cross-cutting issue. Special attention is being paid to promoting integrated development activities. The EC is ensuring that integrated development activities are promoted in the programmes to be implemented in Kenya.

Since 1997 environmental protection requirements have been integrated into definition and implementation of Community policies. The May 2001 Development Council's integration strategy gives centre-stage to integrating environmental considerations into policy and programming and stresses the importance of mainstreaming environmental issues into the priority areas for EU development cooperation. This importance is reaffirmed in the European Community's Sixth Environment Action Programme (2002-2012). The annual Environment Policy Reviews (EPR) for 2005, conducted in early 2006, highlight the strong links between the economy and the environment. Particular attention is paid to improving linkages with the regional programmes, especially ESA-IOC.

Migration: The EC is promoting synergies between migration and development to make migration a positive factor for development.

3.4. Fostering democracy and political dialogue with the government of Kenya

The EU believes that dialogue with the government and key stakeholders, in an open and constructive spirit, contributes to better understanding and to establishing agreed priorities and shared agendas. The EU recognises the strong link between development, economic and political reforms and has been supporting poverty-reduction policies, initiatives on good governance, democratisation and human rights and economic and public-sector reform.

The EU's political dialogue with Kenya began in February 2002 and encompasses the following areas: democratic principles, human rights, constitutional review, economic and structural reform, governance, the environment, security and regional affairs. The government is committed to enhancing this dialogue and sustaining a structured channel of communication to keep common development strategies up to date. The EU is supporting three relevant initiatives: the DGSP, GJLOS and a fund for NSAs (NSA-NET). The DGSP has enhanced democratic governance. The components supporting public entities are part of the GJLOS, which supports the government's efforts on improved governance, justice, law and order. NSA-

NET funds democratic governance NSAs, NSA networks and cooperation between NSAs and the government.

The Kenya Governance Profile illustrates the state of and progress made on governance in the country. The EU has engaged with the government to outline and agree on realistic and achievable targets on governance.

3.5. State of the partnership with the Republic of Kenya and progress towards harmonisation and alignment

Along with other development partners (the HAC group), the EC is using the KJAS as a basis for implementing the IP-ERS and the emerging Vision 2030. The KJAS also links achievement of MDGs to implementation of the IP-ERS. With the aid of coordination by the KJAS, the EC envisages: a significant reduction in corruption and improvements in public-sector management; creation of infrastructure to serve as a platform for economic growth; improved delivery of basic services; encouragement of private-sector development; and promotion of sound management of forests, soil, pastures, water resources and fisheries. One major characteristic of the strategy is its emphasis on partnership between the government, development partners and non-State actors.

The KJAS is centred on three principles consistent with the Paris Declaration on Aid Effectiveness:

- support implementation of country-owned and government-led strategies to improve social well-being and achieve the MDGs;
- collaborate more effectively between development partners and the government;
- focus on results and outcomes.

The KJAS was developed to steer harmonisation and coordination of development assistance by:

- meeting monthly as the Donor Coordination Group to discuss economic, political and social developments;
- establishing a harmonisation, alignment and coordination donor group that meets every two weeks to serve as the secretariat to Kenya's Donor Coordination Group;
- increasing coordination and sharing analytical and advisory work, appraisals and reviews, fiduciary assessments and accountability rules;
- increasing coordination of sector support by means of SWAPs, bringing projects funded by development partners into alignment with sector strategies and meeting in subsector groups;
- adopting silent partnerships, in which one development partner formally represents another in policy and sector dialogue;
- participating in comparative advantage studies to identify sectors in which to play key roles.

The KJAS seeks a partnership to support implementation of the government strategy in which:

- partners will fully align their activities;
- partners will increasingly support joint analytical work and dialogue with the government;
- partners will adapt the level and nature of their support in response to emerging national development needs.

In future KJAS partners will

- seek to increase their selectivity in the programme and policy areas in which they engage;
- strive to achieve greater harmonisation at sectoral level;
- finally, if Kenya improves its own governance issues, jointly prepare budget support credit.

In this context, as no single donor is able to support every sector, division of labour between donors will ensure that all sectors given priority by the ERS are covered not only financially but also in terms of policy dialogue.

4. RESPONSE STRATEGY

To define its response strategy for the 10th EDF, the government of Kenya has extensively involved the line ministries, NSAs and development partners. This has led to a higher level of alignment of EC support with the existing poverty-reduction programmes, in particular the IP-ERS. The EC response builds on the national consultation process, development partners' harmonisation initiatives and the MTEF national budgeting arrangements. A focus on sector and budget support helps with building capacity and strengthening institutions. The response strategy is based purely on Kenya's evaluation and monitoring efforts without adding specific requirements that would divert the government's attention and resources.

The EC response to the economic development and poverty reduction challenges in Kenya is designed to assist in sectors considered key for the future development of the country in Vision 2030, and also in the context of the EPA implementation, through addressing major supply side constraints in areas for which EC has a comparative advantage. The EC support will be integrated into the ERS/Vision 2030 and MTEF processes and limits direct project funding to a minimum, such as for covering community-based empowering programmes and part of the support for the non-focal areas. The 10th EDF resources will be programmed to support these principles.

During the strategy-making and programming process, the principle of concentration was applied. The specific focus of the various instruments is outlined in Part 2 – National Indicative Programme. Two focal sectors for EC support were identified:

- regional economic integration by means of **transport infrastructure**;

- With regard to transport infrastructure, the response strategy is founded on a number of interrelated actions aiming at: consolidating the positive results of earlier support to policy and institutional reforms;
- improving network investment and maintenance strategies.
- enforcement of more effective axle load and weight restrictions.
- implementation of the National Road Safety Plan.
- Supporting the implementation of the Master Plan for Urban Transport in the Nairobi Metropolitan Area
- Support to the Road 2000 strategy on rural access roads with particular emphasis on local capacity building and participatory planning approaches.
- overall integration and interoperability of transport management system (ports, railways, air).

- **agriculture and rural development** to enhance the ability of poor rural households to raise their incomes.

With regard to agriculture and rural development, the response strategy is mainly founded on the basis of the Strategy for Revitalising Agriculture (SRA), an integrated multi-sectoral framework to develop the capacity of the Government and the private sector to jointly develop the agricultural sector. The strategic objectives of the SRA, are the following:

- To create an enabling environment for agricultural development by reviewing the current legal and policy framework;
- To promote market and product development by taking a value chain approach;
- To improve extension, advisory, support and other services;
- To promote conservation of the environment and natural resources by means of sustainable land use practices;

- To restructure and privatise the non-core functions of para-statal institutions and Ministries involved in rural development;
- To improve access to quality inputs and affordable credit for producers;
- To formulate food security policy and implementation programmes.

In addition, support will be given to community-based poverty reduction and environmental management initiatives.

The two focal sectors will be complemented by **macro-economic support** and other activities that will have two thematic dimensions: (i) capacity building for public **policy institutions**, **governance** and strengthening of NSA and (ii) creating a favourable climate supportive to **private sector** development and export-led growth through support to trade, private sector development and implementation of an EPA.

Trade is a complementary tool to development aid and is equally instrumental in promoting growth and reducing poverty. Potential for economic growth through expansion of trade has been given key focus in the Kenya Private Sector Development Strategy launched in January 2007. Important trade negotiations, including EPA, are set to be concluded before 2008. The Commission will support Kenya in implementing the accompanying trade policy and structural reforms. This will include building capacity in trade policy, support to trade facilitation and strengthening the enabling environment for and competitiveness of the private sector. The CSP contributes to the promotion of regional integration, addresses supply side constraints at the level of production, markets, distribution and transport, to enhance Kenya's competitiveness on regional and global markets including value addition and diversification of goods and services.

Macroeconomic support provides additional financial resources for implementing the ERS/Vision 2030 and, in particular, preserving macroeconomic stability and reducing poverty. By providing direct budget support to the national budget and making implementation of the programme conditional on budget reallocations to ERS priority sectors within the government's MTEF, GBS supports more efficient fiscal policy and service delivery in health and education. Since GBS is based on the principle of supporting governments' policies and strategies, it contributes to increasing government ownership of EC development aid. By implementing the programme through the national budget, instead of relying on parallel, non-government and often costly management structures, it supports lasting capacity-building in existing government structures and procedures, especially for PFM.

In general, strong emphasis is put on the wider governance context. The government has taken commitments towards improving governance, many of which are also relevant to sound economic governance. The commitments are listed in Annex 9. These commitments are consistent with the governance action plan and APRM, and are supported by the international donors.

General budget support will be supplemented by sector budget support (SBS) for specific policies and strategies in individual sectors, such as regional economic integration by means of transport infrastructure and agriculture and rural development.

To increase the poverty eradication impact of EC support, macro-economic support allows the government to improve budget allocations on the basis of poverty eradication priorities, in particular investing in human capital of the poor. Current Health and Education SWAp-s may supply some of the triggers for GBS. GBS will also be conditioned on actual MTEF allocations for Vision 2030 priority sectors and outcomes of Vision 2030 monitoring indicators. It will be supplemented by capacity building support to improve management of the budgetary process.

The EC response can be outlined as follows:

<u>Overall objective</u>: Sustainable economic growth and poverty reduction in Kenya.

Purpose: To improve conditions for sustained economic growth and equitable poverty reduction.

Results:
- Transport infrastructure improved to enhance regional integration and access to markets for local communities;
- Increased ability of rural households to raise their incomes;
- Enabling macroeconomic environment for sustained economic growth;
- Improved democratic governance and stronger non-State actors; and
- Private sector expanded and strengthened.

The indicative financial allocation from the 10th EDF is divided into an A envelope of €383m and a B envelope of €16.4m. The A envelope is programmable, whereas the B envelope covers unforeseen needs, such as emergency assistance, contributions to debt relief initiatives and support to mitigate the adverse effects of instability in export earnings.

Cross-cutting issues will include: (i) democracy, good governance and human rights; (ii) gender equality and equity; (iii) environmental sustainability; (iv) the fight against HIV/AIDS; and (v) conflict management and peace-building. **In every area, adequate support to NSAs will be considered** and may be implemented by applying the relevant articles of the Cotonou Agreement. A percentage of the overall financial envelope for each sector will be set aside specifically to ensure integration of cross-cutting issues. To ensure the visibility of EC support, each programme will include a specific budget line for visibility measures (information, education, communication, etc.).

PART 2 NATIONAL INDICATIVE PROGRAMME

1. INDICATIVE PROGRAMME

1.1. Introduction

On the basis of the cooperation strategy presented in Part 1 and in accordance with Article 4 of Annex IV to the Cotonou Agreement, the Indicative Programme has been drawn up as a set of tables showing the framework for action in each sector, the financing timetable and a detailed schedule of activities for all programmes listed over a rolling three-year period.

The amounts mentioned in this chapter indicate the overall breakdown of funds between the focal sector(s), macroeconomic support and other programmes. The breakdown may be adjusted in the light of the operational, mid-term, final or *ad hoc* reviews. However, any adjustment resulting in a substantial change to the structure of the response strategy will require a formal decision in the form of an addendum to the strategy paper.

1.2. Financial instruments

Implementation of the EC's cooperation strategy with the Republic of Kenya will be financed from several financial instruments. The following is an indication of the mobilisation currently envisaged.

1.2.1. 10th EDF (A envelope) €383.0m

This envelope will cover long-term programmable development operations under the strategy, in particular support for transport infrastructure to enhance regional integration; agriculture and rural development; and other programmes, including support for good governance and non-State actors; Trade and Private Sector Development and the Technical Cooperation Facility.

Sector	Amount €m	% of total
Focal Sector 1: Regional Economic Integration by means of Transport Infrastructure	126.8	33 %
Focal Sector 2: Agriculture and Rural Development	98.8	26 %
Macroeconomic Support	126.8	33 %
Other Programmes:	30.6	8 %
- Trade and Private Sector Development	16.8	4.4 %
- Good Governance including NSA (*)	9.2	2.4 %
- Technical Cooperation Facility	4.6	1.2 %
TOTAL A ENVELOPE	**383**	**100%**

* This does not include the financial support for NSAs under other sectors.

Assistance will be offered to support NSAs involved in the focal and non-focal sectors. Specific financial allocations will also be included at the formulation stage for five cross-cutting issues: (i) good governance (including anti-corruption activities), democracy, human rights, the rule of law, the rights of children and indigenous peoples and conflict prevention; (ii) gender equality and equity; (iii) environmental sustainability; and (iv) the fight against HIV/AIDS and other infectious diseases; (v) conflict management and peace-building.

Environmental sustainability and the fight against HIV/AIDS will be mainstreamed into all the operations in all concerned sectors and specific financial allocations will be earmarked for them in each programme.

1.2.2. 10th EDF (B envelope) €16.4m

This envelope will cover unforeseen needs, such as emergency assistance which cannot be financed from the EC budget, contributions to internationally agreed debt relief initiatives and support to mitigate the adverse effects of instability in export earnings. In accordance with Article 3(5) of Annex IV to the Cotonou Agreement, this amount may, if necessary, be increased in the light of the operational or *ad hoc* reviews.

In order to continue providing support to the Drought Management Initiative funded from the B envelope under the 9th EDF and to support the government in allocating resources to the National Drought Contingency Fund, funds from the B envelope will be released to mitigate the impact of the droughts regularly affecting the country. In this field increased attention will be paid to LRRD activities.

1.2.3. Investment Facility

In addition to the above-mentioned financial instruments, of which the A envelope is the main programmable basis for the NIP, the 10th EDF also includes an Investment Facility managed by the European Investment Bank. The Investment Facility is not part of the NIP. Financial support by the EIB in Kenya from Investment Facility resources will be guided by the considerations set out in Chapter IV of the Country Strategy Paper. Some specific activities may be supported by the **Centre for the Development of Enterprise** (CDE) and the **Centre for the Development of Agriculture** (CTA) whose budgets will also be drawn on outside the NIP.

1.2.4. Regional Indicative Programme

The 10th EDF East and Southern Africa Regional Indicative Programme will cover long-term programmable development operations under the regional strategy for Eastern and Southern African. The allocation is not part of the Indicative Programme but will be taken into consideration at national level, depending on participation by Kenya in the programmes proposed under the regional framework.

The regional programmes will focus on economic integration and infrastructure including support to EPA accompanying measures , natural resources management including food security, and other non-focal programmes.

1.2.5. Other financial instruments

Specific activities may be supported by external action funded by the general budget of the European Community under the financial framework for 2007-2013, subject to a special procedure and availability of funds, and out of the own resources of the EIB. Action funded by the general budget includes, among others, programmes funded under the Development Cooperation Instrument, such as the thematic programmes on "investing in people", "non-State actors in development", "migration and asylum", "environment and sustainable management of natural resources" and "food security" plus action funded from other instruments, such as the stability instrument, the instrument for the promotion of human rights and democracy or the instrument for humanitarian and emergency assistance.

Within the framework of the accompanying measures for Sugar Protocol countries, a total of €6.23m has been allocated to Kenya for the period 2007-2010 to assist with the reform plan for production-dependent people and organisations.

The ACP-EU Water and Energy facilities are funded through the EDF's intra-ACP allocation. Their overall objective is to contribute to poverty reduction and sustainable development through the achievement of the specific Millennium Development Goals (MDGs) and World Summit for Sustainable Development (WSSD) targets on water, sanitation and increased access to energy services by the poor rural population in ACP countries. Funding from the facilities become available to eligible stakeholders from all ACP countries on the basis of a competitive and demand driven process through centrally launched Call for Proposals.

Various Kenya state and non-state stakeholders have been rather successful with regard to positively evaluated applications to both facilities, with a number of water related projects already under implementation. The implementation of both types of projects shall be coordinated with GoK line ministries, also in an effort to streamline their contribution towards supporting relevant sector support approaches.

1.2.6. Monitoring and evaluation

Monitoring of the results and evaluations of the impact of individual activities (programmes, projects and sectors) under this CSP will be undertaken in line with the Technical and Administrative Provisions attached to each individual Financial Agreement concluded to implement the CSP.

The results and impact of the Community's cooperation with Kenya, implemented under the NIP and other external action funded by the general budget of the European Community, will be assessed by means of an independent external evaluation. This country-level evaluation may be undertaken jointly with EU Member States and, possibly, also with other donor agencies.

1.3. Focal sectors

1.3.1. Focal sector 1: Regional economic integration by means of transport infrastructure

Justification for Selecting this Sector:: The PRSP National Stakeholders Forum in 2001 identified the poor state of the Kenyan road network as a major constraint on economic growth and poverty reduction due to its adverse impact on transaction costs and access to economic and social services. The main national policy document "Vision 2030" identifies the rehabilitation of the dilapidated network, the building of new roads, including rural access roads, and the strengthening of the legal and institutional framework among its core components. In the Vision 2030, the transport sector as a whole has been identified as a third pillar of the economic recovery effort.

Investing in infrastructure, and in particular, the road sub-sector is one of the EC's areas of comparative advantage in Kenya, given the historical presence in the sector and active collaboration with regard to the policy reform process. The country's state of connectivity remains low and a significant number of areas including North-Eastern Kenya remain disconnected from markets as a result of the poor condition of the road network, with a notable adverse effect on poverty, access to social services and economic diversification especially in the remote rural areas. The sector still suffers from inadequate maintenance and ineffective axle load enforcement coupled, facing also the challenge of increasing diversion of of cargo traffic to roads from the railway system, currently at the initial stages of a concession phase. Investing in roads and supporting connectivity, is widely acknowledge as one of the key actions for opening markets, increase competitiveness in the country and promote regional integration.

The GoK has initiated road sector reforms to this effect, starting with a comprehensive policy and strategy review, building on the recommendations of an EDF funded study undertaken in 2004. At this stage, a number of building blocks necessary for promoting sustainability in the road sector are noted:

- The establishment of an executive Kenya Roads Board (KRB) in year 2000, to manage through a Kenya Roads Board Fund (KRBF), the proceeds of the pre-existing Road Maintenance Levy Fund (RMLF, 1994) and oversee the development, rehabilitation and maintenance of the road network.
- A new road sector policy which was ratified by the Parliament in 2006 and legislated as the Kenya Roads Act (September 2007) which is expected to result in the creation, by the end of 2007, of autonomous road agencies with clear political, managerial and commercial mandates and financial autonomy.
- The establishment of a Joint Reform Steering Committee bringing together government departments and key donors to provide follow-up towards the implementation of the new sector policy and the implementing legislation of the said sector policy .
- A strategy for rehabilitation and maintenance of the rural road network (and a Road Investment Plan,
- Renewed efforts to enforce axle load and weight restrictions[2] through investment in the rehabilitation of relevant infrastructure and the future involvement of the private sector in its management.

As part of the recent road sector reform initiatives, the EC supported the finalisation of strategies for the new policy framework, as well as the preparation of a long term 2007 – 2020 Road Investment Plan. The Road Investment Plan indicates the current global funding requirement for the financial year 2006/2007 to be KES 73 billion p.a. (€ 802 M)[3]. In this context, the new sector policy estimates that the economy can sustain public expenditure for roads (from GoK revenue including general taxes and fuel levy) at 4% of GDP (KES 51 billion or € 560 M at current levels). At that level, therefore, a deficit of KES 22 billion (€ 242 million), between the actual requirement and the GoK expenditure capacity is anticipated. Furthermore, the rehabilitation backlog alone is currently estimated at KES 164 billion (€ 1.8 billion), in order to restore the road network to a maintainable standard, thus beyond the current revenue generating capacity of the GoK.

For the financial year 2006/2007, GoK has increased development funding allocation to roads from its own revenue sources by 170% compared to the previous year, to KES 13.7 billion (€ 150 M). In addition, with regard to road maintenance, the GoK has increased the fuel levy by 55% to KES 9.00 per litre of petrol/diesel in the financial year 2006/2007 in order to raise the KES 15 billion (€ 165 million) per year estimated as necessary for adequate maintenance of the public road network. The deficit for financial year 2006/07 has been mitigated by pledged development partner support of KES 16.5 billion (€ 181 M) leaving a funding gap of KES 5.5 Billion (€ 60 million), partially covered by the remaining EDF 9th NCRP III interventions (€ 57 million).

Intervention Focus: The EC has been actively involved in supporting the transport infrastructure, in the form of investment to the rehabilitation backlog of the Northern Corridor, contribution to the Roads 2000 rural roads maintenance programme and support to the sector-wide coordination and road reform. The Vision 2030 has put in place an ambitious programme for economic growth and sustainable development in all sectors of the economy, with a special focus on agriculture, industry, private-sector development and regional trade which will not be realised without an improved road transport network addressing the increased traffic needs.

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[2] Through investment in the rehabilitation of relevant infrastructure and the future involvement of the private sector in its management.

[3] Calculated at an exchange rate of 1 EUR = 91 KES

The overall objective is to improve nationwide transport infrastructure to enhance regional integration with the specific objectives being to support to the implementation of GoK policy reforms in view of improving country-wide road network management and development of sector support strategies.

Results shall include support to the implementation of the new policy framework and the establishment of new road authorities, reduction of backlog rehabilitation needs with improvement of the Kenya national and regional network to international standards, improvement in the traffic infrastructure and management in the City of Nairobi (Urban Transport Master Plan for Nairobi), improved accessibility in all-weather roads in rural areas including capacity building at local level (Roads 2000), upgrading of road conditions in game parks and further integration of cross cutting issues in the context of roads programmes (environment , HIV AIDS, safety standards, gender).

An indicative amount of €126.8m (33% of the A envelope) will be set aside for assistance in this field. The main implementing instrument will be support for the roads sector policy with a mix of sector budget support –the preferred implementation modality will be sector budget support – (eventually using triggers using triggers from the policy objective identified) – co-financing and project support. Specific budgets to ensure support for cross-cutting issues will be included.

Performance indicators: The roads policy responds to the goals of the ERS to improve the road network throughout Kenya to connect producers, markets and services and increase the capacity for internal and external trade. The impact will be measured through: (i) reduced Vehicle operating costs (VOC) for cargo transporters, passenger service vehicles operators and private motorists; (ii) reduced average journey times for transit traffic; and (iii) reduced loss of transported perishable agricultural products, while the results will be measured by the number of kilometres of roads constructed and upgraded. The process will be subject to regular reviews on the basis of government's evaluation and monitoring mechanisms as part of a SWAP.

The sector specific policy measures to be taken towards implementation of the response strategy are: (i) full implementation of the road sub-sector policy, strategy and investment plan by 2008; (ii) ensuring that the three new autonomous road agencies (Kenya National Highways Authority, KENHA; Kenya Rural Roads Authority, KERRA; and Kenya Urban Roads Authority, KURA) will be fully operational by 2008; (iii) sufficient resources allocated for reconstruction and maintenance as part of the MTEF; and (iv) outsourcing the management of axle load control and ensuring effectiveness to minimise overloading of lorries.

Following the government's commitments, EC assistance will ensure mainstreaming of the cross-cutting issues, notably through: the appropriate type of environmental assessment and support for identified environmental activities; ensuring the use of HIV/AIDS awareness and control programmes along the main highways during and after construction or upgrading of main roads; assessment and support for possible adverse impact on women, youth and other groups; effective participation by local stakeholders in prioritisation of rural roads bottleneck sections to be upgraded; and compliance with good governance practices, including reduction of transport-related corruption, with a transparent and economic procurement procedure.

1.3.2. Focal sector 2: Agriculture and rural development

Justification for Selecting this Sector: Kenya's economy is largely agro-based, with agriculture accounting for 26% of its GDP and 60% of its export earnings. The sector employs 80% of Kenya's workforce and contributes about 57% of its national income either directly or indirectly. Agriculture is therefore currently the most important tool for promoting national development.

The population living in rural areas and deriving their livelihoods largely from agriculture accounts for over 70% of the Kenyans living below the poverty line. It is therefore imperative that, for the economy to grow, this sector must also grow. Rapid and equitable development in the agricultural sector will drastically reduce poverty and bring about distribution of wealth in the economy. A positive correlation has been established between growth in this sector and overall national economic growth; it is estimated that 1% growth in agriculture results in corresponding GDP growth of 1.6% in the economy as a whole. As the school drop-out rate and child labour are highest in agricultural areas, health and education in rural areas will receive attention as part of this sector, as part of community-based initiatives.

The ERS and Vision 2030 identifies agriculture as an important vehicle to achieve the objectives, namely to create employment and reduce poverty in Kenya, as the sector is the backbone of the economy. Agriculture is equally important for achieving MDG 1 on poverty and hunger, to which Kenya is committed.

Intervention Focus: Given the predominant role of agriculture in Kenya's economy, with 80-85% of Kenyans living in rural areas, sustainable development cannot be achieved without supporting productive sectors in rural areas. The GoK's objective of eradicating poverty by means of a sustainable and dynamic productive rural sector forms the basis of the Strategy for Revitalising Agriculture (SRA), an integrated multi-sectoral framework to develop the capacity of poor rural households to raise their incomes.

The SRA intends to address the major challenges facing a large and multi-faceted agricultural system, supplying domestic and international markets. Despite successive policies aiming at reviving the agricultural sector, performance has generally not been satisfactory and agriculture has not generated the driving force necessary for growth. Among the strategic objectives of the SRA, creating an environment enabling the private sector to be the driving force behind agricultural development, with the government divesting from productive or commercial functions, remains a challenge. The EC support will be directed towards implementation of the SRA, in line with its strategic objectives, namely:

- create an enabling environment for agricultural development by reviewing the current legal and policy framework;
- promote market and product development by taking a value chain approach;
- improve extension, advisory, support and other services;
- promote conservation of the environment and natural resources by means of sustainable land use practices;
- restructure and privatise the non-core functions of para-statal institutions and Ministries involved in rural development;
- improve access to quality inputs and affordable credit for producers;
- formulate food security policy and implementation programmes.

An indicative amount of 26% of the A envelope, or €98.8m, will be set aside for this focal sector. The following actions are proposed.

Support to the SRA
The Commission was an active partner in the process that led to adoption of the SRA. The main SRA instruments are expected to be ready for implementation and funding from the national budget in FY 2007/2008. Support will be provided to the emerging SWAP, preferably by sector budget support. The feasibility of this intervention will be reassessed at the identification and formulation stage with reference to the overall budget support eligibility criteria and progress in the sectoral policy commitments made by the Government. It will benefit components identified by SRA stakeholders in the framework of SRA coordination, namely the ASCU, depending on the government's priorities and the readiness of these components to absorb and account for the funds. Such components could be financed at district level from the SRA budget. Release of funds will be subject to preparation, by the line Ministries and the SRA Secretariat, of Development/Investment Plans which are compatible with and complement the SRA principles and to adoption of these plans by the Agricultural Sector Coordination Unit (ASCU) which is responsible for leading the reform process and coordinating activities across sub-sectors. Provision will be

made for capacity-building at district level in support of a decentralised system. The ASCU will be strengthened if need be.

Community-based poverty-reduction and environmental-management initiatives have been tested and proved effective. Communities will be supported with planning and implementing their own development initiatives to improve their socio-economic status.

For both support for the SRA and for the community-based programme, **special attention should be paid to the ASALs and to LRRD initiatives**.

Performance indicators: The SRA framework is tailored to the goals of the ERS: to increase the capacity of the poor to raise their incomes to reach commercial and competitive agriculture and to sustain livelihoods. Although the results expected have been clearly identified, the way in which they will be measured is still to be agreed upon by the stakeholders, including Member States and the Commission. The process will also be subject to regular reviews based on the GoK's evaluation and monitoring mechanisms. Performance indicators include the percentage increase in production, value-added and produce marketed, the reduction in food dependence, the increase in forest cover and biodiversity conservation, the increase in the number of services delivered, managed and controlled at local level and a harmonised legal and regulatory framework.

Cross-cutting governance issues are addressed by support for demand-driven community-based projects and also by increasing the responsiveness and accountability of service delivery at local level. This includes support for the decentralisation framework. Gender and conflict management will also be mainstreamed into the programming process. The environment is an integral part of the SRA and will be specifically targeted in community-based projects and support for sound environmental management practices at national and local levels, by responsive research and extension, including compliance with environment-related regulations. A Strategic Environmental Assessment (SEA) will be undertaken in view of the SWAP and in line with relevant EC guidelines. The programme aims to improve food and nutritional security, which will improve the health status of the rural population, including the more vulnerable groups living in less-favoured areas, while also addressing specific health issues such as waterborne diseases. Activities relating to HIV/AIDS should be integrated and budgeted in every project. NSAs, including NGOs and professional associations, will be supported.

The main sectoral policy measures to be taken by the government as a contribution to implementation of the response strategy form part of the policy for revitalising agriculture, in particular continued pro-poor budgeting reflecting the importance of the sector in the medium-term expenditure framework, enhancing coordination in the sector and the decentralisation policy framework.

1.4. Macroeconomic support

As an indicative amount €126.8m, or 33% of the A envelope, will be set aside for this type of support.

The EC will support the government's macroeconomic reform programme by means of general budget support and sector reform programmes with sector budget support. Budget support will be delivered in the form of a multi-annual programme and funds are expected to be disbursed on an annual basis.

The purpose of general budget support programmes is to contribute to poverty reduction by supporting implementation of the PRSP(ERS/Vision 2030) and by linking implementation of the programme to the outcome of reforms.

Budget support has the potential to give many development benefits, but at the same time also involves risks. In order to properly address these risks, eligibility will be kept under continuous review of the progress in the following three areas: (i) implementation of national policy and strategy for poverty reduction,(ii) macroeconomic stability with close attention to IMF programme and (iii) implementation of PFM reform strategy. General budget support is closely linked to macroeconomic stability and fiscal consolidation. The government's medium-term macroeconomic framework reflects its plan to sustain and accelerate the recent economic recovery. The strategy essentially involves continued macroeconomic stability underpinned by deepening various structural reforms covering areas of public financial management including re-orienting expenditures towards priority areas in support of economic growth and poverty reduction, anti-corruption measures, financial sector reform, as well as restructuring and privatising state-influenced enterprises. Continued economic recovery with the aid of economic reforms will require enhanced capacity in the area of public policy plus research and analysis.

General budget support will support further improvements in PFM based on the government's PFM reform strategy. The government has implemented various reforms aimed at ensuring efficiency and deepening transparency and accountability. Significant progress has been made on implementing the MTEF in terms of linking policies, planning and budgeting and shifting budgetary resources to priority areas. The government will continue to address future challenges such as: initiating an early comprehensive effort on costing all existing policies, programmes and projects; building links between the recurrent and development budget and developing a more programmatic approach to the budget with a view to improving the linkages between expenditure and results; and undertaking relevant policy research.

General budget support will contribute to the resources available for expenditure in the PRSP(ERS/Vision 2030) priority areas by creating clear incentives to meet key development targets for public service delivery in health and education. Regular policy dialogue in this area is conducted through the PRSP (ERS/Vision 2030) review process and the public expenditure review (PER) with a view to improving the quality of public expenditure and sharpening the focus on the outcome of GBS programmes. This emphasis on dialogue based on indicators should reinforce the link between policy, budgeting and monitoring and evaluation of the outcome.

Continued macroeconomic stability, reforms in PFM along with improved service delivery in health and education will form benchmarks for GBS which, once met, will trigger disbursement of funds. Achievement of results will be measured by performance indicators.

The current SWAPs in the health and education have elaborated indicators and put in place monitoring and evaluation tools that are already well coordinated through sector reviews. As far as possible the specific SWAP indicators and milestones would be used for the design of benchmarks for the variable tranches under GBS.

1.5. Other programmes

An indicative amount of €30.6m (8%) is set aside for the following actions:

Support to ***- Trade and Private Sector Development*** with an indicative allocation of € 16.8 M (4.2%) will be channelled through the Kenya Private Sector Development Strategy which was launched in January 2007. This strategy has already been translated into an action plan which sets out sequenced, prioritised and quantified activities for period 2008 – 2012. In line with the recently concluded KJAS, implementation of the PSDS foresees close harmonisation between the government and development partners, and thus eliminates any scope for duplication. The EC, at request of the Government, and in close consultation with private sector and other donors, is envisaging supporting the implementation of this strategy through a Sector Policy Support Programme in three of its five goal areas, namely:

- Improving Kenya's business environment;
- Economic growth through trade expansion; and
- Improving productivity and competitiveness.

Support for the PSDS implementation will allow the EC to support economic development and implementation of the upcoming EPA through a process led by the Kenyan stakeholders, to be represented both by the government, the private sector and the Non State Actors.

Good governance and support for non-State actors, with an indicative allocation of €9.2m (including a minimum of €4.6m for support for NSAs). The support will cover the following sectors: (i) democratic governance (including (a) anti-corruption measures, (b) access to justice (especially for the poor, marginalised and vulnerable), (c) strengthening the electoral process and civic education, (d) local governance (for both state – in coordination with rural development programmes - and non-State actors), in particular related to decentralised funds and (e) policy and legal reform); (ii) promotion and protection of human rights and fundamental freedoms, gender equity and equality; (iii) public-sector reform; and (iv) institution- and capacity-building, leadership and coordination of state and non-State actors. Coordination with GJLOS and other multi-donor initiatives will be ensured.

For the part of this programme which will support NSAs, the EC may make use of Article 15(4) of Annex IV to the revised Cotonou Agreement which allows it to appraise programmes and projects and to be the contracting authority, giving rise to establishment, between the Commission and NSAs, of grant contracts, as defined in Article 19a of the revised Cotonou Agreement. Support for non-State actors will cover all types of non-State actor eligible for financing, as defined in Article 6 (Title I of Part One) of the revised Cotonou Agreement ("*private-sector, economic and social partners, including trade union organisations; civil society in all its forms according to national characteristics*"); in Kenya this can include non-governmental organisations (NGOs), community-based organisations (CBOs), faith-based organisations (FBOs) and more) and in accordance with the criteria laid down by the Council of Ministers. The activities supported will all be not-for profit and will mainly be related to capacity-building, advocacy, research, awareness-raising and monitoring/watchdog measures. For entities such as the legislative or judiciary, arrangements (funds) will respect the principle of separation of powers.

The Technical Cooperation Facility (TCF), with an indicative allocation of €4.6m, aims to maintain satisfactory capacity in the NAO office, line Ministries, implementing agencies and NSAs to implement EC assistance, notably covering technical studies, project formulation, implementation, monitoring and evaluation.

A reserve for insurance against possible claims and to cover cost increases and contingencies will be set aside in each programme/project.

The main policy measures to be taken by the government as a contribution to implementation of the response strategy in the non-focal areas are:

- continued policy commitment to justice and legislative governance reforms, including the GJLOS, independence of relevant governance institutions, improving human rights, political will to fight corruption and continued dialogue and engagement with NSAs on governance reforms;
- continued commitment to enhance the conditions for private-sector development, including regulatory reform;
- continued active engagement by the government in the regional dialogue and cooperation framework, including the EAC, IGAD and harmonisation with the national legal and regulatory framework; and
- enforcement of legal provisions to carry out the appropriate type of environmental assessment (SEA or EIA).

1.6. Kenya 10th EDF Indicative Programme – Framework for action

1.6.1. Focal sector 1: Regional economic integration by means of transport infrastructure

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Overall Objective	To ensure that Transport infrastructure contributes to improving the conditions for sustainable national and regional economic growth and equitable poverty reduction	• Increase in volumes of internal and external trade • Economic growth of transport sector of at least 10% p.a.	• Regional transport authority statistics • Public transport and cargo user statistics • Annual Economic Statistics	• ERS policy recommendations are effectively converted into priority action
Purpose of Programme	• Support to the implementation of GoK policy reforms in view of improving country-wide road network management and development of sector support strategies.	• Operational establishment of new Road Authorities • Operationalisation of the Road Investment Plan 2007-2030 • Reduction in vehicle operating costs for cargo transporters, bus and matatu operators and private motorists (international road roughness index) • Reduction in average journey time for transit traffic on international trunk roads by 25% by 2013 • Improvement in road safety nationwide: reduction in fatalities/million vehicles by 10% p.a.	• Minutes of GoK/Donors Joint Reform Steering Committee • User survey reports from regional transport authorities, passenger and freight transporters • Traffic surveys • Road condition surveys • Agricultural market surveys • Tourist industry user surveys • Traffic police reports	• Government implements road subsector policy and strategies including sufficient resources allocated for reconstruction and maintenance in line with the Road Investment Plan 2007-2030. • Road sector institutions increasingly effective and accountable for their operations. • Axle-load control best options study implemented • National Road Safety Plan implemented • Improvement in performance of overall transport management system components (ports, railways, customs).

Results	1. 1Sector Programme Support to the establishment of the new Road Authorities.
	2. Support to the implementation of the National Road Safety Plan
	3. Backlog Rehabilitation needs reduced and Regional roads of the Kenyan network improved
	4. Traffic infrastructure and management in City of Nairobi improved
	5. All-weather accessibility in rural areas increased through multi annual programming of periodic maintenance and increased implementation capacity at local level.
	6. Road conditions in game parks upgraded
	7. Cross cutting issues fully integrated in the context of roads programmes (environment , HIV AIDS, safety standards, gender)
		• Submission of operational plans for new Road Authorities.
		• Implementation timetable for the National Road Safety Plan
		• Kms of high priority regional roads constructed to international standards by 2013
		• Number of Nairobi City roads constructed, rehabilitated and widened by 2013
		  • Km of rural roads network improved to all-weather accessibility by 2013
		  • Reduced loss of transported perishable agricultural products
		• Km of game-park access roads upgraded to all-weather condition by 2013.
		• Numbers of local population, truck drivers and construction workers benefiting by HIV/Aids awareness activities
		• Number of local traders and residents benefiting directly from public roadside amenities, water boreholes and employment
			• Minutes of GoK/Donors Joint Reform Steering Committee
			• Supervision reports
			• Road Agencies/KRB reports
			• GoK road inventory and condition survey
				• Backlog rehabilitation of Northern Corridor finalised under 9th EDF
				  • New autonomous road sector agencies established in 2007 and becoming operational within 2008.
				• All relevant Government ministries to closely align with the road programme

1.6.2. Focal sector 2: Agriculture and rural development

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Overall Objective	• To achieve sustainable rural development and agricultural growth	• Indicators from IP-ERS • Increase in growth of agriculture and rural development	• IP-ERS Annual Reports	
Purpose of Programme	• Increase the capacity of rural households to improve their standards of living by means of sustainable development practices	• Increase in profitability of agriculture • Improvement in rural livelihoods • Increase in rural incomes	• SRA Annual Reports • External programme evaluation reports • MTR and final CSP evaluations	• SRA SWAP ready for financing by 2007/2008
Results	1. Productivity and value addition increased 2. Increase in production marketed internally and externally 3. Food/nutritional security enhanced in less favoured areas, including ASALs 4. Impact of HIV/AIDS on rural households addressed by gender- and children's-rights-oriented programmes 5. Environmental governance strengthened 6. Increased use of sustainable environmental management practices at national and community levels 7. Communities empowered and participating in demand-driven, gender-balanced development programmes 8. Responsive, effective and accountable service delivery at local level 9. Legal/regulatory framework reviewed and enhanced	• % increase in production from crops, livestock, fisheries and forestry • % increase in value added • % increase in produce marketed • Significant reduction in % of the population dependent on food aid • Improvement in drought mitigation, prevention and preparedness • Increase in forest cover and biodiversity conservation • Increase in number of sustainable community-based programmes • Increase in number of services delivered, managed and controlled at local level • Laws harmonised, policies implemented and regulations streamlined	• Sector reports • Trade statistics • Kenya Poverty Monitoring Reports • Food security survey report • Satisfaction reports and service delivery surveys	• Access to markets increased by improving road and transport infrastructure • Food security improved if HIV/AIDS and gender parity issues are addressed in all programming

1.6.3. Macroeconomic support

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Overall Objective	• To improve overall macroeconomic performance	• Overall indicators from IP-ERS	• IP-ERS Annual Reports	• Government commitment to implementation of the IP-ERS
Purpose of Programme	• Increased economic growth over the medium term, sustained macroeconomic stability, poverty reduction and more efficient fiscal policy	• Macroeconomic indicators from IP-ERS	• IP-ERS Annual Reports • Economic Survey • IMF reports	• Sustained prudence in macroeconomic management • Continued implementation of structural reforms • Improvements in governance
Results	1. Macroeconomic stability enhanced 2. Public funds more efficiently used 3. Service delivery in education improved 4. Service delivery in health care improved 5. Public financial management improved	• Social indicators from ERS • Sector allocations in MTEF • Education SWAP indicators • Health SWAP indicators • Benchmarks in public financial management (PEM-AAP and PEFA)	• IP-ERS Annual Reports • Fiscal policy papers • Education sector review reports • Health sector review reports • PFM diagnostic reports (CIFA and PEFA)	• Sustained government commitment to public financial management and budgetary reforms • Progress on sector strategies and policies • Satisfactory cooperation between the government and development partners • Satisfactory harmonisation, alignment and cooperation between development partners

1.6.4. Non-focal sector: Democratic governance and support for non-State actors

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Overall Objective	• To improve conditions for sustainable economic growth and equitable poverty reduction	• Indicators from IP-ERS	• IP-ERS Annual Reports	
Purpose of Programme	• To improve democratic governance by better performing public institutions and stronger non-State actors	• Increase in participation by men and women in decision-making • Improvement in access to and confidence in governance institutions on the part of Kenyan men and women • Improvement in collaboration between government and NSAs • Improved information, awareness and understanding of human rights and gender issues	• National surveys • NSA reports • KNCHR annual reports	• Political and social stability sustained • Political will to fight corruption is maintained, produces results and is continued after the 2007 election • Continued commitment on the part of the government and development partners to governance reforms • NSAs are willing to engage constructively in reform
Results	Horizontal: 1. Policy and legal reforms enhanced 2. Institutional capacity of State and non-State actors and sector coordination improved Specific areas: 3. Fight against corruption enhanced 4. Access to justice enhanced, especially for the poor and vulnerable 5. Electoral process and civic education strengthened at all levels 6. Human rights, fundamental freedoms and gender equity and equality increasingly promoted and protected 7. Public sector more accountable, efficient and transparent 8. Local governance promoted and improved	• % increase in targeted policies, laws and regulations reviewed and enacted in the time-frame envisaged • % increase in service delivery rating of governance institutions • % increase in NSA participating in democratic governance reforms • % of governance institutions and stakeholders expressing satisfaction with coordination of sector reforms • % decrease in Kenya Bribery Index (KBI) • % increase in reported access to justice systems (broken down by gender) • % increase in number of courts per 100 000 population • % increase in litigants expressing satisfaction with legal aid received (broken down by gender) • % decrease in election malpractices at all levels • % decrease in domestic violence and rape • % increase in satisfaction with local authorities • % of decentralised funds perceived as correctly used	• Kenya Poverty Monitoring Reports • Expert Panel Report • Parliament reports • NGO monitoring reports • Court registries statistics • NSA reports • ECK reports • KNHCR annual reports • KIPPRA studies • Satisfaction survey reports • Service delivery survey • GJLOS baseline surveys and reports	

1.6.5. Non-focal sector: Trade and Private-sector development

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Overall Objective	• Improved conditions for sustainable economic growth and equitable poverty reduction	• • Share of GDP from trade in goods and services increased • Increase in GDP through trade expansion	• IP-ERS Annual Reports • World Bank Doing Business Indicators: Kenya's ranking in the reports • World Development Reports • World Investment Reports	
Purpose of Programme	• Efficiency of traded goods and services increased • Reduce bureaucratic barriers to doing business in Kenya to create a more enabling environment • Ensure sustainability and increase competitiveness of the private sector in Kenya • Diversify export base from primary commodities through value addition to high value manufactures	Outcomes: • 10% sustained annual growth in export trade by 2013 ; • improved competitiveness of Kenyan goods and services in regional and international markets • Cost of doing business in Kenya reduced • Increase in the share of manufactures in exports • Increase in share of manufactures in GDP	• National Economic Survey • Trade statistics • Economic Surveys • Cost of doing business/competitiveness indicators	• National and regional political stability sustained • Commitment to and timely implementation of the private sector development Strategy
Results	1. Trade and private sector transaction cost reduced and competitiveness improved 2. Regional and multilateral trade agreements timely backed-up by national legislation 3. Coherent trade policy formulation and implementation framework strengthened 4. Policy and legal framework for trade in services established and regularly reviewed 5. Kenya's private sector expanded and strengthened 6. Increase in the number of 'quality' product in the country	• Outputs: • Efficiency in trade logistics and facilitation chain improved (e.g. reduced customs clearance times, simplified exporting and importing procedures), • Number of laws, regulations and licences relevant to private sector and trade rationalised and made more effective (+ domesticated for regional and multilateral agreements) • % increase in trade earnings • % increase in earning from services, including tourism • increase in export product base and destinations.	• • MoTI reports • KPA/KRA/KIFWA/MoT&C • Attorney General's office • Customs efficiency monitoring system • Trade facilitation institutions reports • Ministry of Transport reports • Legislation, gazette notices • Annual Economic Survey	•

1.7. Indicative timetable of commitments and disbursements

1.7.1. Indicative timetable of global commitments

AREA/SECTOR	Indicative allocation (in M€)	2008		2009		2010→	
		1	2	1	2	1	2
FOCAL SECTOR 1 – Regional Economic Integration by means of Transport Infrastructure *	**126.8**				**35.0**	**91.8**	
- Support for Regional Roads Programme (Main Corridors)	91.8					91.8	
- Support for Nairobi Roads/Urban Transport Master Plan	20.0				20.0		
- Support for Rural Roads Programme	10.0				10.0		
- Support for Upgrading Access Roads to Game Parks	5.0				5.0		
FOCAL SECTOR 2 – Agriculture and Rural Development	**98.8**				**98.8**		
- Support for the Strategy for Revitalising Agriculture (SRA)	66.4				66.4		
- Support for Community-Based Projects	32.4				32.4		
GENERAL BUDGET SUPPORT	**126.8**				**66.8**		**60.0**
- Macroeconomic Support 1	66.8				66.8		
- Macroeconomic Support 2	60.0						60.0
Non-Focal Sectors	**30.6**		**21.4**	**9.2**			
- Good Governance including NSA	9.2			9.2			
- Technical Cooperation Facility	4.6		4.6				
- Trade and Private Sector Devleopment	16.8		16.8				
Total Commitments:	**383.0**		**21.4**	**9.2**	**200.6**	**91.8**	**60.0**
Total Cumulative Commitments:	**383.0**		**21.4**	**30.6**	**231.2**	**323**	**383.0**

PM: Pro Memoria
* Once sector budget support for roads starts, triggers will be derived from roads programmes/projects not yet being implemented.

1.7.2 Indicative timetable of disbursements

AREA/SECTOR	Indicative allocation (in M€)	2008		2009		2010		2011		2012		2013	
		1	2	1	2	1	2	1	2	1	2	1	2
FOCAL SECTOR 1 – Regional Economic Integration by means of Transport Infrastructure	**126.8**					**6.0**	**7.0**	**21.0**	**21.0**	**20.0**	**16.0**	**14.0**	**21.8**
- Support for Regional Roads Programme (Main Corridors)	91.8							14.0	14.0	14.0	14.0	14.0	21.8
- Support for Nairobi Roads/Urban Transport Master Plan	20.0					4.0	4.0	4.0	4.0	3.0	1.0		
- Support for Rural Roads Programme	10.0					1.0	2.0	2.0	2.0	2.0	1.0		
- Support for Upgrading Access Roads to Game Parks	5.0					1.0	1.0	1.0	1.0	1.0			
FOCAL SECTOR 2 – Agriculture and Rural Development	**98.8**			**0**		**0**	**18.8**	**0**	**18.8**	**0**	**35.1**	**0**	**26.10**
- Support for the Strategy for Revitalising Agriculture (SRA)	66.4						10.7		10.7		27.0		18.0
- Support for Community-Based Projects	32.4						8.1		8.1		8.1		8.1
GENERAL BUDGET SUPPORT	**126.8**					**22.3**		**22.3**		**22.2**		**30**	**30**
- Macroeconomic Support 1	66.8					22.3		22.3		22.3			
- Macroeconomic Support 2	60.0											30	30
NON-FOCAL SECTORS	**30.6**				**3.6**	**5.4**	**4.5**	**6.0**	**2.5**	**4.5**		**1.5**	**2.6**
- Good Governance including NSA	9.2					1.4		4.0		2.0		0.8	1.0
- Technical Cooperation Facility	4.6				0.4		0.9		0.5	0.5		0.7	1.6
- Trade and Private Sector Development	16.8				3.2	4.0	3.6	2.0	2.0	2.0			
Total Disbursements:	**383**		**0.0**	**0.0**	**3.6**	**33.7**	**30.3**	**49.3**	**42.3**	**46.7**	**51.1**	**45.5**	**80.5**
Total Cumulative Disbursements:	**383**		**0.0**	**0.0**	**3.6**	**37.3**	**67.6**	**116.9**	**159.2**	**205.9**	**257**	**302.5**	**383**

1.8. Schedule of Activities

AREA/SECTOR	Indicative allocation (in M€)	2008				2009				2010 →			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
FOCAL SECTOR 1 – Regional Economic Integration by means of Transport Infrastructure	**126.8**												
- Support for Regional Roads Programme (Main Corridors)	91.8			FS				AF		FD	□	□	□
- Support for Nairobi Roads/Urban Transport Master Plan	20.0	FS				AF		FD	□	□	□	□	□
- Support for Rural Roads Programme	10.0	FS				AF		FD	□	□	□	□	□
- Support for Upgrading Access Roads to Game Parks	5.0	FS				AF		FD	□	□	□	□	□
FOCAL SECTOR 2 – Agriculture and Rural Development	**98.8**												
- Support for the Strategy for Revitalising Agriculture (SRA)	66.4			FS		AF		□	FD	□	□	□	□
- Support for Community-Based Projects	32.4					AF		□	FD	□	□	□	□
GENERAL BUDGET SUPPORT	**126.8**												
- Macroeconomic Support 1	66.8					AF	[4]□	FD	□	□	□	□	□
- Macroeconomic Support 2	60.0												AF
NON-FOCAL SECTORS	**30.6**												
- Good Governance including NSAs	9.2			FS		AF		FD	□	□	□	□	□
- Technical Cooperation Facility	4.6		AF		FD	□	□	□	□	□	□	□	□
- Trade and Private Sector Development	16.8	FS	AF		FD			□	□	□	□	□	□
FS: Feasibility Study FD: Financing decision AF: Action Fiche PM: Pro Memoria □: Project implementation													

[4] Implementation of budget support includes government activities to meet the conditions for disbursement.

ANNEXES

ANNEX 1: KENYA AT A GLANCE

Kenya in the Regional Context

Source; http://www.lib.utexas.edu/maps/africa/kenya.gif

Macro-Economic Indicators

Indicator		Results						Targets	
Year		2000	2001	2002	2003	2004	2005	2006	2007
Basic Data									
1.	Population (in Millions)	30.2	30.85	31.5	32.2	32.8	33.4	34.0	34.6
2.	Annual Population growth in %	2.3	2.17	2.11	2.05	1.99	1.94	1.79	1.76
3.	Nominal GDP (in Millions USD)	12,701.3	12,977.4	12,988.7	14,970.9	16,193.2	18,768.6	22,593.8	24,533.3
4.	Nominal GDP per capita (in USD)	430	429	421	465	494	560	665	709
5.	Annual Change in %	-0.2	1.46	-2.5	0.91	2.80	3.79	3.84	4.16
6.	Real GDP (annual change in %)	0.6	4.5	0.6	3.0	4.9	5.8	6.2	6.0
7.	Gross fixed capital formation (% of GDP)	16.7	18.2	17.5	15.8	16.1	18.6	19.5	20.1
8.	Trade balance as % of GDP	-11.7	-14.0	-8.7	-8.7	-11.7	-13.3	-11.2	-12.2
International Transactions									
1.	Exports of goods & services (% of GDP)	22.2	22.1	23.9	23.8	26.2	26.7	25.6	26.0
2.	of which the most important (in % of GDP								
3.	Trade balance (in % of GDP)	-11.7	-13.9	-8.5	-8.6	-11.7	-13.3	-11.2	-12.2
4.	Current account balance (in % of GDP)	-1.8	-6.3	-2.7	-0.8	-4.3	-9.1	-6.9	-6.8
5.	Net inflows FDI (in % of GDP)								
6.	External debt (in % of GDP)	37.5	35.9	35.2	31.1	34.6	30.7	25.5	24.9
7.	Service of external debt (in % of exports of goods and non-factor services)								
8.	Foreign exchange reserves (in months of imports of goods and non-factor services)	2.8	2.9	3.2	4.0	3.3	3.1	3.6	4.0
Government									
1.	Revenues (in % of GDP)	19.6	19.6	20.7	20.9	20.7	21.0	20.7	20.8
2.	of which grants (in % of GDP)								
3.	Expenditure (in % of GDP)	21.1	22.4	25.2	24.9	22.7	24.3	26.2	25.7
4.	of which capital expenditure (in % of GDP)	2.7	2.8	3.7	3.8	3.5	4.4	6.1	6.9
5.	Deficit (in % of GDP) including grants	0.1	-1.4	-3.4	-2.6	-0.8	-1.7	-3.3	-2.8
6.	Deficit (in % of GDP) excluding grants	-1.5	-2.8	-4.5	-4.0	-2.0	-3.4	-5.5	-4.9
7.	Debt (in % of GDP)	58.8	56.7	58.2	52.7	54.4	44.0	41.7	41.0
8.	of which external (in % of total public debt)	63.8	63.4	60.4	59.0	63.5	57.9	55.7	55.7
Other									
1.	Consumer price inflation (annual average change in %)	10.0	5.8	2.0	9.8	11.6	10.3	14.1	4.0
2.	Interest rate (for money, annual rate in %)	13.5	12.6	8.6	3.4	3.6	8.4	6.5	4.0
3.	Exchange rate (annual average of KSh per 1 EURO)	70.4	70.4	74.4	85.9	98.5	93.8	91.8	103.0
4.	Unemployment (in % of labour force, ILO definition)								
5.	Employment in agriculture (in % of total employment)								

Source: Central Bureau of Statistics, Central Bank of Kenya, Ministry of Finance

MDGs /Social Wellbeing Indicators

		Results				Targets		
	Impact Indicator	**1990**	**2000**	**2004**	**2005**	**2006**	**2007**	**2015**
1.	Proportion of population below $1 per day	43%	50%	53%	56%			22%
2.	Prevalence of underweight children (under-5 years of age)	32.5%	33.1%	28%	-	-	-	16.2%
3.	Under-five mortality rate (out of 1,000 live births		112	115	110	105	100	33
	Outcome Indicator							
4.	Net enrolment ratio in primary education (%)	-	67.8%	82.1%	81.5%	83.2%	84.4%	100%
5.	Primary Completion Rate (%)	-	57.7%	76.2%	59.7%	60.0%	60.3%	
6.	Ratio of girls to boys in: - primary education - secondary education - tertiary education	 1:1.05 - -	 1:1.03 1:1.1 1:1.7	 1:1 1:1.08 1:1.7	 - - -			 1:1 1:1 1:1
7.	Proportion of births attended by skilled health personnel	51%	45%	42%	51%	56%	60%	90%
8.	Proportion of 1 year old children immunised against measles	48%	76%	74%	-	-	85%	90%
9.	HIV prevalence among 15-24 year old pregnant women	5.1%	13.4%	10.0%	9.2%	8.4%	8%	-
10.	Proportion of population with sustainable access to an improved water source	48%	55%	48%	-	-	-	74%

(-) *data not available*

Sources; MDGs Kenya Status Report 2004; UNDP Human Development Report – 2004; World Bank Kenya Country Brief Feb. 6 2006; GoK IP-ERS APR - 2004

Summary of IP-ERS Indicators[5]

No.	IP-ERS objective	Outcome indicator	Actual	Target		
			2004/05	2004/05	2005/06	2006/07
1	Accelerated economic growth	Real annual GDP growth rate (%)	4.3	3.1 (R)	5 (R)	5.1 (R)
2	Achieve and maintain price stability	Annual underlying rate of inflation (%)	5.8	Below 5	Below 5	Below 5
3	Control and reduce the burden of domestic debt	Stock of Domestic debt/GDP (%)	18.5	22.4 (R)	22.4 (R)	5.1 (R)
4	Public sector wage bill under control	Public Sector Wage Bill/GDP (%)	7.8	8.14	7.6 (R)	7.3 (R)
5	Expand revenue sources	Revenue/GDP (%) (including AiA/GDP ratio)	21.3	21.5 (R)	21.3 (R)	22.2 (R)
6	Public expenditure management reform	Benchmark score on PEM-AAP	6	7	13 (R)	15 (R)
7	Rehabilitate the road network	Proportion of road network in bad/poor condition (%)	32	35	28	20
8	Power coverage in rural areas	Percentage of rural households served (%)	5	5	7	8
9	Rural water coverage	Percentage of rural households with safe and reliable water (%)	53	53	56	60
10	Urban water coverage	Proportion of urban households with safe and reliable access to water (%)	75	76	80	83
11	Safer road system	Number of fatalities on the road annually	75% reduction in annualised fatalities in the months due to road safety	58 deaths per 10,000 vehicles	48 deaths per 10,000 vehicles	35 deaths per 10,000 vehicles
12	Enhance tourism	Annual growth rate of tourists (%)	15.1	10	12	9.7
13	Strengthen trade and industry	Growth of volume of exports (%)	17.3 (2004*)	5.7	5.7	5.7
14	Reduction in infant mortality	Fully immunized children as % of under 1 yrs population. (Nb: this is now a calendar year target)	57	65 (R) (2005*)	67 (R) (2006*)	70 (R) (2007*)
15	Reduce HIV/Aids prevalence	Proportion of pregnant women aged between 15 - 24 years attending ANC who are HIV positive (%) (Nb: this is now a calendar year target)	10.0	9.2 (2005*)	8.4 (2006*)	8.0 (2007*)
16	Reduce maternal mortality	Percentage of pregnant women attending ANC (at least 4 visits) (R) (Nb: this is now a calendar year target)	42	60 (R) (2005*)	65 (R) (2006*)	70 (R) (2007*)
17	Reduce the burden of disease	Inpatient malaria morbidity as a percentage of total inpatient morbidity (Nb: this is now a calendar year target)	26	16 (R) (2005*)	15 (R) (2006*)	14 (R) (2007*)
18	Improve primary net enrolment (NER)	Primary net enrolment rate (%) (Nb: this is now a calendar year target)	82.1	81.5	83.2	84.4
			82.2 (m)	82.9 (m)	84.4 (m)	85.0 (m)
			82.0 (f)	80.1 (f) (2005*)	81.9 (f) (2006*)	82.5 (f) (2007*)

5 Including revised targets (R) - 2005

No.	IP-ERS objective	Outcome indicator	Actual	Target		
			2004/05	2004/05	2005/06	2006/07
19	Increase North Eastern Province net enrolment rate	Primary net enrolment rate for NEP (%) (Nb: this is now a calendar year target)	19.6	24.5	31.5 (R)	38.5 (R)
			23.6 (m)	29.7 (m)	36.5 (m)	43.9 (m)
			14.9 (f)	19.4 (f) (2005*)	26.6 (f) (R) (2006*)	33.1 (f) (R) (2007*)
20	Reduce the rate of primary school drop outs	Primary school completion rate (%) (Nb: this is now a calendar year target)	56.0	59.7	60.0	60.3
			57.1 (m)	60.3 (m)	60.4 (m) (R)	60.5 (m) (R)
			54.9 (f)	59.1 (f) (2005*)	59.6 (f) (R) (2006*)	60.1 (f) (R) (2007*)
21	Reduce the incidence of primary repetition	Primary repetition rate (Nb: this is now a calendar year target)	9.3	9.8 (2005*)	7.4 (2006*)	4.9 (2007*)
22	Increase transition rate of pupils to secondary school	Primary to secondary school transition rate (%) (Nb: this is now a calendar year target)	52	55 (2005*)	60 (2006*)	65 (R) (2007*)
23	Strengthen employment creation and productivity	Measured labour productivity in formal sector				
24	Raise incomes of small holders	Agricultural sector growth rate (%)	1.4	3.1	4	5
25	Improved environmental management	Forest area protected by gazettement (Ha)		To rise by 13,000	To rise by 13,000	To rise by 13,000
26	Introduce universal environmental screening projects	Proportion of public sector projects subjected to environmental impact assessments				
27	Reduce absolute poverty	Proportion of people below absolute poverty line (%)				
28	Reduce prevalence of underweight children in under 5 yr olds	Prevalence rate of underweight children in under 5yr olds (%)				10
29	More expeditious justice	Ratio of concluded cases to reported cases (%) (These 4 indicators revised)				60
		% change in Domestic Crime Index by 2009				
		% change in overall Corruption Perception Index				
		% of citizens who report that they have access to justice systems to resolve disputes				
30	Public sector transparency and devolution of power	Proportion of total public sector spending controlled and managed at local level (based on LAs, LATF, DRCS and CDF)				
		Public sector wage bill/GDP (%)	7.8	8.1	7.6 (R)	7.9 (R)
31	Creation of national monitoring and evaluation system	Fully functioning national system of M&E operating at all levels and providing feedback to the budget by the end of 2005				

Notes: Data on indicators 27, 28 and 29 will be availed after the completion of the KIHBS and GJLOS baseline survey on governance. Indicator 31 is currently being refined.

Source: ERS Update report 2005

ANNEX 2: FINANCIAL DONOR MATRIX[6]

Year 2003

Year 2003		Donors	Amount (€ '000) Agriculture & Rural Development	Physical Infrastructure	General Economic Services	Public Safety, Law & Order	Public Administration	Health & HIV/AIDS	Education & Technology	Other Cross Sectoral	Off Budget (NGOs)	TOTAL	% of donor category totals	% of donor's total
Multilateral Donors	United Nations System	IFAD /UN	6,202.22									6,202.22	*5.34*	*1.53*
		IMF			28,788.42							28,788.42	*24.78*	*7.10*
		FAO	700.58									700.58	*0.60*	*0.17*
		UNDP	1,511.16	630.36	741.15	3,796.22	270.71	1,007.18				7,956.78	*6.85*	*1.96*
		UNEP	729.44									729.44	*0.63*	*0.18*
		UNESCO							323.76			323.76	*0.28*	*0.08*
		UNFPA			455.61			1,245.90				1,701.51	*1.46*	*0.42*
		UN-HABITAT		306.60								306.60	*0.26*	*0.08*
		UNHCR	787.95	1,229.52					165.39			2,182.86	*1.88*	*0.54*
		UNICEF	1,089.87			28.09		3,468.56	1,777.97			6,364.49	*5.48*	*1.57*
		UNIDO			60.07			0.00				60.07	*0.05*	*0.01*
		UNIFEM				339.37		104.54				443.91	*0.38*	*0.11*
		UNDOC						15.60				15.60	*0.01*	*0.00*
		WFP							9,151.19			9,151.19	*7.88*	*2.26*
		WHO						2,963.02				2,963.02	*2.55*	*0.73*
		World Bank	7,411.45	18,099.55	1,794.35		2,418.47	16,149.17	2,418.47			48,291.46	*41.57*	*11.91*
	Sub-total		*18,432.67*	*20,266.03*	*31,839.60*	*4,163.68*	*2,689.18*	*24,953.97*	*13,836.78*	-	-	*116,181.91*	*100.00*	
	% of sub-totals		*15.87*	*17.44*	*27.40*	*3.58*	*2.31*	*21.48*	*11.91*	*0.00*	*0.00*	*100.00*		
	Non-United Nations System	AfDB		11,561.87								11,561.87	*18.95*	*2.85*
		BADEA		2,719.61				891.71				3,611.32	*5.92*	*0.89*
		European Union	6,589.95	14,734.75	2,644.72		9,213.61					33,183.03	*54.38*	*8.18*
		OPEC		5,126.38					7,534.72			12,661.10	*20.75*	*3.12*
	Sub-total		*6,589.95*	*34,142.61*	*2,644.72*	-	*9,213.61*	*891.71*	*7,534.72*	-	-	*61,017.32*	*100.00*	
	% of sub-totals		*10.80*	*55.96*	*4.33*	*0.00*	*15.10*	*1.46*	*12.35*	*0.00*	*0.00*	*100.00*		

6 Original data is in US Dollars. The information as per the tables is in Euros (conversion rate 1 Euro to 1.2818 USD – September 2006 rate)

Year 2003	Donors	Amount (€ '000)										% of donor category totals	% of donor's total
		Agriculture & Rural Development	Physical Infrastructure	General Economic Services	Public Safety, Law & Order	Public Administration	Health & HIV/AIDS	Education & Technology	Other Cross Sectoral	Off Budget (NGOs)	TOTAL		
Bilateral Donors	Australia	159.93			137.31	714.62		1,417.54			2,429.40	*1.06*	*0.60*
	Austria	46.03	349.51	10.92		150.57	134.97	130.29		1,625.84	2,448.13	*1.07*	*0.60*
	Belgium	1,614.14					626.46				2,240.60	*0.98*	*0.55*
	Canada					3,211.11					3,211.11	*1.41*	*0.79*
	China		4,840.85					234.05			5,074.90	*2.22*	*1.25*
	Denmark	3,47.28	758.31	1,589.17	1,818.54		3,921.83			778.59	9,213.72	*4.03*	*2.27*
	Finland	633.13	259.52	1,700.00			244.63			1,920.30	4,757.58	*2.08*	*1.17*
	France /AFD	2,505.85	1,170.23		11,756.9						15,432.98	*6.76*	*2.81*
	Germany	589.80	13,195.5	2,189.89	40.57		1,053.99	300.36			17,370.11	*7.61*	*4.28*
	Ireland									1,568.11	1,568.11	*0.69*	*0.39*
	Italy	9,08.00			1,829.46		1,665.63				4,403.09	*1.93*	*1.09*
	Japan					3,660.48	454.83				4,115.31	*1.80*	*0.01*
	Korea										-	*0.00*	*0.00*
	Kuwait		4,613.04								4,613.04	*2.02*	*1.14*
	Netherlands	454.05			3,428.77	3,286.00			190.36		7,359.18	*3.22*	*1.81*
	Norway	7.80		1,212.36	2,184.43	3,983.46	410.36	372.91			8,171.32	*3.58*	*2.01*
	Poland										-	*0.00*	*0.00*
	Saudi Arabia		4,510.84								4,510.84	*1.98*	*1.11*
	Spain		2,683.73								2,683.73	*1.18*	*0.66*
	Sweden	2,605.71	3,540.33		3,648.00	8,546.58				2,084.57	20,425.19	*8.94*	*5.04*
	Switzerland	2,276.49	204.40		178.66	244.97					2,904.52	*1.27*	*0.72*
	UK	2,916.99	1,448.74	6,284.91	228.58	7,645.50	21,286.5	3,825.09			43,636.31	*19.11*	*10.76*
	USA	28,949.91			4,251.83		28,602.8				61,804.54	*27.06*	*15.24*
	Sub-Total	*44,015.11*	*37,575.00*	*12,987.25*	*29,503.05*	*31,443.29*	*58,402.00*	*6,280.24*	*190.36*	*7,977.41*	*228,373.71*	*100.00*	
Annual Totals		*69,037.73*	*91,983.64*	*47,471.57*	*33,666.73*	*43,346.08*	*84,247.68*	*27,651.74*	*190.36*	*7,977.41*	*405,572.94*		*100.00*
% of annual total		*17.02*	*22.68*	*11.70*	*8.30*	*10.69*	*20.77*	*6.82*	*0.05*	*1.97*	*100.00*		

Year 2004

Year 2004		Donors	Amount (€ '000) Agriculture & Rural Development	Physical Infrastructure	General Economic Services	Public Safety, Law & Order	Public Administration	Health & HIV/AIDS	Education & Technology	Other Cross Sectoral	Off Budget (NGOs)	TOTAL	% of donor category totals	% of donor's total
Multilateral Donors	United Nations System	IFAD /UN	4,322.05									4,322.05	*3.94*	*0.94*
		IMF										-	*0.00*	*0.00*
		FAO	648.31									648.31	*0.59*	*0.14*
		UNDP	1,075.83	468.09	1,088.31	2,570.60	96.74	366.67				5,666.24	*5.16*	*1.23*
		UNEP	708.38									708.38	*0.65*	*0.15*
		UNESCO							792.64			792.64	*0.72*	*0.17*
		UNFPA			1,052.43			1,663.29				2,715.72	*2.47*	*0.59*
		UN-HABITAT		539.09								539.09	*0.49*	*0.12*
		UNHCR		652.99					104.54			757.53	*0.69*	*0.16*
		UNICEF	214.54			107.66		3,778.28	781.71			4,882.19	*4.45*	*1.06*
		UNIDO			486.82							486.82	*0.44*	*0.11*
		UNIFEM				181.00		365.11				546.11	*0.50*	*0.12*
		UNDOC						321.42				321.42	*0.29*	*0.07*
		WFP							7,193.79			7,193.79	*6.55*	*1.56*
		WHO						2,631.46				2,631.46	*2.40*	*0.57*
		World Bank	13,551.26	26,384.77			3,417.07	19,238.57	14,947.73			77,539.40	*70.65*	*16.85*
	Sub-total		*20,520.37*	*28,044.94*	*2,627.56*	*2,859.26*	*3,513.81*	*28,364.80*	*23,820.41*	-	-	*109,751.15*	*100.00*	
	% of sub-totals		*18.70*	*25.55*	*2.39*	*2.61*	*3.20*	*25.84*	*21.70*	*0.00*	*0.00*	*100.00*		
	Non-United Nations System	AfDB					12,838.20					20,639,.2	*10.61*	*4.48*
		BADEA		3,900.76	3,900.76							50,073.33	*25.73*	*10.88*
		European Union	7,331.88	23,189.27	2,350.60	957.25	6,950.38		1,492.43			48,513.03	*24.93*	*10.54*
		OPEC						6,241.22				75,393.97	*38.74*	*16.38*
	Sub-total		*7,331.88*	*27,090.03*	*6,251.36*	*957.25*	*19,788.58*	*6,241.22*	*1,492.43*	-	-	*194,620.05*	*100.00*	
	% of sub-totals		*3.77*	*13.92*	*3.21*	*0.49*	*10.17*	*3.21*	*0.77*	*0.00*	*0.00*	*35.53*		

Year 2004	Donors	Amount (€ '000) Agriculture & Rural Development	Physical Infrastructure	General Economic Services	Public Safety, Law & Order	Public Administration	Health & HIV/AIDS	Education & Technology	Other Cross Sectoral	Off Budget (NGOs)	TOTAL	% of donor category totals	% of donor's total
Bilateral Donors	Australia	174.75			149.79	1,706.97		1,547.04			3,578.55	*1.27*	*0.78*
	Austria	58.51	440.79	27.31		136.53	124.82	152.13		1,560.31	2,500.40	*0.89*	*0.54*
	Belgium	1,628.18			67.87		690.44				2,386.49	*0.85*	*.052*
	Canada	253.55	351.07	103.76	3,069.12	848.81	2,476.99	5,831.64			12,934.94	*4.60*	*2.81*
	China		2,917.77	2,597.91							5,515.68	*1.96*	*1.20*
	Denmark	8,409.27	1,404.28	1,680.45	3,043.38		5,425.18			1,391.79	21,354.35	*7.59*	*4.64*
	Finland		410.61	1,600.00			802.57			1,731.83	4,545.01	*1.62*	*0.99*
	France /AFD	545.33	5,461.07		552.35		59.29	195.82			6,813.86	*2.42*	*1.48*
	Germany	39.01	13,058.2	2,560.46	538.31		2,775.00	248.87			19,219.85	*6.83*	*4.18*
	Ireland									8,895.30	8,895.30	*3.16*	*1.93*
	Italy	1,930.10	188.80		3,694.02	561.71	2,101.73	1,269.31			9,745.67	*3.46*	*2.12*
	Japan		5,926.04			3,660.48	2,472.30				12,058.82	*4.29*	*0.03*
	Korea										-	*0.00*	*0.00*
	Kuwait										-	*0.00*	*0.00*
	Netherlands	38.23	65.53		2,845.22	144.33			234.05		3,327.36	*1.18*	*0.72*
	Norway				1,999.53	247.31					2,246.84	*0.80*	*0.49*
	Poland						5.46	6.24			11.70	*0.00*	*0.00*
	Saudi Arabia										-	*0.00*	*0.00*
	Spain		14.82				74.89	20.28			109.99	*0.04*	*0.02*
	Sweden	3,367.92	4,590.42		1,122.64	4,154.31	3,211.11			2,594.01	19,040.41	*6.77*	*4.14*
	Switzerland	2,842.88	204.40		220.00	266.03				2041.66	5,574.97	*1.98*	*1.21*
	UK	758.31		3,630.05	9,714.46	417.38	19,912.6	12,386.49			46,819.29	*16.64*	*10.17*
	USA	42,628.34			6,124.20	0.00	43,450.62	2,515.21			94,718.37	*33.66*	*20.58*
	Sub-Total	*62,674.38*	*35,033.80*	*12,199.94*	*33,140.89*	*12,143.86*	*83,583.00*	*24,173.03*	*234.05*	*18,214.90*	*281,397.85*	*100.00*	
Annual Totals		*90,526,63*	*90,168.77*	*21,078.86*	*36,957.40*	*35,446.25*	*118,189.02*	*49,485.87*	*234.05*	*18,214.90*	*460,301.75*		*100.00*
% of annual total		*19.67*	*19.59*	*4.58*	*8.03*	*7.70*	*25.68*	*10.75*	*0.05*	*3.96*	*100.00*		

Year 2005

Year 2005		Donors	Amount (€ '000) Agriculture & Rural Development	Physical Infrastructure	General Economic Services	Public Safety, Law & Order	Public Administration	Health & HIV/AIDS	Education & Technology	Other Cross Sectoral	Off Budget (NGOs)	TOTAL	% of donor category totals	% of donor's total
Multilateral Donors	United Nations System	IFAD /UN	4,591.98					78.02				4,670.00	*3.71*	*0.88*
		IMF			59,291.62							59,291.62	*47.13*	*11.14*
		FAO	464.19									464.19	*0.37*	*0.09*
		UNDP	1,980.03	475.89	1,195.19	1,281.01	241.85	496.96				5,670.93	*4.51*	*1.07*
		UNEP	1,022.00									1,022.00	*0.81*	*0.19*
		UNESCO							494.62			494.62	*0.39*	*0.09*
		UNFPA			3,177.56			1,011.08				4,188.64	*3.33*	*0.79*
		UN-HABITAT		390.08								390.08	*0.31*	*0.07*
		UNHCR		2,267.12					1,121.08			3,388.20	*2.69*	*0.64*
		UNICEF	1,027.46		1,598.53	163.05		6,335.62	1,406.62			10,531.28	*8.37*	*1.98*
		UNIDO			307.38							307.38	*0.24*	*0.06*
		UNIFEM						836.32				836.32	*0.66*	*0.16*
		UNDOC						836.32				836.32	*0.66*	*0.16*
		WFP										-	*0.00*	*0.00*
		WHO						3,385.08				3,385.08	*2.69*	*0.64*
		World Bank	9,907.94	3,744.73	2,028.40		2,714.93	11,078.17	858.17			30,332.34	*24.11*	*5.70*
	Sub-total		*18,993.60*	*6,877.82*	*67,598.68*	*1,444.06*	*2,956.78*	*24,057.57*	*3,880.49*	-	-	*125,809.00*	*100.00*	
	% of sub-totals		*15.10*	*5.47*	*53.73*	*1.15*	*2.35*	*19.12*	*3.08*	*0.00*	*0.00*	*100.00*		
	Non-United Nations System	AfDB	1,021.22				16,118.74	182.56	39.79			17,362.31	*25.98*	*3.26*
		BADEA		975.19								975.19	*1.46*	*0.18*
		European Union	2,182.09	28,672.18	762.21	237.95	10,860.51	3,396.01	1,406.62			47,517.57	*71.10*	*8.93*
		OPEC	39.01						936.18			975.19	*1.46*	*0.18*
	Sub-total		*3,242.32*	*29,647.37*	*762.21*	*237.95*	*26,979.25*	*3,578.57*	*2,382.59*	*0*	*0*	*66,830.26*	*100.00*	
	% of sub-totals		*4.85*	*44.36*	*1.14*	*0.36*	*40.37*	*5.35*	*3.57*	*0.00*	*0.00*	*100.00*		

Year 2005	Donors	Amount (€ '000) Agriculture & Rural Development	Physical Infrastructure	General Economic Services	Public Safety, Law & Order	Public Administration	Health & HIV/AIDS	Education & Technology	Other Cross Sectoral	Off Budget (NGOs)	TOTAL	% of donor category totals	% of donor's total
Bilateral Donors	Australia	175.53				172.41		1,086.75			1,434.69	*0.42*	*0.27*
	Austria	46.46	586.88	120.29	233.11		141.50	238.34		2,176.05	3,542.63	*1.04*	*0.67*
	Belgium	1,954.28	0.00		94.40		1,622.72	1,045.40			4,716.80	*1.39*	*0.89*
	Canada	0.00	0.00		1,347.32	243.41	673.27	5,396.32			7,660.32	*2.26*	*1.44*
	China	0.00	19,113.75	23,807.93	344.83			427.52			43,694.03	*12.87*	*8.21*
	Denmark	3,186.92	274.61	2,317.83	1,241.22	2633.80	4,671.56			856.61	15,182.55	*4.47*	*2.85*
	Finland		329.38	981.75	800.00		436.83			1,719.99	4,267.95	*1.26*	*0.80*
	France /AFD	1,824.78	2,188.33	542.21	1,649.24		119.36	1,871.59			8,195.51	*2.41*	*1.54*
	Germany		14,432.83	2,340.46	1,889.53		6,554.06	1,043.84			26,260.72	*7.73*	*4.93*
	Ireland										-	*0.00*	*0.00*
	Italy	4,703.54	1,182.71	486.82	123.26	472.77	585.89	993.13		1,745.98	10,294.10	*3.03*	*1.93*
	Japan	5,517.24	14,058.36				3,198.63	4,392.26			27,166.49	*8.00*	*0.05*
	Korea		19,503.82								19,503.82	*5.74*	*3.66*
	Kuwait										-	*0.00*	*0.00*
	Netherlands		44.47		2,734.44					2,738.34	5,517.25	*1.62*	*1.04*
	Norway				3,120.61						3,120.61	*0.92*	*0.59*
	Poland		13.26				3.12	11.70			28.08	*0.01*	*0.01*
	Saudi Arabia										-	*0.00*	*0.00*
	Spain					567.95	21.84	20.28			610.07	*0.18*	*0.11*
	Sweden	6,747.54	8,207.99		3,887.50	5,014.82	4,552.19			1,415.20	29,825.24	*8.78*	*5.60*
	Switzerland	2,870.96	95.18		148.23	656.11					3,770.48	*1.11*	*0.71*
	UK	1,747.54	0.00	1,485.41	1,373.07	3,520.05	33,562.96	848.81			42,537.84	*12.53*	*7.99*
	USA	25,198.94	0.00	0.00	3,042.60		53,908.57	78.02			82,228.13	*24.22*	*15.45*
	Sub-Total	*53,973.73*	*80,031.57*	*32,082.70*	*22,029.36*	*13,281.32*	*110,052.50*	*17,453.96*	-	*10,652.17*	*339,557.31*		
Annual Totals		*76,209,65*	*116,556.76*	*100,443.59*	*23,711.37*	*43,217.35*	*137,688.64*	*23,717.04*	-	*10,652.17*	*532,196.57*		*100.00*
% of annual total		*14.32*	*21.90*	*18.87*	*4.46*	*8.12*	*25.87*	*4.46*	*0.00*	*2.00*	*100.00*		

Source: UNDP 2006; authentication follow-ups with selected donors

ANNEX 3: EXECUTIVE SUMMARY OF KENYA'S COUNTRY ENVIRONMENTAL PROFILE

Findings, Conclusions and Recommendations

The Country Environmental Profile for Kenya has as main objective to identify and assess environmental issues to be considered during the preparation of the coming Country Strategy Paper. It provides information on key environmental challenges, as well as policies, strategies and programmes designed to address them. According to the Terms of Reference for the preparation of the Country Environmental Profile, this information would ensure that the strategies applied by the EC Cooperation systematically integrates environmental considerations into the selection of priority focal areas and mainstream environmental considerations into all programmes.

Key Environmental Issues

As key environmental issues have been identified (i) Natural resources degradation (land, water, vegetation cover); (ii) Loss of biodiversity in the country’s main ecosystems including wetlands, forests, marine ecosystem; and (iii) Socio-economic environment: dropping socio-economic indicators in health (high prevalence of major diseases, HIV/AIDS, access), access to water and access to education.

The main forces leading to resource degradation are:

- The increasing pressure on the limited resources (land, water, energy), which in turn is caused by (i) a skewed landownership, (ii) lack of a comprehensive land policy regulating landownership, land tenure and land management; (iii) high dependency on agriculture and livestock for a livelihood and lack of alternative employment; (iv) the growing population;
- Low productivity in agricultural systems;
- Unsustainable use of resources;
- Inadequately designed and managed settlement schemes in the past.

The high pressure on lands in the high potential zones leads to:

- Migration of farmers to the semi-arid areas, applying agricultural practices of the high potential areas, not suitable for these semi-arid areas and causing resource conflicts with the livestock-holders/pastoralists who depend on the semi-arid areas for their dry-season grazing areas;
- Encroachment of forest areas, leading to de-forestation, soil erosion on hilltops and sloping areas;
- Utilization of sloping lands, riverbanks without applying appropriate conservation measures;
- Subdivision of agricultural lands through heritage; eventually resulting in un-economical units.

The increased pressure on resources (land, water, forage) in the ASAL areas has led to degradation of this fragile eco-system as shown in loss of forage, water & wind erosion and decline in water sources. The traditional pastoralist system has become increasingly vulnerable due to: (i) Decreased access to the dry season grazing areas in the semi-arid areas; (ii) The deteriorating security situation; (iii) Sedentary policies in the past; (iv) Inadequately designed and managed development projects in the past; and (v) Lack of marketing opportunities. The increasing pressure on natural resources is leading to increased occurrence of resource conflicts: (i) agriculture – agriculture, (ii) agriculture – livestock, (iii) agriculture – wildlife, (iv) livestock – wildlife; and (v) human – wildlife.

Main indicators of resource degradation are: loss of vegetation cover, loss of forests (5,000 ha/year), increased soil erosion, decrease in soil fertility, reduction in bio-diversity, decreasing water availability and quality, decreased agricultural productivity and increased land-fragmentation. The main effects of resource degradation are: (i) Decreased economic base for the major livelihoods; (ii) Loss of economic investments (infrastructure) due to erosion; (iii) Increased occurrence and increased intensity of droughts and floods; and (iv) Increased poverty.

There is a clear relationship between resource degradation and poverty; poverty being a cause as well as a result of resource degradation. The high dependency on the limited natural resources for their livelihood, leads to over-exploitation and depletion of the natural resources, which in turn leads to decreased productivity and increased poverty and eventually in abandoning the agricultural and livestock sectors, leading to migration into the urban areas, seeking for alternative employment. Addressing resource degradation therefore largely coincides with addressing poverty reduction.

Main areas /sectors for intervention in addressing resource degradation are: (i) Creation of a regulatory framework for the use of natural resources, mainly through the creation of a comprehensive land policy; (ii) Increasing the agricultural and livestock productivity, adapted to the different agro-ecological zones; (iii) Increasing/restoring the forest cover (reforestation of 'water towers' and other catchments), to balance energy demand (fuel wood, charcoal); and (iv) Creation of alternative employment opportunities to release the pressure on natural resources.

Loss of biodiversity is closely related to resource degradation. Over-exploitation of biodiversity resources includes illegal logging, over-fishing, poaching, overgrazing and overstocking of livestock, all posing a significant threat to the country's major ecosystems; (i) wetlands, (ii) coastal and marine ecosystems, (iii) forests, (iv) ASALs, and (v) farmlands.

The socio-economic environment relates to (i) access to health services, education and drinking water supply (ii) poverty (iii) gender issues. Kenya has been showing dropping socio-economic indicators in health, water supply and education in the past two decades.

HIV/AIDS prevalence has increased from 4.8% in 1990 to 13% in 2000 to 10.6% currently. One of the significant negative impacts of the HIV/AIDS pandemic is on the working and productive age group of society, which is between the ages of 15 and 50. This has led to a disproportionately high number of orphans, child-headed, single parent or grandparent headed households with the consequential effects on society, all impacting on poverty levels.

Environmental Policy, Legislative and Institutional Framework

Kenya does not have yet an overarching national environmental policy; a detailed and comprehensive National Environmental Action Plan (NEAP) was developed in 1994. This process was funded by the World Bank and brought together many stakeholders in Kenya. The NEAP contains suggestions for broad objectives and strategies of a national environmental policy.

However, Kenya has currently a sound environmental legislative framework in place which is being built upon. The Environmental Management and Coordination Act (EMCA) came into force in 1999. The main function of the EMCA is to provide for the establishment of an appropriate legal and institutional framework for the management of the environment. The Act is administered by the National Environmental Council and implemented by the National Environmental Management Authority (NEMA). Other relevant legislation is:

- The Environmental Impact Assessment and Audit Regulations, 2003. The Environmental (Impact Assessment and Audit) Regulations of 2003, contained in Kenya Gazette Supplement No. 56, Legal Notice 101, have been legislated
- The Environment Management (Lake Naivasha Plan), Order, 2004.
- The Forest Act, 2005
- The Water Act, 2002

- Approximately 77 sectoral and other laws (e.g. Agriculture, Mining, Factory Acts etc.)

Regulations in draft form include:
- The Environmental Impact Assessment Guidelines, 2004)
- Environmental Quality Standards, 2004 (for Land degradation, water quality, waste quality, chemicals, biodiversity, economic instruments and air emissions)

Kenya is a signatory of the following international and regional conventions:
- UN Convention on Biological Diversity (UNCBD), 1992
- UN Framework Convention on Climate Change (UNFCC), 1992
- UN Convention to Combat Desertification (UNCCD), 1994
- Protocol for Sustainable Development of the Lake Victoria Basin, 2004
- Stockholm Convention on Persistent Organic Pollutants (POPS),
- Basel Convention on Control of Trans-boundary Movements of Hazardous Wastes and their Disposal, 1989
- Montreal Protocol on Substances that Deplete the Ozone Layer, 1987
- Convention on International Trade in Endangered Species, 1973
- Ramsar Convention, 1971

There is a large number of national policies and strategies that incorporate environmental components or are closely related to the key environmental issues:

a. Agricultural development related Policies & Strategies: (i) Strategy for Revitalizing Agriculture (2004 – 2014), (ii) National Livestock Policy, 2006, (iii) Fisheries Policy, 2005, (iv) Kenya Rural Development Strategy (KRDS) 2002 – 2017. (v) Food and Nutrition Policy, and (vi) ASALs Policy, 2004
b. Other Sectoral Policies & Strategies: (i) Energy Policy – Sessional Paper No 4 of 2004 (ii) Forest Policy, 2004 and Forest Act, 2005, (iii) Water Act, 2002 and associated Policies, (iv) Wildlife Conservation and Management (Amendment) Act, 1989, (v) Mining Act and Policies
c. National Plans & Policies: (i) National Development Plans, (ii) The Poverty Reduction Strategy Paper (PRSP), and (iii) Economic Recovery Strategy (ERS) for Employment and Wealth Creation (2003-2007).

At the national level, the two main organisations directly responsible for dealing with environmental issues are the Ministry of Environment and NEMA. It appears that there is insufficient distinction between the roles and responsibilities of the MENR and NEMA both within the two organisations and externally among donor agencies, experts working in the environmental sector and the public.

In NEMA, there are four main departments: (i) The National Environment Trust Fund; (ii) The National Environment Restoration Fund; (iii) The Standards and Enforcement Review Committee; and (iv) National Environmental Action Plan Committee (under this department, there are the Provincial and District Environment Committees).

In August 2004, NEMA recruited environmental officers for each of the districts and also for each of the divisions of Nairobi. This suggests that there are now between 71 and 90 districts, divisional and provincial environmental officers. NEMA has produced State of the Environment reports for 2003 and 2004 and is currently working on the report for 2005.

EMCA, 1999 is reported to be one of the best framework laws on environment and yet enforcement of the law, to date is weak. Part of the reason for this is the lack of gazettment of standards, but part of the reason is also lack of political will at the most senior levels. Ministers have the power to issue orders and furthermore Presidential decrees can also be issued.

Other key institutions involved in environment are:
- Ministries: (i) Planning and National Development, (ii) Finance, (iii) Agriculture, including KARI; (iv) Livestock and Fisheries (Vet. Department), (v) Water and Irrigation, (vi) Lands and Settlement, (vii) Trade and Industry, (viii) Energy, (ix) Tourism & Wildlife
- Office of the President, Department of Arid Lands.
- National Authorities: TARDA, LBDA, ENNDA, ENSDA, KVDA, CDA
- National institutions/Private Sector: KWS, NMK, KIPPRA, HCDA, KPSF, KAM, KTB.
- Relevant Projects and Programmes: LVEMP, CDTF.
- Civil Society Organisations: KFWG, KLA, ELCI, Green Belt Movement.

Some main features of these institutions are:
a. The financial resources of the government institutions have declined over the past years, due to the stagnating economy, governance issues and related decline in donor support. As a result the implementation capacity of the government institutions has reduced considerably. Increasing budget allocations for development relevant programmes is one of the objectives of the ongoing ERS. Projections show a slightly improving trend for the coming years.
b. Closely related to the foregoing is the still weak institutional capacity of most of the government institutions.
c. Civil Society organisations have gained in strength over the past years. There are approximately 600 NGOs that are operational in the environmental sector in Kenya. Civil Society organisations that have been successful in lobbying and advocacy in the past 10 years are: KFWG, KLA and the Green Belt Movement.

Donor Cooperation from an Environmental Perspective

The European Community: The cooperation between the EC and Kenya from an environmental perspective has been analysed at two levels: (i) the strategic level: the degree to which the environmental issues are addressed in the Country Strategy Paper 2003 -2007 (CSP) and (ii) the implementation level: the degree of implementation of the environmental relevant sectors and the degree of integration of environmental issues in project cycle management.

With regard to the strategic level (the CSP), the conclusions are (i) environmental issues, although not in great detail, have been considered in the analysis of the political, economic and social situation, which forms the basis for the Indicative Programme and (ii) the priorities as indicated in the CSP/IP coincide to a large extent with the environmental priorities: Agriculture and Rural Development as a focal sector and GBS to support the PRSP implementation.

With regard to the implementation of the focal sector Agriculture & Rural Development, the conclusions are: (i) this environment relevant sector did not receive the importance in terms of budget allocation, as was envisaged in the CSP. Only 6-7% of the total budget has been committed instead of the planned 25-35%. (ii) The EC is active in agricultural sub-sectors (Coffee, KARI, Tsetse control (regional)) but not a main player in the agricultural sector. (iii) the Community Development Projects (I&II) and the Bio Diversity Projects have been successful and represent project types that can be scaled up.

GBS is provided though the Poverty Reduction Budget Support (PRBS). Financing agreement for the PRBS II was signed in November 2005. The purpose of PRSB II is to contribute to poverty reduction by supporting the implementation of the ERS and by linking GBS to the outcomes of the reforms. PRSB II focuses on 3 interrelated objectives: (i) Support macro-economic stability and underpin fiscal consolidation; (ii) Support improvements in service delivery in health and income; (iii) Strengthen public financial management.

Disbursement of GBS is based on the performance of implementation of the IP-ERS. For this purpose 29 outcome indicators have been formulated which are reported annually. Of these 29 indicators 9 relate to the social sectors and 2 to the bio-physical environment: (i) the area of gazetted protected forest which is targeted to increase by 13,000 ha annually and (ii) the proportion of public sector projects subjected to EIA, but no targets have been set. Both outcome indicators have not been reported for the progress 04/05.

It may be therefore concluded that relatively little importance is given to bio-physical environment in the implementation of the ERS. GBS therefore will contribute to the improvement of the socio-economic environment (drinking water, health and education), but less to the bio-physical environment: the degradation of natural resources and bio-diversity.

The EC has not (yet) procedures in place for environmental integration in PCM for GBS and SPSP. In the present PCM procedures environment is part of the cross-cutting issues in identification, formulation, implementation and evaluation. For projects, the EC has procedures for assessment of EIA requirements for different types of projects.

Reviewing the environmental integration in the JAOR 2005 showed that environment is hardly addressed in the paragraph on cross-cutting issues; only for 2 of the 11 sectors environmental integration was considered sufficient. Environment has been well integrated in the design of the CDP, BCP and the TISMPP programmes. Guidelines for EIA and EIA screening have been included in these programmes.

Other Development partners: An inventory has been made of donor programmes related to environment. The inventory is not comprehensive, but is indicative of current and emerging support for the environment and cross-cutting sectors. Some 20 donor organisations are involved in environmental programmes. Donor support related to environment has increased over the past 5 years. Relatively much support is provided to the institutional strengthening of MENR and NEMA. Also much support is given to the water and forestry sectors and coastal environment, while support to the ASALs and Agriculture is relatively small.

Most of the donor agencies have regulations and procedures for environmental screening in place, often based on the national rules & regulations of the donor country or especially developed for the donor agency. Coordination between the donors on environment is currently split into three types of forums, as follows:

i. Donor /Environment meetings. These were chaired by UNDP-PEI and are now chaired by USAID. The meeting schedule is approximately once every quarter.
ii. Sub-Group 1 – Donor - MENR/NEMA/EMCA, 1999 meetings. These are currently chaired by MENR and co-chaired by DfID and to date three meetings have been held.
iii. Sub-Group 2 – Donor – Forestry meetings. These are also currently chaired by USAID and meetings are held approximately once every four months.

Main Conclusions

Key Environmental Issues

- Natural resources (land, water, vegetation cover) degradation is considered the main environmental threat in Kenya.
- Main forces leading to natural resources degradation are the high pressure on these resources, due to increasing population combined with (i) a skewed landownership, (ii) the lack of

legislation towards land ownership, land tenure and land management and (iii) a lack of enforcement of existing legislation, (iv) low productivity in agricultural and livestock systems.

- Main indicators are: (i) loss of vegetation cover (forage); (ii) loss of forest areas; (iii) increase in soil erosion; (iv) decline in soil fertility, (v) reduction in biodiversity, (vi) distortion of the hydrological balance, mainly because of deforestation, resulting in increased intensity and occurrence of drought and floods, (vi) decreasing water levels in the majority of the country's lakes.
- Main effects are: (i) declining growth in agriculture, (ii) declining livestock production, (iii) declining fish production. (iv) Increased occurrence of resource conflicts. (v) Increased poverty.
- There is a direct relationship between poverty and environmental degradation: poverty being a cause as well as a result of degradation.

Legislation and institutional framework

- Main environmental regulatory legislation is in place, (EMCA 1999). The main institutions responsible for its implementation are MENR and NEMA. Although considerable progress has been made, substantial support will remain required.
- Policies and strategies of the main sectoral agencies related to environment have been established in the past 5 years. Substantial support will be needed to implement these policies and strategies.
- An exception forms the comprehensive land policy, regulating landownership, land tenure and land management. Although the new government has taken initiatives in this context, the outcome is unsure at this moment.
- Institutional capacity of most sectoral agencies is still weak; substantial support will be required for effective functioning.
- The financial resources of the sectoral agencies have declined over the past years due to the stagnating economy, governance issues and related decline in donor support. The projection is that the budgets for the line ministries will gradually increase in the coming years; however donor support will be required for the implementation of the planned strategies.

Support by Development Partners

- Donor support has increased over the past 3 years including the support to environmental relevant programmes. Donor coordination is focussing on harmonization of donor support. A GOK initiated framework for donor support in the sector is considered a first priority.
- The EC support to Kenya is assessed positively at the strategic level (e.g. the Country Strategy Paper) in terms of choice of focal sectors and attention for environmental integration. At the implementation level, the focal sector "Agriculture & Rural Development" was not given the importance as anticipated in the CSP, environment was insufficiently integrated in the EC programmes (exceptions are CDP, BCP, TTMIP).

Main Recommendations

Environmental Integration in EC Project Cycle Management (PCM)

One of the conclusions is that environment is not well integrated in PCM. The EC at HQ Brussels is currently preparing guidelines for integration of environment in the PCM procedures. It is recommended that these guidelines are implemented soonest in the EC Delegation.

An important instrument for environmental integration in the case of GBS and SPSPs is the Strategic Environmental Assessment (SEA). SEAs contribute to properly integrating environmental concerns in strategy and policy papers, and define indicators to be monitored during implementation and evaluations. SEA screening and SEA studies are already practiced by other donors (SIDA, USAID) and SEA-screening is recommended by NEMA (See SoE 2004). In many of the national policy and strategy papers environment is not well integrated. It is therefore recommended that the EC utilizes the instrument of SEA as a standard procedure in all its sectoral programmes including GBS, for screening of policy and strategy documents.

Introducing environmental integration in PCM will require adequate institutional capacity within the Delegation, which is presently not available. It is therefore recommended to have an environmental specialist within the delegation with sufficient decision-making power, who has the responsibility to (i) screen planning and strategy documents and project proposals on environmental integration, (ii) identify the requirement for SEAs and EIAs, (iii) commission SEA and EIA studies, (iv) monitor environmental integration during implementation, and (v) integrate environmental issues in evaluations.

EC-Sectors and Environmental Integration

- ***Institutional Development, Good Governance and Rule of Law:*** Further strengthening of Environmental Policy Formulation and support to MENR and NEMA Considerable efforts have been made over the past years to develop the environmental legislation and to establish main environmental institutions (MENR and NEMA). There is still ample scope to continue providing support to these institutions, especially in environmental policy formulation, further strengthening of the institutional capacity in the implementation of the legislation. Detailed suggestions are made in this report for further support to the following:
  - Strengthening Policy Formulation
  - Strengthening NEMA: the EIA and Audit Process- Strengthening of Environmental Communication and Information Systems
  - Institutional Support for the environmental profession and training.
- The lack of a comprehensive land policy (and its enforcement) is one of the key issues in land degradation; and often mentioned in policy and strategy documents as a major constraint (see for example NEMA, SoE 2004). The EC could consider supporting the process of policy formulation, through support to the Ministry of Lands & Settlement and/or support to advocacy groups.
- Support to Sectoral Institutions: The institutional capacity of sector agencies is still weak, especially at provincial and district level; any sectoral programme or project should have a strong institutional capacity building component.

Food Security & Rural Development: There is a strong relationship between this sector and most of the environmental themes. From the environmental (and poverty) perspective, it is recommended to include food security and rural development as a focal sector. As compared to the 9th EDF, the investment in the sector could be substantially increased. As a first step a vision & strategy for EC support should be elaborated, in collaboration with the GOK and other partners in the sector. Opportunities for programmes and projects are many, to mention some:

a. ASAL programmes: (i) To expand on present KARI activities and link with extension; (ii) Link with WB ASAL programme and invest in part of District Action Plans, (iii) Expand on livestock activities (regional programmes) and participate in livestock development investments (ASAL strategy 2005 – 2015;
b. Support to the implementation of the Agricultural Recovery Strategy: (i) Include/finance/ environmental sound techniques in extension, (ii) Stimulate watershed management programmes, (iii) Support the implementation of the Forestry Strategy;
c. Continue and expand on the present BCP.

Social Sector: From the environmental perspective, the socio-economic environment is considered as a second priority. The social sectors are however important from the poverty perspective. It is recommended that the present support to health and education continues through GBS and the specific programmes.

Transport: Roads and especially rural roads are important from the poverty perspective (marketing agricultural and livestock produce, access to inputs) and will therefore contribute to increased productivity. Roads are mentioned as a first priority in the ASAL Policy. It is therefore recommended that the Roads Programme (especially rural roads) is continued and expanded to the ASALs.

Trade and Environment: Tourism is and will likely continue to be an important and growing economic sector with potentially positive as well as negative environmental impacts. The environmental integration in the EC programmes (TDSDP and TISMPP) has been assessed positively. It is therefore recommended that support to this sector continues and further expands. The relationship between manufacturing and environmental themes mainly refers to avoiding and mitigating negative environmental impacts. Environmental integration therefore entails the proper integration of EIAs, EMPs in project planning and implementation.

Macro-economic Reform: As GBS is the main focal sector of EC support in terms of investments, it is recommended that the EC consider integration of environmental indicators in the monitoring of the ERS implementation and to make disbursements conditional to these outcome indicators. An SEA would be a first step in identification of environmental outcome indicators. Possible indicators are: (i) Preparation and enactment of a comprehensive land policy, (ii) Indicators for enforcement of existing land policies, (iii) Area brought under forestry (apart from the gazetted forests), and (iv) Areas of implemented soil and water conservation areas.

Regional Cooperation: The two key regional environmental issues are the shared resources of Lake Victoria and the trans-boundary nature of nomadic pastoralism. The EC programmes on cattle diseases have been quite successful and should continue, while the Trans-boundary Environmental Project (EC Budget-line) has just been initiated. If successful, one may consider up-scaling this project. Similarly, continued support and up-scaling of the Lake Victoria Environmental Project is recommended.

ANNEX 4: KENYA'S MIGRATION PROFILE

1. Background to Kenya's Migration Process

There is limited data on the numbers and characteristics of Kenyans abroad. Throughout the 1950s to 1970s Kenyans were engaged predominantly in circular migration in search of higher education and advanced training abroad, which was later applied to nation-building through employment in Kenya. In the period preceding Kenya's independence from Britain in 1963, a small number of Kenyans were able to travel abroad, often to the UK, in search of further education and training that were not available at home.

During his presidency from 1963 to 1978, Kenya's first president, Jomo Kenyatta, initiated the rhetoric of education as the path to development. In order to fulfil the country's urgent need for qualified native professionals and other technocrats in diverse fields, young Kenyans were sent abroad for higher education, many of them on government-financed scholarships with guaranteed government jobs upon the completion of their studies and return to the country.

Although the traditionally preferred destination for Kenyan scholars had been Britain due to strong colonial ties, similarities in educational systems, and the automatic high recognition value of British qualifications in Kenya, other countries also became alternative destinations for Kenyans, principal among which were the United States and the Soviet Union. By the 1970s the United States and Canada received the largest numbers of Kenyans.

Former President Daniel Arap Moi followed in the policy footsteps of Kenyatta, beginning with a consolidation of free universal primary education. Under President Moi, educational opportunities at all levels increased dramatically, but could not match the needs of the country's fast-growing population, so many young Kenyans in the 1980s and 1990s had to travel abroad to pursue educational opportunities.

2. Emerging and Recent Migration Trends

A factor behind outward migration from Kenya since the mid-1980s has been the stagnation of the economy. Inefficient government policies, widespread corruption, unemployment, high taxes, deteriorated standard of living, poor economy and violent politically motivated ethnic conflicts evoked a massive departure of doctors, nurses, engineers, technicians and other highly educated and skilled Kenyans to western Europe, Australia, Canada, USA as well as to other African countries, including South Africa, Botswana, Rwanda and to the Middle East.

Many Kenyans also began pursuing opportunities in low-skilled positions as bus drivers, domestic servants, cruise ship attendants, and security guards in Gulf countries such as Saudi Arabia, Qatar, and Bahrain.

A growing proportion of migrants consists of Kenyan students, who were sent abroad to acquire a higher education and return to the country but decided to seek work after completion of their studies, often illegally. Kenyans studying or working abroad could be relied upon to send vital remittances to their relatives; some of which went into helping maintain previous standards of living as the economy declined further, and some into small business ventures or other development activities.

3. The Diaspora and Migration

3.1. Migration Status:

In Kenya there is a lack of data on diaspora numbers and resources. According to the Kenya Club, an organization of Kenyan professionals and investors residing in Britain, there were over 2 million Kenyans abroad, including 130,000 in the UK – by September 2005. According to the US Committee on Refugees Survey (1992-2002), there were about 200,000 Kenyan refugees and asylum seekers in the country, which has reduced from about 420,000 in 1992. The table below gives additional details and desegregation by country for specific years.

Estimation of Kenyan Diasporas in Selected Countries

Country	Number of Kenyans
USA, 2001	154,300
Canada, 2001	69,000
UK, 2001	13,300
Australia, 2001	6,720
Germany, 2001	5,200
Sweden, 2001	1,300
Total	*249,820*

Source; Okoth, 2003

The Kenya Community Abroad (KCA) indicates that Kenyan Diasporas are increasingly becoming economically independent and possess immense resources, which are shared with families and relatives at home. Diasporas constitute a significant asset in the development of national capabilities, in addition to social, financial, intellectual, political capital and could be converted into Kenya's biggest donors. National capacity building is a prime aspect for ensuring the migration positive contribution to the development of both source and destination countries.

Kenyan communities abroad can make a significant contribution to social and economic development in Kenya by investment in businesses, remittances and charitable work, strengthening of voluntary development agencies and promote national interests through influencing policies in host countries. What is needed is confidence building and information on investment opportunities available in Kenya, purposeful use of expertise of Kenyan professionals and technicians, promotion of remittances and strengthening of civil society and voluntary development agencies. It's essential to develop a close, collaborative relationship between the Kenyan communities at home and abroad. One of the major obstacles is the lack of information and data on numbers, trends and characteristics of Kenyans abroad and their contributions, which should become a priority task.

3.2. Diaspora's Contribution and Remittances:

Remittances by migrants are the most obvious way of helping their families and relatives in the country of origin. The bulk of remittances (80%) are used to finance basic consumption, education, health, improvement of dwellings and investment in business. Kenyan families rely on remittances to meet their basic needs. Interest in investment opportunities in the country among Kenyans in Diaspora is becoming visible. Recently during the KENGEN IPO in Kenya, a sizeable number of offshore investors were Kenyans working abroad.

Remittances are an instrument for reducing poverty and promoting growth. Kenyans in the diaspora are contributing an equivalent of 3.8% of national income through remittances, more than twice the level of net official development assistance (ODA) and almost nine times the amount of foreign direct investment. Foreign currency sent home by Kenyans living abroad has been helping to shore up the Shilling.

Estimation of Remittances for the year 2002 and 2003

Item	2002	2003
Remittances (US $ '000)	56,315.00	56,626.80
GDP (current, US$ billion)	12.10	12.30
Remittances % of GDP	0.456	0.460

Source: CBK database, 2003; Economic Survey, 2003; and KIPPRA, 2003

According to the World Bank's 2006 Global Economic Prospects report, in the year 2004, Kenyans living and working abroad remitted about KSh. 35 billion ($ 464 million), which is 0.41% of the country's gross domestic product, which makes remittance the largest source of external capital. The report estimated that remittances reduced the number of people living in absolute poverty in Kenya.

While According to information made available by the Central Bank of Kenya, up to KSh. 50 billion ($700 million) is remitted to Kenya annually[7]. Kenya Club even estimated the annual remittances to be higher. The money has not only helped lift the local currency, but has also spurred activity in the property market. Buying of houses and construction of new buildings have received a boost from monies remitted to Kenya in recent times. Among the other sectors that have benefited from this is the cement industry, with consumption rising by 7.9% in the first ten months of 2005 to nearly 1.2 million tonnes.

The sources of remittances are diverse. Taking into consideration that most Kenyans are in USA /Canada, UK and South Africa, the bulk of remittances come from these countries, mainly from USA /Canada. Despite the remittances from developed countries, remittances from developing countries represent 30-45 % of total.

Despite the contribution to growth that Kenyans living abroad make to the country, facilities for sending money home are limited. The main channels of transfers are Western Union and Money Gram (about 70% of all remittances coming into Kenya). Besides the formal channels also informal transfers take place through the personal migrants.

4. Economic Migrants /Labour Migration

Forces behind migration: the general external migration trends in Kenya is an occurrence related to education and search for new and better economic opportunities. Currently, Kenya is a major contributor of skilled labour to a number of African countries including Tanzania, South Sudan, Ethiopia, Somalia, Rwanda, Botswana, South Africa, Seychelles and Mauritius.

In Kenya there are three key government departments that deal with labour migration: Department of Human Resource Management and Employment, Labour Commissioner (Department of Criminal investigations) and Department of Immigration.

Kenya has been characterized by high flows of brain drain and irregular migration mainly due to lack of employment opportunities and low wage levels at home.

There exist recruiting agencies licensed by the Ministry of Labour & Human Resource Development to search for international jobs. Migrant workers have no pre-departure information about their countries of destination. There are no formal services from Kenya available to migrants facing problems in host countries.

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7 www.nationmedia.com/dailynation - by Geoffrey Irungu - 02/14/2006

The UN Economic Commission for Africa and the International Organization for Migration (IOM) estimated that since 1990 at least 20,000 people leave the continent annually. The United Nations Commission for Trade and Development has estimated that each migrating African professional represents a loss of $ 184,000 to Africa.

The causes of unemployment in Kenya are: inadequate economic growth rate to absorb the increased labour supply; quality of education not in harmony with labour market demands - the unavailability of adequately skilled employees in certain sectors of the economy; failure of development plans to focus on areas with employment creation potential - lack of investments that generate employment and poverty.

5. Migration and Brain-drain

Kenya has been producing skills in all professional areas but there are shortages of skilled people, especially doctors and nurses, due to their migration to other countries. Numerous young people leave the country for tertiary training and settle abroad, especially in USA and UK. Between 2001 and 2002, the US Department estimated that there were about 7,097 Kenyan students in the country.[8] For the developed countries, mainly in the North, attention is placed on attracting labour migrants so as fill the gaps created by the ageing labour force.

Lack of skilled human resources in the health sector is Africa's most tangible problem. In the year 2003 it was pointed out that out of the 6,000 doctors trained in Kenya, only 600 are serving the public health institutions, while 2000 have left the country, and the rest are operating their health facilities.[9]

It is accounted that over 40% African professionals live and work outside their countries, because of slow economic growth, massive poverty and poor governance, very often finding a job that is below their qualifications and so losing their skills. For the country of origin this means a loss of investment and skill shortages of different kinds of professional and technical skills.

The main reasons why African intellectuals migrate to developed countries are: low wages; political interference; lack of environment conductive for academic growth; limited access to higher education (every year about 30,000 Kenyans leave Kenya, to study in Europe, USA and Asia because of the limited access to higher education); lack of funds for research initiatives; old school curriculum; abuse of Human Rights and unemployment.

To reduce brain drain requires an agreement between the developed countries and Kenya on how the pull and push factors that make scientists to flee Kenya. The United States should reduce special visas to lure talented professionals, while Kenya nations should try to improve the working conditions of their scientists and ensure that scientists are employed as scientists. Kenya should also update its school curricula. It should rather offer higher wages for "insiders" according to their qualifications than hire expatriates. Good governance at national and international level should be maintained, essential for economic progress. The government should improve security, protection of human rights.

Recently it has been realized that brain drain can be turned into "brain gain" through programmes like MIDA and TOKTEN. Kenya would benefit from voluntary return of migrants for short-term consultancies or permanently.

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8 Njoka, J.M. (2003) The Potential Role of Professional Health Associations in the Regulation of the Private for-Profit Sector. Kenya Country Study Commissioned by GTZ.

9 Okoth, K. (2003): Kenya: Chat Role for Diasporas in Development? Migration Information Source.

One aspect that may also deserve some attention is the following: The emigration for educational reasons is likely to retain the quality of education within Kenya at a lower level, also when those emigrants eventually return. Too large numbers of children in classes, absence of good teaching materials and curricula, absence of top class teachers, etc… drive families that have the means, to send their children abroad for a good education. These children may stay abroad for a while (hence Kenya has no direct access to their intellectual potential, and the education quality in Kenya can hardly improve), but if the economic climate is right (or the family needs the person), they will return (many Indians that studied and worked in California return to India: it is better to live in absolute wealth in India than with the same income in relative wealth in California). When they come back they bring a lot of knowledge, can get a good position and can live wealthy. But they may also bring back the fear that should the educational quality in Kenya improve, then the competition for positions where those people have a good qualification may increase (thereby invalidating the big investment that their family made in their education abroad). As a consequence they (or their families) may not be on the demanding side for an improved educational system in Kenya.

6. Migration inflows

Introduction: In the last century, the population of Kenya – originally made up of native Africans of Bantu, Nilotic, and Cushitic origins – has been diversified further by the arrival of Europeans (mostly British colonial settlers) and Indian labourers who helped construct the railway lines before settling in the country and emerging as the predominant minority population in the country's economic life.

In recent decades, Kenya's political stability and its once advanced but until recent largely neglected infrastructure have attracted many international organizations and businesses to base their operations in the country. Small communities of Italians, Germans, French, and other nationalities began to emerge throughout the 1990s. While the number of expatriates and Western migrants in Kenya today is hard to estimate, the number of cultural and educational institutions catering to their needs is a strong indicator of their presence.

Due to the political stability in the country since its independence, Kenya has provided a shelter to hundreds of thousands of refugees escaping from violent conflicts in Uganda, Rwanda, Burundi, Ethiopia, Somalia, and Sudan. The country has also served as a transit point for the resettlement of these refugees in other countries or for voluntary repatriation to their countries of origin once the conflicts have subsided or been resolved.

The Refugee Problem: Kenya currently hosts about 240,000 refugees, most of who arrived during the first half of the 1990s. Biggest number of refugees is from Somalia and South Sudan, the rest are from Ethiopia, Congo, Uganda, Sierra Leone and Rwanda.

Refugees in Kenya – planning figures 2006

Population	Jan 2006	Dec 2006
Somalia (refugees)	154,300	149,000
Sudan (refugees)	69,000	58,900
Ethiopia (refugees)	13,300	15,000
Other refugees	6,720	15,200
Asylum-seekers		3,000
Total	**243,320**	**241,100**

Source; UNHCR (Global Appeal 2006)

Within Kenya there are two principal refugee camps. Of which one major camp is called Kakuma in Turkana in northern Kenya, and the other major camp is Dadaab in eastern Kenya. Both camps are located in remote areas, close to the Sudanese and Somali borders. Somali refugees make up the majority of camp-based refugees in Kenya and are located largely in Dadaab camps. The next largest group are Sudanese refugees who reside primarily in the Kakuma refugee camp. Kakuma also hosts 18,000 Somali refugees and about 4,100 refugees from other countries. The majority of the refugees have a rural agro-pastoral background with little education.

In Kenya refugees are not permitted to cultivate land or seek employment outside the camps, and remain dependent of humanitarian aid. They are forbidden to leave the region without permission from the government and have little opportunity for any form of economic activity. The government of Kenya has not provided much help to the refugees, leaving the management to international agencies, specifically UNHCR and NGOs.

Camps suffer from poor relations with the local population, lack of economic opportunity, frequent instances of gender-based violence, crime, and recurrent food shortages. Food, water, firewood education, medical facilities and social services are in short supply due to cramped budgets. The biggest problem of the camps is security. Within the refugee community, sexual, domestic violence is common. The UNHCR has strengthened the police force and encouraged the government to set up a mobile court to attempt to punish attackers when incidents occur. Strong anti-rape groups are also at work in the camps.

Kenya is a signatory to the international refugee protection, there is also currently a refugee bill pending in Kenya's Parliament that would give certain legal rights and protection to refugees if enacted. Kenya intends to adopt a new "national asylum and refugee act" but is yet to do so. However, according UNHCR (2005 report), "it adopted a flexible and refugee-sensitive approach interpreting existing aliens' legislation, with the result that refugees and asylum-seekers were granted asylum and protected from *refoulement*. A steady influx of Somali asylum-seekers arrived in Dadaab, explained in part by a renewal of fighting in the lower Juba region. In Kakuma, there were no massive inflows although a flow of refugees from Southern Sudan continued. In Dadaab, the safety of staff and refugees was improved through a more secure procedure for the reception of refugees and better security in residential quarters. A review carried out in Kakuma led to recommendations regarding community policing and expanded assistance to the local community.

There is not a policy of permanency of refugees in Kenya. The migrants are on temporary basis only, and have the intent to return home, so the spaces provided in Kenya are temporary. There is a limited accommodation in Kenya as a result of a lack of resources. Kenya seeks to ensure that there is peace and harmony in the countries where refugees come from and anticipates that they will go home when their home is safe.

The refugee population is expected to reduce given the return of peace in Somalia and Sudan. On the diplomatic form Kenya has played a key role in signing of the Comprehensive Peace Agreement for South Sudan and in the formation of the Transitional Federal Government in Somalia. This year the UNHCR signed an agreement with Kenya and Sudan to facilitate voluntary repatriation for Sudanese refugees. In April some 2,000 Sudanese refugees were repatriated to their homes by IOM. For 2006, the minimum requirement for funding for the repatriation is $63 million.

Estimates of the number of refugees residing illegally in Nairobi and other towns range from 15,000 to 60,000. As the immigration minister Gideon Konchellah stated, the security of refugees and asylum seekers is a fundamental responsibility of the government and a large population of undocumented migrants poses a major challenge to national security[10]. In February 2006, the Kenyan government began registering migrants in Mombasa, Kisumu and Nakuru as well as the North Eastern Province bordering Ethiopia and Somalia.

The next step for the government should be to create a clear policy and legal framework for the regulation and management of refugees in Kenya, negotiate with the international community to put in resources for support of public infrastructure and development assistance for both the local community and refugees. The government should reinforce its effort to provide security in camps. Humanitarian and economic aid to the local (Turkana) population be increase, improve relations between refugees and locals, including joint access to schools and social and health services. Ensure adequate food for refugees, shortages of which can affect the security of camps. Donors, UNHCR and other NGOs should encourage the efforts of Kenyan Government to play a more proactive role in refugee management, help it with training and technical assistance in implementing the Refugee Law.

7. Human Trafficking

Kenya is emerging as a centre for human trafficking in East Africa. It is a country of origin, transit and destination for internal and international trafficked victims with much of the trafficking for forced labour or sexual exploitation. This is often facilitated by people known to the victims or by private employment agencies deceiving them on job opportunities elsewhere.

Kenyan children are trafficked within the country and to South Africa for domestic servitude, street vending, agricultural labour, and sexual exploitation, including the coastal sex tourism industry. Children are also trafficked from Burundi and Rwanda to coastal areas of Kenya.

Kenyan men, women, and girls are trafficked to the Middle East, other African nations, Western Europe, and North America. Chinese women trafficked for sexual exploitation reportedly transit Nairobi and Bangladeshis may transit Kenya for forced labour in other countries as well as Burundian and Rwandan nationals.

Kenya is placed on Tier 2 Watch List due to a lack of evidence of increasing efforts to combat severe forms of trafficking over the last year. Kenya is not a signatory to the 2003 UN Trafficking in Persons Protocol.

National counter trafficking legislation is very much needed. Some policy developments have taken place though minimal - there have been changes and related adjustments in immigration procedures and requirements with the requirements that all travelling children have to acquire and use independent passports. Earlier, it was possible to annex the children in the passports of their parents or guardians. This policy change was necessitated and enacted to stem out human and especially children trafficking.

The Kenyan Government made weak efforts to punish acts of trafficking and provided minimal victim protection services during the year 2005. Its law enforcement agencies reported no investigations, prosecutions or convictions of trafficking crimes. The Ministry of Immigration developed draft legislation to criminalize the cross-border elements of human trafficking. Rather than investigating foreigners suspected of involvement in trafficking, law enforcement officials detained and deported them, or charged suspects with other offences in the absence of specific legislation.

[10] http:reliefeweb.int/rw/rwb.nsf/db900SID/YAOI-6MG6Y4?OpenDocument

In November 2005, the government established a task team to develop a national plan of action and facilitate government and civil society anti-trafficking efforts.

The government should sensitize law enforcement officials throughout the country to trafficking crimes and push for greater trafficking investigations and prosecutions, also improve its ability to monitor and collect data on anti-trafficking interventions.

The rise in poverty has led to increased corruption and illegal/regular migration. Trafficking syndicates have been using Kenya as a transit point because it is easy to obtain counterfeit travel documents and right of passage. Increased poverty and unemployment has created a higher potential of vulnerable people to trafficking. Fighting corruption is one of the most important actions to encourage investment and discourage human trafficking.

8. Migration Policies and Policy Gaps

Kenyan government has adopted new approaches to address the issues of unemployment and labour market. By creating an investor friendly environment it hopes to attract foreign investment as a mean of job creation for Kenyans. It is also intensifying its war against corruption, creating an enabling environment for private institutions to do job searches, marketing of Kenyan skills and profiling for international jobs. To encourage regional cooperation and economic integration, Kenya has been pursuing and strengthening the COMESA and the EAC as an avenue for economic development and creation of opportunities for labour export. Kenya is starting to appreciate the role of remittances. It wants to provide incentives for the Diaspora to invest their money back home, being offered ownership of institutions they invest in.

Kenyan government should also address the protection and assistance of its nationals who become victims of human trafficking and smuggling under a guise of labour migration. Kenya is a sending, receiving and transit country for the vice.

Kenya does not have a migration law in place, but there is draft policy that is pending discussion in the Cabinet. The Ministry of Labour and Human Resource Development lacks a monitoring system and database of migrant statistics and there is also no specific policy on government protection of its legal labour migrants who are mistreated in destination countries. The national registration and immigration records are weak, equipment including visa issuing systems is outdated and obsolete, and the immigration management information systems are not integrated.

Despite a significant anti-corruption campaign and the steps towards greater democracy in the past decade, it is still unlikely that the country's economy will grow fast enough to absorb the hundreds of thousands of highly educated and unemployed/underemployed Kenyans, what means that many more talented, qualified, and unemployed Kenyans willing to migrate will continue to seek opportunities abroad, and contribute to nation-building through direct financial remittances or other forms of brain gain.

The present (in 2006) government led by President Kibaki is committed to ensuring that the repressive political policies that hounded many Kenyans away from the country will not be repeated. However, the economic weakness of the country will take a while to remedy.

ANNEX 5: CSP DRAFTING PROCESS

Overview: The preparation of the EC-GOK Kenya Country Strategy Paper / Indicative Programme for the period 2008-2013 (10th EDF) was led by the Government of Kenya in consultation with the people of Kenya and with support from the EC-Kenya Delegation. In the process recommendations of External Evaluation of 9th EDF were taken into account and support to existing sector strategies was maximized. Deliberate attempt made to include Non State Actors, Private Sector, Local Governments and other development partners in the process.

Organisation and methodology: The process was designed in such a way to maximize participation and consultation between Government of Kenya, development partners, civil society and private sector. The process started in April 2006 and was completed by the end of June 2006. The first draft CSP/IP was finalized by the NAO's office in July and presented for final comments to stakeholders before submitting to EC Delegation. To ensure smooth implementation of the process, a taskforce comprising of the Government, the European Commission and Consultants providing support to the NAO's office was set up. The taskforce was charged with the responsibility of coordinating the CSP drafting process including providing guidance and direction to Technical Working Groups. At GoK level an inter-ministerial committee co-chaired by the Ministry of Planning and Ministry of Finance provided guidance to the process.

A total of five broad consultative meetings have been held, in addition to several working sessions in the Technical Working Groups:

- CSP Start up meeting — 3rd May 2006
- Technical Working Group meetings — 6th-30th May 2006
- Combined TWG meeting — 31st May 2006
- 1st Stakeholder workshop — 6th June 2006
- Technical Working Group meetings — 12th – 23rd June 2006
- Combined TWG meeting — 26th June 2006
- 2nd Stakeholders workshop — 29th June 2006

Documentation: The process is documented in minutes and proceedings of the Technical Working Groups, Thematic Analysis Sheets and progress reports of the CSP Taskforce including the proceedings and outputs of the stakeholders' workshops.

Stakeholder participation: Through the leadership of the government and in particular the NAO, invitation to participate in the CSP formulation process was extended to diverse government ministries, statutory bodies and other relevant government agencies, EC-supported programmes and institutions, donor agencies, embassies and international organisations, and non-state actors. The illustration below serves to detail the level of involvement as a proportion of the invitations.[11]

Invitation and inclusion in the CSP formulation:

Nature of organisation	Target and outreach	
	Invited institutions	**Participating institutions**
Line (government) ministries	21	14
Statutory bodies and other government agencies	13	9
EC-supported programmes and institutions	10	9
Donors, embassies and international organisations	17	9
Non-state actors	48	23

11 In a number of cases, a single agency send in up to a maximum of 3 participants per session.

Visibility levels were kept moderate on purpose, but the process provided a very good opportunity to share information and discuss the current and foreseen EC response programme with a wide cross-section of stakeholders, as indicated in the illustration below:

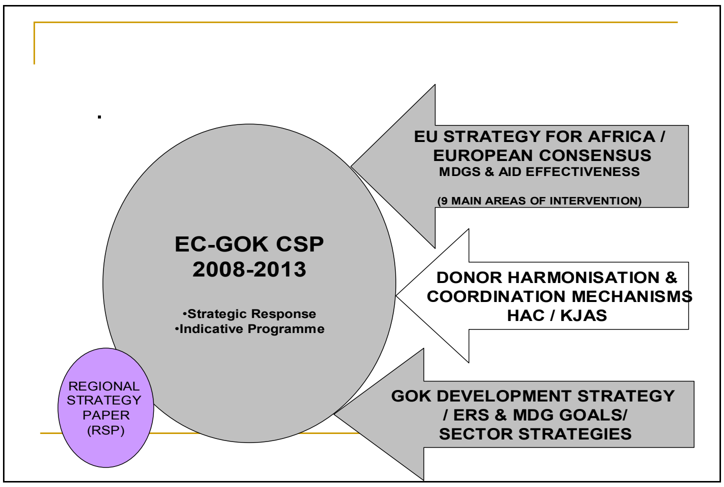
Level of participation and involvement in the CSP process:

Organisation /Institution /Agencies	**Number of Participants**	
	TWG Combined meeting	**Stakeholders Workshops**
Government Ministries	16	23
Government Institutions /Agencies	4	8
Development Partners /Donors	17	15
Private Sector /Non state actors	13	28
Total	**50**	**74**

Start-up event: During the start-up meeting the objectives, scope and time-table of the CSP process was introduced to a wide audience and stakeholders were invited to participate in Technical Working Groups. The basic principles and guidelines were shared with participants: CSP 2008-2013 funded under the 10th EDF, joint responsibility of GoK and EC Delegation, Kenya owned process addressing Kenya's medium-term development agenda for aid, trade and regional integration, inclusive with wide participation of stakeholders, addressing coordination, coherence, complementarity as well as harmonization and alignment, EC response to concentrate on core sectors with comparative advantage to increase aid effectiveness.

It was further discussed that the Kenyan CSP should take into account the GOK development agenda as articulated in the ERS and various sector strategy papers, regional trade and development priorities, the European Consensus on Development, the EU Strategy for Africa, and the MDGs. Specific attention was also to be paid to the recommendations contained in the evaluation report for the EC assistance to Kenya under the CSP 2003-2007, and the ERS Progress Report 2005. The Figure below provides a summary of the relationship of the CSP, key national policies/strategies, regional policies, international policies and other strategic directions.

CSP Relationship to key policies /National and International Strategic directions



Technical Working Groups – Strategic Phase: The first set of meetings of the TWGs concentrated on:

- Explaining the CSP process in detail;
- Providing an understanding of the issues that affect each of the sectors through drafting thematic analyses sheets summarizing the various sector issues;

- Indicating and proposing priority areas in which future EC assistance could be required (response strategy); and
- Agreeing on the selected focal areas and non-focal sectors for the 10th EDF.

Relevant background information including a presentation of the external evaluation of the 2002-2007 CSP and the Country Environmental Profile were provided in the start up workshop and distributed to the Technical Working Groups.

Outputs from 1st Stakeholders Forum: The 1st stakeholders' forum identified five core issues as a result of the discussions on strategic orientations of the Technical Working Groups, to mention governance, management of natural resources, economic opportunities, infrastructure and human resources. The main output from the stakeholders' forum was consensus on the selection of focal sectors and non-focal sectors for consideration in the programming phase. Justification for the selection of focal and non-focal sectors (see below). The programming orientations for the 10th EDF, guided by the principle of concentration and based on EC's areas of comparative advantage guided the selection of strategic areas of intervention.

Rational for Selection of Focal Sectors and Priority areas for Non-Focal sectors:

Possible intervention area	Status in 10th EDF	Rationale
1. Water & Energy	Excluded from 10th EDF Programming	EU Funding secured through EU-ACP Water and Energy Facilities
2. Conflict Prevention and Fragile States	Excluded from 10th EDF Programming	Interventions involve neighbouring states. Area is therefore best addressed in the Regional Strategy Paper
3. Social cohesion & employment	Excluded from 10th EDF Programming	Relatively lower priority in ERS in comparison to other sectors
4. Infrastructure, Communications & transport	Selected as **Focal Sector 1** in CSP 2008-2013 *(Technical Working Group 1)*	Consistently identified as the major bottleneck to progress in all sectors of the economy Identified as sector in which
5. Rural Development, Agriculture, and Food Security	Selected as **Focal Sector 2** in CSP 2008-2013 *(Technical Working Group 2)*	High Priority in ERS Addresses a large number of cross-cutting issues SRA addresses natural resource management and environment
6. Trade & Regional Integration 7. The environment and sustainable management of natural resources 8. Governance, democracy human rights and support for economic and institutional reforms 9. Human Development	Selected as **Non Focal Areas** *(Technical Working Group 3)*	Consistently identified as the major bottleneck to progress in all sectors of the economy Identified cross cutting for all sectors, High priority in achieving MDGs (Human Development indicators)

Stakeholders recommended addressing the following main issues during programming:

- ***General:*** Governance; Environment and Sustainable use of natural resources; and Absorption capacity and donor conditionalities
- ***Focal Sector 1 – Roads:*** Poor GoK Procurement procedures; and Poor quality of works
- ***Focal Sector 2 - Agriculture, Rural Development and Food Security:*** Lack of coordination within the sector; and Past poor performance
- ***Non Focal Sectors:*** Lack of strategic focus.

Technical Working Groups – Programming Phase: Following the first stakeholders meeting, three Technical Working Groups were formed to conclude the indicative programming for the selected sectors. The Groups were required to come up with a draft indicative programme for circulation to all stakeholders prior to the final stakeholders' forum. The programming tools used were conform Annex-1 – 10th EDF Programming orientations supplemented by other tools at discretion of each TWG. The Technical Working Groups paid special attention to support of existing sector strategies, existing and foreseen interventions of other donors working in the sector, take into account recommendations contained in the External evaluation of the CSP 2002-2007, issues raised in the 1st stakeholders' workshop and to mainstream critical cross-cutting issues: i) Environmental Sustainability, ii) Democracy, Good Governance, Human Rights, iii) Rights of Children and indigenous people, iv) Gender equality; and v) HIV/AIDS.

Outputs from 2nd Stakeholders Forum: The main output of the 2nd stakeholders' forum consists of the presentations and comments on the various Logical Frameworks for the focal sectors and non-focal areas. Stakeholders added that monitoring and evaluation mechanisms should be strengthened to ensure an efficient, effective EC response programme with impact. Aid instrument would be a balanced mix of general and sector budget support complemented by specific programmes and projects.

Tentative allocations were indicated as follows:

- Transport infrastructure	25-30%
- Agriculture and rural development	20-25%
- General Budget Support	35-40% (50% from Incentive Tranche)
- Non-Focal Programmes:[12]	10-15%
- B-Envelop:	unforeseen, emergency

First Draft CSP/IP 2008-2013: In August the NAO office, working together with the EC Delegation completed a refined first draft CSP/IP 2008-2013. Indicative allocations were slightly revised based on discussions as reflected in this document.

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12 Including Good governance & Non-State Actors, Trade, Private Sector Development, and Technical Cooperation Facility.

ANNEX 6: HARMONISATION ROAD-MAP

Overview
The Kenya Joint Assistance Strategy (KJAS) is at draft formulation stage and presents a core strategy of 15 development partners for 2007–11. It provides the basis for the partners' support for the implementation of the government's development strategy. It has been prepared collaboratively by the KJAS partners: Canada, Denmark, the European Commission (EC), Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, the United Kingdom, the United States, the United Nations, and the World Bank Group.

The draft KJAS specifies the ways in which the partners will support the government's efforts to achieve the Millennium Development Goals (MDGs) and the targets that the government has set for itself, drawing on each partner's comparative advantage in providing expertise and assistance. The draft KJAS focuses partners' efforts on the greatest challenges facing Kenya today: significantly reducing corruption and improving public sector management; creating infrastructure to serve as a platform for growth in Kenya and throughout the East African region; substantially improving the delivery of basic services (health, education, and water and sanitation); encouraging private sector development; and promoting sound management of land, soils, forests, pastures, wildlife, water resources, and fisheries. A major characteristic of the strategy is its emphasis on partnership—with the government, with other development partners, and with non-state actors. The KJAS is results oriented with a clear monitoring and evaluation framework derived from the results matrix of the government's strategy and from results frameworks prepared as part of sector strategies.

The draft KJAS was developed in close collaboration with the government. Non-state actors have also contributed to its formulation. The government has actively participated in formulating the draft KJAS. In the second half of 2006, the draft KJAS will be discussed with the government and country-wide consultations are planned with civil society and the private sector and the official launch of KJAS is foreseen in 2007.

Underlying Principles
The KJAS is centred on three principles, which are consistent with those articulated in the Paris Declaration on Aid Effectiveness. These are:

- Supporting implementation of the country-owned and led government strategy to improve social well-being and achieve the MDGs.
- Collaborating more effectively, both among development partners and with the government.
- Focusing on results and outcomes (including managing resources and improving decision-making for results, and strengthening systems for monitoring and evaluation).

Partnership in supporting implementation of the government strategy
The KJAS seeks to fully align its partners' activities with the government strategy. Partners will channel a greater proportion of their assistance through SWAPs and basket funding arrangements, assuming that the policy framework remains favourable. The number of stand-alone projects that are outside sector programs will be minimized. Project aid will still be used to support activities that are specified in national or sector strategies, to eliminate duplication and maximize its effectiveness. To the extent feasible, project aid will be integrated into the medium-term expenditure framework. Some aid channelled through NGOs, U.N. agencies, and the private sector will remain outside the government's budget.

KJAS partners will increasingly support joint analytical work and joint dialogue with the government. They will increasingly pursue these activities in collaboration with other KJAS partners working through the donor sector groups. In all instances the KJAS partners will avoid parallel interventions and will work within appropriate Kenyan frameworks.

A flexible approach to assistance is required. KJAS partners therefore will adapt their level and nature of support in response to emerging national developments and needs. Adjustments will be made in consultation with the government and with other partners. Periodic KJAS reviews will provide the opportunity for identifying and agreeing any changes.

Progress in harmonization

Development partners have made substantial progress in harmonizing their activities during the past few years. Key elements include:

- Meeting monthly as the Donor Coordination Group led by the World Bank to discuss economic, political, and social developments.
- Establishing a harmonization, alignment, and coordination donor group meeting every 2 weeks to serve as the secretariat to Kenya's Donor Coordination Group. This group meets twice a month to further the harmonization agenda.
- Establishing some 17 donor sector groups, each with terms of reference that specify how the group will work with each other and with the government in pursuit of the MDGs.
- Increasingly coordinating and sharing analytical and advisory work, appraisals and reviews, fiduciary assessments, and accountability rules (for example, the GJLOS review and the reviews of the government's proposed public financial management program).
- Increasingly coordinating sector support through SWAPs, and bringing development partner-funded projects into alignment with sector strategies. Partners are providing assistance through SWAPs or coordinated programs for GJLOS and education, and are preparing SWAPs for health, public financial management, water, roads, and others that bring together all development partners in these sectors. In addition, partners have adopted joint financing arrangements for GJLOS, for public financial management, and to support government institutions, such as the NEMA and the ASCU.
- Adopting silent partnerships (or delegated cooperation), in which one development partner formally represents another in policy and sector dialogue, a practice that has significantly reduced transactions costs for both development partners and the government.
- Participating in a comparative advantage questionnaire through which agencies assess their own comparative advantage and name areas where they could play a leadership role, ones in which they could foresee delegating management, and ones from which they may disengage. This provides the basis for rationalizing KJAS partners' assistance to the government.
- Agreeing on a road map and on an analytical framework for a joint strategy, and preparing the draft strategy.

Future directions in harmonization

The KJAS partners will build on progress made in harmonization. They will seek to increase their selectivity in the program and policy areas in which they are engaged. They will also strive to achieve greater harmonization at the sector level. Currently, progress is most advanced in education and GJLOS. These have provided lessons that will inform other groups that are developing SWAPs. Finally, if Kenya makes adequate progress in improving governance and enhancing fiduciary management, several KJAS partners will jointly prepare a budget support credit, which is expected to serve as a basis for multi-donor support for annual budget support credits. The illustration below summarizes progress so far in harmonization and plans for further harmonization.

Key stages of KJAS formulation and development

	2003	2004	2005	2006	2007
Government	Consultative Group Meeting and request by the government for donor harmonization around government priorities and instruments	Government strategy (PRSP)	Consultative Group Meeting First annual progress report of the government strategy	Development Forum (replacing CG meeting) Second annual progress report of the government strategy Draft external aid policy Public financial management strategy	Third annual progress report of the government strategy
Development partners		Formation of the HAC with 7 multilateral and bilateral donor partners	Addition of 8 partners to the HAC to bring total to 15 First annual report of harmonization, alignment, coordination	Comparative advantage self-assessment conducted HAC website established First draft of KJAS Second annual report of harmonization, alignment, coordination	Presentation and launch of the KJAS

Source; Kenya Joint Assistance Strategy, 2006 (draft)

Tentative Sector Presence of KJAS Partners

As the chart currently stands, the symbol of ◘ for lead donor/chair also includes where donors have assessed that their agencies have comparative advantage in the sector, but have not yet specified if they are prepared to lead the sector. Therefore, the number of lead roles for some agencies may be artificially high on this chart, but will be reduced as agencies specify there leadership preferences. Additionally, some issues such as gender and environment are mainstreamed across an agency's entire program. Therefore no indication for presence in a cross-cutting sector does not mean no involvement.

The chart is based on responses to comparative advantage questionnaire, follow on survey, and subsequent updates.

Current List of Sector Groups	**Lead Ministry**	**ADB***	**CANADA**	**DENMARK**	**EC**	**FRANCE**	**FINLAND**	**GERMANY**	**ITALY**	**JAPAN**	**NETHERLANDS**	**NORWAY**	**SPAIN**	**SWEDEN**	**UK**	**UN SYSTEM**	**US**	**WORLD BANK**	***Total lead/active in each sector***
Agriculture Rural Developm	MoA, MoLFD	◘		○/☺	◘		○	◘	○	◘/●	●			●	○	◘	●	◘	**8**
Democratic Governance	MoJCA, MoLG, MoF		◘/●	●	◘		●	●	○		●	●		◘ GJLOS	◘	● elections, NCEP, civil society	◘	●	**12**
Education	MoEST	◘	◘ primary education		●			☺	◘/● secondary education, TIVET	● secondary education	○		●	☺	◘	◘/●	●	◘ ☺ primary education	**9**
Energy	MoE	◘			●	◘	●	☺		◘/●			● rural electrification			●		◘	**7**
Environment	MoENR, MoTW	●		◘	●	◘	◘ forestry			●	●			○	☺	◘/●	◘	●	**9**
Gender	MoGSCSS	●	◘		●							●	●	●		◘			**6**
Health and HIV/Aids	MoH	●	☺	●	●	● HIV/AIDS		◘	◘/●	●			●	○/☺	◘	●	◘	◘	**11**
Land	MoLH								●	●				●	◘	◘	●	●	**7**
Private Sector Development	MoTI			◘	●	● financial				●	●				●	◘	●	◘	**9**

Current List of Sector Groups	Lead Ministry	ADB*	CANADA	DENMARK	EC	FRANCE	FINLAND	GERMANY	ITALY	JAPAN	NETHERLANDS	NORWAY	SPAIN	SWEDEN	UK	UN SYSTEM	US	WORLD BANK	*Total lead/active in each sector*
						sector													
Public Financial Management	MoF		●	●	◙		○	◙				●		◙/●	◙	●	◙ procurement	◙	**10**
Public Service Reform	MoJCA, MoLG		◙	●	●		○							●	◙	●		◙	**7**
Roads and Transportation	MoRPW, MoT	◙			◙	● roads		☻		●				☻		●		◙	**5**
Social Protection					● ECHO				● child protection	● child protection			◙ immigration		◙	◙		●	**7**
Statistics and M&E														●	●	◙	●	◙/●	**5**
Urban, Local Government, Decentralization	MoLG				◙/●	●			●					◙/●	○/●			●	**6**
Water and Sanitation	MoW	◙		○/☻	●	◙		◙	●	◙/●	●		●	◙/●		●	●	●	**11**
Total lead roles for each agency			**4**	**3**	**5**	**3**	**1**	**4**	**2**	**3**	**0**	**0**	**1**	**5**	**7**	**8**	**4**	**9**	
Total active roles for each agency			**1**	**3**	**9**	**4**	**2**	**1**	**4**	**7**	**5**	**3**	**5**	**4**	**2**	**7**	**6**	**6**	

◙ Lead Donor/Chair (See note above chart)

● Active Donor

○ Silent Partner/Delegated Partnership

☻ Phasing out

*ADB is a new partner and joined after the survey was completed. Data will be sought from them as they come on board.
[Draft – March 29, 2007].

ANNEX 7: KENYA'S POSITION IN RELATION TO KEY INTERNATIONAL CONVENTIONS

#	Conventions, Treaties and Agreements	Signature	Ratification /Accession
1.	Abolition of Forced Labour Convention	Not available	13.1.1964
2.	Protocol to the OAU General Convention on Privileges and Immunities, 1980	Not available	
3.	African Charter on Human and People's Rights, 1981	Not available	23.1.1992
4.	African Charter on the Right and Welfare of the Child, 1990	Not available	25.7.2000
5.	African Civil Aviation Commission Constitution, 1969	Not available	12.5.1969
6.	African Convention on the Conservation of Nature and Natural Resources, 1968	15.9.1968	12.5.1969
7.	African Convention on the Conservation of Nature and Natural Resources (revised version), 2003	17.12.2003	Not ratified
8.	African Maritime Transport Charter, 1994	17.12.2003	Not ratified
9.	Convention on Preventing and Combating Corruption, 2003.	17.12.2003	Not ratified
10.	Agreement for the Establishment of Africa Rehabilitation Institute,1985	17.12.2003	9.5.2006
11.	Agreement on Cooperative Enforcement Operations Directed at Illegal Trade in Wild Fauna and Flora, 1997	9.9.1994	17.1.1997
12.	Agreement on the Organization for Indian Ocean Marine Affairs, 1999	*	*
13.	Agreement Preparation of a Tripartite Environmental Management Programme for Lake Victoria	*	*
14.	Convention governing the Specific Aspects of Refugee Problems in Africa,1969	10.9.1969	23.6.1992
15.	Convention on the Ban of the Import into Africa and the Control of Trans- Boundary Movement and Management of Hazardous Wastes in Africa (Bamako), 1991	17.12.2003	Not ratified
16.	Biological and Toxic Weapons Convention	*	*
17.	Convention Against Torture	Not available	21.2.1997
18.	Chemical Weapons Convention	*	*
19.	Comprehensive Test Ban Treaty	14.11.1996	Not ratified
20.	Constitution of the Association of African Trade Promotion Organisations, 1974	18.1.1974	Not ratified
21.	Constitutive Act of the African I Union,2000	2.3.2001	4.7.2001
22.	Convention for the Elimination of Mercenaries in Africa, 1977	17.12.2003	Not ratified
23.	Convention for the Establishment of the Lake Victoria Fisheries Organisation, 1996	30.6.1994	*
24.	Convention for the Protection of the Ozone Layer, 1998	Not available	9.11.1988
25.	Convention for the Protection, Management and Development of the Marine and Coastal Environment of the Eastern African region, 1996	21.6.1985	*
26.	Convention on Biological Diversity	11.6.1992	26.7.1994
27.	Convention on International Trade In Endangered Species of Wild Fauna and Flora ,1978	*	*
28.	Convention on the Control of Trans - Boundary Movement of Hazardous Wastes and their Disposal,2000	Not available	1.1.2000
29.	Convention on Wetlands of International Importance ,1990	Not available	5.6.1990
30.	Convention to Combat Desertification, 1997	14.10.1994	24.6.1997
31.	Convention on the Rights of the Child, 1990	26.1.1990	30.7.1990
32.	Cultural Charter for Africa, 1976	Not available	28.10.1981
33.	Discrimination (Employment and Occupation) Convention,1958	Not available	7.5.2001
34.	Equal Remuneration Convention,1951	Not available	7.7.2001

#	Conventions, Treaties and Agreements	Signature	Ratification /Accession
35.	Forced Labour Convention,1930	Not available	13.1.1964
36.	General Convention on the Privileges and Immunities of the Organization of African Unity,1965	25.10.1965	12.1.1967
37.	International Covenant on Civil and Political Rights	Not available	1.5.1972
38.	International Covenant on Economic and Social Rights, 1972	Not available	9.3.1984
39.	Kyoto Protocol to the UNFFCCC	*	*
40.	Memorandum of Understanding between the Republic of Kenya and the United Republic of Tanzania and the Republic of Uganda for Cooperation on Environment Management, 1998	*	*
41.	Migration for Employment Convention, 1949	*	*
42.	Nairobi Protocol on Small Arms and Light Weapons, 2004	21.3.2004	*
43.	Nuclear Non Proliferation Treaty	*	1970
44.	Convention on the Prevention and Combating of Terrorism, 1999	*	*
45.	Protocol on the Court of Justice of the African Union, 2003	17.12.2003	Not ratified
46.	Protocol on the Amendments to the Constitutive Act of the African Union, 2003	17.12.2003	Not ratified
47.	Protocol on the Bio-Safety (Cartagena Protocol), 2002	15.5.2000	24.1.2002
48.	Protocol on Substances that Deplete the Ozone Layer, 1988	16.9.1987	9.11.1988
49.	Protocol Relating to the Establishment of the Peace and Security Council of the African Union, 2002	7.7.2003	19.12.2003
50.	Protocol to the African Charter on Human and People's Rights on the Establishment of an African Court on Human and People's Rights, 1998	7.7.2003	4.2.2004
51.	Protocol to the African Charter on Human and People's Rights of Women in Africa, 2003	17.12.2003	Not ratified
52.	Protocol to the Convention on the Prevention and Combating of Terrorism, 2004	*	*
53.	Protocol to the Treaty Establishing the African Economic Community Relating to the Pan-African Parliament, 2001	7.7.2003	19.12.2003
54.	Convention on the Rights to Organize and Collective Bargaining, 1949	Not available	13.1.1964
55.	Stockholm Convention on Persistent Organic Pollutants	23.5.2001	24.9.2004
56.	African Charter on the Rights and Welfare of the Child, 2000	Not available	25.7.2000
57.	African Union Non-Aggression and Common Defence Pact, 2005	*	*
58.	Convention on the African Energy Commission, 2001	17.12.2003	Not ratified
59.	Convention on the Specific Aspects of Refugee Problems in Africa, 1992	10.9.1969	23.6.1992
60.	Protocol of the African Charter on Human Rights and People Establishing the African Court of Human and People's Rights, 2005	Not available	13.9.2001
61.	Rome Statute Establishing the International Criminal Court, 2005	11.8.1999	15.5.2005
62.	Treaty Establishing the East African Community, 1999	30.11.1999	*
63.	Convention Against Corruption, 2003	9.12.2003	18.6.1993
64.	Treaty Establishing the African Economic Community, 1991	3.6.1991	18.6.1993
65.	United Nations Framework Convention on Climate Change, 1994	12.6.1992	30.8.1994
66.	Convention on the Elimination of all forms of Discrimination Against Women, 1979	Not available	9.3.2004
67.	Worst Forms of Child Labour Convention, 1999	Not available	7.5.2001

* No information available on status with respect to Kenya

ANNEX 8: KENYA'S DEBT SUSTAINABILITY ANALYSIS

This annex updates the 'debt sustainability analysis conducted as part of the last staff report for Kenya (SM/03/373 (11/18/03) and EBS/03/151 (11/IO/O3)). The broad conclusions of the previous exercise, that the debt is sustainable (taking into account the impact of a Paris Club rescheduling on external debt), remain valid; under the revised program framework, external and central government debt sustainability improves.

Central Government Debt Sustainability

The updated DSA for central government debt continues to show a steady decline in central government debt (Table 1). In 2004 and 2005, the ratio is actually lower under the present scenario than *under* the baseline presented in November 2003, reflecting the underperformance of domestic borrowing and of donor inflows in 2003/04, as well as expectations that donor inflows will be lower throughout the program period than projected in the earlier debt sustainability analysis (DSA). The fact that in the medium/long-term (2007 to 2015), the ratio is not even one full percentage point higher under the updated analysis compared to the earlier DSA indicates that the projected increase in domestic borrowing in the revised program scenario does not materially jeopardize debt sustainability. Kenya's central government debt: profile appears relatively robust to various shocks. The most serious stress would come from a sharp real depreciation; under this alternative scenario, the NPV debt to GDP ratio increases to around 71% during the program period.

External Debt Sustainability

Under the revised program scenario, the NPV of debt to exports ratio is lower than under the original DSA, averaging 104% over the period 2004-2007 versus 120% over the same period in the November 2003 analysis. This lower debt profile reflects several factors. One is that the expectations of donor inflows did not materialize in the first year of the program and projections of expected inflows have been lowered. A second factor is that since the last DSA, Kenya secured a rescheduling with the Paris Club in January 2004, and while the Houston terms rescheduling does not lower the debt stock, it will reduce debt service paid during the 2004-2007 consolidation period. A technical factor to be kept in mind is that the DSA is carried out for official debt only, due to 1 the unavailability of data on the private sector external debt stock; under the macroeconomic framework in the staff report, it is expected that as the country reaps the benefits of reforms in terms of growth and an improved investment climate, external loans to the private sector would increase, and would add to the relatively moderate ratio of NPV of debt to GDP that is projected in this analysis. Finally, the debt data weaknesses that Kenya has continued to experience mean that DSA results must be interpreted with caution. An on-going project supported by, inter alia, a World Bank Financial Sector and Legal Technical Assistance credit, is expected to produce significantly strengthened debt data, and an updated DSA will be conducted when these data are available.

A combined real GDP growth and net non-debt creating low shock has the largest impact on the NPV debt to exports ratio, pushing the indicator to 173% in 2005; however, the ratio declines relatively quickly to below I50%.

The debt service due ratio averages 8% during the program period, and declines further over the long-term. Alternative scenarios indicate that the indicator would increase significantly, albeit generally not to levels of concern, in response to most of the stresses tested in the sensitivity analyses. The debt service ratio is most affected by a fall in export value growth and the combined GDP growth and non-debt creating flow shock.

Conclusions

Kenya's debt appears sustainable under the current scenario, but the fact that certain shocks have the potential to push debt indicators to higher levels means that the authorities must remain vigilant. The authorities have stated that fiscal and external debt management policies will continue to balance the commitment to debt sustainability with the need to support the poverty reduction strategy.

Kenya Central Government Debt Sustainability Framework before rescheduling, 2003-2015
(in percent of GDP, unless otherwise indicated)

	Actual					Projections			
	2001	2002	2003	2004	2005	2006	2007	2010	2015
	I. Baseline Projections								
Total central government debt	51.5	53.6	51.1	49.7	49.4	48.8	47.3	44.6.	39.9
Foreign-currency denominated debt 1/	30.7	30.1	27.8	27.4	27.2	27.1	26.7	23.3	18.6
Domestic currency denominated debt	20.9	23.4	23.3	22.3	22.1	21.7	20.6	21.3	21.3
Change in NPV	-6.1	2.0	-1.4	-0.3	-0.3	-0.5	-1.5	-3.9	-0.8
Identified debt-creating flows	-1.3	0.8	-4.8	-2.9	-3.2	-1.2	-0.5	0.7	0.3
Primary deficit	-1.9	0.4	-1.1	-1.2	0.1	0.7	0.4	0.5	0.5
Revenue and grants	24.1	21.9	22.6	22.7	23.7	25.2	25.7	19.9	19.9
Of which grants	2.2	0.8	2.0	1.5	2.8	3.7	3.2	1.5	1.5
Primary (non-interest) expenditure	222	22.3	21.6	21.5	23.8	25.9	26.1	20.4	20.4
Grant element of new concessional loans	0.0	0.0	-2.0	-2.3	-3.3	-3.2	-2.4	-2.1	-1.4
Automatic debt dynamics	0.6	0.5	-1.8	0.5	-0.1	1.3	1.5	0.9	1.2
Of which: contribution from real discount rate on foreign-currency debt.	2.7	2.7	2.5	2.4	2.2	2.1	2.0	1.8	1.4
Of which: contribution from real interest rate on domestic debt	1.1	1.1	0.0	0.0	0.7	1.3	1.5	1.7	1.9
Of which: contribution from real GDP growth	0.6	0.5	0.9	-1.2	-1.5	-1.6	-1.8	-2.3	-1.9
Of which contribution from real exchange rate depreciation	-.2.6	2.7	-3.3	-0.7	-1.5	0.5	-0.2	-0.3	-0.3
Other identified debt-creating flows	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (HIPC) and other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residential including assets changes	4.8	1.2	2.3	1.6	2.9	0.7	-1.1	-3.2	-1.0
Other Sustainability Indicators Nominal value of Central Government debt	65.3	65.7	59.5	55.6	54.6	53.6	52.0	48.7	41.2
NPV of contingent liabilities (not yet officially recognized in Central Government debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing need 2	13.4	13.9	9.5	8.1	9.1	9.6	9.3	3.5	3.3
Central Government debt-to-revenue and grants ratio (in %)	271	299	263	245	231	212	202	245	207
Debt services-to-revenue and grants in percent) 3/	60.0	65.4	47.9	41.3	37.6	35.5	34.5	30.1	28.7
Primary deficit that stabilizes the NPV of debt-to-GDP ratio	4.2	-1.7	1.4	0.2	0.5	1.2	1.9	4.4	1.3
Key Macroeconomic and Fiscal Assumptions Real GDP growth (in percent)	1.1	1.1	1.7	2.4	3.0	3.4	3.8	5.0	5.0
Average nominal interest rate on forex debt (in percent)	2.1	1.8	1.7	1.9	1.9	1.9	1.9	1.9	1.8
Average real interest rate on domestic debt	5.6	5.5	-0.1	0.2	3.3	6.1	7.0	7.4	9.6
Real exchange rate depreciation (percentage change, + = depreciation)	-6.7	-8.2	10.4	-2.3	5.2	-1.7	-0-7	-1.3	-1.3
Inflation rate (GDP deflator, in percent)	9.1	8.4	11.5	10.3	7.8	4.4	3.6	3.3	3.3
Growth of real primary spending (deflated by GDP deflator in percent)	2.8	1.5	-1.7	1.9	14.2	12.6	4.6	5.0	5.0
Major commodity price (tea)	1.6	1.6	1.7	1.8	1.8	1.9	1.9	1.9	1.9
Alternatives Scenarios	II. Stress Tests for NPV								
A1 Real GDP growth and primary balance are at historical average 4/			50.1	48.6	47.6	46.3	44.5	41.4	29.9
A2 Real GDP growth and primary balance are at historical averages 4			50.0	51.5	50.9	50.0	48.4	44.7	34.8
Bounds Test									
B1 Real GDP growth is at baseline minus two deviations in 2003-2004			52.1	51.6	51.7	51.7	50.6	48.3	44.5
B.2 Primary balance is as baseline minus two standard deviations 2003-2004			54.2	551.	54.2	53.7	52.5	50.0	44.9
Combination of 2-3 using one standard deviation shocks			53.0	53.1	52.5	52.1	50.7	47.8	42.3
B4 Long-run real GDP growth is at baseline minus two standard deviations			51.4	50.1	50.2	50.1	49.1	46.9	43.9
B5 One time 30 percent real depreciation in 200371.6			71.6	71.3	71.2	71.5	70.4	67.6	62.7
B6 10 percent of GDP increase in other debt flows in 2003			58.2	55.3	54.6	54.3	53.2	50.8	45.6
B7 A permanent, two standard deviation negative shock to the major commodity price in 2003			51.3	49.9	49.8	49.5	48.2	45.2	40.1

Kenya Sensitivity Analyses for key indicators of public and publicly guaranteed external debt, 2003-23

NPV of debt-to-exports ratio	Estimate Projections							
	2003	2004	2005	2006	2007	2008	2013	2023
A. Alternative Scenarios								
A. Key variables at their historical averages in 2004-23 1/	111	102	85	71	60	54	52	114
A.2 New public sector loans on less favourable terms in 2004-23 2	111	112	112	114	113	110	114	157
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	111	109	105	103	100	94	85	91
B2 Export value growth at historical average minus one standard deviation in 2004-05 3/	111	125	146	144	138	131	114	110
B3. Us dollar GDP deflator at historical average minus one standard deviation in 20004-05	111	109	105	103	100	94	85	91
B4 Net non-debt creating flows at historical average minus one standard deviation in 20004-05 4	111	132	150	148	142	135	113	98
B5. Combination BT-B4 using one-half standard deviation shocks	111	139	173	170	164	155	129	111
B6 One-tine 30 percent nominal depreciation relative to the baseline in 2004 5/	111	109	105	103	100	94	85	91
Debt service ratio								
Baseline	12	9	8	8	7	7	8	5
A. Alternative Scenarios								
A1 Key variable at the historical averages in 2004-23 3/	12	11	11	11	11	11	7	11
A2 New public sector loans sector on less favourable terms in 2004-23 2/	12	11	8	8	9	8	10	15
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	12	11	11	11	11	11	11	11
B.2 Export value growth at historical average minus one standard deviation in 2004-05 4/	12	11	13	14	14	14	14	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	12	11	11	11	11	11	11	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/	12	11	12	13	13	13	14	12
B5. Combination of B1-B4 using one-half standard deviations shocks	12	11	13	15	15	15	16	13
B6 One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	12	11	11	11	11	11	11	11
Memorandum item								
Grant element assumed on residual financing i.e. financing required above baseline.	37	37	37	37	37	37	37	37

Source: Staff projections and simulations /IMF

Notes:

1. Variable include real DGP growth, growth of GDP deflator (in US dollars terms), non-interest current account in percentage of GDP and non-debt creating flows
2. Assumes that the interest rat on new borrowing is by 2 percentage points higher than in the baseline. While grace and maturity periods are the same as in the baseline.
3. Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels). A three-year historical average and standard deviation is used for the export stress test.
4. Includes official and private transfers and FDI
5. Depreciation is defined as percentage decline in dollar/local currency rate such that it never exceeds 100%
6. Applies to all stress scenarios except for A 2 (less favourable financing) in which he terms on all new financing are as specified in foot note 2.

Following discussions on the choice of debt sustainability indicators at the 4th Inter-Regional Debt Managers Seminar in Addis Ababa in May 2006 and subsequent background note clarifying the position, the Kenya Government has reviewed its position and has opted for the following indicators:

Kenya: Debt Sustainability Indicators

INDICATORS				BASELINE SITUATION	
Indicator	Threshold	Basis	Current ratios	Date	Source
External Debt					
Solvency					
PV/IXGS	150	LTDS	93*	Nov. 2003	Based on DSA
PV/DBR	250	LTDS	99*	Nov. 2003	
PV/GDP	40	LTDS	22*	Nov. 2003	
Liquidity				Nov. 2003	
DS/SGS	20	LTDS	6*	Nov. 2003	
DS/DBR	30	LTDS	7*	Nov. 2003	
Domestic Debt					
Solvency					
PV/DBR	88	CBP	104**	Aug. 2006	Central Bank of Kenya & Ministry of Finance Publications
Liquidity					
DS/DBR	28	CBP	9**	Aug. 2006	Central Bank of Kenya & Ministry of Finance Publications

* Five year average (2004-2008)
** 3 Year average (2003-2005)

Kenya has opted for a blend of indicators to include the Long Term Debt Sustainability Indicators (LTDS) for external debt and HIPC CBP for domestic debt for the following reasons:

1. Kenya's is classified as a non HIPC with sustainable debt.
2. The LTDS which is principally on the IDA Resource Allocation Index (IRAI) is applicable to many countries. Kenya has already been rated by the World Bank in 2004 and 20005 and classified as Medium Policy. The recommended benchmark for external debt sustainability is LTDS Medium CPIA.
3. In absence of other alternative indicator to measure sustainability of domestic debt, the proposed HIPC - CBP studies indicators/benchmarks will be adopted.

In March 2007, Debt Sustainability Analysis will be carried out by the Ministry of Finance, assisted by MEFMI and DRI and the current rations will be updated.

ANNEX 9: GOVERNMENT'S COMMITTMENTS ON GOVERNANCE FOR RELEASE OF THE INCENTIVE TRANCHE

	Challenges	Commitment /Action to be taken	Action Timing[13]	Critical Milestone[14]	Result Indicator /Deliverable[15]
1. Political democratic governance					
- Human rights	- Limited capacity to monitor and report on human rights violations	- Develop, implement and monitor an Action Plan on Human Rights in conjunction with the KNCHR and other stakeholders	2010	Consultative process initiated	Human Rights Action Plan
	- Discrimination against women and limited respect on women's rights and child rights, disabled rights	- Enforce the Children's Act to access equity and justice and enhance reporting and prosecution	2008	Review and implement the Children's Act and sensitize the public	No. of child abuse cases prosecuted
		- Promote people's rights by carrying out awareness and advocacy campaigns	2009	Awareness and advocacy forums on peoples rights conducted	Proportion of people sensitized
		- Undertake gender-sensitive reforms – enactment of the Sexual Offences Bill, Affirmative Action	2008	Affirmative Action	Sexual Offences Bill Passed
	- Issues of land ownership and land rights	- Review and implement Land Policy to address landlessness and inequality	2009	Finalize consultations on an Implementation Plan to address the issues raised in the Ndung'u Commission Report	Initiate process of implementing the plan (MOJCA, KACC, Ministry of Lands)
	- Human rights abuses by police and prisons authorities	- Enhance and sustain on-going Police and Prison reforms, including congestion in Prisons, Community policing, Investigations, and Abuse of rights of the accused persons	On-going (2009)	Police and Prison Reforms	Reduce congestion in prisons Efficient service delivery by Police force
		- Introduce legislation for witness protection	March 2007	Witness protection Bill submitted to the National Assembly	Bill passed (State Law Office)
- Fundamental freedoms	- Information, media /press challenges	- Establish legal framework for media operations and self-regulation	May 2007	Media Policy finalised after extensive consultation with all stakeholders	Bill passed (MOIC)
		- Codify public access to information in general held by the Government	January 2007	A stakeholders meeting to discuss the draft Policy Framework on Freedom of Information	Policy Framework on Freedom of Information developed (Ministry of Information & Communications

13 ***Taking into consideration that 2007 is an election year, 2007 benchmarks may be rather ambitious but conforms with the ongoing discussions with the IMF on governance.***

14 ***Critical milestones represent benchmarks which the government is committed to meet.***

15 ***Results indicators represent measurable indicators of achieving the proposed action. In cases where a Bill is to be passed by Parliament, the responsibility lies with Parliament and the government should not be held responsible for passage or non-passage of such legislation. (In brackets is the lead agency).***

	Challenges	Commitment /Action to be taken	Action Timing[13]	Critical Milestone[14]	Result Indicator /Deliverable[15]
			June 2007	Freedom of Information Bill submitted to Parliament	(MOIC)) Bill passed
		- Improve the enabling environment for efficient, high quality media product and service development and provision	June 2007	- Study on Kenya's media industry completed	- Study completed (MOIC)
		- Strengthen the independence of the statistics system	June 2007	- Establishment of the National bureau of Statistics	- Bureau Operational (MPND)
		- Accelerate implementation of a more coordinated and prioritized e-government initiative, with public access to procurement as one of the highest near term priority	June 2007	- Establish an interactive website for Public Procurement Oversight Authority	- Publication at the website the opportunities to supply goods and services to public sector and public procurement awards above a certain threshold value (Ministry of Finance (MOF), MOIC, OP (e-government))
		- Launch comprehensive wireless based public information hubs in districts and constituencies, with public access to government a high priority	March 2007	- Number of District Information and Documentation Centers that are operational (internet point of presence)	- District Information Centers to be established. (Ministry of Information and Communication, Ministry of Local Government (MOL), MOF)
		- Upon application and payment of a fee, enable the public access to the declarations of assets made by public officers	April 2007	- Amendments to the *Anti-Corruption and Economic Crimes Act 2003 and to the Public Officer Ethics Act 2003*	- Bill passed (State Law Office, MOJCA)
2. Political governance - rule of law					
- Judicial and law enforcement system	- Limited capacity in Judiciary	- Hire additional Judicial staff (para-legal, Magistrates and Judges) to increase efficacy in handling of cases	2008	- A well staffed Judiciary	- Additional judicial staff hired
		- Adopt and implement a needs-based training programme in the Judiciary	2008	- Develop a training strategy	- Number of judiciary staff trained
		- Strengthen the Anti-corruption Prosecution Unit established in the Department of Public Prosecutions to enable it to deal effectively with prosecutions arising from the investigations into the Goldenberg matter, the Anglo Leasing matter, Security Projects, Public Accounts and Public Investment Committee's Reports	September 2007	- 11 additional state Counsels appointed 26 additional prosecutors appointed	- Additional State Counsels and prosecutors are appointed (MOJCA)
		- Automate recording of court proceedings	April 2007	- 3 courts using automated court proceedings	- 3 courts using automated court proceedings (Judiciary, MOJCA)
	- Corruption in the judicial system	- New salary structures for constitutional office holders	May 2007	- Amendments to the Bill are debated in Parliament	- Bill passed (MOJCA, State Law Office)

	Challenges	Commitment /Action to be taken	Action Timing[13]	Critical Milestone[14]	Result Indicator /Deliverable[15]
		- Enforce and monitor the Anti-Corruption and Economic Crimes Act (ACECA) and Public Officers Ethics Act (POEA)	2008	- Amendments to POEA are debated in Parliament	- Bill passed (MOJCA, KACC, State Law Office)
	- Delays of cases due to inadequate capacity	- Implement and monitor performance contracting in DPP office and Judiciary	2008	- Increase the no. of paralegal staff to 3317, Increase the no. of magistrates to 300, Increase the no. of judges of the High Court to 70, Increase the no. of Court of Appeal Judges to 15 - Update scheme of service for Judiciary staff	- The backlog of corruption cases (Judiciary, SLO)
	- Limited access to justice due to geographical location of courts - away from the rural population	- Construct courts in several jurisdictions to enable use of open court rooms	June 2007	- (*Subject to availability of funds*), complete the building of at least 5 court rooms	- Cases tried in open court rooms and not chambers (Judiciary, MOJCA)
		- Upgrade and extend justice infrastructure (courts, judicial personnel,) among the rural population	2008	- Mobile Courts established - Circular issued	- Mobile Courts operational (Judiciary, MOJCA) - No multiple suits on the same issue in different courts (Judiciary, MOJCA)
		- Develop and implement a policy on legal aid and set up small claims courts	2008	- Publication of Legal Notice	- Publication of Legal Notice (Judiciary)
3. Control of corruption					
	- Legal and operational capacity of fighting corruption	- Complete verification of wealth declarations of Ministers and Assistant Ministers by random sample under the Ministerial Code of Conduct established in 2006	December 2007	- Parliamentary Service Commission provides asset declaration forms for Ministers and Assistance Ministers to KACC	- KACC verifies a random sample of wealth declarations of Ministers and Assistant Ministers (KACC)
		- Conduct stakeholder symposia to increase awareness on corruption at the district level	2008	Awareness forums held in selected pilot districts	Awareness created among the public.
		- Enable stakeholders in developing their own programmes against corruption through training and sensitization	2008	Sensitization and training workshops held in districts	Districts develop their own programmes against corruption
		- Hold anti-corruption network forums and organize sector-wide anti-corruption activities	2008		

	Challenges	Commitment /Action to be taken	Action Timing[13]	Critical Milestone[14]	Result Indicator /Deliverable[15]
		- Develop a policy paper clarifying the roles and relationships between various departments and Semi Autonomous Government Agencies dealing with corruption	2009	Consultation process to develop policy paper involving all stakeholders initiated	Draft Policy paper developed
		- Popularise corruption prevention committees in all Ministries	2009		
		- Introduce legislation for witness and whistle-blower protection	2008		
	- Money laundering	- Develop the Proceeds of Crime and Money Laundering (Prevention) Bill 2006	2006	- Anti Money-Laundering and Proceeds of Crime Bill published	- Bill submitted to Parliament (MoF, State Law Office, National Assembly Clerk)
4. Government effectiveness					
- Institutional capacity	- Absence of clear policy framework to guide the operationalisation of Local Authorities	- Enact Local Authority Act Amendment	2008	- Develop Policy Framework	- Local Authority Act Amendments enacted
	- Limited capacities in LAs	- Strengthen capacity for efficient and effective use of devolved funds under the Local Authority Transfer Fund and the Constituency Development Fund	June 2007	- Include in the Local Authorities Budgets provisions for recruitment of technical Staff, including Auditors where they do not exist	(MoLG, MoF)
		- Update information systems and decision making processes to facilitate smooth feedback mechanisms	2009		
		- Establish a Public Complaints Unit (PCU) to serve as a central referral and a Monitoring and Evaluation unit	April 2007	- Public Complaints Unit established, gazetted and operational	- Public Complaints Unit (Office of the President, MOJCA)
		- Institutionalize performance contracting	Continuous	- Signing of performance contracts, monitoring performance contracts, quarterly and annual M&E reports	- Performance contracts successfully implemented (DPM, HoPS, Ministries and Departments)

	Challenges	Commitment /Action to be taken	Action Timing[13]	Critical Milestone[14]	Result Indicator /Deliverable[15]
- Public finance management	- Challenges in budget execution	- Provide robust Legal Framework for contracting public debt	July 2007	- Gazette External Debt Regulations	- Regulations gazetted (MoF, State Law Office)
			July 2007	- Amendments to the Internal Loans Act	- Bill passed
			December 2007	- Complete draft of the Debt Management Bill	- Bill passed
		- Enhance stakeholder participation in budget preparation	2007	- Discussions held with Parliament and Civil society	- Results of discussions reflected in Budget Strategy Paper (MoF)
		- Conducting expenditure-tracking surveys in at least two ministries to inform budget implementation and improve its effectiveness in achieving development goals	2009	- PETS survey conducted	- Improved expenditure management (MPND)
		- Make IFMIS operational in four spending Ministries including Education and Health	May 2007	- IFMIS operational in at least four Ministries	- IFMIS operational in at least four Ministries (MoF)
		- Re-establish and institutionalize fiscal reporting within the Ministry of Finance, including posting on the web of Quarterly Budget Reviews (QBRs)	March 2007	- December 2006 QBR is completed	- Quality and timeliness of annual financial statements (MoF)
		- Complete a study of 24 key parastatals contingent liabilities	September 2007	- Study completed	- Action Plan completed (MoF)
		- Develop and implement a payment plan for Pending Bills	March 2007	- Final report on Pending Bills harmonized, compiled (and published). - Settlement Action Plan prepared	- Final Report is completed (MoF)
	- Procurement inefficiencies	- Finalize the development of criteria for the granting of exemptions and waivers in order to eliminate /minimize discretion in the granting of waivers and exemptions by the Minister	March 2007	- Criteria for granting waivers and exemptions in place	- Criteria operational. Waivers granted published (MoF /KRA)
		- Operationalize public Procurement and Disposal of Assets Act	2008	- MOH procurement regulations reviewed and finalized - Policy developed on health procurement responsibilities at headquarters and decentralized levels, and vis-à-vis KEMSA - Arrangements for efficient remittance of funds directly to peripheral health facilities using commercial banking system and community participation	- Improved clarity in regulatory framework (MOH) - Improved clarity in respective roles and responsibilities for procurement actions (MOH, KACC) (MOH)
	- Issues of corruption in LAs	- Monitor financial systems and programmes annually	On-going (2009)	- Introduce accountable and transparent financial systems	- Financial Reports

	Challenges	Commitment /Action to be taken	Action Timing[13]	Critical Milestone[14]	Result Indicator /Deliverable[15]
	and inability to prepare authentic financial reports	- Prepare and publish external audit reports in accordance with the Public Audit Act 2003	June /July 2007	- 2005/ 2006 audit reports to be certified	- The Controller and Auditor General report of 2005/2006 presented to Parliament (Kenya National Audit Office)
		- Prepare and publish Risk Based Audit Framework	June 2007	- Risk based audit approach introduced in May 2005	- Risk based audit Approach rolled out in all Ministries and Districts (MoF - Internal Audit Department)
		- Prepare, publish and enact Organic Law on Public Financial Management	June 2007	-	- (MOJCA, AG, MoF, KENAO, Inspector General, State Corporations, MOLG, MOPE, MoS&T)
		- Establish Quality Assessment Unit and Institutionalize Quality Assessment reviews /evaluation	December 2007	- Three (3) Internal Auditors trained in quality assessment	- Quality assessment reviews /evaluation institutionalized (MoF)
		- Establishment of the ministerial audit committees to provide oversight	May 2007	- Ministerial Audit Committees in place	- Ministerial Audit Committees in place (MoF)
		- Implement outstanding Public Expenditure Management Action Plan benchmarks	December 2007	- 8 benchmarks	Targeted benchmarks achieved (MoF)
			June 2007	- 10 benchmarks	
		- Submit to the Cabinet a strengthened legal framework for public financial management	March 2007	- Cabinet approval of the legal framework	- Cabinet approval of the legal framework (MoF)
		- Set up the Privatization Commission under the Privatization Act	March 2007	- Privatization Commission operational	- Privatization Commission operational (MoF)
		- Restructuring and privatization; Telkom Kenya (s.t. availability of funds) - restructure and privatize	March - June 2007	- Staff retrenchment SEP in place	- Privatization completed (MOF, MOIC)
		- Restructuring and privatization; National Bank of Kenya	June 2007	- Restructuring complete	- Privatization completed (MoF)
		- Sale of part of government shares in: Mumias Sugar	February 2007	- Sale of shares completed	- Sale of shares completed
		- Sale of part of government shares in: Kenya Re	April 2007	- IPO completed	- Sale of shares completed
		- Sale of part of government shares in: KenGen	May 2007	- Sale of additional government shares completed	- Sale of shares completed
		- DARE: Undertake a comprehensive update of progress on action plan from forensic audit.	June 2007	- Recruitment of auditors	- Auditors report completed and recommendations acted upon (MOH)

	Challenges	Commitment /Action to be taken	Action Timing[13]	Critical Milestone[14]	Result Indicator /Deliverable[15]
		- Improve financial management and service delivery in the National AIDS Control Council (NACC) by: Implementing a fraud-risk management policy	2007	- Begin implementation of the fraud-risk management policy, with completion of training of NACC Council members and staff on risk management policies and procedures	- Reduced risk of governance and corruption problems in the sector (NACC)
		- Improve financial management and service delivery in the National AIDS Control Council (NACC) by: Implementing a communications strategy	2007	- Full implementation of a communications strategy	- Public better informed of NACC's activities (NACC)
		- Improve financial management and service delivery in the National AIDS Control Council (NACC) by: Strengthening of the M&E system	2007	- Publish comprehensive quarterly M&E reports, with the first being for the period April to June 2006	- Comprehensive report available (NACC)
		- Continue to strengthen free primary education program through securing and scaling up governance in MOE	June 2007	- Decentralized financing and procurement	- (MOE)
5. Economic governance					
- Private sector /market friendly policies	- Poor infrastructure including roads, telecommunication and power tariffs	- Liberalize the telecommunications sector	March 2007	- Sale of second fixed line license	- Second national operator in place (MOIC)
		- Build roads, upgrade telecommunication systems and stabilise power tariffs for business growth and development	2010	- Enabling environment for business - Submission of Roads Bill to Parliament	- Improved infrastructure - Bill approved (Ministry of Roads & Public Works)

	Challenges	Commitment /Action to be taken	Action Timing[13]	Critical Milestone[14]	Result Indicator /Deliverable[15]
	- Administrative, legislative and licensing barriers for entry	Streamline licensing procedures through adoption of the single business permit approach	2007	- 79 business licenses repealed, 8 simplified - A further 700 licenses simplified - 432 local government licenses reviewed - 48 statutes reviewed and licenses contained in them subjected to the regulatory guillotine - A Business Regulatory Reform Unit (BRRU) established in the Ministry of Finance - An electronic consolidated regulatory registry for all valid licenses established	- Institutionalized review of business licenses in Kenya (MoF, MoTI, MoLG, State Law Office) - Less burdensome licensing environment 700 are streamlined (MoF, MoTI MoLG, State Law Office) - (MoF, MoTI, MoLG, State Law Office) - MoF, MoTI, MoLG, (State Law Office) - (MoF) - The Regulatory e-Registry is established, provides easy access to all valid business licenses, and Quality Control Unit will be established (MoF)
	- Inefficiencies in the management of customs and goods clearance systems - including IT, & corruption	- Enhance private sector participation in port operations, including container port operations in Mombasa	December 2008	- Consultant in place. Private sector participation options finalized.	- Private sector participation in port operations
		- Enhance the ongoing tax reforms – through implementing ETR, filing personal tax returns	On-going (2007)	- Increase in tax compliance rate - Legal framework is completed - Completion of diagnostic audit of NSSF to facilitate restructuring and reform of its governance	- Operating ETR - Legal framework published and submitted to Parliament (MoF) - Completion of diagnostic audit and action plan prepared (MoF)
6. Internal and external security					
- Internal stability /conflict	- Existence of tribal and land clashes especially in the Rift Valley and North Eastern	- Strengthen provincial administration – through deployment of police officers, use of improved communications systems - Expand community policing to conflict prone areas	2009	- Security detail increased in the affected regions	- Reduction in conflict (OOP)
- External threats and global security	- Occasional border disputes among communities settled in these areas (Ethiopia, Somalia, Sudan and Uganda)	- Continue with ongoing border peace keeping initiatives - Maintain the peace restoration initiatives	Continuous	- Peace keeping missions	- Peace in border communities (Foreign Affairs)

	Challenges	Commitment /Action to be taken	Action Timing[13]	Critical Milestone[14]	Result Indicator /Deliverable[15]
	- Kenya is heavily affected by instability and insecurity characterising its neighbours (raiding, refugee influx, etc)	- Maintain the peace restoration initiatives	2009	- Peace keeping missions	- Stable neighbours
7. Social governance					
	- Slow speed in the domestication of Human Rights declarations.	- Domesticate human rights declarations	2011	- Sensitise public on human rights	- Human Rights observed
8. International and regional context					
- Regional integration	- EAC is weak and lacks sufficient funding	- Strengthening EAC through continued subscription	On-going (2010)	- Strong EAC	- EAC (MoF)
- Migration /Trade in professional services	- A significant number of professionals are leaving the country	- Enable Kenyans in Diaspora to contribute to development of the country - Facilitate mutual recognition agreements for the qualification and experience of professionals	On-going (2010)	- Recognise Kenya diaspora	- High domestic investments (Foreign Affairs)
9. Quality of partnership					
- Programming dialogue	- NSAs lack requisite capacity to engage the government in constructive dialogue	- Continue involving NSA as stakeholders in government initiatives	On-going (2009)	- Sensitisation of NSA in decision making	- NSA recognised
- Non state actors	- Limited promotion of consultative forums	- Facilitate more consultative forums for non state actors (NSA)	On-going (2009)	- Active NSAs	- NSA consultations
		- Provide for regulation, disclosure, expenditure limits and state subsidies financing of political parties	(May, 2007)	- Submit the Political Parties Financing Bill to the National Assembly	- Bill passed (State Law MOJCA)

ANNEX 10: THEMATIC ANALYSIS SHEETS

TRANSPORT SECTOR

The Government of Kenya recognises the transport sector as a facilitator of rapid economic growth and reconstruction, poverty eradication and wealth creation for the country. In the "Economic Recovery Strategy for Wealth and Employment Creation 2003 – 2007" the transport sector has been identified as a third pillar of the economic recovery effort. The transport sector in Kenya comprises rail transport, oil pipeline, air, maritime and road transport.

Rail Transport: Rail transport began with the construction by the Colonial Government of the Kenya-Uganda railway line connecting the port of Mombasa to Kisumu on Lake Victoria between 1896 and 1901 and onwards into Uganda. Further expansion of the railway was undertaken into the then European settler farming "White Highlands", eventually establishing a network of 2,778 km including 1,083km of main line, 346 km of principle lines, 490 km of branch lines and 859 km of private lines and sidings. Rail transport services have over the last decade deteriorated due to financial, technical and operational difficulties compounded by the dilapidated state of permanent way and insufficient rolling stock (locomotives and wagons).

Kenya Railways is freight railway, currently carrying only 2 million tonnes of cargo or 15% of all import-export cargo compared to 3.5 million tonnes at its peak in 1993. On 1st November 2006 the Governments of Kenya and Uganda jointly handed over railway operations to the Rift Valley Railways, a private firm on a 25 year concession agreement. It is anticipated that with proposed injection of $292 million of capital finance into rehabilitation of infrastructure and new rolling stock, and introduction of sound business management will turn around the viability of rail transport to take on a larger share of transport demand.

Pipeline Transport: The 800km oil pipeline from Mombasa port via Nairobi to Eldoret transports 3.5 million m^3 of petroleum per year (2005). Plans are underway to expand the pipeline to Kampala (Uganda) through a concessioning arrangement.

Air Transport: There are 156 public aerodromes and air fields in Kenya. Only 9 are managed by the Kenya Airport Authority and the rest are considered financially unviable. 3 are international airports. Passenger traffic through these international and domestic airports reached an all-time high of 5.9 million passengers in 2005. In addition, 272,372 tonnes of cargo was handled as air-freight.

A KSh. 10 billion World Bank funded Nairobi Jomo Kenyatta International Airport expansion project has commenced (in 2006) which will increase passenger capacity. This airport handles 71% of air passenger travel and 74% of all air cargo in Kenya. Another expansion project is planned for Kisumu Airport in 2007.

Maritime Transport: Kenya has one sea port (Mombasa) which handles import/export cargo for Kenya, Uganda, Rwanda, Burundi, Eastern DRC and Southern Sudan. The port handles 13.3 million tonnes of cargo per year (2005) and is currently operating satisfactorily.

Road Transport: Road transport carries about 85% of all cargo and passenger traffic in the country. The road network in Kenya was originally developed as a subsidiary of the railway system, but was expanded after Independence to serve economic and population centres throughout the country. The public road network in Kenya currently measures about 177,800 km. This is made up of Classified Roads (63,300 km), Urban Roads (14,500km) and Rural Unclassified Roads (100,000 km). The Ministry of Roads and Public Works (MoRPW) is charged with the sectoral responsibility for the public road network in the country.

The Kenya Roads Board, a statutory body under MoRPW, coordinates and funds road maintenance works through the Road Fund whose main source is the Road Maintenance Levy Fund (RMLF) and transit tolls. The network responsibility is assigned to;
Roads Department of MoRPW for classified roads
County councils for unclassified rural roads.
City/Municipal/town councils for urban roads.

Kenya Wildlife Service for roads in National Parks and Game Reserves.

A recent survey of the classified roads in 2004 showed that 70% of the network is in a serviceable /maintainable condition while 30% has failed. It is estimated that backlog rehabilitation of the dilapidated sections of the public roads network requires approximately KSh. 150 billion, which if implemented over a 7 year period equates to over KSh. 21.4 billion per year.

Periodic and routine maintenance requires about KSh. 15 billion shillings per year which is now expected to be fully met by the Road Maintenance Levy Fund as a result of a recent increase of fuel levy in the 2006/2007 FY national budget to KSh. 9.00 per litre of petrol and diesel.

ROAD SUB-SECTOR
Roads Policy:
The Government has prepared a Parliamentary Sessional Paper no. 5 of 2006 on "The Development and Management of the Roads Sub-sector for Sustainable Economic Growth" – which outlines policies for the roads sub-sector, within the overarching Integrated National Transport Policy (2004). The goal of the roads sub-sector policies is to attain an efficient road sector that supports and promotes economic growth through the cost effective provision and maintenance of infrastructure that is necessary for safe and reliable road transport.

The highlights of the policy are:
Investment Priorities;
To bituminise all international (Class A) roads
To bituminise economically viable major urban arterial roads
To bituminise all economically and socially viable Class B and C roads
To bituminise all roads connecting district administrative centres, major urban centres and important tourist facilities.
To bituminise economically viable urban arterial roads, especially where these serve low income neighbourhoods
In support of the MDGs, to work towards eventually providing all-weather road access within 2 km for Kenyans.

Road Maintenance;
Government to ensure that all roads in maintainable condition receive timely routine and periodic maintenance before any deterioration of service levels.
Those roads that are not in a maintainable condition and which satisfy appropriate economic and social criteria shall be restored to a maintainable condition through, backlog periodic maintenance and rehabilitation.
This backlog rehabilitation shall have priority over new developments.

Institutional Framework; the Government has established the following autonomous statutory bodies:
Kenya National Highways Authority (KeNHA) to be responsible for the development and management of major roads (Class A, B,C)
Kenya Rural Roads Authority (KeRRA) to be responsible for development and management of rural and small town roads (Class D,E & others)
Kenya Urban Roads Authority (KURA) to be responsible for development and management of roads in cities and municipalities

In addition, the Government plans to re-align the functions of the following existing organisations:
Kenya Roads Board (KRB) to fund maintenance of all public roads
Kenya Wildlife Service (KWS) to be responsible for development and management of roads in national parks and national reserves.

DELIVERY SYSTEMS FOR ROAD WORKS;
Implementation of road works to be contracted out through various mechanisms including performance-based contracts, area maintenance contracts and concessions.

The Ministry shall take such steps as are necessary to strengthen capacity of both the road construction industry and professional engineering institutions, and improve their regulation.
The Ministry shall, ensure that force account is only used as an alternative to contracting where it can be proved to be cost-effective, for holding maintenance and for emergencies.
The Government will promote the use of local resources and labour based methods, wherever these are cost effective.
All road works implementation on the low volume network shall follow the R2000 Strategy which entails a network approach to maintenance through selective spot improvements and rehabilitation by largely labour-intensive methods.

FUNDING AND FINANCING;
It is estimated that backlog maintenance alone requires approximately KSh 150 billion, which if implemented over a 7 year period equates to 21.4 billion KSh per year.
Periodic and routine maintenance requires an additional 15 billion KSh per year.
Nairobi Transport Master Plan Study recommends an investment in new infrastructure of KSh. 43 billion over 8 years or approximately 5.3 Bill KSh per year within Nairobi City.
Urgent upgrading and development of main and feeder rural roads and towns as outlined in the policy requires an additional 10 Billion per year.
The total funding requirement therefore for public roads is KSh. 51.4 billion per year, but only KSh. 15 billion is available from Road Maintenance Levy Fund and KSh. 5 billion from exchequer in 2006/2007. This leaves a shortfall of KSh. 31.4 per year to be taken up initially by Development Partners.
To meet the economic development needs the Government shall facilitate the increase in funding for road infrastructure maintenance, rehabilitation and development to a minimum of 4.0% of GDP in order to maintain the network, eliminate the backlog maintenance and carry out the subsequent network expansion.
The principle that the user pays for services will be applied to the road sector without compromising the government's social responsibility. The operation and maintenance of road infrastructure is to be funded through such user charges, special levies, licences and transit tariffs as deemed appropriate by the Government.
The increased funding to come from various sources. Increased user charges (Road Maintenance Levy), and budgetary allocations from government revenue, while Government will encourage more Development Partner funding, establish legal framework for private sector participation in road asset financing through road bonds and other financial instruments, and public/private partnerships (PPP) for roads infrastructure financing and development.

Other key areas addressed; Technical Standards, Non-Motorised Transport (NMT), Traffic Management, Road Safety, Roads and Land-Use Planning, Axle Load Compliance, Human Resources, Public Awareness and Stakeholder involvement, cross cutting issues (environment, HIV/AIDS, gender, special interest groups, governance, ethics, transparency and accountability).

Road Investment Plan 2007-2020; The Road Investment Plan was prepared through an EC funded study in 2006. The total 14 year plan budget is KSh. 1,375.5 billion). The plan is guided by the road policy and its main components are; reduction in rehabilitation backlog to restore the network to maintainable standards (KSh. 235.8 b); timely routine and periodic maintenance to preserve the existing road assets (KSh. 211.9 b); network development to address emerging transport needs and increase accessibility (KSh. 453.7 b); increase capacity of urban roads in major cities and to address the needs of non-motorised transport users (KSh. 61.7 b). To finance the plan will require progressively and substantially increased government exchequer allocation, enhanced development partner support, increased road user charges (fuel levy, crop cess, parking fees, general rates etc) and PPP investment.

Medium Term Policy Objectives:
The key policy objectives outlined in the policy paper are -
Reduce transport costs and travel time by improving the condition of the roads.
Optimize use of available resources;
Increase the resources available for investment in the road sector;
Enhance preservation of existing road assets;
Create a conducive environment for increased private – public partnerships;
Enhance road safety and cater adequately to the needs of Non Motorised Traffic;
Enhance ownership through stakeholders participation in the road sector; and
Achieve an optimal institutional framework for effective implementation.

Performance of the EC assistance in the Roads Sub-sector:
EC past and ongoing assistance to the road sub-sector from 6th to 9th EDF has covered the construction and rehabilitation of 879 km of trunk roads and upgrading of 386 km of rural roads. This financing has been targeted to the reduction of backlog rehabilitation in the public trunk roads network including the Northern Corridor linking Mombasa port to Uganda/Rwanda/Burundi and eastern DRC, and the Kenya-Tanzania road link.

The rural roads component has also helped to open up rural agricultural areas – particularly tea and coffee growing regions – to market access and employment generation through labour-intensive works delivery methods. The impact of these infrastructure interventions have directly impacted on development of international /regional /national trade, and at the same time increased rural social mobility for reliable supply of inputs to health facilities, improved access for rural household to health services, education and commercial centres.

In addition, the EC has financed numerous design studies as well as reform-related technical assistance and capacity building programmes aimed at improving the management and ensuring sustainability. EC financed TA support activities for road sector management reform, leading to the establishment of the Kenya Roads Board and the recent development of a road policy, strategy and investment plan. In financial terms, the EC has been the largest external contributor of external resources to the road sub-sector and a key player in the reform process.

Status of ongoing reforms:
A road sub-sector Sessional Paper has been approved by Cabinet (in September 2006) and tabled in Parliament for deliberation. It is as a result of this policy paper that the Government has legislated the creation and operationalisation of the Kenya National Highways Authority (KeNHA), the Kenya Rural Roads Authority (KeRRA), and the Kenya Urban Roads Authority (KURA).

Status of Cross Cutting Issues:
Environment: Construction of roads and extraction of road-building materials impacts negatively on environment and natural resources. Dust emission from crushing operations and smoke from heating plants contribute to environmental pollution. Environmental Impact Assessment /Environmental Audit (EA) are required by national law (Environmental Management and Coordination Act 1999) to be undertaken by the client (MoRPW) on all physical projects and mitigation measures must be built into the works contracts and implemented.
Gender: Gender bias in employment patterns is often quite evident in the construction industry. The Government however encourages equal opportunities in recruitment of labour in all fields and has established deliberate affirmative action mechanisms to ensure employment of women on rural labour-intensive construction projects within the Roads 2000 Programme. One positive aspect of road development is the facilitation of easier access of mainly women rural folk to local markets, water sources, and medical facilities.
HIV/AIDS and other Diseases: The threat of HIV/AIDS needs to be specifically addressed in view of the high behavioural risk normally associated with construction site camps and the fact that the Northern Corridor constitutes a major HIV/AIDS hotspot due to transit truck drivers who frequent the numerous stopping places. The individual road works projects will incorporate HIV/AIDS awareness /VCT intervention activities as shall be identified under the close guidance of local District HIV/AIDS Co-

ordinators from Ministry of Health for implementation during construction period, targeting the construction workers, periphery populations and transit truck drivers. The contractors will be required to cooperate with the programme organisers, where necessary.
Governance: With the proposed independent road authorities coming on board, the government's role will be focussed on policy direction and monitoring to ensure accountability and transparency by these bodies. It is expected that these authorities will operate on commercial accounting principles and that a system of timely auditing will be established.
Security: Improvement of road transport particularly in the rural areas and northern regions of Kenya is expected to result in reduced incidences of insecurity and give the necessary confidence to investors.

Relation with Macro-economic performance:
The Government of Kenya, through the Economic Recovery Strategy for Employment and Wealth Creation, has put in place an ambitious programme for economic growth and sustainable development in all sectors of the economy with a special focus on agriculture, industry, tourism and regional trade. These plans will not be realized without an effective road network to achieve the following, among others:
Lower the transport costs by reducing vehicle maintenance costs and fuel cost; and
Increase ease of access to road transport by Kenyans.

This assistance therefore supports economic growth and trade development thus indirectly contributing to poverty alleviation.

Donor Matrix – Present and Expected in Medium Term:
The EC is one of the 13 active donors in the roads sub-sector, together with several EU Members States (Sweden, Denmark, Germany, France) and others donors (WB, AfDB, Japan (JICA and JBIC), UNDP, China, BADEA and USAID), see the table below.

The chair of the Roads Sub-sector Donor Group is held on a 2 year rotational system, with the World Bank currently chairing having taken over in February 2006 from the EC.

The Donor group has agreed on a progressive approach towards sector wide budget support as the principle delivery mechanism for donor funding for the future. In view of this the group has fully supported and participated in the ongoing road sector reforms including the development of sectoral policies, strategies, institutional framework and investment plan.

The group also encourages co-financing and use of harmonised procedures. For example, the Rural Roads Rehabilitation component of the 9^{th} EDF CSP (€ 22.5 million) is being implemented under a co-financing arrangement between EC, Germany (KfW) and GOK.

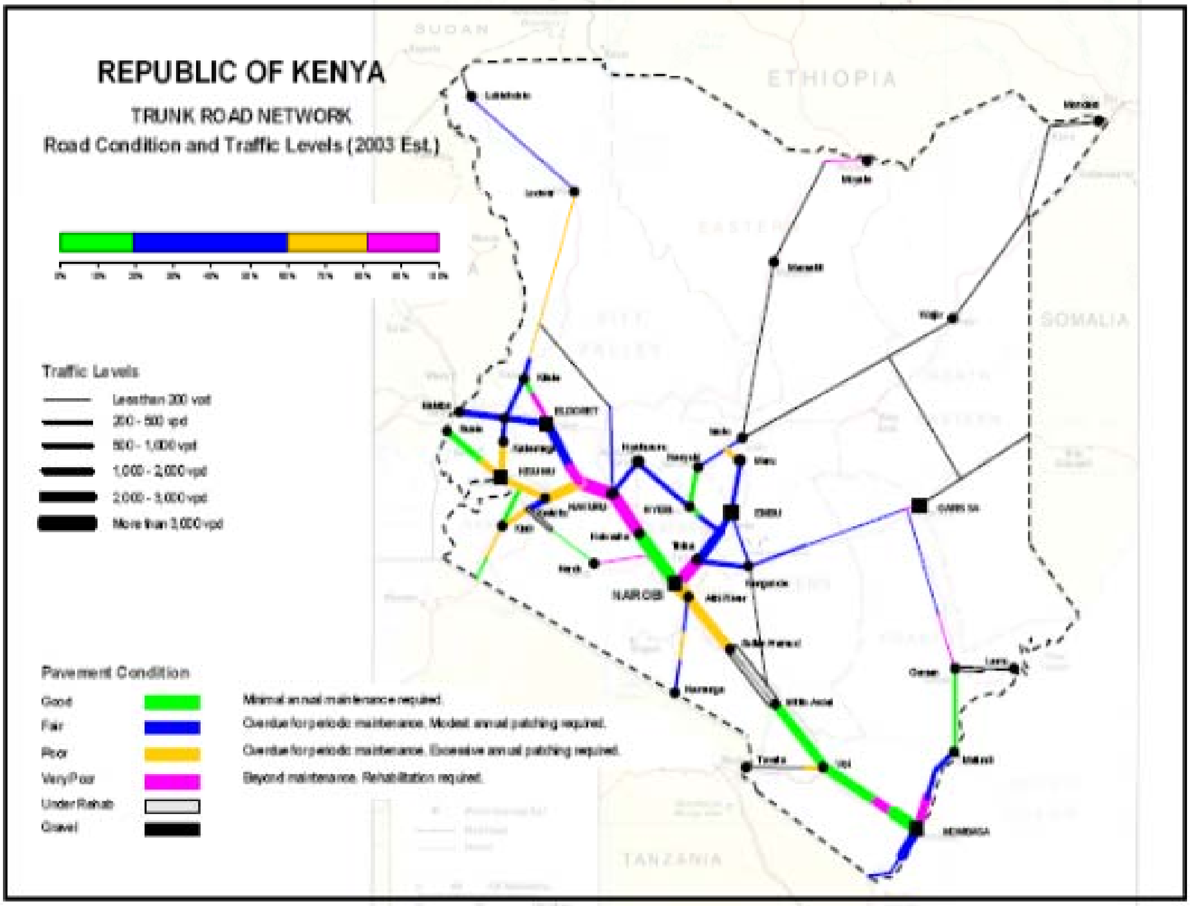
Roads Sector Donor Matrix

Donor	Project Title	Implementing Agency	Running period	Amount allocated in original currency	Equivalent in KSh.	Objectives	Current Status
World Bank	Northern Corridor Transport Improvement Project	World Bank, MORPW	2004 - 2008	US$ 159.95 Million (IDA), US$ 15.23 Million (NDF)	13.5 Billion	Rehabilitation of 368km of roads and institutional support	Works commenced
EC	Northern Corridor Rehabilitation Programme (Phase I)	MORPWH	2002 - 2006	€ 79.5 Million	7.5 Billion	Rehabilitation of 131km Sultan Hamud – Mtito Andei, Institutional Capacity Building	Complete
	Roads 2000 Maintenance Programme (Phase II)	MORPW	2006 - 2009	€ 10.5 Million	976 Million	To reduce the road maintenance backlog in eight districts of Eastern Province by use of labour - based methods where cost effective	Procurement of Project Management Consultants
	Northern Corridor Rehabilitation Programme (Phase II)	MORPW	2005 - 2008	€ 55 Million	4.6 Billion	Construction of Mai Mahiu – Naivasha – Lanet (95km) road	Works ongoing
	Northern Corridor Rehabilitation Programme (Phase III) (9th EDF)	EC, MORPW	2006 - 2008	€ 64 Million	6.104 Billion	Rehabilitation works on Nairobi – Limuru, Timboroa – Malaba sections of the Northern Corridor (220.8 km)	Formulation studies underway
	Institutional Capacity Building (9th EDF)	EC	2005 - 2008	€ 2 Million	190 Million	Funds for Road Sector Institutional Capacity Building	Identification study completed
JICA	Athi and Ikutha Bridges	JICA, MORPW	2004 - 2005	KSh. 700 Million	700 Million	Construction of the two bridges after the original structures were washed away by the El Nino rains	Substantially completed
	Study on Master plan for Urban Transport in Nairobi Metropolitan Area	JICA, MORPW, MOLG	2004 - 2005	nd	nd	Study for 25 year Master Plan for Nairobi Metropolitan Area	Master Plan completed. Feasibility study ongoing
	Implementation of Road Maintenance Unit	JICA, MORPW	2004 - 2005	nd	nd	Funding of road maintenance including equipment	Ongoing
BADEA /OPEC	Emali - Oloitokitok	BADEA, MORPW	2006 - 2009	US$ 28.87 Million	2.165 Billion	Construction of 100km long Emali – Oloitokitok road	Project proposals prepared
	Wote – Makindu Road	BADEA, OPEC, MORPW	2005 - 2008	KSh. 1.82 Billion	KSh. 1.82 Billion	Construction of 66km long Wote – Makindu road	Works in progress
BADEA /OPEC /SAUDI FUND	Dundori – Ol Kalou – Njabini Road	BADEA. OPEC, SAUDI FUND, MORPW	2007 - 2010	US$ 30 Million	2.25 Billion	Construction of 100 km long Dundori – Ol Kalou – Njabini Road	Procurement of works contractor
China	Kipsigak – Serem - Shamakhokho	CHINA, MORPW	2004 - 2007	1.2 Billion RMB 121,730,870 Yuan	1.2 Billion	Construction of 53km long Kipsigak – Serem – Shamakhokho road to bitumen standards.	Ongoing
SIDA	Roads 2000 Maintenance Programme (Phase II)	SIDA, MORPW	2005 - 2008	SEK 120 Million	1.128 Billion	To reduce the road maintenance backlog in eleven districts of Nyanza Province by use of	Works in progress

Donor	Project Title	Implementing Agency	Running period	Amount allocated in original currency	Equivalent in KSh.	Objectives	Current Status
						labour - based methods where cost effective.	
African Development Bank	Arusha – Namanga – Athi River Road	EAC Secretariat	2004 - 2006	US$ 948,267	8 Million	Design studies of the road with a view to its rehabilitation	Design completed. Awaiting financing approval for works implementation
	Roads 2000 Maintenance Programme	ADB, MORPW	2004 - 2008	UA 20 Million	2.03 Billion	To reduce the road maintenance backlog in eight districts of Rift Valley Province by use of labour - based methods where cost effective	Works in progress
	Isiolo – Moyale Road	ADB, MORPW	2005 - 2008	UA 33 Million	3.663 Billion	Civil works on 136km Isiolo – Merille River road section, design studies for the remaining section	Works under procurement process
AFD	Roads 2000 Maintenance Programme	AFD, MORPW	2005 - 2008	€ 10 – 15 Million	1,455 Million	To reduce the road maintenance backlog in three districts of Central Province by use of labour - based methods where cost effective	Works in progress
	Meru National Park Roads	AFD, KfW, KWS	2002 - 2006	KSh. 232 Million	KSh. 232 Million	Project to rehabilitate 15km of Park roads	Ongoing
AFD /KfW	Mai Mahiu – Narok Road	KfW/AFD, MORPW	2005 - 2008	€ 18 Million (KfW) € 18 Million (AFD)	3.433 Billion	Rehabilitation of the 89.4km long Maai Mahiu – Narok road	Works contract awarded
KfW	Roads 2000 Maintenance Programme	KfW, MORPW	2004 - 2008	€ 8,080,000	800 million	To reduce the road maintenance backlog in six districts of Rift Valley and Nyanza Provinces by use of labour - based methods where cost effective	Works in progress
KfW /EC	Rural Road Rehabilitation in Mt. Kenya and Central Kenya	KfW MORPW	2006 - 2009	€ 8.08 Million (KfW) € 22.5 Million (EDF)	2.836 Billion	Construction of 169km of roads in Mt. Kenya Region and 54km in Nyeri. Possible EC/ KfW co-financing	Design consultancies being evaluated
KOREA	Supply of Construction and Supervision Equipment	KOREA, MORPW	2006	US$ 25 Million	1.982 Billion	To enhance maintenance of roads	Ongoing

nd No data available

Kenya - Trunk Road Network



Elements of Future EC Response

Regional Integration: Kenya's exploitation of the regional market potential has been hampered by poor regional infrastructure and communication. There are efforts to address these constraints through regional infrastructure programs targeting road and rail network, energy and communication. EC intervention will contribute to the construction /rehabilitation of the East African Community Regional Road Network.

Urban transport in Nairobi: The City of Nairobi accounts for half of Kenya's motor vehicle fleet, and generates most of the country's economic activities. The EC intervention will contribute to the Master Plan for Urban Transport in the Nairobi Metropolitan Area (2006 – 2025) which involves a KSh. 43 billion road infrastructure improvement programme to improve traffic operations and remove traffic congestion within the city and its outskirts.

Rural Roads Programme: The EC is one of 6 donors who are currently supporting the Roads 2000 Maintenance Programme in Kenya, along with SIDA, KfW, AfDB, AFD and DANIDA. The Roads 2000 Maintenance Programme is a key component of the Kenya Government's Economic Recovery Strategy for Wealth and Employment Creation (ERS) with direct linkages to agricultural productivity. It is a poverty reduction intervention to provide access and reduce transportation costs for the majority of Kenyans through the improvement and maintenance of the road network to an economic level of serviceability while providing local employment by using local resources, principally labour as a first choice.

The **Roads 2000 Strategy** calls for a new approach to rapidly bring roads on the road network to a maintainable standard by a combination of selective spot improvements, partial road rehabilitation, periodic maintenance re-gravelling and place them under effective maintenance with the optimum use of local resources.

The EC intervention under the 10th EDF will be a continuation of past projects Phase 1 and II in 8 tea and coffee growing districts of Eastern Province, which were financed from STABEX resources.

Tourist Roads: The fourth intervention is to support the rehabilitation of roads within National Game Parks and Reserves which will support the tourist industry.

Capacities to Address these

- Continuation of reforms by GoK
- Implementation of new roads sub-sector policy framework
- 3 new road independent implementing authorities established in 2007and operational in 2008.
- Adoption and operationlisation of the Road Implementation Plan 2007-2020
- Make strategic reviews more result oriented
- Establishment of SWAP arrangement primarily making use of Road Fund structure and the Road Investment Plan.

AGRICULTURE AND RURAL DEVELOPMENT SECTOR

Description:
The backbone of Kenya's economy is based on production from its natural resources, including sectors such as agriculture, livestock, fisheries, wildlife based tourism, forestry etc. It is therefore important to consider that the concentration area *Agriculture and Rural Development* includes several interdependent sectors (agriculture, livestock, fisheries, forestry, environment & natural resources, food security and rural development).

Agriculture is the most important sector in the Kenyan economy and one of the main 'engines' for economic and social development. Agriculture contributes directly 26% of Gross Domestic Product (GDP) with a further 27% through linkages to agro-based and associated industries. It employs 80% of the total labour force, generates 60% of foreign exchange earnings, provides the vast part of industrial raw materials and constitutes about 45% of Government earnings. Therefore, agriculture has a large potential growth multiplier effect.

About 80% of the population lives in the rural areas and derive their livelihood largely from agriculture. The population living below the poverty line was estimated to be 45% in 1992, 52% in 1997 and 56% in 2002 with the vast majority of poor households (estimated at 87%) living in rural areas. About 51% of the population lacks access to adequate food, which is often of poor nutritional value and quality. The incidence and prevalence of poverty is highest among women. Access to production-related services as well as basic social infrastructure (water, rural roads, primary health care, and basic education) is inadequate and covers only part of the rural population.

Agriculture: Kenya has an area of about 587,000 square kilometres out of which 11,000 square kilometres is water. Kenya's agriculture is pre-dominantly small-scale farming mainly in the high potential areas. The small-scale farming sub-sector accounts for 75% of total agricultural output and 70% of marketed agricultural produce. Production is carried out on farms averaging 2-3 hectares for subsistence and commercial purposes. Current use of improved inputs such as hybrid seeds, fertilisers, pesticides or machinery is very low. Large scale commercial farming is practiced on farms averaging about 50 hectares accounting for 30% of the marketed produce. As a result of sustained higher use of inputs and better farm management, large scale farms tend to have higher yields.

About 16% of the land is of high and medium agricultural potential with adequate and reliable rainfall. This high and medium potential arable land is dominated by subsistence and commercial agriculture with crop land occupying 31%, grazing land 30% and forest occupying 22%. The remainder is used for game parks, urban centres, markets and homesteads.

About 84% of Kenya is arid and semi-arid lands (ASAL) and farming is constrained by low and erratic rainfall. Limited availability of productive land and sub-division of land is a major constraint to increased agricultural production in ASAL.

Livestock: The livestock industry contributes 42% of the agricultural GDP. The livestock population is estimated to be over 60 million, comprising of 10 million beef cattle, 3 million dairy and cross-breeds, 9 million goats, 7 million sheep, 300,000 pigs, 800,000 camels, 520,000 donkeys and 29 million chicken. It employs over 50% of the agricultural labour-force. Over 60% of all livestock is found in ASAL areas and engages 90% of the population of 7 million people. Five million people are engaged in livestock in high and medium potential districts.

The livestock industry contributes significantly to household income through the sale of livestock and livestock products, and generates foreign exchange through the export of live animals, hide, skins and dairy products. The sector also supplies the domestic market (meat, milk, dairy and other produce) accounting for 30% of the total marketed agricultural products. Livestock products provide raw materials for local dairy and meat processing industries as well as hides and skins for tanneries. Although, Kenya is a net importer of beef there is a potential for export as a large number of livestock from neighbouring countries are sold in

Kenya. An emerging livestock such as ostrich, crocodiles, guinea fowl, etc. has potential for further development

Fisheries: The sector is composed of freshwater (lakes, rivers and dams) contributing 96% of the annual estimated fish production of 150,000 metric tonnes constituting about 5% of GDP. The value of fish landed increased by 8.4% from KSh 7.0 billion to KSh 7.5 billion in 2004. There are 50,000 people directly working in the sector, mainly as fishermen, traders, processors and employees. Aquaculture though still in its infancy producing about 1,000 MT annually has a great potential given the country's vast resources and high demand for indigenous fish species in both local and international markets.

Kenya has an 880 km coastline and a declared Exclusive Economic Zone (EEZ) of 200 nautical miles. The county's coast is located in the rich tuna belt in the South West Indian Ocean with a current production of only 7,000 MT or approximately 4% of the current total annual landings. There is limited artisan activity, some prawn trawling and Distant Water Fishing.

Fish trade involves mainly artisan fishers, intermediaries involved in product conveyance to the markets, usually with some value addition such as drying, smoking and deep-frying. In the local and regional markets, tilapia is the main species and is mostly traded fresh, with small quantities in smoked form. Other species traded in commercial quantities in the local market include omena, Nile perch, tuna, kingfish, shrimps and lobsters.

The large-scale export-oriented processing sub-sector currently consists of about 18 EU recognised firms with Nile Perch filets from Lake Victoria accounting for about 90% of the total exports. Quality assurance and management has been enhanced through upgrading of landing sites in Lake Victoria and fish processing plants to meet EU standards, which resulted in unrestricted entry of fish products from Kenya to the EU.

Natural Resource Management /Environment: Much of Kenya's revenue is generated from sectors that rely on natural resources and environmental conservation and appropriate methods of land use are extremely fundamental to the success of these natural resource dependent sectors. In 2005 NEMA (National Environment Management Authority) produced the State of Environment Report for Kenya 2004, which focuses primarily on land use and environment, in recognition of the importance of the links between these two areas.

In 2006 the EC produced a Country Environmental Profile (CEP) report in order to identify and assess environmental issues to be considered during the preparation of the coming Country Strategy Paper. It provides information on key environmental challenges, as well as policies, strategies and programmes designed to address them. The report identified these key environmental issues: (i) Natural resources degradation (land, water, vegetation cover); (ii) Loss of biodiversity in the country's main ecosystems including wetlands, forests, marine ecosystem; and (iii) Socio-economic environment: dropping socio-economic indicators in health (high prevalence of major diseases, HIV/AIDS, malaria and TB), access to water and access to education. The report also identified the main forces leading to resource degradation as:

- The increasing pressure on the limited resources (land, water, energy), which in turn is caused by (i) a skewed landownership, (ii) lack of a comprehensive land policy regulating landownership, land tenure and land management; (iii) high dependency on agriculture and livestock for livelihoods and inadequate alternative employment opportunities; and (iv) the growing population;
- Low productivity in agricultural systems, especially subsistence production systems;
- Unsustainable use of resources; and
- Inadequately designed and managed settlement schemes.

There is a clear relationship between resource degradation and poverty; poverty being a cause as well as a result of resource degradation. The high dependency on the limited natural resources for their livelihood, leads to over-exploitation and depletion of the natural resources, which in turn leads to decreased productivity and increased poverty and eventually in abandoning the agricultural and livestock sectors, resulting in migration into the urban areas seeking for alternative employment. Addressing resource degradation therefore largely coincides with addressing poverty reduction.

The main areas/sectors for intervention in addressing resource degradation are: (i) Creation of a regulatory framework for the use of natural resources, mainly through the formulation of a comprehensive land policy; (ii) Increasing the agricultural and livestock productivity, adapted to the different agro-ecological zones; (iii) Increasing/restoring the forest cover (conservation and reforestation of 'water towers' and other catchments), to balance energy demand (fuel wood, charcoal); and (iv) Creation of alternative employment opportunities to reduce the pressure on natural resources.

Rural Development /Community Development: Up to 80% of the population of Kenya lives in the rural areas and over 50% of the population lives in poverty. Absolute poverty levels continue to increase and are predicted to rise to 65% by 2015 if the current trend continues.

A central feature of Government development strategy is the recognition that poverty reduction must be addressed through a comprehensive and integrated framework encompassing economic restructuring, poverty reducing growth strategies and provision of well-formulated poverty reduction programmes targeting the poorest and the needy in society.

The Government has put in place policy and institutional frameworks aimed at promoting comprehensive poverty reduction. To this end the GoK has issued a number of policy documents focusing on decentralisation and participation of communities in local development. The Poverty Reduction Strategy Paper (PRSP) stresses the importance of empowering communities in local development and indicates decentralisation in planning, delivery and management of basic services. The Kenya Rural Development Strategy (KRDS) as well as the Strategy for Revitalising Agriculture (RSA; 2004) recognise the role of participatory rural development and the need to devolve additional responsibilities to local authorities and communities.

Community Development cuts across all sectors of agriculture. Throughout the country the need to improve basic infrastructure and conserve the environment is seen as critical to development and improved agricultural production. One strategy has been to foster self reliance and involve communities directly in their own development through the provision of financial and technical support direct to community based, demand driven and sustainable development initiatives that reduce poverty and contribute to better environmental management. Thus empowering communities in the identification implementation and maintenance of projects which address the lack of socio economic services and amenities and contribute to improved environmental management.

Food Security: About 51% of the population lives in a chronic food insecure situation lacking access to adequate food, which is often of poor nutritional value and quality. It is estimated that droughts have a direct impact on the household food security of nearly 10 million people living in drought-prone areas eroding the assets of poor communities and undermining their livelihood strategies. Improved drought management is an underlying contribution to improved food security and the availability of a drought contingency fund in the context of the wider Drought Management Initiative would facilitate the critical step from relief to preparedness for droughts and minimise the long term impact on food security.

Institutional Framework: In response to ERS to revive the agricultural sector, sector ministries formulated a sector-wide strategy in order to spur and coordinate agricultural development. Service delivery for Agriculture and Rural Development is provided by several line ministries (see Annex 4 for functions and structure of agriculture and livestock), departments, parastatals, local authorities and private sector organisations.

SRA Coordination Mechanism: The institutional framework is made up of the following committees;

- National Steering Committee (NSC): Members include the Permanent secretaries in the sector Ministries (Agriculture, Livestock and Fisheries Development, Cooperative, Water and Irrigation, regional Development, Development Partners and Farmer organizations.
- Technical Committee (TC): Members are the Departmental heads of various sector Ministries, Development Partners, Private Sector representative, Coordinator-KAPP, NALEP, NMK, ADB, ASCU.

- Agriculture Sector Coordination Unit (ASCU): ASCU is an inter-ministerial coordination unit whose role is to coordinate the sector ministries' and other stakeholders' efforts towards the implementation of the SRA vision
- Thematic Working Groups (TWGs): The Thematic Working Groups (TWGs) were established to address specific themes. The following thematic groups, chaired by representatives from the private sector have therefore been identified to fast track the issues needed to revitalize the sector: (i) Legal, Policy and Regulatory (ii) Agricultural Extension and Research (iii) Parastatal reforms (iv) Food and Nutritional Security (v) Value Addition and Marketing and (vi) Inputs and Rural financial services.
- Tools for enhancing ASCU'S efficiency: ASCU will initiate the process of mainstreaming the SRA into the PER and MTEF Sector Working Groups in addition to institutionalizing an M&E strategy for all sector programmes and projects. The aim is to make all programmes and projects SRA-compliant for maximizing impact.

Donor Co-ordination: The Harmonisation, Alignment and Coordination (HAC) group is the overarching coordinating mechanism and the various sectors have formed their sector coordinating units where all the donors contributing to the sector meet once every month.

Donors and other development partners have steadily improved their coordination in support to the agricultural sector, in the broad sense, over the last few years. Regular meetings provide opportunities of coordinating analysis and positions on policy and strategy issues, leading to an improved harmonisation of views among donors. There is an established dialogue between the sector/line ministries and the agriculture donors group and common action points have been developed and acted upon. The role of the donors' group has been determinant in supporting and accompanying the National Strategy for Revitalising Agriculture elaboration and dissemination processes. EU member states provided support to the new inter-ministerial Agriculture Sector Coordination Unit (ASCU) in charge of leading the process of SRA implementation through a basket fund using government procedures. This improved coordination amongst development partners paves the way, if all elements are favourable, to a future SWAP for the agricultural sector.

With regard to food security and drought management there are two main co-ordination forums, the Kenya Food Security Meeting (KFSM) and the Kenya Food Security Steering Group (KFSSG) which bring together key food security actors (government, donors, NGOs/CSOs and private sector.

Nevertheless, in a context of institutional reforms and large agricultural policy revision, there is a continued need for an enhanced role of government in leading pro-actively the development partners' coordination, to strengthen the dialogue and several limitations need to be addressed like decentralization, different donor priorities in the sector, different rules and regulations applicable to some donors and when to use government rules and regulations.

Private Sector Participation: The contribution of the private sector in Agriculture and Rural Development is crucial as it will increase efficiency and leave the government to do only the core functions which it is more efficient in. There is a need to involve the commodity groups and associations, which have characterized the sector like coffee, cereals, dairy, horticulture, fisheries, etc. and working with umbrella organizations like KENFAP and FPEAK, which play the role of lobbying and advocacy for farmers and pastoralists.

The active role of the private sector in the SRA coordinating forums should be encouraged and strengthened to ensure their participation in policy formulation as well as monitoring and control functions.

Current Issues (Short- and Long-term):
The ERS and SRA recognize the declining performance of the agricultural sector and describe reasons for the decline and interventions required to reverse the trend. The main constraints to the agricultural sector include:

- Unfavourable micro and macro-economic environment.

- Inadequate markets and marketing infrastructure.
- Unfavourable external environment.
- Inappropriate legal and regulatory framework.
- Inadequate financial services.
- Inadequate storage and processing capacity for perishable commodities
- Weak surveillance of fishing (offshore and inland).
- Weak and inefficient research-extension-farmer linkages.
- Poor coordination with other support sectors such as water, roads, energy and security.
- Lack of basic services in the rural areas (infrastructure, health facilities, water)
- Natural disaster such droughts, floods, pests and disease outbreaks
- Poor governance in key institutions supporting agriculture.
- Degradation of the natural resource base (Declining soil fertility, water, reduced forest cover)
- Increase in human population putting pressure on natural resources
- Sub-division of land into uneconomical and unviable parcels
- Destruction of forest-cover leading soil erosion and distraction of water catchment areas.
- Uneven distribution of resources to districts (not pro-poor)

Medium-term Policy Objectives:
About 80% of the population lives in the rural areas and depend mainly on agriculture and fisheries for livelihoods. In addition, more than 80% of all poor households live in rural areas. Many of the households especially in the arid and semi-arid areas are food insecure. Therefore, the government will continue paying attention to development of rural areas and agricultural in an effort to address poverty, unemployment and food and nutritional insecurity.

The sector is governed by more than 130 pieces of legislation many of which are obsolete and inconsistent with current policy. The review and harmonization of the legal, regulatory and institutional framework in the sector aims to remove barriers to production, processing and marketing of agricultural produce. The review intends to amalgamate the existing legislation into a few broad acts, encourage self-regulation through capacity building in stakeholder organizations and create mechanisms for collaboration with other sectors in the implementation of the strategy.

Agricultural research is the source of knowledge, and technologies that stimulate agricultural development. The government therefore recognizes the role and importance of science, technology and innovation in the development of the agricultural sector and the agricultural research system will be restructured to make it more responsive and efficient in technology development and transfer. Approximately 28 national organizations conducted agricultural research in Kenya, collaboration and stronger linkages of these institutions is seen as the first step towards an integrated national agricultural research system (NARS). It is foreseen that funding for research will increase from the less than 1% level to 2% of GDP by 2010 and that funding sources will be diversified to include private sector players.

The effectiveness of the extension service system has declined over the years due various reasons including poor funding and the dissemination not based on farmer needs. The SRA foresees reform and strengthening of extension services by using multi-disciplinary approaches, allowing for multiple providers, facilitation of capacity building of extension providers and the development and execution of performance standards including an M&E framework for extension services.

Access to quality agricultural inputs especially by resource poor producers is one of the constraints limiting productivity in the sector. Measures to be taken to achieve improved access to quality inputs include; encourage competitiveness among input suppliers, build the capacity of farmer's organizations to procure and distribute inputs and encourage private sector investment in production, distribution and regulation of inputs.

The inability of producers to respond effectively to market requirements continues to be a major reason for stagnation in the sector. The participation of the producers in the domestic market is constrained by poor infrastructure and lack of market information. To access domestic, regional and international markets, quality of products and efficiency of production, value addition should be addressed to make the products competitive. Capacity to enforce sanitary, photo-sanitary and zoo-sanitary measures will be required in terms of human resource, laboratories and other infrastructure.

The Arid and Semi-Arid Lands (ASAL) constitute 80% of Kenya's landmass, supports 20-25% of the human population, 60% of the livestock and 65% of the wildlife. The potential for livestock production has not been tapped and the areas have remained underdeveloped. The government intends to promote ASAL based rural livelihood programmes, enhance the systems put in place for livestock disease control, encourage water harvesting, improve and develop breeding of non-traditional animals, develop suitable extension methods for the pastoral communities, and collaborate in the development of mechanisms for preventing and resolving resource use conflicts.

The country faces a serious environmental challenge due to the low and decreasing forest cover. This has been compounded by rampant poverty resulting in the increased use of wood fuel and charcoal by the poor, low inputs resulting in low productivity of crops and livestock. Pollution from solid waste such as polythene paper is on the increase due to lack of a policy on recycling of waste. The forestry and mining sectors are constrained by weak governance, an inadequate policy, legal and institutional framework governing natural resources exploitation and inadequate community participation in the management of environmental and natural resources. To address these issues the Environmental Management and coordination Act (EMCA 1999) was enacted and National Environmental Management Authority (NEMA) formed to coordinate the implementation of the National Environment Action Plan.

Among the many strategic areas and outputs (see Annex 3), the SRA identifies the following areas for fast tracking:

- Review and harmonise the legal, regulatory and institutional framework
- Restructure and privatize non-core functions of parastatals and ministries
- Improve the delivery of research, extension and advisory support services.
- Improve access to quality inputs and financial services.
- Improve access to both domestic and external markets.
- Formulating food security policy and programmes

Performance of Past EC Assistance: Results, Instruments, Management, Co-ordination and Complementarity

The Commission has been involved in the agricultural and rural development sector for several years and has built partnerships in several sub-sectors: livestock, coffee, fisheries, environmental management and agricultural research. Of the €47 M (28 % of the NIP) allocated to Agriculture and Rural Development, the Rural Poverty Reduction and Local Government Support Programme represents the main intervention in this 9th EDF focal area accounting for 12% of the NIP (€ 21M). The programme supports the ongoing Kenyan Local Government Reform Programme with the aim to contribute to GoK's effort to reduce poverty through empowerment of communities and institution building support to local government. However, slow progress in implementation of this programme has highlighted the need to support the management capacity of the MoLG and continue with the effective Community Contracting approach as implemented under the CDTF.

The balance funds under the 9th EDF focal sector have been allocated to the Community Development for Environment Management Programme (8%), providing capacity building support to NEMA and an independent funding facility under the CDTF for direct support to community projects which reduce poverty and improve environmental management. The new programme is progressing satisfactorily. Furthermore, support to the Kenya Arid and Semi-Arid Land Research Programme (5%) has been granted aiming at poverty reduction in ASAL through sustainable improvements in the rural livelihoods, the intermediate goal, being increased agricultural production and productivity in ASAL through the participatory research for development concept. Support to better food security in the ASALs will also be addressed through improved drought management (EUR 17.6M from the 9th EDF B Envelope) due to start shortly.

Finally, in preparation of future interventions in other sub-sectors, the EC has been instrumental in the execution of three sub-sector commodity studies for Cotton, Livestock and Coffee. Based on the latter study i.e. Assessment of the value-adding Opportunities in Kenyan Coffee Industry, an Implementation Protocol has been drawn up for the Quality Coffee production and Commercialisation support programme, aiming at increasing the income of smallholder and small coffee estate farmers, which is just about to commence.

During the period under review two important strategies were launched: the Economic Recovery Strategy for Wealth and Employment Creation (ERS) in 2003 as the guiding National policy in which the Agricultural Sector was ranked high in priority. In March 2004, HE the President Mwai Kibaki launched the Strategy for Revitalizing of Agriculture (SRA), which is a translation of the ERS principles for the agricultural sector.

Being a member of the Donor Coordination Group and the Technical Committee of Agricultural Sector Coordination Unit (ASCU), the inter-ministerial coordination unit charged with spearheading the SRA, a considerable amount of time is being devoted by the Delegation to the coordination of the implementation of the strategy, recommendation for priority activities etc. Contrary to the past and contrary to what is suggested in the Evaluation of the Commission's support to Kenya by ECORYS, only recently appropriate measures has been introduced in terms of structure and strategy related to the agricultural sector on which to guide the agricultural reform process and the transformation of the agricultural sector into a more commercial oriented and competitive sector. The SRA has identified six fast-track interventions which together with other strategic outputs constitute a clear strategic focus for next EC interventions and other donors' support in Agricultural and Rural Development.

Status of Ongoing Reforms

Reform Item	Status
• Co-ordination in the sector	• ASCU was formed to coordinate the implementation of SRA
• Reform to the extension services	• The National Agricultural Sector Extension policy (NASEP) developed and presented to stakeholders - emphasizing multiple providers • KAPP DSUs approach testing
• Restructuring of the Ministries and Parastatal	• Ministry of Agriculture restructured to improve efficiency and technical service delivery • Restructuring of ministry of livestock approved
• National livestock policy 2006	• Draft presented to stakeholders
• Dairy policy (1996)	• Draft presented to stakeholders
• Fisheries development policy	• A draft produced
• ASAL development Policy	• A draft produced
• Kenya Forest Act 2005	• Approved in Parliament July 2005, to be enforced from 2006
• Food and Nutrition policy	• A draft produced
• Livestock breeding policy	• Being developed
• Livestock feed policy	• Being developed
• National Irrigation and Drainage policy	• Draft produced and forwarded to Cabinet

Reform Item	Status
• Co-operative Societies (amendment) act 2004	• Enacted to improve governance in the cooperatives
• Restructuring of marketing boards	• Draft cotton policy and bill presented to cabinet • A draft session paper for the revitalization of the sugar industry developed • The Coffee board of Kenya was restructured and the Kenya Coffee Producers and traders association mandated to manage the coffee trading floor • A study to restructure the Agricultural Finance Corporation completed • Measures to restructure Pyrethrum Board of Kenya and the Coffee Board of Kenya are on-going
• Development of livestock infrastructure	• Slaughter houses decentralized
• Kenya Meat Commission	• Commission appointed and framework to privatize KMC in 36 months developed
• National Agricultural Research Systems (NARS) reform progress	• A technical working groups to look into the reform of the NARS system set up and operational • Two research institutions merged into the Kenya Agricultural Research Institute (KARI) • Implementation of the KAPP competitive grants scheme • KARI generating 10% of its budget through internal resources and aim at 20% by 2010 • KARI wide research priority setting involving stakeholders started
• Environment Management and coordination act 1999 (EMCA)	• Enacted and National Environmental Management Authority (NEMA) formed to co-ordinate the comprehensive implementation of the National Environment Action Plan • A draft national strategy and action plan for the implementation of the World Summit on Sustainable Development and MDGs developed.
• Decentralisation Policy and Local Government Reform	• Draft produced

Local Government on going reforms:
The on-going reforms are promoting a participatory planning process where the participation of the beneficiaries and stakeholders in the planning, implementation, and monitoring of programmes and activities is encouraged. The stakeholders have a say in how the funding for the sector will be used. In the past, the communities and stakeholders were not consulted about the priority needs, but these days, it is mandatory that all local authorities should involve them in the identification, planning, implementation and monitoring of projects and activities identified under the LASDAP process.

In addition, the local authorities are also being encouraged to venture into community contracting, where locally organized groups and communities can be awarded contracts.

Status of Cross-cutting Issues in the Sector

Environment: Commercialization and intensification of use of land has negatively impacted on environmental and natural resources. Some of the key contributing factors to environmental degradation include disposal of chemicals used in the various production processes, improper management of pasture and forage, poor agro-forestry practice, poor disposal of by-products, poor disposal of packaging materials and overgrazing in the ASALs. The depletion of the natural forest cover has continued and consequently impacting negatively on food production. Poorly managed environment also impacts negatively on the tourism sector.

Gender**:** Lack of access to productive resources such as land and institutional credit, poor technical skills and poor access to extension services limit the participation of women and youth engaged in agriculture in the rural sector. The government and stakeholders will continue to incorporate gender issues in all development activities through the development of gender-friendly technologies, appropriate extension services, favourable land access policies and specialized skills targeting the youth.

The National Policy on Gender and Development will go along way in dealing with the identified key forms of discrimination in respect of customary law, the law of succession, and citizenship as well as cultural biases against women perpetuated by the patriarchal social structure. The policy will facilitate the mainstreaming the needs and concerns of men and women in all areas in the development process.

HIV/AIDS and other Diseases**:** The impact of HIV/Aids has increasingly been felt in the agriculture and the rural sector because it affects the most economically productive segment of the population within the age of 15-49 years. In addition, HIV/Aids has also negatively impacted on the productivity of the economy as a whole by reducing and diverting labour and finance. The impact of the pandemic is being manifested through:

- A reduction in labour supply
- Change in land use patterns
- Reduced production
- Reduced food and nutrition security at household level

The following interventions have been identified as critical to the sector HIV/AIDS strategy:

- Prevention and advocacy
- Mitigation of socio-economic impact on farm families and workers
- Promotion of care and support
- Research, monitoring and evaluation

The government in collaboration with stakeholders and development partners will therefore continue to mainstream HIV/Aids awareness creation, behavioural change in all interventions in the sector.

About two thirds of Kenya's population live in malaria prone areas and are at risk of infection. Each year, an estimated 6,000 pregnant women suffer from malaria associated anaemia, and 34,000 children below the age of five years die from malaria. For malaria and other (water borne) diseases in addition to curative interventions, there should be increasing access to information, education, communication and health services for all people at risk of infection.

Governance: Changes in governance will still be required to make public administration, legal institutions and public service delivery more efficient and accountable. The government will continue to implement a set of measure focused on: (a) Enhancing accountability and transparency; (b) Setting new oversight bodies and strengthening the existing ones; strengthening budget planning and execution within the MTEF; (d) Fighting corruption; (e) Ensuring compliance of the Code of Ethics for all public office holders.

Insecurity in some regions of the country has persisted for quite awhile and this has impact negatively on the economy as the situation limits investment. Potential investors and the entire business community are very sensitive to matters of security. Improved security in the rural areas will really speed up the development process.

Relation with Macro-Economic Performance:
The economic recovery that started in 2003 continued into 2004. Real Gross Domestic Product (GPD) increased by 4.3 per cent in 2004 compared to a revised growth of 2.8% in 2003. However, agricultural growth decelerated from 2.7 per cent in 2003 to 1.4 per cent in 2004, agriculture terms of trade deteriorated from 92.5 in 2003 to 89.1 in 2004. This was occasioned by higher input prices and consumer goods (in rural areas) relative to the rise in agricultural output prices.

Adequate rainfall, recorded in some parts of the country resulted into better performance in wheat, tea, horticulture, sisal, sugar cane, cotton, rice and dairy sub-sectors, however, the sector was slowed down by poor performance in wheat, coffee and pyrethrum sub-sectors. There is a strong correlation between agricultural productivity and growth vis-à-vis performance of the economy and agriculture has a large potential growth multiplier effect contributing to reducing poverty in the rural areas.

Donor Matrix –Present and Expected in Medium Term
The EC is one of the major donors in Agriculture and Rural Development together with several EU Members States (Sweden, UK, Denmark, Netherlands, Italy and Belgium) and others donors (WB, ADB, JICA and USAID), see the table below:

	Agriculture & Rural Development	
Donor	**Committed**	**Disbursed**
AFD (France)	0	0
France	0	20,000
DfID (UK)	23,072,000	2,018,800
European Commission	43,730,000	14,977,317
Finland	0	0
Netherlands	46,789,484	989,509
SIDA (Sweden)	5,162,065	5,042,017
Poland	0	0
Spain	0	0
DANIDA	pm	pm
Austria	0	0
Belgium	11,545,378	2,073,118
GTZ (Germany)	6,900,000	1,293,000
KfW (Germany)	4,600,000	200,000
Italy	15,612,647	1,670,812
Sub-Total EU	**39,68239,682**	**205,966**

Source: GOK – EC Joint Annual Operational Review of 2005

Elements of Future EC Response – Lessons Learnt, Challenges
- There must be early involvement of stakeholders including donors in identification and programming.
- Participatory planning approach has enhanced project ownership by the communities thereby guaranteeing sustainability.
- Communities have proved that they have the capacity to develop and implement projects including a key role in assisting in the monitoring and evaluation of programmes and activities they closely identify with.
- Transport (roads) improvement lands to economic growth and social development in the rural areas; although process of sustained road improvement is slow, progress has been made, GoK ownership has been established, but sustainability (funding) problems still persist.
- The linkages and relationships between all sectors under this concentration area and the environment are very clear: from the environmental (and poverty) perspective, the Community Environments Programme CEP) highlights the importance of food security and rural development being a priority area for investment including focus on ASALs and Food Security /Drought Management".
- There have been various Agriculture and Rural Development interventions supported by the EC, often quite effective: the policy framework of the SRA –only developed in 2004- provide good

opportunities to enhance sustainability and impact of current and foreseen EC interventions if designed in coherence with the SRA strategy and harmonised and coordinated with other donors; for this an operational (investment) plan will be required as well as full establishment of the foreseen implementation framework and continuation of the various reform processes.
- A transparent choice should be made for focal sectors based on clear criteria.

Capacities to Address
- Continuation of reforms by GoK.
- SRA Implementation Framework operational.
- An effective result-oriented coordination, monitoring and evaluation framework.
- Make strategic reviews more result oriented.
- Simplify procedures in line with GoK and donor policy on aid effectiveness (co-ordination, alignment, coherence and harmonization).

TRADE AND REGIONAL INTEGRATION

Description:
Trade: Kenya's trade sector comprises of trade in goods and trade in services. Focus on trade in services in terms of policy focus and development is very recent, being driven by Kenya's commitment to gradual liberalization of the sector through the WTO GATTs and other regional trade arrangement frameworks.

Trade in Goods: Since the mid-1980s Kenya has been pursuing an export led growth strategy, which has been characterized by wide ranging reforms in the sector, among them being price and foreign exchange liberalization, tariff reforms and simplification of customs documents. Trade reforms have been anchored on the EAC and COMESA trade integration programs, commitments under the WTO Agreements (GATT). Kenya's trade sector has also benefited from the preferential tariff market access granted by the EU to ACP countries, as well as the USA AGOA scheme.

Trade has continued to play a key role in Kenya's economic development, accounting for an average 48% in the period 2000 to 2005 of total foreign exchange earning and 20% of GDP. During this period, exports have recorded a steady growth from KSh134.5bn in 2000 to KSh244bn in 2005. However, imports have remained higher than exports leading to a Balance of Trade (BOT) deficit which has been over the review period, standing at KSh.149bn in 2005.

Kenya's exports export base is narrow, with ten largest products accounting for approximately 80% of total export earnings in 2003. These products include food and live animals, fruits and vegetables; coffee, tea and spices; crude materials; crude vegetable materials; mineral fuels and lubricants; petroleum products; manufactured goods; chemicals and clothing. Bulk of the products is exported in primary form. Although the share of primary exports in total exports has declined from 70% in 2000 to 63% in 2005, exports value addition remains a formidable challenge.

Regional integration through COMESA and EAC trade arrangements has played a key role in stimulating export growth. In 2005, total exports destined to the regional market accounted for 45% of total exports. The EU has been the next important export destination market for Kenya's exports, accounting for 23% of total exports in 2005. This is a manifestation of the positive impact of the preferential tariff regime which Kenya's products have been accorded at the EU market in the last over 25 years. The future of this market is being secured through Economic Partnership Agreement (EPAs) which Kenya, along with other 16 countries in the ESA region is negotiating with the EC.

Trade in Services: Trade in services contribution to the GDP has not only been significant but stable, having accounted for about 54% of the GDP in 1998 and 51% by 2005. The most important sub-sectors are wholesale and retail trade and repairs; transport and storage; education, business services and construction. Investments that have been stimulated by reforms in the services sector, primarily through liberalization and wide ranging commitments at the WTO level, has been instrumental to the continued significance of the services sector. A huge potential exists in the regional market for exports of services.

Regional Integration: Regional integration agenda has been pursued through the EAC and the COMESA Treaties. So far the focus has been on trade in goods. In EAC, the Customs Union was launched in January 2005, when the three EAC countries adopted a three band Common External Tariff Structure (CET) and agreed upon a five year gradual reduction of tariffs on Kenya's imports into Uganda and Tanzania. In COMESA, Kenya is among the 13 countries who are now members of the FTA. COMESA Customs Union is expected to be launched in 2008.

The deepening of the regional integration is being facilitated through ongoing programs such as the COMESA third party insurance, harmonized transit charges and axle load limits. Regional institutions such as the East African Development Bank, the PTA Bank and ZEP-Re have played a key role in facilitating regional integration through project financing. Further deepening of the regional integration is expected through interventions and programs under Economic Partnership Agreements with the EC which are expected to be concluded by 31st December 2007.

Institutional Framework:
The Ministry of Trade and Industry is the coordinating ministry on all policy matters pertaining to trade in goods and services. Presently, coordination is taking place through three inter-ministerial committees that co-opt the private sector and the NGOs; namely – The NCWTO, KEPLOTRADE and COMESA/EAC stakeholder committee. These committees are driven by the objectives for which they were set to achieve. Therefore, in terms operations, and specifically policy formulation and implementation there is no formal structure for harmonizing activities of various institutions. This lapse is attributed to the lack of a national trade policy framework, which should among other things provide for synergetic interface in the policy formulation and implementation

Current Issues – Short- and Medium-term:
Sectoral issues - supply-side constraints: Supply side constraints are a key impediment to Kenya's trade development. These constraints have been identified in the agricultural and industrial sectors. The key cross cutting constraints in the two sectors include poor infrastructure, high cost of energy and power fluctuations, lack of access to technology, especially among the MSMEs, access to credit, unreliable rainfall, legal and regulatory framework that inhibits competitive production, uncompetitive investment regime, lack of opportunities for technology based joint ventures/franchise/patent arrangements. In agricultural sector, potential for value addition for export purposes exists in horticulture, coffee, tea, cotton and textile, diary industry, fish (inland and marine), sugar and cereal sector (food and animal feed).

These constraints have generally eroded the competitiveness of Kenya's exports in international markets with the notable exception of cut flowers and fresh vegetables for which Kenya built a competitive supply chain.

Trade logistics: Trade logistics, in particular physical infrastructure and processes along the Northern Corridor as well as road network in the country side have been a key impediment to trade development. In addition, Rail services, customs operations and related good clearance procedures and Ports Services have been another area of concern. Although there has been some effort at addressing the latter tow constraints a lot more still needs to be done in order to attain the international bench marks for these services.

Standards and conformity assessment: Standards and conformity assessment institutions (KEBS, KEPHIS and DVS) have been facing capacity limitations. For these institutions to facilitate Kenya's exports integration into the regional and global market, current capacity gaps (infrastructure, human resource, etc) require to be addressed. In addition awareness creation of standards and conformity requirements among the exporters remains a challenge. Although there are ongoing programs to address this concern, there still remain gaps of concerns.

Revenue effects of trade liberalization: Over the years, customs duties share in total government revenue has been declining. In 2005 customs duties accounted for only 8% of the revenue. The implication of this is that revenue loss associated with trade liberalization will have marginal effect on government revenue. Such marginal loss in revenue is anticipated as a result of entering into an FTA with the EC under EPAs as well as through implementation of the COMESA FTA. Measures to mitigate revenue loss should focus at broadening the tax base and improving efficiency of tax collection. In the case of EPAs, given the expected long transition period before phase in of the FTA with the EC, revenue loss is not expected at least in the first five years.

Regional Integration: Although regional integration has been instrumental to the development of Kenya's exports, the following areas of concerns have impeded the countries ability to exploit the potential.

a) **Non Tariff Barriers** in form of trade regulatory requirements (such as export/import licensing); lack of harmonized regional standards, lack of regional SPS regulatory framework, weak capacities of trade facilitation institutions, lack of information on trade regulatory requirements both among the private sector and the regulators, transit charges and other traffic regulatory requirements. A mechanism for tracking and eliminating NTBs has been proposed by both COMESA and EAC but it is yet to be implemented.

b) **Cumbersome customs documentation and clearance procedures -** Complex customs documents and clearance procedures in the region have tended to increase transaction costs and in some cases they have frustrated trade of perishable agricultural products. This system has disadvantaged the cross border traders who account for over 60% of agricultural products that is trade in the region. A simplified document has been devised to take care of this need but its implementation has lagged on for years.

c) **Lack of double taxation agreements and tax credit arrangement -** Kenya has no unilateral tax credit and Double Taxation Agreements with 21 of its regional partners in the COMESA and the EAC. The only exception is the DTT Agreement with Zambia. This lapse is a major impediment to development of Kenya as a regional hub for manufacturing and services activities.

d) **Poor regional infrastructure -** Kenya's exploitation of the regional market potential has been hampered by poor regional infrastructure and communication. There are efforts to address these constraints through regional infrastructure programs targeting road and rail network, energy and communication.

e) **Low capacity for implementation of regional and multilateral agreements -** The lag in review of existing legislations or enacting new ones to reflect Kenya's commitment at regional and multilateral level is a source of concern, especially because it amounts to opportunity cost to the country. The need to harmonize domestic legislation with the country's commitments is therefore of paramount importance. At the center of this concern is weak capacities in the institutions which are expected to carry out these reviews or harmonization.

f) **Export Promotion -** Kenya's export market destination is over concentrated. In the EC five countries account for over 70% of Kenya's exports to the EU, while in COMESA/EAC Tanzania and Uganda account for 59% of Kenya's total exports destined to the regional block. This clearly shows the need for market diversification even in these traditional markets.

Trade in Services: There lacks a national policy on trade in services, which is essential in further development of this sector as well as getting the sector integrated into the regional and global market. Capacity building, geared towards enhancing Kenya's ability to export services where export potential has been identified is needed. This includes education, business and professional services, construction, transport and communication. Regional framework for trade in services that includes rationalization of commitments at the WTO and gradual liberalization of trade in services.

Medium term policy objectives:
Overall goal is export led growth geared towards eradication of poverty. This goal is being pursued through the following specific objectives: review of legal and regulatory framework in support of competitive trade and industry sector, regional integration, multilateral trade policy reforms, development of a National Trade Policy framework and rationalization and coordination of trade policy/facilitation formulation and implementation process.

Status of ongoing reforms:
Tariff reforms are on going under the COMESA FTA, where Kenya is levying preferential duty on non FTA members on reciprocal basis, with the provision that as soon as these countries join the FTA the tariff would be reduced to zero. Under the EAC Customs Union, launched in January 2005, imports from Uganda and Tanzania attract zero tariff, while import duties on Kenya's exports to these countries will be gradually be reduced to zero over a five year period, effective 2005. Through the ongoing negotiation of EPAs, further tariff reforms are expected as Kenya defines her FTA with the EU under the ESA configuration.

Status of cross cutting issues:
- **Financial sector:** Financial sector reforms which have been ongoing since mid 1980s have contributed into building of a robust money and capital market that is considered a fundamental fabric in the quest for development of the trade sector. Enactment of the Microfinance law will go a long way in strengthening the sector further.
- **Environment:** The enactment of an environmental legislation and the establishment of the National Environment Management Authority (NEMA) is a major step towards integration of the trade sector into the global and regional market through compliance with environmental consumer standards.

- **Information and communication:** Recent reforms in the information and communication sector through opening of air waves, foreign participation and liberation of the telecommunication sector will continue to play a key role in promoting competitiveness of the trade sector.
- **HIV/AIDS and Malaria:** The Government, in recognition of the threat that HIV/AIDS and malaria pandemic pose to overall economic development has come up with initiatives aimed at controlling the negative impact of these diseases. Donor support as well as corporate response programs targeting these diseases has contributed towards achievement of the government goal.
- **Governance issues:** The Government recognizes good economic and political governance and the rule of law as central to sustenance and furthering the current economic growth and development. Towards this end, appropriate policies, institutions and systems and actions have been put in pace.
- **Conflict Prevention:** The Government is committed to ensuring regional peace and stability, which is critical to regional integration process. To this end, Kenya supports conflict prevention initiatives currently taking place through intervention of IGAD and other partners.
- **Gender:** The Government gender policy is geared towards ensuring equity of economic opportunities to both men and women. Trade development provides an opportunity for implementation of this policy. This is evidenced by the role women are playing in the sector along side their male counterparts as entrepreneurs or employees.

Performance of the EC assistance – results, instruments, management, coordination, complementarity:

EC assistance under the 9th EDF as well as under the Stabex funds has been complementary to government's efforts for development of the trade sector. Under the 9th EDF the focus has been on general budget support, roads, agriculture and rural development. Under the Stabex funds, EC has also been supporting negotiations of EPAs under the KEPLOTRADE program.

Relation with macroeconomic performance:

Trade sector has a significant influence on macroeconomic performance in terms of its overall contribution in GDP and foreign exchange earnings where in 2005 this stood at 71% and 90% respectively. The sector also contributes to budgetary support through import duties and domestic taxes levied on imports. Import duties as a share of total government revenue has been declining over the years as a result of tariff reform. In 2005 import duties accounted for 8% of total Government Revenue.

Donor Matrix

Donor	Name and description of Activity	Type of Activity	Time Frame	Funding amount	Trade Related Area
World Bank	**FIAS/DFID Report*: "Accelerating Reforms To Improve The Commercial Legal Frame And Remove Administrative And Regulatory Barriers To Investment in Kenya".*** The study covers 7 areas: Legal Framework, Licensing, Tax Administration, Access to Land, Site Development and Utility Connections, Customs and Trade Facilitation, Construction Permits,	Diagnostic Study with Background studies	Finalized in July 2004	US$242k	PSD/Investment
	Report "*Growth & Competitiveness in Kenya*". The report analyzes the main constraint to improving growth and increasing competitiveness in the Kenyan economy. In particular the report looks into Labour Productivity, Institutional Framework for Growth, and value-chain analysis of 4 sectors: coffee, pyrethrum, cotton-to-garment and horticulture.	Diagnostic Study	Draft report ready. Validation workshop in Sept. 2004. Final report ready by Nov. 2004.		PSD/Investment/Sector studies
	Investment Climate Assessment: Based on a standardized large survey to companies, the report analyzes the current business climate and compares it with other countries.	Diagnostic Study	Draft Ready. Final report end of the year		Investment
	Diagnostic Trade Integration Study (DTIS) – The DTIS will provide an extensive and detailed assessment of the trade policy and supply constraints for export growth in Kenya. It will be completed by a number of detailed background studies on the following areas: trade performance review; trade policy review; Customs Time Release Study; Standards Diagnostic; Transport Sector Study; Sector studies on Regional Cotton-To-Garment, Sugar and alternative crops; Trade and Poverty Studies on AGOA and Fish Exports.	Diagnostic Study	To be completed November 2005	US$170k plus additional funds to be leveraged from donors	Trade Policy / SPS /Export Development / Trade Facilitation
	Support to National Export Strategy (NES): Jointly with GTZ, the Bank will assist the MoTI to prepare an Action Plan for implementation of NES	Technical Assistant	To be completed by December 2005		Institutional Support for Trade Promotion

Donor	Name and description of Activity	Type of Activity	Time Frame	Funding amount	Trade Related Area
	Study *"From Challenge to Opportunity: Transforming Kenya's Fresh Vegetable Trade in the Context of Emerging Food Safety and Other Standards in Europe"*	Diagnostic	Completed – June 2004		Standards / Horticulture Sector
	Study: "*Kenyan Exports of Nile Perch: Impact of Food Safety Standards on an Export-Oriented Supply Chain"*	Diagnostic	Completed May 2004		Sanitary and Phyto-sanitary / Fishery Sector
	Institutional assessment (MIGA): Assessment of capacities and needs of IPA and EPZA.	Diagnostic	Completed in May 2004		Institutional assessment
	EAC Transport & Trade Facilitation Project: The Project will provide support on the following areas: (i) support for implementation of Customs Union; (ii) investments for trade facilitation in the areas of border posts modernization; regional cargo tracking system and; port security and (iii) support to joint privatization of Kenya and Uganda Railways.	Project	Currently under preparation. Expected Board date by August 2005	70 Million US$	Transport / Trade Facilitation / Customs Modernization
	Support to Customs Reform & Modernization Program. Through the Public Sector Modernization TA Project, the World Bank and other donors will support the modernization of KRA	Project	Under prep. Expected Board Date, July 2005		Customs Modernization
Commonwealth Secretariat	Trade facilitation project	Project (diagnostic, TA, workshop)	2003-2005		Trade Facilitation
DFID Kenya	Kenya Trade and Poverty Programme (KTPP) – covers a number of areas: negotiating capacity, analysis of the institutional capacity to implement trade protocol and other capacity building initiatives. KTPP is part of the Africa Trade and Poverty Programme (ATPP) which covers twelve countries in Africa.	Capacity building, diagnostic, facilitation of dialogue and consultation	2003-05	ATPP budget £7.5 million. KTPP budget £600,000	Capacity building
	Enabling Environment for Business in Kenya.	Improving business environment for trade.	2001 - 2004	£2.9 million	Regulatory reforms

Donor	Name and description of Activity	Type of Activity	Time Frame	Funding amount	Trade Related Area
	Business Partnerships Programme (BPP) Kenya	Private Sector Networks	July 2000 – March 2004	£2 Million	Trade development
	FIAS/DFID Report*: "Accelerating Reforms To Improve The Commercial Legal Frame And Remove Administrative And Regulatory Barriers To Investment in Kenya".* The study covers 7 areas: Legal Framework, Licensing, Tax Administration, Access to Land, Site Development and Utility Connections, Customs and Trade Facilitation, Construction Permits,	Diagnostic Study with Background studies	Finalized in July 2004	US$242k	PSD/Business Environment
Germany/GTZ	Trade related TA elements to be added to existing projects	Technical assistance	2003/2004	From Euro 7.5 million Kenya country program	
	Support to implementation of National Export Strategy	TA, Workshops	2004/2005	30,000	Export Development
Italy	In partnership wit h UNIDO undertake study of the leather industry	Diagnostic	2004	375,000$	
	Based on the leather industry diagnostic capacity building and marketing programme	Capacity building, marketing	2004		
ITC	JITAP phase 1 – trade capacity building, sector strategies for horticulture and fish	Capacity building, diagnostic			
	JITAP phase 2 – support for National Export Strategy,	Diagnostic	2003	US$500k	
	Feasibility study Rift Valley to identify small scale farmers with potential to link up to export markets; four districts, three farmers groups (green beans, chillies, honey)	Capacity building, marketing chain	2003/2004	US$200k	
Netherlands	Support for trade policy analysis at multilateral level with a view to improve capacity to prepare for negotiations – focus on Singapore issues post – Cancun	Capacity building	2004/5	To be determined	Trade policy
	CBI's Capacity building programme for trade promotion organisations (TPOs) in East Africa	Capacity building	2004/6	Euro 2.8 million	Export development

Donor	Name and description of Activity	Type of Activity	Time Frame	Funding amount	Trade Related Area
	Survey on partnership for market access for Kenya's horticultural products into EU (Programme to be formulated after survey)	Diagnostic	July 2004 - Feb 2005	Euro 56K	Trade policy/Export development
UNDP	Legal and regulatory reforms to improve access to regional and international export markets	Diagnostic	2004-08	US$200k-400k	Legal issues
	Options for harmonization of regional and international trade laws with local laws	Diagnostic	2004-08		International Trade Legislation
	Facilitate public private partnerships in the trade/export arena – joint economic council, private sector alliance,	Facilitation of dialogue and consultation	2004-08		Institutional Building for trade
	Capacity building for trade negotiation at the multilateral (WTO) level	Capacity building	2004-08		Capacity Building
	Creation of linkages between producers, training, financial access	Supply chain management	2004-08		Capacity Building
UNIDO	Integrated Industrial Development Programme: Growth through Market access and regional integration with special reference to leather and leather goods, apiculture products, fish and dairy. Cross cutting interventions for the four sectors are investment promotion and quality management. For leather component cooperation with Italian Embassy, Honey component cooperation with UNDP	Diagnostic, Capacity building, facilitation market access	2003-2005	US$4million	Technical Assistance
	Women Entrepreneurship development for the sectors fruit and vegetable processing, dairy, honey and baking in collaboration with UNDP	Technical Capacity Building and facilitation market access	2004-2005	USD 130,000	Technical Assistance
	UNIDO – WTO Trade Capacity Building in Kenya for food sector	Trade capacity building on competitiveness, conformity and connectivity	2005-2006		Project proposal being finalised

Donor	Name and description of Activity	Type of Activity	Time Frame	Funding amount	Trade Related Area
EU	**KEPLOTRADE**: Support for Economic Partnership Agreement (EPA) negotiations. The project purpose is the strengthening of Kenya's trade negotiating machinery, in particular KEPLOTRADE and its technical support team through capacity building and institutional support. Support to set up consultative mechanism between Government, private sector & civil society ; in-depth study on implications of EPA for Kenya ; provision of trade experts at the MoTI to support trade negotiations	Capacity building - Facilitation of dialogue and consultation – Diagnostic - Technical Assistance	2002-2005	Euro 1.9 million	EPAs negotiations preparations
	Trade.Com: Capacity development programme for ACP countries. The programme is intended to provide support to enhance ACP countries' capacity for trade policy formulation and negotiations: (1) reinforcement of local analytical and research capacities, (2) assistance for ongoing negotiations through the recruitment of a pool of ACP trade experts and training of ACP negotiators, (3) catalytic pilot activities for institutional reinforcement in the area of trade support services. The PMU is based in the ACP Secretariat	Global window for ACP countries – Capacity building	2004-2009	Euro 50 million for all ACP countries	Trade Policy / Trade Negotiations (WTO, EPA) / SPS / Trade Enabling Regulatory Environment
	CBIK: Support for Export Promotion Council, Information Centre, Regional Business Centres	Trade support facilitation	Completed in 2002		
	EDF 9 Regional Strategy Paper and Regional Indicative Programme: three focal areas of which regional economic and trade integration represents the most important component. The programme will focus on the introduction of the COMESA CU and EAC FTA and CU and ensure harmonisation of trade policies between regional organisations, harmonising Rules of Origin and certificates, customs regulations and procedures, remove Tariff and Non-Tariff Trade Barriers, computerised customs management and trade statistics systems, SPS and trading standards, harmonising tax policies, trade facilitation measures, investment facilitation and private sector development, cross-border payments and settlement system, budgetary support to compensate for short-term revenue losses linked to trade liberalisation and integration (FTA and CU) and capacity building in multilateral trade negotiations (WTO and EPA).	Project – Capacity building – Technical Assistance – Diagnostic – Facilitation of dialogue and consultation	2003-2008	Euro 223 million for COMESA, EAC, IOC and IGAD	Trade Facilitation /Customs Union /SPS /RoO /TBT /Trade Negotiations etc.

Donor	Name and description of Activity	Type of Activity	Time Frame	Funding amount	Trade Related Area
	Capacity Building in Support of the Preparation of Economic Partnership Agreements (EPA): The programme's objective is to provide support to ACP countries, regional integration organizations and private sector organizations and other non-state actors in their preparations for the negotiations of EPAs with the EU	Global window for ACP countries – Capacity building	2002-2006	Euro 20 million for all ACP countries	Trade Negotiations (EPAs) / Trade Policy / Economic Integration
	Programme to Support the Integration of the ACP States into the Multilateral Trading System of the WTO: The objective is to provide ACP countries and regional integration organizations with capacity building support in three priority areas: multilateral negotiations, implementation of WTO Agreements and accession to WTO.	Global window for ACP countries – Capacity building	2002-2005	Euro 10 million for all ACP countries	Trade Negotiations (WTO) / Regional Integration / Multilateral Trade System
	Strengthening Fishery Products' Health Conditions in ACP/OCT Countries: the overall objective of the programme is to maximize income by the development of commercial exchanges leading to the optimal use of ACP/OCT States' fishery resources. The aim is to enhance access of local fish products to the global market by strengthening health check systems for export and raising production conditions in all beneficiary countries in a sustainable way	Global window for ACP countries - Project	2002-2007	EURO 45 million for all ACP/OCT countries	Sanitary and Phyto-sanitary /Fishery Sector
	Pesticides Initiative Programme (PIP): the overall objective is to contribute to the development of the ACP private sector and to promote regional integration. Its particular attention to the situation of SMEs contributes to fighting poverty. The programme aims at providing specific responses to ACP fruit and vegetable producers and exporters confronted to difficulties of adaptation to the EU regulations and health and safety standards.	Global window for ACP countries – Project – Capacity building	2001-2006	EURO 28 million for all ACP countries	PSD / Horticultural sector / SPS
	Expanding Exports Helpdesk: it is an interactive resource for exporters' developing countries (http://export-help.cec.eu.int) to facilitate access for their exports to EU markets. Information on EU preferential import regimes, detailed trade data for EU and MS, platform of dialogue between exporters in the developing world and EU importers, links to authorities and organizations involved in practical trade operations and promotion, SPS, etc.	Global window for developing countries – Facilitation of dialogue – Information dissemination			Import Tariffs / SPS / RoO / Customs

Donor	Name and description of Activity	Type of Activity	Time Frame	Funding amount	Trade Related Area
	Assistance to Kenya Task on Horticulture (KTFH) to introduce US norms, standards, and good practices among producers of the 14 identified horticultural products for export to the US	Trade support facilitation	2004/2005	1.6 million	Trade Promotion
USAID/Kenya (Design Phase – Details to be developed in Collaboration with GOK)	Assistance to create a one-stop Investment Authority	Capacity building	2004/2005	300K	Trade promotion
	Assistance to the Kenya Bureau of Standards (KEBS) in the fight against counterfeits and training of customs officials, police and judges in the enforcement of anti-counterfeiting laws	Trade promotion	2004/2005	330K	Investment
	Workshops/seminars on AGOA/GSP; WTO; Intellectual Property Rights; US market accessibility requirements and market determined norms and trade mission to US for horticultural producers.	Trade support facilitation	2004/2005	200K	Trade promotion
	Assistance to Ministry of Trade and KEPHIS to prepare Pest Risk Assessment for horticultural products promoted for US market	Trade support facilitation	2004/2005	500K	Capacity building
	Assistance to KTFH to develop and implement time-sensitive policy and transactional constraint matrices for export product	Capacity building	2004/2005	135K	Capacity building
	AGOA and Customs Assessment	Diagnostic study	2004/2005	50K	Technical assistance and trade support

Elements of future EC response:
Trade sector holds key to Kenya's development. Its significant contribution to the GDP and foreign exchange earnings and employment creation through forward and backward linkages underscores this fact. The handicaps impeding its development therefore need to be addressed. In particular issues relating to infrastructure and ICT and agriculture and rural development needs to be articulated in these core areas of 10^{th} EDF programming. EC's future response in the trade sector could therefore be focused on the following interventions:-

- Programs targeting sector specific supply side constraints: Support targeting intervention geared towards enhancing value addition, improving competitiveness and diversification of exports. The sectors identified for these interventions include horticulture, tea, coffee, fisheries, livestock and livestock products, sugar, cotton and textile and cereals.
- Trade logistics: Support targeted at improvement of customs documentation and clearance procedures, Port services, rail and road network, transportation system.
- Standards and conformity assessment: Review of legal and regulatory framework, capacity building of SPS institutions (KEPHIS, KEBS and DVS), private sector SPS and Good Agricultural Practices awareness creation and capacity building for conformity.
- Trade related legal and regulatory reforms: Support towards formulation of the national trade policy framework, strengthening of the mechanism for coordination of trade policy formulation, implementation and monitoring as well as trade facilitation. Support towards establishment of capacity to implement regional and multilateral agreements (domestication of regional/multilateral commitments through legal and regulatory reform.
- Budgetary support: Budgetary support aimed at fiscal reform geared towards broadening of the tax base and stimulating economic growth.
- Support for trade in services: Preparation of a national policy framework for trade in services, capacity building support targeting legal and regulatory reform and mechanism for coordination of trade in services, institutional capacities for production and promotion of tradable services.

Capacities to address:

There exists an institutional framework in form of government ministries, private sector associations and regional associations to implement various interventions. The institutional framework however lacks adequate capacity. Capacities of various institutions to implement components of the above interventions will need to be enhanced based on the implied responsibilities.

GOOD GOVERNANCE AND SUPPORT TO NSAs

Definition /Scope:
Good governance should be understood as broadly defined, relating to the capacity of the state to deliver services to its people. But Governance can be political /democratic, economic, corporate, social and environmental governance. Economic governance (macro-economic issues and Public financial management issues) and corporate governance will be "covered" under the CSP chapter on macroeconomics and budget support. Social and environmental governance, related to health, education, and environment thematics will be mainly addressed in other programmes but could also be supported under this theme. EC assistance in the field of democratic, social and economic governance must be absolutely coordinated and interlinked. This analysis mainly looks at political governance in the country.

Description:
The Governance section includes Democracy, fight against corruption, Rule of Law, Justice, order and security, elections, legal reform, human rights and fundamental freedoms (incl. Gender as a sector), local government and support to Non-State Actors (incl. civil society organisations, CBOs, research institutions, etc).

As indicated in the Governance communication of 30th August 2006 (and in the related Council Conclusions of 17th October 2006), "democratic governance (…) simply affirms the rights of all citizens on the road to sustainable development. It includes respect of human rights and fundamental freedoms (including freedom of expression, information and association), support to the democratisation processes and the involvement of citizens in choosing or overseeing those who govern them, respect for the rule of law and access for all to an independent justice systems, and access to information. A democratic government is one that governs transparently and is accountable to the relevant institutions and to the electorate (…).

Governance: a priority for all: The question is not 'Should we support Good Governance?' (was accepted by all 79 ACPs who agreed on Cotonou).

- GG is at the heart of our programming for the 10th EDF.
- A pre requisite to development (European Consensus, Strategy for Africa)
- To reach the MDGs, progress towards governance is crucial and decisive.

Current issues and main challenges:
<u>General:</u>

- GoK commitment to good governance and fight against corruption
- Culture of impunity
- Constitutional review stalled, weak Parliament capacity - slow legal reform process. (The vision for GJLOS reform –see below- is underpinned by the current constitution while the country strives to develop another constitution that is more responsive to her development needs.
- Weak capacities and obsolete systems
- Difficult decentralisation
- Status of Civil Society, weak leadership and internal tensions
- Difficult relationships between Civil Society and with Government
- Private sector's dialogue with Government now institutionalised.

<u>Sector related / only a few examples:</u>

- High levels of corruption including grand corruption, weak prosecution systems, limited access to Justice, Human rights violations (including in prisons and by the police), prison congestion, high level of insecurity and crime, etc.

<u>Climate:</u>

- next elections (2007) results

<u>Process /Management challenges:</u>

- Lack of baseline data to enhance M and E (need to better monitor)
- Donor coordination/synergies/specialisation

- Procurement systems under GJLOs, and to support NSAs in the sector to be more flexible and rapid
- Insufficient capacity of reform implementers

Challenges as described in the GJLOS Medium Term Strategy:

- Governance challenges - Pursuing a new constitutional order; Embedding human rights in the justice discourse; Fighting endemic corruption; Strengthening institutions and enhancing sector coordination; Reorienting public service behaviour in support of reform
- Justice challenges - Enhancing access to justice; Strengthening the weak legal and justice regimes that constrains private sector development; Addressing prison overcrowding and alternatives to rehabilitation
- Law and Order challenges - Systematically tackling insecurity and crime; Restoring public confidence in law and order institutions; Arresting small arms trafficking and usage; Reducing prisoner recidivism; Tightening immigration and border control, including human trafficking; Linking criminal justice and registration systems

Institutional framework:

Main stakeholders: Most of the state stakeholders in the sector (except, notably the Parliament, and the Electoral Commission of Kenya) are gathered under the GJLOS umbrella programme. Other crucial stakeholders are the NSAs active in the GJLOS areas. GJLOS Stakeholders**:** Institutional framework: The GJLOS programme's institutional framework was formulated in a way that clearly depicts a logical fit and relationship among all the programme institutions.

i) *Interagency Steering Committee – IASC*- (at minister level: oversee sector reform policies, and provide political, policy and overall strategic leadership),

ii) *Technical Coordination Committee –TCC*- (translates policy and communications from the IASC into specific directions and advisories on GJLOS reform programme implementation). The TCC has a sub committee (Management Committee) that is entrusted with the day-to-day executive decision-making, programme oversight, monitoring and coordination on behalf of the TCC;

iii) *The Ministry of Justice and Constitutional* Affairs - has a twin role on the programme: i) is the coordinating ministry for the overall GJLOS Reform Programme, and ii) it is, like other GJLOS institutions, an implementing institution with a GJLOS reform role and mandate.

iv) *Individual GJLOS sector institutions/implementing bodies*: more than 30 other bodies: ministries and departments involved, Judiciary, and Semi-autonomous Government Agencies (SAGAs) and independent institutions such as the Kenya Anti-Corruption Commission (KACC), the Kenya National Commission on Human Rights (KNCHR) – are responsible and accountable for policy, activities and outputs planned and elaborated in annual work plans and budgets for the programme within their respective institutions.

v) *Thematic Groups* – multi-sectoral, cross-departmental thematic groups have the role of spearheading and coordinating the implementation of the programme activities, and achievement of target outputs and outcomes in their respective Key Thematic Areas. Seven thematic groups are in place according to the following themes:

- Theme 1: Ethics, Integrity and Anti-Corruption
- Theme 2: Democracy, Human Rights and the Rule of Law
- Theme 3: Justice, Law and Order
- Theme 4: Public Safety and Security
- Theme 5: Constitutional Development
- Theme 6: Quality Legal Services to Government and the General Public
- Theme7: Capacity for Effective Leadership and Management of Change

vi) *Development Partners Coordination Forum* - This forum, which is formally titled GJLOS donors group, permits international development partners to coordinate their efforts in support of the GJLOS reform programme.

vii) *Private Sector Forum* - is the means by which the private sector engages with the programme and also provides the sector with a formal, unified forum within which to independently track and monitor the programme's progress.

viii) *Civil Society Forum* – is the means by which the civil society participates in the programme and also provides civil society with space to independently track and monitor the programme progress, or play an independent "watchdog" role.

ix) Programme Coordination Office - supports the TCC in the coordination of the programme implementation, through ensuring the timely, effective and sustainable implementation of the programme, including quality assurance, technical advice and operational support to implementation by sector institutions.

x) *Financial Management Agent* - acts for the Basket Fund Development Partners in matters of financial management, procurement and reporting.

Other important Democratic Governance stakeholders notably include the Kenya National Assembly, the independent Electoral Commission of Kenya, local Authorities (not involved directly in GJLOS) and Non-State Actors (involved in GJLOS but not financial beneficiaries of GJLOS). They also need to be considered, as well as their relations with the GJLOS programme.

Cooperation mechanisms: GJLOS Programme is the main cooperation mechanism for the sector, with its Medium Term Strategy and annual work plans (common documents for over 30 government departments and agencies, and 15 donors) – see below. EU and other donors are currently exploring the setting up of a new mechanism to support NSAs active in and around GJLOS. Another mechanism, related to Civic Education, is the National Civic Education programme /Uraia (phase II), only funding Civil Society organisations, and funded by several donors. The Gender in Governance Programme (GGP), also supported by several donors, is looking particularly at gender issues. There is also a joint funding mechanism that is currently being constituted around electoral processes, which will provide support around the 2007 elections. In addition, donors are coordinating their support to Parliament along the Kenya National Assembly's strategic plan (project approach, no real joint cooperation mechanism).

Funding: Related to GJLOS: GJLOS funds are mainly covered under the PSLO - Public Safety Law and Order- budget category (in the MTEF/National budget), and by IDPs (basket funds and direct /earmarked donors). GJLOS is not yet an MTEF category, but please note that GJLOS MTS indicates that "*In the medium-term, Government will consolidate the sector-wide GJLOS reforms in national policy discourse by establishing a formal GJLOS sector that will bid for public resources – in competition with other priority sectors - through the MTEF budget process"*. The overall GJLOS budget for 2006-2007 is about Ksh 4.8 billion with 55% paid by GoK, (other by donors, from a basket fund or direct contributions)

SWAP: GJLOS is a SWAp + there is also a current attempt by donors and NSAs to set up a separate but related facility for NSAs active in and around GJLOs.

Medium Term Policy Objectives:
Governance is one of the four pillars of the ERS: "*Strengthened institutions of governance, through appropriate anti-corruption legislation, better rule of law via a strong Judiciary, enhanced local governance through devolution as recommended in the present constitutional review process and sweeping public sector reform";*

The Government objectives have been set in the GJLOS Medium Term Strategy paper (which was approved after a wide consultation process). The ECK, KNA, local authorities objectives as well as NSAs objectives are also to be taken into account.

The GJLOS Programme
"The GJLOS reform programme is a wide-ranging and cross-institutional public sector reform initiative launched by the Government of Kenya in November 2003. It forms an integral part of Kenya's recognized national policy instrument for the ERSWEC. Led by the Government though the Ministry of Justice and Constitutional Affairs, the mission of GJLOS is to reform and strengthen GJLOS institutions for enhanced protection of human rights, efficient, accountable and transparent governance and accessible justice.

As mentioned above under institutional framework, the GJLOS programme supports over 30 Government departments and semi-autonomous agencies, including the Kenya Anti-Corruption Commission, the Kenya Police, the Kenya Prison Service, the Judiciary and the Kenya National Commission on Human Rights.

GJLOS vision, "A safe, secure, democratic, just, corruption-free, human rights respecting and prosperous Kenya for all". GJLOS Mission: "to reform and strengthen sector institutions for enhanced protection of human rights, efficient, accountable and transparent governance and justice".

The development goal of the GJLOS programme is to improve the quality of life for the people of Kenya, especially the poor, marginalised and the vulnerable. This goal is consistent with the ERS which is itself based on an agenda of equitable growth and poverty reduction. Importantly, the GJLOS programme goal targets improved quality of life for the poor, marginalised and vulnerable, which today comprise a majority of the Kenyan population.

The key objective of the Medium Term Strategy of the GJLOS programme is to improve governance, justice, law and order. And because of its broadness, the programme purpose requires a SWAP approach.
In this regard, the achievement of this purpose will be sought through six key result areas.

These key result areas are deliberately designed to be sector, rather than institution-specific, in order to emphasise the sweeping and cross-cutting nature of the GJLOS programme. The results areas are:

- KR 1: Responsive and Enforceable Policy, Law and Regulation;
- KR 2: Improved Service Delivery by GJLOS Institutions;
- KR 3: Reduced Corruption-Based Impunity;
- KR 4: Improved Access to Justice especially for the poor ,marginalised and vulnerable;
- KR 5: More Informed and Participative Citizenry and Non State Actors; and
- KR 6: Effective Management and Coordination of the GJLOS Reform Programme.

It is critical that GJLOS (see below for more info) prioritises sector-wide reforms in order to inform resource allocation within Government's Medium-Term Expenditure Framework (MTEF).

Government has prioritized the following:

Reforms	Main objectives	Example of main target outcome
Governance Reforms	intensifying the ongoing fight against corruption in a systematic and legally enforceable manner	reduced overall corruption, and improved overall governance.
Human Rights Reforms	primarily empowering the poor, marginalised and vulnerable members of society, through promoting rights-based approaches across the sector	expanded information about rights and information about legal assistance, and better empowered victims.
Justice Reforms	promoting equal access to justice for all, including reform of commercial law to promote private sector development.	greater access and confidence among Kenyans in the justice system, lower costs of doing business, minimised pre-trial detention, and more outcomes that contribute to community well-being.
Law and Order Reforms	crime prevention and broader police and penal reforms.	enhanced safety in private and public spaces, greater public confidence in the police, and improved living conditions within prisons
Reform-Oriented Capacity Building	sector-wide attitude and culture change.	enhanced GJLOS capabilities and increased public confidence in GJLOS institutions.

Performance of the EC assistance – results, instruments, management and coordination, complementarity:

Despite crucial needs, EC Assistance in the sector has been limited in this sector (related to the overall amount of EC assistance to Kenya). The first Governance Project in Kenya (under 8th EDF, non focal sectors) was designed in 2001 under the Moi regime, and was only able to kick off mid-2003, once a new Government was elected, a ministry of Justice put in place, and a PIU hired. In addition, under 9th EDF, only 2 mio were set aside for « support to Non State Actors », but no additional envelope for Governance, Justice, democracy, etc. issues was foreseen. In spite of this, the assistance was characterised by a lot of dynamism (see below), while there were some difficulties linked to the sometime tense relationships between state and non state actors as well as weak capacities of a few beneficiaries.

The 8th EDF-funded EC Democratic Governance Support Programme (€6.6M) has been extremely dynamic since its inception (mid 2003). In 2005 all remaining commitments were prepared and contracted. Results /outcome /impact are already showing. In addition, the EC has been coordinating a reflection process, with other donors engaged in GJLOS (Governance, Justice, Law and Order Sector), NSAs and the Ministry of Justice and Constitutional Affairs, which culminated in the agreement by stakeholders to create a separated but complementary facility (multi-donor funded) aiming at supporting Non State Actors active around GJLOS. The DGSP programme will run until the end of 2006 and a final evaluation is scheduled. Results of the evaluation should feed into the CSP drafting process.

Management: PIU DGSP team has been very efficient and necessary. Coordination with donor groups GJLOS and NCEP was constant.

Complementarity: Duplication and/or overlaps were avoided and donor coordination and synergy encouraged (for instance the project with ECK and KNA is funded also by DFID, the pilot project on decentralised funds by CIDA). In addition, both supports to the Law Reform Commission (LRC) and the Kenya National Commission on Human Rights (KNCHR) are enshrined into GJLOS annual work-programmes (together with other donor funded support to GJLOS sector).

9th EDF Support to NSAs (6 mio €) difficult to evaluate has as not started yet (should start in spring 2007). Nevertheless the design of this project took a long time because of the tense political environment in 2004 and 2005 (corruption scandals unveiled, constitutional review, referendum, changes in government) which made the relations between state and non state actors difficult, the lack of GoK's commitment towards reinforcing capacities of NSAs, and because of a change in the Civil Society landscape itself (governance issues in the NGO Council for instance, lack of leadership and coordination in the sector). This requested for a redesign of the first draft project, and the Government approved to raise the envelope from 2 to 6 mio. The project will run in a similar way as DGSP and in some aspects, will build on what DGSP has achieved and pursue similar objectives (except that it will focus on Non-State Actors). The project was designed in such a way to focus on Governance issues (broad sense) and will be very much linked to GJLOS, NCEP and GGP (Gender in Governance Programme). Private sector NSAs will be supported under 9th EDF Support to Private Sector, and both projects will be interlinked.

Reform Progress:

The current governance reforms are part of the larger Government of Kenya's (GOK) initiative of implementing the Governance pillar of the country's Economic Recovery Strategy for Wealth and Employment Creation (ERS), 2003 – 2007. The Governance Pillar of the ERS calls for the strengthening of the institutions of governance, through appropriate anti-corruption legislation, better rule of law via a strong judiciary, enhanced local governance and public sector reforms. In recognition of the fact that these issues cut across various government institutions that have strong linkages and systematic interdependencies, the GOK's response was the adoption of a Sector Wide Approach (SWAP) to governance reforms. Hence, the GOK launched the GJLOS Reform Programme in November 2003.

After the unveiling of several corruption scandals in the course of 2004 (including Anglo leasing), beginning of 2005 brought some difficulties to the development of the sector wide GJLOS: the resignation of the Permanent Secretary Governance and Ethics, the resignation of Gladwell Otieno, CEO of Transparency International Kenya, and the sacking of Philip Murgor, Director of Public Prosecutions - three key outspoken leaders in the fight against corruption. The walk-out by Civil Society from a GJLOS workshop, who complained about GoK's lack or real fight against corruption, brought an additional hurdle to the roadmap towards a successful SWAP.

After frank discussion on governance issues at the Consultative Group meeting between donor and Government in April 2005, the production by Government of an anti-corruption Action Plan, after many consultations and redrafting of the GJLOS Medium Term Strategy (2005-2009) to incorporate Civil Society and donors concerns in the government plan, it seems that GJLOS gained strength from the crisis. The 2005-2009 Strategy and the 2005-2006 annual operation plan were approved in Autumn 2005. A special donor group was formed to monitor the implementation of the plan (this is being coordinated with GJLOS).

Nevertheless the position of PS Governance and Ethics was abandoned in the new Government organogramme (dating December 2005). In addition, other events including the Police raid against the Standard media group at the beginning of March 2006 raised questions on Government commitment to reform and brought additional difficulties between development partners, civil society and government in the implementation of the Programme. By definition the GJLOS programme is very much linked to the political environment and climate, and is thus expected to live through many challenges. Donors as well as NSAs have reiterated their support to the Programme, while monitoring progress very closely.

GJLOs: well advanced into SWAP like, but challenges incl. political climate and commitment, capacity and programme management, weak involvement of Civil Society
➔ <u>The GJLOS programme is not even three years old and has already achieved a lot. It will have to continue, obtain strong high level political backing, gain visibility and efficiency and involve NSAs better.</u>

But GJLOS is not all /Need to take into account other reform processes:

- National Anti-Corruption Plan and action plan (linkages with economic governance), 2006 Governance Action Plan (GAP)
- Parliament reform: <u>The KNA has embarked on a new Strategy but has been very slow in achieving concrete substantial results.</u>
- <u>Electoral reform: the ECK has gained in experience and efficiency notably through the organisation of the referendum late 2005.</u> While the <u>Electoral Commission of Kenya</u> is not part of the GJLOS Programme, it is certainly an institution which contributed to Governance in Kenya during 2005. ECK received in February 2006 a Human Right Award "*for the professional, efficient and effective manner in which the Commission delivered a transparent, credible free and fair national referendum to Kenyans in November 2005".*<u>It will have to accelerate its transformation and ensure complete independence from Government to be able to run the next general elections in a fair and transparent manner.</u>
- Local government / decentralisation
- <u>NSA: With the current issues at the NGO Council, CSOs finds themselves more scattered than before. They still need to organise their sector, strenghten their networks, capacities and leadership skills. The time will tell whether the NGO Council will be reborn from its ashes or whether a new general platform will be constituted (less likely). In the meantime, more and more sector networks have been formed and gain importance.</u>

And regional initiatives such as:

- APRM – Kenya has been fully participating in the process and APRM governance report and recommendations were published mid-2006.
- New National Anti corruption Plan and AC action plans. Links up with economic governance reforms.

Other significant progress are: the ratification by Kenya of the status of the International Criminal Court in March 2005, the reorganisation of the Department of Public Prosecution – but which still lacks capacity and staff, the adoption of new anti-corruption and ethics laws, the preparation of a draft National Crime Prevention Strategy and the development of Strategic Plans for the Ministry of Justice and Constitutional Affairs and for the State Law Office. On legal reform, while many new bills were drafted (notably bills on Political Parties, Witness Protection, Crime and Money Laundering, Anti-terrorism, Marriage, Sexual

Offences, Matrimonial Property, Domestic Violence, Gender Equality, Companies, Insolvency, Partnership, Landlord and Tenant, Small Claims Courts, Traditional Courts, Private Prosecutions), none had been adopted Parliament by the end of 2005. The Sexual Offence bill was adopted in spring 2006.

Status of cross-cutting issues in the sector
Gender is very well covered in all governance related programmes (GJLOS, DGSP, National Civic Education programme - NCEP, Gender in Governance Programme - GGP, etc). GJLOS: the programme integrates four crosscutting issues (children, gender, HIV/AIDS and the environment) at both strategy and work plan levels. Related bilateral donors supports to NSAs even include specific programmes for gender and child rights.

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 Kenya National Commission for Human Rights. Gender is specifically targeted in around one third of the 31 NGOs funded under DGSP. EC has also clearly mainstreamed cross-cutting issues in the 9th EDF NSA programme, which will have in addition some specific gender related activities. It is crucial that youth also be especially targeted in our governance programme.

Relations with macro-economic performance:
Good Governance is a prerequisite to Development. Governance programmes are crucial for Kenya's economic recovery agenda because the effects of poor governance, insecurity, inequality, limited access to justice and disrespect for the rule of law in Kenya on wellbeing of the citizens and its negative impact on economy are obvious and well documented. Corruption, financial irregularities, lack of transparency, accountability and political wrangles have had a huge financial cost in Kenya and certainly a impact on growth rates**.**

The ERS itself notes that "*poor economic governance, including high levels of corruption and poor management of public resources, is one of the key impediments to economic and social development. It undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends*".

It is crucial, then, that the governance programmes be viewed as the bedrock for reform because they address key variables of economic development, among them, improving the legal framework , improving institutional service delivery and systems that enhance governance and justice, enhancing access to justice and security by the poor and marginalised, promoting participatory governance, and enhancing respect for human rights. Put differently, the GJLOS programme (and other related programmes) underpins the necessary improvements in social economic and financial variables requisite for improved macro-economic performance. Indeed, the importance of governance reforms is such that changes in other sectors of the economy will have limited impact if the former is not implemented in tandem.

Donor coordination incl. Donor matrix – present and expected in medium term:
It is crucial that 10th EDF funding to governance coordinate with other donors active in the sector
- Many donors. for instance 15 supporting GJLOs
- Organised through The Democratic Governance donor group (DGDG): umbrella coordination structure.
- Assistance to NSAs not well coordinated, but towards less bilateralism with a future NSA GJLOS Facility.

The Delegation is involved in 6 donor forums. These are:
i). an umbrella meeting of donors on developments in <u>Governance and assistance to Civil Society</u>: the DGDG. Under this body, more specific donor coordination groups have been established and are very active:
ii) a 15-members' donor group supporting <u>SWAP GJLOS</u>.
iii) a special donor support group to the <u>Parliament</u>
iv) a new donor group on support to <u>elections</u> (in view of preparation for the 2007 general elections).
v) The Civic education group working with the multi-donor funded National <u>Civic Education</u> Programme II (which funds only NGOs).

vi) Corruption action plan - a special donor group formed after the Consultative group of 2005 monitors the GoK progress on the anti-corruption action plan.

➔ These groups interrelate constantly. Even though numerous, these initiatives have resulted in a tight donor coordination, and often joint actions with multi-donors actions and common positions, in respect of the Aid effectiveness principles agreed in Paris in March 2005.

Elements of a future EC response – lessons learnt, challenges:

Lessons learnt

a- What worked

- Supporting check and balances
- Project management: the « accessibility » and « independence »
- Flexibility (for instance flexible fund) which permitted adaptation to changing circumstances
- Good monitoring and evaluation
- Parallel capacity building including financial capacity.

b- Where improvement is needed

1. Need to increase the size of the assistance: Past EC assistance to Kenya in this sector has been too limited (EU is one of the smallest donors in the sector). EU European Consensus, Strategy for Africa and the new Commission Governance Communication (August 2006) are putting a great emphasis on good governance as one of the three pillars of EC development strategy. It is crucial that the EC increases its assistance to the sector, see as a necessary pre-conditions for Africa, and Kenya, to notably achieve MDGs.

2. Need to mainstream more: In addition, assistance in the past as been confined to a sector approach only. Indeed, Mainstreaming of good governance and support to NSAs in other sectors was crucially lacking, which led to weaknesses, for instance in Trade assistance (not sufficiently supporting NSAs involved in trade issues) and the Road sector (not catering for anti-corruption and better procurement mechanisms). Thus, both Support to Good Governance and rule or law and support to NSAs must be dealt with at two levels;

- **horizontal level as cross cutting issues**: mainstreamed in all the EC assistance to Kenya, including in focal and non focal sector, as well as macro-economic budget support (for instance anti-corruption in roads and health sector, or support to agriculture-related NGOs in the agriculture programmes)
- **vertical level, as a sector as such**: it is key that EC support is designed to i) fit with GJLOS and other related programmes

3. Need to concentrate more and more on support to Non-State actors. GJLOS for instance only support state activities in the sector, in the line of Strategy for Africa and European Consensus. Supporting NSAs active in GJLO sector would increase checks and balances, transparency and accountability. In addition, under 8th and 9th EDF Support to NSAs has been concentrating on NGOs, CBOs and private sector associations (and a bit on research institutions for instance in the agricultural sector). Nevertheless, the Cotonou definition of NSAs is much broader. Some exploration should be done on whether other NSAs such as Trade unions and other social actors, more research and academic institutions could not also receive support (as for the media in Kenya they are still a sensitive ground).

4. Need to rethink aid delivery mechanisms: First, where grants seem to be ideal for small NGOs for instance, they might not be the best instrument for entities such as the Kenya National Assembly. Service contract with private entities or grant with a non-profit sector working with the Parliament might be a better solution in the future. Another issue is the issue of whether the EC will be able to participate into pool funding that are not managed by the GoK, and if the new financial regulation will allow the EC to have its assistance managed by another donor, and is it can manage other donors' funds, which would facilitate donor coordination and reduce transaction costs (and be consistent with the principles of Paris Declaration on Aid Effectiveness).

Specifically, a discussion will have to take place on whether part of the EC assistance could (and should) be paid into the pool funding of GJLOS (managed by an independent financial management agent. Whether this aid mechanism is possible will depend on the new EC Financial Regulation, which is not yet adopted). In the Governance field in Kenya, many reasons still justify–at least for part of our assistance- the continuation of the Project approach (both independent projects, mainly for NSAs through grants and service contracts, and in the GJLOS SWAP through project enshrined in GJLOS but not paid by the pool funding).

5. Need to simplify procedures and grant application forms. The new Practical Guide of February 2006 already goes in this direction.

6. Need to ensure better outreach / rural and remote areas

7 Need to better coordinate between EDF and EC budget line tools (for instance the future EC Budget line support to Non-State Actors and democratic governance / thematic programme, which will be a global fund).

8. Need to coordinate more with other donors on support to NSAs

9. Need to improve project visibility/communication

The final evaluation of DGSP and the mid-term evaluation of GJLOS (both to be finalised end of December 2006) will certainly bring us some additional food for thought.

Challenges:
One of the main **challenges** will have to do with the elections results, the fact a newly composed government will come to power, and thus the uncertainty as to the future of Government commitments towards its relations with NSAs and good Governance reform. The CSP will have to be designed in a way that is flexible enough to cater for any new positive directions / initiatives taken by the new government, but also able to react to any potential setbacks. The donor community and the Kenyan citizens will expect more and more concrete government's actions (and results) against corruption. A failure to deliver will certainly bring about some changes in the political landscape.

Another challenge will be the finalisation of the constitutional review process (whenever that is – as it started 10 years ago and as political wrangles have prevented any positive outcome). While it is difficult to predict whether a new Constitution will be adopted by the end of 2007, a new fundamental law will certainly change the political and legal landscape in Kenya, and thus bring forward a new environment for EC funded project implementation.

Finally, it will be important to address the limited legislative capacity of the Parliament and the crucial need for adoption of a plethora or new reform bills (political parties, access to information bill, protection of whistle blowers bill, counter-terrorism bill, small claims court bill, Family protection bill, Matrimony Property Bill, Succession Act bill, just to name a few) – without talking about the enormous stock of new laws which will be needed once the new Constitution is adopted.

Elements of future EC response
Proposing a horizontal and vertical approach:
a) mainstreaming The idea will be to mainstream or integrate good governance, human rights, gender, conflict prevention in all sectors of EC assistance. In August 2006 the EC adopted a communication on governance, including recommendations on good governance and an assertion of the importance of regional organisations and the African Union. In the same year the EC also published guidelines on gender equality which recognise the importance of a balanced mix of men and women in the planning, decision-making and implementation of projects and programmes and of promoting participation by women in service delivery. The Commission also adopted the Communication "Towards an EU Strategy on the Rights of the Child" (COM(2006) 367).
We will have to make sure each relevant sector supports NSAs active in the area. Also a specific financial envelope should be set aside under each sectors to ensure mainstreaming.

- Mainstreaming Good Governance: example: in private sector, transport/roads programmes, education programmes for fight against corruption.
- Mainstreaming conflict prevention: for instance in rural development programmes in North-Eastern province.
- Mainstreaming gender: example: in our environment or justice programmes
- Support to NSAs: Examples: supporting NGOs in our Health programmes, Farmers associations in our agriculture programmes, CBOs supporting micro and small enterprises in our Trade programmes, etc.

b) vertical: GG as a sector: the concentric circle situation Several levels are to be targeted in order to support Good Governance and better accountability (mutual reinforcing)
We could recommend **one** overall programme, (or two programmes with one combined PMU or interlinked), including:
1. Support to GJLOs;
a) EC to participate in **basket** (pool funding in a SWAP) if possible and desirable (– this depending on the respect by Government of set benchmarks, and on the new EC financial regulation. This could also be participation in a Special account (moving towards sector budget support). This possibility is currently being studied by all donors involved in supporting GJLOS.
b) In parallel continue **earmarked support** to well-performing and/or reform-oriented institutions (GoK or SAGAs), (such as the Kenya National Commission of Human Rights, the KACC, the Law Reform Commission, the National Council of Law reporting Council, Prisons) and the separation of powers. In so doing, we would build on the achievements of the EC 8th EDF funded Democratic Governance Support Programme.

2. Supporting Governance-related institutions linked to GJLOs but not covered by it; Such as local entities (linked to our rural development programmes), Parliament, Ministry of Gender and National Commission on Gender and Development, Electoral Commission of Kenya (Kenya will most probably not be eligible for the thematic Programme), etc. Support to ECK would notably follow the recommendations of the 2002 Electoral Observations mission report, the 2007 EOM (if any) and work carried out under EC DGSP and by other donors between 2002 and 2007 (notably by USAID /IFES and the multi-donor programme managed by UNDP which started end of 2006). This should notably include work on the legal framework, elections administrations, and relations with the media.

3. Flexible fund supporting NSAs;

a) In and around GJLOs including specifics on, human rights and gender – support facility (most probably to start beginning of 2007) . This could include also a special "legal reform" fund to support organisations working with Parliament and lobbying Parliament on Legal reform and NSAs involved
b) other NSAs active in other fields (in addition or in complementarity with special support under thematic support programmes) (including private sector and research– even though the private sector organisations could also be covered under a private sector programme). NSAs should be considered in the broad sense of the terms: NGOs, CBOs, professional associations, social partners, research institutions, academics). This could include for instance NSAs active in the environment.

4. Supporting the efforts in the public sector reform. PSR is much linked to Governance. PSR in Kenya has already achieved a lot, for instance with the performance contract and results-based management which have been recently introduced in the civil service. Supporting PSR would neatly complement our support to GJLOS.

➔ Such a programme would also focus on institutional and capacity building of NSAs, as well as reinforcing their networking and cooperation capabilities and dialogues with government and development partners.

➔ Such a programme would i) increase donor coordination and coherence through the pool funding or Special account (in line with EC and Kenya's commitments in Rome and Paris Declaration on Aid Effectiveness ii) encourage performing and/or reformist Government institutions active under GJLOS iii) encourage independent bodies working on Governance issues outside of GJLOS iii) encourage NSAs active in but also around GJLOs, supporting vibrant Non-State Actors and their engagement in democratisation, complementing government reform action in the sector and making government more accountable iv) improve civil society leadership, capacity and internal governance v) bring additional flexibility to support interesting projects proposed by NSAs active in other sectors, including fastening law reform in Kenya.

Technical Cooperation Facility: an additional Separated programme will provide for a flexible fund for Technical assistance and Training /Capacity building to State as well as non state entities involved in EC cooperation (follow up to the current 9th EDF "Technical Cooperation Facility").

Capacities to address

The Government capacity is weak. What is crucially needed are:

- Human resources (mainly for monitoring and evaluation)
- Equipment in some cases (for instance most of judges still don't have access to computerised caselaw and legislation)
- Training in EC assistance and procedures

The NSAs capacity is also weak

- Weak leadership
- Difficulties to speak with one voice
- Weak human resources and low financial resources
- Sometimes internal governance or financial problems

PRIVATE SECTOR DEVELOPMENT

Description:
The Private Sector Development Strategy (PSDS) provides a mechanism by which the Government of Kenya will leverage and catalyze the implementation of strategic actions to enhance private sector growth and competitiveness; this will in turn contribute to the country achieving the medium-term objectives as outlined in the Economic Recovery Strategy for Wealth and Employment Creation (ERS) and also allows Kenya to meet her broader development aspirations, including the MDGs.

Underpinning this strategy is a key assumption that the private sector[16] will be a major driver of investment and growth in the economy through effective ERS implementation. While progress has been made in implementation of the Strategy, more effective implementation is required in order to alleviate constraints to private sector growth and achieve the targets in the ERS. The private sector continues to face numerous constraints including poor and costly infrastructure, insecurity, limited skills, bureaucratic regulations among others. This Strategy presents concrete measures to deepen and strengthen effective ERS implementation which will in turn unlock the potential of the private sector to develop and become competitive. The approach will be rooted in existing core systems and processes; it will also be sector specific, grounded in the framework and priorities of the Medium Term Expenditure Framework (MTEF) Sector Working Groups (SWGs).

The PSDS builds on the national development momentum already generated by the ongoing reforms and provides policy continuity. This continuity is crucial in order to improve predictability of the government's development agenda and elicit confidence from the private sector for long-term investment. The PSDS provides a clear mechanism to enable effective and better coordination of private sector development initiatives. It also provides a strong medium for public/private sector dialogue, and further provides a forum for development partner to participate in the formulation and implementation of private sector development initiatives.

The overall goal of the PSDS is to enhance private sector growth and competitiveness so as to contribute to wealth and employment creation. The purpose of the PSDS is to catalyse the provision of an enabling environment which will achieve the above overall goal. The main approach used by the PSDS is to fast track existing and new Government of Kenya initiatives through three areas namely:

- addressing constraints to public service delivery through catalytic activities;
- supporting faster implementation of macro-economic reforms in key areas – trade, deregulation, access to finance; and
- funding specific initiatives to fast track growth and competitiveness of MSMEs.

Institutional Framework – Organisational Chart, Coordination Mechanisms, Funding:
Institutional Structure: The institutional structure comprises the Cabinet at the apex, the PSDS Coordinating Committee (which will be assisted by a committee of technical officers from collaborating ministries, private sector and development partners) and the PSDS Coordinating Office, which will act as the secretariat. Figure 1 below provides an outline of the Institutional arrangement

- **Cabinet**: Provides the political leadership and direction of the PSDS process.
- **PSDS Coordinating Committee:** This will be the policy organ of the PSDS process. The committee will be responsible for coordination and monitoring of the implementation of the PSDS. It will provide vision and motivation to the process and will receive views and reports from its Technical Committee and make decisions to ensure that the objectives are being achieved
- **PSDS Technical Committee**: The Technical Committee will be a high level, inter-ministerial committee, with representation from the private sector and development partners. The Committee will provide technical guidance in the implementation of PSDS to both the PSDS Coordinating Committee and PSDS Coordinating Office.
- **PSDS Coordinating Office:** The Coordinating Office shall act as secretariat to the Coordinating Committee and will be the link between the Government, the Private sector and the Development

[16] The private sector can broadly be defined to include all commercial productive activities in the Kenyan economy, both formal and informal as well as on farm and off-farm activities.

Partners. The Office's mission will be to ensure timely, effective and sustainable implementation of the PSDS through effective collaboration of sector institutions.

- **Development Partners:** It is anticipated that **t**he Development partners will support the PSDS through the basket funding approach. The basket funding approach encourages development partners to channel their support through one agreed mechanism. It also allows the public sector to act as the counterpart-implementing agency. The mechanism would also provide a forum for the PSD Donor Group participation during formulation and implementation.
- **Sector Working Groups (SWGs):** The PSD Strategy will be implemented within the provisions of the Medium Term Expenditure Framework (MTEF) that focuses on the Sector Working Group approach. The SWGs provide fora for each ministry to have direct interaction with private sector stakeholders. The SWGs also serve as mechanisms through which the private sector engages the ministries with regard to deliverables.

Funding: The catalytic activities of the PSDS will be funded directly through the Coordinating Office, in close consultation with the respective collaborating Ministries. The Coordinating Office shall have its own budget for administration and operations that integrates both the government budgetary provisions and the development partner component.

Current Issues – Short- and Medium-term:

Short Term:

- **Poor Investment Climate**: To be addressed through the nine clusters of the Investment Climate Action Plan, namely: (1) Controlling rampant and escalating insecurity; (2) Addressing the poor state of roads; (3) Fast-tracking construction approvals; (4) Removing inefficient, unnecessary, unfriendly and cumbersome licensing; (5) Improving business registration; (6) Improving land administration; (7) Improving power hook-ups; (8) Updating the Company Law; and (9) Improving customs and tax administration.
- **Lack of structured dialogue between Public and Private Sector**: To be addressed through (1) Institutionalization of Public Private Partnerships (PPPs); (2) Restructuring and strengthening PPPs around the Sector Working Groups (SWGs); (3) Capacity building of private sector umbrella organizations/associations for effective dialogue with Public Sector.
- **Limited access to trade finance for MSMEs:** To be addressed through support to Micro Financial Institutions (MFIs)

Medium Term:

- **Poor graduation and evolution of enterprises**: To be addressed through: (1) Promotion of firm-to-firm linkages; (2) Provision of Business Development Services; (3) Support to value chain initiatives; and (4) Development and implementation of incubation programmes.
- **Low Productivity of Enterprises**: To be addressed through: (1) Enhancement of Labour productivity; (2) Improvement of capital productivity; (3) Promotion of Research and Development activities; and (4) Enhancing adoption of modern and appropriate technology.
- **Poor penetration of export markets and limited diversity of exports (base):** To be addressed through: (1) Capacity building and revitalization of trade facilitation and promotion agencies; and (2) Capacity building for trade negotiation skills.
- **Poor service delivery to the public**: To be addressed through: (1) Promotion of culture change in public and private sectors; and (2) Reform and strengthening institutions for better service delivery.
- **Inadequate and poor quality infrastructure:** To be addressed through support to the institutional and legal reforms in the infrastructure sector – Roads, Water, Telecoms, Energy, Rail, Ports and Airports.

Medium-term Policy Objectives:

The medium term policy objectives will be addressed through the two PSDS Strategic Objectives namely: (1) to create a conducive business environment for private sector growth by alleviating major constraints; and (2) to enhance the growth and competitiveness of the private sector, especially MSMEs.

Performance of EC Assistance:

- **Capacity building**: Performance of support in this area has led to: (1) Enhanced negotiation skills, (2) Improved collaboration and coordination between Ministry Headquarters and field officers; (3) Provision of IT equipment for the negotiating clusters; (3) Development of web-sites for information flow; and (4) Development of Local Area Networks (LAN).
- **Funding of sectoral studies for Economic Partnership Agreement**: **Negotiations**: Support in this area has led to: (1) Development of informed sectoral negotiating positions; and (2) impact assessment of previous trade agreements for remedial measures.
- **Facilitation of participation in Trade meetings/negotiations:** This has enhanced the incorporation of Kenya's interests in regional and multilateral agreements.
- **Information Dissemination:** Support in this area through adverts in local and international media; and trade publications have increased interest of the public in negotiations.

Status of On-going Reforms:
Investment Climate Action Plan: Under controlling rampant and escalating insecurity, there has been increased policy visibility, enhanced police competence through training, improving the technical capacity of the police force by providing adequate and modern equipment, and engaging communities in policing activities.

Under reforming business licenses, progress includes the establishment of the working committee on regulatory reforms for business activity in Kenya which has reviewed 1,347 licenses of which, it recommends that 737 will be simplified, 367 eliminated and 195 retained in current form and 48 are maintained pending review because they did not come to the attention of the Committee in time to enable thorough independent review.

Under business registration, business registration lead-time has reduced from 10 to 3 days. Computerization of the business registry is ongoing and customer service has improved.

Public Sector Reform Programme: The following have been achieved through the ongoing reform initiatives namely: (1) Development and implementation of Strategic Plans, Performance Contracts and Service Charters for public sector institutions; (2) Public Sector Integrity Programme – development of a Code of Conduct, enactment of the Public Officers Ethics Act, and Declaration of Wealth to discourage corruption; development of a Pay Policy for the Public Service; and implementation of e-government Strategy.

Status of Cross-cutting Issues:

- **Public Private Partnerships (PPPs)**: Current status includes (1) Establishment of a PPP unit at the Ministry of Finance; (2) Draft PPP policy has been developed; (3) Existence of Medium Term Expenditure Framework (MTEF) – Sector Working Groups
- **Gender Issues**: Currents status includes (1) Establishment of the Ministry of Gender, Sports, Culture and Social Services; (2) Development of a Gender Strategy; (3) Mainstreaming of Gender issues in all ministries through establishment of Gender Units; (4) Establishment of a Women Entrepreneurship Centre; (5) Strengthening of the Kenya Women Finance Trust; and (6) Women Enterprise Development Project under Ministry of Trade and Industry (MOTI).
- **Information Communication and Technology (ICT):** Current status includes (1) Development of a National ICT Policy; (2) Implementation of the E-government Strategy; (3) Draft ICT bill has been developed awaiting enactment by parliament; (4) Zero-rating of all imported ICT related equipment; (5) Liberalization of the Telecommunications Sector.
- **Environment**: Currents status includes (1) Establishment and implementation of Environment Management and Coordination Act (EMCA) 1999; (2) Establishment of the National Environment Management Authority (NEMA); (3) Mainstreaming of environment concerns in all aspects of developmental activities; and (4) Dissemination of importance of sustainable development
- **HIV/AIDS**: Currents status includes (1) Establishment of the National Aids Control Council; (2) Declaration of HIV/AIDS as a National disaster; (3) Launching and implementation of the HIV/AIDS work place policy; (4) Mainstreaming of HIV/AIDS through establishment of Aids

Control Units in all government Ministries; (5) Establishment of Voluntary Counselling and Testing Centres (VCTs)
- **Youth Concerns**: Current status includes (1) Establishment of the Ministry of Youth Affairs; and (2) Development of Youth Policy.

Relation with Macro-economic Performance:
- **Gross Domestic Product (GDP)**: Economy grew by registering a real GDP growth from 3.0% in 2003 to 4.9% and 5.8% in 2004 and 2005 respectively. Output in the manufacturing sector expanded by 5.5% in 2005 compared to a 4.1% growth in 2004. Tourism continued to record robust growth with arrivals increasing by 23% in 2005.
- **Balance of payments:** The trade deficit widened in 2005 following increase in imports by 33.7% which more than offset an increase in exports of 21.5%. Exports grew from KSh. 119,764 million in 2000 to KSh.. 159,061 million in 2004, a growth rate of 32.8% in the last five years or 6.6% p.a.
- **Interest rates:** Interest rates on Treasury bills were stable throughout 2005, with the 91-day Treasury bill rate remaining within the range of 8 - 8.5%, while the 182-day Treasury bill rate averaged around 9%. The stability was attributed to continued fiscal discipline and the confidence by the market participants that Government would contain its domestic borrowing requirements to the targeted amount.

Donor Matrix – Present and Expected in the Medium-term

No.	Broad PSDS Concern	Component	Development Partner	Status
1.	Business Environment	Investment Climate Action Plan	DFID	Ongoing
		(Licensing reforms)	World Bank Group	Ongoing
		Development of Blue Book on Foreign Investment	JICA, UNCTAD	Completed
		Formulation of the PSDS	DFID	Ongoing
		Business Sector Programme Support (BSPS) – improved Business environment	DANIDA	Ongoing
		Formulation of Counterfeits Goods Bill	USAID	Completed
		War on business malpractices	USAID	Ongoing
2.	Trade Expansion	Formulation of National Export Strategy (NES)	GTZ	Completed
		Diagnostic Trade Integrated Study (DTIS)	World Bank Group	Completed
		Regional Trade Facilitation Project		Ongoing
		KEPLOTRADE	EU	Ongoing
3.	Institutional Transformation	Public Sector Reform Programme	World Bank	Ongoing
		GJLOS Programme	EC, USAID, Donor Basket fund	Ongoing
		Kenya Trade Poverty Programme – Restructuring of MOTI and institutional linkages	DFID	Ongoing
		Digitization of Industrial data under MOTI	USAID	Ongoing
		Anti-Corruption Programmes	Donor Basket fund	Ongoing
4.	Productivity Improvement	BSPS – Improve Labour Market	DANIDA	Ongoing
		TIVET Programme	World Bank Group, UN	Ongoing
		Reform of Employment Laws	World Bank Group	Ongoing
5.	Enterprise Promotion	MSME Competitiveness Project	World Bank Group	Ongoing
		BSPS – Enhance competitiveness of MSMEs	DANIDA	Ongoing
		Development of an Industrial Master Plan	JICA	Ongoing
		Youth Employment Scheme (YES)-MSE	UNDP	Ongoing

Elements of Future EC Response, Lessons Learnt, Challenges:
Lessons Learnt and Challenges:
- **Disjointed approach to funding initiatives**: This has resulted to: (1) duplication of efforts; (2) reduced completion rates for projects; (3) skewed rate of development thereby reducing effects of synergy; and (4) lack of coordination leading to wastage of resources. The way forward is to adopt the Donor basket funding approach.

- **Lack of sustainability for Projects initiated**: This has been caused by: (1) lack of capacity building for implementing institutions; (2) lack of funding mechanisms and revolving funds; and (3) lack of ownership of programs through provision of counterpart funds.

Future Response:
The Implementation Matrix (**attached**) for the PSDS illustrates strategic activities that will require funding. The Government encourages all development partners, including the EC to fund any initiative within the PSDS.

Capacities to Address these:
The internal capacities within the Ministry of Trade and Industry, other public sector implementers and private sector association are weak. There are proposed strategic activities for capacity within the PSDS.

TOURISM SECTOR

Description:
The Economic Recovery Strategy for Wealth and Employment Creation (ERS) recognizes the Tourism sector as one of the major driving force towards achieving the national economic growth and development. The tourism industry is of essential importance for both the 1st and 5th pillar of the ERS. A slight growth in the tourism industry has a multiplier effect which stimulates growth in trade, transport, manufacturing, agriculture and other sectors of the economy.

The tourism sector grew by 15.1% in 2004. Tourism earnings increased significantly by 51.9% from KSh. 25.8 billion in 2003 to KSh. 39.2 billion in 2004 while international visitor arrivals grew by 18.7% from 1,146,100 to 1,360,700 the same period. Figures for 2005 indicate that the sector grew by 13.3%, international arrivals grew by 8.6% to 1,479,000 visitors while earnings increased by 24.7% to stand at KSh. 48.9 billion.

The Government continues to recognize the significant role that the tourism and wildlife sectors play in the economy. The Ministry of Tourism and Wildlife is mandated to make Kenya a preferred tourist destination and a leader in sustainable conservation and management of wildlife. The Ministry's core activities include;

- Policy Formulation and regulation
- Product development and diversification
- Tourism marketing and promotion
- Training and capacity development
- Investment – facilitating SMEs
- Tourist safety and security
- Conservation and management
- Standards and quality of service

Funding (MTEF)
The Tourism and Wildlife sector is grouped under the General Economic Services Sector for purposes of MTEF budgeting process. The sector is part of the key productive sectors earmarked by the Economic Recovery Strategy for Wealth and Employment Creation, (ERSWEC) and is expected to create and facilitate sustainable infrastructural environment for tourism development.

Despite its crucial role, the Tourism and Wildlife sector, has over the years received minimal allocation in terms of budget ceilings. For example in 2005/06 and 2006/07 Financial Years, the sector received a ceiling of KSh. 1.628 billion and KSh. 1.710 billion for recurrent and KSh. 0.16 billion and KSh. 0.168 billion for development respectively.

Current Issues:
Short term:

- **National Tourism Management Information System:** The tourism industry requires an accurate, up to date and regular flow of information and statistics to enable mapping out policies and strategies for improving sector performance and serve as an early warning system, indicating areas requiring appropriate attention and interventions. The sector therefore needs to create National Tourism Management Information System.
- **Tourism Satellite Account (TSA):** TSA Phase I and II have been completed. We need to develop Phase III which comprises of Household Tourism Expenditure Survey and Phase IV comprising of Business Survey and finally Capacity Building.
- **Tourist Security and Safety:** In an effort to ensure that tourists are safe throughout their stay, the Tourist Police Unit needs to be strengthened and adequately equipped
- **Security of Wildlife:** In an effort to counter illegal trade in wildlife and its products, the sector requires support to strengthen security units, enforce the law, capacity building, cross border liaison, and intensify surveillance.

Medium term

- **Diversification and development of tourism products:** The sector aims at moving away from the traditional safari/beach products towards the evolving of more diversified tourism products, which include sport tourism, cultural tourism, eco-tourism and MICE.
- **Concerted and sustainable promotion and marketing of Kenya as a global tourism destination:** This will entail development and implementation of robust annual marketing plans and strategies that adapts to the changing needs and preferences of the source markets.
- **Development and promotion of Domestic Tourism:** There is need to educate, inform and motivate Kenyans to discover, experience and explore their country and the diversity it offers. This can be achieved through identification, development, effective marketing and promotion of products that appeal to domestic tourists.
- **Research and Development (R&D):** A vibrant and thriving tourism industry will rely heavily on research and development. This will entail research on emerging trends, market and consumer surveys, product development and environmental issues. There is need for support to create and equip a functional and effective R&D unit in the sector.
- **Beach Management:** The quality of our beach product has been compromised by the presence of traders and degradation of the environment. The policy and regulatory framework is being put in place to address these shortcomings. There is need for an effective beach management programme that implements the policy and regulatory framework.
- **Standardization and Development of Skills:** The Government supports training for highly skilled manpower with a view to facilitating the provision of quality services in the tourism industry. However, these efforts have been compromised by diverse curricula being offered in the numerous training institutions that developed to fill the capacity gap. In an effort to harmonize these varied curricula, the government has established a legal framework and requires funding to implement it.
- **Involvement of Local Communities:** In order to ensure that local communities benefit directly from conservation and reduce the conflict between the host communities on one-hand and tourism custodians on the other, the sector will require support to develop Small and Medium Enterprises (SMEs) by local communities.
- **Hotels and Accommodation Facilities:** The growth in the number of tourist arrivals vis a vis accommodation remains a great challenge to the tourism industry. Hence the refurbishment, expansion of hotels and other accommodation facilities needs urgent attention.
- **Human-Wildlife Conflict:** The sector collaborates with the local communities in finding win-win solutions that benefit both the people and wildlife conservation and stem human-wildlife conflict. Some of the programmes that are key to success of this collaboration are fencing and translocation of wildlife. The government requires support to implement pending programmes.
- **Research and Development:** The Government has embarked on General Management Plans (GMP) for protected areas. There is need for support to enhance Research and Development to supplement the implementation of these plans.
- **Infrastructure in National Parks and Reserves:** Good infrastructure is an important prerequisite to the tourist experience. The Government is involved in the regular maintenance of infrastructure in national parks and game reserves but lacks adequate resources to fully address this requirement. Therefore, there is need for support to develop infrastructure in key tourist locations.

Medium-term Policy Objectives:

- Re-position tourism as the leading export sector making a substantial contribution to employment, GDP and foreign exchange earnings;
- Maximize tourism revenues by increasing the number of holiday tourist arrivals, their average lengths of stay and expenditure;
- Distribute tourism earnings widely throughout Kenya specifically to previously unexploited regions, with maximum participation of local communities
- Encourage the creation of a conducive tourism investment climate;
- Promote investment opportunities through the encouragement and development of private and community entrepreneurship in the tourism sector;
- Facilitate development and maintenance of infrastructure serving the tourism sector.
- Encourage participation by Kenyans in the ownership and operation of tourism enterprise;

- Increase community participation in the planning, development, management and implementation of tourism projects;
- Provide appropriate tourism education, training, awareness and capacity building programmes for local communities.
- Monitoring and minimize potential adverse social impacts of tourism
- Minimize the impact of human wildlife conflict
- Make the tourism industry in Kenya a Leader in responsible and sustainable environmental practices
- Ensure maximum co-ordination between conservation programmes of Government agencies and non-governmental conservation organization
- Develop facilities and products in national parks and game reserves in accordance with well designed park management plans
- Provide for the re-investment of revenues from park entry and other fees in the protection of the natural resource base as well as for distribution to local authorities and communities
- Promote and develop land resources for tourism in a coordinated manner so as to attract community participation and private investment in sustainable tourism development
- Develop integrated environmental management principles for all tourism and other major economic development project in conjunction with National Environment Management Authority.
- Develop cultural tourism based on Kenya's rich culture and history, and on the diverse traditions and hospitality of its people;
- Develop and maintain cultural attractions such as monuments, historical sites, handcrafts and other products.

Performance of the EC Assistance – Results, Instruments, Management, Coordination and Complementarity:
Tourism Diversification and Sustainable Development Programme (TDSDP):
- Commitment €12.0 mio.
- Funded under the 8th European Development Fund (EDF8)
- Results to date:
  - Drafting of the a new National Tourism Policy for Kenya;
  - Development of guidelines for Institutional and Legislative Reform in the tourism sector;
  - Provision of grants totalling KSh. 83.0 mio (€0.922 mio) to end of 2005, and forecast to provide grants to over 40 projects throughout Kenya to a total value of KSh. 262.00 mio (€2.91 mio) by the end of 2006:
  - Further commitments planned for 2007, subject to approval of an extension to the programme.

Tourism Institutional Strengthening and Market Promotion Programme (TISMPP):
- Commitment €10.0 million.
- Funded from Stabex 1992/93 Framework of Mutual Obligations.
- Results to date:
  a) Development and implementation of the very effective Tourism Market Recovery Plan (TMRP) 2003/04 at a cost of KSh. 210.00 million (€2.5 million);
  b) Funding grants approved for KTB's Annual Marketing Plans 2004/5, 2005/6 and 2006/7, to a total value of KSh. 520.0 million (€5.78 million)
  c) TMRP and the funding for KTB have made a very significant contribution to the 70% growth in visitor arrivals to Kenya by air & sea , which occurred between end 2001 and end 2005 (Numbers up from 492,731 at 31/12/02 to 832,229 at 31/12/05).
  d) Tourism earning increased from KSh. 17.8 million in 2001 to KSh. 48.9 million in 2005 (101% increase)

Management:
- Both Programmes are managed by the Tourism Trust Fund, founded by the Government of Kenya and the European Commission in Kenya 2002.

Co-ordination:

- The Programmes are developed in co-ordination with the public and private sector, including the Ministry of Tourism and Wildlife, Kenya Tourist Board, Catering & Tourism Development Levy Trustees, Kenya Utalii College, Kenya Tourism Federation, Kenya Association of Tour Operators, and other private sector stakeholders. Stakeholder participation in almost all programmes has been successfully encouraged.

Complementarity:

- Where appropriate, Programme interventions are designed to complement and support the initiatives of other donor Programmes, e.g. Community Development Trust Fund, the UNDP, and UNEP, although the level of complementarity has been limited.

Status of On-going Reforms:

- The Government has approved the National Tourism policy and drafting of a Sessional Paper on tourism and legislative bill has been initiated.
- Review of the Wildlife Policy and Wildlife Act is ongoing.
- The sector has undertaken one reform in the Licensing and Classification of Hotels. This is the amendment of the Hotels & Restaurants Regulations 2005 Legal Notice No 15 on the description of a Hotel or Restaurant to include "any premises where accommodation is offered with or without charge, including second homes used for holiday making owners, owners' household and friends, renting or leasing services involving own residential property as well as permanent rental of second homes, and premises referred to as cottage/villa".
- Review of policy and legal framework on the management of beaches in Kenya.

Status of Cross-cutting Issues

- *Infrastructure Development*: The current status of the road network is a major hindrance to the performance of the tourism and wildlife sector.
- *Security and Safety of Tourists*: The government has set up a tourist police unit which is addressing this issue in collaboration with other security organs.
- *Land Use Planning and Development*: Unplanned construction and over concentration of tourist facilities in fragile ecosystems poses a real challenge for the sustainability of the tourism and wildlife. Plans are underway to facilitate the creation of General Management Plans (GMP) in key conservation areas.
- *Conservation of Bio-diversity*: Environmental degradation has far reaching impacts on various sectors including tourism. There is need for effective and coordinated conservation and management of bio diversity.
- *Employment of Foreigners in the Sector*: Employment of foreigners in the sector will be strictly restricted to those jobs for which there are no qualified Kenyans. The sector will continue liaising with the relevant authority in the matter of issuing work permits.
- *Information and Communication Technology*: The current status of ICT is a major hindrance to the development of tourism industry.
- *HIV/AIDS*: The Government has identified HIV/AIDS as a major threat to the country's sustainable development. A study by the EPOS health management found out that the tourism sector is particularly affected by HIV/AIDS due to the nature of the industry.
- *Governance*: Good governance and rule of law is critical to the success of tourism industry.
- *Conflict prevention*: The tourism industry is ultra sensitive to tension and conflicts. The relative calmness in both domestic and regional environment has greatly boosted the growth of the industry.
- *Gender and youth affairs*: Empowerment of women and youth is paramount for the success and sustainability of the tourism industry. There has been increased participation of women and youths in the CBOs and SMEs.

Relation with Macro-economic Performance:

The Economic Recovery Strategy for Wealth and Employment Creation ERS recognizes the Tourism sector as one of the major driving force towards achieving the national economic growth and development goals. The sector contributes significantly to national income, foreign exchange earnings and employment. A slight growth in the tourism industry has a multiplier effect which stimulates growth in trade, transport, manufacturing, agriculture and other sectors of the economy.

According to the Economic Survey (2005), the sector contributed greatly to the national economic growth rate of 4.3%, with the sector growing by 15%. In figure terms, this amounted to KSh.. 39.2 billion worth of foreign exchange earnings. In 2005 (Economic survey 2006), tourism sector grew by 13.3% with earnings increasing by 24.7% to 48.9 billion.

Donor Matrix – Present and Expected in the Medium-term:

Donor Name	Project Name	Implementing Agency	Cost
UNDP	Tourism Satellite Account	MTW	$ 0.1M
EC	Tourism Diversification AND Sustainable Development Programme (TDSDP)	TTF	€12.0 M
EC	Tourism Institutional Strengthening and Market Promotion Programme (TISMPP)	TTF	€10.0 M
USAID	Wildlife Policy, Conservation Programs/ ICT	KWS/MTW	$3M
AFD/FFEM	Meru Rehabilitation and Conservation	KWS	€ 10.0M
JICA	Conservation Education	KWS	

Elements of Future EC Response - Lessons Learnt and Challenges:

Future EC Response:

- Promotion and marketing of Kenya as a global tourism destination.
- Diversification and development of tourism product – Ecotourism, Cultural tourism and MICE through Tourism Trust Fund.
- Beach Management Programme – Implementation of policy and regulatory framework.
- Research and Development – Sustainable coastal tourism project (TOURISM), Develop and maintain scientific database, Geographic Information Services and Meta databases to support management (KWS), Domesticate and adopt relevant international conventions, treaties and agreements (KWS).
- Infrastructure Development (Development of roads and social facilities in national parks and game reserves).
- Capacity building in the tourism institutions both public and private.

Lessons learnt

- The absorption capacity of small and medium size enterprises (SME) and community based organizations (CBO) is limited, mainly because:
  - ➢ New tourism product developments will only be sustainable if they are based on robust, well developed Business Plans;
  - ➢ There continues to be a need for capacity building in SMEs and CBOs.

Challenges

- To encourage the development of SME and CBO projects in areas that currently do not enjoy the benefits of tourism development. However, the scope for this is very limited until the problems of capacity building, infrastructure and security are adequately addressed.

Capacities to Address these:

The sector has human and institutional capacity in both the public and the private sector to address the challenges, demands and to effectively manage future EC assistance. However, there is need to enhance these capacities in line with future EC interventions.

HEALTH SECTOR

Description:
Performance in the health sector is key if Kenya is to achieve the Millennium Development Goals, as three of the eight MDGs are directly health related. Achievements in the health sector also have an impact on other social development targets as set out in the Economic Recovery Strategy. Health indicators have been showing a negative trend over the last decade, but positive signs are starting to show and the government aims at reversing the downward trend through initiatives.

The Government is providing health services to the Kenyan people through its facilities throughout the country. The privates sector is also very important as missions and other non-for-profit organizations make up roughly 40% of the service provision.

Institutional Framework:
A Co-ordination Framework was developed and agreed upon in 2004. The overall co-ordinating body of the health sector is the Joint Inter-Agency Co-ordinating Committee, which provides guidance on health with explicit links to other sectors. The JICC is chaired by the Minister of Health and should meet quarterly.

Under the JICC, there are technical ICCs, Inter-Agency Co-ordinating Committees, that meet on specific topics (malaria, TB, etc.). They are open to all interested partners, whereas the JICC has a specific membership with representation from various stakeholder groups. There is also the CCM, the Country Co-ordinating Mechanism for the Global Fund. This meets under the chairmanship of the Permanent Secretary. There is also the internal co-ordinating structure of the Ministry of Health, with the Provinces and the Districts playing different roles.

However, the institutional framework in its totality is under revision as the SWAP is progressing. Changes will be made both in the internal structure as well as in the external co-ordinating framework.

The private sector, non state actors, mainly private not for profit organisations make up 40% of the services provided. As such they are important partners in the health sector. At national level, the ministry is working towards including them in the ongoing SWAP process, but more can be done. At district level, the key forum is the District Stakeholders Forum that should be held in each district. This is the institutional mechanism for co-ordination between private and public services. The efficiency of this mechanism varies greatly between districts and between provinces. Efforts are made to co-ordinate with other funders at district level, in particular the CDF and LATIF.

In the MTEF, the health sector will receive increased funding from the GoK budget. For the budget year 06/07, 35 billion KES is allocated to the health sector, which is equal to 8.99% of total expenditure. It is foreseen that the sector allocation will raise to 43 billion KES in 08/09, equivalent to 9.4%. However, despite this positive development, it still falls short of the 12% as set as a target in the National Health Strategic Plan 2 until 2010 and even more so of the 15% that is the Abuja Declaration recommendation.

It should be noted that donors contribute with roughly 16% of the sector budget.

Current Issues:
The main issue at present is the move towards a sector programme in the health sector and the need to address all the issues that have been highlighted in the various groups. Key challenges relate to achieving:

- A sound expenditure framework and robust financial management system;
- Improved allocative efficiency, better affordability of activities and logistical feasibility of activities;
- Key reforms in decentralization, hospital and health financing;
- Full alignment of the NHSSP 2, the JPWF and AOP 2.
- Procurement capacity and procurement planning, in particular the key issue of reproductive health commodity security.
- There is a need for an improved monitoring system and for MDGs to be monitored regularly through the regular monitoring system.

Medium Term Policy objectives:
According to the NHSSP 2, the goals until 2010 for the sector are to:
- increase equitable access to health services
- improve the quality and responsiveness of services in the sector
- improve the efficiency and effectiveness of service delivery
- enhance the regulatory capacity of the Ministry of Health
- foster partnerships in improving health and delivering services
- improve the financing of the sector

Performance of the EC Assistance:
The EC has supported the health sector under the 6th and 7th EDF by providing funds to the Kenya Family Health Programme. At present, the EC is funding the District Health Services and Systems Development Programme (DHSSDP) through the 8th EDF. The programme started implementation in 2004 and will come to an end in 2007. The results are yet to be confirmed, but from the latest reports from the Programme Management Unit, PMU, it seems as if the funds will have been spent by end 2007. The total amount allocated to through the project to the districts in the Eastern and Central Provinces is 15 million euro.

The programme is implemented under the overall co-ordination of the Ministry of Health through a Programme Management Unit. As it is targeting the districts and the provincial medical offices in the Eastern and Central provinces, it has its main office in Nyeri with a smaller office in Embu to cover the Eastern districts.

The programme is trying to ensure that activities are not duplicated with other donors and is trying to support implementation of various reform initiatives by the Ministry of Health. However, it is still a more project-type of assistance that has a separate accounting and auditing process and a separate steering mechanism through a Central Steering Committee.

The EC is also supporting various NGOs through the thematic budget lines under health. These projects and the partners are selected by Brussels through a call for tender process. In Kenya, there are 10 health related projects operating at the moment implemented by various NGOs and/or international organizations.

Status of On-going Reforms:
The Ministry of Health has initiated a process to move towards a Sector Programme in the Kenyan Health Sector. A new National Health Sector Strategic Plan II 2005-2010 (NHSSP II) was developed in 2005 in a consultative process. This will be the overall framework of the Sector Programme. The objective of NHSSP II is: *to reduce inequalities in health care and reverse the downward trends in health related impact and outcome indicators*. This means focussing on rural and vulnerable populations in order to provide services for those most in need.

Since October 2005, several sub-groups have been working on various aspects of the Sector Programme, such as human resources, service delivery, public financial management, monitoring and evaluation, procurement and infrastructure (including information, transport and maintenance).

A Joint Appraisal Mission took place from 28 April to 5 May 2006, where the outputs of the groups were collated to form a "*Joint Programme of Work and Funding*" (JPOWF). This is a four year work programme where the development partners can "buy into" the activities under the SWAP. However, the SWAP is work in progress and there is not yet any mechanism for sector budget support or pooled/basket funding. This will be developed during the coming financial year.

Through the Sector Programme, other reforms will be implemented. There are a number of reforms that have not yet or have only partially been implemented to date. One of these is the decentralisation, which will be key under the SWAP. Furthermore, financial management reforms, linked to the overall government regulations and human resource reforms are under implementation.

Status of Cross-cutting Issues in the sector:
HIV/AIDS is by nature an issue that is considered in the health sector. However, the sector can certainly do more in terms of mainstreaming of HIV/AIDS aspects into the various policy documents, for example in the Annual Operational Plans and in the Joint Programme of Work and Funding.

The same challenge remains for gender issues. It is mentioned in the NHSSP 2 but no thorough gender analysis has been made of the sector and results translated into action in the AOPs. This is an area where the sector should consider strengthening the efforts in the coming years, through the annual plans.

Again in the area of human rights, there is no specific analysis in the various documents although a number of activities are being undertaken in the sectors to improve the situation. For example, a number of projects which are considered health projects are working towards abolition of female genital mutilation. Furthermore, health in itself is a human right and the government and partner work towards providing basic services to the entire population with an emphasis on poor and vulnerable groups is also aimed at improving the human rights situation.

Governance is a key issue under the SWAP and in the Joint Programme of Work and Funding. The majority of the systems strengthening efforts have as their aim to improve the reliability of the various financial management, accounting and procurement systems. In SWAPs governance is key and the future of the SWAP is dependant on improved governance in the sector.

As for environmental aspects, more could be done. There is no environmental analysis in the NHSSP 2, although there is a medical waste management plan in the sector.

Relation with the Macro-economic Performance:
The health sector has clear links with the macro-economic performance of the country, in the sense that the health status of people directly affects the capacity to absorb education and to lead productive and healthy lives. The HIV/AIDS pandemic has a negative impact on the economy, which is something that needs to be taken into account when discussing HIV/AIDS preventive and impact mitigating measures. In the macro-economic support, there is also a link to the health sector as the budget support tranches are triggered by the achievement of certain social sector targets. 4 of these, derived from the ERS, are directly related to health.

Elements of Future EC Response:
There is a strong case for supporting the health SWAP in Kenya. The results will be clearly linked to the Millennium Development Goals and to achievement of the social targets set out by the Government in the ERS.

Kenya's health SWAP is being developed. However, by the time of implementation of the new country strategy, the programme will be operational and funding modalities will have been decided upon. Decisions on funding modalities (sector budget support, basket funding etc) will thus be made at a later stage. Needless to say, there are pros and cons of any type of support. However, in a SWAP environment, it does not make sense to continue with un-coordinated project funding. Although the present EC supported programme is being implemented in faster than envisaged, and is trying to co-ordinate with other programmes and projects, it is still implemented in a project mode. If future support could be given through joint mechanisms, it will substantially decrease transaction costs on both the EC and the Government side, leaving more funds available for service delivery.

Capacities to Address:
Even in a Sector Programme with joint funding mechanisms, management capacity of the support will still be needed in the EC office. There may be less emphasis on administration and more emphasis on following the policy dialogue and donor/government co-ordination of the programme. Such capacity must be available in the Delegation.

On the Government side, the capacity to handle the SWAP is being assessed and the gaps identified. Under the Joint Programme of Work and Funding, capacity building measures will be developed to address any shortcomings both in the short and in the long term.

EDUCATION SECTOR

Description:
The education sector comprises the Ministry of Education and the Ministry of Science and Technology. The sector is mandated to coordinate the development of human resource through education, training, research, science and technology. In addition, the sector is responsible for provision and promotion of education and formulation of policy guidelines on education, science and technology.

Institutional Framework:
The operational environment of the education sector is governed by a set of core values which constitute the desired organizational culture. Other key partner ministries include Local Government, Home affairs, Labour and Human Resource Development, Gender Culture and Sports.

The sector is responsible for the development of sector policies, planning and regulations of the provision of education and training services by other providers. Currently, the organization at the headquarters comprises the office of the minister and two assistants. Technical services(Directorate of Basic Education, Directorate of Higher Education, Directorate of Technical Education, Directorate of Policy and Planning and Directorate of Quality Assurance & Standards)fall under the office of the Education Secretary while administrative departments (Finance, General Administration, Legal, Accounts, Personnel, Procurement, Internal Audit, and Public Relation) fall under the PS. There is the office of the PDE, the DEO, the AEO, the BOG and SMC at institutional level. The structure also includes a number of semi-autonomous Government agencies (SAGAs) responsible for the development and management of specialized areas of education and training.

Current Issues:
The overall education goal is to achieve EFA by 2015 in line with the national and international conventions. The sector is faced with the challenge of limited resources to achieve this goal. The Ministry has several key strategic issues, which relate to resource requirements. These include: access, equity, quality and relevance, completion and transition rates, affordability, management and teacher issues.

Greater private sector participation in the education sector is critical for the future expansion of education. The Sessional Paper No.1 of 2005 realizes that encouraging investment from the private sector will be essential for the sustained expansion of the sector. This will require a review of the regulative framework with regard to private school registration as well as quality assurance and supervision. The policy focus shall also be on relieving the constraints to increased private participation in education, in the areas of school financing and credit market access; land acquisition; tax policy and other possible incentives to make private education more attractive to investors.

Medium Term Policy Objectives:
The Ministry has set the following specific objectives, in cognizance of the national and international goals.

- Ensure that all children, especially girls, those in difficult circumstances, and those from marginalized/vulnerable groups, have access to free and compulsory primary education by 2010;
- Enhance access, equity, quality and relevance at all levels of education and training by 2010;
- Ensure all children with special needs attend school;
- Eliminate gender and regional disparities in primary and secondary education;
- Improve education and training quality so that recognized and measurable learning outcomes are achieved, especially in literacy, numeracy and essential life skills relevant to the world of work by 2010;
- Ensure that the learning needs of all, both youth and adults, are met through equitable access to appropriate learning and life-skills programmes by 2015;
- Achieve universal adult literacy, especially for women by 2015;
- Promote and popularize Information and Communication Technology (ICT) as well as Science and Technology education by 2008;
- Promote and popularize ODL at all levels of education and training by 2010;

- Improve the quality, efficiency and relevance of teaching, learning and research at universities and TIVET institutions by 2010;
- Increase the proportion of women in teaching, administration and research at all levels of higher institutions by 2010;
- Increase the proportion of persons with special needs in teaching, administration and research at all levels of higher institutions by 2010;
- Introduce new modes of operation which will provide linkages between all higher education and training institutions with communities by 2010; and,
- Ensure quality management capacities amongst education managers and other personnel involved in education at all levels by 2010.

Performance of EC Assistance (Results, Instruments, Management, Coordination, Complimentarity): Education has not been an EC focal sector in Kenya. However, the sector continues to receive some support from the Commission. Under the 7th EDF, the sector benefited from the Technical Education Support Programme (TESP) with total EC budget of about € 5 million. This successfully, financed Curriculum Development in Kenya Institute of Education (KIE), construction of the library, dormitories, kitchen, supply of equipment in Strathmore College and construction of library and classrooms, supply of technical equipment & books in Eldoret Polytechnic.

The Commission has also committed about € 3.8 million for community projects in the sector to improve basic infrastructure from 2001-2005 under the CDP II. In addition, a total of € 110,755 was used to support the Teacher Staffing Norms study in 2005 conducted by the TSC. Some of the recommendations of the study have been implemented while others are in the pipeline. Under the thematic budget lines, the Commission is supporting three education projects. Two of them are managed by Voluntary Service Overseas (VSO) and one by the Aga Khan Foundation at a total cost of € 3.1 million.

Status of Ongoing Reforms:
The Government in an effort to improve the delivery of education services has initiated a number of reforms which include:

- The disbursement of funds directly to primary schools under the FPE programme.
- The new teacher recruitment policy which is implemented on the basis of demand and the availability of vacancies and is decentralized to the district and school levels coupled with the new staffing norms to ensure efficiency and effectiveness in the supply of teachers to schools.
- The disbursement of bursaries to secondary schools for the needy through the constituencies.
- In the area of curriculum, reforms are being undertaken; and in the TIVET sub-sector, the modularizations of the syllabuses to make them flexible, to allow for progression is underway. At secondary school level, the syllabuses have been reviewed and rationalized to avoid overloaded curriculum. In special education, KIE has been adapting the curriculum for the special students in preparation of an all inclusive education. At teacher education level, the syllabus is being reviewed to make it relevant to serve the needs of student teachers more by allowing for some degree of specialization at the second year of training.
- The liberalization of the book trade to allow publishers to produce curriculum materials and provide for independent evaluators to coordinate the evaluation of school text books.
- The introduction of a Sector Wide Approach (SWAP) in relation to external aid as an attempt to reduce the wastage. A consequence of this SWAP planning process has been the development of the Kenya Education Sector Support Programme which is the country-led strategy for enhancing aid effectiveness, coherent sector development and donor co-ordination. This is a comprehensive sector programme, focusing on identified priorities, developed through an extensive consultative process. KESSP comprises of twenty three (23) investment programmes grouped around six (6) thematic areas (Financing, access, management, quality, retention, secondary, tertiary and higher education).

Status of Cross Cutting Issues in the Sector:
HIV/AIDS Issues: In the education sector children infected with HIV/AIDS at birth do not live to enrol in school. The number of orphans in schools is increasing as parents die from HIV/AIDS and

without appropriate interventions, the orphans will most likely drop out of school; some children will stay at home to care for sick family members. There are teachers dying from HIV/AIDS while others are too sick to work thus denying the sector of vital skilled human resources. The HIV/AIDS pandemic, therefore, threatens to undermine the country's achievements in literacy while increasing the drop-out rates, the number of poorly educated children, and the number of working children, which in turn undermines achievement of the EFA goals. The government is committed to mitigating the impact of HIV and AIDS on the sector. The Ministry will focus on prevention, care and support; HIV/AIDS and the work place; mainstreaming in the curriculum and management of the response.
Gender: There is lack of effective policies and programmes to main-stream gender in education system. The causes of these are: lack of policy on gender and education, lack of effective training programmes on gender issues, inadequate budgetary allocation to gender programmes, and poor water and sanitary infrastructure, especially for girls. Failure to address these issues has led to the problems of gender imbalance, low retention rates especially for girls, poor performance in national exams by girls and gender bias. To address this problem, the sector is striving at developing and implementing policies and programmes that main stream gender in education system. The strategies include: completion and implementation of Gender and Education policy, enhancement of training programmes on gender and education, provision of adequate budgetary allocation to gender and education programmes, establishment of a strong gender unit camp/resource centre, improvement and enhancement of the infrastructure for sanitation in schools.

Relation with Macro Economic Performance:
Providing education opportunities to all Kenyans is central to the Government's Poverty Reduction Strategy; and its development objectives as articulated in the various policy documents. It is expected to lead to the realization of a wide range of other important benefits including, increased economic growth, enhanced productivity across sectors, increased individual earnings, enhanced democracy and good governance.

The performance of the sector in reaching EFA and MDG goals is pegged on several outcomes as set in the IP-ERS indicator framework. These targets (NER, NER for NE, incidence of primary repetition, and Transition to Secondary Schools) have been used by the sector to guide the planning of their activities and outputs and by those providing performance-based funding to the sector.

Education resource requirements essentially consist of what is needed to meet the costs of operating the ongoing system in the most cost-effective manner possible, together with the development costs of improving and expanding the system to meet priority sector goals. KESSP reflects the totality of public investment and other development activities in the education and training sector, and is placed within the context of overall sector spending projections covering the full costs of operating the education sector.

Financing of Education and Training has been through partnership between the Governments, the private sector, NGOs, Communities and Development Partners. The average public spending on education and training has ranged between 5 and 7% of the GDP. Though the ministry gets over 29% of the overall government budget, it is still faced with challenges of access, quality, equity and HIV/AIDS at the various levels.

The government is committed to creating an enabling environment for private sector participation in order to create employment and wealth, thereby redefine the role of Government to that of facilitator and enabler rather than doer. Enhancing efficiency, effectiveness and accountability in the public sector so as to improve utilization of resources, simplify processes and reduce red tape.

The CDF is expected to have major positive impact on development at the grassroots. In addition to advancing the welfare of the people through community projects, CDF has a salutary effect on participation which is itself pivotal to empowerment of communities. A primary activity that should be undertaken is to establish rigorous measures of the extent to which different projects internalize benefits since its impact can be significant if the funds are efficiently utilized. Because the Fund benefits communities directly, it stimulates local involvement in development projects and as a result constituents have more information about projects funded under this program. CDF provides funding to a wide range of community based projects including school construction.

Elements of Future EC Response:
In the past education sector has been supported indirectly through General Budget Support (GBS) and the Community Development Fund managed by Community Development Trust Fund (CDTF), making it difficult to plan and secure funding for projects. Since the sector has successfully come up with an investment programme (KESSP) prepared through an all inclusive SWAP process, there is adequate justification to support it directly. Besides the GBS, there is need to have a Sector Budget Support so as to earmark some funds to support projects foreseen in KESSP. This will effectively assist the sector in achieving the MDGs and EFA by 2015.

Capacities to address:
The education faces a challenge of inadequate capacity at all levels. Currently, in the majority of cases, there are gaps between competencies and the responsibilities of those mandated to undertake provision of education. Although the education Management Information system (EMIS) is one of the 23 IP's in KESSP, it is an area which lacks capacity hence data gaps. There is thus need for capacity building for the staff.

Donor Matrix

	Development Partner	Implementing Agency	Original currency	Amount Allocated			
				Ksh. equi	2005/06	2006/07	2007/08
1	AGA KHAN FOUNDATION						
2	CIDA	CIDA	27.6 CND	1666 M	514	520	64
3	DAAD	DAAD	ON APPLICATION				
4	DFID		89.9				
5	EU		€ 4.41	387.9M	134.4M (€ 1.53)	74.5 M (€ 0.83)	29.2M (€ 0.33)
6	ILO/IPEC		1,500,500	112,537,500			
7	ITALIAN DEVELOPMENT COOPERATION						
8	JICA		180m Y	920M	120M	200M	200m
9	ROCKFELLER FOUNDATION						
10	UNESCO						
11	UNFPA						
12	UNICEF		8164000	612.25	1681000	1666000	1648000
13	USAID		$13,234,549	966	3.35	3.295	
14	VVOB		€ 320,000	27.2	10.227	9.53	7.044
14	WFP						
15	WORLD BANK		$100m	KSh..7.5 b	KSh..301.7b	KSh..101.7b	KSh..0.1b
16	GLOBAL FUNDS /MULTI DONOR INITIATIVES		$ 48.4m	3.63 b	1.815 bn	1.815bn	

ANNEX 11: KENYA'S 10th EDF INDICATIVE PROGRAMME – CASCADING LOGFRAME

10th EDF National Indicative Programme	Regional Economic Integration through Transport Infrastructure	Agriculture and Rural Development	Macro-Economic Support	Non-Focal Sectors: Good Governance and Support to Non-State Actors	Non-Focal Sectors: Trade and Regional Integration	Non-Focal Sectors: Support to Private Sector /Tourism
Overall Objective Sustainable economic growth and poverty reduction throughout Kenya						
Programme Purpose Improved conditions for sustained economic growth and equitable poverty reduction	**Overall Objective** Improved conditions for sustained economic growth and equitable poverty reduction	**Overall Objective** Improved conditions for sustained economic growth and equitable poverty reduction	**Overall Objective** Improved conditions for sustained economic growth and equitable poverty reduction	**Overall Objective** Improved conditions for sustained economic growth and equitable poverty reduction	**Overall Objective** Improved conditions for sustained economic growth and equitable poverty reduction	**Overall Objective** Improved conditions for sustained economic growth and equitable poverty reduction
Results • Transport infrastructure improved for enhanced regional integration • Increased ability of rural households to raise their incomes from commercial, competitive agriculture and livelihoods sustained • Enabling macro-economic environment for sustained economic growth promoted • Democratic governance improved by better performing governance institutions and strengthened Non-State Actors • Kenya's private sector expanded and strengthened • Efficiency of traded goods and services increased	**Sector Purpose** Transport infrastructure improved for enhanced regional integration	**Sector Purpose** Increased ability of rural households to raise their incomes from commercial, competitive agriculture and livelihoods sustained	**Sector Purpose** Enabling macro-economic environment for sustained economic growth enhanced	**Sector Purpose** Democratic governance improved by better performing governance institutions and strengthened Non-State Actors	**Sector Purpose** Efficiency of traded goods and services increased	**Sector Purpose** Kenya's private sector expanded and strengthened
	Sector Results 1. Regional roads upgraded 2. Traffic operations in City of Nairobi improved 3. All-weather accessibility in rural areas increased 4. Road conditions in game parks upgraded	**Sector Results** 1. Agricultural productivity and value addition increased 2. Internal and external marketed agricultural production increased 3. Food and nutritional security enhanced in less favoured areas including ASAL 4. Improved environmental management practices 5. Communities empowered through participation in demand driven programmes 6. Responsive and accountable service-delivery at local level 7. Legal and regulatory framework reviewed and enhanced	**Sector Results** 1. Macro-economic stability enhanced 2. Public funds pro-poor efficiently used and accounted for 3. Quality of education improved 4. Quality of health care improved 5. Quality public policy produced	**Sector Results** 1. Fight against corruption enhanced 2. Policy and legal reforms enhanced 3. Access to justice enhanced, especially for poor and vulnerable 4. Electoral process and civic education at all levels strengthened 5. Human rights and gender equity increasingly promoted and protected 6. Local governance improved 7. Institutional capacities and sector coordination of State and NSAs improved	**Sector Results** 1. Trade transaction cost reduced and competitiveness improved 2. Regional and multi-lateral trade agreements timely backed-up by national legislation 3. Coherent trade policy and implementation framework strengthened 4. Policy and legal framework for trade in services established and regularly reviewed	**Sector Results** 1. Investment increased including tourism 2. Competitiveness and sustainability of Kenya's trade and service industry including tourism (domestic, regional and global) increased

ANNEX 12: EUROPEAN INVESTMENT BANK

EIB FINANCING OPERATIONS IN KENYA:

- In the field of private enterprise development the Bank chose different approaches. It provided foreign currency loans directly to two large industrial companies, a steel manufacturer and a soda ash producer, financing capacity expansion and product diversification. To promote the smaller end of the private enterprise sector, it contributed to the capital of a private equity fund operating from Nairobi with a regional scope, managed by Aureos Capital, and to a Kenyan venture capital fund managed by Business Partners International. The outlook of these two funds in terms of promoting SME growth is promising and the Bank through its equity participation supports the burgeoning investment fund industry in Kenya.

- At a more significant level, the EIB has been assisting SME development by way of "global loans" – lines of credit under which commercial and development banks selected for their skills and interest in long-term lending can draw funds, in foreign currencies or in Shillings, for on-lending to the private sector. The funds are allocated to investment projects in a wide range of industry and services sectors, including education and healthcare. A total of EUR 155 m was made available through this channel under the fourth Lomé Convention, supporting the diversification and expansion of the Kenyan economy. The breakdown of allocations for the most recent global loan shows commercial agriculture and horticulture as the largest beneficiary (27 % of projects financed), followed by the food processing industry (13 %), manufacturing (11 %) and tourism (11 %). A significant portion of the funds had been taken up in EUR by companies exporting to Europe, in particular flower producers.

- The global loans play an important role in addressing the absence of long-term funds in the Kenyan financial markets resulting from investors' liquidity preference in an environment of high interest rate volatility and limited financial market depth. However, EIB's future global loan support is currently being challenged in the context of strong liquidity at the leading Kenyan banks. Notwithstanding the higher cash flow risks, businesses are prompted to enter into three to five-year loans financed from the banks' own liquidity at attractive floating rates. As a result, EIB's long-term fixed rate lending at present only addresses niche demand. A new global loan has been negotiated with a few intermediaries and will be signed in 2007.

- In the power sector, the EIB's activities centre around the implementation of two loan agreements signed in 2005 for a total of EUR 75 m from the Investment Facility, one for the expansion of geothermal power production and one for upgrading the power distribution network. The latter was granted to the Government of Kenya for on-lending to the national distribution company, and the former directly to the majority State owned power generating company. Through these loans the Bank provides support to sector reform and to the sound expansion of public infrastructure of vital interest to the economy. The Bank's intervention minimises the impact on Kenya's debt burden through taking direct exposure on the power generating utility without recourse to the State's budget, and through providing an interest subsidy for the loan to the Government in line with Kenya's agreements with the IMF.

EIB's RESPONSE STRATEGY

In general terms, the Bank's focus will continue to be on the provision of long-term financial resources for sound and productive investments in revenue generating sectors promoting private sector development and economic growth. The Bank is prepared to examine financing requests emanating from both private and public entities.

Considering the specificities of Kenya's economic situation and its past experience in the country, in the coming years the Bank will pursue its strategy and concentrate its operations in favour of the development of private enterprises and of infrastructure sectors. In particular, the following areas of possible intervention have been identified:

Private enterprise development:

- close cooperation with local financial intermediaries through global loans, to broaden the offer of term finance and support small and medium sized investment projects in a large range of sectors including commercial agriculture to foster rural development, food industry, manufacturing, tourism, and the human capital sectors education and healthcare;
- support to microfinance institutions to extend micro-loans and other financial services, promoting the ability of poor people to develop small-scale businesses alleviating poverty;
- direct funding of larger industrial projects as they arise, where the Bank can contribute value added in the technical and/or financial structuring of the investment.

However, the level of future support to the private sector is difficult to predict as the frequency of project proposals depends on investors' reactions to business opportunities.

Infrastructure

- financing infrastructure projects in the energy, water and sewerage, transport and telecommunications sectors, where the emphasis will be to help increase the efficiency of public utilities and encourage private sector participation if appropriate;
- In the framework of the EU-Africa Infrastructure Partnership, the Bank would be prepared to consider trans-border infrastructure projects in Kenya that could be eligible for support – notably through interest subsidies or the financing of technical assistance – from the Infrastructure Trust Fund. These projects will be carefully selected on the grounds of EIB's usual eligibility criteria. The Bank's possible financing decision will be subject to the outcome of a detailed appraisal carried out in compliance with the Bank's rules and procedures.

Within this general development strategy, interventions by the EIB will be in the form of senior loans or various risk capital instruments from the Investment Facility, or of senior loans from the Bank's own resources. The EIB will offer a wide range of financial instruments, from ordinary loans to guarantees and straightforward equity, or a combination of those, depending on the specificities of each individual project and on the outcome of a detailed appraisal which will be carried out in compliance with the rules and procedures of the Bank. Particular attention will be given to the projects' compliance with sound environmental standards in accordance with international directives and guidelines as well as NEMA requirements. The Bank will also offer support to developing the carbon credit potential of projects (selected on the grounds of EIB's usual eligibility criteria) that reduce greenhouse gas emissions.

ANNEX 13: REFERENCES AND RELEVANT DOCUMENTS

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