ECONOMIC SURVEY

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UNITS AND SYMBOLS USED

1. *K£ (Kenya pound) = 20 Kenya Shillings*
2. *Tonnes are metric tons = 1,000 Kg.*
3. *1 Hectare = 2.47 acres*
4. *Totals may not add up due to rounding*
5. "- " *means nil or negligible*
6. ".. " *means figures not available*
7. *mn = million.*

SUMMARY AND OUTLOOK

The International Scene

Overall growth in the OECD area slowed down to 2.2 per cent in 1998 from 3.0 per cent in 1997 as a result of the decline in aggregate domestic demand and declining business confidence. The financial crisis in Asia spread and deepened during the year. Russia, Japan and Brazil were hardest hit as their growth dampened considerably.

In the United States the growth momentum slowed marginally due to decline in exports and weaker business investments. Africa's growth rate during the year is estimated to have fallen to 2.4 per cent due to unfavourable weather phenomenon that hampered productive activities together with declining prices of chief foreign exchange earning commodities in the international markets. The European economies, on the other hand, continued to exhibit a strong growth rate from 2.6 per cent in 1997 to 2.8 per cent in 1998. This was mainly due to strong domestic demand and consumer confidence, low interest rates and inflation as well as limited effects of the financial crisis in emerging market economies. Japan experienced one of the worst recessions in recent times with its growth dropping sharply from a positive 0.5 per cent in 1997 to a negative 2.6 per cent in 1998.

The year witnessed slower growth in world trade from 9.2 per cent in 1997 to 6.1 per cent in 1998. This was mainly attributed to sharp falls in the demand of most commodities brought about by the turbulence in Asia and other emerging market economies, fall in international prices of primary commodities and general decline in aggregate domestic demand in major economies of the world.

The growth in the global economy is expected to fall to 1.7 per cent in 1999 before picking up to 2.2 per cent in 2000. In the medium-term, all countries will need to take appropriate measures to adapt their economies to external shocks. Prospects of further spread in the financial crisis abounds. Unemployment is expected to rise but inflation levels are likely to fall.

Domestic Economy

The year 1998 was characterised by a further slowdown in economic activities and stagnation in investment. Real economic growth in agriculture rose marginally from 1.0 per cent in 1997 to 1.5 per cent in 1998, while manufacturing declined from 1.9 per cent to 1.4 per cent. Financial and Trade, Restaurants and Hotels sectors were some of the most adversely affected.

Investments stagnated as a result of budgetary cuts, poor infrastructure, high interest rates, reduced donor funding and excess capacity. Per capita incomes dropped by 1.6 percentage points.

Inflationary pressures were contained within single digit at 6.6 per cent in 1998 from 11.2 per cent in 1997. A tight monetary policy aimed at controlling the growth of money supply and the availability of basic foodstuffs accounted for this development.

On the external front, the balance of payment surplus fell, due to a reduction in tourism earnings and slower growth in exports. The terms of trade marginally deteriorated as a result of higher import prices of equipment.

Growth is expected to pick up from 1.8 per cent in 1998 to 2.3 per cent in 1999. Adequate and reliable rains, tight monetary policies, expected renewed donor-funding, improvement in infrastructure and reduced interest rates are expected to stimulate investment and revive growth.

Revised Money and Banking and Balance of Payments Statistics

Money and Banking, Balance of Payments (BOP) and International Reserve statistics have been revised in order to reflect recent developments in the financial sector, especially the financial instruments used and to liberalisation. There was also need to implement the BOP fifth manual as recommended by the IMF and to improve the quality of statistics presented in respect of appropriateness of concepts, accuracy of measurement and usefulness for economic analysis.

In the revised data series, the current account of the balance of payments is redefined to exclude capital transfers, which are now included in an expanded and renamed capital and financial account. This change provides for a greater harmonisation and integration with the System of National Accounts in terms of underlying concepts and the identification of major aggregates. In the current account, a clear distinction is made among goods, services, income and current transfers. As a reflection of greater analytical and policy interest in data on international trade services, particularly in the context of the world trade organisation on services, considerable disaggregation has been introduced in the reclassification of international services transactions.

Employment, Earnings and Consumer Prices

The Kenyan economy generated 384,800 additional jobs to bring total employment outside rural small-scale agriculture and pastoralist activities to 5.1 million persons in 1998. Wage employment in the modern sector was adversely affected by the current recession and expanued by only 1.1 per cent to 1.7 million persons in 1998. The slight expansion was only in the private sector, as employment in the public sector declined by 2,900 persons due to the public sector reform programme. Employment in the expanding informal sector rose by 12.3 per cent to 3.4 million and accounted for 66.0 per cent of total employment outside rural small-scale agriculture and pastoralist activities in 1998.

The overall nominal wage bill increased by 23.3 per cent, rising from K£ 8,247.7 million in 1997 to K£ 10,170.3 million in 1998. Average earnings per person expanded by 25.1 per cent from K£ 5,004.6 per annum in 1997 to K£ 6,258.3 per annum in 1998. The easing of inflation, coupled with slight rise in the general wage level, led to a significant expansion in real average earnings from 8.5 per cent in 1997 to a growth of 17.3 per cent in 1998. There were 349 collective agreements registered with the Industrial Court in 1998. These agreements benefited 138,147 unionisable employees.

Overall inflation, as estimated by the Nairobi Consumer Price Indices, declined by 4.6 percentage points, from 11.2 per cent in 1997 to 6.6 per cent in 1998. The ebbing of inflation pressure is ascribed to a number of factors, among them the sustained slow-down in the expansion of money supply, the general stability of the Shilling exchange rate and

improved supplies of basic foods during the second half of 1998. Availability of low-priced imported consumer goods and low inflation prevailing in Kenya's main trading partners assisted in suppressing domestic prices for consumer goods.

Money, Banking and Finance

Growth in the financial sector decelerated in 1998 due to a depressed economy, high portfolio of non-performing loans in the banking sector, low investment in the stock market and reduced demand for commercial bank credit. The level of interest rates declined in 1998 following the decline in 91 -day Treasury Bills interest rate. However, lending rates remained high.

Net foreign assets declined by 8.8 per cent while domestic credit grew by 8.1 per cent. Money supply grew by only 3.3 per cent, which led to inflation rate falling from 11.2 per cent to 6.6 per cent. The minimum liquidity ratio was set at 20.0 per cent, but on average all banks maintained a liquidity ratio of 38.0 per cent.

The banking sector experienced a crisis during the year and as a result five commercial banks were placed under Central Bank's statutory management. Capital Markets particularly the Nairobi Stock Exchange also did not perform well, with the 20-share index falling below the 3000 points mark.

Public Finance

The Government's efforts to cut down on total expenditure is likely to yield positive results during the current fiscal year as indicated by a 20.0 per cent decline in expenditure, from K£ 15.642 million in 1997/98 to K£ 12,510 million in 1998/99. This is as a consequence of reduced redemption on public debt, which dropped from K£ 6,682 million in 1997/98 to K£ 2,337 million in 1998/99. This figure had skyrocketed during the 1997/98 fiscal year as most of the short term Treasury bills had matured and had to be paid off. As result of this, total expenditure as a percentage of GDP at market prices, is projected to drop from 49.9 per cent in 1997/98 to 27.3 per cent in 1998/99.

Revenue collection is expected to grow by 6.9 per cent in 1998/99 owing to taxation policies put in place together with the good performance of the Kenya Revenue Authority. However, due to the rapid growth in capital expenditure coupled with the low increase in revenue, an overall fiscal deficit of K£ 261.7 million or 0.7 percent of GDP is expected. This deficit is to be financed by domestic borrowing.

Short term borrowing in the form of treasury bills will record a 15 percent decline over 1997/98 following the Government's decision to convert some short term treasury bills into long-term floating rate treasury bonds.

International Trade and the Balance of Payments

The external sector, which embodies foreign trade and balance of payments, performed poorly in 1998 compared to the previous year as the balance of trade worsened owing to a marginal growth in imports while exports almost stagnated. The overall balance of payments deteriorated further to a surplus of K£ 228.7 million in 1998 compared to a surplus of K£ 336.2 million in 1997.

The volume of trade grew by only 2.5 per cent to stand at K£ 15,948.5. million compared to 13.5 per cent and 8.5 per cent growths registered in 1996 and 1997 respectively. The favourable terms of trade recorded in 1997 deteriorated in 1998. Terms of trade for all items and non-oil items fell by 2.0 per cent and 11.1 per cent respectively, further explaining the sluggish performance of the export sector. The slackening in the growth of exports and imports volume reflected the slow growth of the economy.

The unfavourable movement in the balance of payments is attributed to the widening current account deficit and reduced capital account inflows following the suspension of the IMF Enhanced Structural Adjustment Facility (ESAF) in July 1997 which adversely affected both bilateral and multi-lateral capital inflows. The current account deficit in 1998 stood at of K£ 1,225.4 million compared with K£ 1,107.9 million in the previous year.

Agriculture

The *El Nino* induced rains during the first half of the year boosted the production of tea, sugar cane, maize, and wheat while most crops recorded significant price increases. This led to an improved performance in the Gross Domestic Product of the sector in real terms from a revised 1.0 per cent in 1997 to 1.5 per cent in 1998. The adverse effects caused by the drought in the second half of 1998 hampered better performance in the sector.

There was maize bumper harvest in 1998. As the *El Nino* rains subsided, the effects of the *La Nina* (drought) phenomenon started being felt. This prompted the government to waive duties on maize imports resulting in commercial imports of 8.6 million bags of maize into the country. This development, coupled with bumper long rains harvest, resulted in maize market saturation with the effect of seriously depressing domestic maize prices. The value of marketed livestock and livestock products declined mainly due to livestock diseases during the first half of 1998 coupled with the drought in the second half of the year.

Production of coffee declined by 21.5 per cent from 68,000 metric tonnes in the 1996/97 season to 53,400 metric tonnes in the 1997/98 crop season. Tea production in 1998 was 294,200 tonnes, an increase of 33.3 per cent from 220,700 tonnes produced in 1997. Tea prices increased by 24.5 per cent from Kshs. 106.8 per kg in 1997 to Kshs. 133.0 per kg in 1998. Sugar cane production increased from 4.3 million tonnes in 1997 to 4.7 million tonnes in 1998. Fresh horticultural export volume decreased from 84,190 tonnes in 1997 to 78,373 tonnes in 1998, but the overall value increased by 11.0 per cent to K£ 499.5 million in 1998. Pyrethrum production (extract equivalent) continued to decline from 89.4 tonnes in 1997 to 67.4 tonnes recorded in 1998. However, pyrethrum prices (extract equivalent) improved from Kshs 3,600 per kg in 1997 to Kshs 5,200 per kg of pyrethrin in 1998.

In 1998, a total of 2,522 students were enrolled for agricultural courses in the four public universities namely Moi, Nairobi, Jomo Kenyatta and Egerton.

Environment and Natural Resources

The performance of the environment and natural resources sector, as measured by development expenditure on water and related services, changes in forest plantation and fish landings declined in 1998. Development expenditure on water and related services dropped drastically from K£ 153.8 million in 1997/98 to K£ 64.6 million in 1998/99. Fish production went down from 178,913 tonnes to 172,592 tonnes, a drop of 3.5 per cent, attributed to low production from marine sources and reduced demand in the European

markets. Rising demand for forest products continued to negatively impact on the efforts to improve forest plantation area. The continuous rise in demand for forest products meant that the forest plantation area continued to decline to 147,200 hectares in 1998 from 152,600 thousands hectares in 1997.

The sharp decline in water development expenditure was attributed to inadequate funding, under — collection of Appropriation in Aid (AIA) and the change in Government budgetary policy from increasing coverage to commercialisation of the sub-sector.

It is however noted that mineral production, which had declined since 1996, recovered in 1998. rising from 375,925 tonnes to 438,235 tonnes. This was attributed to improved production of salt and fluorspar.

Energy

Asia and the Far East is a crucial region for Organisation of Petroleum Exporting Countries (OPEC) as it accounts for 40 per cent of total OPEC's crude oil exports based on 1997 estimates. Most of the OPEC's past oil demand growth projections were based firmly upon the assumption of continuing fast economic growth in this region. The financial crisis experienced in most emerging market economies in the region in 1998 resulted in economic recession, which impacted negatively on the demand for petroleum energy. As a result of depressed demand, the OPEC and non-OPEC members held huge stocks of crude oil forcing the member countries to sell them at lower prices. Crude oil prices also declined from an average of US$ 19.0 per barrel in 1997 to an average of US$ 12.6 per barrel in 1998. The fall in prices forced OPEC and some non-OPEC members to cut their production as a short term measure to facilitate price recovery.

The quantity of crude petroleum imported into the country went up from 1.8 million tonnes in 1997 to 2.2 million tonnes in 1998. Exports of petroleum fuels dropped from 653,000 tonnes to 640,600 tonnes in 1998. This fall in exports was attributed to the preference of the neighbouring countries to import the products from other countries.

Total domestic demand for petroleum products increased marginally to 2, 293,200 tonnes in 1998 from 2,268,900 tonnes in 1997. The retail prices of petroleum products fluctuated in 1998 due to variations in the wholesale prices of petroleum products and international crude oil prices as well as fluctuations of the Kenya Shilling against major trading currencies.

The total electricity installed capacity went up by 7.6 per cent in 1998, as a result of entry of Independent Power Producers (IPPS) into power production. Demand for electricity by domestic and small commercial users was up by 8.2 per cent due to expansion of micro and small enterprises sector and increased human settlement in urban areas.

Manufacturing

The performance of the manufacturing sector remained subdued in 1998 as a result of the sector's inability to compete with low priced and subsidised imports into the local market, depressed local market demand as a result of sluggish aggregate demand and a combination of infra structural constraints. The state of roads worsened in the early part of the year as a result of the *El Nino* rains which increased freight costs and extended delivery times. In

addition, the high cost of credit, fish export ban to the European Union market, the Asian economic crises and quota allocation for Kenyan garments to USA all adversely affected the manufacturing sector. Consequently, the overall manufacturing real output growth slowed further to 1.4 per cent in 1998 from 1.9 per cent and 3.9 per cent recorded in 1996 and 1997 respectively.

As result of the general slowdown in the manufacturing sector, total wage employment expanded more slowly in 1998 than in 1997. Total wage employment was 216,887 persons, 1.1 per cent up from 214,491 persons in 1997. On the other hand, total wages paid in the manufacturing sector rose by 21.9 per cent from K£ 1,182.0 million in 1997 to K£ 1,440.8 million in 1998.

Total investments in Export Processing Zones (EPZ) increased by 11.1 per cent from K£ 225 million in 1997 to K£ 250 million in 1998. Total employment in the zones increased to 3,719 persons in 1998, of whom 3,645 were locals, compared to a total of 2,885 persons (2,824 locals) in 1997.

Building and Construction

Key economic indicators show that the unsatisfactory performance of the building and construction sector in 1997 continued into 1998. This was mainly due to the general slowdown experienced in the domestic economy in the last two years. Other factors contributing included high interest rates on borrowings which constrained growth in private sector investment in buildings, cuts in donor funds and inadequate funding from the Government for roads, buildings and other civil works. Consumption of cement, a key indicator of construction activity, declined by 5.7 per cent in 1998, while employment declined marginally. The construction cost index still maintained a single digit level. Commercial Banks loans and advances registered a decelerated growth from 43.7 per cent in 1996 to 31.5 per cent and 30.0 per cent in 1997 and 1998, respectively.

Road construction activities remained depressed in 1998 due to inadequate funding for construction of new roads, periodic and routine maintenance. The poor state of some of the roads experienced in the year was attributed to several factors namely, high axle loads, overloading and the *El Nino* weather phenomenon, which devastated some roads and bridges in the country. Total expenditure on roads rose marginally by only 1.0 per cent during 1997/98 fiscal year and is expected to rise by 10.6 per cent in 1998/99 due to allocation of more funds for both development and recurrent expenditure.

Tourism

The performance of the tourism sector further deteriorated in 1998. This was reflected in the fall in tourist arrivals and departures by 10.6 per cent and 6.1 per cent from 1,000,600 and 924,700 persons to 894,300 and 868,100 persons respectively in 1998. The average length of stay also dropped by 18.6 per cent. Consequently, tourism earnings fell by 22.7 per cent to stand at K£ 875 million.

Hotel capacity as well as hotel bed-nights occupied dropped by 16.2 and 42.7 per cent respectively in 1998 when compared to the previous year. The total number of visitors to parks and game reserves declined by 20.9 per cent while visitors to museums, snake park and other historical sites fell by 16.0 per cent.

Transport, Storage and Communications

During 1998, total receipts at nominal prices from transport, storage and communications sector went up by 4.8 per cent to K£ 3,806.4 million from K£ 3,631.5 million in 1997, which was below the 6.0 per cent rise recorded in 1997. The decline in output growth was attributed to the general slow-down of major economic activities during the period.

Despite an increase of 6.1 per cent in the registration of newly acquired motor vehicles, total earnings from the road transport sector declined from K£ 949.7 million in 1997 to K£ 870.7 million in 1998. The slackening demand for passenger and freight transport services accounted for the decline in receipts accruing to the road transport industry.

There was a marginal increase of 1.4 per cent in the volume of cargo handled at the port of Mombasa. Throughput of white petroleum products pumped by the Kenya pipeline company went up by a significant 11.0 per cent to reach 2,747,300 cubic metres in 1998 from 2,474,900 cubic metres in 1997. Similarly, activity at the two major airports shows that there were modest increases in the number of passengers handled despite the acute down turn of the tourism industry. Other sub-sectors that expanded their activities during 1998 included railway transport and communications.

There was a significant decrease in the circulation of both the daily and weekly newspaper during the year.

The Social Scene

The number of primary and secondary schools both recorded a marginal increase of less than 2.0 per cent to reach 17,356 and 3,081 in 1998 respectively. Enrolment in primary and secondary schools rose significantly by 4.3 per cent and 1.9 per cent to stand at 5.9 million and 700,538 respectively. The number of primary school teachers increased by 3.1 per cent from 186,590 in 1997 to 192,306 in 1998 while that of secondary schools dropped by 1.5 per cent to 43,694. Pupil-Teacher Ratios in both levels remained quite high registering 30.8:1 and 16:1 in primary and secondary schools respectively. Enrolment in the five public universities dropped by 7.0 per cent from 43,591 in 1997/98 academic year to 40,523 in 1998/99 academic year. Female students constituted 30.5 per cent of the total student population in 1998/99 academic year compared to 29.2 per cent in 1997/98 academic year. Enrolment in the four private universities accredited by the government went up by 6.6 per cent to 3,888 in 1998/99 academic year with female students constituting 46.7 per cent.
The number of health institutions increased by 1.9 per cent from 4,069 in 1997 to 4,145 in 1998 while the total number of beds and cots was 2.5 per cent up the same period. The prevalence rate of HIV virus among the population is estimated to have been 9 per cent in 1997.

There was a significant drop of 54.5 per cent in the income earned from development activities of the National Youth Service to stand at K£ 1.0 million in 1998 from K£ 2.2 million in 1997. Annual contribution to the National Social Security Fund decreased by 3.1 per cent, while the number of employees registered by the Fund increased from 2,498.2 thousand in 1997 to 2,546.5 thousand in 1998.

There was a 7.0 per cent drop in male enrolment in adult literacy classes from 28,139 in 1997 to 26,180 in 1998, while female enrolment increased by 1.2 per cent to 74,081. Candidates who enrolled for the proficiency tests increased by 15.8 per cent from 7,111 in 1997 to 8,239 in 1998, while those who enrolled for KCPE Examinations increased by 64.7 per cent in 1998.

Outlook

The general outlook for the Kenyan economy is one of mixed performance in 1999. The onset of ample and widespread rains is expected to boost production of cereal and cash crops especially coffee and tea. However, coffee and tea production may be hampered by declining world prices in tandem with lack of good management of the coffee crop and rising costs of farm inputs.

Agro-based manufacturing industries will benefit from the expected increase in agricultural production. However, other industries such as beverages, tobacco, clothing, textiles and leather will continue to be plagued by stiff competition from imports. Improvements in infrastructure will revamp the sectors' activities.

The economic growth slowdown in industrialised countries, the aftermath of the Nairobi bombings, poor roads, increasing insecurity and fears of further attacks will combine to stem the flow of tourists. This, unless checked, will affect the growth prospects for trade, restaurants and hotels.

On the international scene, the slow-down in the economic growth of industrialised countries in the face of the backlash of the Asian financial crisis, and the birth of the Euro currency are expected to lower the demand for exports of developing countries, Kenya included. Coffee prices are expected to fall further, while those of tea will remain unchanged. The failure of the European Union to upgrade Kenya's fish exports to Category of List 1 and the fixing of textile quotas to the United States of America are other factors that will adversely affect domestic production. The prevailing low interest rates in the OECD region are expected to push down the cost of borrowing and consequently increase the inflow of foreign capital investments.

The average increase in consumer prices was 6.6 per cent in 1998 and the rate of inflation is expected to remain within the single digit level mainly due to the downward trend in interest rates, tight control on money supply and favourable weather conditions expected to boost food production. The expected rise in the import prices of petroleum products as a result of the weakening shilling against major international currencies might put pressure on domestic prices through increased transport costs.

In addition, the continuing fall of the Kenya Shilling is expected to put pressure on the inflation rate due to general increases in the prices of imports which may, however, be partly offset by the likely growth in export earnings.

Due to these expected developments, the economy will not be able to exploit its growth potential to the full. The projected growth is expected to be around 2.3 per cent in 1999.

Table 1

KEY ECONOMIC AND SOCIAL INDICATORS, 1994 -1998*

		1994	1995	1996	1997	1998**	
1 Population	(million)	26.8	27.5	28.3	29.0	30.0	
2 Growth of GDP at constant prices	(per cent)	3.0	4.8	4.6	2.4	1.8	
3 GDP at market prices	(K£mn)	20,034	23,264	26,331	31,047	34,948	
4 Net cost of petroleum products	(K£mn)	620	714	800	935	1,050	
5 Trade balance	(K£mn)	-1,472	-2,891	-2,514	-3,511	-3,830	
6 Money Supply (M3)	(K£mn)	10,291	11,554	13,391	14,703	15,187	
7 Total domestic credit	(K£mn)	10,186	12,437	13,599	15,737	17,012	
8 Balance of payments (current account)	(K£mn)	291	-1,031	-210	-1,108	-1,225	
9 Coffee marketed production	('000 tonnes)	82	96	103	68	51	
10 Tea marketed production	('000 tonnes)	209	245	257	221	294	
11 Maize marketed centrally	('000 tonnes)	316	401	296	205	218	
12 Wheat marketed centrally	('000 tonnes)	105	126	130	124	177	
13 Sugar-cane production	('000 tonnes)	3,569	3,826	3,870	4,278	4,661	
14 Milk sold centrally	(mn litres)	258	350	257	197	126	
15 Manufacturing output	(K£mn)	19,428	23,074	28,820	33,762	38,836	
16 Construction output	(K£mn)	1,456	1,591	1,611	1,657	1,983	
17 Cement Consumption	('000 tonnes)	859	1,065	1,162	1,137	1,072	
18 Petroleum Consumption	('000 tonnes)	2,009	2,067	2,231	2,175	2,199	
19 Electricity consumption	(mn Kwh)	3,205	3,289	3,478	3,625	3,721	
20 Tourism earnings	(K£mn)	1,405	1,250	1,280	1,132	875	
21 New registration of vehicles	(number)	17,928	22,224	28,664	29,893	31,718	
22 Rail freight	(mn tonnes-Km	1,172	1,456	1,219	1,068	1,111	
23 Air passengers handled	('000)	2,773	2,675	2,691	2,835	2,873	
24 Wage employment	('000)	1,505	1,557	1,619	1,647	1,665	
25 Education-primary enrolment	C000)	5,557	5,536	5,598	5,677	5,920	
26 Education-secondary enrolment	('000)	620	632	658	687	701	
27 Education-post secondary enrolment	('000)	82	85	86	89	76	
28 Hospital beds and cots	(number)	37,271	47,214	49,331	50,909	52,166	
29 Registered doctors and dentists	(number)	5,188	4,510	4,656	4,782	4,997	
30 GDP Per capita	(K£)	632	715	792	919	1,013	
INDEX NUMBERS: (1982=100)							Annual % Rate of change 1994-98
Export volumes		167	175	200	174	173	0.9
Import volumes		144	168	167	177	179	5.6
Terms of trade		101	95	93	102	100	-0.2
Consumer prices ***		468	474	517	575	613	7.0
Real wages		92	120	113	108	112	5.0
Agricultural terms of trade		87	88	88	106	107	5.3

*More precise measures are given in individual chapters

** Provisional.

***Weighted Revised Index (Feb/March 1986=100)

CHAPTER 1 - THE INTERNATIONAL SCENE

Introduction

The year 1998 was characterised by a further spread and deepening of the financial crisis that started in Thailand in mid-1997. Most of the emerging market economies in Asia experienced one of the deepest recessions during this decade. The crisis shocked the financial sectors of most emerging market economies especially in Asia. In particular, Japan, Korea, Russia and Brazil were seriously affected by the turmoil. The economic growth rates of these countries fell sharply and contributed to the sharp decline in the world output. Nevertheless, in U.S.A. and Europe, business confidence and aggregate domestic demand remained high. Consequently, these regions recorded robust growth rates in their economies, thus preventing a sharp fall in the overall growth within the OECD countries.

1.2. The financial crisis had strong ramifications globally during the year as investors sold securities to moderate their overall risk profile or raise money to cover losses made elsewhere. It became evident that the current global finance system, with the world's interconnected financial market, requires two forms of change: firstly, a financial control system to replace the current patchwork of arrangements that has rendered even the role of the International Monetary Fund and World Bank inadequate and secondly, monitoring of economies through better and timely data to help in taking remedial actions to forestall collapse of currencies. The experience in the crisis has shown that countries that are less open or those that imposed controls have somewhat withstood the collapse. The case of China and Malaysia has been cited as examples.

1.3. Globally, net private capital inflows declined sharply during 1998, falling to US$ 152 billion from US$ 260 billion and US$ 327 billion, recorded in 1997 and 1996 respectively. Indonesia, Malaysia, the Philippines, South Korea and Thailand combined recorded an outflow of US$ 1 billion in 1997 and a further US$ 28 billion outflow in 1998, compared to a total net inflow of US$ 103 billion in 1996. Net inflows to Latin America dropped to US$ 88 billion in 1998 compared to US$ 106 billion recorded the previous year. The emerging European economies had a net inflow of US$ 41 billion relative to an inflow of US$ 69 billion registered in 1997.

1.4. For the second consecutive year, however, the global economy registered marginal gains against unemployment. Overall, in the OECD countries, unemployment rates dropped from 7.3 per cent in 1997 to 7.1 per cent in 1998. In OECD Europe there was a decline from 11.3 per cent in 1997 to 10.6 per cent in 1998. This was in part due to increased capacity utilisation, rising aggregate demand and tight monetary policies that have reduced interest rates in line with the Euro economy requirements. In the U.S.A. the unemployment rate dropped from 5.0. per cent in 1997 to 4.6 per cent in 1998, fuelled mainly by rising aggregate demand in the economy, falling inflation and interest rates and a strong American dollar.

1.5. Some other effects arising from the financial turbulence include a negative impact on trade as countries attempted to make adjustments. Similarly, there were lower oil and commodity prices due to weak demand; and a general decline in global economic performance also due to sagging confidence that solutions to the crisis had been found to enable many countries to turn their economies round. Widespread devaluation of

currencies occurred, while domestic demand fell drastically, particularly within the emerging market economies. Many developing countries, including African countries, recorded lower growth.

1.6. There was also a sharp contraction in the volume of world trade, which grew by a mere 4.6 per cent in 1998 compared to a high 9.2 per cent in 1997. The slump was a direct consequence of the financial crisis that rocked the emerging market economies. This resulted in reduced levels of activity, while sharply curtailing the demand for industrial goods. In particular exports of OECD countries to non-0ECD countries fell drastically from a growth rate of 7.0 per cent in 1997 to a decline of 2.2 per cent during the year.

Country/Regional Analyses

1.7. *U.S.A.* The U.S. economy grew by 3.5 per cent in 1998 compared to 3.8 per cent in 1997. The slowdown occurred mainly during the last two quarters of the year. This was in response to the decline in exports and weaker business investments. Corporate profits weakened as expected earnings started to show a downward trend in response to the financial turbulence in Asia and Latin America, particularly due to lower import demand. Aggregate domestic demand fell as the year came to close. The slowdown is expected to become more pronounced in 1999.

1.8. In the first half of the year there was a relatively high rate of economic growth as a result of a strong dollar, strong domestic demand and business investments. Inflation levels were low in part due to lower oil, commodity and import prices, while low interest rates boosted investment. Consequently, the unemployment rate fell to the lowest levels in this decade but it is expected to edge up in response to stagnating output and fall in domestic demand.

1.9. *Japan.* During the year, the Japanese economy experienced one of its worst recessions in recent times. This was reflected in the sharp fall in growth rates, output levels, a severe credit shortage, rising bankruptcies, falling exports growth occasioned by the financial turbulence in Asia and dwindling business and consumer confidence. Consequently, consumer spending fell sharply. The credit conditions were worsened by declines in land and equity prices.

1.10. The economy witnessed large scale corporate restructuring. The result has been rising unemployment and falling incomes. The reduction in consumer spending and loss of confidence have led to downward revision of investment and production levels. Nevertheless, falling import prices and a substantial reduction in the import volumes resulted in favourable terms of trade.

1.11. Under such poor economic conditions, Japan undertook structural, fiscal and macro economic measures aimed at restoring the confidence of both consumers and investors. These included the restructuring of the banking system, additional budgetary spending with the hope of increasing liquidity in the market to support the fragile financial institutions and easing of the monetary policy. Widespread reforms to prevent further collapse of financial institutions are expected to generate increased business activity and farther reduce uncertainties pertaining to household incomes.

1.12. ***Europe.*** The overall picture in OECD -Europe (now the European Union) has been that of robust economic growth rates. These stood at 2.6 and 2.8 per cent in 1997 and 1998 respectively. Strong domestic demand and consumer confidence, low rates of inflation within the Euro area, high levels of productivity and investment contributed to the accelerated growth in the region. Germany, France, Belgium, Denmark, Finland, Hungary, Iceland and Ireland are some of the European economies that recorded buoyant economic growth rates. This was inspite of the financial turbulence that affected the Russian economy and most of the emerging market economies of Asia. On the other hand, United Kingdom and Italy recorded declines in economic growth resulting from lack of sufficient aggregate demand.

1.13. During the year, economic growth was hampered by lack of external demand brought about by the financial turbulence in the global economy. This is the single most important factor that will slow the expansion of the regional economy. Most of the economies in this region are set to join the European Economic and Monetary union. In part, this involves handing over some considerable measure of responsibility in monetary policy formulation to the newly formed European Central Bank.

1.14. ***Russia and Central and Eastern Europe***: Russia is currently facing a major economic crisis as a result of unstable Russian financial markets. Low investor confidence and high government's debt coupled with declining foreign reserves has caused this. There was hardly any growth for the first half of the year relative to the same period in 1997, while current account balances weakened as a result of the drop in oil prices. This partly contributed to the financial tumult experienced in the second half of the year.

1.15. As a result of the crisis in Russia, financial market volatility increased in many of the countries of the region. A major shift in market orientation in Central and Eastern Europe largely sheltered these economies from the turmoil in Russia. The Baltic countries, however, have been affected by this impact as Russia absorbs 20-25 per cent of their exports. The sustainability of growth in other countries such as Romania has been uncertain due to large external imbalances. These countries face a bleak outlook mainly due to lack of professional adjustment strategies and uncertainty over the impact of the present situation in international financial markets. The biggest risk to growth prospects in the transition countries would be a slowdown of EU growth.

1.16. ***Central and South America:*** The Brazilian economy continued to suffer setbacks in 1998 recording a growth of only 0.8 per cent. Fiscal problems posed considerable risks, which could have been managed, while an unsustainable policy mix led to severe erosion of investor confidence. The effect of tight monetary policy adopted in 1997, continued to be felt by the Chilean and Colombian economies in 1998, resulting in slower growth rates of 5.0 and 2.5 per cent, respectively. The uncertainties surrounding the results of the December 1998 presidential polls in Venezuela impeded a tighter rein on public spending and a more aggressive implementation of privatisation plans necessitated by falling oil prices.

1.17. ***Mexico:*** The spillover effects of the Asian crisis dominated economic developments in 1998. Rising inflation, slower economic growth and falling oil prices characterized the Mexican economy. GDP growth was constrained due to the tightening of macro-economic policies. As oil related receipts account for a third of the Government revenue, falling oil earnings were accompanied by tight fiscal policies. The

tight monetary policy led to the peso depreciation but interest rates surged in the short term. Import volumes recorded sharp declines as a result of the large depreciation of the peso while inflation rates declined.

1.18. ***Dynamic Asian Economies (DAE's) and China.*** Nearly all the DAE's are now in deep recession, resulting from the sharp fall in their exports, weakening consumer and business confidence, high interest rates and liquidity constraints. Only Chinese Taipei maintained robust growth of 4.5 per cent in 1998. Economic deterioration was worse in both Thailand and Indonesia, the countries that first encountered the crisis. The economy of China (including Hong Kong) slowed significantly while there was a virtual halt to growth in the Philippine and Singapore economies.

1.19. China achieved a strong economic growth of 7.6 per cent in 1998 although this was down from 8.8 per cent in 1997. Although essential restructuring is on course in the face of slowed domestic demand and external impact from economic downturns in other Asian countries, the weak financial system is threatening the medium to longer-term growth prospects. With inflation having been virtually eliminated, the authorities have moved to ease monetary policy by lowering interest rates and increasing bank liquidity. Consumers have been cautious in spending, as they are unsure of their future jobs due to mass layoffs. Other measures that have adversely affected consumer spending include recapitalisation of banks, restructuring of firms and writing off bad debts of state enterprises and closures, and tightening of prudential and supervisory standards.

1.20. ***Africa:*** Africa's economic growth rate is estimated to have fallen for the second consecutive year, to stand at 2.4 per cent in 1998. The fall in productive activities was mainly due to unfavourable weather phenomenon, in part caused by the *El-nino* rains, declining prices of export commodities, falling investments and political upheavals. Some localised food supply difficulties persist in several countries due to adverse weather and /or civil strife.

Table 1.1

	1997	1998	1999	2000
	(percentage changes from preceding period)			
Real GDP -				
United States	3.8	3.5	1.5	2.2
Japan	0.5	-2.6	0.2	0.7
Germany	2.4	2.7	2.2	2.5
OECD Europe	2.6	2.8	2.2	2.5
Total OECD	3.0	2.2	1.7	2.3
Real total domestic demand -				
United States	4.1	4.9	2.0	2.2
Japan	-0.5	-3.3	0.1	0.6
Germany	1.3	2.6	2.1	2.4
OECD Europe-	2.1	3.3	2.5	2.6
Total OECD	2.8	2.4	2.0	2.5
Inflation (GDP deflators)				
United States	2.0	1.0	1.2	1.8
Japan	1.1	0.7	-0.4	-0.5
Germany	0.9	1.1	1.3	1.4
OECD Europe	1.8	1.8	1.8	1.8
Total OECD	3.8	3.3	2.6	2.4
	(US billion)			
Current balances-				
United States	-155	-229	-272	-281
Japan	95	121	139	151
Germany	-5	8	17	22
OECD Europe	117	115	120	120
Total OECD	30	4	-23	-33
	(per cent of labour force)			
Unemployment-				
United States	5.0	4.6	5.0	5.4
Japan	3.4	4.2	4.6	4.9
Germany	11.4	11.2	10.8	10.3
OECD European	11.3	10.6	10.3	10.1
Total OECD	7.3	7.1	7.3	7.3
	(percentage changes from preceding period)			
World Trade**	9.2	6.1	5.3	6.1

Source: OECD Economic Outlook no 64 December. 1998

** Assumptions underlying the 1999 and 2000 projections include*
-no change in actual and announced policies;
-unchanged exchange rates from 27th October 1998 in particular $1 = 119 25 and DM 1 66

***Arithmetic average of the growth rates of the world import volume and the world e/port volume*
-Cut off date for other information used in the compilation of the projections was 4th November 1998
****OECD Europe is now European Union*

Commodity Prices

1.21. The overall fall in the aggregate domestic demand in industrial countries depressed the prices of primary commodity exports of producing countries. The depression of prices was in part due to the high stock building of inventories. Substantial declines were observed in coffee, copper and petroleum prices. They fell by 43, 41 and 30 per cent, respectively, during the year. Some selected world commodity price indices are given in Table 1.2.

1.22. World demand for oil sharply contracted during the year, causing oil prices to fall substantially and export earnings of oil exporting countries to slump. A combination of factors were responsible namely; increases of output by non-OPEC countries such as Britain and Norway and the resurgence of Iraqi oil supplies back into the market as a result

of the lifting of the UN sanctions. In addition, there was overstocking by most industrial economies and reduced levels of industrial activity in the emerging market economies of Asia. The fall in oil prices contributed in part to the low levels of inflation in most of the OECD countries.

SELECTED WORLD COMMODITY PRICE INDICES, 1990-1998

Table 1.2 (1990=100)

Year	"Other milds" Coffee*	Tea**	Sisal***	Sugar+	Petroleum++	All+++ Commodities	LMIC's
1990	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1991	95.4	90.7	93.6	105.0	83.0	95.6	96.8
1992	71.4	98.3	70.7	107.6	82.9	94.4	99.9
1993	78.5	91.4	86.1	106.2	73.2	96.1	97.4
1994	166.6	90.2	84.6	106.6	69.2	109.2	111.9
1995	167.6	80.8	99.4	118.0	74.7	118.1	122.3
1996	134.9	87.2	121.4	117.8	88.6	116.7	115.1
1997	207.5	116.7	108.7	107.3	83.8	112.9	117.6
1998	127.8	113.1		100.5	56.6	92.3	95.3

Source: IMF International Financial Statistics.(January 1999)

Indices are based on prices in US dollar

* *Other milds (New York)*

** *average Auction (London)*

*** *East African (Europe)*

\+ *E.U. Import Price*

++ *Average crude price(Spot) (US$ per barrel).*

+++ *World (non-fuel commodities)*

Low and Middle Income Countries(LMIC's)

Outlook

1.23. In the short-term, there are no signs of recovery in the world economy during 1999. The OECD forecasts a further drop in real economic growth among its member countries from 2.2 per cent in 1998 to 1.7 per cent in 1999. Less buoyant aggregate domestic demand, increasing current account deficit, deteriorating business confidence, uncertain monetary policies in European union and more restrictive fiscal and monetary policies are expected to further slow down the world economy in 1999. Consequently, unemployment will rise. Low interest rates are expected to result in some recovery in most countries at the start of the year 2000 which is likely to lead to at least some improvement in the demand for primary commodity exports.

1.24. In the U.S.A, the slowdown in the economy is expected to become more pronounced in the first half of 1999 with an overall growth of 1.5 per cent at the end of the year. The U.S. trade deficit, at over US$ 150 billion annually, remains a major worry. Recovery is expected to pick up in response to lower short-term interest rates and the expected recovery in world trade and investment. The government's budgetary surplus is expected to go down in the coming year, while the corporate sector is expected to scale down on investment in 1999. The slowdown in growth will be accompanied by a modest rise in unemployment.

1.25. In the Japanese economy, a low recovery accompanied by rising unemployment is expected. This recovery will be dependent on the speedy restructuring of the banking system and the corporate sector and the institutionalization of appropriate fiscal and monetary policies. Output will grow very slowly, while unemployment will rise in 1999 to

4.6 per cent. At the same time, corporate restructuring is expected to be a drag while credit crunch will only be alleviated slowly. Investments will be seriously constrained. A rebound in exports markets, particularly in its Asia - pacific neighbours is expected to fuel the recovery.

1.26. In the Euro area, most of the members are faced with some of the lowest rates of inflation since the Second World War. Unemployment rates are falling and current account deficits are improving. The establishment of an independent European Central Bank (ECB) will help in price stabilisation. A convergence of interest rates at a lower level is also expected. The greatest challenge is to establish an effective monetary policy for the Euro area. The Euro area is expected to record a constrained growth of 2.2 per cent in 1999.

1.27. In China the restoration of financial viability of the banking system and enterprises will play a key role in creating international confidence. The economy will need a stable inflow of foreign capital to boost domestic capital formation and provide essential technology in its transition to market economy.

1.28. The outlook in Russia is very uncertain. The financial crisis that engulfed the country in 1998 led to a substantial fall in the value of its currency (the rouble), sharp rises in consumer inflation, a banking crisis and external debt servicing problems. The crisis has increased volatility in the financial markets of the region, including some countries of Europe. Little recovery is expected before the second half of 1999 and is largely dependent on the implementation of a wide range of macro-economic measures, including the restructuring of the banking system, corporate sector and the speed at which external financial condition stabilise.

1.29. The path of economic development in the South American region will be largely determined by different policy scenarios. One of the scenarios will require that the stabilisation package for Brazil prove credible, the administration achieves passage of constitutional reforms aimed at reducing fiscal imbalances, effective implementation of fiscal retrenchment and a contingent fund is made available to Brazil and possibly Argentina on a scale sufficient to meet market expectations. During 1999, real GDP growth rates of 1.5 and -1.5 per cent are expected for Brazil and Argentina, respectively.

1.30. The economic outlook in Mexico is one of decelerating real GDP growth as high interest rates restrain private domestic demand. This is projected to pick up in 2000 as inflation falls, investment improves and a stable exchange rate is maintained. However, prolonged financial turmoil and falling oil prices could further weaken the prospects for recovery and worsen the budgetary deficit.

1.31. The World Bank projections also indicate that Africa will achieve positive growth of around 3.2 per cent in 1999, which will further strengthen to 3.8 per cent in the year 2000. Lack of integration into the global markets is seen to have shielded the African continent from the direct effects of the economic turbulence affecting all regions, and hence the prospects of better performance are foreseen.

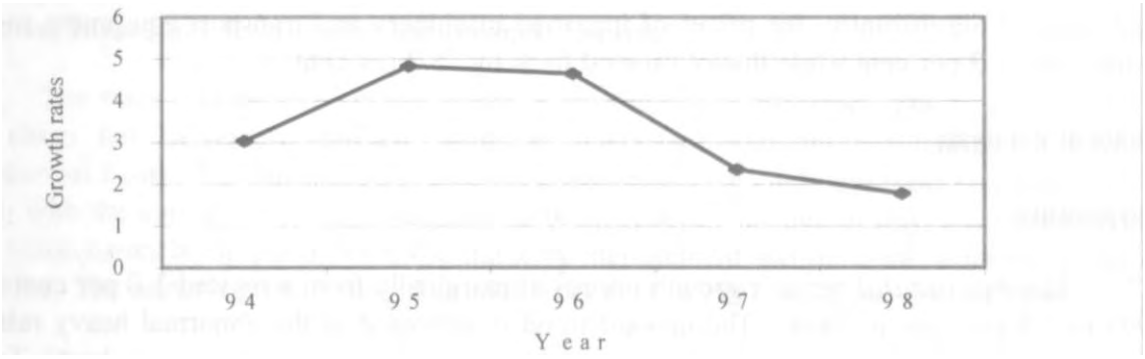
CHAPTER 2 - THE DOMESTIC ECONOMY

Overview

The year 1998 witnessed a further decline in the growth of the Kenyan economy to 1.8 per cent. The continued slowdown is as a result of a combination of factors, the main ones being dilapidated and unreliable infrastructure especially power supply and telecommunications, depressed investments, declining tourism activities, slump in manufacturing production, high interest rates for most part of the year, rising costs of farm inputs and the fall in the world prices of coffee and horticulture. Additionally, the El-Nino rains during the first halve of the year, and the failure to secure renewed funding facilities by the donors, particularly the IMF, increased uncertainties in the economy. The Nairobi terrorist bombing, labour unrest in the education and the crisis in the banking industry further aggravated the performance of the economy.

Figure 2.1: Trends in real GDP at factor cost.

Gross Domestic Product at Constant 1982 Prices, 1994-1998



2.2. The Government continued its efforts to reduce public expenditure and improve revenue collection. Inspite of this, the overall budget deficit reversed from a surplus of K£ 386 million in 1997/98 fiscal year to an estimated deficit of K£262 million in 1998/99. Redemption of domestic debt and payment of interest on external debts occasioned expenditure increases. Current revenue rose appreciably by 23.0 per cent to stand at K£ 9,083 million in 1998/99 fiscal year as a result of improved tax administration, collection and reduction in tax evasion on imports and reduction of diversion of transit/goods such as petroleum and sugar. The added taxation on employees benefits and improvement in the VAT collections were additionally responsible for the positive development.

2.3. The tight monetary policy led to a slower growth in money supply and a reduction in the growth of total domestic credit. Broad money supply (M3) grew by a modest 3.3 per cent in 1998 well below the target of 10.0 per cent compared to 9.8 per cent in 1997, due to slower growth in domestic credit and low inflation. Net foreign assets declined by 8.8 per cent to K£ 2,697 million as at December 1998 largely due to drawings on reserves by the Central Bank in order to meet Government's external debt service obligations. The principal money market interest rates started a downward trend towards the end of 1998. The 91-day treasury bill interest rate dropped from a high rate of 26.4 per cent as at

December 1997 to 12.6 per cent as at December 1998, largely brought about the availability of surplus funds in the money market and low demand for loans by the private sector and stable exchange rate.

2.4. The average annual inflation rate fell from 11.2 per cent by the close of 1997 to 6.6 per cent in 1998. The favourable developments were due to increased supply of basic foodstuffs whose production was enhanced by the ample rains during the long rains season in 1998. The slower growth in money supply and the fairly stable Shilling exchange rate further cushioned the economy from inflationary pressures. The Shilling weakened against all the major currencies during the year except the dollar.

2.5. The overall balance of payments position deteriorated over the year, to record a lower surplus of K£ 228.7 million in 1998 compared to a surplus of K£ 336.2 million in 1997. The current account deficit widened from K£ 1,107.9 million in 1997 to K£ 1,225.4 million in 1998. This was due to a slower growth in exports of merchandise as a result of reduced demand in industrial countries and the sharp fall in tourism earnings. Earnings from tourism declined substantially by 22.7 per cent to K£ 875 million in 1998 as a result of the reduction in the number of tourists and decline in the average length of stay.

2.6. The terms of trade deteriorated on account of a faster growth in the prices of imports than exports. Significantly, the prices of imported machinery and transport equipment rose sharply by 31.3 per cent while that of mineral fuels by 25.2 per cent.

Sectoral Analysis

Agriculture

2.7. The *Agricultural* sector's growth improved marginally from a revised 1.0 per cent in 1997 to 1.5 per cent in 1998. The upward trend is attributed to the abnormal heavy rains *(El Nino)* that significantly boosted the production of sugarcane, tea, maize and wheat. Tea production rose by 33 per cent to stand at about 294 thousand tonnes, while sugarcane deliveries went up from 4.3 million tonnes to 4.7 million tonnes in 1998. In the cereals sub-sector, maize production rose from about 21 to 23 million 90 kg bags. Except for maize and wheat, all the other crops recorded significantly upward price adjustments so that the agricultural terms of trade improved considerably in the year.

2.8. Production in the sector was constrained by increases in livestock diseases as a result of the heavy rains and by drought in the latter part of the year under review. Centrally marketed milk production is estimated to have fallen from 197 million litres in 1997 to 126 million litres in 1998. Similarly, coffee production fell by 22 per cent from 68,000 tonnes to 51,300 tonnes as a result of the heavy rains and drought in the year, pest infestation and rising costs of farm inputs. In addition, intense wrangling in the coffee co-operative movement contributed to the neglect of the crop. Other crops that registered declines in production include horticultural products, pyrethrum and sisal.

Manufacturing

2.9. The manufacturing industry continued to be constrained by its inability to compete with cheap and subsidised imports to the local market, dilapidated infrastructure especially the roads and the high cost of credit in the money market. During the year, the temporary ban on

2.10. The slump in manufacturing output in 1998 was observed in the food processing sub-sector where meat and dairy production declined mainly due to reduced milk intake. Beef production rose by 9.6 per cent to stand at 108,000 tonnes in 1998. Grain milling of wheat and sifted maize meal decreased, as did the production of bread. However the sub-sector was boosted by increased production of sugar, canned vegetables, oils and fats, as a result of improved weather conditions that favoured the production of certain agricultural commodities such as sugar. In the Beverages and Tobacco industries, beer production went down while cigarettes and soft drinks recorded increases..

2.11. The production of textiles recorded a 0.8 percent drop while clothing and footwear went up despite the continued importation of second hand clothes and shoes. Timber, paper and paper products production shot up largely on account of the reduction in the import duty on inputs into the sector and rising demand. Basic industrial chemicals, plastics recorded increases due to high domestic demand. Whereas paint production went up, cement production declined as a result of the low level of construction activities. In the circumstance, the growth in the sector slowed down from 1.9 per cent in 1997 to 1.4 per cent in 1998.

Finance, Insurance, Real Estate and Business Service

2.12. The main driving force in this sector is the financial sub-sector. The banking crisis and sharp falls adversely affected output of the sector and the profitability of most commercial banks. The financial and monetary authorities pursued tight monetary policy in 1998, with the aim of stabilising prices and banking system. In spite of this, a crisis ensued with some banks being put under CBK statutory management and the bank workers' going on strike. The sector's growth slowed from 5.2 per cent in 1997 to 3.2 per cent in 1998.

2.13. The tight monetary policy led to a slower expansion in money supply (M3) by 3.3 per cent while total domestic credit increased by 8.1 per cent, a percentage point lower than the projection. There was a marked deceleration of credit to the private sector mainly due to slowdown in economic activities and prevailing high cost of borrowed funds. Credit to the public sector rose by 10.2 per cent. The year witnessed a downward trend in interest rates even though commercial banks' rates remained high.

GROSS DOMESTIC PRODUCT, 1994 - 1998

Table 2.1

K£million

	Current Prices					Constant (1982) Prices				
	1994	1995*	1996*	1997*	1998**	1994	1995*	1996*	1997*	1998**
A NON-MONETARY ECONOMY										
Forestry	81.93	81.40	84.40	86.21	89.09	34.47	35.6	36.1	37.1	37.6
Fishing	4.83	5.09	5.56	6.83	6.75	1.26	1.3	1.4	1.5	1.5
Building and Construction	104.90	117.80	121.57	124.60	127.34	77.90	78.9	79.9	80.9	81.0
Water Collection	60.00	63.7	67.7	71.9	76.3	26.55	27.7	28.7	29.7	30.8
Ownership of Dwellings	309.20	334.1	370.5	404.5	413.1	114.18	119.6	124.6	129.0	132.8
TOTAL NON-MONETARY ECONOMY	560.86	602.14	649.76	693.99	712.51	254.36	263.06	270.76	278.14	283.64
MONETARY ECONOMY										
1 Enterprises and Non-Profit Institutions										
Agriculture	5,292.10	5,777.63	6,233.00	6,899.94	7,400.91	1,119.29	1,173.3	1,225.4	1,237.6	1,256.2
Forestry	190.48	203.54	223.85	254.69	266.35	57.78	60.8	65.0	67.0	68.6
Fishing	62.98	61.93	68.37	84.44	83.13	13.11	13.7	14.2	15.2	15.7
Mining and Quarrying	35.68	36.21	37.06	40.77	41.16	11.41	11.7	12.0	12.2	12.3
Manufacturing	1,807.76	1,945.55	2,282.23	2,591.70	3,236.71	610.59	634.4	657.7	670.4	679.1
Building and Construction	742.80	799.18	879.16	938.55	1,123.05	113.06	117.4	121.5	123.8	125.4
Electricity and Water	164.06	191.13	220.00	242.00	271.04	46.50	47.3	48.7	50.7	51.8
Trade, Restaurants and Hotels	2,400.81	3,238.00	4,144.76	5,490.20	6,571.51	508.81	552.5	596.7	620.4	635.9
Transport, Storage& Communications	1,262.95	1,515.64	1,773.56	2,090.80	2,216.78	273.68	285.2	296.6	302.4	306.2
Finance, Insurance, Real Estate and Business Services	2,015.65	2,338.39	2,785.93	3,437.35	3,712.58	429.87	459.5	492.2	518.0	534.5
Ownership of Dwellings	764.86	814.00	936.10	1,048.43	1,117.63	243.10	255.7	270.3	279.7	285.3
Other Services	578.11	693.73	818.60	998.69	1,197.07	149.41	158.8	168.4	171.9	175.6
Less: Imputed Bank Service Charges	-1,410.09	-1,474.17	-1.805.36	-1,964.81	-2,312.68	-169.17	-180.17	-191.34	-198.61	-204.96
TOTAL	13,908.15	16,140.76	18.597.26	22,152.75	24,925.24	3,407.45	3,590.03	3,777.22	3,870.54	3,942.20
2. PRIVATE HOUSEHOLDS (DOMESTIC SERVICES)	211.13	247.2	284.2	308.7	334.4	102.45	113.9	124.8	132.1	138.9
3.Producers of Government Services										
Public Administration	651.84	637.6	675.8	781.8	881.2					
Defence	43.32	50.8	64.8	69.0	71.2					
Education	1,024.07	1,463.1	1,552.3	2.027.9	2,494.4					
Health	210.49	239.2	260.3	302.4	319.9					
Agricultural Services	81.79	91.9	100.5	111.6	106.3					
Other Services	211.59	215.7	190.5	217.0	239.8					
TOTAL	2,223.10	2,698.22	2,844.19	3,509.65	4,112.80	710.32	723.1	734.8	742.9	748.7
TOTAL MONETARY ECONOMY	16,342.38	19,086.19	21,725.62	25,971.14	29,372.40	4,220.22	4,427.07	4,636.83	4,745.60	4,829.90
TOTAL NON-MONETARY AND MONETARY ECONOMY	16,903.24	19,688.33	22,375.38	26,665.13	30,084.91	4,474.58	4,690.13	4,907.59	5,023.74	5,113.50
ESTIMATED POPULATION (million)	26.76	27.5	28.3	29.0	29.7	26.76	27.5	28.3	29.0	29.7
GROSS DOMESTIC PRODUCT PER CAPITA K£	631.66	715.42	791.49	919.17	1,012.96	167.21	170.43	173.60	173.17	172.17

*Revised

**Provisional

GROWTH OF GROSS DOMESTIC PRODUCT 1994 - 1998

Table 2.2

Percentages

	Current Prices					Constant (1982) Prices				
	1994-95*	1995-96*	1996-97**	1997-98**	1994-98***	1994-95*	1995-96*	1996-97**	1997-98***	1994-98***
A NON-MONETARY ECONOMY										
Forestry	-0.65	3.69	2.14	3.34	2.12	3.2	1.6	2.7	1.3	2.2
Fishing	5.38	9.23	22.84	-1.17	8.73	4.0	8.4	3.5	0.7	4.1
Building and Construction	12.30	3.20	2.49	2.20	4.97	1.3	1.3	1.2	0.1	1.0
Water Collection	6.20	6.28	6.16	6.11	6.19	4.2	3.7	3.6	3.6	3.8
Ownership of Dwellings	8.06	10.89	9.16	2.12	7.51	4.7	4.2	3.5	3.0	3.9
TOTAL NON-MONETARY ECONOMY	7.36	7.91	6.81	2.67	6.17	3.4	2.9	2.7	2.0	2.8
B MONETARY ECONOMY										
1 Enterprises and Non-Profit Institutions										
Agriculture	9.17	7.88	10.70	7.26	8.75	4.8	4.4	1.0	1.5	2.9
Forestry	6.86	9.98	13.78	4.58	8.74	5.1	7.0	3.0	2.5	4.4
Fishing	-1.67	10.40	23.50	-1.55	7.19	4.1	4.3	6.7	3.0	4.5
Mining and Quarrying	1.49	2.35	10.01	0.96	3.64	2.7	2.5	1.3	1.4	2.0
Manufacturing	7.62	17.31	13.56	24.89	19.27	3.9	3.7	1.9	1.4	2.7
Building and Construction	7.59	10.01	6.76	19.66	10.89	3.8	3.5	1.9	1.3	2.6
Electricity and Water	16.50	15.10	10.00	12.00	13.37	1.6	3.1	4.0	2.2	2.7
Trade, Restaurants and Hotels	34.87	28.00	32.46	19.70	28.63	8.6	8.0	4.0	2.5	5.7
Transport. Storage and Communications	20.01	17.02	17.89	6.03	15.10	4.2	4.0	2.0	1.3	2.8
Finance, Insurance, Real Estate and Business Services	16.0	19.1	23.38	8.01	16.50	6.9	7.1	5.3	3.2	5.6
Ownership of Dwellings	6.42	15.00	12.00	6.60	9.95	5.2	5.7	3.5	2.0	4.1
Other Services	20.00	18.00	22.00	19.86	19.96	6.3	6.0	2.1	2.1	4.1
Less Imputed bank service charges	4.54	22.47	8.83	17.71	13.17	6.5	6.2	3.8	3.2	4.9
TOTAL	16.05	15.22	19.12	12.52	16.19	5.4	5.2	2.5	1.9	3.7
2 Private Households (Domestic Services)	17.09	14.95	8.65	8.30	12.18	11.2	9.6	5.8	5.2	7.9
3 Producers of Government Services										
Public Administration	-2.19	5.99	15.69	12.72	7.83					
Defence	17.29	27.47	6.52	3.20	13.23					
Education	42.87	6.10	30.64	23.00	24.93					
Health	13.63	8.81	16.18	5.80	11.03					
Agricultural Services	12.39	9.38	11.02	-4.77	6.77					
Other Services	1.93	-11.66	13.89	10.52	3.18					
TOTAL	21.37	5.41	23.40	17.19	16.63	1.8	1.6	1.1	0.8	1.3
TOTAL MONETARY ECONOMY	16.79	13.83	19.54	13.10	16.20	4.9	4.7	2.3	1.8	3.4
TOTAL NON-MONETARY AND MONETARY ECONOMY	16.48	13.65	19.17	12.82	16.20	4.8	4.6	2.4	1.8	3.4
GROSS DOMESTIC PRODUCT PER CAPITA	13.26	10.63	17.55	10.40	12.90	1.9	1.9	-0.2	-0.6	0.7

*Revised

** Provisional

*** Average annual change

PRODUCTION ACCOUNTS, 1997 AND 1998

Table 2.3 K£million

		1997'					1998**				
				Gross Domestic Product (at Factor Cost)					Gross Domestic Product (at Factor Cost)		
		Gross Output at approx Basic Prices +	Inter-mediate Con-sumption	Total	Labour Costs	Operating Surplus***	Gross Output at approx Basic Prices +	Inter-mediate Con-sumption	Total	Labour Costs	Operating Surplus***
A.	NON-MONETARY ECONOMY	863.90	169.91	693.99	5.48	688.51	885.51	173.00	712.51	5.64	706.87
B.	MONETARY ECONOMY										
	1 Enterprises and Non-Profit Institutions										
	Agriculture	7,580.71	680.77	6,899.94	706.05	6,193.89	8,154.32	753.41	7,400.91	861.75	6,539.16
	Forestry	287.68	32.99	254.69	155.50	99.19	300.85	34.50	266.35	164.00	102.35
	Fishing	89.34	4.90	84.44	22.34	62.10	87.95	4.82	83.13	21.99	61.14
	Mining and Quarrying	155.67	114.90	40.77	22.84	17.93	157.15	115.99	41.16	23.06	18.10
	Manufacturing	22,478.57	19,562.18	2,916.39	1,099.60	1,816.79	25,666.36	22,008.10	3,658.26	1,442.62	2,215.64
	Building and Construction	1,657.48	718.93	938.55	656.99	281.56	1,983.40	860.35	1,123.05	786.14	336.92
	Electricity and Water	867.52	625.52	242.00	179.18	62.82	971.62	700.58	271.04	201.03	70.01
	Trade, Restaurants and Hotels	10,537.68	5,047.48	5,490.20	2,015.62	3,474.58	12,613.10	6,041.59	6,571.51	2,412.60	4,158.91
	Transport, Storage and Communications	3,631.58	1,540.78	2,090.80	620.62	1,470.18	3,806.54	1,589.76	2,216.78	681.50	1,535.28
	Finance, Insurance, Real Estate and Business Services	3,967.61	530.26	3,437.35	1,155.40	2,281.95	4,650.10	937.52	3,712.58	1,367.64	2,344.94
	Ownership of Dwellings	1,158.45	110.02	1,048.43	0.00	1,048.43	1,234.91	117.28	1,117.63	0.00	1,117.63
	Other Services	2,161.19	-1,162.50	998.69	691.02	307.67	2,590.48	-1,393.41	1,197.07	868.28	328.79
	Less: Imputed Bank Service Charges ..	-1,964.81	0.00	-1,964.81		-1,964.81	-2,714.00	0.00	-2,312.68	0.00	-2,312.68
	Total	52,608.67	30,131.23	22,477.44	7,086.52	15,390.92	59,502.78	34,155.99	25,346.79	8,830.60	16,516.19
	2 Private Households (Domestic Services)..	308.74	0.00	308.74	308.74	0.00	334.36	0.00	334.36	334.36	0.00
	3. Producers of Government Services	5,217.02	1,707.38	3,509.65	3,449.45	60.20	5,548.15	1,435.35	4,112.80	4,056.43	56.37
	TOTAL MONETARY ECONOMY	58,134.43	31,838.60	26,295.83	10,844.71	15,451.12	65,385.29	35,591.34	29,793.95	13,221.39	16,572.56
	TOTAL MONETARY AND NON-MONETARY ECONOMY	58,998.33	32,008.51	26,989.82	10,850.19	16,139.63	66,270.80	35,764.34	30,506.46	13,227.03	17,279. 43

* Revised

** Provisional

*** Including consumption of fixed capital.

\+ After deduction of indirect taxes less subsidies from total of output

Transport, Storage and Communication

2.14. The performance of transport, storage and communication sector was slowed down by a combination of depressed business in the tourism industry and the poor state of roads. The sector's real GDP grew by 1.3 per cent in 1998 from 2.0 per cent in 1997. The communication sub-sector contributed 32.1 per cent to the overall output while road and air transport contributed 22.9 percent and 17.1 percent respectively. Improved yield in the production of tea parly accounted for the 6 per cent increase in the volume of dry cargo loaded for export in the port of Mombasa. Volume of dry cargo imports decreased by 16 per cent mainly due to civil strife in the Great Lakes Region. New registration of motor \ehicle increased by 6.1 per cent to reach 31,718 in 1998.

2.15. In postal and telecommunications, mobile telephone registered a 65.1 per cent rise in 1998 while the number of card phones more than tripled. Kenya Pipeline company's throughput of white petroleum products rose by 11 per cent. New radios and T.V's sold and licensed decreased by 43.3 percent and 64.1 percent respectively during the year.

2.16. After experiencing a consistent decline in rail freight since 1995, the volume of freight traffic, by rail grew by 4.2 per cent growth. This can be attributed to the poor state of Nairobi-Mombasa highway. Secondly, the Government instituted reinforcement of axle load limits forcing truck owners to comply. Passenger journeys by rail rose by 43.5 per cent due to the re-introduction of commuter service trains within Nairobi City.

Building and Construction

2.17. The prevailing economic difficulties, depressed investment, high interest rates and lack of adequate funds for public sector buildings had adverse effects on the building and construction sector. Cement consumption declined by 5.7 per cent.

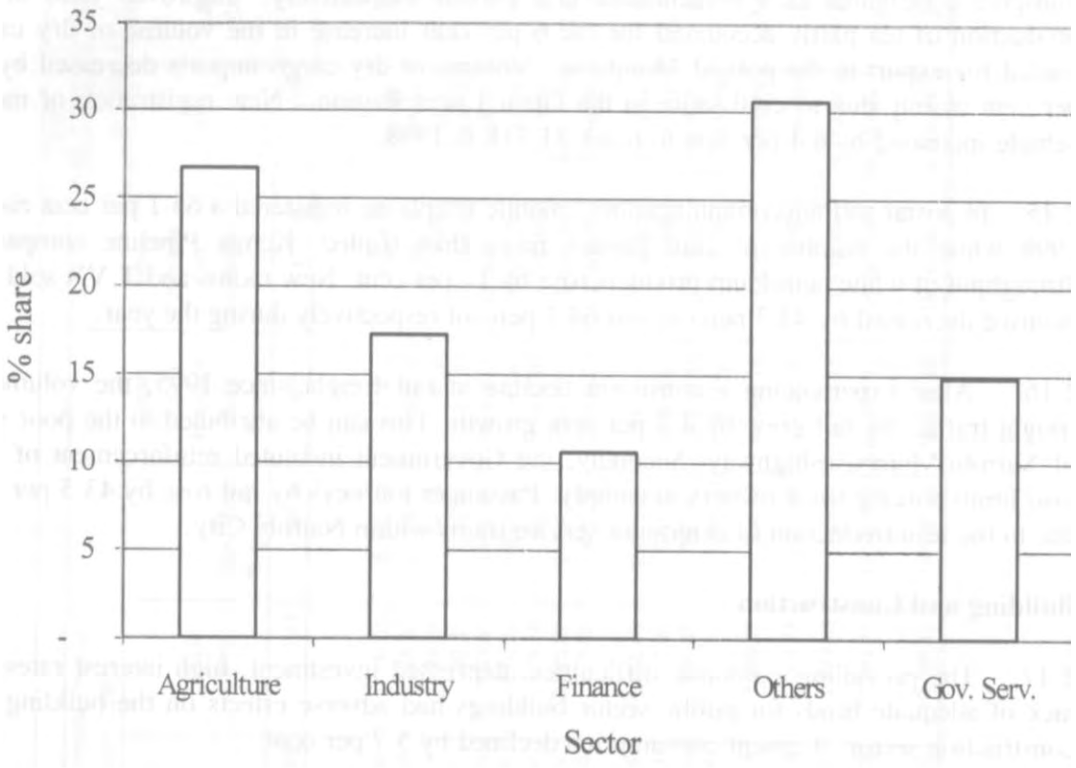
2.18. The value of building plans approved declined by 15.3 per cent. A slow down in the road construction sub-sector, which was experienced in 1997, continued into 1998. The overall GDP growth rate of the sector was 1.3 per cent in 1998 as compared to 1.9 per cent in 1997 and the growth of employment declined marginally by 0.8 per cent.

Producers of Government Services

2.19. Overall, the sector's nominal GDP rose by 17.2 per cent in 1998 compared to 23.4 per cent in 1997. The slower growth is due to reduced government expenditure on personal emoluments. In particular, the education sub-sector recorded a growth of 23.0 per cent 1998 compared with 30.8 per cent in 1997, reflecting the much smaller growth in salaries and wages and freeze on employment.

2.20. The Government has continued to spend substantial amounts in the education sub-sector. This sub-sector constituted more than half of total producer of government services and its value added increased by more than K£ 450 million in 1998. All other sub-sectors recorded growth except for agricultural services.

Fig 2.2: Sector share of Gross Domestic Product at Factor Cost, 1998.



2.21. Figure 2.2 shows the share of GDP contributed by the different sectors. Other services, which include transport, trade, and other services contributed 31 percent of the total followed by Agriculture (Fishing and Forestry included). Government share has declined from 15.9 per cent in 1994 to 14.9 per cent in 1998.

GROSS DOMESTIC PRODUCT

SECTOR SHARES AT CONSTANT (1982) PRICES, 1994 - 1998

Table 2.4 Percentage

	1994	1995	1996*	1997*	1998**
A. NON-MONETARY ECONOMY					
Forestry	0.8	0.8	0.7	0.7	0.7
Fishing	0.0	0.0	0.0	0.0	0.0
Building and Construction	1.7	1.7	1.6	1.6	1.6
Water Collection	0.6	0.6	0.6	0.6	0.6
Ownership of Dwellings	2.6	2.5	2.5	2.6	2.6
TOTAL NON-MONETARY ECONOMY	5.7	5.6	5.5	5.5	5.6
B. MONETARY ECONOMY					
1. Enterprises and Non-Profit Institutions					
Agriculture	25.0	25.0	25.0	24.6	24.6
Forestry	1.3	1.3	1.3	1.3	1.3
Fishing	0.3	0.3	0.3	0.3	0.3
Mining and Quarrying	0.3	0.2	0.2	0.2	0.2
Manufacturing	13.6	13.5	13.4	13.3	13.3
Building and Construction	2.5	2.5	2.5	2.5	2.5
Electricity and Water	1.0	1.0	1.0	1.0	1.0
Trade, Restaurants and Hotels	11.4	11.8	12.2	12.3	12.4
Transport, Storage and Communications	6.1	6.1	6.0	6.0	6.0
Finance, Insurance, Real Estate and Business Services	9.6	9.8	10.0	10.3	10.4
Ownership of Dwellings	5.4	5.5	5.5	5.6	5.6
Other Services	3.3	3.4	3.4	3.4	3.4
Less: Imputed Bank Service Charges	-3.8	-3.8	-3.9	-4.0	-4.0
TOTAL	76.2	76.5	77.0	77.0	77.1
2. Private Households (Domestic Services)	2.3	2.4	2.5	2.6	2.7
3. Producers of Government Services					
Public Administration					
Defence					
Education					
Health					
Agricutural Services					
Other Services					
TOTAL	15.9	15.4	15.0	14.8	14.9
TOTAL MONETARY ECONOMY	94.3	94.4	94.5	94.5	94.5
TOTAL MONETARY & NON-MONETARY ECONOMY	100.0	100.0	100.0	100.0	100.0

*Revised

** Provisional

Terms of Trade

2.22. Real GDP adjusted showing the impact of foreign trade on per capita GDP is detailed in Table 2.5. The terms of trade deteriorated as shown by the movement of the index from 102 in 1997 to 100 in 1998. This was largely due to a higher growth in the import prices particularly those of machinery and transport equipment and fall in the export prices of coffee. In the event, the growth rate of the real GDP per capita dropped by 1.0 per cent in 1998.

IMPACT OF COMMODITY TERMS OF TRADE ON PER CAPITA GDP 1994 - 1998

Table 2.5

		1994	1995*	1996*	1997*	1998**
1	Unadjusted GDP at constant Factor Cost (K£mn.)	4,474.6	4,690.1	4,907.6	5,023.7	5,113.5
2	Adjustment for changes in terms of trade (K£mn.)	18.5	-73.0	-121.6	24.0	2.3
3	Adjusted GDP (K£mn.).. ..	4,493.1	4 617.1	4,785.9	5,047.7	5,115.8
4	Growth in unadjusted per capita GDP***	0.1	1.9	1.9	-0.3	-1.6
5	Growth in adjusted per capita GDP***	-4.2	-0.1	0.9	2.8	-1.0

*Revised

** Provisional

*** Adjusted on account of new population projection figures

Resource Allocation

2.23. Table 2.6 shows that increases in the annual rate of disposable income (GDP at market prices plus import surplus) decelerated from 21.4 per cent in 1997 to 12.9 per cent in 1998. This drop was a consequence of dampened aggregate demand resulting from slow growth. Receipts from indirect taxes grew by 11 per cent compared to 10.8 per cent in 1997. GDP at current factor cost amounted to K£ 30.084.9 million in 1998. Adding net indirect taxes, the value totalled K£ 34.947.9 million. Additionally K£ 2.691.4 million of resources were provided through the import surplus, so that the overall resource available for domestic investment and consumption was K£ 37,639.3 million in 1998.

TOTAL USE OF RESOURCES AT CURRENT PRICES. 1994 -1998

Table 2.6 K£million

		1994	1995	1996*	1997*	1998**
	G D P at Factor Cost	16,903.24	19,688.33	22,375.38	26,665.13	30,084.91
	Of which:					
	Non-Monetary	560.86	602.14	649.76	693.99	712.51
	Monetary	16,342 38	19,086 19	21,725.62	25,971.14	29,372.40
	Indirect Taxes	3131.78	3,576.32	3,955.90	4,383 54	4,865.46
	Subsidies	1.06	1.05	0.04	1.54	2.49
	G D P at Market Prices	20,033.96	23,263.60	26,331.24	31,047.13	34,947.88
+	Import of goods and non-factor services ..	6.782.06	9,006.93	9,757.73	11,029.82	11,295.73
-	Export of goods and services ..	7,411.24	7,629.82	8,622.96	8,741.73	8,604.33
=	Import Surplus ..	(629.18)	1,377.11	1,134.77	2,288.09	2,691.40
	Total Resources available for Domestic Investment and Consumption .	19,404.78	24,640.71	27,466.01	33,335.22	37,639.28
	Gross Fixed Capital Formation ..	3,780.82	4,974.83	5,223.48	5,493.50	5,690.37
	Change in Stocks	84.17	101.00	150.00	270.00	310.50
	Gross Investment	3,864.99	5,075.83	5,373.48	5,763.50	6,000.87
	Public Consumption	3,035.97	3,452.84	4,226.17	5,038.51	5,618.23
	Private Consumption	12,503.82	16,112.04	17,866.36	22,533.21	26,020.18
	TOTAL CONSUMPTION	15,539.79	19,564.88	22,092.53	27,571.72	31,638.41

*Revised

**Provisional

2.24. The share of gross investment to GDP at market prices declined from 21.8 per cent in 1995 to 17.2 per cent in 1998. This decline is the result of exogenous factors (especially international commodity prices and unfavourable weather) and domestic policies. Lack of sufficient domestic credit, poor international publicity endorsed by withholding of ESAF support since 1997 have played a significant role in the deterioration of the investment climate in the country.

Financing of Capital Formation

2.25. Financing of capital formation is supported by grants, net borrowing from abroad and domestic saving (Table 2.7). Financing of fixed investment through domestic resources has experienced fluctuations ranging between 75.5 per cent in 1996 to 55.5 per cent in 1998 which represents increased dependence on foreign support for fixed investment. A large share of this support is from bilateral donors such as Japan and international agencies such as WB and IMF. Grants from abroad only grew by 5.1 per cent in 1998 compared to 20.5 per cent in 1997.

FINANCING OF CAPITAL FORMATION, 1994 - 1998

Table 2.7 K£million

	1994	1995	1996*	1997*	1998**
GROSS CAPITAL FORMATION					
Gross Fixed Capital Formation	3,780.82	4,974.83	5,223.48	5,493.50	5,690.37
Changes in Stocks	84.17	101.00	150.00	270.00	310.50
TOTAL	**3,864.99**	**5,075.83**	**5,373.48**	**5,763.50**	**6,000.87**
FINANCING:					
Grants from Abroad	529.93	885.15	1,104.93	1,331.75	1,400.09
Net borrowing from Abroad	-291.06	1,030.86	211.18	1,107.88	1,272.90
Domestic Saving	3,626.12	3,159.82	4,057.37	3,323.87	3,327.88
TOTAL	3,864.99	5,075.83	5,373.48	5,763.50	6,000.87

*Revised

Provisional

Factor Incomes and Gross National Product

2.26. Since 1994, the total real remuneration of employees has increased by 81 per cent from K£7,288.2 million to K£13,221.4 million in 1998. However, the share of total remuneration to Gross National Product only fluctuated between 35.3 and 37.8 during this period. Other operating surplus accounted for 45 per cent of total GDP at market prices. Rental surplus rose by 6.6 per cent in 1998.

2.27. Although factor incomes received from abroad increased by 84.5 per cent in 1998, GNP did not surpass GDP at market prices. Over the last five years factor incomes paid abroad have consistently declined from K£ 1,153.7 million to K£681.2 million. This may be explained by the fact that there has been dwindling domestic fixed investment whereas there has been heavy investment in Treasury bills, which have higher returns.

2.28. The Gross National Product (GNP) followed declining trend between 1994 and 1998. It rose by 22.4 per cent in 1994, then fell gradually to 13.4 per cent in 1998. These changes appear to be associated with the movements in factor incomes paid abroad, largely attributable to the performance of the economy.

Table 2.8 K£million

	1994	1995	1996*	1997*	1998**
FACTOR INCOMES:					
A. Non-Monetary Economy ..	560.86	602.14	649.76	693.99	712.51
B 1. Remuneration of Employees :					
Enterprises	4,607.63	5,635.99	5,947.46	7,086.52	8,830.60
Private Households	211.13	247.21	284.17	308.74	334.36
Producers of Government Services	2,469.44	2,863.50	2,851.19	3,449.45	4,056.43
TOTAL	7,288.20	8,746.70	9,082.82	10,844.71	13,221.39
2. Rental Surplus (excluding depreciation)	764.86	814.00	936.10	1,048.43	1,117.63
3. Other Operating Surplus (including depreciation)	8,289.32	9,525.49	11,706.70	14,402.69	15,454.93
TOTAL MONETARY ECONOMY	16,342.38	19,086.19	21,725.62	26,295.83	29,793.95
TOTAL FACTOR INCOMES = GROSS DOMESTIC PRODUCT (AT FACTOR COST)	16,903.24	19,688.33	22,375.38	26,989.82	30,506.46
Add Indirect Taxes	3,131.78	3,576.32	3,955.90	4,383.54	4.865.46
Deduct Subsidies	1.06	1.05	0.04	1.54	2.49
GROSS DOMESTIC PRODUCT AT MARKET PRICES	20,033.95	23,263.60	26,331.24	31,371.82	35,369.43
Add: Factor Incomes Received From Abroad	58.60	65.95	61 24	67.50	124.52
Deduct: Factor Incomes Paid Abroad	1,153.72	991.58	791.84	794.16	681.21
GROSS NATIONAL PRODUCT ..	18,938.83	22,337.97	25,600.64	30,645.16	34,812.74

* Revised
Provisional.

Trends in Gross Fixed Capital Formation

2.29. Gross fixed capital formation (GFCF) by type of assets and industry are presented in Table 2.9 and Table 2.10. Total nominal public investment decreased slightly by 0.8 per cent from K£ 2,093.09 million in 1997 to K£ 2,076 million in 1998, as a result of lower government expenditure on development projects. Private nominal capital formation increased from K£ 3,400.41 million in 1997 to K£ 3,614.18 million in 1998, a rise of 6.3 per cent. The bulk of investments was observed in machinery and equipment and other construction works which contributed 43.9 per cent and 24.9 per cent to the total respectively. In the past few years, substantial growth has been recorded in information and technology equipment, mainly in private sector to enhance operation and reduce expenditure on labour. Transport equipment recorded a relatively high growth in 1998, mainly due to purchase of a new aircraft by Kenya Airways. Real capital formation stagnated at K£ 975 million.

GROSS FIXED CAPITAL FORMATION BY TYPE OF ASSET, 1994 -1998

Table 2.9 K£million

	CURRENT PRICES					CONSTANT (1982) PRICES				
	1994	1995	1996*	1997*	1998**	1994	1995	1996*	1997*	1998**
DWELLINGS:										
PRIVATE:										
Non-Monetary	133.25	140.91	149.36	154.18	157.34	26.65	27.63	29.15	29.09	28.61
Monetary	46.63	28.85	29.71	38.73	35.63	9.33	5.66	5.61	7.31	6.48
TOTAL	179.88	169.76	179.07	192.91	192.97	35.98	33.29	34.76	36.40	35.09
PUBLIC	107.00	89.85	93.50	83.50	70.15	21.40	17.62	17.64	15.76	12.76
TOTAL	286.88	259.61	272.57	276.41	263.12	57.38	50.91	52.40	52.16	47.84
NON-RESIDENTIAL BUILDINGS										
PRIVATE	35.53	38.94	45.61	49.40	52.27	6.68	6.46	7.48	8.66	9.01
PUBLIC	263.55	494.10	438.88	469.49	432.03	49.54	81.98	71.97	82.37	74.49
TOTAL	299.08	533.04	484.49	518.89	484.30	56.22	88.44	79.45	91.03	83.50
OTHER CONSTRUCTION WORKS										
PRIVATE	165.35	252.10	428.60	402.62	444.02	41.34	41.83	78.86	80.52	83.78
PUBLIC	426.42	742.00	857.88	862.30	843.11	106.61	150.81	157.85	172.46	159.08
TOTAL	591.77	994.10	1,286.48	1,264.92	1,287.13	147.95	192.64	236.71	252.98	242.86
LAND IMPROVEMENT AND PLANTATION DEVELOPMENT										
PRIVATE	11.05	12.47	18.36	2263	2642	11.05	12.47	18.36	22.63	26.42
PUBLIC	0.25	4.09	4.03	332	1.35	0.25	4.09	4.03	3.32	1.35
TOTAL	11.30	16.56	22.39	25.95	27.76	11.30	16.56	22.39	25.95	27.76
TRANSPORT EQUIPMENT										
PRIVATE	346.86	736.92	566.58	589.93	711.12	63.06	135.43	100.63	98.32	114.70
PUBLIC	122.68	116.72	134.26	162.07	175.96	24.88	21.45	23.85	27.01	28.38
TOTAL	469.54	853.64	700.84	752.01	887.08	87.94	156.88	124.48	125.33	143.08
MACHINERY AND OTHER EQUIPMENT										
PRIVATE	1.235.06	1,929.69	2,001.47	2,140.92	2,185.37	257.81	346.59	355.47	343.65	341.46
PUBLIC	885.29	386.19	453.24	512.40	553.61	179.59	69.36	80.50	82.25	86.50
TOTAL	2,120.35	2,315.88	2,454.71	2,653.32	2,738.98	437.40	415.95	435.97	425.89	427.97
BREEDING STOCK AND DAIRY CATTLE										
PRIVATE	1.90	2.00	2.00	2.00	2.00	1.90	2.00	2.00	2.00	2.00
TOTAL:										
Non-Monetary Dwellings	133.253	140.91	149.36	154.18	157.34	26.65	27.63	29.15	29.09	28.61
Other	1,842.38	3,000.97	3,092.33	3,246.23	3,456.83	391.17	550.44	568.41	563.09	583.85
TOTAL PRIVATE	1,975.64	3,141.88	3,241.69	3,40041	3,614.17	417.82	578.07	597.56	592.18	612.45
TOTAL PUBLIC***	1.805.19	1,832.95	1,981.79	2,093.08	2,076.19	382.27	345.31	355.84	383.17	362.55
TOTAL PRIVATE AND PUBLIC	3,780.82	4,974.83	5,223.48	5,493.50	5,690.37	800.09	923.38	953.40	975.35	975.00

* Revised

** Provisional

*** Includes Central Government. Municipalities. Councils and Parastatals

GROSS FIXED CAPITAL FORMATION BY INDUSTRY, 1994 - 1998

Table 2.10 K£million

	Current Prices					CONSTANT (1982) PRICES				
	1994	1995	1996*	1997*	1998**	1994	1995	1996*	1997*	1998**
A. NON-MONETARY ECONOMY										
Non-Monetary Dwellings	133.25	140.91	149.36	154.18	157.34	26.65	27.63	29.15	29.09	28.61
B. MONETARY ECONOMY:										
Enterprises and Non-Profit Institutions:										
Agriculture	246.73	344.86	339.74	343.20	402.54	60.81	73.72	77.10	76.99	87.82
Forestry	12.23	12.75	5.07	6.40	3.61	2.84	2.21	0.92	1.03	0.57
Fishing	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mining and Quarrying	13.96	35.75	37.06	43.84	49.43	2.84	6.43	6.58	7.05	7.75
Manufacturing	598.82	961.64	1,172.89	1,210.14	1,254.77	121.62	171.83	209.69	202.07	202.61
Building and Construction	149.70	307.99	301.50	402.44	456.38	32.72	54.94	53.71	57.19	65.37
Electricity and Water	177.03	256.97	391.86	349.13	402.20	37.26	45.37	70.94	73.49	78.09
Trade, Restaurants and Hotels	122.63	184.22	169.57	192.32	174.17	24.39	32.86	29.72	31.83	28.02
Transport,Storage and Communications	1,291.70	1,212.64	1,190.68	1,254.87	1,267.05	272.04	215.11	211.79	217.68	212.75
Finance,Insurance.Real Estate and Business Services	148.20	202.86	224.25	241.55	222.59	30.91	34.89	38.44	41.07	39.60
Ownership of Dwellings	160.64	125.80	130.84	140.61	119.01	32.16	27.62	27.69	29.10	22.52
Other Services	152.22	190.90	170.02	181.11	228.86	30.80	34.09	30.09	29.20	36.17
TOTAL	3,073.86	3,836.38	4,133.48	4.365.61	4,580.60	648.39	699.07	756.67	766.70	781.27
Producers of Government Services										
Public Administration	230.33	344.40	355.88	391.40	356.31	51.86	64.64	62.92	72.39	59.98
Defence	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Education	90.40	140.93	139.70	123.07	101.27	17.66	26 15	24.40	21.12	16.54
Health	66.02	119.82	94.60	125.64	131.83	13.88	25.53	17.60	22.92	22.83
Agricultural Services	78.45	115.65	162.68	133.64	147.41	16.27	23.36	29.55	24.08	25.53
Other Services	108.50	276.77	187.77	199.96	215.61	25.38	57.03	33.11	39.07	40.24
TOTAL	573.70	997.57	940.63	973.71	952.42	125.05	196.71	167.58	179.58	165.12
NON-MONETARY ECONOMY	133.25	140.91	149.36	154.18	157.34	26.65	27.63	29.15	29.09	28.61
MONETARY ECONOMY	3,647.56	4,833.95	5,074..11	5,339.32	5,533.03	773.44	895.78	924.25	946.28	946.39
TOTAL	3,780.81	4,974.86	5,223.47	5,493.50	5,690.37	800.09	923.41	953.40	975.37	975.00
PERCENTAGE RATES OF GROWTH										
Non-Monetary Economy	(1.77)	5.75	6.00	3.23	2.05	-6.69	3.68	5 50	(0.21)	(165)
Monetary Economy	35.62	32.53	4.97	5.23	3.63	(86.02)	15.82	3.18	2.38	0.01
TOTAL	33.82	31.58	5.00	5.17	3.58	(85.94)	15.41	3.25	2.30	(0.04)

* Revised

**Provisional.

CHAPTER 3 - REVISED MONEY AND BANKING AND BALANCE OF PAYMENTS STATISTICS

Background

The Central Bureau of Statistics revises its regular data series from time to time and has in the past informed users through Economic Survey (e.g 1982 and 1987). In the recent past, Money and Banking Statistics and Balance of Payments data series have been reviewed and a new series completed.

3.1. Successful harmonization of macroeconomic accounts requires the adoption of standard concepts, definitions and classification for the four macroeconomics systems of accounts namely, Balance of Payments (BOP), Government Finance Statistics (GFS), Money and Banking, and National Income Accounts. It is of great benefit to compilers and users of macroeconomic statistics, as the harmonization provides a better understanding of the interrelationship among the macroeconomics variables and also permits international comparability. The CBS had started harmonization of macroeconomic statistical systems before the release of 1993 System of National Accounts (SNA). Issues looked into were those methodological ones, which touched on the classification of transactions.

3.2. The need to improve the quality of various series presented in respect of appropriateness of concepts, accuracy of measurement and usefulness for economic analysis have led to revisions in the, Money and Banking, Balance of Payments and International Reserve statistics. This chapter presents some explanatory notes on the changes that have taken place in the affected data series in order to enable users to link the old and new series. The revisions in this chapter are from 1995 or 1996. Changes in the revised series have, in particular affected chapters 5 and 7 of this *Economic Survey.*

Money and Banking Statistics

Introduction

3.3. In Kenya, changes that have affected monetary statistics and foreign exchange reserves data have been necessitated by the following factors:

- Liberalization of exchange control
- Application of the residency criterion as used in BOP statistics
- Full coverage of International Monetary Fund (the Fund) related accounts
- Incorporation of all foreign exchange reserves held by the Central Government abroad
- Reclassification of certain accounts according to recommendations contained in 1993 SNA
- Treatment of transactions like repurchase agreements, clearing items etc. according to recommended international standards
- Need to define higher aggregates of money supply to reflect changes in the composition of financial instruments in terms of their liquidity

These changes were implemented by the Central Bank in April 1998 and the revisions were effected backwards to December 1995. The effect of these changes is shown on the individual summarized accounts of the financial institutions involved. These accounts are summarized into consolidated accounts of the banking system and central monetary authorities foreign exchange reserves and are reflected in Tables 3.1, 3.2, 3.3 and 3.4.

CONSOLIDATED ACCOUNTS OF THE BANKING SYSTEM. 1995 - 1997

Table 3.1 (Old series) K£Million

	AS AT THE END OF		
	1995	1996	1997
LIABILITIES-			
1. Money (M1):			
1.1 Demand Deposits	2,221.47	2,451.13	2,751.73
1.2 Currency outside banks	1,444.55	1,519.70	1,809.09
Sub-Total	3,666.02	3,970.83	4,560.82
2. Quasi-Money(MS):			
2 1 Call + 7 days Notice Deposits	797.34	776.54	944.71
2.2 Savings Deposits . ..	2,332.86	2,599.38	2,896.70
2.3 Time Deposits	2,852.69	4,596.61	5,512.69
Sub-Total	5,982.89	7,972.53	9,354.10
Money Supply(M2)	9,648.91	11,943.36	13,914.92
3 Quasi-Money (NBFIs)	2,215.92	1,769.12	1,011.95
Adjustments for Cross Bal	-282.57	-288.02	-192.15
Total Money Supply(M3)	11,582.26	13,424.46	14,734.72
4. Other Items (Net)	1,041.00	1,613.65	2,540.26
TOTAL	12,623.26	15,038.11	17,274.98
ASSETS-			
4. Net Foreign Assets	345.65	1,432.25	1,514.36
5. Domestic Credit			
5.1 Central Govt. (Net).. ..	3,726.26	3,719.53	4,177.93
5.2 Private Sector	8,282.95	9,601.51	11,174.15
5.3 Other Public Bodies	268.40	284.84	408.54
TOTAL	12,623.26	15,038.13	17,274.98

Source:Central Bank of Kenya

Central Bank of Kenya

3.4. In the Central Bank Accounts, the following changes have been adopted:

- Assets and liabilities: These are valued at the end of every month using the exchange rate prevailing at the end of the period. Previously, both end of month and daily exchange rates were used.

- Clearing items: These used to be classified under other assets but are now included in credit to government.

- Loans and advances to employees of the Bank: These were previously classified under other assets. They are now classified separately under credit to private sector.

Repurchase agreements: These are classified as short term loans provided against third party securities as collateral. These transactions should not affect claims on government but rather affect those of the Central Bank and commercial banks. Thus, Treasury bills and bonds under repurchase agreements are classified under claims on banks and should be viewed as loans.

Commemorative coins: Under liabilities, they are now excluded from currency in circulation. Previously these coins were treated as part of currency in circulation.

CONSOLIDATED ACCOUNTS OF THE BANKING SYSTEM, 1995 - 1997

Table 3.2 (New series) K£ Million

	AS AT THE END OF		
	1995	1996	1997
LIABILITIES-			
1. Money (M1):			
1.1 Demand Deposits	2,214.48	2,442.56	2,744.17
1.2 Currency outside banks(MO)	1,444.35	1,519.50	1,808.89
Sub-Total	3,656.63	5,962.66	4,555.66
2. Quasi-Money(MS):			
2.1 Call + 7 days Notice Deposits	796.61	775.97	922.77
2.2 Savings Deposits .	2,329.41	2,594.59	2,890.74
2 3 Time Deposits	2,844.33	4,585.66	5,523.96
Sub-Total	5,970.35	7,956.22	9,337.47
Money Supply (M2)	6,629.18	11,918.28	13,890.53
3. Quasi-Money (NBFIs)	2,207.70	1,761.15	1,004.22
Adjust, for Cross Balances	-282.57	-288.02	-192.15
Broad Money Supply (M3)	11,554.31	13,391.41	14,702.60
4. Foreign Currency Deposits	683.44	786.07	1,163.09
Broad Money Supply (M3X)	12,237.75	14,177.48	15,865 69
5. Treasury Bill Holdings	2,004.51	2,171.33	2,664.97
Broad Money Supply (M3XT)	14,242.26	16,348.81	18,530.66
6. Other Items (Net)	1,349.00	1,763.81	2,829.76
TOTAL LIABILITIES	13,586.75	15,941.29	18,695.45
ASSETS-			
7. Net Foreign Assets	1,150.11	2,342.16	2,958.76
8. Domestic Credit:			
8.1 Central Govt. (Net)	3,871.12	3,688.06	4,133.26
8.2 Other Public Sector	251.45	267.74	393.62
8.3 Private Sector	8,314.06	9,643.33	11,209.82
Total Domestic Credit	12,436.63	13,599.13	15,736.70
TOTAL ASSETS	13,566.74	15,941.29	18,695.46

Source:Central Bank of Kenya.

Notes:

(a) Broad Money . M3, is money supplied by the Central Bank, Commercial Banks and NBFIs
The items include currency outside banking institutions, deposits held by non-banking institutions with Central B
all deposits as well as Certificates of deposits held by the private and other public sectors with banking institutio
Excluded are Central Government. Local Government and Non-residents deposits with banking institutions.

(b) Broad Money , M3X, comprise M3 and foreign currency holdings by residents

(c) Broad Money , M3XT, comprise M3X and Treasury bill holdings by the non-bank public

(d) Net Foreign Assets includes Government reserve position in the IMF

(e) Other Items (Net) includes SDR allocated by IMF

(f) Treasury bill holdings by the non-bank public is not included in total liabilities of the banking sytem.

CENTRAL MONETARY AUTHORITIES:FOREIGN EXCHANGE RESERVES, 1995- 1997

(Old series)

Table 3.3 K£million

As at end of	Central Bank Of Kenya				Total Net Foreign Reserves of Central Government Authorities	Total Net Foreign Reserves of Central Monetary Authorities	General Accounts With IMF			
	S.D.R.'s	Foreign Reserves	Foreign Liabilities (other than to IMF.)	Total Net Foreign Reserves of Central Bank*			Sub-scription	I.M.F. holding of Kenya Currency	Net use of Fund Credit**	Counter part Liability+ S.D.R. Account
1995	3.55	1,229.90	1.35	1,232.10	2.00	1,234.10	829.03	777.86	51.17	153.79
1996	2.10	2,311.35	1.85	2,311.60	2.89	2,314.49	787.29	738.68	48.61	146.05
1997										
January ..	28.00	2,234.60	1.80	2,260.80	2.55	2,263.35	760.71	713.74	46.97	141.12
February ..	2.40	2,456.50	3.00	2,455.90	2.45	2,458.35	758.62	711.63	46.99	140.73
March	2.35	2,764.30	3.65	2,763.00	2.36	2,765.36	796.29	746.98	49.31	147.72
April	2.35	2,902.05	4.75	2,899.65	2.04	2,901.69	755.50	708.67	46.83	140.15
May	1.05	2,779.35	2.50	2,777.90	1.94	2,779.84	741.65	695.67	45.98	137.58
June	1.10	2,811.15	8.15	2,804.10	0.88	2,804.98	753.65	706.93	46.72	139.81
July	28.10	2,643.80	5.95	2,665.95	2.00	2,667.95	798.01	748.55	49.46	148.04
August ..	1.65	2,377.35	3.35	2,375.65	2.01	2,377.66	896.13	840.58	55.55	166.24
September .	1.65	2,154.90	3.10	2,153.45	1.60	2,155.05	844.23	791.90	52.33	156.61
October ..	21.80	2,022.55	2.25	2,042.10	1.71	2,043.81	882.66	827.95	54.71	163.74
November ..	37.55	2,111.65	2.10	2,147.10	0.97	2,148.07	862.70	809.22	53.48	161.21
December ..	2.20	2,169.65	0.95	2,170.90	0.93	2,171.83	843.14	790.81	52.33	156.41

Source: Central Bank of Kenya.

* Excludes subscription to I M F.

** Figures with minus indicate use of Fund credit.

\+ Liability of the member country, corresponding to the issue of S D Rs.

Commercial Banks and Non - Bank Financial Institutions (NBFIs)

3.5. Under commercial banks and NBFIs, the following changes have been adopted:

- Under assets, loans and advances denominated in foreign currency to residents used to be lumped together with loans and advances to non-residents under foreign assets. Currently, they are included in domestic credit since these loans and advances do not constitute claims on non residents

- Under liabilities, foreign currency deposits of residents and certificates of deposits in foreign currency used to be classified under foreign liabilities. Currently, they are classified under quasi-money deposits since they do not constitute liabilities to non- residents.

CENTRAL MONETARY AUTHORITIES FOREIGN EXCHANGE RESERVES, 1995 - 1998

Table 3.4 (New Series) K£ Million

As at end of	Central Bank Of Kenya					Central Government			Total Net Foreign Reserves of Central Monetary Authorities
	SDR's	Foreign Reserves	External Banks' Deposits	Use of Fund Credit	Total Net Foreign Reserves of Central Bank*	Reserve Position in IMF	Other Holdings	Total Net Foreign Reserves of Central Government	
1995	3.53	1,223.96	1.35	1,045.64	180.50	51.19	2.00	53.19	233.69
1996	2.13	2,295.76	1.83	926.27	1,369.78	48.61	3.06	51.67	1,421.45
1997	4.30	2,406.40	0.93	790.84	1,618.93	52.28	0.93	53.22	1,672.14
1998									
January ..	29.55	2,386.22	0.93	753.43	1,661.41	49.99	1.28	51.27	1,712.69
February .	2.30	2,278.82	1.13	727.57	1,552.42	49.86	1.13	50.99	1,603.40
March	2.29	2,358.68	7.21	719.55	1,634.20	49.25	0.95	50.20	1,684.40
April	2.28	2,522.36	7.45	717.35	1,799.84	49.28	0.72	50.00	1,849.84
May	1.34	2,429.42	7.57	700.82	1,722.37	51.58	1.98	53.56	1,775.93
June . ..	0.63	2,241.36	4.96	643.13	1,593.89	48.73	1.77	50.50	1,644.39
July	16.31	2,372.46	5.70	632.27	1,750.80	48.29	1.43	49.71	1,800.51
August .	1.01	2,468.64	4.20	625.39	1,840.06	49.08	1.24	50.32	1,890.38
September	1.05	2,425.00	5.98	652.52	1,767.55	50.57	1.01	51.58	1,819.13
October	53.65	2,406.82	4.80	773.42	1,682.25	52.15	0.99	53.14	1,735.39
November	34.74	2,397.05	4.10	722.39	1,705.30	51.19	1.89	53.08	1,758.37
December	3.52	2,397.05	4.40	696.52	1,699.65	53.82	1.55	55.37	1,755.02

Source Central Bank of Kenya

* Reserves constitute foreign assets which are readily available for meeting external financial needs

Monetary Authorities Account

3.6. The changes already cited in the compilation of assets and liabilities of the Central Bank of Kenya also result in changes in the Monetary Authorities Account. Other changes have emanated from the incorporation of all Fund related accounts and the inclusion of government foreign exchange holdings abroad. The effects of these changes are as follows:

- Foreign assets of the monetary authorities accounts now include Government foreign exchange deposits with Crown Agents and the reserve position in the Fund, which were not previously included.

- Foreign liabilities of the Monetary Authorities Account include the Use of Fund Credit, which incorporates all the loans borrowed under various arrangements with the Fund.

Monetary and Banking Surveys

3.7. The monetary survey covers monetary authorities' and commercial banks' accounts whereas the banking survey also covers NBFIs' accounts. The changes in these accounts can be summarized under assets and liabilities of the banking system.

3.8. Net foreign assets - Two changes which need to be noted are:

- Net Foreign Assets of Central Bank and Central Government include reserve position in the Fund and government deposits with Crown Agents (which are used to pay for procurement of goods for the Kenya Government).

- Net Foreign Assets of Commercial Banks excludes foreign currency holdings by residents in local banks and loans and advances in foreign currency extended to residents.

3.9. Domestic credit - Conceptual treatment of these items has now changed as follows:

- Credit to Government includes clearing items, which are financial claims awaiting clearance. Credit to local government is recorded on a net basis, similar to the treatment given to credit to Central Government, since the expenditure by local authorities is not constrained by their cash holdings in banks as they depend on the Central Government for financing. Hence the need to exclude local government deposit from the coverage of domestic liquidity.

- Claims on Private sector now include CBK loans and advances to staff and foreign currency loans and advances to residents. Hitherto, these loans and advances were classified under other assets and loans to non-residents, respectively.

3.10. Liabilities - Several changes have been introduced, most notably:

- Under liabilities, other broader money supply aggregates have been introduced. These developments are as a result of inclusion of foreign currency accounts in domestic liquidity, which is consistent with the recommended international standards. Also, due to nature of its liquidity, non-bank holdings of government paper, basically 91-day treasury bills, is now included in broad money supply. It should be noted that, although holdings of treasury bills by the non-bank public is included in broader money supply aggregates, these are not monetary liabilities of the banking system. As broader money supply aggregate are introduced, lower money supply aggregates are redefined to exclude/include items which were wrongly included/excluded when taking into consideration the accepted international standards. The treatment of the various money supply aggregates have been effected as follows:

- Currency outside banks (MO), excludes commemorative coins which used to be part of currency in circulation.

- Money supply (Ml), comprises MO and demand deposits except those of the central government, local government and non-residents.

- Money supply (M2) comprises Ml and Quasi-money of Central Bank and Commercial banks. Excluded are deposits of Central Government, local government and non-residents.

- Broad money supply (M3) comprises M2 plus Quasi-money of non-bank financial institutions (NBFIs) but excludes local government, Central Government and non-residents deposits.

- Broad money supply (M3X) comprises M3 plus foreign currency holdings by residents.

- Broad money supply (M3XT), comprises M3X plus non bank public holdings of treasury bills.

- Note that, other items (net), under liabilities of the banking system, includes SDR allocation by the Fund.

3.11. Generally, these changes have resulted in increases in terms of magnitude in assets and liabilities of the banking system. Changes at item level are reflected in Tables 3.1 and 3.2 when comparison between the old and the new series is made. Secondly, the revised foreign exchange reserve of the monetary authorities, Table 3.4 reflects the correct position of the official net foreign reserves. These changes are viewed as improvement in quality of monetary statistics compiled in Kenya and thus enhancing international comparability.

Balance of Payments

Introduction

3.12. The measurement of the Balance of Payments position has been a central feature of International Monetary Fund (the Fund) operations. Such measurement is conducted in the dual context of Fund responsibility for surveillance of economic policies in member countries and provision of financial assistance in support of adjustment measures to correct balance of payments disequilibra. Consequently, the Fund, has a compelling interest in developing and disseminating appropriate international guidelines for the compilation of sound and timely balance of payments statistics. Such guidelines, which have evolved to meet changing circumstances, have been included in successive editions of the Balance of Payments manuals published by the Fund.

3.13. Due to the important relationship between external and domestic sectors of the economy, timely, reliable and comprehensive balance of payment statistics, based on an appropriate and analytically oriented methodology are an indispensable tool for economic analysis and policy making. With the increasing interdependence of the world's economies, the need for economic statistics, which reflects in part the underlying movement towards greater liberalisation and integration of markets, has increased over time.

3.14. In view of the many important changes and innovations that have occurred in international transactions since the fourth edition of the manual was published, the Fund introduced the fifth edition in 1993. Concepts in the new edition have been harmonised with the Fund's methodologies pertaining to money and banking statistics and system of national accounts statistics.

3.15. Central Bureau of Statistics has now adopted the conceptual guidelines of the fifth edition as the basis for compiling and disseminating balance of payments statistics. Revised data on all the affected series going back to 1996 have been included in this chapter to help compare the current developments with performance records of the recent past. The following paragraphs highlight changes in item composition as well as data in various sub-accounts of the balance of payments. Both the old and the new series have been presented in Tables 3.5 and 3.6 respectively.

Current Account

3.16. *Goods:* Goods account was formally called "Merchandise account". The major changes in the account are the inclusions of goods (such as fuel, provisions, stores and supplies) procured in ports by resident or non-resident carriers abroad or within Kenya's borders; repair activity that involves work performed by residents on movable goods owned by non-residents such as ships and aircraft; and electricity imports from Uganda. Previously these items were treated as services. These changes increased both the credit and debit side compared to the previous account, but the total current account remains unchanged.

3.17. *Transportation:* "Shipment and Other Transportation" account have been combined to form Transportation account. Previously included but now excluded from this account are insurance premium on imports; aircraft passenger meals; airport passenger tax. The new transportation account is extensively re-organised and now comprises of sea, air, rail, road and Lake Victoria transport. While the balance of the previous shipment account traditionally has been negative and on other transportation positive, the new account balance is positive. Most items previously classified under the previous accounts have been reclassified and renamed to conform to the new edition of the manual

3.18. *Travel:* Although the name of the account remains the same, items under the account have been re-organised and renamed. Earnings from tourism is now called personal expenditure on leisure activities such as holidays, participation in sports and other recreational and cultural activities, and visits with relatives and friends. Expenditure on students' travel and organised tours is now termed as education related expenditure. Foreign travel primarily covers the goods and services acquired from the Kenya economy by travellers during visits of less than one year.

3.19. *Other Services Private:* This account was formerly called "Other Goods, Services and Income; Private". The new account comprises international service transactions not covered under transportation and travel. The classification reflects the increasing global importance of items such as communications services and financial services, and the statistical requirements for multilateral negotiations on international services. The new classifications also establish a framework to encompass transactions anticipated to be of

growing importance for Kenya. Other items included in the account are insurance services, computer and information services and royalties and licence fees. Freight insurance, which was previously in shipment account, have now been shifted to this account and so is office expenses on airlines. Goods processing and energy-electricity previously under this account have been shifted to goods account. Labour income has been reclassified elsewhere.

3.20. *Government Services, n.i.e:* This account covers government services not contained in previous classifications. Included are transactions by embassies, consulates, aid mission, government tourist information and promotion services (abroad) and international bodies/foreign governments. The main change in this account is the inclusion of airport landing fees, which were previously classified under other transport account.

3.21. *Income Account:* This account was previously called International Investment Income Account. Income account now covers two types of transactions: those involving compensation of employees which is paid to non-resident workers and those involving investment income receipts and payments on external financial assets and liabilities. Included in the latter are receipts and payments on direct investment, portfolio investment, other investments, and receipts on reserve assets. The item on compensation of employees has been introduced in this account.

3.22. Items under this account have been completely re-organised and the presentation is completely different. Interest payments on foreign loans by the central government and local authorities sector have been merged under the general government sector. Interest payments by parastatals have also been lumped together and are now classified under interest income from other investment - other sectors. Direct investment income on equity, which used to be called dividends and profits, is now renamed dividends and distributed branch profits. The other portion of income on equity is re-invested earnings and undistributed branch profits.

3.23. *Current Transfers:* In the new classification, unrequited transfers government and unrequited transfers private have been merged to form current transfers account. In a departure from the previous edition of the manual, the Fifth edition distinguishes between current and capital transfers and assigns them either to the current or the capital and financial account.

3.24. *Distinctions Between Current and Capital Transfers:* To distinguish current transfers from capital transfers it is necessary to define the special characteristics of capital transfers: first, a transfer in kind is a capital transfer when it consists of the transfer of ownership of a fixed asset or the forgiveness of a liability (for example foreign debt) by a creditor when no counterpart is received in return; second, a transfer of cash is a capital transfer when it is linked to, or conditional on, the acquisition or disposal of a fixed asset (for example, an investment grant) by one or both parties to the transaction.

3.25. Current transfers consist of all transfers that are not transfers of capital. Current transfers are classified into two main categories: general government and other sectors. General government transfers include cash transfers between the Government and other governments to finance current expenditures by the Government; gifts of food, clothing, other consumer goods and medical supplies associated with relief efforts; gifts of certain

military equipment; and regular contributions from member governments to international organisations and regular transfers made as a matter of policy by international organisations, including NGOs to the Kenya government.

Capital and Financial Account

3.26. *Structure and Characteristics:* The capital and financial account (previously known as the capital account) is now divided into two main categories: the capital account and the financial account. In the previous editions of the manual, capital transfers were included indistinguishably with current transfers in the current account. The new capital and financial account comprises the following sub-accounts: capital; direct investment; portfolio investment; other investment and reserve assets

3.27. *Direct Investment:* This account was previously called Private Long Term Capital Account. Capital repatriation has been shifted to other investment account. The item on loan capital is now classified as loans under other investment account.

3.28. Direct investment capital is capital provided (either directly or through other related enterprises) by a direct investor to a direct investmeni enterprise or capital recalled from a direct investment enterprises by a direct investor. The components of direct investment capital transactions are now limited to equity capital, re-investment earnings, and other capital associated with various inter company debt transactions.

3.29. *Portfolio Investment:* Portfolio investment account has been expanded and now covers equity securities and debt securities in the form of bonds and notes, money market instruments and financial derivatives which include a variety of new financial instruments. The expanded coverage in transactions reflects changes in international financial markets in recent years and includes the introduction of many new financial instruments. The coverage and classification of portfolio investment is significantly revised in the new presentation. The classification scheme reflects recent financial market developments and efforts to improve links with other macroeconomics statistical systems of the IMF.

3.30. *Other Investment:* This account is a residual category that includes all financial transactions not covered in direct investment, portfolio investment or reserve assets. Government Long Term Capital Account, Parastatals Long Term Capital Account and Short Term Capital Account have been scrapped and most of the items previously under the three accounts are now classified under other investment account.

3.31. As is the case with portfolio investment, assets and liabilities of other investments, are classified primarily by the instrument involved, comprising trade creditors, loans, currency and deposits, and other assets and liabilities The secondary basis for classification in this account are the sectors of domestic creditor or debtor, namely monetary authorities, general government, banks and other sectors. The third - level basis for classification is the maturity (long-term and short-term) in contrast to direct and portfolio investment.

3.32. *Reserve Assets:* In the new series, reserve assets now comprises monetary gold; SDRs; reserve position in the Fund; foreign exchange assets consisting of currency and deposits, and securities; and other claims. Under the liberalised foreign exchange regime,

foreign assets held by commercial banks are no longer included under reserve assets, since the monetary authorities have no control on commercial banks' foreign assets. Use of Fund credit is now classified under other investment account.

Summary on Balance of Payments

3.33. Detailed re-classifications in the revised data series have helped to reveal more existing data gaps than was previously the case, especially in the capital and financial accounts. Specifically, statistics on foreign direct and portfolio investments are largely inadequate. This should form the focus of attempts to narrow the existing data gaps. A number of items have been shifted from one sub-account to another, some have been dropped and others introduced. In general, while the overall position has not changed, there is more clarity in data presentation. The resulting composition of the various sub-accounts now conforms more closely to the recommendations of the fifth edition of Balance of Payments Manual.

KENYA BALANCE OF PAYMENTS, 1996 - 1997

(Old series)

Table 3.5 *K£milhon*

	1996				1997			
	Assets	liabilities		Net	Assets	liabilities		Net
A -CURRENT ACCOUNT								
1. Merchandise (f o b.)	7,335.32	5,822 92	Dr	1,512.40	8,579.18	5,898.75	Dr	2,680.43
2. Shipment	1,174.33	262 55	Dr	911.78	1,045.68	291.77	Dr	753.91
3. Other Transportation	298.84	770.21		471.37	255.08	811.61		556.53
4 Foreign Travel	477.13	1,279 65		802.52	570.73	1,131.82		561.09
5 International Investment Income	691.72	61 24	Dr	630.48	657.50	67.50	Dr	590.00
6 Other goods, services and income Government	314.18	394 29		80.11	311.16	527.75		216.59
7. Other goods, services & income Private	258.81	146 94	Dr	111.87	404.65	131.68	Dr	272.97
8. Unrequited transfers-Government	4.67	370 30		365.63	0.00	289.15		289.15
9. Unrequited transfers-Private	12.04	1,247 76		1,235.72	0.00	1,566.07		1,566.07
TOTAL CURRENT ACCOUNT	10,567.04	10,355 86	Dr	211.18	11,823.98	10,716.10	Dr	1,107.88
of which: Visible Balance	7,335.32	5,822 92	Dr	1,512.40	8,579.18	5,898.75	Dr	2,680.43
Invisible Balance	3,231.72	4,532 94		1,301.22	3,244.80	4,817.35		1,572.55
B -CAPITAL ACCOUNT								
10.Government Long-term	1,039.93	1,054 20		14.27	936.86	597.30	Dr	339.56
11. Private Long-term	128.81	112 08	Dr	16.73	205.11	183.98	Dr	21.13
12. Parastatals Long-term	251.29	70.15	Dr	181.14	265.05	50.00	Dr	215.05
13. Short-term	0.00	1,865 87		1,865.87	129.71	1,770.43		1,640.72
TOTAL CAPITAL ACCOUNT	1,420.03	3,102 30		1,682.27	1,536.73	2,601.71		1,064.98
C. -ERRORS AND OMISSIONS			Dr	308.07				379.14
D. -OVERALL BALANCE				1,163.02				336.24
E. -MONETARY MOVEMENTS								
14 Change in reserves**	1,081.52	Dr 119.37	Dr	1,081.52	95.88		Dr	95.88
15.Transactions with I M F		37 87	Dr	119.37		Dr 185.44	Dr	185.44
16 Change in other liabilities				37.87		Dr 54.92	Dr	54.92
TOTAL MONETARY MOVEMENTS	1,081.52	Dr 81 50	Dr	1,163.02	95.88	Dr 240.36	Dr	336.24

Source: Central Bank of Kenya

** *Reserves are now defined to include Commercial Banks' foreign assets*

KENYA BALANCE OF PAYMENTS, 1996 - 1997
(New series)

Table 3.6

K£million

		Liabilities		Assets		Net		Liabilities		Assets		Net
A	-CURRENT ACCOUNT				Dr							
	1. Goods		5,949.47		7,419.75	Dr	1,470.28		6,056.89		8,658.35	Dr 2,601.46
	2. Transportation		825.90		1,187.45		361.55		838.69		997.02	Dr 158.33
	3. Foreign Travel		1,279.65		477.13		802.52		1,131.82		570.73	561.09
	4. Other Services - Private		146.94		367.71	Dr	220.77		131.68		503.49	Dr 371.81
	5. Government Services, n.i.e		421.00		406.57		14.43		582.65		345.73	236.92
	6. Income		61.24		691.72	Dr	630.48		67.50		748.66	Dr 681.16
	7. Current Transfers											
	Government		423.90		4.67		419.23		340.80		0.00	340.80
	Private		1,247.76		10.80		1,236.96		1,566.07		0.00	1,566.07
	TOTAL CURRENT ACCOUNT		10,355.86		10,565.80	Dr	209.94		10,716.10		11,823.98	Dr 1,107.88
	of which:											
	Visible Balance		5,908.07		7,375.06	Dr	1,466.99		6,022.09		8,595.95	Dr 2,573.86
	Invisible Balance		4,447.79		3,175.27		1,272.52		4,694.01		3,228.03	1,465.98
B	- CAPITAL & FINANCIAL ACCOUNT											
	8. Capital Account		0.00		1.24	Dr	1.24		0.00		0.00	0.00
	9. Direct Investment		30.12	Cr	7.69		37.81		51.48		0.00	51.48
	10. Portfolio Investment		21.55				21.55		100.34		0.00	100.34
	11. Other Investment		3,050.63		1,427.72		1,622.91		2,449.89		1,536.73	913.16
	Long Term		1,184.76		1,427.72	Dr	242.96		679.46		1,407.02	Dr 727.56
	Short Term		1,865.87		0.00		1,865.87		1,770.43		129.71	1,640.72
	TOTAL CAPITALS FINANCIAL ACCOUNT		3,162.30		1,421.57		1,681.03		2,601.71		1,536.73	1,064.98
C	-ERRORS AND OMISSIONS					Dr	315.81					379.14
D	-OVERALL BALANCE						1,155.28					336.24
E.	-MONETARY MOVEMENTS											
	12. Change in reserves**		0.50		1,081.52	Dr	1,081.02		0.93		95.88	Dr 94.95
	13. Use of Fund Credit	Dr	119.37			Dr	119.37	Dr	185.44			Dr 185.44
	14. Change in other liabilities		45.11				45.11	Dr	55.85			Dr 55.85
	TOTAL MONETARY MOVEMENTS	Dr	73.76		1,081.52	Dr	1,155.28	Dr	240.36		95.88	Dr 336.24

Source: Central bank of Kenya

** *Official reserves are now defined to exclude Commercial Banks' foreign assets*

Overview

4.1. The low employment creation observed in 1997 continued in 1998, with growth in wage employment in the modern sector decelerating from 1.8 per cent in 1997 to 1.1 per cent in 1998. This was mainly occasioned by both the current economic recession, which has affected employment in the private sector, and the ongoing reforms in the public sector. Nominal average earnings increased by 25.1 per cent to K£ 6,258.3 per annum and their growth in real terms accelerated from 8.5 per cent in 1997 to 17.3 per cent in 1998. The overall inflation rate eased from a double-digit level of 11.2 per cent in 1997 to single digit level of 6.6 per cent in 1998.

Employment

4.2. The Kenyan economy generated 384,800 additional jobs outside small-scale farming and pastoralist activities, as employment rose from 4.7 million persons in 1997 to 5.1 million people in 1998. As shown in Table 4.1, most of the additional jobs were created by the expanding informal sector, because employment in the modern sector expanded by only 1.1 per cent in 1998.

Table 4.1 PERSONS ENGAGED: RECORDED TOTALS: JUNE, 1995 - 1998 '000's

	1995	1996	1997	1998*
Modern Establishments - Urban and Rural Areas:				
Wage Employees	1,557.0	1,618.8	1,647.4	1,664.9
Self-employed and unpaid family workers	61.1	63.2	64.1	64.8
Informal Sector	2,240.5	2,643.8	2,986.9	3,353.5
TOTAL	3,858.6		4,698.4	5.083.2

4.3. Modern Sector - Employment in the modern sector rose to stand at 1.73 million persons, of which 1.66 million persons were wage employees. Growth in wage employment within the modern sector decelerated from 4.0 per cent in 1996 to 1.8 per cent in 1997 and further to 1.1 per cent in 1998. The slow growth is attributed to the current economic downturn, which has led to reduced recruitment and retrenchment of employees. Further, the ongoing public sector reforms have reduced the size of the public sector through retrenchments and recruitment embargoes. Non-wage employment in the form of self-employed and unpaid family workers stood at 64,800 persons, accounting for only 3.7 per cent of the modern sector employment in 1998.

4.4. Table 4.2 presents wage employment by broad industrial classification of economic activities. The slight increase in wage employment in the modern sector was confined to the private sector, as wage employment in the public sector declined marginally by 0.4 per cent in 1998. Growth in wage employment within the private sector reduced for the second year running, from 5.9 per cent in 1996 to 3.1 per cent in 1997, and further to 2.2 per cent in 1998. Of the leading industries in the private sector, wage employment in the agricultural industry rose by 1.9 per cent, slightly above the 1.7 per cent growth of 1997, but below the 4.3 per cent growth recorded in 1996. The slight improvement is largely attributed to improved performance of the industry, despite the prevailing economic recession. Wage employment in the manufacturing activities within the private sector rose by only 2.1 per cent

due to reduced performance of the sector, largely occasioned by stiff competition from low-priced imported consumption goods. Employment in the financial sector was adversely affected by closing or merging of some branches as part of structural changes in the banking industry. Also, the continued installation of Automated Teller Machines (ATMs) and the unsuccessful bankers strike staged in 1998 led to retrenchment of tellers and dismissal of some of the striking bankers. As a result, growth in the sector's employment decelerated from 4.5 per cent in 1997 to 2.1 per cent in 1998. The other notable change in employment within the private sector is the slight decline in employment in the transport and communications activities, caused by both the recession and poor road infrastructure.

WAGE EMPLOYMENT BY INDUSTRY AND SECTOR. 1994-1996

Table 4.2 000's

	1994	1995	1996	1997	1996*	% change
PRIVATE SECTOR						
Agriculture and Forestry	213.1	226.8	236.6	240.6	2452	1.9
Mning and Quarrying	3.9	4.0	4.1	4.3	4.3	0.0
Manufacturing	156.2	165.5	172.3	177.1	180.8	2.1
Electricity and Water	1.2	1.3	1.3	1.4	1.5	7.1
Building and Construction	44.2	47.1	49.6	51.6	51.9	0.6
Wholesale and Retail Trade, Restaurants and Hotels	119.7	127.9	136.2	141.7	144.3	1.8
Transport and Communications	37.2	38.1	41.4	431	43.1	0.0
Finance, Insurance, Real Estate and Business services	57.1	59.7	62.6	65.4	66.8	21
Community, Social and Personal Services	162.6	196.6	213.8	221.6	229 3	3.5
TOTAL PRIVATE SECTOR	817.2	867.0	917.9	946.8	967.2	22
PUBUC SECTOR						
Agriculture and Forestry	67.9	67.2	66.4	66.0	63.6	-22
Mining and Quarrying	0.7	0.7	0.7	0.7	0.7	0.0
Manufacturing	39.3	39.3	38.2	37.4	36.1	-3.5
Electricity and water	21.1	21.6	220	220	21.7	-1.4
Building and Construction	29.3	29.3	29.2	28.3	27.4	-3.2
Wholesale and Retail Trade, Restaurants and Hotels	6.9	7.0	7.0	6.5	6.4	-1.5
Transport and communications	41.0	41.0	44.8	427	41.9	-1.9
Finanoe, Insurance. Real Estate and Business services	17.9	18.3	18.4	17.8	17.2	-3.4
Community, Social and Personal Services ..	464.2	465.6	474.2	480.2	482.8	0.5
TOTAL PUBUC SECTOR	688.3	690.0	700.9	700.6	607.7	-0.4

• Provisional

4.5. As shown in Tables 4.2, total employment in the public sector declined by 0.4 per cent in 1998. This is mainly due to the ongoing public sector reform programme, which involves trimming of the Civil Service and continued privatisation of non-strategic public enterprises, and reforming strategic public enterprises. Although privatisation does not largely affect the overall employment level, it shifts the affected employees from public to private sector employment. The share of public sector employment in the modern sector has declined steadily from 51.1 per cent in 1991 to 44.3 per cent in 1995 and further to 41.9 per cent in 1998. All economic activities were affected, with the exception of community, social and personal services. Of the major economic activities, public employment in agricultural, manufacturing, construction and financial sectors recorded significant declines, mainly due to privatisation.

4.6. Available data show there has been a net reduction of 54,200 employees since the start of the Civil Service Reform Programme in 1993. Some 2,500 civil servants retired under Voluntary Early Retirement Scheme, while 5,100 persons left the service through natural attrition between June 1997 and June 1998. During the same period, 2,800 new staff was recruited into the service, resulting into a net reduction during the 1997/98 financial year of

4,900 employees. Table 4.3 shows that the number of civil servants stood at 214,100 persons composed of 211,800 payroll employees and 2,300 casuals and work-paid staff at the end of June 1998. This represented a decline of 2.3 per cent, which is much slower than in the previous years.

WAGE EMPLOYMENT IN THE PUBLIC SECTOR*, 1994 - 1998

Table 4 3 '000's

	1994	1995	1996	1997	1998"	Annual Percentage Change 1998/1997
Central Government"*	256.2	241.4	228.0	219.1	214.1	-2.3
Teachers Service Commission	214.2	219.1	232.9	241.3	247.7	2.7
Parastatal Bodies+	109.7	111.4	114.3	112.8	108.9	-3.5
Majority Control by the Public Sector**	50.3	50.3	53.9	52.5	49.9	-5.0
Local Government	57.9	67.8	71.8	74.9	77.1	2.9
TOTAL	688.3	690.0	700.9	700.6	697.7	-0.4

* Revised series Figures refer to employment as at 30th June.

** Provisional.

*** Covers all civil servants on Government payroll plus casual workers in various ministries

+ Refers to Government wholly-owned corporations.

++ Refers to institutions where the Government has over 50 per cent of shares but does not wholly own them.

4.7. Employment in other Government institutions was affected by public reforms that include privatisation. By the end of June 1998, Government share holding had been offered for sale in a cumulative total of 162 directly or indirectly Government owned non-strategic companies out of the original 207. Privatisation of about one-third was effected through pre-emptive rights to co-shareholders and 39 tea factories have been privatised. Between June 1997 and June 1998, the Government reduced its share holding in the Kenya Commercial Bank to 35. 0 per cent through public offer, while progress was made in privatisation process for Mumias and Chemelil Sugar Companies and Kenya Re-Insurance Company. Employment in the parastatals and institutions with a majority control by the Government declined by 3.5 per cent and 5.0 per cent in 1998, respectively. Wage employment in Local Government increased by 2.9 per cent, mainly due to increasing number of local authorities resulting from creation of additional districts.

4.8. The number of persons employed by the Teacher Service Commission (TSC) rose by 2.7 per cent to 247,700 persons in 1998, which is less than the 6.3 per cent and 3.6 per cent growth recorded for 1996 and 1997 respectively. The TSC is focusing on replacing retiring personnel, reinstating disciplinary cases after resolving their cases and selective recruitment for post-primary institutions. Employment by the TSC as at June 1998 "was composed of 193,500 primary school teachers, 43,500 post primary teachers, 6,100 employees in special institutions, 3,000 persons in technical institutions, and 1,600 employees in the TSC secretariat.

4.9. Details of wage employment by Province are set out in Table 4.4. Nairobi Province continued to account for the largest proportion of wage employment with 25.1 per cent, followed by Rift Valley Province with 22.3 per cent. However, wage employment in Nairobi expanded by only 0.8 per cent, and its share in total wage employment has declined slightly from 25.7 per cent in 1995. This is largely due to the downsizing of the public sector, since a large proportion of its employees is based in Nairobi. Other provinces are increasingly generating employment opportunities to absorb the increasing labour force. North Eastern

Province, with the smallest share of only 0.9 per cent of total wage employment, registered a growth of 2.0 percent in wage employment in 1998.

WAGE EMPLOYMENT BY PROVINCE, 1995 - 1998

Table 4.4 000's

Province	1995	1996	1997	1998*	Percentage Change 1998/1997
Nairobi	400.1	410.9	414.9	418.2	0.8
Coast	194.5	201.3	203.6	205.4	0.9
North Eastern	14.3	14.8	15.1	15.4	2.0
Eastern	132.4	136.1	137.9	139.1	0.9
Central	219.9	230.1	235.2	238.5	1.4
Rift Valley	338.4	357.6	367.0	371.8	1.3
Nyanza	153.8	160.7	164.4	166.4	1.2
Western	103.6	107.3	109.3	110.1	0.7
TOTAL	1,557.0	1,618.8	1,547.4	1,664.9	1.1

* Provisional

4.10. As shown in Table 4.5. wage employment in the six industries dominant in urban areas accounted for 51.9 per cent of the total wage employment in the modern sector in 1998. Between 1993 and 1998, wage employment in urban areas went up by 18.3 per cent, as a result of the creation of 133,900 jobs. Nairobi accounted for the largest share of wage employment in all urban areas in 1998. However, its share to urban employment declined from 49.7 per cent in 1993 to 46.4 per cent in 1998, and it recorded the lowest growth in wage employment among other urban areas of 10.5 per cent over the five-year period. This indicates effective decentralisation of employment opportunities away from Nairobi and its environs. Over the same period, wage employment in Eldoret and Malindi urban centres grew by 54.2 per cent and 32.7 per cent respectively. Community, social and personal services are the largest employer of the urban labour force, followed by manufacturing and domestic trades. Over the five-year period, domestic trade and manufacturing activities recorded high employment growth rates of 21.7 per cent and 21.6 per cent respectively; whereas the financial sector recorded the lowest employment growth of 10.1 per cent.

WAGE EMPLOYMENT BY URBAN CENTRES AND SELECTED INDUSTRIES*, 1993 AND 1998

Table 4.5 '000's

	Manufacturing		Construction		Wholesale and Retail Trade, Restaurants and Hotels		Transport and Communica-tions		Finance, Insurance, Real Estate and Business Services		Community, Social and Personal Services		Total Six Industries	
Towns	1993	1998**	1993	1998**	1993	1998**	1993	1998**	1993	1998**	1993	1998**	1993	1998**
Nairobi	67.9	75.9	35.5	39.7	47.3	57.3	28.1	29.9	42.1	42.2	141.9	155.9	362.8	400.9
Mombasa	26.5	3.1	4.6	6.3	17.4	21.7	26.4	30.6	11.5	13.3	42.1	48.7	128.5	151.6
Kisumu	5.7	7.1	1.9	2.2	3.3	4.3	1.2	1.8	2.0	2.5	16.6	21.5	30.7	39.4
Nakuru	6.6	8.6	2.0	2.6	4.3	5.6	1.1	1.6	1.5	2.5	9.3	13.1	24.8	34.0
Thika	12.7	16.3	0.4	0.6	2.3	3.2	0.2	0.4	1.2	1.8	4.7	5.9	21.5	28.2
Eldoret	9.7	16.3	1.0	1.9	3.4	4.1	0.7	0.9	2.2	2.9	3.1	4.9	20.1	31.0
Malindi	0.3	0.4	0.1	0.3	2.1	2.9	0.2	0.3	0.3	0.4	2.5	3.0	5.5	7.3
Kericho	3.1	3.9	0.8	1.0	1.0	1.3	0.2	0.2	0.2	0.5	4.8	5.5	10.1	12.4
Others	19.1	24.9	15.5	17.4	18.4	20.7	7.4	8.3	3.5	4.9	62.0	82.8	125.9	159.0
TOTAL	151.6	184.4	61.8	72.0	99.5	121.1	65.5	74.0	64.5	71.0	287.0	341.3	729.9	863.8

* Urban Centres refer to those towns which had a population of 2000 or more persons in 1989

** Provisional.

4.11. The rapid and comprehensive economic reforms being undertaken have led to increased participation of women in the labour force. As shown in Table 4.6, the number of paid female employees increased by 2.9 per cent to 487,100 persons in 1998, much faster than the overall 1.1 per cent expansion in wage employment. Their proportion in total wage employment rose from 28.7 per cent in 1997 to 29.3 per cent in 1998. The increased participation of women in the labour force is mainly due to the opening up of opportunities occasioned by improved access to education and continued removal of barriers to the economic participation of females. Of the female wage employees, 42.8 per cent were working in the community, social and personal services. Educational services remained the main employer of females. However, the proportion of females employed in industries traditionally dominated by males remained low, with females employed in building and construction industry constituting only 6.3 per cent of total employees in the industry. There was a modest decline in the number of casuals, who are mostly engaged in construction and agricultural activities.

WAGE EMPLOYMENT BY INDUSTRY AND SEX, 1997 AND 1998

Table 4.6 '000's

INDUSTRY	MALES		FEMALES		TOTAL	
	1997	1998*	1997	1998*	1997	1998*
Agriculture and Forestry	230.0	232 3	75.6	76.5	305.6	308.8
Mining and Quarrying	3.7	3.9	1.3	1.1	5.0	5.0
Manufacturing ..	179.5	180.9	35.0	36.0	214.5	216.9
Electricity and Water	19.3	19.2	4.1	4 0	23.4	23.2
Building and Construction	74.7	74.2	5.2	5.0	79.9	79.2
Trade, Restaurants and Hotels	108.8	109.4	39.4	41.3	148.2	150.7
Transport and Communications	68.4	67.6	17.4	17.4	85.8	85.0
Finance, Insurance, Real Estate and Business Services ..	61.9	62.1	21.3	21.9	83.2	84.0
Community, Social and Personal Services-						
Public Administration ..	105.0	102.4	63.6	64.1	168.6	166.5
Education Services	175.5	177.9	117.4	123.5	292.9	301.4
Domestic Services	594	586	394	40.4	98.8	99.0
Other Services	87.8	89.3	53.7	55.9	141.5	145.2
TOTAL	1,174.0	1,177.8	473.4	487.1	1,647 4	1,664.9
Of which: Regular	964.3	980.4	382.3	393.9	1,346.6	1,374.3
Casual	209.7	197.4	91.1	93.2	300.8	290.6

* Provisional

Wage Earnings in the Modern Sector

4.12. Table 4.7 presents analysis of wage payments by sector and industrial activity for the period 1995 and 1998. Despite the slow pace of employment creation, the overall nominal wage bill increased from K£ 8,247.7 million in 1997 to K£ 10,170.3 million in 1998, a rise of 23.3 per cent. In 1998, total wage payments in private sector expanded by 23.8 per cent to stand at K£ 6,119.6 million accounting for 61.1 per cent of total payments in the modern sector. The trade and hotel industry absorbed the largest share, accounting for 21.1 per cent of wage payments in the private sector. Community, social and personal services and manufacturing activities followed with 21.5 per cent and 20.3 per cent respectively. The agriculture wage bill in the private sector increased by 21.8 per cent from K£ 513.2 million in 1997 to K£ 625.3 million in 1998 due to rise in wage employment occasioned by modest recovery in agricultural production. The wage bill for community, social and personal services and financial activities in the private sector rose

by 27.6 per cent and 25.1 per cent respectively. Growth in total payments in all other industries in the private sector were slightly below the corresponding growths in 1997.

ESTIMATED TOTAL WAGE PAYMENTS BY INDUSTRY AND SECTOR. 1995 - 1998

Table 4.7 K£million

	1995	1996	1997	1998**
PRIVATE SECTOR				
Agriculture and Forestry	328.6	421.4	513.2	625 3
Mining and Quarrying	9.3	11.3	13.3	15.6
Manufacturing	636.3	811.9	1,008.4	1,243.1
Electricity and Water	5.1	6.6	92	12.1
Building and Construction	154.0	200.4	250.0	307.0
Wholesale and Retail Trade. Restaurants and Hotels	661.3	865.3	1,086.3	1,327.7
Transport and Communications	218.8	289.6	360.9	433.5
Finance, Insurance .Real Estate and Business Services	430.2	542.9	672.6	841.8
Community, Social and Personal Services	610.4	810.0	1,029.4	1,313.5
TOTAL PRIVATE SECTOR	3,054 0	3,959 4	4.9433	6,119.6
PUBLIC SECTOR				
Agriculture and Forestry	125.5	158.7	193.1	244.2
Mining and Quarrying	2.7	3.0	3.6	4.6
Manufacturing	129.5	146.6	173.7	216.3
Electricity and Water	107.9	126.2	154.5	197.9
Building and Construction	85.3	104.2	123.2	139.2
Wholesale and Retail Trade, Restaurants and Hotels	30.5	35.9	40.2	51.3
Transport and Communications	191 6	260.7	301.4	394.5
Finance, Insurance .Real Estate and Business Services	159.0	195.6	247.7	327.0
Community, Social an'i Personal Services	1,426.5	1,731.1	2,067.0	2,475.7
TOTAL PUBLIC SECTOR	2,258.5	2,762.0	3,304.4	4,050.7
TOTAL PUBLIC AND PRIVATE	5,312.5	6,721.4	8,247.7	10,170.3

* Provisional

4.13. Public sector wage payments accounted for 39.8 per cent of the total wage bill in the modern sector and expanded by 22.6 per cent to stand at K£ 4,050.7 million in 1998. The growth in wage bill in the public sector is attributed to salary increment awarded to civil servants, teachers, university lecturers, police and prison services staff in November 1997. The wage bill in the community, social and personal services activity rose by 19.8 per cent and absorbed 61.1 per cent of the public sector payments in 1998. The slow down in the growth of wage payments in public sector is expected to emerge in future as privatisation and retrenchment is intensified to improve efficiency in the delivery of public services.

4.14. Table 4.8 presents a breakdown of wage payments in the public sector by type of employer. The wage bill for civil servants in the Central Government increased by 19.3 per cent to K£ 1,241.9 million in 1998, compared with 13.7 per cent in 1997, and absorbed 30.7 per cent of the total. The wage bill for the Teachers Service Commission rose by 32.8 per cent to K£ 1,215.6 million, and absorbed 30.0 per cent of total payments. The growth in the TSC wage bill is attributed to implementation of first phase of new salary scheme for teachers. The agreement provided for pay increases up to 200 per cent spread over five-year period, beginning on I^{s1} July 1997. The inclusion of the first increment in the 1998 data results from the fact that analysis of wage earnings is based on the June payroll for TSC employees, and was therefore excluded from the 1997

analysis. Wage payments for parastatals rose by 15.4 per cent, mainly due to increases in staff salaries as employment declined by 3.5 per cent.

TOTAL WAGE PAYMENTS IN THE PUBLIC SECTOR. 1995 - 1998

Table 4.8 K£million

	1995	1996	1997	1998*
Central Government	839.1	915.6	1,040.9	1,241.9
Teachers Service Commission**	552.8	728.8	915.5	1,215.6
Parastatal Bodies***	423.4	508.7	593.5	684.8
Majority Control by the Public Sector+	221.8	297.0	358.0	414.4
Local Government	221.4	311.9	396.5	494.0
TOTAL	2,258.5	2,762.0	3,304.4	4,050.7

* Provisional

*• Refers to position as at 30th June, but the June figures are annualised by multiplying by 12 for earnings.

*** Refers to Government wholly-owned corporations

\+ Refers to institutions where the Government has 51 per cent or more shareholding but does not fully own them.

4.15. As shown in Table 4.9, overall average earnings increased by 25.1 per cent, from K£ 5,004.6 per annum in 1997 to K£ 6,258.3 per annum in 1998. The growth in average earnings per annum is largely attributed to upward wage adjustments during the year. Average earnings in the private sector expanded by 21.2 per cent to K£ 6,327.1 per annum in 1998, and were in most cases higher than the corresponding earnings for workers in the public sector. Analysis across different activities within the private sector reveals some dispersion of earnings, with the highest average earnings recorded for the financial services in private and public sectors. On the other hand, average earnings in the agricultural activities have remained lower than overall mean average earnings during the 1995 - 1998 period.

Table 4.9 K£ per annum

	1995	1996	1997	1998*
PRIVATE SECTOR:				
Agriculture and Forestry	1,448.8	1,781.3	2,133.2	2,550.2
Mining and Quarrying	2,331.9	2,728.1	3,121.8	3,584.4
Manufacturing	3,845.4	4,712.4	5,694.8	6,876.3
Electricity and Water	4,027.9	4,970.4	6,334.1	8,154.5
Building and Construction	3,268.8	4,042.0	4,842.3	5,920.0
Trade, Restaurants and Hotels	5,169.8	6,354.1	7,666.1	9,199.0
Transport and Communications	5,745.1	6,988.1	8,365.2	10,060.9
Finance. Insurance ,Real Estate and Business Services	7,204.0	8,671.0	10,290.3	12,600.6
Community, Social & Personal Services	3,104.5	3,788.5	4,645.0	5,728.2
TOTAL PRIVATE SECTOR	3,522.6	4,313.4	5,221.1	6,327.1
PUBLIC SECTOR:				
Agriculture and Forestry	4,291.1	2,390.1	2,970.8	3,839.6
Mining and Quarrying	97.2	4,285.7	5,142.9	6,571.4
Manufacturing	4,464.1	3,837.7	4,644.4	5,991.7
Electricity and Water	3,613.4	5,736.4	7,022.7	9,119.8
Building and Construction	5,108.3	3,568.5	4,353.4	5,080.3
Trade, Restaurants and Hotels	1,030.2	5,128.6	6,184.6	8,015.6
Transport and Communications	5,738.5	5,819.2	7,058.5	9,415.3
Finance, Insurance .Real Estate and Business Services	4,341.9	10,630.4	13,915.7	19,011.6
Community, Social & Personal Services	3,073.0	3,650.6	4,304.5	5,127.8
TOTAL PUBLIC SECTOR	3,273.1	3,940.4	4,716.2	5,806.0
TOTAL PRIVATE AND PUBLIC SECTOR	3,409.0	4,150.1	5,004.6	6,258.3
MEMORANDUM ITEMS IN PUBLIC SECTOR:				
Central Government	3,476.00	4,016.50	4,750.80	5,800.7
Teachers Service Commission**	2,523.10	3,129.20	3,793.20	4,908.4
Parastatal Bodies***	3,800.70	4,449.10	5,261.30	6,287.3
Majority Control by the Public Sector +	4,411.50	5,505.60	6,818.70	8,305.2
Local Government	3,263.80	4,344.20	5,294.80	6,406.7
TOTAL PUBLIC SECTOR	3,273.1	3,940.4	4,716.2	5,806.0

* Provisional.

** Refers to position as at 30th June.The June earnings figures are annualised by multiplying by 12.

*** Refers to Government wholly-owned corporations.

\+ Refers to institutions where the Government has 51 per cent or more shareholding but does not fully own them

4.16. Average earnings in the public sector increased by 23.1 per cent, which is somewhat faster than the 21.2 per cent growth recorded for earnings in private sector in 1998. Within the public sector, average earnings for employees of the central Government rose by 22.1 per cent to K£ 5,800.7 per annum. Average earnings for employees of the TSC improved by 29.4 per cent from K£ 3,793.2 in 1997 to K£ 4,908.4 per annum. Despite the large salary increment awarded in October 1997, average earnings for TSC employees remained lower than those of civil servants, because most of the TSC employees are in lower cadres. Average earnings for employees in parastatals and other institution with majority control by the Government were above those of civil servants and teachers.

4.17. Between 1993 and 1998, overall average earnings more than doubled from their 1993 levels, partly due to the indexing of wages to inflation. As shown in Table 4.10, average earnings in the private sector rose faster than earnings in the public sector. Notable increases in average earnings within the private sector were recorded in electricity and water, building and construction and community, social and personal services industries; while in the public sector, increases in average earnings were notable in agriculture and forestry, financial and transport activities. Local Government employees have benefited from a significant growth in earnings per person during the last five years.

PERCENTAGE CHANGES IN WAGE EMPLOYMENT AND AVERAGE EARNINGS, 1998/93 AND 1998/97

Table 4.10

	EMPLOYMENT		AVERAGE EARNINGS	
	1998/1993	1998/1997	1998/1993	1998/1997
PRIVATE SECTOR:				
Agriculture and Forestry	19.1	1.9	166.1	19.5
Mining and Quarrying	13.2	1.9	109.7	14.8
Manufacturing	17.2	2.1	162.9	20.7
Electricity and Water	25.0	2.1	242.1	28.7
Building and Construction	22.4	0.4	174.8	22.3
Trade, Restaurants and Hotels	26.5	1.9	164.6	20.0
Transport and Communications	18.41	-0.1	155.8	20.3
Finance. Insurance .Real Estate and Business Services	21.9	2.2	140.5	22.5
Community, Social & Personal Services	29.8	3.5	175.3	23.3
TOTAL PRIVATE SECTOR	22.5	2.2	163.5	21.2
PUBLIC SECTOR:				
Agriculture and Forestry	-6.9	-2.2	232.1	29.2
Mining and Quarrying	0.0	-2.3	117.0	27.8
Manufacturing	-8.1	-3.5	182.7	29.0
Electricity and Water	2.4	-1.1	148.8	29.9
Building and Construction	-9.3	-3.5	164.2	16.7
Trade, Restaurants and Hotels	-7.2	-2.1	154.4	29.6
Transport and Communications	1.7	-2.1	208.0	33.4
Finance, Insurance .Real Estate and Business Services	-3.9	-3.6	208.0	36.6
Community, Social and Personal Services	4.9	0.5	126.0	19.1
TOTAL PUBLIC SECTOR	1.7	-0.4	148.6	23.1
TOTAL PUBLIC AND PRIVATE	12.8	1.1	164.0	25.1
MEMORANDUM ITEMS IN PUBLIC SECTOR:				
Central Government	-20.1	-2.3	135.3	22.1
Teacher's Service Commission**	16.9	2.6	161.4	29.4
Parastatal Bodies***	1.1	-3.4	121.0	19.5
Majority Control by the Public Sector +	2.0	-5.0	184.9	21.8
Local government	55.4	3.0	236.5	21.0
TOTAL PUBLIC SECTOR	1.7	-0.4	148.6	23.1

* Provisional.

** Refers to position as at 30th June, but the June figures are annualised by multiplying by 12 for earnings.

*** Refers to Government wholly-owned corporations.

\+ Refers to institutions where the Government has 51 per cent or more shareholding but does not fully own them.

4.18. Despite the current recession, real wages went up mainly because of the low inflation rate that is used as a deflator, and a rise in nominal wages. As shown in Tables 4.11 and 4.12, real average earnings rose by 17.3 per cent from K£ 870.1 per annum in 1997 to K£ 1,020.3 per annum in 1998. Real average earnings in the public sector continued to lag behind those of private sector. However, they rose by 15.4 per cent to K£ 946.5 per annum in 1998, whereas real average earnings in the private sector rose at a slightly lower rate of 13.6 per cent to K£ 1,031.5 per annum.

ESTIMATED REAL AVERAGE WAGE EARNINGS* PER EMPLOYEE. 1995- 1998

Table 4.11 K£ per annum

	1995	1996	1997	1998**
PRIVATE SECTOR:				
Agriculture and Forestry	305.4	344.4	370.9	415.7
Mining and Quarrying	491.5	527.4	542.7	584.4
Manufacturing	810.5	911.0	990.1	1,121.0
Electricity and Water	849.0	960.9	1,101.2	1,329.4
Building and Construction	689.0	781.4	841.9	965.1
Trade. Restaurants and Hotels	1,089.6	1,228.4	1,332.8	1,499.7
Transport and Communications	1,210.9	1,350.9	1,454.3	1,640.2
Finance. Insurance .Real Estate and Business Services	1,518.4	1,676.3	1,789.0	2,054.2
Community, Social & Personal Services	654.3	732.4	807.6	933.8
TOTAL PRIVATE SECTOR	742.5	833.9	907.7	1,031.5
PUBLIC SECTOR:				
Agriculture and Forestry	904.4	462.0	516.5	626.0
Mining and Quarrying	20.5	828.5	894.1	1,071.3
Manufacturing	940.9	741.9	807.5	976.8
Electricity and Water	761.6	1,108.9	1,220.9	1,486.8
Building and Construction	1,076.7	689.9	756.9	828.2
Trade, Restaurants and Hotels	217.1	991.4	1,075.2	1,306 8
Transport and Communications	1,209.5	1,125.0	1,227.2	1,534.9
Finance, Insurance .Real Estate and Business Services	915.1	2,055.1	2,419.3	3,099.4
Community, Social & Personal Services	647.7	705.7	748.4	836.0
TOTAL PUBLIC SECTOR	689.9	761.8	819.9	946.5
TOTAL PRIVATE AND PUBLIC SECTOR	718.5	802.3	870.1	1,020.3
MEMORANDUM ITEMS IN PUBLIC SECTOR:				
Central Government	732.6	776.5	826.0	945.7
Teachers Service Commission***	531.8	604.9	659.5	800.2
Parastatal Bodies+	801.1	860.1	914.7	1,025.0
Majority Control by the Public Sector++	929.8	1,064.3	1,185.5	1,354.0
Local Government	687.9	839.8	920.5	1,044.5
TOTAL PUBLIC SECTOR	689.9	761.8	819.9	946.5

* Average current earnings adjusted for the rise in consumer prices. Real Earnings and the consumer price indices, are based on February/March, 1986

** Provisional

*** Refers to position as at 30th June The June earnings figures are annualized by multiplying by 12.

+ Refers to Government wholly-owned corporations

++ Refers to institutions where the Government has 51 per cent or more shareholding but does not fully own them.

CHANGES IN WAGE EMPLOYMENT. PRICES AND REAL EARNINGS, 1995- 1998

Table 4.12 Percentage

	1995	1996	1997	1998*
Wage employment	3.4	4.0	1.8	1.1
Average earnings at current prices	21.7	21.7	20.6	25.1
Consumer prices (Inflation rates)**	1.6	9.0	11.2	6.6
Real average earnings	19.8	11.7	8.5	17.3

* Provisional.

** Inflation rates are derived from Nairobi consumer price indices and are a weighted average of the three income group

Employment in the Informal Sector

4.19. Locally referred as the "Jua Kali" sector, the informal sector has continued to play an important role in job creation. The sector covers all semi-organised and unregulated small-scale activities largely undertaken by self-employed persons or such persons assisted by a few employees. It excludes all farming and pastoralist activities. Activities are

carried out at a variety of work sites such as temporary structures, open and closed markets, developed business premises, undeveloped plots, residential premises or street pavements. The main legal feature of the sector is that its businesses are neither registered with the Registrar of Companies nor are they in most cases recorded in official or tax records. Further, operators of the informal sector may or may not have licences from the relevant authorities. The level of organisation is generally low with little access to organised markets, formal credit, education and training. The Government, in recognition of the role of this sector, is collaborating with non-governmental organisations to develop and review, among other things, the legal and regulatory environment for informal sector activities and formulate and develop programmes to improve access to credit and finance.

4.20. A large proportion of the labour force continue to join the informal sector as opportunities for securing wage employment in the modern sector have become increasingly scarce. There is also a shift of labour from subsistence farming to informal sector due to continued monetisation of the economy. The employment creation potential in the sector is largely attributed to the use of simple and inexpensive technologies with less specialised skills, ease of entry and exit, low capital investment, absence of registration and other official formalities. As shown in Table 4.13, employment in the sector expanded from 3.0 million persons in 1997 to 3.4 million in 1998. The deceleration in job creation from 13.0 per cent in 1997 to 12.3 per cent in 1998 is attributed to the economic recession. Urban areas continued to absorb most of the informal employment, representing 64.8 per cent of informal sector employment. Nairobi Province recorded the highest informal sector employment of 801,400 persons, accounting for 23.9 per cent of total persons engaged in 1998. Rift Valley and Central Provinces occupied second and third positions with 635,900 and 530,800 persons respectively.

INFORMAL SECTOR, 1995 - 1998
NUMBER OF PERSONS ENGAGED BY PROVINCE

Table 4.13 000's

Province	1995	1996	1997	1998*
Nairobi	538.4	623.9	716.4	801.4
Central	356.7	417.7	470.4	530.8
Nyanza	268.3	319.9	359.4	402.7
Western	156.5	187.7	210.5	239.3
Rift Valley	421.0	502.3	563.0	635.9
Eastern	217.2	253.8	284.0	316.3
Coast	274.3	325.2	368.3	410.6
North Eastern	8.1	13.3	14 9	16.5
TOTAL	2,240.5	2,643.8	2,986.9	3,353.5
Of which				
Urban	1,470.3	1,692.0	1,939.7	2,173.7
Rural	770.2	951.8	1,047.2	1,179.8

*Provisional

4.21. Table 4.14 shows that most of the informal sector employees are in the distributive trade, which includes wholesale and retail trades, hotels and restaurants, and accounted for 63.2 per cent of employment in the sector in 1998. The large number of persons engaged in the distributive trades, which are largely in form of kiosk businesses, hawking, peddling of small articles, and selling of second-hand clothing, is associated with the ease of entry into the businesses. Informal manufacturing employees are mostly engaged in food processing, fabrication, woodwork, and welding. The third largest employer of the informal sector

workers is community service, social and personal services, where majority of workers are involved in domestic services, hair dressing and all types of repair. Despite having the lowest share of informal sector workers, building and construction industry recorded the highest growth rate of 21.0 per cent in 1998.

INFORMAL SECTOR, NUMBER OF PERSONS ENGAGED BY ACTIVITY, 1995-1996

Table 4.14 000s

Activity	1995	1996	1997	1998'
Manufacturing	616.8	710.9	804.7	897.6
Construction	31.6	36.0	42.3	51.2
Wholesale and Retail Trade. Hotels and Restaurants	1,405.5	1,675.5	1,891.7	2,121.1
Transport and Communications"	35.1	41.5	46.9	52.8
Community, Social and Personal Services	151.5	179.9	201.3	230.8
TOTAL	2,240.5	2,643.8	2,986.9	3,353.5

* Provisional

** Includes mainly support services to transport activity

Wage Awards and Registered Collective Agreements

4.22. Liberalisation of the labour market has continued since 1994. Among other measures, the Government is formulating a new wage policy that tries to strike a balance between the wage increases, the ability to pay higher wages and creation of employment opportunities. It is also examining the current wage guidelines with a view to their eventual elimination, which will let market forces determine wage rates on the basis of productivity and the forces of supply and demand, and is reviewing regulations concerning termination of employment on account of redundancy.

4.23. In the speech marking the 1998 Labour Day, the Government announced a 15 per cent increase for workers in the private sector who fall under the Wages and General Order and the rural Agricultural Industrial Wages Order, which increased the general minimum wage from Kshs. 2,345 per month to Kshs. 2,697 per month. Public sector teachers went on strike protesting against the TSC Amendment Bill 1998, which was intended *inter alia* to force teachers to renegotiate their phased salary increments agreed upon by Kenya National Union of Teacher (KNUT) and the Government in October 1997. Consequently, the Government suspended the controversial Bill. Bankers staged an unsuccessful strike over a change in the taxation of low interest loans and other benefits.

4.24. Table 4.15 presents the gazetted basic minimum wages for the agricultural industry. On average, minimum wages for agricultural workers in the private sector rose by 15 per cent, from Kshs. 1,362 per month in 1997 to Kshs. 1,567 per month in 1998. The lowest paid worker got an increment of Kshs. 117 per month, while the highest paid worker earned an increment of Kshs. 296 per month.

Table 4.15 Kshs.

Type of Employee	1996	1997	1998
UNSKILLED EMPLOYEES			
18 years & above	995	1,095	1,259
Under 18 years	710	781	898
STOCKMAN, HERDSMAN AND WATCHMAN			
Under 18 years	824	906	1,042
18 year & above	1,148	1,263	1,453
SKILLED AND SEMI-SKILLED EMPLOYEES			
House servant or cook	1,135	1,249	1,436
Farm foreman	1,794	1,973	2,269
Farm clerk	1,794	1,973	2,269
Section foreman	1,162	1,278	1,470
Farm artisan	1,190	1,309	1,505
Tractor driver	1,261	1,387	1,595
Combined harvester driver	1,389	1,528	1,757
Lorry driver or car driver	1,458	1,604	1,845
average	1,238		1,587

Source: Ministry of Labour

* Provisional

4.25. As shown in Table 4.16, average gazetted monthly basic wages for workers in Nairobi and Mombasa rose from Kshs. 3,722 per month in 1997 to Kshs. 4,241 per month in 1998. Average minimum wage for workers in all other municipalities and in all other towns increased to Kshs. 3,934 per month and Kshs. 3,347 respectively.

GAZETTED MONTHLY BASIC MININUM WAGES IN URBAN AREAS
(EXCLUDING HOUSING ALLOWANCE), 1996 - 1998

Table 4.16 Kshs.

Occupation	Nairobi Area & Mombasa			Other Municipalities plus Mavoko & Ruiru Town Councils			All other towns		
	1996	1997	1998*	1996	1997	1998'	1996	1997	i998
General Labourer	2,094	2,345	2,697	1,931	2,163	2,488	1,117	1,251	1,439
Miner, stone cutter, turnboy, waiter, cook	2,261	2,532	2,912	2,005	2,246	2,583	1,291	1,446	1,663
Night watchman	2,336	2,616	3,008	2,166	2,426	2,790	1,333	1,493	1,717
Machine attendant	2,372	2,657	3,056	2,208	2,473	2,844	1,790	2,005	2,306
Machinist	2,708	3,033	3,488	2,534	2,838	3,264	2,072	2,321	2,669
Plywood machine operator	2,825	3,164	3,639	2,608	2.921	3,359	2,157	2,416	2,778
Pattern designer	3,225	3,612	4,154	2,948	3,302	3,797	2,514	2,816	3,238
Tailor, Driver (medium vehicle)	3.554	3,981	4,578	3,267	3,659	4,208	2,912	3,262	3,751
Dyer, Crawler, Tractor driver, Salesman	3,924	4,395	5,054	3,661	4,100	4,715	3,304	3,701	4,256
Saw doctor. Caretaker (building)	4,342	4,863	5,593	4,054	4,541	5,222	3,777	4,230	4,865
Cashier, Driver (heavy commercial)	4,725	5,292	6,086	4,445	4,979	5,726	4,169	4,669	5,369
Artisan (Upgraded)	2,825	3,164	3,639	2,608	5,921	3,359	2,157	2,416	2,778
Artisan Grade III	3,554	3,981	4,578	3,267	3,659	4,208	2,912	3,268	3,758
Artisan Grade II	3,924	4,396	5,054	3,661	4,100	4,715	3,304	3,701	4,256
Artisan Grade I	4,725	5,792	6,086	4,445	4,979	5,726	4,169	4,669	5,369
AVERAGE	3.293	3,722	4,241	3,054	3,420	3,934	2,599	2,911	3.347

Source: Ministry of Labour

* Provisional

4.26. Table 4.17 presents collective agreements registered with the Industrial Court in 1997 and 1998. The agreements pertain to rules and conditions of work and pay determined collectively between trade unions and employers or employer associations. It should, however, be understood that the agreements do not follow any trend overtime because they pertain to particular workers in specific firms within each industry. Such firms may not register further agreements for a period of two or more years. Similarly, basic wages and

house allowances offered by the agreements in a particular year will differ from previous years since they do not benefit the same workers. The total number of collective agreements rose from 304 in 1997 to 349 in 1998. The number of unionisable employees who benefited from the agreements more than doubled, from 60,459 persons in 1997 to 138,147 persons in 1998. The agricultural sector, which includes agriculture, hunting, forestry and fishing activities had the highest number of employees benefiting from the agreements. This high number resulted from collective agreements registered by workers in the tea industry who form a large proportion of the agricultural workers during the year. Workers in electricity and water industries did not register any agreements during the year. The 1998 agreements offered on average a basic minimum wage of Kshs. 6,136 per month. Further, the 1998 agreements offered an average basic housing allowance of Kshs. 1,185 per month, compared with a similar allowance of Kshs. 1,155 per month offered by agreements registered in 1997.

COLLECTIVE AGREEMENTS REGISTERED BY THE INDUSTRIAL COURT, 1997 AND 1998

Table 4 17

Industry	No of Agreements		No of Unionisable Employees Covered by the Agreements		Monthly Basic Wage Offered by the Agreements (Kshs)		Monthly Basic Housing Allowance Offered (Kshs)	
	1997	1998*	1997	1998*	1997	1998*	1997	1998
Agriculture Hunting Forestry & Ashing	17	27	8,510	74,294	2,346	3,670	516	1,057.8
Mining & Quarrying	6	5	438	434	3,730	5,036	616	1,215.0
Food, Beverage & Tobacco	34	32	7,459	6,315	10,692	6,790	950	1,053.8
Textile, Wearing Apparels & Leather Industry	26	31	4,650	10,198	4,129	4,621	955	1,099.4
Wood & Wood Industry	2	5	1,587	230	2,894	4,301	775	828.2
Paper & Paper Products, Printing & Publishing	16	17	906	1,642	7,562	6,682	574	1,184.7
Chemical Petroleum Rubber & Plastic Product	24	38	1,992	3,830	4,375	9,473	775	1,375.4
Glass, Ceramic & Cement	8	5	883	968	10,860	9,251	904	947.7
Motor Mechanic & Engineering Products	2	1	63	50	3,448	6,090	750	900.0
Electronics & Electrical Products	31	39	2,661	2,484	5,037	4,822	905	1,129.1
Other Manufacturing Products	2	4	162	242	4,376	7,523	1,032	1,169.0
Electricity and Water	1	-	6,718	-	7,219	-	4,760	-
Building & Construction	4	3	269	496	6,535	4,171	685	756.7
Wholesale & Retail Trade, Restaurant & Hotels	40	34	5,256	1,175	11,161	5,031	1,033	1,245.0
Transport and Communication	26	28	13,167	18,210	6,296	8,773	1,484	1,873.7
Finance, Insurance, Real Estate & Business Services	26	34	2,248	14,403	7,738	6,837	1,696	1,958.2
Community & Social Services	39	46	3,490	3,176	3,856	5,111	1,220	1,162.6
TOTAL	304	349	60,459	1.50,147	6,015	6,136	1.155	1,184.8

Source: Ministry of Labour

* Provisional

Consumer Prices

4.27. Table 4.18 shows that the overall inflation rate estimated by Nairobi Consumer Price Indices declined from 11.2 per cent in 1997 to 6.6 per cent in 1998. The easing of inflationary pressures was more pronounced in the lower income group, whose price index rose by only 5.8 per cent compared with a rise of 12.0 per cent recorded in 1997. Price indices for the upper income group increased at a lower rate of 9.1 per cent compared with a higher increase of 10.9 per cent in 1997. However, the middle income group price index accelerated slightly from 8.4 per cent in 1997 to 9.3 per cent in 1998.

Table 4.18

Income Group **	1994/93	1995/94	1996/95	1997/96	1998/97
Nairobi Lower income Index	29.0	0.8	8.8	12.0	5.8
Nairobi Middle Income Index	27.9	4.0	9.8	8.4	9.3
Nairobi Upper Income Index	30.6	3.9	8.9	10.9	9.1
Weighted Average Increases for 12 Months (Inflation rates)***	28.8	1.6	9.0	11.2	6.6

* The figures are derived from Nairobi Consumer Price Indices

** The Income Groups were defined in 1986 as

1 The lower income group comprises households with monthly earnings below KSh 2,000

2 The middle income group comprises households with monthly earnings between KSh 2,000 - KSh 7,999

3 The upper income group comprises households with monthly earnings of KSh 8,000 and above

*** The Indices for the three income groups are weighted as 0.768 for lower income group. 0.209 for middle Income group and 0.023 for upper income group

4.28. The fall in inflation was most pronounced in the second half of the year and was explained by the sustained slow down in the expansion of money supply, and the general stability in the Shilling exchange rate that translated into stable import prices. Other factors included:

- Improved supplies of basic foods in the second half of 1998, which offset the adverse effects of the poor state of the country's roads on prices;
- Reduction of VAT rate from 17 per cent to 16 per cent in the 1998/99 Government Budget;
- Decline in the international prices of some essential imports, particularly petroleum products;
- Government's fiscal operations during the calendar year did not build up inflationary pressure ; and
- The low inflation prevailing in Kenya's main trading partners.

4.29. The first quarter of 1999 has witnessed rapid increases in the prices of cereals and vegetables in the food category, largely due to dry weather conditions. However, well-distributed long rains in the second quarter of the year are expected to check price rises. Also, the recent reduction in Treasury bill rates and subsequent fall in commercial banks' base lending rates are expected to contain inflation to manageable levels in 1999, but these may be offset by rising cost of imports as a consequence of the depreciation of the Shilling.

4.30. Table 4.19, 4.20 and 4.21 show monthly movements of the Nairobi Consumer Price Indices for the lower, middle and upper income groups, respectively. Consumer price indices for both lower and middle income group rose slightly in the first half of 1998 before falling in during the second half of the year. Consumer price indices for the upper income group rose gradually from 642.20 points in January to 674.48 points in September, before declining slightly 671.07 in November, and finally edging up to 673.68 points at the end of 1998.

NAIROBI LOWER INCOME GROUP CONSUMER PRICE INDEX, 1993-1998

Table 4.19

Base Feb/March 1986=100

Months	1993	1994	1995	1996	1997	1998
January	276.24	445.59	456.52	481.96	537.1	597.60
February	302.41	463.17	462.05	484.57	545.91	615.23
March	305.73	473.19	465.28	491.37	579.88	621.06
April	327.72	486.58	462.42	492.55	583.4	617.63
May	338.77	477.63	467.16	496.01	595.87	611.92
June	363.32	469.96	465.85	510.73	584.74	620.26
July	367.00	474.18	465.85	519.35	570.2	634.99
August	381.46	464.91	468.29	521.29	561.38	583.63
September	405.93	457.36	473.88	524.02	569.04	587.22
October	409.28	459.31	472.03	524.24	569.33	583.24
November	414.51	443.56	470.08	525.32	565.72	577.22
December	418.55	446.25	476.25	528.52	570.28	579.85
Annual average	359.24	463.47	467.14	508.33	569.40	602.49

NAIROBI MIDDLE INCOME GROUP CONSUMER PRICE INDEX, 1993-1998

Table 4.20

Base: Feb/March 1986=100

Months	1993	1994	1995	1996	1997	1998
January	280.27	452.67	483.04	522.37	568.21	633.05
February	289.73	455.60	485.79	523.75	572.54	637.00
Marc	318.34	476.44	487.92	534.75	579.20	646.86
April	335.82	487.90	490.05	538.43	586.87	648.40
May	349.50	494.73	491.83	542.22	586.78	651.41
June	380.05	481.28	499.59	549.90	590.02	659.54
July	397.85	482.44	500.13	551.97	583.60	658.48
August	405.42	486.54	502.68	553.44	594.96	648.67
September	423.08	479.11	505.63	555.85	607.34	645.90
October	430.58	484.30	507.93	559.96	609.58	645.37
November	432.21	487.81	508.50	561.01	613.50	648.96
December	449.03	476.70	513.16	566.06	620.31	650.67
Annual average	374.32	478.79	498.02	546.64	592.74	647.86

NAIROBI UPPER INCOME GROUP CONSUMER PRICE INDEX, 1993-1998

Table 4.2 I

Base: Feb/March 1986=100

Months	1993	1994	1995	1996	1997	1998
January	265.85	452.29	502.95	522.51	582.63	642.20
February	270.12	459.92	505.5	522.78	586.37	644.61
March	309.89	481.99	496.93	540.29	595.25	659.54
April	330.23	483.37	495.62	544.51	596.07	659.52
May	356.55	504.78	493.44	544.34	599.24	667.77
June	385.09	494.96	496.97	550.73	602.52	671.12
July	393.02	493.05	498.5	552.98	600.2	669.84
August	400.62	489.82	503.25	554.13	614.76	668.70
September	431.86	495.94	509.79	556.44	628.62	674.48
October	434.68	488.25	516.38	563.17	630.83	671.36
November	438.59	492.39	515.54	564.57	633.62	671.07
December	449.17	493.14	519.24	576.61	638.55	673.68
Annual average	372.14	485.83	504.51	549.42	609.06	664.49

4.31. Table 4.22 shows the revised Nairobi Consumer price indices for food and all other item groups for the three income groups. The food price index for the lower income group rose from 606.88 at the end of the first quarter to 616.71 at the end of the second quarter 1998, mainly due to higher prices for green vegetables and fruits. Because food is a major consumption item for lower income group with a weight of 0.442, the price increase affected the overall index leading to a slight rise in the overall inflation rate during the first half of the year. Nonetheless, the food index for the lower income group declined during the second half of the year to stand at 548.02 at the close of the year, as a result of improvements in the supply of basic foods. For the same reasons, food index for middle income group edged up to 640.27 in the second quarter 1998 but declined in the second half of 1998. Food index for upper income followed a similar trend, declining from 650.05 in the first quarter 1998 to 629.11 in the last quarter of 1998.

4.32. Consumer price indices for other items in lower income group dropped gradually from 632.29 in the first quarter to 605.06 at the end of the year. For middle income group, price indices for the other items rose from 651.04 in the first quarter to 664.72 in the second quarter, but declined to 657.76 in the third quarter before rising to 663.55 at the end of the year. The other item group indices for the upper income group showed a gradual rising trend over the year. Slight increases in the transport and communication indices were largely attributed to increases in travel fares as a result of deteriorating road infrastructure.

NAIROBI CONSUMER PRICE INDICES, 1997 AND 1998

Table 4.22 Base: Feb/March 1986=100

Year	Income group		Food	Others	All Groups
	LOWER INCOME	Weights	0.442	0.558	1.000
1997		March	584.14	576.51	579.88
		June	594.27	577.19	584.74
		September	562.83	573.95	569.04
		December	560.66	577.90	570.28
1998		March	606.88	632.29	621.06
		June	616.71	623.07	620.26
		September	562.80	606.56	587.22
		December	548.02	605.06	579.85
	MIDDLE INCOME	Weights	0.212	0.788	1.00
1997		March	562.74	583.63	579.20
		June	590.94	589.77	590.02
		September	584.70	613.43	607.34
		December	597.93	626.33	620.31
1998		March	631.33	651.04	646.86
		June	640.27	664.72	659.54
		September	601.81	657.76	645.90
		December	602.77	663.55	650.67
	UPPER INCOME	Weights	0.139	0.861	1.00
1997		March	584.71	596.96	595.25
		June	597.82	603.27	602.52
		September	597.26	633.68	628.62
		December	601.10	643.47	638.55
1998		March	650.05	661.07	659.54
		June	642.48	675.74	671.12
		September	644.99	679.24	674.48
		December	629.11	680.87	673.68

4.33. Table 4.23 shows that inflationary pressure also eased in the other three major urban centres. Inflation in Mombasa declined from 11.2 per cent in 1997 to 5.6 per cent in 1998.

Inflation in Nakuru eased from 10.4 per cent in 1997 to 5.0 per cent, while in Kisumu it decreased from 9.1 per cent in 1997 to 5.3 per cent in 1998.

CONSUMER PRICE INDICES* FOR MOMBASA, KISUMU AND NAKURU, 1993-1998

Table 4.23 Base: 1976= 100

YEAR		Mombasa	Kisumu	Nakuru
1993	Annual Average	919.95	878 04	976.34
1994	Annual Average	1132.66	1108.05	1223.87
1995	Annual Average	1190.72	1137.14	1235.56
1996	Annual Average	1286.15	1251.49	1360.39
1997	Annual Average	1430.61	1394.87	1483.91
1998	March	1525.63	1502.56	1584.51
	June	1521.31	1498.62	1584.81
	September	1501.59	1439.39	1552.63
	December	1494.84	1420.58	1529.74
	Annual Average	1510.84	1465.29	1562.92

* These indices refer to households in the lower/middle income groups and exclude rent

4.34. The Central Bureau of Statistics (CBS) is revising the Consumer Price Indices. The new indices will be based on a wider geographical coverage of 13 urban centres so as to facilitate computation of more representative inflation rates. The revision involves identifying a new "market basket" of goods and services for monthly pricing, and selecting a new set of outlets from which prices \Vill be collected in order to reflect the current shopping patterns of urban households. Income groups and their corresponding income ranges are being revised to take account of changes in income levels. Further, CBS is designing a weighting system for the new CPI. The revision exercise is at an advanced stage, and CBS will start publishing price indices based on the new system after testing the new indices.

CHAPTER 5 - MONEY, BANKING AND FINANCE

Overall Trends

The tight monetary policy pursued over the last three years continued in 1998. The monetary policy was aimed at achieving the dual primary objectives of maintaining stable prices, and ensuring stability of the banking system. Its success was pegged to prudent management of the Government's budgetary operations. To achieve the stated goals, the Central Bank relied on both Open Market Operations (OMO) and cash ratio adjustments, to regulate bank reserves in order to achieve the desired change in money supply and interest rates. In addition, banking supervision was intensified with new operational guidelines put in place. Both commercial banks and non-bank financial institutions (NBFIs) were required to observe mandatory cash and liquidity ratios of 12 per cent and 20 per cent respectively

5.2. In the course of 1998, Net Foreign Assets (NFA) of the banking system dropped by 8.8 per cent, while domestic credit grew by 8.1 per cent, which was below the targeted growth rate of 9.3 per cent. Commercial banks and NBFIs liquidity ratios averaged 38.0 per cent and 42.0 per cent while their cash ratios averaged 12.3 per cent and 13.6 per cent respectively. Interest rates started a downward trend in 1998 while the overall average annual inflation rate was confined to a single digit level of 6.6 per cent.

Monetary Indicators

5.3. Monetary indicators for the last four years are summarised in Table 5.1. Net Foreign Assets decreased over the first six months from K£ 2,959 million in December 1997 to stand at K£ 2,597 million in June before increasing to K£ 2,697 million in December 1998. The 8.8 per cent decline in NFA, which was well below the 26.3 per cent increase recorded in 1997, is largely attributed to drawings on reserves by the Central Bank in order to meet Government's external debt service obligations.

MONETARY INDICATORS, 1995 - 1998

Table 5.1

As at end of		Net Foreign Assets K£m	DOMESTIC CREDIT K£m			Money** Supply(M3) K£m	Commer-cial Bank Liquidity Ratio per cent	Advances/ Deposits Ratio Per cent
			Private*	Gover-nment	Total			
1995	December	1,150.11	8,565.51	3,871.13	12,436.64	11,554.31	41	79
1996	December	2,342.17	9,911.07	3,688.06	13,599.13	13,391.41	42	76
1997	December	2,958.76	11,603.44	4,133.27	15,736.71	14,702.61	37	84
1998	March	2,964.18	11,720.35	4,153.93	15,874.28	14,403.34	38	86
	June	2,597.28	12,448.73	3,720.70	16,169.43	14,561.59	38	81
	September	2,638.16	12,301.66	4,196.37	16,498.03	14,807.59	38	82
	December	2,697.47	12,456.04	4,556.44	17,012.48	15,187.50	38	83

Source: Central Bank of Kenya

*Includes other public sectors

** See Table 5.2 for Coverage

5.4. Growth in total domestic credit decelerated significantly from 15.7 per cent in 1997 to 8.1 per cent in 1998. Credit to private sector including other public sectors increased by 7.3

per cent to K£ 12,456 million in 1998, compared with 17.1 per cent growth recorded in 1997. The deceleration was mainly due to a slowdown in economic activities. Public sector borrowing increased by 10.2 per cent, while its share in total credit extended by the banking system stood at 26.8 per cent compared with corresponding share of 26.3 per cent in 1997. The increase in public sector borrowing was mainly in the form of Treasury Bills held by banking institutions, as the Government continued to rely on domestic credit sources to finance its budgetary requirements. This increased domestic borrowing by the Government had a crowding-out effect on lending to private sector. Borrowing by other public sector bodies which include parastatals and local Government, decreased by 20.0 per cent, due to strict measures imposed by the Treasury as the Government stepped in to repay loans it had guaranteed.

5.5. Commercial banks liquidity ratio, which is the ratio of liquid assets held by the commercial banks to their deposit liabilities, remained well above the 20 per cent minimum requirement in 1998, and averaged 38.0 per cent. Treasury bill holdings and cash balances at the Central Bank dominated the liquid assets of commercial banks. The high liquidity ratio maintained by the commercial banks throughout the year was associated with the slowdown in credit expansion and high lending rates.. The advances/deposits ratio, which stood at 84.0 per cent in December 1997, increased to 86.0 per cent in the first quarter before dropping to 81.0 per cent in June and finally settling at 83.0 per cent in December 1998.

Money Supply

5.6. Money Supply (M3), broadly defined to include money supplied by the Central Bank, commercial banks and NBFIs, expanded by 3.3 per cent compared to the target of 10.0 per cent. The slight increase in money supply (M3) from K£ 14,703 million in 1997 to K£ 15,188 million in 1998 was mainly attributed to a 7.3 per cent increase in domestic credit, while NFA declined by 8.8 per cent. The slow growth in (M3) was reflected in the inflation rate, which dropped from 11.2 per cent in 1997 to 6.6 per cent in 1998.

5.7. Table 5.2 summarises the breakdown of money supply (M3) by its major components, and highlights trends in broader aggregates of money supply (M3X) and (M3XT). The terms M3X and Ml XT are defined in paragraph 5.8. Narrow money (Ml), which comprises of demand deposits and currency outside banks, increased by 4.0 per cent as a result of 7.0 per cent increase in currency in circulation. Expansion in quasi-money (MS) of commercial banks decelerated from 17.4 per cent in 1997 to 1.6 per cent in 1998. This modest increase was largely due to 13.9 per cent increase in savings deposits, which offset 4.5 per cent decrease in time deposits. Money supply (M2), which comprises narrow money (Ml) and quasi money (MS), increased by 2.4 per cent from K£ 13,891 million in 1997 to K£ 14,226 million in 1998. The growth was well below the 16.5 per cent expansion recorded in 1997. Quasi-money held by the NBFIs, which has been on the downturn for the last three years, reversed the trend and increased by 18.5 per cent from K£ 812 million in 1997 to K£ 962 million in 1998. This is mainly because fewer NBFIs are converting into commercial banks. This development is reflected in Table 5.5 by the ratio of total liabilities of NBFIs to total liabilities of the banking system, which has remained almost constant over the last two years.

Table 5.2

K£million

at end of		Money and Quasi-Money (MS)			Quasi-Money (NBFIs)	Broad Money Supply		
		Money(M1)*	Quasi-Money**	Total (M2)		M3	M3X	M3XT
1995	December	3,658.83	5,970.35	9,629.18	1,925.13	11,554.31	12,237.75	14,242.26
1996	December	3,962.07	7,956.23	11,918.30	1,473.11	13,391.41	14,177.48	16,348.81
1997	December	4,553.06	9,337.47	13,890.53	812.08	14,702.61	15,865.70	18,530.67
1998	January	4,568.86	9,283.63	13.852.49	818.28	14,670.77	15,764.91	18,617.37
	February	4,515.96	9,292.87	13,808.83	864.77	14,673.60	15,741.92	18,777.23
	March	4,333.04	9,227.37	13,560.41	842.93	14,403.34	15,554.06	18,860.46
	April	4,357.48	9,145.44	13,502.92	844.85	14,347.77	15,486.71	18,775.39
	May	4,621.29	9,335.40	13,956.69	833.81	14.790.50	16,036.56	19,230.51
	June	4,488.94	9,216.22	13.705.16	856.43	14,561.59	15,729.77	18,802.11
	July	4,467.71	9,557.99	14,025.70	657.27	14.682.97	15,820.74	19,824.45
	August	4,540.40	9,438.73	13,979.13	887.59	14,866.72	16,010.85	19,122.28
	September	4,497.52	9,435.82	13,933.34	874.25	14,807.59	15,915.59	18,880.26
	October	4,934.31	9,222.77	14,157.08	924.27	15,081.35	16,189.98	19,061.7
	November	4,741.74	9,430.78	14,172.52	939.80	15,112.32	16,254.50	19,068.37
	December	4,735.90	9,489.61	14,225.51	961.99	15,187.50	16,416.05	19,014.00

Source Central Bank of Kenya

*Currencyoutside banks plus all demand deposits except those of Central Government, Local Government, Commercial Banks and Non Residents

* All other deposits except those of Central Government.,Local Government, Commercial Banks, and Non Residents

Consolidated Accounts of the Banking System

5.8. Table 5.3 presents summarised consolidated accounts of the banking system. Assets and liabilities of the banking system increased by only 5.4 per cent in 1998 compared with an increase of 17.3 per cent both in 1996 and 1997. The slow growth in assets and liabilities is indicative of reduced performance of the banking system in 1998. Money supply (M3X), which comprises of money supply (M3) plus foreign currency deposits held by residents, rose by 3.5 per cent in 1998, compared with 11.9 per cent increase recorded in 1997. Foreign currency deposits, which had expanded by 48.0 per cent in 1997, only recorded an increase of 5.6 per cent in 1998. Money supply (M3XT), broadly defined to include M3X plus Treasury bill holdings by the non-bank public, increased by only 2.5 per cent.

Table K£million

	AS AT THE END						
				1598			
	1995	1996	1997	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
LIABILITIES-							
1 Money (M1):							
1.1 Demand Deposits	2.214 48	2.442 .56	2.744.17	2 638 .37	2 836 37	2 807 .11	2 800 .25
1.2 Currency outside banks	1.444.35	1.519.50	1.808.89	1 694.66	1 652.56	1 690. 40	1 935 .65
Sub-Total	3,658.83	3.962.06	4.553.06	4 333.03	4 488.53	4 497.51	4 735.$6
2 Quasi-Money(MS)							
2 1 Call + 7 days Notice Deposits	796.61	775.97	922.77	867.44	892.87	859.73	922.64
2 2 Savings Deposits	2,329.41	2,594.59	2 890.74	2 982 .16	3 040.85	2 585/85	3 293/28
2.3 Time Deposits	2,844 33	4.585 66	5 523 96	5 377 76	5 282 50	5 590/19	5 273/69
Sub-Total	5,970.35	7 956.22	9.337.47	9 227.36		5 435 81	9 489 61
Money Supply (M2)	9,629 18	11.918 28	13 890 53	13 560 39	13 705 15	13 533 32	14 225 51
3 Quasi-Money (NBFIs)	2.207.70	1.761.15	1.004.22	1 007.27	595.09	1.005.55	1 100.12
Adjust for Cross Balances	-282.57	-288.02	-192.15	-164 .33	-138.67	-131 70	-138.13
Broad Money Supply (M3)	11.554 31	13.391 41	14 702 60	14 403 33	14 561 57	14 807 57	15 187 50
4 Foreign Currency Deposits	683.44	786 07	1 163 09	1 150 72	1 168 19	1 107 99	1 228 55
Broad Money Supply (M3X)	12.237 75	14.177 48	15 865 69	15 554 05	15 729 76	15 915 56	16416 05
5 Treasury Bill Holdings	2,004 51	2 171 33	2 664 97	3.306 40	3 072 34	2 564 67	2 598 29
Broad Money Supply (M3XT)	14 242 26	16.348 81	18 530 66	18 860 45	18 802 10	18 880 23	19 014 00
6 Other Items (Net)	1.349 00	1.763 81	2 829 76	3 284 41	3 036 94	3 220 61	3 293 90
TOTAL LIABILITIES	13.586 75	15.941 29	18 695 45	18 838 46	18 766 70	15 136 17	19 709 95
ASSETS-							
7 Net Foreign Assets	1,150.11	2,342.16	2.958.76	2 964 .18	2 597.28	2 638 .16	2.697 .47
8 Domestic Credit							
8.1 Central Govt. (Net)	3,871.12	3,688.06	4.133.26	4 153 .93	3 720. 70	4 196. 36	4 556 44
8 2 Other Public Sector	251 45	267.74	393 62	391 16	428 08	330 80	313 04
8 3 Private Sector	8.314 07	9.643 33	11,209 81	11 329 15	12 020 64	11 970 85	12.143 00
Total Domestic Credit	12.436 64	13,599 13	15.736 69	15 874 28	16 165 42	16 498 01	17.012 48
TOTAL ASSETS	13 586 75	15,941 29	18,695 45	18 838 46	18 766 70	15 136 17	19,709 95

Source Central Bank of Kenya

Notes:

(a) Broad Money. M3, is money supplied by the Central Bank, Commercial Banks and NBFIs
The items include currency outside banking institutions, deposits held by non-banking institutions with Central Bank, all deposis as well as certificates of deposits held by the private and other public sectors with banking institutions
Excluder are Central Government, Local Government and Non-residents deposits with banking institutions

(b) Broad Money, M3X, comprises M3 and foreign currency holdings by residents

(c) Broad Money, M3XT, comprises M3X and Treasury Bill holdings by the non-bank public

(d) Othei Items Net Includes SDR allocated by IMF

(e) Net Foreign Assets includes Government reserve position in the IMF

(f) Treasury Bill holdings by the non-bank public is not included in total liabilities of the banking system

Sources of Changes in Money Supply and Financial Aggregates Real Values

5.9. Table 5.4 presents changes in money supply and sources of these changes. The increase in money supply (M3X) by K£ 550 million was wholly supported by an increase of K£ 1,276 million in domestic credit, as NFA and Other Items (Net) of the liabilities of the banking system declined by K£ 261 million and K£ 464 million, respectively.

CHANGES IN MONEY SUPPLY AND SOURCES OF CHANGES, 1996 - 1998

Table 5.4 K£million comparing year-end values

	1996	1997	1998
MONEY SUPPLY—			
1. Currency plus demand deposits	303.23	591.00	182.84
2. Quasi-money(MS)	1,985.88	1,381.24	152.14
3. Quasi-money(NBFIs)	-452.00	-661.04	149.91
4. Foreign Currency Deposits	102.63	377.02	65.46
5. Treasury Bill Holdings			
6. Money Supply M3X	1,939.74	1,688.22	550.35
SOURCES OF CHANGES—			
7. Net foreign assets	1,192.05	616.60	-261.29
8. Domestic credit —			
(a) to Central Government(net)	-183.06	445.20	423.18
(b) to other public sector	16.29	125.88	-80.58
(c) to private sector	1,329.27	1,566.49	933.18
(d) all domestic credit	1,162.50	2,137.57	1,275.78
9. Other Items (Net)	-414.81	-1,065.95	-464.14
10. Total sources of changes	1,939.74	1,688.22	550.35

5.10. Real values of selected financial aggregates (obtained by deflating the nominal values by the weighted consumer price indices) are summarised in Table 5.5. Money supply (M3) in real terms declined by 3.1 per cent. Both commercial banks' credit to private sector and total commercial bank credit, which have been increasing in real terms in the recent past, registered further increases of 12.1 per cent and 10.6 per cent respectively. On the other hand, commercial bank deposit liabilities and total liabilities of the banking system declined in real terms by 4.3 per cent and 1.1 per cent respectively. The total liabilities of the NBFIs, which have been declining since 1993, declined slightly to K£ 253.5 million in 1998 from K£ 281 million in 1997.

TRENDS IN THE REAL VALUE* OF FINANCIAL AGGREGATES*, 1995 - 1998

Table 5.5 K£million at constant (1986) prices

	1995	1996	1997	1998
1. Money Supply(M3)	2,435.3	2,588.8	2,556.1	2,476.0
2 Money Supply(M3XT)	3,001.9	3,160.5	3,221.7	3,099.8
3 Commercial bank credit to private sector	1,313.4	1,502.1	1,624.7	1,820.9
4 Total commercial bank credit	1,382.0	1,570.2	1,766.9	1,953.7
5. Commercial Banks' Deposit Liabilities	1.667.2	2,007.3	2,197.2	2,102.7
6 Total liabilities of banking system	2.863.5	3,081.8	3,250.3	3,213.3
7. NBFIs credit to private sector	438.7	358.5	241.2	235.0
8 Total NBFIs Credit	515.7	390.7	281.0	253.5
9. Total liabilities of non-bank (NBFIs) financial institutions	704.0	557.6	347.1	346.8
Memorandum Item:				
10. Line 5 as per cent of lines 6	58.2	65.1	67.6	65.4
11. Line 9 as per cent of lines 6	24.6	18.1	10.7	10.8

*Deflated by average Consumer Price Indices

Interest Rates

5.11. Interest rates, which had remained high in 1997, moderated in 1998. The gradual decline closely follows a fall in the interest rate on 91-day Treasury bills, which the Government has relied on as the benchmark to be used in the money market. The easing of pressure on interest rates may largely be explained by a decline in 91-day Treasury bill rates and a reduction of the statutory minimum cash ratio, which increased availability of surplus funds with banking institutions. Lending rates however remained high, an indication that

these rates are not just responsive to market forces but also are influenced by other factors, such as credit risk and the reliance of the Government on domestic borrowing in financing its budget deficit.

5.12. The Central Bank has encouraged borrowers, especially the business community to make use of offshore borrowing facilities. Measures have also been effected to recover non-performing loans, while banking institutions lending conditions have been tightened. In addition, the mandatory cash ratio to be observed by commercial banks and NBFIs was reduced from 15.0 per cent to 14.0 per cent in July and further to 13.0 per cent in September and to 12.0 per cent in December 1998. All these measures are aimed at releasing additional funds and thus reduce pressure on demand for credit. This should cause a reduction of lending rates.

5.13. As shown in Table 5.6, interest rate on 91-day Treasury bills declined from 26.36 per cent in December 1997 to 25.48 per cent in June and further to 12.56 per cent in December 1998. This is the lowest rate recorded in the past ten years. The decline was largely attributed to availability of surplus funds in the money market. Interest on both advances against Treasury bills by Central Bank and discount rate for all other Government securities declined by 13.70 percentage points by the end of 1998, from 31.26 per cent in December 1997 to 30.48 per cent in June 1998 and then to 17.56 per cent in December 1998. Coupon rates for one-year and two-year treasury bonds remained at 15.0 per cent for the third consecutive year, while the coupon rate for the five-year Treasury bonds was at the 1997 level of 16.0 per cent.

PRINCIPAL INTEREST RATES, 1996 - 1998

Table 5.6 Percentage

	1996	1997	1998	
			June	December
CENTRAL BANK OF KENYA				
Interest rate on 91-days. Treasury Bill	21.53	26.36	25.48	12.56
Advances against Treasury Bills	26.88	31.26	30.48	17.56
Bills and Notes under Crop Finance Scheme:				
Discounts	26.88	31.26	30.48	17.56
Advances	26.88	31.26	30.48	17.56
Other Bills and Notes:				
Discounts	26.88	31.26	30.48	17.56
Advances	26.88	31.26	30.48	17.56
Treasury Bonds (Coupon Rates):				
One Year	15.00	15.00	15.00	15.00
Two Years	15.50	15.50	15.50	15.50
Five Years	17.00	16.00	16.00	16.00
KENYA COMMERCIAL BANKS				
Time Deposits:**				
0-3 Months	12.69-19.36	19.62	20.21	14.71
3 - 6 Months	13.26-18.05	17.27	20.13	14.84
6 - 9 Months	12.85-17.24	15.52	16.15	13.34
9-12 Months	12.44-16.64	13.85	15.25	13.93
Over 12 Months	13.84-19.02	13.85	16.94	13.99
Savings Deposits	7.97-14.49	9.77	12.27	7.89
Loans and Advances(Maximum)*	34.60	30.43	31.00	27.13
Inter-bank Rate	16.00	18.71	21.70	9.38
Overdraft	28.90	30.40	30.74	26.63
OTHER FINANCIAL INSTITUTIONS				
Kenya Post Office Savings Bank deposits	6.00	6.00	6.00	6.00
Agricultural Finance Corporations, Loans:				
(a) Land Purchase	20.00	20.00	20.00	20.00
(b) Seasonal Crop Loan	20.00	20.00	20.00	20.00
(c) Other	20.00	20.00	20.00	20.00
HIRE-PURCHASE COMPANIES AND MERCHANT BANKS				
Deposits(time)	8.00-23.00	8.40-24.00	8.02-21.23	7.76-12.43
Loans	8.00-36.50	33.70	33.80	28.55
Building Societies:				
Deposits	4.00-28.00	6.2-19.10	6.22-19.84	5.94-19.84
Loans	31.00	25.00	24.10	24.90

Source: Central Bank of Kenya

* Loans and advances for less than 3 years.

** For all commercial banks consolidated

5.14. At the end of 1998, commercial banks' interest rates were below their 1997 levels. The average interest rate offered on 3 months time deposits slightly increased from 19.62 per cent in December 1997 to 20.21 per cent in June 1998, before falling to 14.71 per cent in December 1998. The average savings deposits' interest rate peaked at 12.27 per cent in June, but gradually decreased to settle at 7.89 per cent in December 1998. The maximum interest charged on loans and advances increased modestly from 30.43 per cent in December 1997 to 31.00 per cent in June 1998 before dropping to 27.13 per cent in December 1998. The inter-bank rate rose from 18.71 per cent in December 1997 to 21.70 per cent in June before sharply declining to 9.38 per cent in December 1998 in response to the improved liquidity in the banking system during 1998.

5.15. Interest rates offered by Kenya Post Office Savings Bank (POSB) remained at 6.0 per cent for the third consecutive year, while those of Agricultural Finance Corporation (AFC) have remained constant at 20.0 per cent for the past six years. Interest rates charged on loans

by hire purchase companies and merchant banks remained at their 1997 levels by June 1998, before decreasing to 28.55 per cent at the end of the year. Building societies maximum interest on time deposits increased by 0.74 of a percentage point while interest rate charged on loans dropped marginally by 0.10 of a percentage point at the end of 1998.

5.16. Interest rates adjusted for inflation, as measured by consumer price indices, are presented in Table 5.7. All real interest rates, with the exception of the POSB deposit rate, remained positive in real terms as a result of the lower rate of inflation and high nominal interest rate in 1998.

TRENDS IN SELECTED REAL INTEREST RATES, 1996 - 1998

Table 5.7 Percentage

		Year	Nominal Interest	Inflation Rate*	Real Interest**
1	Interest Rate on Treasury Bills				
		1996	21.6	9.0	12.6
		1997	26.4	11.2	15.2
		1998	12.6	6 6	6.0
2	Advances against Treasury Bills				
		1996	26.9	9.0	17.9
		1997	31.3	11.2	20.1
		1998	17.6	6.6	11.0
3.	Commercial bank savings deposits . .				
		1996	11.2	9.0	2.2
		1997	9 8	11.2	-1.4
		1998	7.9	6 . 6	1.3
4	Commercial bank loans and advances (max)				
		1996	34 6	9.0	256
		1997	30.4	11.2	19.2
		1998	27.1	6.6	20.5
5	Inter-Bank Rate				
		1996	16.0	9.0	7.0
		1997	30.0	11.2	18.8
		1998	19.0	6.6	12.4
6.	POSB deposits***				
		1996	6.0	9.0	-3.0
		1997	6.0	11.2	-5.2
		1998	6.0	6.6	-0.6
7.	Building society loans				
		1996	31.0	9.0	22.0
		1997	25.0	11.2	13.8
		1998	24.9	6.6	18.3

* Taken from Table 4.15

** Nominal interest rate minus inflation rate, gives the appropriate measure.

*** POSB deposits are exempt from income tax on interest earned

Central Bank of Kenya - Assets and Liabilities

5.17. Table 5.8 summarises the assets and liabilities of the Central Bank. Following an increase of 11.6 per cent in 1997, they decreased by 4.0 per cent in 1998. They gradually rose from K£ 6,508 million in December 1997 to K£ 6,973 million in the first quarter and further to K£ 7,150 million in second quarter of 1998. However, in the third quarter assets and liabilities dropped to K£ 6,000 million before increasing slightly to stand at K£ 6,249 million in December 1998.

CENTRAL BANK OF KENYA ASSETS AND LIABILITIES 1994 - 1998

Table 5.8 K£million

ASSETS	1994	1995	1996	1997	1998			
					1st Qr	2nd Qr	3rd Qr	4th Qr
1 Foreign Exchange-								
1.1 Balances with External Banks	1,312.75	1,183.00	2,251.20	2,082.50	2,135.80	2,243.15	2,323.25	2,285.10
1.2 Treasury Bills	645	3.80	3.10	1.75	1.65	-	-	-
1.3 Other Investments	37.50	43.10	57.05	85.40	87.80	17.45	17.10	12.55
14 Special Drawing Rights	3.65	3.55	2.10	2.20	2.50	0.65	1.00	1.80
TOTAL	1,360.35	1,233.45	2,313.45	2,171.85	2,227.75	2,261.25	2,341.35	2,2994.5
2. Securities issued or Guaranteed by Kenya Government	-	-	-	-	-	-	-	-
3 Advances & Disc to Banks	503.60	488.30	452.80	456.20	495.85	431.80	89.10	57.00
4 Direct Advances & Overdraft to Kenya Government	1,037.75	2282.10	1,499.65	268.35	309.65	271.80	324.45	330.45
5 Other Assets including Kenya Treasury Bills & Bonds	1,467.00	1,579.25	1,564.50	3,611.10	3,939.65	4,185.20	3,244.70	3,562.00
TOTAL ASSETS	4,368.70	5,583.10	5,830.40	6,507.50	6.972.90	7,150.05	5,999.60	6,248.90
LIABILITIES								
1. Capital and General Resources Fund	29.65	42.95	83.60	113.20	113.20	113.20	191.85	191.85
2. Currency in Circulation-								
2.1 Notes	1,432.90	1,667.00	1,776.10	2,108.55	1,907.65	1,857.50	1.902.30	2,167.90
2.2 Coins	25.30	32.75	40.80	50.05	52.50	53.95	53.85	56.40
TOTAL CURRENCY	1,487.85	1,742.70	1,900.50	2,271.80	2,073.35	2,024.65	2,148.00	2,416.15
3. Deposits-								
3.1 Kenya Government	-	-	-	584.90	729.70	763.70	865.55	858.60
3.2 Kenya Banks *	1,307.60	1,860.30	2,032.70	1,634.05	1,797.40	2,012.20	1,545.65	1,525.25
3.3 External Banks	967.65	1,119.70	1,014.35	779.85	764.20	730.35	716.40	644.10
3.4 Other	158.75	271.75	296.45	438.85	434.30	388.35	471.20	464.20
TOTAL	2,434.00	3,251.75	3,343.50	3,437.65	3,725.60	3,894.60	3,598.80	3,492.15
4. Revaluation Account	-	-	-		-	-	-	
5. Other Liabilities	446.85	588.65	586.40	798.05	1,173.95	1,230.80	252.80	340.60
TOTAL LIABILITIES	4,368.70	5,583.10	5,830.40	6,507.50	6,972.90	7,150.05	5,999.60	6,248.90

Source: Central Bank of Kenya

* Kenya Banks - deposits from commercial banks and non-bank financial institutions (NBFIs).

5.18. On the assets side, the foreign exchange holdings by the Central Bank increased by 5.9 per cent from K£ 2,172 million in 1997 to K£ 2,299 million in 1998. Direct advances and overdraft facilities to Kenya Government, which had decreased significantly in 1997, remained relatively low at K£ 330 million in 1998, even though this represented a 23.1 per cent increase. Treasury bills and bonds, despite an upward trend during the first half of 1998, declined over the second half to settle at K£ 3,562 million in December 1998. Advances and discounts to banks increased over the first quarter of 1998 to peak at K£ 496 million only to drop sharply in the third and fourth quarters to settle at K£ 57 million by end of the period.

5.19. On the side of liabilities, the Capital and General Resources Fund remained at the 1997 level during the first half of 1998 before increasing to K£ 192 million at the end of the third quarter, a position that was maintained up to the end of 1998. Currency in circulation dropped during the first half of 1998 from K£ 2,159 million in December 1997 to K£ 1,911 million in June 1998 before increasing to K£ 2,224 million by December 1998. This growth of 3.0 per cent is significantly lower than the 18.8 per cent growth registered in 1997. Total deposits increased to peak at K£ 3,895 million in June 1998 before dropping to K£ 3,492 million at the end of period. Government deposits, which started building up in 1997, grew

gradually to peak at K£ 866 million in September 1998 and finally stood at K£ 859 million in December 1998. Deposits of commercial banks and NBFIs, which had increased considerably in the first half, decreased gradually from K£ 2,012 million in June to K£ 1,525 million in December 1998 as a result of the reduction of cash ratio requirement to 12.0 per cent in December 1998. Other liabilities increased over the first half of the year, reaching K£ 1,231 million in June before sharply declining to K£ 340.6 million by end of 1998.

Commercial Banks - Credit and Liquidity

5.20. Table 5.9 presents commercial banks bills, loans and advances. Growth in credit extended by commercial banks decelerated from 25.2 per cent in 1997 to 17.9 per cent in 1998, which was close to the targeted growth of 17.8 per cent set for 1998. The upward trend of commercial banks credit to public sector over the last four years was reversed when credit declined by 2.1 per cent from K£ 516 million in 1997 to K£ 505 million in 1998, although this was below the budgetary target of 5.0 per cent. Expansion of credit to central Government slowed down from an increase of 49.7 per cent in 1997 to 27.6 per cent in 1998. Expansion of credit to local Government decelerated from 60.1 per cent in 1997 to 4.0 per cent in 1998. Although constituting 66.6 per cent of public sector lending, credit to public enterprises, parastatals and other public entities declined by K£ 41.9 million in 1998. The declining growth in commercial bank credit to the public sector is largely attributed to a build-up of Government deposits with banks and tighter expenditure controls.

COMMERCIAL BANKS - BILLS, LOANS AND ADVANCES*, 1994 - 1998

Table 5.9 K£million

	1994 Dec.	1995 Dec.	1996 Dec.	1997 Dec.	1998 Dec.
PUBLIC SECTOR					
Central Government	56.43	63.53	72.70	108.86	138.94
Local Government	12.46	15.21	17.87	28.61	29.75
Enterprises, Parastatal bodies and other Public entities	256.00	246.33	261.85	378.61	336.67
TOTAL PUBLIC SECTOR	324.89	325.07	352.42	516.08	505.36
PRIVATE ENTERPRISES:					
Agriculture	594.52	723.91	742.99	895.94	1,096.63
Mining and Quarrying	50.52	76.49	82.14	120.96	130.85
Manufacturing	960.91	1,608.18	1,954.77	2,146.76	2,481.73
Building and Construction	210.86	304.58	437.72	575.39	748.10
Transport, Storage and Communication	205.67	329.71	376.58	548.61	515.45
Trade	654.03	1,089.89	1,321.39	1,643.25	1,837.58
Financial Institutions	76.89	162.10	157.86	258.24	323.58
Other Business	1,288.67	1,691.51	2,435.43	3,159.12	4,035.60
TOTAL PRIVATE ENTERPRISES	4,042.07	5,986.37	7,508.88	9,348.27	11,169.52
COMMUNITY AND PERSONAL SERVICES (including non-profit making institutions)	156.77	244.82	260.93	301.88	308.90
TOTAL BILLS, LOANS AND ADVANCES	4,523.73	6,556.26	8,122.23	10,166.23	11,983.78

Source: Central Bank of Kenya

* Excludes portfolio investment by private enterprises and bank deposits placed with non-bank financial institutions.

5.21. Credit to private enterprises increased by 19.5 per cent from K£ 9,348 million in 1997 to K£ 11,170 million in 1998. In 1998, credit to agriculture grew by 22.4 per cent while its share in total credit stood at 9.2 per cent, compared to a growth of 20.6 per cent and a share of 8.8 per cent in 1997. The manufacturing sector continued to enjoy a substantial share in credit receiving K£ 2,482 million which represented 20.7 per cent of total credit, and growth

rate of 15.6 per cent during the year. There has been a gradual reduction in credit share to manufacturing sector from 24.1 per cent to 21.1 per cent and 20.7 per cent recorded in 1996, 1997 and 1998 respectively. Credit to building and construction, and mining and quarrying grew by 30.0 per cent and 8.2 per cent, while their respective shares in total credit were 6.2 per cent and 1.1 per cent in 1998. Transport storage and communication experienced a reduction in credit of 6.0 per cent, while credit to the trade sector increased by 11.8 per cent; their shares in total credit were 4.3 per cent and 15.3 per cent respectively.

5.22. Deposit liabilities and liquid assets of commercial banks are presented in Table 5.10. Deposit liabilities increased from K£12,638 million in 1997 to K£ 12,898 million in 1998 registering 2.1 per cent growth. This was significantly slower than the growth of 31.3 per cent in 1996 and 21.7 per cent in 1997 and may be attributed to the depressed state of the domestic economy. Liquid assets on the other hand registered a 5.3 per cent growth from K£ 4,708 million in 1997 to K£ 4,956 million in 1998.

COMMERCIAL BANKS DEPOSIT LIABILITIES AND LIQUID ASSETS*1993 - 1998

Table 5.10

		Deposit Liabilities K£mn	Liquid Assets** K£mn	Current Liquidity Ratio*** per cent
1993	December	4,708.29	2,376.58	50
1995	December	7,909.97	3,276.89	41
1996	December	10,383.47	4,310.65	42
1997	December	12,637.95	4,708.05	37
1998				
	January	12,819.80	4,798.90	37
	February	12,608.70	4,778.75	38
	March	12,574.30	4,726.30	38
	April	12,493.65	4,739.15	38
	May	12,950.35	4,888.45	38
	June	12,908.45	4,961.00	38
	July	12,928.55	4,850.30	38
	August	12,799.60	4,953.40	39
	September	12,975.30	4,951.60	38
	October	13,056.60	4,871.35	37
	November	12,970.95	4,850.45	37
	December	12,897.71	4,955.67	38

Source: Central Bank of Kenya.

*** Deposits and Liquid Assets are calculated as an average of three days balances**

**** Includes notes and coins, balances at Central Bank, net inter bank balances in Kenya and Overseas (included only if positive) and Treasury Bills.**

***** The ratios given in this column are not quite consistent with figures in the other two columns because of the inclusion of certain other minor items in the denominator**

Non-Bank Financial Institutions (NBFIs)

5.23. Assets and liabilities of NBFIs are presented in Table 5.11. Total assets and liabilities, which have been declining since 1994, increased by 6.5 per cent to K£ 2,127 million in 1998 from K£ 1,996 million in 1997. This is an indication that the NBFIs sector is stabilising because most of the institutions which intended to convert and/or merge into commercial banks having now done so. On the liability side, the deposits of Central and Local Government decreased by 7.4 per cent to stand at K£ 35 million. Other public sector deposits increased by 3.6 per cent from K£ 224 million in 1997 to K£ 232 million; while private sector deposits registered a 9.7 per cent increase. Other liabilities also increased by 5.0 per cent rising from K£ 913 million in 1997 to K£ 958 million in 1998.

ASSETS AND LIABILITIES OF NON-BANK FINANCIAL INSTITUTIONS. 1994 - 1998

Table 5.11 K£million

	AS AT END OF							
					1998			
	1994	1995	1996	1997	1st Qr	2nd Qr	3rd Qr	4th Qr
LIABILITIES:								
Deposits-								
Central & Local Government	29.33	33.95	28.12	38.33	38.55	31.73	31.59	35.49
Other Public Sector	342.61	234.32	256.77	223.75	214.99	201.80	224.50	231.73
Private sector	2,481.58	2,041.57	1,630.55	821.31	819.37	816.45	797.20	901.23
Other Liabilities	1,029.90	1,030.15	968.93	912.84	949.72	1,010.77	889.18	958.48
TOTAL LIABILITIES	3.883.42	3,339.99	2,884.37	1,996.23	2,022.63	2,060.75	1,942.47	2,126.93
ASSETS:								
Cash and Banks	437.05	649.41	596.90	257.43	236.00	257.05	237.48	344.97
Other Financial Institutions	119.25	32.93	56.34	2.59	5.35	6.35	2.35	7.85
Associated Companies	23.01	19.89	11.78	9.62	0.69	0.60	0.60	3.06
Investments, Bills,								
Loans & Advances -								
Public Sector	1,071.95	365.31	166.59	228.42	190.66	125.47	130.59	113.48
Private Sector	2,015.47	2,081.31	1,854.55	1,387.64	1,440.30	1,534.36	1.407.65	1,441.32
Other Assets	216.69	191.14	198.21	110.53	149.63	136.92	163.80	216.25
TOTAL ASSETS	3,883.42	3,339.99	2,884.37	1,996.23	2,022.63	2,060.75	1,942.47	2,126.93

Source: Central Bank of Kenya

5.24. With regard to assets, the cash in hand and balances with banks increased from K£ 257 million in 1997 to K£ 345 million in 1998. Investments, bills, loans and advances to public sector declined from K£ 228 million in 1997 to K£ 113 million in 1998; while those to private sector increased by 3.9 per cent from K£ 1,388 million in 1997 to K£ 1,441 million in 1998. Other assets almost doubled from K£ 111 million in 1997 to K£ 216 million in 1998. Balances with other financial institutions increased more than threefold, while other assets with associated companies fell by more than a third.

Developments in the Financial Sector

5.25. *Money Market Developments* - In 1998, there were 56 licensed commercial banks, of which 2 were not yet operational while 5 were placed under statutory management by the Central Bank. The number of non-bank financial institutions fell from 15 in 1997 to 13 in 1998, as two NBFIs converted into commercial banks. There were 4 building societies and 2 mortgage finance companies in 1998. The number of foreign exchange bureaux increased from 37 to 44.

5.26. The banking sector experienced turbulence in 1998 as some banks developed liquidity problems due to mismanagement. These resulted in panic runs for deposit in some banks, as depositors shifted to banks perceived to be more stable. The banking crisis necessitated the Central Bank to place 5 banks under statutory management by end of 1998. The large portfolio of non-performing loans in the banking sector generated concern during the year and remedial measures were taken through the Banking Act amendments contained in the 1998 Finance Act. The Banking Act now empowers Central Bank of Kenya to intervene promptly and penalise banks when irregularities are detected. The amendments require that:

- Sanctioning of insider loans be reported to Central Bank.
- Directors' loans be on similar terms as for other customers.
- Total insider loans as well as non-performing loans be disclosed and published.
- Directors be disqualified and removed from office if they have non-performing loans.
- Central Bank issues "cease and desist" orders and imposes cash penalties for non-compliance.

5.27. Other measures were also undertaken with the aim of strengthening the credit risk management function within the banking sector. These include:

- Revised guidelines on loan classification and provision for bad and doubtful debts. The new guidelines will be obligatory and non-compliance will attract cash penalties as provided for in the revised Banking Act.

- Formation of independent credit information bureaux and agencies whose role will be to collect and disseminate credit data from many sectors with special emphasis on the banking sector.

5.28. During the year the Government initiated a systematic withdrawal of Bearer Certificates of Deposits (CDs) as deposit and borrowing instruments. These instruments were found inadequate, as they are volatile and prone to misuse. By December 1998 commercial banks had reduced their holdings of CDs by 49.0 per cent, from K£ 1.1 billion in August 1998 to K£ 545 million. The CDs level as a proportion of total deposits dropped from 7.7 per cent in August 1998 to 3.9 per cent in December 1998.

5.29 The Central Bank met with bank managers to sensitise them on the need to avoid the disaster in the millennium computer bug. In addition, it made a requirement that banks be fully year 2000 compliant by December 1999.

5.30. *Capital Market Developments* - The number of market players remained unchanged in 1998, with a total of 58 listed companies in the Nairobi Stock Exchange (NSE), 20 stockbrokers, 19 investment advisers and 5 authorised depositories. All these institutions are regulated and supervised by the Capital Markets Authority (CMA), which is the umbrella body charged with the responsibility of overseeing the development of capital markets.

5.31. The Capital Market was less active in 1998 compared to 1997. In the primary equities market there was one Government divestiture issue by Kenya Commercial Bank totalling 28 million shares with an approximate value of K£ 90 million; while one rights issue by

Industrial Credit and Commercial Development Corporation (ICDC) Investments Limited raised K£ 14.1 million. The number of shares traded on the secondary market decreased by about 20.0 per cent from 143 million in 1997 to 111 million in 1998. Turnover also dropped, from K£ 305 million to K£ 225 million in December 1998. These developments were reflected in the NSE index, which dropped from 3115 in December 1997 to 2962 in December 1998. However, the market capitalisation registered some improvement, increasing from K£ 5,716 million in 1997 to K£ 6,451 million in 1998 as a result of new shares issued in 1998.

5.32. *Insurance Industry Developments* - There were a total of 38 insurance companies and 2 re-insurance companies in operation in 1998. These were backed by 158 insurance brokers, 3 risk managers, 163 loss assessors, 25 loss adjusters, 19 insurance surveyors and 1 claims settling agency. The number of registered insurance agents dropped from approximately 2,000 in 1997 to 491 in 1998. The majority failed to qualify as agents due to the lack of required proficiency certification.

5.33. The Insurance Act (Cap 487) was amended in 1998 to facilitate gradual phasing out of mandatory cessions for Kenya Reinsurance by the year 2002. The Insurance (Amendment) Regulations, 1998 outline a schedule on gradual removal of reinsurance treaties. As stipulated in the 1998/99 Budget, it is now a requirement that insurance companies invest a minimum of 20 per cent of their long-term premiums in Government securities. The premium tax and reinsurance tax remained at 1997 levels of 1.5 per cent and 4.0 per cent respectively.

CHAPTER 6 - PUBLIC FINANCE

Overview

The major goals of the 1998/99 national budget were to reduce both interest rates and Government borrowing. In addition, the budget targeted repayment of the current stock of short-term treasury bills and lengthening maturity of domestic debt by encouraging conversion of treasury bills to treasury bonds. These measures are expected to spur economic growth, boost the fight against poverty, unemployment and help restore investors' confidence.

6.2. During the fiscal year, the Government is expected to cut total expenditure (including public debt redemption) by 20 per cent from K£ 15,642 million in 1997/98 to K£ 12,510 million in 1998/99. Labour costs, which include salaries and allowances, dropped by 4.6 per cent from K£ 1,654 million in 1997/98 to K£ 1,578 million in 1998/99. Total expenditure as a percentage of GDP at market prices is expected to drop from 49.9 per cent in 1997/98 to 27.3 per cent in 1998/99. Public debt redemption is expected to drop from K£ 6,682 million in 1997/98 to K£ 2,337 million in 1998/99. Total gross revenue receipts on the recurrent account are expected to grow from K£ 9,083 million in 1997/98 to K£ 9,674 million in 1998/99.

Overall Results

6.3. Table 6.1 details Central Government out-turn of revenue and expenditure for the fiscal years 1994/95 to 1998/99. During this period, current revenue and current expenditure grew by 58.3 and 54.7 per cent respectively. In the current financial year, current revenue is expected to grow by 6.9 per cent, whereas current expenditure is expected to grow by 10.7 per cent, thus worsening the current deficit position.

6.4. Revenue collection expanded by over K£ 600 million in the current financial year as a result of improved tax collection by Kenya Revenue Authority (KRA). Since the growth of current revenue has been outpaced by growth in current expenditure, a current surplus of K£ 545 million was recorded in 1998/99, which is a decline of 31.8 per cent from K£ 799 million in 1997/98. Capital expenditure is expected to increase by 45 per cent from K£ 696 million in 1997/98 to K£ 1,009 million in 1998/99. The growth is due to costs on Olkaria II geothermal power project, rehabilitation of roads network, improvement of railway transport systems, loans advanced to sugar industries, loan repayment to Housing Finance Company of Kenya (HFCK) and construction of non-residential building for National Hospital Insurance Fund (NHIF) undertaken during 1998/99. As a result, the overall deficit is projected to be K£ 262 million in 1998/99 compared to a surplus of K£ 387 million recorded in 1997/98. The deficit was mainly financed by domestic borrowing, which more than doubled from K£ 561 million in 1997/98 to K£ 1,326 million in 1998/99. Short-term Treasury bills decreased by 15 per cent from K£ 504 million in 1997/98 to K£ 429 million in 1998/99 as a result of the replacement of short-term debt instruments with long-term floating rate Treasury bonds which grew from K£ 57 million in 1997/98 to K£ 897 million in 1998/99.

Table 6.1 K£million

	1994/95	1995/96	1996/97	1997/98**	1998/99+	Percentage Increases 1994/95 to 1998/99
Current Revenue	6,097.82	7,142.17	7,275.18	9,030.79	9,656.00	58.35
Current Expenditure***	5,888.84	6,747.65	6,926.74	8,231.62	9,111.37	54.72
Current Surplus	208.98	394.52	348.44	799.17	544.63	160.61
Capital Revenue	38.62	29.02	79.01	51.96	17.69	-54.19
Capital Expenditure***	715.17	896.50	782.39	695.71	1,008.75	41.05
Net Lending"*	29.52	16.25	154.39	32.47	53.01	79.57
External Grants	661.45	290.70	289.15	263.60	237.75	-64.06
OVERALL DEFICIT	164.36	-198.51	-220.18	386.55	-261.69	-259.22
FINANCING OF DEFICIT:						
External Loans (Net)	-106.50	-3.25	-331.70	-356.75	-358.75	236.85
Total Domestic Borrowing	401.90	-108.15	955.10	561.10	1,325.95	229.92
Long-term(net)	-376.70	-352.45	-206.05	57.25	896.75	-338.05
Short-term(net)	778.60	244.30	1,161.15	503.85	429.20	-44.88
CHANGES IN CASH BALANCES:						
Increase = (-)	-459.76	309.91	-403.22	-590.90	-705.51	53.45
MEMORANDUM ITEMS:						
Public Debt Redemption	1,579.62	1,463.96	1,265.79	6,682.00	2,336.51	47.92
(a) External	944.87	960.33	917.96	1,068.73	1,123.86	18.94
(b) Internal	634.75	503.63	347.83	5,613.28	1,212.66	91.05

Source: CBS and MoF

* This Table details Kenya Government's deficit and its financing.
Basic aggregates in the Table can be reconciled as follows:

1. Current Revenue plus Capital Revenue shown in the Table equals Revenue on Recurrent Account as shown in Table 6 4
2. The sum of Current Expenditure, Capital Expenditure, Net Lending and memorandum items equals Total Expenditure in Table 6.9.

** Provisional.

*** For details, see Table 6.9

\+ Estimates

6.5. Some key fiscal trends are presented in Table 6.2. The current surplus expressed as a ratio of current revenue declined from 8.8 per cent in 1997/98 to 5.6 per cent in 1998/99, while current surplus to capital expenditure plus net lending declined from 109.7 per cent to 51.3 per cent. This was due to the slow growth of current revenue. Overall deficit as a ratio of current revenue is expected to decline from a surplus of 4.2 per cent in 1997/98 to a deficit of 2.7 per cent in 1998/99; as a ratio of total expenditure declined from a surplus 2.5 per cent to deficit of 2.1 per cent in 1998/99; and as a percentage of GDP at current market prices is expected to drop from a surplus of 1.2 per cent in 1997/98 to a deficit of 0.7 per cent in 1998/99. Current revenue as a percentage of GDP at market prices decreased from 28.8 per cent in 1997/98 to 27.3 per cent in 1998/99.

ANALYSIS OF KEY FISCAL TRENDS, 1994/95 - 1998/99

Table 6.2

	1994/95	1995/96	1996/97	1997/98*	1998/99**
1. Current Surplus/Deficit as % of Current Revenue	3.4	5.5	4.8	8.8	5.6
2. Current Surplus/Deficit as % of Capital Expenditure plus Net Lending	28.0	43.2	38.8	109.7	51.3
3. Ratio of Capital Expenditure to Current Expenditure	12.1	13.3	11.3	8.5	11.1
4. Overall Deficit as % of Current Revenue.	2.7	-2.8	-3.0	4.2	-2.7
5. Overall Deficit as % of Total Expenditure	2.0	-2.2	-2.4	2.5	-2.1
6 External Grants and Loans as % of Capital Expenditure plus Net Lending	74.5	31.5	-4.6	-12.8	-11.4
7. Net Short-Term Borrowing as % of Capital Expenditure plus Net Lending	104.6	-26.8	124.0	69.2	40.4
8 Current Revenue as % of GDP at Current Market Prices	28.2	28.8	23.2	28.8	27.3
9 Total Government Expenditure as % of GDP at Current Market Prices .	38.2	37.0	33.2	49.9	35.4
10. Overall Deficit as % of GDP at Current Market Prices	0.8	-0.9	-0.7	1.2	-0.7

* Provisional

** Estimates

6.6. Table 6.3 presents a comparison of budget estimates with actual out-turns for the financial years 1995/96 to 1998/99. The analysis gives an indication of the predictability of various budgetary items. In 1998/99 recurrent revenue and expenditure are expected to exceed the budgeted estimates by K£ 366 million and K£ 484 million respectively. Actual recurrent expenditure surpassed the budgeted estimates due to financing of unexpected expenditure incurred by the National Cereals and Produce Board to improve maize reserves, assistance to drought victims, grants to Kenya Constitution Review Commission and Teachers Service Commission, support to Kenya Wildlife Service and National Bank of Kenya coupled with increased mileage claims and allowances to Members of Parliament.

CENTRAL GOVERNMENT

COMPARISON OF BUDGET ESTIMATES WITH ACTUAL OUT-TURNS, 1995/96 - 1998/99

Table 6.3. K£million

	1995/96			1996/97		
	Budget	Actual	Difference	Budget	Actual	Difference
Recurrent Revenue	7,192.58	7,171.19	-21.39	7,538.29	7,354.19	-184.10
Recurrent Expenditure	7,437.07	7,795.46	358.39	7,616.65	7,844.87	228.22
Recurrent Balance	-244.49	-624.27	-379.78	-78.36	-490.68	-412.32
Development Expenditure + Net Lending	1,961.22	1,400.08	-561.14	2,143.35	1,496.57	-646.78
External Financing (Net)**	499.55	286.93	-212.62	923.75	-42.55	-966.30
Balance for Domestic Financing (Net)	-1,706.16	-1,737.42	-31.26	-1,297.96	-2,029.80	-731.84
	1997/98*			1998/99***		
	Budget	Actual	Difference	Budget	Actual	Difference
Recurrent Revenue	8,367.71	9,082.75	715.04	9,308.00	9,673.70	365.70
Recurrent Expenditure	11,070.05	14,479.51	3,409.46	10,168.80	10,653.09	484.29
Recurrent Balance	-2,702.34	-5,396.76	-2,694.42	-860.80	-979.39	-118.59
Development Expenditure + Net Lending	2,333.62	1,224.44	-1,109.18	1,851.66	1,974.15	122.49
External Financing (Net)**	37.75	-93.15	-130.90	-121.00	-121.00	0.00
Balance for Domestic Financing (Net)	-4,998.21	-6,714.35	-1,716.14	-2,833.46	-3,074.54	-241.08

*Provisional

**Includesexternalgrants.

***Estimates

6.7. Gross receipts on recurrent account are shown in Table 6.4 for the period 1994/95 to 1998/99. Total gross receipts recorded a marked improvement of 23 per cent from K£ 7,354 million in 1996/97 to K£ 9,083 million in 1997/98, with a further 6.5 per cent growth expected in 1998/99. Government's efforts to improve revenue receipts have borne fruit, since the formation of KRA. There has been improved tax administration and collection, reduction in tax evasion on imports and reduction in diversion of transit goods into the local market. Revenue from indirect taxation has been a major contributor to gross receipts accounting for 50.3 per cent of the total. In 1997/98, income from property shot up from K£ 243 million in 1996/97 to K£ 1,056 million in 1997/98 as a result of repayments of investment revenue, in the form of profits and dividends from investments with the Central Bank of Kenya. This item has declined to K£ 465 million in 1998/99. Income from sale of goods and services is estimated to record a 61.4 per cent increase from K£ 570 million in 1997/98 to K£ 920 million in 1998/99, mainly due to expected high revenue from the road maintenance levy. Reimbursement of expenditure to the Government totalling K£ 298 million from both the Kenya Posts and Telecommunications Corporation and Kenya Power and Lighting Company will contribute largely to a significant increase in revenue from "other" sources amounting to K£ 369 million in 1998/99.

CENTRAL GOVERNMENT
GROSS RECEIPTS ON RECURRENT ACCOUNT*, 1994/95 - 1998/99

Table 6.4 K£million

	1994/95	1995/96	1996/97	1997/98**	1998/99+
DIRECT TAXATION					
Income Tax	2,175.29	2,404.12	2,418.75	2,778.90	2,926.79
Other			-	0.08	0.01
TOTAL	2,175.29	2,404.12	2,418.75	2,778.98	2,926.80
INDIRECT TAXATION					
VAT on Domestic Manufactures	675.00	737.56	727.09	887.40	982.04
VAT on imports	551.69	682.63	765.41	836.01	914.73
Import Duties	929.91	1,058.78	1,12.70	1,228.35	1,357.03
Excise Duties	966.61	1,130.59	1,184.36	1,419.08	1,477.93
Export Duties		-			-
Trading Licences	18.83	17.47	10.60	7.02	9.37
Licences and Fees Under Traffic Act	21.30	22.97	35.93	41.64	43.49
Other Taxes, Licences and Duties	66.90	83.15	79.62	82.22	79.00
TOTAL	3,230.24	3,733.15	3,932.71	4,501.72	4,863.59
OTHER REVENUE AND INCOME:					
Compulsory Fees, Fines and Penalties	64.83	85.03	88.14	69.19	108.05
Income From Property	155.53	385.28	243.17	1,055.92	465.07
Current Transfers	28.71	9.90	10.21	14.73	20.40
Sales of Goods and Services	361.99	480.30	525.37	569.89	920.41
Other	119.95	73.41	135.84	92.32	369.38
TOTAL	731.01	1,033.92	1,002.73	1,802.05	1,883.31
TOTAL	6,136.54	7,171.19	7,354.19	9,082.75	9,673.70
MEMORANDUM ITEM:					
Loan Repayments to Government	51.70	55.58	57.77	29.68	64.62

*This is the name of the account used to cover current receipts It includes internal A in A both recurrent and development. However, it is not possible to identify A in A separately from this table because it is distributed under various heads including sales of goods and services

**Provisional.

+Estimates

6.8. As shown in Table 6.5, overall growth in import duty collection expanded by 22.5 per cent from K£ 1,012 million in 1997 to K£l,240 million in 1998 after a slight drop in 1997. Collection from fuel imports grew by 39.8 per cent from K£ 211 million in 1997 to K£ 295 million. Duty collected on food, drinks and tobacco nearly doubled from K£ 112

million in 1997 to K£ 215 million in 1998. This is attributed to changes in import duty tariffs to enhance the protection of some selected domestic food industries. Transport equipment and machinery category contributed 26.9 per cent of the total import duty collected compared with 32.6 per cent the previous year, despite an additional minimum surcharge introduced on imported second hand cars and machinery.

CENTRAL GOVERNMENT IMPORT DUTY COLLECTIONS, 1994 -1998

Table 6.5 K£million

END-USE CATEGORY	1994	1995	1996	1997	1998*
Food, drinks and tobacco .. .	56.35	70.98	104.02	111.70	215 44
Basic materials	77.91	84.28	58.68	57.90	77.72
Fuels	195.13	187.18	221.19	211.04	294 88
Chemicals	115.29	121.18	93.55	85.65	83.82
Textiles	29.24	37.16	18.26	15.83	24.76
Semi-manufactures	45.06	72.85	78.37	81.55	78.86
Metals	73.23	114.57	73.26	64 26	66.56
Transport Equipment	151.45	255.46	173.46	180.93	182.21
Machinery	139.48	208.65	147.76	148.54	151.75
Miscellaneous commodities .	39.09	49.87	52.26	54.21	64.15
TOTAL	922.23	1,202.18	1,020.81	1,011.61	1,240.15

* Provisional

6.9. Excise revenue for some locally manufactured goods is shown in Table 6.6. Excise revenue grew by 3.8 per cent from K£ 666 million in 1997 to K£ 692 million in 1998. Beer and spirits continued to be the major source of excise revenue contributing a 58.1

per cent share followed by cigarettes with 34.7 per cent of the total excise revenue.

CENTRAL GOVERNMENT EXCISE REVENUE BY COMMODITIES', 1994 -199

Table 6.6 K£'000

	1994	1995	1996	1997	1998**
Beer and spirits	289,585	332,274	364,901	378,441	401,719
Sugar	-	21	12	-	179
Cigarettes	193,873	211,033	223,329	234,697	240,313
Other commodities***	38,250	49,002	53,325	52,945	49,387
TOTAL	521,708	592,330	641,567	666,083	691,598

Data presented in this Table refer to Calender years

* * Provisional

*** Includes transfer adjustments not allocated by commodity.

Source: Kenya Revenue Authority, Customs and Excise.

6.10. Table 6.7 provides details of financing capital expenditure and net lending. The high rise in capital expenditure and net lending in 1998/99 was due to implementation of Olkaria II geothermal power project, rehabilitation of roads network, improvement of railway transport systems, loans advanced to sugar industries, loan repayment to HFCK and construction of non-residential building for National Hospital Insurance Fund (NHIF). Net lending to other Government institutions increased from K£ 32 million in 1997/98 to K£ 53 million in 1998/99. Capital expenditure and net lending are expected to be financed by domestic borrowing and external grants in 1998/99. Treasury bills are expected to meet at least 40.4 per cent of the financing. Long-term domestic borrowing increased from K£ 57 million in 1997/98 to K£ 897 million in 1998/99 due to substitution of short-term Treasury bills to long-term Treasury bonds.

CENTRAL GOVERNMENT

FINANCING OF CAPITAL EXPENDITURE AND NET LENDING. 1994/95- 1998/99

Table 6.7 K£million

	1994/95	1995/96	1996/97	1997/98*	1998/99**
EXPENDITURE					
Capital Expenditure	715.17	896.50	782.39	695.71	1,008.75
Net Lending	29.52	16.25	154.39	32.47	53.01
TOTAL	744.69	912.75	936.78	728.18	1,061.76
FINANCING:					
Surplus on Current Account	208.98	394.52	348.44	799.17	544.63
Capital Revenue	38.62	29.02	79.01	51.96	17.69
External Loans (Net)	-106.50	-32.5	-331.70	-356.75	-358.75
External Grants	661.45	290.70	289.15	263.60	237.75
Long-Term Domestic Borrowing (Net)	-376.70	-352.45	-206.05	57.25	856.75
SHORT TERM BORROWING					
Cereals and Sugar Finance Corporation (Net)	-		.	-	
Treasury Bills (Net)	-1,121.45	287.05	429.20	105.10	429.20
Other Short-Term Borrowing (Net)	1.900.05	-42.75	731.95	398.75	0.00
Change in Cash Balances(decrease =+)	-459.76	309.91	-403.22	-590.90	-705.51
TOTAL	744.69	912.75	936.78	728.18	1,061.76

*Provisional

** Estimates

Analysis of Government Expenditure

6.11. Total expenditure on main services is expected to decline by 19.8 per cent from K£ 15,671 million in 1997/78 to K£ 12,574 million in 1998/99 as shown in Table 6.8. Expenditure on general public administration rose by 24.9 per cent from K£ 1,923 million in 1997/98 to K£ 2,02 million in 1998/99. Expenditure on education continued to be the leading consumer of government funds with a share of 19.9 per cent of the total. Expenditure on economic services increased from K£ 1,213 million in 1997/98 to K£ 1,797 million in 1998/99, which is attributed to expenses incurred on loans disbursed to sugar industries, Olkaria II geothermal power project and improvement of both the road and railway network systems. There was a decrease of 50.5 per cent in other services including public debt from K£ 8,889 million in 1997/98 to K£ 4,404 million in 1998/99. The high value recorded in 1997/98 was due to a rise in expenditure in redeeming domestic debt.

CENTRAL GOVERNMENT EXPENDITURE ON MAIN SERVICES. 1995/96- 1998/99

Table 6.8

K£million

	1995/96			1996/97			1997/98*			1998/99+		
	Recur-rent Account	Deve lopment Account	Total	Recur-rent Account	Deve-lopment Account	Total	Recur-rent Account	Deve-lopment Account	Total	Recur-rent Account	Deve-lopment Account	Total
GENERAL PUBLIC ADMINISTRATION												
General Administration	613.43	274.19	887.62	751.19	431.47	1,182.66	898.27	312.73	1,211.00	1,147.71	501.32	1,649.03
External Affairs	128.30	13.66	141.96	119.43	13.96	133.39	138.37	1.35	139.72	129.68	5.35	135.03
Public Order and Safety	391.24	15.95	407.19	459.24	21.26	480.50	553.22	18.91	572.13	599.77	18.51	618.28
TOTAL	1,132.97	303.80	1,436.77	1,329.86	466.69	1,796.55	1,589.86	332.99	1,922.85	1,877.16	525.18	2,402.34
Defence	440.06	11.89	451.95	51567	7.92	523.59	501.96	6.09	508.05	547.10	7.27	554.37
Education	1,495.73	94.94	1,590.67	1,590.92	83.23	1,674.15	2,221.14	90.05	2.311.19	2,376.19	125.78	2,501.97
Health	371.87	83.86	455.73	397.38	131.01	528.39	454.71	197.93	652.64	469.07	240.65	709.72
Housing and Community Welfare	96.67	154.19	250.86	105.60	74.22	179.82	94.30	78.93	173.23	99.86	100.40	200.26
Social Welfare	2.44	0.00	2.44	1.95	0.00	1.95	1.16	0.00	1.16	4.00		4.00
ECONOMIC SERVICES												
General Administration ..	63.45	58.31	121.76	65.94	73.80	139.74	98.51	53.84	152.35	110.76	230.83	341.59
Agriculture, Forestry and Fishing	216.10	170.43	386.53	220.15	127.99	348.14	213.43	174.39	387.82	248.09	397.51	645.60
Mining. Manufacturing & Construction	70.39	11.35	81.74	86.91	27.67	114.58	89.88	21.47	111.35	90.26	32.23	122.49
Electricity, Gas, Steam and Water	54.88	113.35	168.23	57.64	102.89	160.53	14.39	85.41	99.80	64.45	67.76	132.21
Roads	190.73	194.05	384.78	248.07	149.29	397.36	241.27	135.33	376.60	260.59	176.61	437.20
Other Transport & Communications	11.84	184.47	196.31	15.81	94.18	109.99	18.96	13.64	32.60	41.85	5.28	47.13
Other Economic Services	46.47	3.52	49.99	49.22	3.29	52.51	51.06	1.90	52.96	59.65	11.62	71.27
TOTAL ECONOMIC SERVICES	653.86	735.48	1,389.34	743.74	579.11	1,322.85	727.50	485.98	1,213.48	875.65	921.84	1,797.49
OTHER SERVICES; INCLUDING PUBLIC DEBT	3,601.86	0.00	3,601.86	3,159.75	0.00	3,159.75	8,888.88	0.00	8,888.88	4,404.06	0.00	4,404.06
TOTAL**	7,795.46	1,384.16	9,179.62	7,844.87	1,342.18	9,187.05	14,479.51	1,191.97	15,671.48	10,653.09	1,921.12	12,574.21

*Provisional

**Total as shown in this table minus loan repayment to the Government equals total expenditure in Table 6 9

\+ Revised Estimates

6.12. Table 6.9 shows economic analysis of expenditure for the past five financial years. Current expenditure increased by 10.7 per cent from K£ 8,232 million in 1997/98 to K£ 9,111 million in 1998/99. Expenditure on other goods and services is expected to increase by 33.9 per cent as a result of assistance to drought victims, expenses on commissions, honoraria and honours, and preparations for the Common Market for Eastern and Southern Africa (COMESA) conference in Nairobi. Current transfers increased by K£ 512 million due to transfers to the Electoral Commission, Teachers Service Commission and funds allocated to support the National Bank of Kenya. A growth of 45 per cent in capital expenditure is expected as a result of construction of non-residential buildings for NHIF, costs on rehabilitation of road network and improvement of railway communication system among others.

CENTRAL GOVERNMENT
ECONOMIC ANALYSIS OF EXPENDITURE. 1994/95 - 1998/99

Table 6.9 K£million

	1994/95	1995/96	1996/97	1997/98*	1998/99**
CURRENT EXPENDITURE:					
CONSUMPTION EXPENDITURE ON GOODS AND SERVICES:					
Labour Costs	1,170.30	1,312.55	1,297.81	1,654.00	
Other Goods and Services	1,255.10	1,607.04	1,830.58	1,848.37	
TOTAL	2,425.40	2,919.59	3,128.39	3,502.37	4,052.50
SUBSIDIES	2.03	0.06	0.02	3.05	
INTEREST:					
Foreign	473.55	533.52	405.06	388.79	
Domestic	1,294.85	1,466.04	1,277.21	1,601.85	
TRANSFERS TO:					
Households and Unincorporated Enterprises including Private Non-profit Institutions	247.25	277.54	568.33	281.11	
Financial and Non-Financial Enterprises	0.86				
General Government	1,204.27	1,444.78	1,500.62	2,347.07	
Rest of the World	24.29	28.37	31.53	28.14	
Funds	216.04	77.08	15.58	79.24	
TOTAL TRANSFERS	1,692.71	1,827.77	2,116.06	2,735.56	3,247.56
OTHERS	0.05	0.66			
1 TOTAL CURRENT EXPENDITURE	5,888.59	6,747.64	6,926.74	8,231.62	9,111.37
2 CAPITAL EXPENDITURE:					
Gross Fixed Capital Formation	687.34	818.25	710.32	681.23	
Capital Transfers	27.83	78.25	72.07	14.48	
TOTAL	715.17	896.50	782.39	695.71	1,008.75
3. NET LENDING:					
Purchase of Equity in Enterprises	1.33		136.33	4.87	
Loans to Households, Enterprises and General Government Agencies	79.89	71.50	75.83	57.28	
Less Loan Repayments to Government ***	-51.70	-55.25	-57.77	-29.68	
TOTAL	29.52	16.25	154.39	32.47	53.01
4 PUBLIC DEBT REDEMPTION	1,579.62	1,463.96	1,265.79	6,682.00	2,336.51
5 Total Expenditure (1+2+3+4)	8,212.90	9,124.35	9,129.31	15,641.80	12,509.64

*Provisional

** Revised Estimates

*** including interest

Public Debt

6.13. Table 6.10 shows a breakdown of public debt. Public debt has been declining since 1994 but it rose to K£ 12,916 million as at 30th June 1998 from K£ 12,276 million recorded as at 30th June 1997, an expansion of K£ 640 million, increasing pressure on the Government to tighten management and reduce reliance on both domestic and foreign borrowing. Both funded and unfunded internal debt remained unchanged, making external borrowing the main contributor to increased total public debt. Internal funded debt continued with a downward trend in line with the 1998/99 budget proposals.

CENTRAL GOVERNMENT PUBLIC DEBT, 1994 - 1998

Table 6.10 K£million

As at 30th June	Public Debt**								
	Funded			Unfunded			Total		
	External	Internal	Total	External	Internal***	Total	External	Internal	Total
1994		1,402.59	1,402.59	10,403.56	2,55413	12,957.69	10,403.56	3.956.72	14,360.28
1995		229.39	229.39	12,301.35	1,304.31	13,605.66	12,301.35	1,533.70	13,835.05
1996		229.17	229.17	11,735.42	1,408.49	13,143.91	11,735.42	1,637.66	13,373.08
1997		197.98	197.98	10,905.32	1,173.12	12,078.44	10,905.32	1,371.10	12,276.42
1998*		186.47	186.47	11,551.94	1,177.60	12,729.54	11,551.94	1,364.07	12,916.01

* Provisional

** Excludes Short Term Borrowing

*** Includes Treasury bonds

6.14. Sources of unfunded public debt between 1994 and 1998 are illustrated in Table 6.11. Overall, total outstanding unfunded debt is expected to increase marginally from K£ 12,078 million in 1997 to K£ 12,730 million in 1998. The bulk of this support comes from multilateral donor agencies. Among international donor organisations, the International Development Association (IDA) remained the leading donor body with a total support of K£ 5,524 million, representing 43.4 per cent of the total unfunded debt as at 30th June 1998. The lapse in Enhanced Structural Adjustment Facility (ESAF) support from the International Monetary Fund (IMF) has led to reduced funding from other multilateral funding agencies such as the World Bank and the African Development Bank (ADB). Japan is the major lending nation among bilateral donor countries accounting for 43.6 per cent of the total bilateral unfunded debt (14.7 per cent of total unfunded debt).

6.15. Table 6.12 shows analysis of public funded debt at book value by holders. These stocks are long term debt instruments, with a maturity period of between five to forty years. Total value of funded debt decreased by 5.8 per cent in 1998. National Social Security Fund remains the largest holder of public funded debt accounting for 68.8 per cent of the total funded debt on local register while Central Government accounted for 22.3 per cent. Generally, stocks held either remained constant or changed marginally over the period between 1995 to 1998.

CENTRAL GOVERNMENT OF UNFUNDED DEBT, 1994-1998

Table 6.11 K£milllon

Outstanding as at 30th June	1994	1995	1996	1997	1998
EXTERNAL DEBT:					
Lending Countries:					
Germany	240.97	434.31	345.46	293.67	338.42
Japan	1,971.14	2,330.41	2,111.62	1,792.19	1,874.77
France	428.02	979.13	831.58	544.31	479.12
U S A	-	13.19	6.70	2.02	29.85
Netherlands	279.65	316.98	341.73	281.54	323.41
Denmark	181.72	215.38	184.23	153.11	131.61
Finland	10.04	29.94	25.90	20.33	18.25
Other	1,280.34	1,775.27	1,510.16	1,181.02	1,102.35
Total	4,391.88	6,094.61	5,357.38	4,268.19	4,297.78
International Organizations:					
I D A	4,376.93	4,654.13	4,759.21	4,964.43	5,524.46
I B R D	500.81	400.63	347.31	355.01	292.04
African Development Bank	498.44	491.66	355.44	332.00	313.92
O P E C	33.10	24.88	54.23	46.91	41.59
E E C	254.94	287.91	220.76	245.24	271.56
I M F	-	-	-		
Arab League	3.36	2.62	2.07	0.65	0.71
Badea	25.59	21.67	28.11	23.54	22.03
1 F A D	63.55	72.73	75.63	88.12	118.47
C D C	-	-	-	-	
A.D.F	254.96	250.51	535.28	581.23	669.38
Total	6,011.68	6,206.74	6,378.04	6,637.13	7,254.16
Total External . .	10,403.56	12,301.35	11,735.42	10,905.32	11,551.94
INTERNAL DEBT					
Central Bank of Kenya .	10.00	10.00	10.00	10.00	10.00
Other	2,544.13	1,294.31	1,398.49	1,163.12	1,167.60
TOTAL INTERNAL	2,554.13	1,304.31	1,408.49	1,173.12	1,177.60
TOTAL UNFUNDED DEBT	12,957.69	13,605.66	13,143.91	12,078.44	12,729.54

ANALYSIS OF PUBLIC FUNDED DEBT AT BOOK VALUE BY HOLDERS
ON LOCAL REGISTER AS AT 30TH JUNE, 1994-1998

Table 6.12 K£milllon

	1994	1995	1996	1997	1998
PUBLIC BODIES:					
National Social Security Fund	188.08	155.58	155.58	130.55	126.26
Central Government	60.69	49.51	49.32	44.14	41.60
Local Government	0.22	0.18	0.18	0.06	0.06
Kenya Post Office Savings Bank..	2.30	2.30	2.30	2.20	2.20
Former E. A. Community Institutions*	8.70	3.28	3.28	3.28	2.56
Central Bank :	1,122.92	0.00	0.00	0.00	0.00
Other Public Sector	1.10	1.10	1.10	2.07	2.07
OTHER INTERNAL:					
Commercial Banks	4.99	4.94	4.94	5.03	5.66
Insurance Companies	4.43	3.48	3.45	3.27	3.05
Other Companies	9.08	8.94	8.94	7.32	2.97
Private Individuals	0.08	0.08	0.08	0.05	0.04
TOTAL	1,402.59	229.39	229.17	197.97	186.47

Source: Central Bank of Kenya

* And their successors

6.16. Annual debt service charges (i.e. redemption plus interest payments) for the years ending June 1994 to June 1998 are presented in Table 6.13. Total net servicing charges declined by K£ 518 million between June 1996 and June 1997, chiefly due to reduced internal debt redemption, while external debt service charges declined from K£ 1,494 million to K£ 1,323 million. However, there was a significant increase of 344 per cent on

servicing of domestic debt between 1997 and 1998 in line with government's budget proposal of reducing outstanding domestic debt.

CENTRAL GOVERNMENT DEBT SERVICING CHARGES*, 1994 - 1998

Table 6.13 K£milllon

Year ending 30th June	ANNUAL DEBT SERVICING CHARGES			INTEREST AND LOAN REPAYMENT RECEIPTS			NET SERVICING CHARGES		
	External	Internal	Total	External	Internal	Total	External	Internal	Total
1994	1,534.23	3,665.08	5,199.31		29.69	29.69	1,534.23	3,626.98	5,161.21
1995	1,418.42	1,929.60	3,348.02		51.70	51.70	1,418.42	1,875.97	3,294.39
1996	1,493.86	1,969.67	3,463.53		55.25	55.25	1,493.86	1,914.09	3,407.95
1997	1,323.02	1,625.04	2,948.06		57.77	57.77	1,323.02	1,567.27	2,890.29
1998**	1,457.52	7,215.13	8,672.65		29.68	29.68	1,457.52	7,185.45	8,642.97

* For breakdown between interest and repayments, see Table 6.1 and Table 6.9

** Provisional

6.17. Debt service charges on external debt in relation to the export of goods and services for the years 1994 to 1998 are presented in Table 6.14. Whereas debt service charges are for the financial years, export of goods and services are for the calendar year. The ratio of external debt service charges to export of goods and services declined between 1994 and 1997, as a result of the fall in external debt servicing combined with an increase in exports of goods and services. In contrast, this ratio rose to 16.94 per cent in 1998 from 15.05 per cent in 1997 due to the reduction in exports of goods and services and an increase in debt service.

CENTRAL GOVERNMENT
DEBT SERVICE CHARGES ON EXTERNAL DEBT RELATED TO EXPORT
OF GOODS AND SERVICES, 1994 - 1998

Table 6.14

	Debt Service Charges on External Debt** (Financial Year)	Export of Goods and Services (Calender Year)	External Debt Service Charges as a Percentage of Export of Goods and Services
	K£million	K£milllon	
1994	1,534.23	7,411.24	20.70
1995	1,418.42	7,629.82	18.59
1996	1,493.86	8,676.56	17.22
1997*	1,323.02	8,793.38	15.05
1998*	1,457.52	8,604.33	16.94

** Including debt redemption, however, interest payments on drawing on IMF are excluded.

* Provisional

Local Authorities

6.18. The local government system is undergoing reforms to help clear mutual indebtedness between the two levels of government and enhance financial discipline. The Government is in the process of establishing the Local Authority Transfer Fund, which will be funded by a share of income tax. To be eligible for these funds, all local authorities are required to put in place a simplified and improved revenue collection system and to provide an enabling environment for investments by issuing only one business permit to a business enterprise. The Central Government will start a system of direct payment of contributions in lieu of rates from the Treasury, subject to confirmation of the amount owed to each local authority by the Ministries of Lands and Settlement and Local Authorities.

6.19. Local authorities comprise Nairobi City Council, municipal councils, county councils and town councils. The 1998/99 financial year saw the dissolution and conversion

of all urban councils to town councils. As a result, there are 45 municipal councils, 63 county councils and 57 town councils.

6.20. Table 6.15 presents the details of expenditure by local authorities for the financial years 1994/95 through 1998/99. The 1998/99 expenditure estimates are expected to drop by 22.0 percent to reach K£ 571.5 million down from a provisional figure of K£ 732.5 million in 1997/98, mainly as a result of a drop in capital expenses. Nairobi City Council, recorded a growth of 9.1 per cent from K£ 207.3 million in 1997/98 to K£ 226.2 million in 1998/99. Expenditure by other municipalities dropped by 43.3 per cent from K£ 395.0 million in 1997/98 to K£ 224.2 million in 1998/99. The expenditure by town and county councils dropped by 6.9 per cent mainly due to lack of funds.

EXPENDITURE ON LOCAL AUTHORITIES, 1994/95 - 1998/99

Table 6.15 K£million

	MUNICIPALITIES				
	Nairobi City Council	Other Municipal Councils	Sub-Total	Town and County Councils	Total
1994/95*	233.88	181.25	415.13	75.43	490.56
1995/96	179.69	193.67	373.36	87.77	461.13
1996/97	176.35	148.66	325.01	86.22	411.23
1997/98*	207.30	395.03	602.33	130.21	732.54
1998/99**	226.19	224.17	450.36	121.17	571.53

* Provisional

" Estimates

6.21. The analysis of current and capital expenditure on main services between 1994/95 and 1998/99 is shown in Table 6.16. Expenditure on administrative services is expected to drop to K£ 122.5 million in 1998/99 from K£ 143.0 million in 1997/98. Expenditure on community services showed a tremendous growth in 1997/98 but in 1998/99 financial year, expenditure is projected to be almost half that of 1997/98. The high expenditure in 1997/98 could be attributed to the increased expenses incurred on repair of roads and sanitation, due to devastation of the infrastructure caused by heavy rains. During this period, the Minor Roads Programme was implemented with the aim of supporting rural development, the activities of which included earth roads improvement and routine maintenance. The same period also saw the re-carpeting of roads in major towns including Nairobi, Eldoret and Mombasa under the World Bank sponsored Kenya Urban Transport Infrastructure Project. The expenditure on social services is expected to drop marginally from K£ 68.4 million in 1997/98 to K£ 68.3 million in 1998/99. Expenditure on economic services is expected to drop by 13.8 per cent from K£ 176.0 million in 1997/98 to K£ 151.7 million in 1998/99 as a result of reduction in water undertakings.

MUNICIPAL COUNCILS: CURRENT AND CAPITAL EXPENDITURE ON MAIN SERVICES, 1994/95 - 1998/99

Table 6.16 K£ million

		1994/95	1995/96	1996/97	1997/98*	1998/99**
ADMINISTRATION		106.52	96.99	98.78	142.47	122.46
COMMUNITY SERVICES:	Roads	85.32	34.76	30.37	127.68	41.90
	Sanitation	51.75	48.61	34.53	76.62	63.04
	Other	3.94	5.67	2.65	11.15	2.93
	Total	141.01	89.04	67.55	215.45	107.87
SOCIAL SERVICES	Education	18.37	16.17	1706	22.46	21.29
	Health	25.91	29.33	30.10	41.12	40.90
	Other	1.50	3.39	5.29	4.85	6.14
	Total	45.78	48.89	52.45	68.43	68.33
ECONOMIC SERVICES:	General Administration	9.86	12.92	16.58	15.24	20.54
	Water Undertaking	51.73	94.03	68.08	123.15	91.86
	Housing Estates(including staff housing	13.45	22.97	11.84	25.13	24.41
	Other	46.78	8.52	9.73	12.46	14.90
	Total	121.82	138.44	106.23	175.98	151.71
	TOTAL EXPENDITURE ..	415.13	373.36	325.01	602.33	450.37

*Provisional

** Estimates

6.22. Economic analysis of expenditure and revenue for municipal councils is given in Table 6.17 and Table 6.18 respectively. Labour costs grew from K£ 177.8 million in 1997/98 to K£ 180.5 million in 1998/99. This component consumed more than 50 per cent of current expenditure in the last five years. Other goods and services grew marginally from K£ 149.9 million in 1997/98 to an expected figure of K£ 153.0 million in 1998/99. Total current expenditure is expected to rise marginally by 2.8 per cent in 1998/99. Total capital expenditure is expected to record a major decline of 59.4 per cent from K£ 271.4 million in 1997/98 to K£ 110.2 million in 1998/99, as a result of a sharp decline on the gross fixed capital formation. As a result, the total expenditure is also expected to drop by 25.2 per cent from a provisional figure of K£ 602.3 million in 1997/98 to K£ 450.4 million in 1998/99.

MUNICIPAL COUNCILS: ECONOMIC ANALYSIS OF EXPENDITURE, 1994/95 - 1998/99

Table 6.17 K£million

	1994/95	1995/96	1996/97	1997/98*	1998/99"
CURRENT EXPENDITURE:					
Labour Cost	113.13	139.81	148.43	177.80	180.50
Other Goods and Services	87.62	92.59	99.99	149.93	153.00
Transfer to Households & Enterprises	0.46	0.43	2.69	0.28	1.84
Transfer to Funds (Current)	3.23	1.62	3.60	2.06	3.92
Interest		0.41		0.91	0.93
Total	204.44	234.86	254.71	330.98	340.19
CAPITAL EXPENDITURE:					
Gross Fixed Capital Formation	200.57	131.85	65.21	264.34	105.93
Loan Repayment***	8.53	5.06	3.39	5.42	2.14
Transfer to Funds (capital)	1.59	1.59	1.69	1.59	2.10
Total	210.69	138.50	70.29	271.35	110.17
TOTAL EXPENDITURE	415.13	373.36	325.00	602.33	450.36

*Provisional

** Estimates

***Includes interest

6.23. Total current revenue is expected to rise by 6.4 per cent from K£ 326.9 million in 1997/98 to K£ 347.7 million in 1998/99. Capital revenue, however, dropped from K£ 13.6 million in 1997/98 to K£ 11.0 million in 1998/99, a drop of 19.1 per cent. The main sources

of income for local authorities have continued to be direct taxes and sale of goods and services.

MUNICIPAL COUNCILS: ECONOMIC ANALYSIS OF REVENUE, 1994/95 - 1998/99

Table 6.18 K£milllon

	1994/95	1995/96	1996/97	1997/98*	1998/99+
CURRENT REVENUE:					
Direct Taxes (Rates**)	60.20	36.23	87.12	100.19	107.23
Indirect Taxes (Licences and cesses)	10.80	21.86	28.15	30.20	27.22
Income from Property	21.80	10.40	20 98	9.77	25.95
Current Transfers	0.24	2.32	1.12	2.24	8.18
Sale of Goods and Services***	147.45	130.52	112.72	184.52	179.16
TOTAL	240.49	201.33	250.09	326.92	347.74
CAPITAL REVENUE:					
Loans Raised	132.41	37.89	3.10	12.63	10.52
Loan Repayment	0.52	0.78	0.47	0.92	0.46
TOTAL	132.93	38.67	3.57	13.55	10.98
TOTAL REVENUE	373.42	240.00	253.67	340.47	358.73

* Provisional

** Paid by households and enterprises.

*** Includes service charge

\+ Estimates

6.24. Information on economic analysis of expenditure and revenue by town councils and county councils is presented in Table 6.19. Total current expenditure is expected to drop by 5.4 per cent from K£ 109.4 million in 1997/98 to K£ 103.6 million in 1998/99. Total labour costs increased from K£ 64.4 million in 1997/98 to K£ 70.8 million in 1998/99, while sale of other goods and services are expected to drop by 18.8 per cent over the same period. Capital expenditure is expected to decline by 15.4 per cent from K£ 20.8 million in 1997/98 to K£ 17.6 million in 1998/99. Total revenue collected dropped from K£ 120.5 million in 1997/98 to K£ 96.0 million in 1998/99. For the five years under review, the total expenditure for towns and county councils has always exceeded the total revenue, causing a deficit for the local authorities. This makes it difficult for them to cater for the increasing demand for services.

TOWN AND COUNTY COUNCILS:

ECONOMIC ANALYSIS OF EXPENDITURE AND REVENUE, 1993/94 -1997/98

Table 6.19

K£million

	1994/95	1995/96	1996/97	1997/98*	1998/99+
CURRENT EXPENDITURE:					
Labour Cost	39.92	49.42	44.51	64.40	70.79
Other Goods and Services	20.13	26.22	25.24	36.07	29.29
Transfer to households & Enterprises	2.57	5.11	4.03	8.93	2.59
Transfer to Funds (Current)	0.11		5.93		
Interest				0.03	0.88
Total	65.73	80.75	79.71	109.43	103.55
CAPITAL EXPENDITURE:					
Gross Fixed Capital Formation	12.23	6.53	6.21	19.34	17.14
Loan Repayments**	0.44	0.23		0.36	
Transfer to Funds (capital)	0.03	0.25	0.30	1.06	0.48
Total	12.70	7.01	6.51	20.76	17.62
TOTAL EXPENDITURE	75.43	87.76	86.22		121.17
CURRENT REVENUE:					
Direct Taxes (Rates*")	3.13	24.55	13.22	34.64	23.00
Indirect Taxes (Licences and cesses)	17.20	20.11	16.27	24.34	18.79
Income from Property	2.92	8.05	1.88	10.55	3.03
Current Transfers	0.17	0.21	0.02	0.28	0.02
Sale of Goods and Services	43.74	29.99	29.58	50.62	50.76
Total	67.16	82.91	60.97	120.43	95.60
CAPITAL REVENUE:					
Loans Raised	0.42	-	0.08	0.02	0.35
Loans Repayments	0.00	-		-	0.01
Total	0.42	0.00	0.08	0.02	0.36
TOTAL REVENUE	67.58	82.91	51.05	120.45	95.96

* Provisional

** Includes Interest.

*** Paid by households and enterprises

\+ Estimates

CHAPTER 7 - INTERNATIONAL TRADE AND THE BALANCE OF PAYMENTS

Overview

Key indicators of international trade and balance of payments show a poor performance in 1998 compared to the previous year. The balance of trade worsened owing to a marginal growth in imports while exports almost stagnated. The overall balance of payments surplus which have been declining since 1996 further declined by 32.0 per cent in 1998.

7.2. The volume of trade grew by only 2.5 per cent in 1998 to stand at K£ 15,948.5 million compared to 13.5 per cent and 8.5 per cent growth registered in 1996 and 1997 respectively. The slackened growth of exports and imports volume reflects the slow growth of the economy.

7.3. The overall balance of payments recorded a surplus of K£ 228.7 million in 1998 compared to a surplus of K£ 336.2 million in 1997. The deterioration was largely as a result of the worsening of the current account deficit and the lapse of the IMF's Enhanced Structural Adjustment Facility (ESAF) in July 1997, which adversely affected both bilateral and multilateral capital inflows.

Balance of Trade

7.4. The value of international trade increased marginally in 1998 as shown in Table 7.1. Domestic exports stagnated at the 1997 levels, while total imports marginally increased by 3.7 per cent and re-exports increased by 12.5 per cent. These developments caused the trade deficit to widen by 9.1 per cent from K£ 3,511.4 million in 1997 to K£ 3,830.4 million in 1998. The trade deficit was more than half the total exports for the second consecutive year.

BALANCE OF TRADE. 1994 -1998

Table 7.1 K£milllon

		1994	1995	1996	1997	1998*
EXPORTS	(f. o. b):					
	Domestic Exports	4,170.72	4,656.19	5,696.30	5,722.97	5,722.27
	Re-exports	111.41	210.76	213.70	299.29	336.76
	Total	4,282.13	4,866.95	5,910.00	6,022.26	6,059.03
IMPORTS	(c. i. f):					
	Commercial	5,556.16	7,495.49	8,144.22	9,264.13	9,526.90
	Government	197.83	262.93	280.09	269.55	362.53
	TOTAL	5,753.99	7,758.42	8,424.31	9,533.68	9,889.43
BALANCE OF TRADE		-1,471.86	-2,891.47	-2,514.31	-3,511.42	-3,830.40

* Provisional

7.5. The poor performance of export earnings was occasioned by a significant reduction in quantities and prices of most export items.

Price Changes

7.6. The unit price indices for exports and imports categorised by Standard International Trade Classification (SITC) sections are presented in Table 7.2. The non-oil import price index recorded substantial growth compared to non-oil export price index. Mineral fuels registered declines in both export and import price indices of 1.4 per cent and 25.2 per cent respectively.

PRICE INDICES, 1994- 1998

Table 7.2 1982=100

	1994	1995	1996	1997	1998
EXPORTS:					
Food and live animals	534	558	530	752	755
Beverages and tobacco	401	390	632	633	619
Crude materials, inedible	561	510	625	669	670
Mineral fuels	297	310	383	351	346
Animal and vegetable oils and fats	727	316	229	173	247
Chemicals	491	480	529	621	546
Manufactured goods	497	600	677	636	644
Machinery and transport equipment	204	222	496	513	547
Miscellaneous manufactured articles	488	644	514	552	656
All Exports	450	489	519	608	615
Non-oil Exports	486	530	549	679	689
IMPORTS:					
Food and live animals	369	487	408	475	475
Beverages and tobacco	677	636	828	769	845
Crude materials, inedible	472	472	488	718	668
Mineral fuels	257	273	358	357	267
Animals and vegetable oils and fats	571	743	728	759	848
Chemicals	743	603	637	789	804
Manufactured goods	634	669	573	678	663
Machinery and transport equipment	589	629	767	792	1,040
Miscellaneous manufactured articles	492	641	676	756	840
All imports	445	513	560	598	614
Non-oil Imports	536	550	577	629	718

7.7. In 1998, the price index for all export items rose by 1.2 per cent, while that for non-oil items rose by 1.5 per cent. Animals and vegetable oils and fats export price index increased by 42.8 per cent, mainly as a result industrial fatty acids and alcohol, whose export price doubled compared to a decrease of 24.5 per cent in 1997. The export price of vaccines and similar products, and medicaments containing antibiotics fell by 63.4 per cent and 25.3 per cent, respectively. This resulted in the decline of the export price index for chemicals as a whole. Food and live animals, crude materials (inedible) and manufactured goods showed small increases.

7.8. The price indices for all imports and non-oil items grew by 2.7 per cent and 14.1 per cent respectively. Import price index for food and live animals remained at the 1997 level, while those for crude materials (inedible), mineral fuels and manufactured goods fell by 7.0 per cent, 25.2 per cent and 2.2 per cent respectively. Import price index for machinery and transport equipment increased by 31.3 per cent.

Terms of Trade

7.9. Terms of trade, presented in Table 7.3, is the ratio of export price index to import price index. As a result of the unit price changes detailed in the previous paragraphs, the favourable terms of trade recorded in 1997 deteriorated in 1998. Terms of trade for all items and non-oil items fell by 2.0 per cent and 11.1 per cent respectively, further explaining the sluggish performance of the export sector. Higher exports prices enjoyed by animals and vegetable oils and fats, miscellaneous manufactured articles and, machinery and transport equipment were offset by equally higher import prices of the same items.

TERMS OF TRADE, 1994 - 1998

Table 7.3 1982=100*

	1994	1995	1996	1997	1998
All Items	101	95	93	102	100
Non-oil Items	91	96	95	108	96

Volume Changes

7.10. A quantum index, which measures changes in volume, is summarised in Table 7.4. The export quantum indices for food and live animals, chemicals, and machinery and transport equipment increased by 7.2 per cent, 10.2 per cent and 32.3 per cent respectively, mainly because of increases in the export volumes of tea, edible margarine, and essential oils and perfumes. Other notable increases were in export quantities of electrical machinery and parts of motor vehicles. On the other hand, miscellaneous manufactured articles, manufactured goods, animal and vegetable oils and fats, and, crude materials (inedible) recorded declines of 18.5 per cent, 21.5 per cent, 24.7 per cent and 5.1 per cent respectively. The overall effect was a decrease of 0.6 per cent in the quantum index for all exports.

Table 7.4 1982 =100

	1994	1995	1996	1997	1998
EXPORTS:					
Food and live animals	132	151	200	138	148
Beverages and tobacco	1,823	1,618	1,112	988	971
Crude materials, inedible	133	178	170	158	150
Mineral fuels	67	59	74	106	106
Animal and vegetable oils and fats	3,617	6,694	9,237	13,601	10,241
Chemicals	267	354	383	332	366
Manufactured goods	310	308	308	340	267
Machinery and transport equipment	394	578	204	232	307
Miscellaneous manufactured articles	1,067	530	809	697	568
All Exports	167	175	200	174	173
Non-oil Exports	196	207	239	193	191
IMPORTS					
Food and live animals	560	157	348	608	493
Beverages and tobacco	118	186	122	179	191
Crude materials, inedible	177	232	224	180	274
Mineral fuels	110	113	115	129	190
Animals and vegetable oils and fats	176	194	219	194	197
Chemicals	124	231	230	187	191
Manufactured goods	114	193	219	192	182
Machinery and transport equipment	111	179	142	150	125
Miscellaneous manufactured articles	153	166	200	202	222
All imports	144	168	167	177	179
Non-oil Imports	159	216	216	225	204

7.11. Import quantum index for food and live animals fell by 18.9 per cent in 1998 compared to a growth of 74.7 per cent in 1997. This was partly attributed to declines in import quantities of maize, fruits and vegetables, and butter. The import volume of mineral fuels went up by 47.3 per cent in 1998 compared to 12.2 per cent increase in 1997. Import quantum index for crude materials (inedible) recorded the highest increase of 52.2 per cent, mainly as a result of large import quantities of crude rubber, synthetic rubber and textiles fibres,

7.12. Table 7.6 shows further breakdown of quantities of principal exports. The export quantities of tea and horticultural products went up by 32.4 per cent and 20.6 per cent respectively. Petroleum products, margarine and shortening fats, live animals (chiefly for food), meals and flours of wheat and, paper and paperboard also registered increases. Export quantities of coffee, pyrethrum products, textile yarn, tobacco and tobacco manufactures and beer made from malt recorded declines for the second consecutive year.

Composition of Exports

7.13. Table 7.5 shows the composition of exports by Broad Economic Category (BEC). Kenya's export earnings continue to be generated mainly from exports of primary products. Food and beverages contributed 57.4 per cent of the total export earnings, while non-food industrial supplies made up 18.3 per cent in 1998 compared to 22.4 per cent in 1997. Exports of fuel and lubricants contributed 9.1 per cent of total export earnings.

Table 7.5 K£million

	1994	1995	1996	1997	1998"
1 FOOD AND BEVERAGES	2,147.7	2,381.0	3,011.4	3,072.9	3,283.3
Primary	1,632.1	1,775.4	2,172.7	2,309.4	2,556 6
For Industry	656.1	722.0	831.1	864.2	647 9
For Household Consumption . ..	976.0	1,053.4	1,341.6	1,445.2	1,908.8
Processed	515.6	605.6	838.7	763.5	726.7
For Industry	79.5	180.3	234.2	199.5	174.8
For Household Consumption . ..	436.1	425.3	604.5	564.0	551.9
2. INDUSTRIAL SUPPLIES (Non-Food) ..	1,099.5	1,252.6	1,484.6	1,282.2	1,045.7
Primary	249.0	372.3	943.2	320.4	245 6
Processed	850.6	880.3	541.4	961.8	800 1
3. FUEL AND LUBRICANTS	272.5	245.0	378.0	515.9	522.4
Primary	0.0	0.0	0.0	0.3	0.2
Processed	272.5	245.0	378.0	515.6	522.2
Motor Spirit	41.3	72.1	112.1	174.1	208.8
Other	231.2	172.9	265.9	341.5	313.4
4 MACHINERY & OTHER CAPITAL EQUIPMENT .	37.3	64.5	51.0	32.7	51.7
Machinery & Other Capital Equipment ..	31.4	34.7	28.9	26.1	43.7
Parts and Accessories	5.9	29.8	22.1	6.6	8.0
5 TRANSPORT EQUIPMENT	47.0	24.9	26.1	24.1	36.3
Passenger Motor Vehicles	19.5	2.1	2.6	0.0	0.0
Other	10.8	8.7	6.1	2.0	8.9
For Industry	104	8.1	5.7	1.8	8.3
Non-Industrial	0.4	0.6	0.4	0.2	0.6
Parts and Accessories .	16.7	14.0	17.4	22 2	27.4
6. CONSUMER GOODS NOT ELSEWHERE SPECIFIED ..	566 6	688.2	745.2	795.2	782.9
Durable	8.4	10.0	21.2	9.6	13.1
Semi-Durable	199.2	215.7	374.1	198.1	158 6
Non-Durable	359.0	462.6	349.8	587.5	611.2
7. GOODS NOT ELSEWHERE SPECIFIED .	0.1	0.0	0.0	0.0	0.0
TOTAL	4,170.7	4,656.2	5,696.3	5,723.0	5,722.3
PERCENTAGE SHARES:					
1. Food and Beverages	51.5	51.1	52.9	53.7	574
2 Industrial Supplier (Non-Food)	29.4	26.9	26.1	224	183
3. Fuel and Lubricants	6.5	5.3	6.6	9.0	9.1
4 Machinery and other Capital Equipment	0.9	1.4	0.9	0.6	0.9
5. Transport Equipment	1.1	0.5	0.5	0.4	0.6
6. Consumer Goods not elsewhere specified	13.6	148	13.1	13.9	13 7
7. Goods not elsewhere specified	-	0.0	0.0	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0

* Excluding Re-exports

** Provisional.

7.14. Export earnings from food and beverages slightly increased by 6.8 per cent from K£ 3,072.9 million in 1997 to K£ 3,283.3 million in 1998, mainly due to substantial increase in exports of primary food and beverages for household consumption, especially tea, beans and mussels frozen. Export earnings from non-food industrial supplies decreased by 18.4 per cent from K£ 1,282.2 million in 1997 to K£ 1,045.7 million in 1998. Export earnings from fuel and lubricants increased marginally by 1.2 per cent. Export earnings from semi-durable consumer goods not elsewhere specified decreased by 19.7 per cent; while earnings from non-durable consumer goods not elsewhere specified increased by 3.9 per cent.

QUANTITIES OF PRINCIPAL EXPORTS 1994-1998

Table 7.6

Commodity	unit	1994	1995	1996	1997	1998*
Coffee	Tonnes	79,679	88,519	116,731	70,066	51,578
Tea		174,926	217,937	262,146	199,224	263,771
Petroleum Products	Mn Lt	540	446	567	587	792
Pyrethrum Products	Tonnes	399	215	717	441	216
Meat products		911	1,068	1,175	1,252	1,275
Sisal		25,354	25,188	21,672	19,154	17,650
Hides and Skins		2,704	2,218	2,301	2,564	2,118
Soda Ash		178,312	205,676	197,021	213,190	214,470
Fluorspar		62,202	64,434	37,764	72,300	45,618
Cement		595,777	501,014	662,036	690,392	417,239
Maize(raw)		1,685	154,291	221,478	263,653	9,126
Horticulture**		165,481	228,576	304,461	192,629	232,217
Butter and ghee		70	175	1,594	221	161
Cotton(raw)			962		81	87
Wool		301	347	295	432	174
Animal feeds		12,269	11,008	2,116	694	726
Fish and fish preparations		18,512	15,511	18,769	17,438	14,332
Live animals chiefly for food	'000 No	961	379	639	671	2,025
Meals and flours of wheat	Tonnes	521	52,444	36,577	29,992	43,865
Animal and Vegetable oils		27,170	34,172	30,794	40,120	40,751
Tobacco and tobacco manufactures		1,763	6,582	13,364	8,520	6,993
Beer made from malt	'000 Lt	67,704	47,284	36,790	24,902	23,486
Footwear	'000 Pairs	17,235	78,908	21,557	28,158	28,296
Margarine and shortening	Tonnes	4,178	4,523	9,500	13,040	18,746
Leather		14,713	5,676	5,414	5,864	4,602
Paper and paper board		9,558	9,429	7,567	8,692	11,340
Textile yarn		3,624	4,597	6,160	1,990	1,123
Insecticides and fungicides . .		1,445	2,144	3,696	3,122	2,938
Essential oils		80,139	43,038	44,461	41,043	43,800

* Provisional

** Horticulture includes cut flowers, fruits and vegetables both fresh and processed

Negligible

Export Prices

7.15. Table 7.7, which summarises unit prices for selected exports, indicates that only a few commodities enjoyed higher export prices in 1998, although the export prices of coffee and tea rose by 2.4 per cent and 3.2 per cent respectively. While export price of horticultural products dropped by 9.9 per cent, its export quantity increased by 20.6 per cent, resulting in 8.6 per cent increase in its export value.

EXPORT PRICES, 1994- 1998

Table 7.7 KSh/Unit

Commodity	Unit of Quantity	1994	1995	1996	1997	1998*
Coffee, unroasted	Kg.	164.01	163.21	142.47	247.00	252.91
Tea	Kg.	96.51	82.54	86.61	121.10	124.99
Petroleum Products	1,000 Lt.	9,391.63	9,819.66	12,386.86	12,200.91	11,524.99
Maize(raw)	100Kg.	1,007.83	1,173.58	903.15	2,108.25	1,421.01
Meat and meat products	Kg.	117.17	83.17	93.29	91.67	100.87
Pyrethrum Extract	Kg.	6,409.33	5,070.68	5,676.54	6,355.76	6.264.93
Sisal	100Kg.	2,612.62	2,635.00	3,757.16	3,775.08	3,906.71
Hides and Skins(undressed)	Kg.	105.00	131.22	100.76	64.29	60.25
Wattle extract	Kg.	39.51	35.44	39.25	38.78	40.99
Soda Ash	100Kg.	544.95	501.17	586.26	621.55	576.36
Fluorspar	100Kg.	376.93	400.86	947.91	505.93	467.48
Cement	100Kg.	274.12	322.82	384.31	331.60	345.89
Horticulture	Kg.	50.14	46.49	44.77	71.39	64.32
Wool	Kg.	66.44	78.46	94.22	93.25	109.28
Animal feeds	100Kg.	535.16	391.76	545.91	1,609.34	1,425.31
Cotton(raw)	Kg.	-	79.89	375.00	80.00	29.99
Butter and ghee	Kg.	53.82	130.89	74.79	177.10	145.86
Wattle bark	100Kg.	3,620.57	710.84	1,176.21	-	-
Fish and fish preparations	Kg.	102.97	108.88	175.46	176.37	159.85
Live animals chiefly for food	No	64.61	265.47	76.61	66.50	12.63
Meals and flours of wheat	Kg	26.88	24.03	28.13	27.93	22.13
Animal and Vegetable oils		51.77	56.62	64.14	54.76	58.80
Tobacco and tobacco manufactures		427.31	170.96	132.72	202.45	229.78
Beer made from malt	Lt	29.96	26.31	24.32	27.47	27.17
Footwear	Kg	42.12	8.27	38.22	40.32	32.31
Margarine and shortening		68.94	75.26	68.43	76.44	75.36
Leather		92.69	183.24	122.48	102.70	107.54
Paper and paperboard		25.09	45.54	47.36	57.44	44.00
Textile yarn		101.88	64.79	65.64	247.56	274.34
Insecticides and fungicides		200.47	374.45	165.32	192.49	230.72
Essential oils		28.96	67.00	74.26	79.59	76.80

* Provisional.

7.16. Analysis of changes in value, quantity and prices of selected exports in 1998 are shown in Table 7.8. Quantity of coffee exported reduced significantly for the second consecutive year by 25.7 per cent in 1998 compared to 40.8 per cent in 1997. Consequently, coffee became the third highest export earner after tea and horticulture, a fall from its previous second position. Only tea, meat and meat products, wood-carvings and, animal and vegetable oils recorded improvements in both their prices and quantities exported in 1998.

7.17. Coffee earnings fell by 24.0 per cent, while the export value of tea increased by 36.7 per cent as a result of increases of 32.4 per cent in quantity and 3.2 per cent in price. Although the unit price of petroleum products dropped by 5.5 per cent, this was more than offset by a 34.9 increase in quantity exported resulting in 27.5 per cent rise in its export value. Horticulture registered increases in both price and quantity. Cement, iron and steel, and fish and fish preparations recorded significant reductions in export earnings. Adverse publicity and the subsequent suspension of Kenya's fish export and related products to the European Union, largely contributed to the reduction in both the export volume and price of fish.

Table 7.8

Commodity	VALUE K£ '000			PERCENTAGE CHANGE IN		
	1997	1998"	Change	Value	Quantity	Price
Coffee, unroasted ..	842,801.7	640,868.1	-201,933.6	-23.96	-25.74	2.39
Tea	1,206,295.5	1,648,533.0	442,237.5	36.66	32.39	3.21
Petroleum products	357,822.1	456,364.6	98,542.5	27.54	34.92	-5.54
Meat and meat products	5,656.7	6,431.0	774.3	13.69	1.81	10.03
Pyre thrum extract	68,551.9	35,788.7	-32,763.2	-47.79	-47.04	-1.43
Sisal	36,154.5	34,437.6	-1,716.9	-4.75	-7.96	3.49
Hides and skins (undressed)	8,241.0	6,380.4	-1,860.6	-22.58	-17.38	-6.28
Wattle extract	15,460.0	11.236.2	-4,223.8	-27.32	-31.23	5.70
Soda ash	66,254.4	61,805.8	•4,448.6	-6.71	0.60	-7.27
Fluorspar	18,289.4	10,662.7	-7,626.7	-41.70	-36.90	-7.60
Cement	114,466 8	72,160.3	-42,306.5	-36.96	-39.56	4.31
Horticulture	687,594.0	746,878.3	59,284.4	8.62	20.55	-9.90
Animal feeds	558.4	517.5	-40.9	-7.32	4.63	-11.44
Wood carvings ..	13,216.1	18,563.6	5,347.5	40.46	27.07	10.54
Metal scrap	10,332.6	5,697.7	-4,634.9	-44.86	-13.86	-35.99
Fish and fish preparations	153,780.1	114,549.4	-39,230.7	-25.51	-17.81	-9.37
Live animals, chiefly for food	2,230.6	1,278.7	-951.9	-42.67	201.81	-81.01
Meal* and flour of wheat	41,885.7	48,542.9	6,657.2	15.89	46.26	-20.77
Animal and Vegetable oils	109,843.9	119,817.4	9,973.5	9.08	1.57	7.38
Tobacco and tobacco manufactures.. ..	86,237.8	80,344.5	-5,693.3	-6.83	-17.92	13.50
Beer made from malt	34,207.9	31,906.1	-2,301.8	-6.73	-5.69	-1.10
Footwear	56,764.7	45,713.3	-11,051.4	-19.47	0.49	-19.86
Margarine and shortening	49,842.4	70,638.4	20,796.0	41.72	43.76	-1.41
Leather	30,110.9	24,743.9	-5,367.0	-17.82	-21.53	4.71
Paper and paper board	24,963.2	24,950.9	-12.3	-0.05	30.47	-23.40
Iron and steel	259,984.0	191,185.6	-68,798.4	-26.46	-23.36	-4.06
Textile yarn	24,631.2	15,405.5	-9,225.7	-37.46	-43.56	10.82
Insecticides and fungicides	30,052.1	33,892.9	3,840.8	12.78	-5.91	19.86
Essential oils	163,336.8	168,185.5	4,848.7	2.97	8.72	-3.51
All other Commodities	1,203,406.3	994,785.4	•208,620.9	-17.34	-	-
TOTAL	5,722,972.7	5,722,265.9	-706.8	-0.01	-	-

* Excluding Re-exports

** Provisional

Composition of Imports

7.18. Table 7.9 provides an analysis of import values by BEC. There were increases in the values of most import categories, although imports of non-food industrial supplies fell by 11.7 per cent in 1998, compared to a 22.9 per cent increase in 1997. Imports of machinery and other capital equipment went up by 8.1 per cent while import of parts and accessories dropped marginally by 4.0 per cent. The 53.0 per cent increase in imports of processed food and beverages contributed to the 34.7 per cent rise in the food and beverages category. Imports for industry and household consumption went up by 37.8 per cent and 68.1 per cent respectively.

	1994	1995	1996	1997	1998*
1 FOOD AND BEVERAGES	577.83	351.13	647.84	631.36	850 53
Primary	146 89	152.00	343.09	266.50	292 34
For Industry	138.21	134.95	326.05	226.91	255.04
For Household Consumption	8 68	17.05	17.04	39.59	37.30
Processed	430.94	199.13	304.75	364.86	558.19
For Industry	303.60	113.89	142.95	182.25	251.21
For Household Consumption	127.34	85.24	161.80	182.61	306.98
2 INDUSTRIAL SUPPLIES (Non-Food) .. .	2,265.32	3,042.52	3,083.57	3,789.28	3,34549
Primary	382.27	112.71	213.45	766.66	453 64
Processed	1,883.05	2,929.81	2,870.13	3,022.62	2,891 85
3. FUEL AND LUBRICANTS	929.14	1,006.78	1,355.48	1,477.89	1,595.56
Primary .	729.07	590.33	700.36	867.95	763.63
Processed	200.07	416.45	655.12	609.94	831.93
Motor Spirit	31.92	75.43	127.42	128.51	225.14
Other	168.15	341.02	527.70	481.43	606.79
4 MACHINERY AND OTHER CAPITAL EQUIPMENT	883.43	1,493.80	1,529.68	1,612.31	1,743 34
Machinery and Other Capital Equipment	622.81	1,079.01	656.97	1,181.22	1,329 34
Parts and Accessories	260.62	414.79	872.71	431.09	414.00
5 TRANSPORT EQUIPMENT	705.95	1,318.81	1,214.92	1,375.25	1,549.91
Passenger Motor Vehicles	222.02	394.94	605.46	314.68	322.94
Other	299.13	611.73	569.89	749.65	826 52
Industrial	267.44	578.60	543.48	722.71	787.15
Non-Industrial	31.69	33.13	26.41	26.94	39.37
Parts and Accessories ..	184 80	312.14	39.57	310.92	400.45
6 CONSUMER GOODS NOT ELSEWHERE SPECIFIED	385.08	533.55	575.42	613.38	776.25
Durable	53.99	110.08	174 86	118.50	136.47
Semi-Durable	46.25	99.64	265.00	125.45	162.36
Non-Durable_	284 84	323 83	135.56	369.43	477.42
7. GOODS NOT ELSEWHERE SPECIFIED	7.23	11.82	17.40	34.21	28.35
TOTAL_	6,753.98	7,758.41	8,424.31	9,533.68	9,889.43
PERCENTAGE SHARES:					
1. Food and Beverages	10.04	4.53	7.69	662	8.60
2. Industrial Supplies (Non-Food)	39.37	39.22	36.60	39.75	33.83
3. Fuel and Lubricants	16.15	12.98	16.09	15.50	16.13
4. Machinery and other Capital Equipment .	15.35	19.25	18.16	16.91	17.63
5. Transport Equipment	12.27	17.00	14.42	14.43	15.67
6 Consumer Goods not elsewhere specified	6.69	6.88	6.83	6.43	7.85
7 Goods not elsewhere specified	0 13	0.15	0.21	0.36	0.29
TOTAL	100.00	100.00	100.00	100.00	100.00

'* Provisional.

7.19. Table 7.10 sets out values of selected imports. Industrial machinery accounted for 15.8 per cent of the total import bill in 1998. Importation of crude and refined petroleum products together accounted for 15.9. The value of refined petroleum products exceeded crude petroleum, a reverse from the previous years. Food items, mainly wheat, rice, sugar and maize jointly accounted for 7.4 per cent of total imports compared to 10.0 per cent in 1997. The value of maize imported fell sharply by 62.3 per cent, while the value of sugar imported almost tripled. Imports of paper and paper products fell by 16.4 per cent, as did that of iron and steel, and fertilizers by 26.6 per cent and 19.7 per cent, respectively.

SELECTED IMPORTS. 1994 - 1998

Table 7.10 K£million

	1994	1995	1996	1997	1998*
Crude Petroleum	720.38	579.63	675.20	841.25	751.82
Industrial Machinery (including Electrical)	811.93	1,303.21	1,323.22	1,400.70	1,563.08
Iron and Steel	310.58	513.10	481.68	537.94	394.98
Motor Vehicle and Chassis	475.76	932.98	790.10	716.45	734.29
Petroleum Products refined	197.26	419.62	648.18	609.44	815.89
Artificial Resins and Plastic Materials, and Cellulose Esters and Ethers	213.24	462.80	364.07	366.87	356.38
Pharmaceuticals	173.63	237.38	257.84	278.15	327.97
Fertilizers	170.60	120.56	241.37	218.94	175.79
Agricultural Machinery and Tractors	49.17	88.61	88.91	75.32	76.85
Wheat	125.88	116.97	318.88	210.22	239.72
paper and Paper Products	80.27	234.51	204.96	203.00	169.69
Rice	69.05	22.44	34.94	49.11	45.89
Sugars, Molasses and Honey	251.83	53.03	86.65	71.03	211.60
Maize	292.42	6.37	3.64	630.94	237.88
Synthetic fibres suitable for spinning	42.07	59.52	56.75	62.17	64.62
Vegetable oils and fats	247.36	351.99	372.14	367.57	398.11
Insecticides, Fungicides, Disinfectants, etc	65.78	102.12	110.29	122.48	165.24
Footwear	11.03	10.56	18.01	16.59	22.24
All other Commodities	1,445.75	2,143.02	2,347.48	2,755.51	3,137.39
Total	5,753.99	7,758.42	8,424.31	9,533.68	9,889.43

* Provisional

Direction of Trade

7.20. Table 7.11 provides information on the destination of exports. African countries continues to be the dominant market for Kenya's exports followed by the European Union (EU). In 1998, the market share of total exports to African countries and EU stood at 47.3 per cent and 30.0 per cent, respectively. The share of total exports to the EU reduced by 2.6 percentage points while of African countries increased by 1.3 percentage points. Exports to the Far East and Middle East accounted for 12.8 per cent and 4.0 per cent of total exports, respectively.

7.21. Exports to all EU countries registered declines except the United Kingdom. Exports to the EU in 1998 decreased by 7.5 per cent, while exports to Middle East, and, the Far East and Australia increased by 24.3 per cent and 26.9 per cent respectively. Exports to Uganda and Tanzania jointly stood at K£ 1,779.1 million, equivalent to 29.4 per cent of total exports.

DESTINATION OF TOTAL EXPORTS *, 1994- 1998

Table 7.11 K£milllon

	1994	1995	1996	1997	1998**
WESTERN EUROPE:					
European Union.					
Belgium	91.16	98.88	109.18	93 68	85.23
Finland	34.44	38.07	48 82	57.97	24.00
France	82.11	91.94	99.07	128.53	94.49
Germany	332.67	369.44	441.02	382.56	277.51
Italy	78.82	80.25	103.04	112.70	87.38
Netherlands	182.01	214.59	319.14	284.63	264.22
Spain	43.64	40.57	68.41	44.69	37.82
Sweden	49.96	68.55	59.35	90.67	71.39
United Kingdom	496.61	487.73	616.98	694.18	811.38
Other	60.45	65.68	88.23	75.97	63.95
Total	1,451.87	1,555.70	1,953.24	1,965.58	1,817.37
Other Western Europe	26.40	40.17	60.17	69.73	40.87
TOTAL WESTERN EUROPE	1,478.27	1,595.87	2,013.41	2,035.31	1,858.24
EASTERN EUROPE:					
Poland	5.19	3.14	8.24	12.19	13.67
Romania	0.01	0.30	1.90	1.00	0.54
Turkey	2.87	3.38	8.52	5.60	6.41
Other Eastern Europe	1.85	1.87	5.26	4.19	3.62
TOTAL	9.92	8.69	23.92	22.98	24.24
TOTAL EUROPE	1,488.19	1,604.56	2,037.33	2,058.29	1,882.48
U.S.A	146.83	131.66	158.82	170.07	152.83
Canada	28.92	31.02	32.40	29.64	30.71
AFRICA:					
South Africa	21.41	135.30	119.24	53.75	46.90
Tanzania	454.78	631.02	758.25	823.03	805.82
Uganda	544.27	766.70	953.18	909.77	973.32
Other***	888.60	843.75	930.34	984.97	1,037.15
TOTAL	1,909.06	2,378.77	2,761.01	2,771.52	2,863.19
MIDDLE EAST:					
Iran	0.39	12.05	63.13	37.56	50.30
Israel	22.32	21.99	33.70	40.59	43.28
Jordan	1.11	6.31	6.32	3.21	4.81
Saudi Arabia	16.57	27.30	21.71	18.09	24.40
United Arab Emirates	13.45	33.44	26.59	45.43	67.28
Other	17.62	11.34	37.72	47.71	49.38
TOTAL	71.46	112.43	189.17	192.59	239.45
FAR EAST AND AUSTRALIA:					
Australia	16.22	11.61	20.59	19.02	18.83
China(Mainland)	2.12	3.86	2.79	1.79	3.92
India	25.73	34.56	36.44	59.35	91.23
Indonesia	5.09	4.71	6.19	3.11	4.02
Japan	33.30	32.89	47.86	44.34	47.03
Korea South	7.12	7.73	4.12	15.73	8.94
Pakistan	296.15	317.76	261.65	258.61	412.78
Singapore	28.34	13.45	78.04	38.27	27.68
Other	70.45	103.96	152.11	186.74	181.42
TOTAL	484.52	530.53	609.79	626.96	795.85
All Other Countries	18.60	32.83	18.75	11.44	5.28
Aircraft and Ships Stores	128.98	44.34	85.15	123.35	71.07
Export Processing Zones	5.57	2.81	17.58	38.40	18.17
ALL EXPORTS	4,285.13	4,866.95	5,910.00	6,022.26	6,059.03

*Excluding gold and currency but including Re-export

* Provisional

***See Table 7.13 for details

Table 7.12 K£million

	1994	1995	1996	1997	1998*
WESTERN EUROPE					
European Union					
Belgium	138.94	425.06	259.25	176.71	155.50
Finland	42.72	44.98	45.84	50.55	7.87
France	232.22	348.72	412.89	355.50	401.59
Germany	357.56	528.62	512.28	636.40	556.93
Italy	175.33	456.99	274.68	231.75	255.17
Netherlands	163.93	222.06	239.21	237.97	269.82
Spain	47.24	46.83	63.37	85.38	51.49
Sweden	36.66	68.70	82.94	80.46	78.43
United Kingdom	757.63	980.51	1,113.23	1,077.85	1,217.73
Other	86.03	96.62	170.70	137.83	224.74
Total	2,038.26	3,219.09	3,174.39	3,070.40	3,219.27
Other Western Europe	112.35	132.51	179.35	138.78	154.40
TOTAL WESTERN EUROPE	2,150.61	3,351.60	3,353.74	3,209.18	3,373.67
EASTERN EUROPE:					
Poland	4.14	7.97	6.55	5.17	2.22
Romania	12.61	17.10	17.40	20.81	6.30
Turkey	1.62	6.17	15.47	29.04	25.65
Other	48.82	44.66	80.56	84.86	105.82
TOTAL	67.19	75.90	119.98	139.88	139.99
TOTAL EUROPE	2,217.80	3,427.50	3,473.72	3,349.06	3,513.66
USA	381.60	323.06	440.10	705.49	825.46
Canada	26.55	31.98	89.61	79.65	69.66
AFRICA:					
South Africa	621.57	601.35	638.63	1,087.66	709.88
Tanzania	54.54	31.10	46.40	43.23	30.50
Uganda	9.29	8.03	1.48	23.36	2.99
Other**	105.52	60.98	118.44	283.85	110.06
TOTAL	790.92	701.46	804.95	1,438.10	853.43
MIDDLE EAST					
Iran	48.12	26.83	6.08	34.56	27.73
Israel	47.55	62.18	70.52	81.13	72.79
Jordan	0.35	0.21	0.06	0.12	6.36
Saudi Arabia	136.46	282.23	423.49	510.80	619.22
United Arab Emirates	643.63	520.33	693.12	950.61	890.51
Other	8.04	109.07	165.68	57.10	173.72
TOTAL	884.15	1,000.85	1,358.95	1,634.32	1,790.33
FAR EAST AND AUSTRALIA:					
Australia	17.30	24.22	82.33	102.93	86.23
China(Mainland)	76.40	159.61	145.30	185.87	206.95
India	217.07	416.14	480.64	410.47	432.43
Indonesia	127.18	179.68	332.60	315.83	153.00
Japan	496.77	852.93	625.41	718.02	783.75
Korea South	48.51	83.82	115.90	89.75	132.35
Pakistan	105.84	19.86	27.50	50.38	50.28
Singapore	87.92	85.99	111.26	98.73	66.56
Other	216.48	282.61	233.20	201.04	492.46
TOTAL	1,393.47	2,104.86	2,154.14	2,173.02	2,404.01
All Other Countries	57.97	164.58	102.39	132.70	402.20
Aircraft and Ships Stores .	0.00	0.00	0.05	13.57	17.15
export Processing Zones	1.53	4.13	0.40	7.77	13.53
TOTAL	5,753.99	1,758.42	8,424.31	9,533.68	9,869.43

*Provisional

**See Table 7.13 for details

7.22. Table 7.12 shows sources of Kenya's imports. The European Union continues to be the leading source of Kenya's imports with 32.6 per cent. The share of imports from

African countries decreased from 15.1 per cent in 1997 to 8.6 per cent in 1998, mainly as result of the sharp reduction of 34.7 per cent in imports from South Africa from K£ 1,087.7 million in 1997 to K£ 710.0 million in 1998. Imports from South Africa, however, still constituted 83.1 per cent of total imports from the African region. The share of imports from the Far East rose from 21.7 per cent in 1997 to 23.4 per cent in 1998.

7.23. Table 7.13 summarises trade with the Common Market for Eastern and Southern Africa (COMESA) and other African countries. The upward trend in Kenya exports to COMESA region continued in 1998, with the value of exports rising marginally by 4.5 per cent. Exports to COMESA accounted for 44.4 per cent of total exports in 1998 compared to 42.4 per cent in 1997. Uganda and Tanzania jointly accounted for 67.9 per cent of Kenya's total exports to the COMESA region. Major exports to Uganda were motor spirits, gas oil, wheat flour, sugar confectionery, margarine, salt and beer. Major exports to Tanzania included motor spirits, refined oil, beers, liquid margarine and vegetable fats. Tea was the main export to Egypt and Sudan.

TRADE WITH AFRICAN COUNTRIES, 1994-1998

Table 7.13 K£000

	EXPORTS					IMPORTS				
	1994	1995	1996	1997	1998*	1994	1995	1996	1997	1998*
COMESA **										
Angola	67	170	2,214	751	691	62	-	-	7	13
Burundi	32,728	22,692	22,344	15,721	13,680	1,401	2,308	158	9	-
Comoros	7,959	5,556	8,821	9,799	9,743	-	220	-	-	-
Congo, D.R ...	68,799	79,279	104,350	123,591	100,739	3,989	4,378	1,959	9,322	377
Egypt***	126,525	149,030	214,776	153,110	284,682	4,258	13,191	18,043	13,287	12,161
Eritrea	0	0	3,906	2,787	11,435	-	-		20	2,518
Ethiopia .	103,682	168,454	116,391	108,621	76,752	480	174	144	30,515	3,524
Lesotho ..	15	100	60	503	-	2	163	20	29	-
Madagascar	1,720	1,342	7,989	8,205	6,388	160	71	861	368	142
Malawi	7,267	7,756	15,227	19,966	20,534	661	562	87	274	314
Mauritius ..	24,818	22,190	28,734	40,819	20,442	2,482	5,606	8,088	13,237	29,514
Mozambique	1,223	4,133	12,713	6,037	2,789	44	80	-	6,998	348
Namibia	37	336	207	188	112	232	93	952	176	509
Rwanda	249,934	161,281	117,220	189,030	151,861	85	263	276	8,661	425
Sudan	72,624	61,760	70,986	98,628	149,477	115	124	71	16,946	5,153
Swaziland	58	23	57	293	769	145	958	149	964	4,539
Tanzania .	454,776	631,021	758,254	823,028	805,818	54,536	31,100	46,399	43,228	30,502
Uganda	544,267	766,703	953,177	909,772	973,317	9,292	8,032	1,485	23,361	2,987
Zambia	8,905	9,173	10,372	13,940	11,426	7,117	8,957	13,208	7,455	6,345
Zimbabwe	12,561	6,555	16,540	26,003	27,207	64,403	11,300	13,753	164,771	25,786
Total	1>17,$65	2,097,554	2,464,337	2,550,791	2,667,863	149,464	67,580	105,651	339,629	125,156
Other African Countries:										
Algeria & Libya	192	315	1,959	3,255	791	27	23	50,056	-	187
Djibouti .	15,722	3,687	4,671	10,093	8,015	89	261	688	401	140
Ghana & Nigeria	5,071	9,053	15,901	8,985	8,482	2,183	3,421	4,013	6,000	4,092
Reunion	6,147	15,881	13,496	12,295	15,139	•	96	65	15	9
Seychelles	6,212	6,625	11,171	11,690	7,234	53	2,877	150	409	183
Somalia	125,941	94,398	117,066	100,022	92,117	267	869	364	31	152
South Africa	21,412	135,302	119,239	53,753	46,896	621,564	601,354	638,631	1,087,662	709,880
All Other African Countnes ..	10,400	13,953	13,174	20,635	16,658	17,273	4,975	5,328	3,949	13,630
TOTAL	191,097	279.214	296,676		195,331	641,456	613,876	699,296	1,096,466	728
TOTAL AFRICA	1,909,062	2,376,758	2,761,013	2,771,519	2,863,194	790,920	701,456	804,947	1,438,095	853,431
Percentage of all Exports/Imports	44.6	48.8	46.7	46.0	47.3	13.7	9.0	9.6	15.1	8.6

' Provisional

** The Common Market for Eastern and Southern Africa (COMESA) was established in December 1994 to replace the former Eastern and Southern Africa Preferential Trade Area (PTA) which became operational on 1st July 1984

*** Egypt joined COMESA in 1998

7.24. Imports from COMESA countries declined from the exceptionally high value recorded in 1997. Major imports from South Africa were sugar, maize, polypropylene, crude vegetable materials, medicinal products, paper and paper boards, iron and steel, and motor vehicles. Cotton and, stout and porter were the dominant imports from Sudan and Mauritius respectively.

Balance of Payments

7.25. As explained in Chapter 3, compilation methodology and presentation of Kenya's Balance of Payments statistics have now been revised to conform to the fifth edition of the IMF's balance of payments manual. A new series has been worked out to reflect these changes.

7.26. As shown in Table 7.14, the overall balance of payments declined to a surplus of K£ 228.7 million in 1998 compared to a surplus of K£ 336.2 million 1997, as a result of the weakening of the current account. The widening of trade deficit, largely due to rise in import payments and the sluggish performance of the export sector, and decline in tourism earnings contributed to the deterioration of the current account deficit. The low tourism earnings reduced the surplus on the travel account from K£ 561.1 million in 1997 to K£ 302.3 million in 1998.

7.27. The current account deficit widened slightly from K£ 1,107.9 million in 1997 to K£ 1,225.4 million in 1998, largely due to goods account deficit, which widened from K£ 2,601.5 million in 1997 to K£ 3,065.5 million in 1998. Net capital and financial account recorded a surplus of K£ 1,696.8 million in 1998, up from a surplus of K£ 1,065.0 million in 1997, mainly because of increased short-term and long-term capital inflows.

Table 7.14

BALANCE OF PAYMENTS, 1996 -1998

K£millon

	1996			1997			1998*		
A	Liabilities	Assets	Net	Liabilities	Assets	Net	Liabilities	Assets	Net
-CURRENT ACCOUNT									
1 Goods	5,949.47	7,41975	Dr 1,470.28	6,056.89	8,658.35	Dr 2,601.46	6,076.25	9,141.69	Dr 3,065.45
2 Transportation	825.90	1,187.45	Dr 361.55	838.69	997.02	Dr 158.33	922.83	932.63	Dr 9.80
3. Foreign Travel	1,279.65	477.13	802.52	1,131.82	570.73	561.09	875.46	573.15	302.31
4 Other Services - Private	146.94	367.71	Dr 220.77	131.68	503.49	Dr 371.81	126.32	445.80	Dr 319.48
5. Government Services, n.i.e	421.00	406.57	14.43	582.65	345.73	236.92	603.47	188.28	415.19
6 Income .	61.24	691.72	Dr 630.48	67.50	748.66	Dr 681.16	124.52	647.92	Dr 523.40
7 Current Transfers	1,671.66	15.47	1,656.19	1,906.87	0.00	1,906.87	1,975.21	0.00	1,975.21
TOTAL CURRENT ACCOUNT	10,355.86	10,565.80	Dr 209.94	10,716.10	11,823.98	Dr 1,107.88	10,704.06	11,929.47	Dr 1,225.41
of which:									
Visible Balance	5,908.07	7,375.06	Dr 1,466.99	6,022.09	8,595.95	Dr 2,573.86	6,076.25	9,072.93	Dr 2,996.69
Invisible Balance	4,447.79	3,175.27	1,272.52	4,694.01	3,228.03	1,465.98	4,627.81	2,856.54	1,771.28
B - CAPITAL & FINANCIAL ACCOUNT									
8. Capital Account	0.00	1.24	Dr 1.24	0.00	0.00	0.00	0.00	0.00	0.00
9. Direct Investment	30.12	Cr 7.69	37.81	51.48	0.00	51.48	34.46	0.00	34.46
10.Portfolio Investment	21.55		21.55	100.34	0.00	100.34	4.00	0.00	4.00
11. Other Investment	3,050.63	1,427.72	1,622.91	2.449.89	1,536.73	913.16	3,230.80	1,572.47	1,658.33
Long Term	1,184.76	1,427.72	Dr 242.96	679.46	1,407.02	Dr 727.56	900 .10	1,438.51	Dr 538.41
Short Term	1,865.87	0.00	1,865.87	1,770.43	129.71	1,640.72	2,330.70	133.96	2,196.74
TOTAL CAPITAL&FINANCIAL ACCOUNT	3,102.30	1,421.27	1,681.03	2.601.71	1,536.73	1,064.96	3,269.26	1,572.47	1,606.79
C -ERRORS AND OMISSIONS			Dr 315.81			379.14			Dr. 242.63
D -OVERALL BALANCE			1,155.28			336.24			228.74
E -MONETARY MOVEMENTS									
12 Change in reserves**	0.50	1,081.52	Dr 1,081.02	0.93	95.88	Dr 94.95	43.79	1.55	42.24
13.Use of Fund Credit	Dr 119.37		Dr 119.37	Or 185.44		Dr 185.44	Dr 195.00		Dr 195.00
14 Change in other liabilities	45.11		45.11	Dr 55.85		Dr 55.85	Dr 75.98		Dr 75.98
TOTAL MONETARY MOVEMENTS	Dr 73.76	1,081.52	Dr 1,155.28	Dr 240.36	95.88	Dr 336.24	Dr 227.19	1.55	Dr 228.74

*p*rovisional*

***Official reserves are now defined to exclude Commercial Banks' foreign assets*

7.28. Table 7.15 summarises changes in Kenya's balance of payments magnitudes. Imports of goods rose by K£ 483.3 million in 1998 compared to K£ 1,238.6 million in 1997. Adjusted exports of goods increased by K£ 19.4 million compared to K£ 107.4 million in 1997. Net service earnings, which decreased by K£ 17.4 million in 1997, increased by K£ 278.1 million in 1998. Current unrequited transfers increased by K£ 68.3 million in 1998 compared to a rise of K£ 250.7 million in 1997.

CHANGES IN KENYA BALANCE OF PAYMENTS MAGNITUDES*, 1996 - 1998

Table 7.15 K£million

		1996	1997	1998*
1.	Exports (Goods)**	+1,002.54	+ 107.42	+ 19.36
2.	Imports (Goods)**	-563.34	-1,238.60	-483.34
3.	Services (net)	+56.68	-17.44	+278.11
4	Current Transfers (net)	+323.88	+250.68	+68.34
5.	Changes on current account	+819.76	-897.94	-117.53
6.	Capital Account	-0.12	+1.24	+0.00
7.	Direct Investment	-45.67	+ 13.67	-17.02
8.	Portfolio Investment	+6.18	+78.79	-96.34
9	Other Investment	+1,084.35	-709.75	+745.17
	Long term	+38.18	-484.60	+ 189.15
	Short term	+ 1,046.17	-225.15	+556.02
10.	Errors and omissions (net)	-340.31	-694.95	-621.77
11.	Net change on all above items (5-10) (Monetary movements)	+ 1,524 19	-819.04	-107.50

*A plus sign indicates a change that improves the balance of payments outcome; a negative sign indicates a change worsening the outcome. Thus, an increase in imports or reduction in exports are marked as negative entries.

** Derived from Goods Account and hence some adjustments have been effected.

7.29. Direct and portfolio investment inflows account registered declines of K£ 17.0 million and K£ 96.3 million in 1998, respectively. Other investment inflows improved by K£ 745.2 million in 1998 from K£ 709.8 million decrease in 1997 due to an increase in both official and private capital inflows. Long term capital inflows rose by K£ 189.2 million in 1998, while short-term capital inflows rose by K£ 556.0 million.

International Liquidity

7.30. Monetary Authorities' foreign exchange reserves are presented in Table 7.16. Total net foreign reserves held by the Central Bank declined from K£ 2,406.4 million in 1997 to K£ 2,397 million in 1998. The total liability of the banking system decreased to K£ 1,365.0 million in 1998 from K£ 1,458.5 million in 1997. The reserve position in the Fund remained fairly stable over the period, while other foreign exchange holdings of the Central Government fluctuated over the same period. The use of Fund credit, which stood at K£ 790.8 million in 1997, decreased gradually to stand at K£ 696.5 million in December 1998.

Table 7.16 K£ Million

As at end of	Central Bank Of Kenya					Central Government			Total Net Foreign Reserves of Central Monetary Authorities
	S.D.R.'s	Foreign Reserves	External Banks' Deposits	Use of Fund Credit	Total Net Foreign Reserves of Central Bank*	Reserve Position in IMF	Other Holdings	Total Net Foreign Reserves of Central Government	
1995	3.53	1,223.96	1.35	1,045.64	180.50	51.19	2.00	53.19	233.69
1996	2.13	2,295.76	1.83	926.27	1,369.78	48.61	3.06	51.67	1,421.45
1997	4.30	2,406.40	0.93	790.84	1,618.93	52.28	0.93	53.22	1,672.14
1998									
January	29.55	2,386.22	0.93	753.43	1,661.41	49.99	1.28	51.27	1,712.69
February	2.30	2,278.82	1.13	727.57	1,552.42	49.86	1.13	50.99	1,603.40
March	2.29	2,358.68	7.21	719.55	1,634.20	49.25	0.95	50.20	1,684.40
April	2.28	2,522.36	745	717.35	1,799.84	49.28	0.72	50.00	1,849.84
May	1.34	2,429.42	7.57	700.82	1,722.37	51.58	1.98	53.56	1,775.93
June	0.63	2,241.36	4.96	643.13	1,593.89	48.73	1.77	50.50	1,644.39
July	16.31	2,372.46	5.70	632.27	1,750.80	48.29	1.43	49.71	1,800.51
August	1.01	2,468.64	4.20	625.39	1,840.06	49.08	1.24	50.32	1,890.38
September	1.05	2,425.00	5.98	652.52	1,767.55	50.57	1.01	51.58	1,819.13
October	53.65	2,406.82	4.80	773.42	1,682.25	52.15	0.99	53.14	1,735.39
November	34.74	2,397.05	4.10	722.39	1,705,30	51.19	1.89	53.08	1,758.37
December	3.52	2,397.05	4.40	696.52	1,699.65	53.82	1.55	55.37	1,755.02

Source: Central Bank of Kenya

* Reserves constitute foreign assets which are readily available for meeting external financial needs

7.31. Table 7.17 shows that the performance of the Kenya Shilling varied against the selected currencies. It appreciated marginally against the Sterling Pound and the US Dollar by 0.7 per cent and 1.4 per cent, respectively in 1998. It depreciated against the Deutsche Mark and the Japanese Yen by 5.3 per cent and 9.8 per cent respectively. Overall, the Shilling depreciated against the selected currencies as reflected in the trade weighted exchange index from 527.18 in 1997 to 543.53 in 1998. Against the SDR, the Shilling depreciated marginally by 1.0 per cent from KSh. 84.6 to KSh. 86.7 in 1998.

Table 717

CURRENCY	MEAN RATES IN KENYA SHILLINGS					
	31st Dec 1993	31st Dec 1994	31st Dec 1995	31st Dec 1996	31st Dec 1997	31st Dec 1998
1 US Dollar	68 1630	44 8390	55 9390	55 0211	62 6778	61 8275
1 Pound Sterling	100 9160	699490	86 5590	93 0495	103.9223	103.2351
1 Deutsche Mark	39 2980	28 8890	38 9300	35 3431	35.0413	37.0107
1 French Franc	11 5670	8 3730	11 4070	10 5058	10 4726	11.0377
1 Swiss Franc	46.0560	34 1350	48.5040	40 8195	43.1151	45.3926
1 Dutch Guilder	35 1270	25.7780	34 7650	31.5221	31.0739	32.8127
1 Swedish Kroner	8 1930	60300	8.3910	7 9967	79299	76602
1 Norwegian Kroner . .	9.0710	66010	8 8160	8 5385	8 5692	8 1757
1 Zambian Kwacha**	0.1030	0 0650		0 0032		0.0353
1 Austrian Schilling	5.5940	4 1150	5 5430	5 0433	4 9804	5.2591
1 Belgian Franc	1.8990	1 4080	1 8950	1.7239	1 7037	1.7597
1 Danish Kronor	10.0770	7.3660	10.0710	9 1951	9.1942	9.7261
1 Canadian Dollar	51 3080	31 9310	41.0900	40 1700	43.7286	40.1630
1 Finish Marka	11.7800	94470	12 8130	11.8523	11.5478	12 1488
1 Australian Dollar** . .	46.1740	34 5420		43 8243	40.9106	38.0010
100 Japanese Yen .. .	60 9140	44 9530	54.3800	47 3897	48 2813	53.5484
100 Italian Lira	3.9880	2 7660	3 5480	3 6003	3 5813	3.7393
1 Indian Rupee	2 1730	1 4340	1 6090	1.5391	1.6060	1.4543
1 Pakistan Rupee"		1 4420		1 3818	1.4085	1.3457
100 Burundi Francs"	25 8500	18 1700			15 3500	12.2500
100 Rwanda Francs**	46 7400	32 3200		1.2211	2 0570	19.2831
Overall Weighted Index* 1982=100	600 00	419 83	551.56	510.72	527.18	543 53

* Trade weighted Fisher's Ideal index The index excludes weighting by unavailable exchange rates

"Via US$ Exchange Rates (Pakistan, Zambia. Rwanda and Burundi).

.. not available

Export Market Developments

Trade Policy Facilitation and Regulatory Framework

7.32. The Export Promotion Council (EPC) pursued its objective of supporting exporters to overcome bottlenecks in order to enhance the level of development and performance of the export sector. The EPC also formulates market strategies and identifies export opportunities. In addition, it promotes an export culture and enhances national concerns on export as ways of ensuring a sustainable export-led economy.

7.33. The EPC undertook the following studies in 1998: comparative advantage competitiveness and supply capacity in Kenya; Kenya's regional and multilateral trade agreements and cost of movements of exports. It also prepared "Road Maps" for exporters and investors as a facilitating practical guide to exporters on administrative requirements and other export procedures.

Trade Information Systems

7-34. Information delivery system in export promotion in Kenya has been boosted by the establishment of the Centre for Business Information in Kenya (CBIK) at the EPC. The centre is designed to meet all the major business information requirements for Kenya's business community.

Enhancing International Market

7.35. Apart from the traditional tools employed in export market development, the EPC together with the EU embarked on a programme to assist firms to market their products electronically through the Internet. Several companies received technical assistance in developing web pages and appropriate web site hosting. Further opportunities are to be provided to local firms to advertise their products at the EPC's web page to enhance their international market reach. Electronic marketing is a fast growing area and efforts will be made to sensitise and assist local companies to seize opportunities offered by this alternative marketing medium.

Marketing Commercial Crafts

7.36. In recognition of the important role played by Small and Medium Scale Enterprises (SME's) to the economy, EPC is currently assisting in the export marketing of commercial crafts (works of art depicting a people's culture). In the past, commercial crafts were mainly of a decorative nature, such as animal wood-carvings. However, this trend is now changing with market patterns to include functional items such as garden pottery, kitchen wares, fashion accessories like ethnic jewellery, household items made of soapstone and furniture The exports of commercial crafts have continued to demonstrate an up-ward trend.

Product Development and Adaptation

7.37. Under the product Development and Adaptation programme, the EPC is actively seeking to diversify Kenya's exports by expanding the range of non-traditional products. Strategies to achieve this include: carrying out supply studies to identify new products; conducting demand studies to establish market trends; consumer preferences packaging requirements and competition in order to adapt the new products appropriately; formulating firm level support in new product development and adaptation to market needs; improvement of packaging, design and styling; and test-marketing of the adapted products.

CHAPTER 8 - AGRICULTURE

Overview

Overall output growth at current prices in agriculture increased by 7.6 per cent from K£ 7,580.7 million in 1997 to K£ 8.154.3 million in 1998. Consequently, Gross Domestic Product from the agricultural sector in real terms went up from a revised 1.0 per cent in 1997 to 1.5 per cent in 1998. The abnormal *El Nino* rains during the first half of the year boosted the production of tea, sugar cane, maize, and wheat. On the other hand, most crops recorded significant price increases. The adverse effects caused by the drought in the second half of 1998 hampered better performance in the sector.

8.2. Table 8.1 shows the total value of agricultural output and input. In 1998, total output, inputs and value added at current prices rose by 7.6 per cent, 10.7 per cent and 7.3 per cent respectively. At constant 1982 prices, however, total output, inputs and value added rose by 2.1 per cent, 8.2 per cent and 1.5 per cent respectively. The increase in the value of inputs is attributed to increased application of material inputs such as purchased seeds, bags, fuel and power.

AGRICULTURAL OUTPUT AND INPUT. 1994- 1998"

Table 8.1 K£million

	1994	1995	1996	1997	1998*
AT CURRENT PRICES-					
Total Output	5,870.12	6,367.15	6,77860	7,580.71	8,154.32
Less Inputs	578.02	589.52	545.60	680.77	753.41
Value Added	5,292.10	5,777.63	6,233.00	6,899.94	7,400.91
AT CONSTANT (1982) PRICES-					
Total Output	1,254.50	1,316.10	1,353.67	1,350.95	1,378.82
Less inputs	135.21	142.74	128.32	113.39	122.74
Value Added	1,119.29	1,173.36	1,225.35	1,237.56	1,256.08

* Provisional

** Output and Input figures adjusted

Marketed Production

8.3. Table 8.2 shows the value of marketed production. Total marketed production rose by 19.2 per cent from K£ 3,556.7 million in 1997 to K£ 4,240.1 million in 1998. This is mainly due to better prices for coffee, tea, pyrethrum, sisal, sugar cane and milk. Maize and wheat recorded a bumper harvest, which led to a significant decline in prices offered for both crops. The twin effect of better world prices and increased tea production resulted in 65.6 per cent increase in revenue from the crop. However, the decline in coffee production more than offset the improvement in coffee prices resulting in an overall decline of 20.2 per cent in total crop revenue. Despite poor world coffee prices, farmers realised better local prices as a result of a weak Shilling when compared to the Dollar during the first half of 1998. The overall value of marketed crops increased by 25.4 per cent from K£ 2,817.7 million in 1997 to K£ 3,534.6 million in 1998. Livestock and products value however, decreased from K£ 739.0 million in 1997 to K£ 705.5 million in 1998. The value of cattle and calves slaughtered increased by 1.9 per cent from K£ 435.7 million in 1997 to K£ 443.9 million in 1998. The value of dairy produce declined by 32.0 per cent from K£ 143.1 million in 1997 to K£ 97.3 million in 1998. This is attributable to livestock diseases during the first half of 1998 coupled with the drought in the second half of the year.

RECORDED MARKETED PRODUCTION AT CURRENT PRICES. 1994 - 1998

Table 8.2 K£million

	1994	1995	1996	1997	1998*
CEREALS-					
Maize	134.2	160.4	155.9	140.5	140.0
Wheat	63.1	81.6	105.7	109.9	149.3
Others	75.8	59.8	68.2	64.4	49.7
Total	273.1	301.8	329.8	314.8	339.0
TEMPORARY INDUSTRIAL CROPS-					
Sugar-cane	256.8	341.2	356.3	332.2	398.4
Pyrethrum	27.9	22.1	16.7	16.1	17.5
Others	29.1	30.4	45.2	64.6	83.1
Total	313.8	393.7	418.2	412.9	499.0
OTHER TEMPORARY CROPS	10.1	10.1	16.0	22.7	23.9
PERMANENT CROPS-					
Coffee	587.9	764.5	717.9	827.3	659.9
Tea	915.0	829.8	1,016.8	1,181.8	1,956.9
Sisal	18.8	26.7	27.3	39.3	39.8
Others	10.3	8.0	14.5	18.9	16.1
Total	1,532.0	1,629.0	1,776.5	2,067.3	2,672.7
TOTAL CROPS	2,129.0	2,334.6	2,540.5	2,817.7	3,534.6
LIVESTOCK AND PRODUCTS-					
Cattle and Calves	252.7	302.6	363.1	435.7	443.9
Dairy Produce	161.5	253.8	193.2	143.1	97.3
Chicken and eggs	78.7	73.1	69.2	67.2	70.0
Others	68.1	78.4	86.3	93.0	94.3
Total	561.0	707.9	711.8	739.0	705.5
GRAND TOTAL	2,690.0	3,042.5	3,252.3	3,556.7	4,240.1

* Provisional

8.4. Table 8.3 shows the volume and price indices for crops and livestock. Due to increased crop production, the volume index for total crops increased from 112.3 in 1997 to 131.3 in 1998. The quantum index for livestock and products declined from 104.8 in 1997 to 98.0 in 1998 due to the decline in milk sales. The overall price index for crops recorded an increase from 804.4 in 1997 to 861.0 in 1998. This was attributed to the increase in the prices for pyrethrum, tobacco, sugar cane, coffee, sisal and tea respectively. The price index for cereals decreased from 1,151.3 in 1997 to 1,088.5 in 1998 as a result of lower prices offered for maize and wheat. The price index for livestock and products, however, only declined marginally from 500.0 in 1997 to 497.7 in 1998.

VOLUME AND PRICE INDICES OF SALES TO MARKETING BOARDS, 1994 - 1998

Table 8.3 1982=100.

		1994	1995	1996	1997	1998*
QUANTUM INDICES	Cereals	56.3	65.1	54.6	46.3	54.3
	Temporary Industrial Crops	81.7	93.3	104.0	91.9	96.7
	Permanent Crops	142.1	165.0	175.0	136.1	158.2
	TOTAL CROPS	121.4	137.2	143.9	112.3	131.3
	Livestock and Products	88.1	105.5	126.7	104.8	98.0
TOTAL GROSS MARKETED PRODUCTION		113.5	131.0	140.5	112.4	124.8
PRICE INDICES	Cereals	814.5	764.5	923.2	1,151.3	1,088.5
	Temporary Industrial Crops	649.8	665.2	646.4	650.7	792.4
	Permanent Crops	474.5	472.1	456.0	753.0	820.0
	TOTAL CROPS	521.0	503.9	563.7	804.4	861.0
	Livestock and Products	409.6	457.7	393.9	500.0	497.7
TOTAL GROSS MARKETED PRODUCTION		495.3	527.5	533.7	733.8	789.4

* Provisional

"Data on livestock is from slaughter houses

8.5. Table 8.4 shows the average gross commodity prices paid to farmers. Prices of most commodities registered an improvement in 1998. The highest increases were recorded for pyrethrum, tea and sugar cane, which registered growth rates of 44.4 per cent, 24.5 per cent and 11.4 per cent respectively. The prices of maize, wheat and bacon pigs, however, declined by 6.5 per cent, 4.5 per cent and 6.4 per cent respectively. Prices paid to farmers by Kenya Co-operative Creameries (KCC) improved slightly from Kshs 14.50 in 1997 to Kshs 15.50 per litre of milk in 1998.

AVERAGE GROSS COMMODITY PRICES* TO FARMERS, 1994-1998

Table 8.4 KSh. per stated unit

	UNIT	1994	1995	1996	1997	1998**
Coffee	100kg	14,427.80	15,966.00	13,913.60	25,150.00	25,718.00
Tea		8,738.40	6,786.80	7,908.00	10,680.00	13,300.00
Sisal		1,100.00	1,915.00	1,915.00	3,891.00	3,973.90
Sugar-cane	Tonne	1,553.00	1,553.00	1,553.00	1,553.00	1,730.00
Pyrethrum (extract equivalent)	Kg	2,175.00	3,600.00	3,600.00	3,600.00	5,200.00
Seed Cotton	100Kg	1,913.50	1,720.00	2,136.00	2,000.00	2,096.00
Maize		950.00	800.00	1,055.00	1,373.20	1,284.40
Wheat		1,200.00	1,300.00	1,563.00	1,770.00	1,690.10
Beef (third grade)		3,000.00	3,300 00	3,400.00	3,580.00	3,824.43
Bacon Pigs		5,964.00	6,500.00	6,600.00	8,173.52	7,651.13
Milk	100 litres	1,250.00	1,450.00	1,250.00	1,450.00	1,549.00

* The prices are for calendar year & may differ from those based on crop years In the case of tea and coffee , the prices are for made tea and processed coffee respectively

** Provisional

8.6. Table 8.5 shows the value of sales of agricultural produce to marketing boards by large and small farms. Small farms accounted for K£ 2,961.3 million (69.8 per cent) while large farms provided K£ 1,278.8 million (30.2 per cent). This represented respective growth rates of 19.2 per cent and 19.1 per cent over 1997 sales.

SALE TO MARKETING BOARDS FROM LARGE AND SMALL FARMS, 1994-1998

Table 8.5

YEAR	LARGE FARMS		SMALL FARMS		TOTAL		PERCENTAGE SHARE OF SMALL FARMS
	K£ mn.	Annual Percentage change	K£ mn.	Annual Percentage change	K£ mn.	Annual Percentage change	
1994	910.56	17.56	1,779.44	28.33	2,690.00	24.47	66.15
1995	961.43	5.59	2,081.07	16.95	3,042.50	13.10	68.40
1996	1,014.72	5.54	2,237.58	7.52	3,252.30	6.90	68.80
1997	1,073.41	5.78	2,483.29	10.98	3.556.70	9.36	69.82
1998*	1,278.81	19.14	2,961.29	19.25	4,240.10	19.21	69.84

Provisional.

8.7. As shown in Table 8.6, the price indices for purchased seeds, fertilizers and manufactured feeds recorded the highest increases. The quantum index for fertilisers and manufactured feeds declined by 25.1 and 8.1 percentage points respectively. The quantum index for total inputs decreased from 132.8 in 1997 to 128.2 in 1998. This is explained by the continued increase in the price index of farm inputs, which went up from 549.4 in 1997 to 613.8 in 1998.

AGRICULTURAL INPUT INDICES*. 1994 - 1998

Table 8.6 1982=100

	1994	1995	1996	1997	1998**
QUANTUM INDICES-					
Fertilizers	94.4	128.0	115.2	124.7	99.6
Fuel and Power	116.8	121.8	129.1	114.9	118.4
Bags	101.3	104.5	110.9	133.3	135.6
Manufactured Feeds	271.7	342.0	273.6	240.4	232.3
Purchased Seeds	120.4	131.3	128.2	125.3	142.7
Other Material Inputs .	99.9	101.6	100.3	101.5	104.6
Total Material Input .	125.3	128.4	127.2	139.6	138.9
Service Inputs	112.1	113.2	120.8	115.7	127.3
TOTAL INPUTS	124.0	127.8	125.8	132.8	128.2
PRICE INDICES-					
Fertilizers	227.2	218.6	232.8	389.7	446.9
Fuel and Power	576.4	641.7	730.6	804.4	851.5
Bags	294.9	283.6	301.6	296.1	337.4
Manufactured Feeds	578.3	540.6	621.7	886.6	946.5
Purchased Seeds	848.5	830.6	937.4	1,166.8	1,679.7
Other Material Inputs	313.9	350.0	378.9	386.2	408.8
TOTAL MATERIAL INPUT	460.4	435.5	489.9	585.6	656.7
SERVICE INPUTS	207.7	220.1	230.4	250.0	265.0
TOTAL INPUTS	427.5	413.0	465.2	549.4	613.8

*Coverage is more limited than for Table 8.1 because labour and other factor inputs are excluded

**Provisional.

8.8. The use of agricultural inputs could in part be reflected in agricultural production. As shown in Table 8.7, overall value of farm inputs increased by 7.4 per cent from a revised K£ 534.0 million in 1997 to K£ 573.7 million in 1998. The sharp increase in the overall value of material inputs in 1997 and 1998 may be attributed to increases in the quantities of farm inputs such as fuel and power, bags and seeds coupled with continued price increases of seeds and fertilisers. Service inputs such as tractor hire services, artificial insemination and dip services have maintained a consistent growth pattern.

PURCHASED AGRICULTURAL INPUTS*, 1994 - 1998

Table 8.7 K£million

	1994	1995	1996	1997	1998**
MATERIAL INPUTS-					
Fertilizers	52.16	53.25	52.20	96.71	86.92
Other Agricultural Chemicals	14.01	14.58	15.21	17.82	16.02
Livestock Drugs and Medicines .	23.00	23.90	25.60	28.70	30.33
Fuel and Power	112.79	136.03	146.91	241.62	251.80
Bags	15.81	16.81	17.82	24.15	25.62
Manufactured Feeds	39.05	41.35	38.00	36.02	38.07
Purchased Seeds	45.14	50.25	46.20	54.25	87.91
Other Material Inputs	10.55	11.14	11.70	12.06	12.60
Total	312.51	347.31	343.50	511.33	549.27
SERVICE INPUTS	19.01	20.26	21.80	22.65	24.46
TOTAL INPUTS	331.52	367.57	365.30	533.98	573.73

* Except labour.

** Provisional

8.9. Table 8.8 gives details of agricultural terms of trade. The general index of agricultural output prices rose from 568.7 in 1997 to 676.0 in 1998 in response to better local prices offered for most agricultural commodities such as coffee, tea and pyrethrum. Total material inputs index also increased from 549.4 in 1997 to 613.8 in 1998 due to increases in prices of farm inputs such as seeds, fertilisers, fuel and power and bags. As a

result, terms of trade in agriculture improved significantly from 100.6 in 1997 to 107.3 in 1998.

PRICE AND TERMS OF TRADE INDICES FOR AGRICULTURE, 1994- 1998

Table 8.8 1982=100

	1994	1995	1996	1997	1998*
General Index of Agricultural Output Prices**	380.7	442.7	460.7	568.7	676.0
PRICE PAID					
Purchased Inputs	427.5	413.0	465.2	549.4	613.8
Index of Purchased Consumer Goods-Rural Areas	565.5	572.2	632.3	650.4	683.6
INDICES OF PRICES PAID	438.6	505.3	523.7	565.4	630.0
Agricultural Sector terms of Trade	86.8	87.6	88.0	100.6	107.3

* Provisional

**Derived from Table 8.1. This is the output price index used in calculating the terms of trade

8.10. Table 8.9 shows the estimated production trends of selected agricultural commodities based on crop forecasts. Maize production is estimated to have grown by 12.5 per cent. Similarly, beans and potatoes production reached 1.6 million bags and 2.1 million bags in 1998 respectively.

ESTIMATED PRODUCTION OF SELECTED AGRICULTURAL COMMODITIES IN AGRICULTURAL YEARS, 1993/94 - 1997/98
(Based on Crop Forecast Surveys)

Table 8.9 million bags

CROP	1993/94	1994/95	1995/96	1996/97	1997/98*
Maize	18.87	29.12	26.33	22.80	25.65
Beans	1.25	2.82	2.42	1.96	1.60
Potatoes	1.99	2.51	2.90	2.40	2.10
Sorghum	0.86	1.05	0.84	0.84	0.73
Millet	0.39	0.47	0.44	0.40	0.36

*Provisional

8.11. The rural market prices provide an update of food supply and commodity prices. Table 8.10 presents a provincial breakdown of a sample of retail prices of Kenya's five main food crops for the months of March and September. In 1998, adequate rains early in the year resulted in the decline of maize and beans prices in most provinces in September when compared to March. However, the prices of potatoes and sorghum were erratic in September when compared to March due to the adverse effects caused by the drought in the second half of 1998. Millet prices went up in September when compared to March 1998.

RURAL MARKET PRICES FOR SELECTED FOOD CROPS

Table 8.10

KSh per Kg

CROP	Province	1995		1996		1997		1998	
		March	Sep-tember	March	Sep-tember	March	Sep-tember	March	Sep-tember
Maize	Coast	18.18	23.40	20.45	23.77	24.70	21.83	23.53	25.45
	Eastern	7.35	6.91	8.73	12.21	14.06	12.28	19.63	12.82
	Central	8.84	8.37	8.04	11.90	10.87	11 93	12.87	12.87
	Rift Valley	8.19	7.64	7.70	11.63	12.72	13.32	12.42	13.04
	Nyanza	8.39	6.83	8.49	10.93	12.65	15.54	14.24	16.20
	Western	7.88	6.74	8.31	13.13	12.22	13.71	13.10	14.02
Beans	Coast	25.00	33.93	32.57	37.91	32.61	37.28	42.95	42.50
	Eastern	17.74	16.00	18.02	31.11	24.00	21.35	21.57	23.35
	Central	24.36	25.06	21.45	28.56	24.48	20.59	24.97	24.68
	Rift Valley	28.48	22.92	23.08	24.16	25.27	20.35	21.96	20.32
	Nyanza	31.25	27.89	20.79	28.64	24.45	22.76	24.82	21.38
	Western	28.41	21.97	20.67	18.54	24.70	23.64	24.59	23.41
Potatoes	Coast	24.29	25.62	21.44	22.14	22.71	22.59	22.71	24.29
	Eastern	12.11	11.03	12.86	12.04	13.84	13.54	10.86	11.17
	Central	9.72	12.55	10.03	10.82	10.55	11.17	10.55	10.69
	Rift Valley	10.99	8.53	12.88	12.98	12.70	13.11	10.70	10.65
	Nyanza	11.85	11.41	9.67	10.65	12.77	11.58	11.77	12.14
	Western	20.00	12.60	11.58	12.52	12.89	13.57	12.89	13.59
Sorghum	Eastern	9.37	8.62	7.21	17.10	14.83	10.10	12.83	11.30
	Nyanza	8.14	7.09	8.29	10.02	12.05	12.43	12.50	13.67
	Western	8.10	8.08	8.51	15.51	16.69	15.00	15.49	14.49
Millet	Eastern	11.71	12.42	10.54	18.13	22.50	27.50	20.50	21.50
	Rift Valley	16.43	16.65	19.26	21.74	26.09	30.43	29.09	30.43
	Nyanza	20.23	17.03	20.62	25.54	27.15	53.17	30.15	33.33
	Western	13.85	13.96	18.66	25.02	26.43	14.16	22.50	27.45 P

Production by Crop

8.12. The agricultural sector recorded mixed performance in 1998 largely due to erratic weather resulting in more output and better prices for some crops. While some crops recorded significant increases in production, others remained static or recorded declines.

SALE OF SOME MAJOR CROPS TO MARKETING BOARDS, 1994 - 1998

Table 8.11

CROP	UNIT	1994	1995	1996	1997	1998*
Maize++	'000 tonnes	316.0	401.0	295.5	204.6	218.0
Wheat+		105.2	125.5	130.0	124.2	176.7
Rice Paddy +		13.5	14.6	15.9	14.4	11.7
Cotton*		1.8	0.2	0.5	0.5	0.5
Coffee		81.5	95.8	103.2	68.0	51.3
Tea		209.4	244. 5	257.2	220.7	294.3
Sisal		33.9	27.8	28.1	20.1	18.1
Sugar-cane+	mn. tonnes	3.6	3.8	3.9	4.3	4.6
Pyrethrum (Extract Equivalent)	tonnes	172.2	122.8	93.0	89.4	67.4

* Provisional

\+ No purchases of paddy, wheat, cotton and sugar cane by boards

++ Includes maize purchases by NCPB and millers

8.13. Maize:- In the first half of 1998, the El Nino rains were experienced country wide. As the rains subsided, the opposite of El Nino, which is La Nina (drought) occurred. This prompted the Government to waive duties on maize imports resulting in commercial imports of 8.6 million bags of maize into the country. This development, coupled with

bumper long rains harvest, resulted in maize market saturation with the effect of depressing domestic prices.

8.14. **Wheat:-** Despite severe crop losses due to invasion by quelea birds, wheat production increased by 40.8 per cent from 125.8 thousand tonnes in 1997 to 177.1 thousand tonnes in 1998. The increase in production could be attributed to the good rains towards the end of 1997 that stretched into the first half of 1998. A total of 478.9 thousand tonnes of wheat was imported in 1998. This could partly be attributed to lower world wheat prices and increase in the quantity of meals and flours of wheat exported which rose by 46.3 per cent from 29,992 tonnes in 1997 to 43,865 tonnes in 1998 as shown in Table 7.6.

PRODUCTION AND IMPORTS OF WHEAT, 1994 - 1998

Table 8.12 '000 Tonnes

YEAR	PRODUCTION*	IMPORTS	TOTAL
1994	107.6	**353.1**	460.9
1995	128.6	364.1	492.7
1996	135.0	486.9	621.9
1997	125.8	388.1	513.9
1998*	177.1	478.9	656.0

* Includes retention for seed

**Provisional.

8.15. **Coffee:** - Production of coffee declined by 21.5 per cent from 68.0 thousand metric tonnes in the 1996/97 season to 53.4 thousand metric tonnes in the 1997/98 crop season. Erratic weather conditions, diseases and pest infestation of coffee trees, coupled with the high cost of farm inputs led to the observed decline in production. Other factors contributing to the decline in coffee production include high interest rates on borrowing and intense wrangling in the co-operative sector that manifested in general disenchantment of farmers over running of their societies.

PRODUCTION, AREA, AND AVERAGE YIELD OF COFFEE BY TYPE OF GROWER, 1993/94 - 1997/98

Table 8.13

	1993/94	1994/95	1995/96	1996/97	1997/98*
AREA (Ha) '000-					
Co-operatives	120.5	120.5	122.7	122.7	122.6
Estates	38.2	40.0	38.4	38.4	39.7
TOTAL	158.7	160.5	161.1	161.1	162.3
Production (tonnes) '000-					
Co-operatives	41.3	62.6	56.9	38.3	32.1
Estates	38.6	32.8	40.1	29.7	21.3
TOTAL	79.9	95.4	97.0	68.0	53.4
Average yield (kg /Ha.)					
Co-operatives	342.7	510.0	463.7	312.0	261.8
Estates	1,012.6	852.0	1,045.0	774.0	536.5

*Provisional

8.16. Tea: - In 1998 tea production was 294.2 thousand tonnes, an increase of 33.3 per cent from 220.7 thousand tonnes produced in 1997. During the second half of 1997 the country experienced adequate rainfall, which stretched into the first half of 1998, favouring the growth of the tea bushes and hence the rise in production. The area under tea for both small holders and estates increased marginally by 1.1 per cent and 1.2 per cent respectively. The average tea yield for small holders and estates increased by 35.3 Per cent and 30.3 per cent respectively. The growing demand for high quality produce

resulted in price of tea increase by 24.5 per cent from Kshs. 106.8 per Kg in 1997 to Kshs. 133.0 per Kg in 1998.

PRODUCTION. AREA AND AVERAGE YIELD OF TEA BY TYPE OF GROWER. 1994- 1998

Table 8.14

	1993	1994	1995	1996	1997	1998*
AREA (Ha) '000						
Smallholder	73.11	73.84	78.96	81.16	84.66	85.56
Estates	31.75	32.07	32.36	32.52	32.69	33.09
Total	104.86	105.91	111.32	113.68	117.35	118.65
PRODUCTION (Tonnes) '000						
Smallholder	112.53	119.08	138.95	144.07	129.71	175.63
Estates	98.63	90.34	105.58	113.09	91.01	118.54
Total	211.16	209.42	244.53	257.16	220.72	294.17
AVERAGE YIELD (Kg/Ha)						
Smallholder	1,942.42	1,776.29	1,996.12	1,775.13	1,532.13	2,052.71
Estates	3,339.10	3,013.39	3,403.61	4,092.56	2,784.03	3,582.35

* Provisional

8.17. Cotton:- Intake of cotton by ginneries increased marginally from 500 tonnes in 1997 to 538 tonnes in 1998. The price of a 100-Kg bale of cotton increased slightly from Kshs 2,000 in 1997 to Kshs 2,096 in 1998 as indicated in Table 8.4. However, competition from ready-made imported and second-hand clothes continues to stifle the growth of the cotton industry.

8.18. Sugar cane:- Table 8.15 shows that sugar cane production increased from 4.3 million tonnes in 1997 to 4.7 million tonnes in 1998. This is attributed to the *El Nino* rains and an increase in the area harvested from 43,814 hectares in 1997 to 50,111 hectares in 1998. The price of sugar cane increased from Ksh. 1,553 per tonne in 1997 to Ksh 1,730 per tonne in 1998. Sugar production increased by 12 per cent from 401,610 tonnes in 1997 to 449,132 tonnes in 1998 as shown in Table 8.16. During the year no sugar was exported, while a total of 186,516 tonnes were imported against 52,371 tonnes imported in 1997. These fiqures, however differ from those given in chapter seven due to different data sources. In an effort to address the problem of excess stocks in the market and arrest excess imports, the Government raised suspended duty to 70 per cent while the Sugar Development Levy (SDL) charged on imported sugar increased from 20 per cent to 40 per cent. The discrepancy between sugar consumption on one hand and the sum of production and imports less export on the other hand may be attributed to closing stocks held by the market.

AREA UNDER SUGAR CANE, AREA HARVESTED, PRODUCTION, AND AVERAGE YIELD, 1994 - 1998

Table 8.15

	1994	1995	1996	1997	1998*
Area under cane (Ha)	104,675	123,638	131,130	127,560	117,657
Areaharvested(Ha)**	57,392	48,588	39,249	43,814	50,111
Sugar cane production (Tonnes)	3,569,448	3,826,159	3,870,479	4,278,273	4,661,361
Average yield (Tonnes/Ha)	62.19	78.75	98.61	97.65	93.02

* Provisional

** Does not include area harvested by non-contracted farmers

Source: Kenya Sugar Authority

PRODUCTION,IMPORTS AND CONSUMPTION OF SUGAR. 1994- 1998"

Table 8.16 '000 Tonnes

YEAR	PRODUCTION	IMPORTS	CONSUMPTION	EXPORTS
1994	303.87	256.13	560.00	-
1995	384.20	24.40	560.00	17.20
1996	389.00	65.80	570.00	24.50
1997	401.61	52.37	580.00	25.05
1998 *	449 .13	186.52	734.44	-

* Provisional

** Source Kenya Sugar Authority

8.19. Horticulture: - Fresh horticultural export volume decreased from 84,190 tonnes in 1997 to 78,373 tonnes in 1998, but the overall value increased by 11.0 per cent from K£ 450.0 million to K£ 499.5 million. These, however differ from those given in chapter seven due to different data sources. Additionally, chapter seven includes data on processed horticultural produce. The drop in horticulture production is attributed to adverse weather conditions, unpredictable market for some of the produce, increased supplies from other competing countries, break-down of Nairobi-Mombasa road, and port congestion resulting in the suspension of the export of avocados by sea. Cut flowers and french beans accounted for 39.0 per cent and 18.0 per cent, respectively, of the volume of exported horticultural products in 1998. Avocados suffered the highest decline in volume by 52.0 per cent, recording 6,367 tonnes in 1998 compared to 13,290 tonnes exported in 1997. Some of the incentives introduced to encourage investment in horticulture include the establishment of a Plant Breeders Rights Office, the introduction of high quality seeds, and the setting up of a major cargo refrigeration facility.

EXPORTS OF FRESH HORTICULTURAL PRODUCE*, 1994 - 1998

Table 8.17

YEAR	VOLUME '000 Tonnes	VALUE K£million
1994	65.2	246 8
1995	71.1	320.0
1996	84.8	385.0
1997	84.2	450.0
1998**	78.4	499.5

*Figures are exports by Horticultural Crop Development Authority (HCDA)

**Provisional

8.20. Pyrethrum:- Pyrethrum production (extract equivalent) continued to decline from 89.4 tonnes in 1997 to 67.4 tonnes recorded in 1998. This was occasioned by the destruction of the crop by the *El Nino* rains, where the pyrethrum fields were smothered by the rains in the early part of 1998, and drought in the latter part of the year coupled with payment delays which demoralised farmers. pyrethrum prices (extract equivalent) improved from Kshs 3,600 per kg in 1997 to Kshs 5,200 per kg of pyrethrum in 1998. This is attributable to favourable world market conditions despite competition from synthetic substitutes.

8.21 Sisal:- Sisal production declined marginally by 223 tonnes from 20,214 tonnes in 1997 to 19,991 tonnes in 1998. On the other hand, prices improved from Kshs. 38,910 Per tonne in 1997 to Kshs. 39,739 per tonne in 1998, as indicated in Table 8.4.

8.22. Irrigation:- In 1998, while the total area cropped increased by 0.8 per cent, the Payment to plot holders declined by 36.9 per cent resulting in a fall of 22.1 per cent in the gross value of output in all the seven irrigation schemes as shown in Table 8.18. The

number of plot holder increased from 4,471 in 1997 to 4,679 in 1998. The total paddy production was estimated at 24,654 tonnes in 1998 compared to 31,559 tonnes in 1997. All paddy-producing schemes recorded reduction in output except Ahero. The giant Mwea Irrigation Scheme recorded a decline in the gross value of output of about 25.8 per cent and a 37.9 per cent reduction in the payments to plot holders. This could partly be attributed to diversion of produce sales to private traders. There is evidence of reasonable recovery in the output of both onions and paw-paw in Pekerra scheme, which had plummeted to its lowest level in 1996/97.

PROGRESS AND PRODUCTION AT SEVEN IRRIGATION SCHEME AREAS, 1993/94 - 1997/98'

Table 8.18

	1993/94	1994/95	1995/96	1996/97	1996/98**
MWEA-					
Area cropped-Hectares	5,882	5,878	5,901	6,145	6,000
Plot-holders-Number	3,242	3,242	3,243	3,270	3,392
Gross value of output-K£'000	11,845	13,842	17,640	21,754	16,144
Payments to plot-holders-K£'000 …	6,684	7,134	11,540	14,308	8,881
ALL (7) SCHEME AREAS-					
Area cropped-Hectares	8,910	8,957	9,039	7,551	7,611
Plot-holders-Number	7,109	7,269	7,243	4,471	4,679
Gross value of output-K£'000 .	15,986	16,988	22,247	25,295	19,699
Payments to plot-holders-K£'000 ..	8,127	8,143	13,896	16,183	10,217
CROPS PRODUCED - Tonnes					
Mwea-Paddy	24,205	24,892	25,987	27,488	21,352
Ahero-Paddy	2,712	1,993	2,054	412	968
W Kano-Paddy	2,997	1,726	1,645	2,847	1,606
Bunyala-Paddy	1,073	917	920	812	728
Total Paddy	30,987	29,528	30,606	31,559	24,654
West Kano - Sugar-cane . .	-	-			-
Tana-Cotton	-	·	-		-
Bura-Cotton	-	-	-	-	
Pekera-Onions	997	1,298	889	45	239
-Chillies	160	122	-	50	44
-Cotton	75	120	208	37	116
-Water Melon	264	344	303	13	18
-Paw-paw	265	343	129	9	152

*Source: National Irrigation Board

**Provisional

Livestock and Livestock Products

8.23. The milk intake by both K.C.C and other private firms registered under the Kenya Dairy Board (KDB) dropped substantially for the second year, falling from 197 million litres in 1997 to 126 million litres in 1998. Intake by KDB decreased by 23.8 per cent while K.C.C milk intake dropped by 35 per cent. This decline may be attributed to the poor weather conditions, which prevailed in the second half of 1998 coupled with milk hawking which is not captured by the two firms as a result of the liberalisation of the milk market. Processed whole milk and cream also decreased by 34.3 per cent from 108 million litres in 1997 to 71 million litres 1998 as shown in Table 8.19. Butter and ghee decreased from 917 tonnes to 480 tonnes. Cheese registered a big decline of 83.9 per cent; while dried skimmed milk powder decreased by 65 per cent. Dried whole milk increased by 12.8 per cent with other products continuing to decline. The bulk of the milk initially processed by K.C.C is being delivered to other competitors in the market.

Table 8.19

	UNIT	1994	1995	1996	1997*	1998***
Recorded Milk Production**	Mn Litres	258	350	257	197	126
KENYA CO-OPERATIVE CREAMERIES						
Milk Processed:						
Wholemilk and cream	Mn. Litres	204	175	165	108	71
Butter and ghee	Tonnes	2,409	3,131	2,327	917	480
Cheese		126	141	193	112	18
Dried wholemilk powder		2,237	2,480	973	351	396
Dried skim-milk powder		2,120	3,101	2,349	1,244	434
Other products		218	208	349	110	30
Livestock slaughtered						
Cattle and Calves.	'000 Head	991	1,067	1,219	1,320	1,443
Sheep and Goats		1,310	1,327	1,407	1,603	1,752
Pigs		91	91	98	88	81

* Figures are revised

**Including sale licensed by the Kenya Dairy Board

*** Provisional.

8.24. Livestock slaughtered increased for all the categories, except for pigs. Both cattle and calves and sheep and goats slaughtered increased by 9.3 per cent; while pigs slaughtered declined by 8.0 per cent. The dry spell that prevailed in the second half of the year necessitated the farmers to dispose more of their animals.

Agricultural Training

8.25. In 1998, a total of 2,522 students were enrolled for agricultural courses in four public universities namely Moi, Nairobi, Jomo Kenyatta and Egerton. Of these, 466 and 201 enrolled for degree and diploma in horticulture respectively. A total of 560 and 129 enrolled for degree and diploma in agricultural engineering. Enrolment for degree and diploma in food science technology stood at 358 and 92 students while those enrolled for degree in BSc. agriculture and range management stood at 601 and 115 students respectively.

ENROLMENT IN THE MINISTRY OF AGRICULTURE TRAINING INSTITUTIONS, 1894 - 1998

Table 8.20 Number

	1994	1995	1996	1997	1998*
diploma level	167				
Bukura Institute of Agriculture		110	110	119	126
CERTIFICATE LEVEL-					
Embu Institute of Agriculture	200		100	198	
Kilifi Institute of Agriculture	200	167	186		220
Animal Health & Industry Training Institutes-					
Kabete	181	110	107	102	114
Nyahururu	109	70	72	70	85
Ndomba	269	200	108	113	214
SHORT-TERM VOCATIONAL COURSES-					
Naivasha Dairy Training School	71	69	60	61	110
Athi River Mt School	53	50	51	51	52

Provisional.

Bukura Agricultural College increased its intake from 119 in 1997 to 126 in 1998 as shown in Table 8.20. Embu Institute of Agriculture is no longer enrolling students and has converted to in-service staff training for the Ministry of Agriculture, while Kilifi Institute is admitting students at the certificate level. For animal health and industry Gaining, student enrolment in Ndomba almost doubled the number enrolled in 1997.

Co-operatives

8.26. Table 8.21 shows the number of societies and unions by type. The number of societies increased by 4.3 per cent from 8,312 in 1997 to 8,667 in 1998. The total number of agricultural societies went up by 5.9 per cent from 3,784 in 1997 to 4,007 in 1998. The total non-agricultural societies increased by 3.0 per cent from 4,445 in 1997 to 4,577 in 1998.

NUMBER OF SOCIETIES AND UNIONS BY TYPE, 1994 - 1998

Table 8.21 Number

TYPE OF SOCIETY	1994	1995	1996	1997	1998*
Coffee	213	215	248	279	308
Sugar-cane	91	90	95	98	99
Pyrethrum	56	57	62	65	66
Cotton	82	78	79	78	78
Dairy	210	267	291	313	323
Multi-produce	1,123	1,131	1,236	1,342	1,446
Farm Purchase	221	429	450	677	698
Fisheries	68	69	71	72	74
Other Agricultural Societies	619	744	803	860	915
TOTAL	2,683	3,080	3,335	3,784	4,007
Savings and Credit	2,668	2,810	3,031	3,169	3,305
Other Non-Agricultural Societies	848	896	1,116	1,276	1,272
TOTAL	3,516	3,706	4,147	4,445	4,577
Unions	77	81	82	83	83
TOTAL	6,276	6,667	7,564	8,312	8,667

* Provisional

8.27. Table 8.22 shows the sale of selected agricultural produce by co-operatives and their contribution to gross farm revenue. In 1998 the sales of coffee, sugar-cane and pyrethrum handled through co-operatives recorded increases of 6.6 per cent, 7.8 per cent and 4.9 per cent with sales rising from K£ 359.4 million, K£ 15.4 million and K£ 6.1 million to K£ 383.1 million, K£ 16.6 million and K£ 6.4 million. On the other hand, the sale of cotton and the dairy products declined by 4.2 per cent and 49.0 per cent by falling from K£ 0.24 million to K£ 0.23 million and K£ 147.20 million to K£ 75.1 respectively.

SALE OF SELECTED AGRICULTURAL PRODUCE BY CO-OPERATIVES, 1994 -1998

Table 8 22

YEAR	COFFEE	SUGAR-CANE	PYRETHRUM	COTTON	DAIRY PRODUCTS	TOTAL
	Sale K£million					
1994	399.20	9.50	18.63	1.22	35.40	464.45
1995	412.90	21.90	19.70	0.60	36.90	491.00
1996	346.65	14.80	5.95	0.24	139.10	506.74
1997	359.40	15.40	6.10	0.24	147.20	528.34
1998**	383.05	16.60	640	0.23	75.05	481.33
	Percentage Share of marketed Production*					
1994	67.90	3.64	66.77	75.00	21.93	21.41
1995	54.00	5.50	89.95	34.92	14.27	17.07
1996	48.30	4.20	35.60	47.10	72.00	15.92
1997	43.40	5.70	37.90	47.10	84.60	16.60
1998**	58.05	4.17	36.57	40.85	77.13	11.40

* See Table 8.2

**Provisional

CHAPTER 9 - ENVIRONMENT AND NATURAL RESOURCES

Overview

The Government continued to igmplement policies and programmes aimed at curbing deforestation, soil erosion and water pollution, while ensuring better use of the country's bio-diversity resources. This is necessary because over the last decade, the three sub-sectors of forestry, fisheries and wildlife have recorded significant reduction. The forest plantation cover has, for instance, continued to be depleted. The area declined by 4,000 hectares in 1998. Fish production also fell, registering a drop of 3.5 per cent in 1998. Mineral production, however, showed a significant increase of 16.6 per cent during the year under review. The total development expenditure on water supplies and related services dropped drastically by 58.0 per cent.

Water Supplies

9.2. The Government continued to pursue the goal of providing safe drinking water within a reasonable walking distance. This is being done through the key strategies of continuous assessment, conservation, development and protection of water sources and catchment areas. The increasing demand in water resources resulting from rapid population growth has led to change in Government's policy from mere increase in provision of water to a broader role of facilitation, supervision and regulation. This new water policy encompasses commercialisation of the sub-sector. The role of provision of water and sanitation is gradually being handed over to local authorities, communities, Non Government Organisations (NGOs) and the private sector.

9.3. As part of its efforts to provide clean water to all Kenyans, the Government in conjunction with other stakeholders continued to expand a number of water purification points and boreholes as shown in Table 9.1.The results show a considerable improvement in the number of boreholes sunk from 124 in 1997/98 to 187 in 1998/99, a growth of 50.8 per cent. This positive growth which was evenly spread across all provinces, was attributed to greater participation by international agencies, NGOs and the private sector.

9.4. Maintenance of water purification points on the other hand continued to show poor performance in 1998/99. Having declined modestly from 358 points in 1996/97 to 354 in 1997/98, the number of water purification points dropped further by 20.1 per cent to stand at 283 in 1998/99. This was due to major cuts in budgetary allocations for water supplies and related services during the year. Notable declines were recorded in North Eastern from 51 to 4 points; Rift Valley, from 129 points to 105; and Coast, from 35 to 16 points. Only Central and Nyanza provinces showed an increase in the number of points by recording growth rates of 18.9 and 31.4 per cent respectively.

Table 9.1

Province	1996/97		1997/98		1998/99	
	W.P.P*	BH'	W.P.P*	B.H*	W.P.P*	BH'
Central	37	22	37	21	44	28
Coast	35	-	35	4	16	26
Eastern	30	52	36	35	38	42
N/Eastern	61	3	51	5	4	13
Nyanza	35	53	35	-	46	36
R/Valley	129	37	129	58	105	36
Western	31		31	1	30	6
Total	358	167	354	124	283	187

W.P.P* - Water Purification Point
BH* - Borehole

9.5. The water sub-sector however benefited from work undertaken by the Government and the donor community. Tharaka water and sanitation project, which was initiated in 1988 and funded by SIDA, is scheduled to be completed in 1999. The project is involved in drilling boreholes, shallow wells, project springs and assisting in rural sanitation, training and creating awareness on health education. Todate, the project has sunk 266 boreholes, 3 surface dams, 4 shallow wells, and constructed 3 enforcement tanks and 5 rock catchments. In addition, the Community Management of Water Supply support by Finland undertook provision of water at low cost and affordable technology in Western province. Netherlands, Belgium, Germany, IFAD and UNICEF provided complementary support.

9.6. The Netherlands Government carried out affirmative activities in Nyanza province and in some districts in Rift Valley province. Its focus was to provide water through employing low cost and affordable technology as well as water resource assessment and capacity building. The Belgium Government restricted its water supply operations to Machakos, Kajiado and Makueni districts. These projects encouraged community participation and development of appropriate cost-effective technologies for community water management. IFAD, through a number of projects countrywide, also increased beneficiary participation, better farming methods and primary health care. The German Government and UNICEF similarly increased participatory development with resultant low infant mortality, improved community awareness on sanitation, environment conservation and reduced incidences of water-borne diseases.

9.7. Further efforts towards the provision of clean water came from **non**-governmental agencies. During 1998/99, the Ministry of Water Resources maintained a close network with all stakeholders having water as one of the components in their activities. These organisations include Kenya Water for Health (KWAHO), Plan International, World Vision and Action Aid. Key among their activities are provision of safe drinking water, basic sanitation and development of small-scale community based irrigation projects. The private sector has been active in implementation, consultancy and provision of material supplies to community-based water projects.

9.8. Table 9.2 presents development expenditure on water supplies and related services over the period 1994/95 to 1998/99. The total development expenditure continued to fall rapidly from K£ 212.4 million in 1994/95 to K£ 153.8 million and K£ 64.6 million in 1997/98 and 1998/99 respectively. The decline of 58.0 per cent in 1998/99 was attributed to inadequate funding, under — collection of Appropriations in Aid (A.I.A) and the change in Government budgetary policy from a direct provider to encouraging commercialisation of provision of water supply.

DEVELOPMENT EXPENDITURE ON WATER SUPPLIES AND RELATED SERVICES, 1994/95- 1998/99

Table 9.2 K£'000

	1994/95	1995/96	1996/97	1997/98	1998/99*
Water Development	43,098	34,554	29,551	16,214	18,187
Training of Water Development Staff	2,710	2,899	775	665	625
Rural Water Supplies	18,834	24,921	25,773	43,243	8,278
Self-Help Water Supplies**	164	196	60	90	50
County Council and Urban Water Supplies	4,441	5,085	6,323	6,718	1,635
Miscellaneous and Special Water Programmes	3,580	4,279	5,950	5,640	13,584
Regional and Irrigation Development	32,864	35,794	19,520	13,966	.
Water Conservation and Pipeline Corporation	106,747	106,704	107,828	55,957	22,240
Others	-	-	-	11,341	-
TOTAL	212,438	214,432	195,780	153,834	64,599

Sources: Ministry of Water Resources. National Water Conservation and Pipeline Corporation

* Provisional.

** Includes contributions by the Ministry of Water Resources

9.9. Constraints on the Government budget drastically affected expenditures on all line items except those on water development and special water programmes. Expenditure on water development declined steadily between 1994/95 and 1997/98 but increased by 12.2 per cent in 1998/99. Expenditure on special water programmes, which declined marginally by 5.2 per cent in 1997/98, more than doubled in 1998/99. These positive developments in expenditure of the two line items were largely attributed to reallocation of resources.

9.10. The sharp drop in total expenditure on water supplies was largely attributed to a major fall of 80.9 per cent in rural water supplies expenditure from K£ 43.2 million in 1997/98 to K£ 8.3 million in 1998/99. Similarly, contribution to Water Conservation and Pipeline Corporation fell significantly by 60.3 per cent from K£ 56.0 million in 1997/98 to K£ 22.2 million in 1998/99.

Fisheries

9.11. Table 9.3 shows that the fisheries sub-sector, which is a major source of income to a number of communities, continued to perform poorly in 1998. Overall, fish production maintained a downward trend, declining from 202,965 tonnes in 1994 to 178,913 tonnes in 1997 and further to 172,592 tonnes in 1998. This drop was attributed to persistent low production from marine water sources and reduced exports to European markets resulting from the ban on fish imports from the East African region.

QUANTITY AND VALUE OF FISH LANDED, 1994- 1998

Table 9.3

	1994	1995	1996	1997	1998*
Quantities - Tonnes:					
Freshwater fish-					
Lake Victoria	193,652	181,888	166,460	164,174	158,876
Lake Turkana	1,125	2,332	4,799	4,866	4,268
Lake Naivasha	75	84	54	69	50
Lake Baringo	7	126	72	99	141
Lake Jipe	117	150	109	130	97
Fish Farming	1,119	1,083	1,089	1,086	217
Other areas	1,866	2,231	2,488	2,360	3,421
TOTAL	197,961	187,894	175,071	172,784	167,070
Marine fish	4,138	4,665	4,915	4,790	3,966
Crustaceans	554	455	461	458	800
Other marine products	312	874	887	881	756
GRAND TOTAL	202,965	193,888	181,334	178,913	172,592
Value - K£'000:					
Freshwater fish	185,927	242,772	271,496	324,031	317,355
Marine fish	9,088	10,570	11,717	6,689	9,283
Crustaceans	3,370	3,120	3,264	4,953	4,842
Other marine products	211	3,748	3,806	4,252	3,160
TOTAL	198,596	260,210	290,283	339,925	334,640

*Provisional.

9.12. Lake Victoria remained the major source of fish production, accounting for about 95.1 per cent of the total fish output in 1998. However, output dropped for the fifth year running from its peak of 193,652 tonnes in 1994 to 166,460 tonnes in 1996 and further to 158,876 tonnes in 1998. This persistent drop was due to the menace of water hyacinth that has frequently blocked a number of fishing points.

9.13. The value of fish output, however, grew over the period, rising steadily from K£ 198.6 million in 1994 to K£ 340.0 million in 1997, before dropping marginally to K£ 334.6 million in 1998. Falling prices in the domestic markets as well as the decline in output and exports caused the drop in value.

Forestry

9.14. Forest products are useful in the construction industry, a major source of fuel-wood to the majority of rural households and have medicinal value. They also play a crucial role in regulating the environment by acting as a sink to carbon gases. Inspite of their vital role in regulating the ecosystem, forest plantation area continued to fall as shown in Table 9.4.

9.15. The forest plantation area declined by 3.5 per cent from 152.6 thousand hectares in 1997 to 147.2 thousand hectares in 1998. This was attributed to the decline in plantation area under exotic softwoods. Cuts in budgetary allocations are largely responsible for the drop since casual labour could not be hired to undertake tree-planting activities.

FOREST PLANTATION AREA, 1994 - 1998

Table 9.4 '000 Hectares

Type of Forest	1994	1995	1996	1997	1996*
Indigenous softwood	4.5	2.8	1.4	4.5	4.5
Indigenous hardwood	7.8	7.7	13.0	7.8	7.8
Exotic softwoods-					
Cypress	71.8	72.9	73.6	71.4	69.3
Pines	53.6	53.9	53.4	50.6	47.3
Exotic hardwoods-					
Timber	6.9	9.2	6.0	76.9	76.9
Fuel	10.4	13.5	12.2	10.4	10.4
TOTAL AREA	155.0	160.0	159.6	221.6	216.2

*Provisional

Source : Ministry of Natural Resources

9.16. Table 9.5 shows changes in forest plantation area from 1994 to 1998. The Table indicates that the total area planted remained relatively small at 153,000 hectares while the area clear felled was 5,600 hectares in 1998. This dismal performance was largely due to reduced planting coupled with increased clear felling of trees and high seedling mortality caused by the *El-Nino* rains.

CHANGES IN PLANTATION AREA, 1994 - 1998

Table 9.5 '000 Hectares

	1994	1995	1996	1997	1998*
Previous Plantation Area	159.6	155.0	160.0	159.6	152.6
Area Planted	3.6	8.0	0.2	0.2	0.2
Total	163.2	163.0	160.2	159.8	152.8
Area Clear felled	8.2	3.0	0.6	7.2	5.6
Total Area	155.0	160.0	159.6	152.6	147.2

*Provisional

Source : Ministry of Natural Resources.

9.17. Details of recorded sale of forest products are presented in Table 9.6. The sale of timber, which peaked at 692.0 thousand true cubic metres in 1995, dropped modestly from 316.4 thousand true cubic metres in 1997 to 287.7 thousand true cubic metres in 1998. The recorded sale of fuel-wood and charcoal also dropped to 36.3 thousand stacked cubic metres in 1998. Similarly, the sale of power and telegraph poles went down drastically by 75.4 per cent from 19.9 thousand stacked cubic metres in 1997 to 4.9 thousand stacked cubic metres in 1998. The reduction is as a result of sourcing of materials from farmers mainly by KPTC after liberalisation of the economy. The marked drop in the sale of hard woods and telegraph poles had a severe effect on overall performance of the forest sub-sector.

RECORDED SALE OF FOREST PRODUCTS, 1994 - 1998

Table 9.6

Forest Product	1994	1995	1996	1997	1998*
Timber - '000 true cu. metres-					
Soft wood	625.1	685.7	193.7	314.5	287.3
Hardwood	5.0	6.3	8.7	1.9	0.4
TOTAL	630.1	692.0	202.4	316.4	287.7
'000 stacked cu. metres-					
Peels/Veener logs/Plywoods	110.0	139.3	142.0	140.7	-
Pulpwood/Paper production	228.0	197.7	136 8	137.3	-
Fuelwood /Charcoal	34.3	33.6	30.0	63.2	36.3
Power &Telegraph Poles	36.8	38.0	14.6	19.9	4.9

* Provisional

Source : Ministry of Natural Resources

Mining

9.18. Total mineral output rose steeply from 375,925 tonnes in 1997 to 438,233 tonnes in 1998. The growth in total production was attributed to substantial production of salt and other mineral products which picked up to 80,727 tonnes in 1998 from a very low level of 10,637 tonnes in 1997. The impressive salt output resulted from growing demand in both the domestic and external markets.

QUANTITY AND VALUE OF MINERAL PRODUCTION, 1994 - 1998

Table 9.7

Mineral	1994	1995	1996	1997	1998*
Quantities - Tonnes:					
Minerals-					
Soda Ash	224,200	218,450	223,000	257,640	242,910*
Fluorspar	89,155	74,230	83,000	68,700	60,854
Salt	75,757	73,484	41,000	6,280	21,742
Limestone Products**	30,469	29,574	31,935	32,668	32,000
Other	40,934	70,883	60,766	10,637	80,727
TOTAL	460,515	466,621	439,701	375,925	438,233
Value - K£'000:					
Soda Ash***	88,299	69,652	85,100	94,701	73,668
Fluorspar***	13,422	13,076	20,816	16,555	17,086
Salt	5,644	5,475	1,543	1,177	3,313
Limestone Products	1,483	1,439	1,509	1,556	1,580
Other	2,129	2,658	33,846	3,606	23,069
TOTAL	110,977	92,300	142,814	117.595	118,716

Source : Department of Mines and Geology

Provisional

** Excluding limestone used as input into cement product

*** Including Export Value

9.19. Despite the increase of 16.6 per cent in volume, the total value of mineral production rose marginally by 1.0 per cent from K£ 117.6 million in 1997 to K£ 118.7 million in 1998. The slight growth in production value was brought about by improved values of salt and other mineral products, thus offsetting the decline in value of soda ash recorded during the year.

9.20. Table 9.8 shows the average export prices of soda ash and fluorspar, the major export minerals. The average export price of soda ash went down by 6.3 per cent to K£ 343.8 per tonne in 1998 after stagnating at an average price of K£ 367.0 per tonne over the previous two consecutive years. The export price of fluorspar rose from K£ 241.0 per tonne in 1997 to K£ 280.8 per tonne in 1998, as a result of favourable market conditions.

AVERAGE EXPORT PRICES OF SODA ASH AND FLUORSPAR, 1994 - 1998

Table 9.8 K£ per tonne

Mineral	1994	1995	1996	1997	1998*
Soda Ash . ..	421.2	333.0	367.0	367.0	343.8
Fluorspar.. ..	191.9	176.0	251.0	241.0	280.8

Provisional

Wildlife Conservation

9.21. Table 9.9 shows wildlife population in the Kenya rangelands over the period 1994-1998. Overall, there was a marginal drop in virtually all the species in 1998 due to extensive land use within the rangelands, increased incidence of diseases and poaching.

9.22. The species that were mostly affected were the giraffe, whose population dropped from 40.4 thousand to 38.6 thousand; Burchells Zebra, from 181.4 thousand to 170.8 thousand; Kongoni, from 15.5 thousand to 12.9 thousand; and Impala, from 78.5 thousand to 77.6 thousand.

WILDLIFE POPULATION IN THE KENYA RANGELANDS, 1994 - 1998

Table 9.9 '000 Number

SPECIES	1994	1995	1996	1997	1998*
Elephant	21.1	21.2	21.5	16.4	16.4
Buffalo	35.4	35.8	34.1	29.0	28.8
Giraffe	55.1	52.2	50.2	40.4	38.6
B Zebra	198.2	208.2	207.2	181.4	170.8
G. Zebra	6.3	5.1	4.2	7.3	7.3
Topi	98.7	90.0	88.9	57.6	57.6
Kongoni	24.6	25.0	25.2	15.5	12.9
Wildebeest	115.5	173.0	167.3	322.4	311.0
Oryx	34.6	34 2	32.6	27.4	26.4
Eland	20.7	19.0	14.1	18.6	15.6
H. Hartbeest	1.8	0.9	1.6	1.8	1.8
Waterbuck	6.0	6.1	2.5	6.8	6.2
Kudus	11.3	11.8	7.9	10.3	10.4
Gerenuk	22.1	22.3	22.4	26.5	26.7
Impala	90.4	102.0	103.9	78.5	77.6
G Gazelle	121.9	122.1	150.3	123.3	127.1
T. Gazelle	64.1	65.1	61.9	49.4	56.2
Warthog	18.0	19.1	19.0	14.6	14.1
Ostrich	34.1	34.0	30.9	29 7	27.1

Source : Department of Resource Surveys and Remote Sensing (DRSRS)

* Provisional

Refuse Management

9.23. The fast growth in urban population poses a big challenge to the provision of adequate social services like sanitary facilities and clean water. Table 9.10 presents expenditure on public health by the Nairobi City Council for the period 1994/95-1998/99. The table indicates that the Council maintained a steady expansion in expenditure on public health over the entire period from K£ 8.9 million in 1994/95 to K£ 13.4 million in 1998/99. The annual percentage change in expenditure decelerated from 13.6 per cent in 1995/96 to 4.2 per cent in 1997/98 but improved significantly to 17.8 per cent in 1998/99. Expenditure on refuse removal rose from K£ 1.1 million in 1994/95 to about K£ 2.5 million for the following three-year period before dropping to K£ 1.5 million in 1998/99. This decline is a clear reflection of the council's policy shift in refuse management to households whereby there has been more involvement of the private sector. The saving made from the change in refuse management was reallocated to general cleaning, administration and conservancy services.

EXPENDITURE ON PUBLIC HEALTH BY THE NAIROBI CITY COUNCIL. 1994 - 1998

Table 9.10 K£ '000

	1994/95	1995/96	1996/97	1997/98*	1998/99*
Cleaning and Administration	1,330.8	1,362.8	1,630.5	1,835.0	2,077.5
Cleaning - General	6,349.8	6,120.0	6,749.9	6,975.7	9,805.0
Refusal Removal	1,117.2	2,577.8	2,512.4	2,545.1	1,485.2
Conservancy	74.6	14.3	15.9	16.1	24.0
Total	8,872.4	10,074.9	10,908.7	11,371.9	13,391.7

Source: Nairobi City Council

* Provisional

Resources Management and Monitoring

9.24. In 1998, the Government and its development partners implemented a host of projects aimed at sustainable use of natural resources. These projects include biodiversity, desertification, drought, legal framework, and environmental economics and climate integration. These renewed initiatives were in recognition that over the last 10 years, fisheries and wildlife resources showed significant reduction while forest cover continued to be depleted at an alarming rate of 4,000 hectares per annum.

9.25. Over the same period, the GEF/FAO/UNDP launched a regional project on biodiversity management in cross-border sites of East Africa. This project is a continuation of an earlier one on regional bio-diversity laws and institutions, completed in 1996. This second phase aims at conserving and developing a better natural resource use strategy at cross border sites that are rich in bio-diversity. In Kenya, the project is funded to a total value of US $3.9 million and has several components ranging from bio-diversity valuation to enhancing local community participation in the management of the resources around them.

9.26. In support of GEF/FAO/UNDP initiative, the Government is preparing a National Biodiversity Strategy and Action Plan (NBSAP). This plan aims at developing a comprehensive blue print on the management of biodiversity resources as the country heads into the next millennium. Work on preparatory activities is already underway including a consultative process with stakeholders at regional level; and aimed at ensuring that beneficiaries of the plan honour their pledges. Implementation of the actual activities is expected to begin early next year.

9.27. The Government held its first national forum for stakeholders particularly affected by drought and desertification in December 1998. This forum acted as a platform for launching the National Action Programme and the draft document detailing the establishment of a Community Desertification Trust Fund (CDTF) whose preparation started in 1997. The aim of the Trust Fund is to ensure that communities affected by severe drought and desertification are assisted to escape from the poverty trap, while at the same time having a fund that can be used to implement some of the activities identified in the National Action Plan (NAPS). The NAPS and CDTF are prepared in conformity with the Global Framework Convention to Combat Desertification to which Kenya is a signatory. It is hoped that the initial implementation of NAPS activities will begin by the end of 1999. At the same time modalities for the establishment of the CDTF and the implementation of the NAPs are being worked out by the Ministry of Environmental Conservation and the Inter-Ministerial Sub-Committee on desertification and drought.

9.28. In 1998, the Government in collaboration with the Dutch/UNDP /UNEP continued to develop and strengthen the legal framework in the management of the environment and natural resources. Their efforts through a joint regional project are aimed at harmonising East African laws as they relate to environment. The project is being executed by the Ministry of Environmental Conservation in collaboration with the Attorney General's office. At the end of the first phase, reports on harmonisation of laws in six thematic areas had been prepared and approved. The areas covered laws on forests, wildlife, and trans-boundary movement of hazardous and non-hazardous wastes, Lake Victoria Environment Management, Environmental Impact Assessment standards and guidelines and regulations for the movement and management of hazardous and non-hazardous chemicals. Locally, the draft environmental management and co-ordination bill is awaiting discussion by parliament; and once adopted, it will act as the framework law on environment and natural resources management. The act will in addition provide guidelines for the revision of other sectoral legislation.

9.29. Along side these projects, the Environmental Economics Accounting and Audit (EEAAC) sub-committee of the Inter-ministerial Committee on Environment (IMCE) carried out two needs assessment workshops on environmental data needs and capacity building in environmental management and planning. Both workshops were aimed at developing and expanding this relatively new area. Reports on both workshops will form the basis of operations for the IMCE-EEAAC in 1999. The sub-committee is, in addition, expected to prepare indicators for sustainable development and enhance the ability of the participating countries to produce and disseminate consumer driven environment data. Overall, the sub-committee will facilitate the use of environmental economics as a tool for environmental management and better natural resource use in the future.

9.30. The capacity building for environmental management and planning programme (capacity 21) also continued to make progress. This project was initiated in 1997 and aimed at incorporating environmental management into the national planning process and decision making at all levels. The preparatory phase, which was a consultative and participatory process, was concluded in 1998, culminating in the holding of a national consensus building workshop after six regional ones. Six regional reports were prepared detailing the capacity building needs in the area of environment and development for the entire country and a Draft Project Support Implementation Arrangement (PSIA) was produced with the support of UNDP and the Department For International Development (DFID). It is expected that the implementation phase for the PSIA will begin in mid 1999.

9.31. Besides the above activities, the Government continued to pursue the objective of preparing the National Wetlands Policy. In 1998, a private sector stakeholders' workshop was convened to get the views of the private sector, which will be incorporated, in the national wetlands policy. This was a follow-up to the previous Public sector and NGOs workshops prepared in 1997 for the same purpose. The policy is being prepared in line with the provisions of the Ramsar Convention that the country became signatory to in 1994. Further, the IMCE sub-committee on wetlands is in the process of compiling an inventory of all wetlands in the country with a view to identifying those in need of more attention in terms of conservation due to their role as bio-diversity habitats and as

important components of the natural ecosystem. A taskforce charged with responsibility of seeking ways to attain this objective is already in place.

9.32. Kenya has undertaken several activities in line with the requirements of the United Nations Framework Convention on Climate Change (UNFCCC) ratified in 1994. An inventory of green house gas sources and sinks was prepared in order to identify ways of controlling the emission of these gases that cause global warming. The country has also been basing with the Conference of Parties on information relating to the implementation of the UNFCCC. Under the project, reports on inventories of greenhouse gas sources and sinks, climate change mitigation, climate change impacts, vulnerability and adaptation assessments, public education and awareness were prepared under the auspices of the Ministry of Environmental Conservation. The country expects to implement the activities identified by the reports in 1999.

9.33. The 7th GOK-UNDP Country Co-operation Framework (CCF) which was formerly referred to as the GOK-UNDP Country Programme is in the process of being prepared. For the first time, priority is to be given to environment and natural resources sector with each sub-sector having an independent Project Support Document (PSD). The PSD is expected to spell out areas of co-operation between the government and UNDP. It will in addition map out endeavours to enhance the country's environment and natural resources management in the country over the next 5 years. The present theme of the CCF is on poverty alleviation with a focus on local community participation. The PSD further attempts to link poverty alleviation with better environment and natural resources management for sustainable development. The CCF is expected to be launched by June 1999.

CHAPTER 10 - ENERGY

Overview

Asia and the Far East is a crucial market for Organisation of Petroleum Exporting Countries (OPEC), as it accounts for 40.0 per cent of total OPEC's crude oil exports based on 1997 estimates. Most of the OPEC's past oil demand growth projections were based on the assumption of continuing fast economic growth in this region. The financial crisis experienced in most emerging market economies in the region resulted in economic recession in 1998. This had a negative impact on demand of petroleum energy. As a result of depressed demand, the OPEC and non-OPEC members held huge stocks of crude oil forcing the member countries to off-load them at lower prices. Subsequently, the crude oil prices declined from an average of US $ 18.9 per barrel in 1997 to an average of US$ 12.6 per barrel in 1998. The fall in prices in turn forced OPEC and some non-OPEC members to cut their production as a short-term measure to facilitate price recovery.

10.2. In the domestic scene, the Government continued to enforce strict measures aimed at controlling dumping of petroleum products meant for export to the neighbouring countries. The government also licensed independent filling stations to operate in several parts of the country with the aim of stabilising and lowering the retail prices of petroleum products. The retail prices of petroleum products experienced fluctuations in 1998 due to variations in exchange rate and the fall in crude oil prices. In January, the prices of petroleum products went below those recorded in December 1997. However, in March 1998 the prices started picking up reaching their peak in June 1998. In September, the prices were adjusted downward by almost 70 cents a litre before picking up again at the end of the year. By December 1998 the retail prices for Premium, Regular and Gas oil had gone up by 3.1 per cent, 3.2 per cent and 1.9 per cent respectively compared to those of December 1997.

10.3. As part of the restructuring process in the electricity sub-sector, the generation function has been separated from the transmission and distribution. Under the re-organised set-up, Kenya Power and Lighting Company (KPLC) which used to play all the three roles is now responsible for transmission and distribution while Kenya Electricity Generating Company Ltd (KenGen), formerly Kenya Power Company Ltd is incharge of generation. An asset revaluation study to determine assets to be transferred between the KPLC and KenGen has been completed and awaits implementation. To improve the operating environment within the electricity sub-sector, the Government appointed members of the Electricity Regulatory Board (ERB), whose role will be to regulate electricity tariffs and approve power purchase contracts between power producers and the KPLC.

10.4. In 1998, the total installed capacity went up to 863.3 MW compared to 802.0 MW in 1997, a rise of 7.6 per cent due to the entry into electricity production by Independent Power Producers (IPPs). Total electricity consumption registered an increase of 2.6 per cent in 1998 compared to 5.9 per cent and 4.2 per cent in 1996 and 1997 respectively.

Petroleum

10.5. Petroleum is the major source of energy used by commercial and industrial establishments. The country imports all its petroleum either in the form of crude oil or refined petroleum products. There is only one petroleum refinery which processes crude oil into petroleum products, both for local consumption and for export.

10.6. The quantity and value of imports and exports of petroleum products is shown in Table 10.1. Imports of crude oil went up from 1,833.7 thousand tonnes in 1997 to 2,157.7 thousand tonnes in 1998. Similarly, imports of petroleum fuels rose significantly by 55.0 per cent, while that of lubricating oils went up by 29.3 per cent. Imports of lubricating greases increased from 0.29 thousand tonnes to 2.2 thousand tonnes during the year. Overall, imports of crude oil and refined products rose from 2,759.2 thousand tonnes in 1997 to 3,585.8 thousand tonnes in 1998, an increase of 30.0 per cent. Consequently, the import bill went up by 5.9 per cent. Exports of petroleum fuels declined marginally by 1.9 per cent, from 653.0 thousand tonnes in 1997 to 640.6 thousand tonnes in 1998. Total exports of petroleum products declined from 662.8 thousand tonnes in 1997 to 648.9 thousand tonnes in 1998, because neighbouring countries preferred to import petroleum products from other countries.

QUANTITY AND VALUE OF IMPORTS AND EXPORTS OF PETROLEUM PRODUCTS, 1994 -1998*

Table 10.1

	Quantity ('000 Tonnes)					Value (K£' Mn)				
	1994	1995	1996	1997	1998**	1994	1995	1996	1997	1998**
IMPORTS:										
Crude Petroleum	**2,173.16**	1,680.33	1,412.95	1,833.73	2,157.70	720.38	579.63	675.20	841.25	751.83
Petroleum Fuels	**314.27**	719.73	963.85	895.65	1,387.81	143.11	334.70	471.55	568.31	722.55
Lubricating Oils	**16.45**	24.81	30.92	29.51	38.16	25.20	31.88	44.30	38.68	54.35
Lubricating Grease	**0.85**	4.54	0.39	0.29	2.17	2.17	6.50	2.26	1.67	6.22
TOTAL	**2,504.73**	2,429.41	2,408.11	2,759.18	3,585.84	890.86	952.71	1,193.31	1,449.91	1,534.95
EXPORTS:										
Petroleum Fuels	**447.34**	367.10	450.80	652.99	640.59	254.00	218.27	369.67	493.47	458.46
Lubricating Oils	**6.31**	8.71	8.41	9.67	8.13	15.93	20.49	22.58	20.70	24.59
Lubricating Grease	**0.20**	0.28	0.26	0.17	0.19	0.98	0.11	1.01	0.56	1.47
TOTAL	**453.85**	376.09	459.47	662.83	648.91	270.91	236.87	393.26	514.73	484.52
NET BALANCE	**2050.88**	2053.32	1948.54	2096.35	2936.93	620	713.8	800.05	935.18	1050.43

*Excludes other light and medium petroleum oils and preparations and residual petroleum products n.e.s., which are included in Chapter 7.

** Provisional

10.7. Crude oil intake at the refinery, which had declined since 1994, rose in 1998 as shown in Table 10.2. Crude oil intake rose by 4.5 per cent, from 1,647.4 thousand tonnes in 1997 to 1,721.6 thousand tonnes in 1998. During the last five years, Murban from United Arab Emirates continued to dominate the total refinery intake and it accounted for 61.0 per cent in 1998. Zakum, the second largest crude oil processed in the refinery, accounted for 32.6 per cent of the total intake. While Murban and Iranian medium registered increases in intake, Arabian Heavy and Zakum types recorded declines.

CRUDE OIL INTAKE AT THE REFINERY BY TYPE, 1994 - 1998

Table 10.2 '000 Tonnes

Crude intake	A.P.I. Gravity	1994	1995	1996	1997	1998*
Arabian Light	33.4	-	-	-	-	-
Arabian Medium	31.0	-	-	-	-	-
Arabian Heavy	27.9	-	29.3	-	27.6	25.0
Arabian Light Berri	-	-	-	-	-	-
Iranian Light	33.9	-	-	1.0	-	-
Iranian Medium	-	-	-	-	-	-
Iranian Heavy	-	176.9	23.4	56.3	76.8	84.2
Qatar Marine	36.7	-	-	-	-	-
Qatar Durkhan	41.2	-	-	-	-	-
Kuwait	32.0	-	59.7	68.0	-	-
Zakum	40.1	81.0	638.7	657.6	582.8	562.0
Murban	39.6	1,719.5	835.0	834.1	960.2	1,050.4
Dubai	32.4	-	-	-	-	-
Reconstituted crude**	-	80.5	244 0	-	-	-
Oman	-	-	-	-	-	-
Marib Light	-	-	-	144.2	-	-
Slop	-	-	2.0	-	-	-
TOTAL	-	2,057.9	1,832.1	1,761.2	1,647.4	1,721.6

*Provisional

** Reconstituted crude was imported for the first time 1993

10.8. The total output of the finished petroleum products from the refinery rose by 4.5 per cent as a result of higher crude oil intake, as shown in Table 10.3. Production of liquefied petroleum gas, motor gasoline premium, jet fuel, light diesel, marine diesel oil, export residues and bitumen, all recovered in 1998 after recording declines in the previous year. However, production of motor gasoline regular and fuel oil declined by 4.2 per cent and 14.1 per cent respectively. The decrease in the production of the motor gasoline regular is attributed to the huge imports of refined gasoline in 1998.

FINISHED PETROLEUM PRODUCTS*, 1994 - 1998

Table 10.3 000 Tonnes

	1994	1995	1996	1997	1998**
output-					
Liquefied petroleum gas	29.5	32.2	26.8	23.5	29.0
Motor gasoline premium	164.4	152.1	176.2	131.5	158.9
Motor gasoline regular	164.1	153.0	132.9	141.0	135.1
Illuminating kerosene and					
Jet/turbo fuel	421.1	374.4	380.4	334.6	355.1
Light diesel oil	516.2	446.8	394.1	385.6	401.2
Heavy diesel oil and					
Marine diesel oil	22.4	28.5	28.1	26.1	27.6
Fuel oil	491.4	387.7	321.5	355.3	305.2
Export residues	138.2	139.1	190.6	143.3	200.7
Bitumen	19.6	26.2	12.7	10.2	13.0
Intermediates	-5.7	-6.0	-4.8	-2.7	-1.8
Refinery usage	96.7	92.7	102.8	93.6	94.1
THROUGHPUT=TOTAL OUTPUT	2,057.9	1,826.7	1,761.3	1,647.4	1,721.7

*Excludes lubricants

**Provisional

10.9. Petroleum supply and demand balance is shown in Table 10.4. Total domestic demand of petroleum products recovered in 1998 to register a marginal rise of 1.1 per cent, from 2,268.9 thousand tonnes in 1997 to 2,293.2 thousand tonnes. Demand for kerosene went up by 18.9 per cent, while that for Liquefied Petroleum Gas (LPG), motor spirit, and

fuel oil went up by 2.0 per cent, 1.3 per cent and 2.7 per cent respectively. However, decreases in demand were recorded in Aviation spirit (22.0 per cent), Jet fuel (2.9 per cent), Light diesel oil (1.4 per cent) and Heavy diesel oil (44.5 per cent).

PETROLEUM SUPPLY AND DEMAND BALANCE, 1994- 1993

Table 10.4 '000 Tonnes

	1994	1995	1996	1997	1998*
DEMAND-					
Liquefied petroleum gas	28.4	31.2	31.2	30.7	31.3
Motor spirit (premium and regular)	352.2	378.7	399.3	390.6	395.8
Aviation spirit	7.2	5.7	4.6	4.1	3.2
Jet/turbo fuel	474.4	433.7	444.6	431.9	419.4
Illuminating kerosene	173.1	243.1	253.8	267.6	318.2
Light diesel oil	539.8	603.1	646.3	615.9	607.5
Heavy diesel oil	24.3	23.5	26.6	47.6	26.4
Fuel oil	409.4	347.5	424.2	386.9	397.3
TOTAL	2,008.8	2,066.5	2,230.5	2,175.2	2,199.1
Refinery usage	96.7	92.7	102.8	93.6	94.1
TOTAL DOMESTIC DEMAND	2,105.5	2,159.2	2,333.3	2,268.9	2,293.2
Exports of petroleum fuels	447.3	367.1	450.8	653.0	648.9
TOTAL DEMAND**	2,552.8	2,526.3	2,784.1	2,921.9	2,942.1
SUPPLY-					
Imports:					
Crude oil	2,173.2	1,680.3	1,412.9	1,833.7	2,157.7
Petroleum fuels	314.3	719.7	963.9	893.7	1,387.8
TOTAL	2,487.5	2,400.0	2,376.8	2,727.4	3,545.5
Adjustment***	65.3	126.3	407.3	194.5	603.4
TOTAL SUPPLY**	2,552.8	2,526.3	2,784.1	2,921.9	2,942.1

*Provisional

**Difference is due to rounding.

***Adjustment for inventory changes and losses in production.

10.10. Table 10.5 shows domestic sales of petroleum products by customer category. The transport sector (Rail, Road, Marine and Aviation) remained the main consumer of petroleum products and sales to the sector rose by 3.4 per cent. Sales to road sub-sector recovered in 1998 to register a rise of 5.1 per cent. Sales to marine sub-sector went up by 29.6 per cent, from 56.7 thousand tonnes in 1997 to 73.5 thousand tonnes in 1998. However, respective sales to Rail and Aviation sub-sectors declined by 6.0 percent and 4.2 per cent. During the year, sales to agricultural sector recovered from a decline of 12.9 per cent in 1997 to register a significant increase of 26.4 per cent in 1998. This was largely attributed to marginal improvement in performance of agro-based industries. As a result of the entry of Independent Power Producers (IPPs) into power generation, sales to power generation went up from 149.5 thousand tonnes in 1997 to 152.0 thousand tonnes. Sales to Industrial Commercial and Other, and Government however registered a decline.

NET DOMESTIC SALE OF PETROLEUM FUELS BY CONSUMER CATEGORY. 1994- 1998

Table 10.5 '000 Tonnes

User	1994	1995	1996	1997	1998*
Agriculture	83.9	81.9	99.4	86.6	109.5
Retail pump outlets & road transport	880.1	1,027.1	1,069.7	1,061.9	1,115.8
Rail transport	18.2	15.7	20.3	21.6	20.3
Tourism**	12.7	8.4	12.8	12.1	10.9
Marine (excl. Naval Forces)	137.2	55.1	46.5	56.7	73.5
Aviation (excl. Government)	475.8	434.8	445.8	409.5	392.3
Power Generation	58.4	94.9	122.3	149.5	152.0
Industrial, Commercial and Other	442.8	408.9	425.8	403.1	374.4
Government	36.9	37.2	34.4	31.4	23.5
Balancing Item	-137.1	-97.5	-46.5	-57.2	-73.1
TOTAL	2,008.9	2,066.5	2,230.5	2,289.6	2,199.1

* Provisional

** Comprises sales to tour operator

10.11. Wholesale prices of petroleum products at Mombasa are presented in Table 10.6. As shown in the Table, wholesale prices for all petroleum products except those of illuminating kerosene and fuel oil went up in 1998. Notable increases in prices were registered in liquefied petroleum gas (44.4 per cent), premium motor gasoline (4.2 per cent), regular motor gasoline (5.2 per cent), light diesel oil (2.4 per cent) and industrial diesel oil (0.5 per cent). The increases were as a result of a rise in import duty. Wholesale prices of illuminating kerosene and fuel oil dropped by 2.1 per cent and 3.8 per cent respectively. The fall in wholesale price of fuel oil is attributed to the reduction of import duty by Ksh. 1.00 per litre as an incentive to the manufacturing sector.

WHOLESALE PRICES* OF PETROLEUM PRODUCTS AT MOMBASA, 1973,1994 - 1998

Table 10.6 KSh. per tonne

	17.06.94	21.12.95	Oct, 96**	Dec,97	Dec,98
Liquefied petroleum gas	24,454	25,200	25,956	45,000	65,000
Premium motor gasoline	35,386	37,906	45,712	49,002	51,049
Regular motor gasoline	35,488	37,632	46,661	48,672	51,196
Illuminating kerosene	16,534	17,247	19,634	25,031	24,504
Light diesel oil	24,004	23,813	31,788	33,456	34,267
Industrial diesel oil	21,915	18,896	24,326	23,798	23,912
Fuel oil	15,537	13,970	18,364	18,372	17,675

* Including duties and VAT

** Estimates

10.12. Table 10.7 presents retail prices of selected petroleum products. In January 1998, the retail prices of petroleum products went down below those recorded in December 1997. However, in March 1998 the prices started picking up reaching their peak in June. In September, the prices were adjusted downward by almost 70 cents a litre before picking up again towards the end of the year. By December 1998, the respective retail prices for premium, regular and gas oil increased by 3.1 per cent, 3.2 per cent and 1.9 per cent over those of December 1997. Over the same period, the price of kerosene declined by 3.9 per cent. The changes in the retail prices were attributed to variations in the wholesale prices of petroleum products, international crude oil prices and fluctuations of the Kenya shilling against major trading currencies.

NAIROBI RETAIL PRICES OF SELECTED PETROLEUM PRODUCTS, 23rd JUNE 1995 - DEC. 1998

Table 10.7 KSh per litre

Date	MOTOR SPIRIT		Gas Oil	Illuminating Kerosene
	Premium/Gasohol	Regular		
23.06.95	30.07	29.45	22.61	14.31
Dec'96	35.43	34.38	28.10	21.57
Jan'97	35.83	34.74	28.49	21.99
Feb'97	35.78	34.70	28.45	21.93
June,97	36.00	34.93	28.72	21.60
July, 97	35.75	34.68	28.46	21.35
Aug' 97	38.44	37.36	31.05	22.52
Dec'97	38.75	37.70	31.51	23.11
Jan'98	37.77	36.71	30.62	22.33
March,'98	39.71	38.63	31.88	22.42
June,98	40.31	39.23	32.46	22.77
Sept'97	39.80	38.72	31.93	22.12
Dec'98	39.97	38.89	32.10	22.21

Electricity

10.13. Electricity is the third largest source of energy in Kenya after woodfuel and petroleum fuels. However, it is second to petroleum fuel as a source of commercial energy. Table 10.8 presents the installed capacity and electricity generation between 1994 and 1998. In 1998, total installed capacity rose by 7.6 per cent, from 802.0 MW in 1997 to 863.3 MW. The hydropower-installed capacity dropped marginally as a result of mechanical problems experienced at Gitaru hydropower station in 1998, while that of geothermal remained at the same level recorded in the last five years. On the other hand, thermal installed capacity went up by 42.5 per .cent, rising from 153.5 MW recorded in 1997 to 218.8 MW registered in 1998. This was attributed to the entry of Independent Power Producers (IPPs), namely Iberafrica and Westmont, into power generation.

INSTALLED CAPACITY AND GENERATION OF ELECTRICITY AS AT JUNE, 1994 - 1998

Table 10.8

	INSTALLED CAPACITY * MW **				GENERATION * GWH ***			
	Hydro	Ther-mal Oil	Geo-ther-mal	Total	Hydro	Ther-mal Oil	Geo-thermal	Total
1994	603.5	159.3	45.0	807.8	3,068.0	209.3	261.0	3,538.3
1995	603.5	160.2	45.0	808.7	3,123.0	334.3	290.0	3,747.3
1996	599.5	160.5	45.0	805.0	3,183.0	467.1	390.0	4,040.1
1997	603.5	153.5	45.0	802.0	3,373.0	457.0	393.0	4,223.0
1998+	599.5	218.8	45.0	863.3	3,277.0	1,161.0	366.0	4,804.0

* Includes estimates for industrial establishment with generation capacity

**1 megawatt = million watts = 1,000 kilowatts

***Gigawatt hour = 1,000,000 kilowatt hours

\+ Provisional

10.14. Total electricity generation registered a significant increase of 13.8 per cent, from 4,223 GWH in 1997 to 4,804 GWH in 1998. The increase in thermal installed capacity enabled electricity generation from thermal based diesel plants to more than double from 457 GWH to 1,161 GWH in 1998. Power generation from hydro power stations declined by 2.8 per cent, while geothermal generation declined by 6.9 per cent as a result of mechanical problems and slow water steam in most of the wells in Olkaria station.

10.15. Table 10.9 depicts the electricity energy supply and demand balance. Electricity consumption increased by 2.6 per cent, lower than the 5.7 per cent and 4.2 per cent recorded in 1996 and 1997 respectively. Large commercial and industrial establishments remained the main consumers of electricity. Electricity demand by these establishments was unchanged in 1998. Demand for electricity by domestic and small commercial establishments went up by 8.2 per cent as a result of the expanding micro and small-scale enterprises sector as well as the increase in human settlements particularly in urban areas. This has resulted in overloading of the national electricity grid leading to frequent power black failures and rationing of electricity. Similarly, off peak consumption, street lighting and rural electrification consumption went up. Electricity imports from Uganda, which have been declining since 1995, went up marginally from 144 million KWH to 146 million KWH in 1998.

ELECTRICITY ENERGY SUPPLY AND DEMAND BALANCE, 1994 - 1998

Table 10.9 Million KWH

	1994	1995	1996	1997	1998*
DEMAND-					
Domestic and Small Commercial	977	1,026	1,049	1,116	1,207
Large Commercial and Industrial	1,955	1,995	2,179	2,263	2,261
Off-peak	125	124	100	86	89
Street Lighting . ..	10	19	12	10	11
Rural Electrification	138	125	138	150	153
TOTAL	3,205	3,289	3,478	3,625	3,721
Transmission losses and unallocated demand	598	636	660	695	824
TOTAL DEMAND = TOTAL SUPPLY	3,803	3,967	4,138	4,320	4,545
of which imports from Uganda	264	172	149	144	146
Net generation	3,539	3,795	3,989	4,176	4,399

* Provisional.

Rural Electrification

10.16. Kenya Power and Lighting Company (KPLC) continued with the implementation of the rural electrification programme. During the period under review, Kshs. 454 million was spent on extension of lines covering 620 schemes, which were at various stages of implementation. The number of customers under this programme rose from 55,242 to 57,978, an increase of 5.0 per cent.

10.17. The Government of Kenya and the European Union signed an agreement to allocate Kshs. 375 million of Stabilisation for Exports (STABEX) funds to Phase I of the Coffee Factories Rural Electrification Programme (COFREP). The programme aims at improving efficiency and quality of coffee processing by replacing diesel generators with electricity from the national grid.

Energy Supply and Demand

10.18. Table 10.10 presents energy supply and demand excluding woodfuel and alternative sources of energy. The local energy production (hydro and geothermal power) declined by 3-3 per cent in 1998; while total net import also dropped significantly by 26.9 per cent. On the other hand, hydropower imports from Uganda went up marginally by 1.2 per cent. Imports of coal and coke declined by 17.6 per cent in 1998 due to depressed cement Production. Local production, as a percentage of total energy and per capita consumption, expressed in terms of kilograms of oil equivalent both declined in 1998.

Woodfuel

10.19. About 80 per cent of Kenya's population is dependent on woodfuel for its **domestic** energy needs. Woodfuel caters for over 70 per cent of Kenya**'s** final energy demand and provides for more than 93 per cent of rural household energy needs. Woodfuel is also used extensively in the rural informal industries such as brick making, pottery, jaggery manufacturing and food processing.

10.20. In urban areas, use of woodfuel is predominantly in the form of charcoal rather than firewood. At least 80 per cent of urban households' woodfuel demands are met by charcoal. The current Government woodfuel policy is to ensure that adequate supplies of wood are available to satisfy demand, through sustained yield, while at the same time conserving the environment.

PRODUCTION, TRADE AND CONSUMPTION OF ENERGY** EXPRESSED IN TERMS OF PRIMARY SOURCES. 1994 - 1998

Table 10.10 '000 Tonnes Oil Equivalent

	1994	1995	1996	1997	1998*
COAL AND COKE CONSUMPTION	76.0	96.8	89.2	91.5	75.4
Imports of crude oil	2,173.2	1,680.3	1,412.9	1,833.7	2,157.7
Net exports of petroleum	-228.7	259.9	410.3	147.0	562.0
Stock changes and balancing item	65.3	126.3	407.3	194.5	603.4
TOTAL CONSUMPTION OF LIQUID FUELS	2,009.8	2,066.5	2,230.5	2,175.2	2,199.1
HYDRO AND GEOTHERMAL ENERGY:-					
Local production of hydro power	736.3	749.5	763.9	809.5	786.5
Local production of geothermal power	62.6	69.6	93.6	94.3	87.8
Imports of hydro power	63.4	44.9	35.8	34.6	35.0
TOTAL CONSUMPTION OF HYDRO AND GEOTHERMAL ENERGY	862.3	864.0	893.3	938.4	909.3
TOTAL LOCAL ENERGY PRODUCTION	798.9	819.1	857.5	903.8	874.3
TOTAL NET IMPORTS	2,083.9	1,562.1	1,127.6	1,812.8	1,325.8
TOTAL ENERGY CONSUMPTION	2,947.1	3,028.8	3,213.0	3,205.1	3,183.8
LOCAL PRODUCTION AS PERCENTAGE OF TOTAL	27.1	27.1	26.7	28.2	27.4
PER CAPITA CONSUMPTION IN TERMS OF KILOGRAMS OF OIL EQUIVALENT	110.1	110.1	113.7	110.1	106.6

*Provisional

** Modern sector only; fuelwood and charcoal are excluded

Alternative Sources of Energy

10.21. Alternative sources of energy in Kenya include biogas, wind and solar power energy. Wind energy is a potential source of natural energy. A major advantage of wind energy is the cost-effectiveness of incremental development of wind potential at a particular site. Lack of appropriate technology and effective promotion strategies have, however, hampered the exploitation of this source of energy.

10.22. Biogas, which is appropriate for rural areas, has been adopted in Kenya. It can help lower household demand for woodfuel and commercial fuels. Constraints hampering exploitation of this source of energy include the lack of extensive programmes as well as the strengthening of biogas u training.

10.23. Solar energy is proving to be very popular and appears to be an at ictive option, especially for rural households who are not connected to the national electricity grid.

However, this source of energy has not been fully utilised due to lack of appropriate technology, poor quality of local batteries and high prices of Photo-Voltaic (PV) systems.

Development and Future Prospects in the Energy Sector

10.24. Kenya aims at attaining self-sufficiency in electricity generation in the near future. In order to achieve this objective, the Kenya Electricity Generating Company (KenGen) and the Independent Power Producers (IPPs) are currently undertaking a number of power generating projects with a combined capacity of over 400 MW to be commissioned between now and the year 2002. Currently, KenGen is implementing the third Gitaru unit with a capacity of 80 MW, Kipevu I (75 MW), Olkaria II (64 MW) and Sondu Miriu (60 MW). The IPPs will develop Kipevu II (75 MW), Olkaria II (63 MW) and two fast-track diesel units at Nakuru and Eldoret, with a capacity of 45MW each.

10.25. The transmission and distribution grids will be reinforced to receive power from the planned electricity generating power stations. By the year 2001, two 220 Kilo-Volts (KV) lines from Kiambere to Nairobi will be constructed and the distribution grid both in Nairobi and Mombasa will be reinforced in order to enhance reliability of power delivery to customers.

10.26. The Government will continue the search for indigenous fossil energy and to provide necessary incentives to attract both foreign and local companies to participate. To boost oil exports and prompt delivery to Uganda and Great Lakes Region, the Kenya Pipeline Company (KPC) plans to extend the pipeline from Eldoret to Malaba. The upgrading of the Kenya Petroleum Refineries Limited (KPRL) is going on, with the aim of enhancing the crude oil processing capacity. To relieve the shortage of liquefied petroleum gas, construction of a gas handling facility for imported gas has been on-going and will be commissioned in the near future.

CHAPTER 11 - MANUFACTURING

Overview

The performance of the manufacturing sector remained subdued in 1998 as a result of the sectors' inability to compete with low priced imports into the local market, depressed local market demand and a combination of infrastractural constraints. The poor state of roads that worsened in the early part of the year as a result of the *El Nino* rains served to increase freight costs and extend delivery times. However, the rains contributed favourably to the agro-based industries. In addition, the high cost of credit, fish export ban to the European Union market, the Asian economic crises and quota allocation for Kenyan garments to USA all acted adversely to the manufacturing sector. Consequently, the overall manufacturing real output growth slowed to 1.4 per cent in 1998 compared to 3.9 per cent in 1997 and credit advanced to the sector by the four major industrial credit institutions, dropped significantly in 1998.

Employment

11.2 Provisional results from the annual Labour Enumeration survey show that there was a net increase of 2,400 new jobs in 1998 compared to 4,000 jobs created in 1997 in the manufacturing sector. Total wage employment during this period was 216,900 persons, slightly above 214,500 persons in 1997. This slowdown was attributed to retrenchment of employees and general slowdown in the manufacturing activities. Salary awards given to workers in the manufacturing sector increased the total wage bill by 23.5 per cent from K£ 1,182.1 million in 1997 to K£ 1,459.4 million in 1998.

Manufacturing Sales and Stocks

11.3. Data from the Business Expectations Enquiry (BEE) show that sales of manufactured goods amounted K£ 13,357.7 million in 1998, increasing by 12.1 per cent from K£ 11,914.2 million recorded in 1997. The value of stocks held by manufacturing firms by the end of 1998 was K£ 2,783.6 million compared with stocks worth K£ 2,314.0 million at the end of 1997.

Industrial Output

11.4. Table 11.1 shows details of estimated output values, intermediate consumption, value added and wages paid in the manufacturing sector at nominal prices. The estimated value of output rose by 15.0 per cent in 1998 compared with a growth of 17.1 per cent and 24.9 per cent in 1997 and 1996 respectively. Similarly, the value of intermediate consumption grew at a lower rate than in 1997. Value added as a percentage of output has averaged 9.4 per cent since 1994, while wages paid as a percentage of output has **averaged** 3.4 per cent per annum over the same period.

MANUFACTURING SECTOR - OUTPUT, WAGE AND PRODUCT, AT CURRENT PRICES, 1994 - 1998

Table 11.1 K£million

YEAR	Value of Output	Intermediate Consumption	Value Added	Total Wages Paid
1994	19,428.4	17,620.5	1,807.9	583.3
1995	23,074.3	20,915.1	2,159.2	765.3
1996	28,819.8	26,267.6	2,552.2	958.2
1997	33,762.0	30,845.6	2,916.4	1,182.0
1998*	38,835.7	35,177.4	3.658.3	1,440.8

* Provisional.

Quantum Indices

11.5. The quantum indices of manufacturing are presented in Table 11.2. Improved weather conditions in 1998 favoured production of certain agricultural commodities particularly tea and sugar. As a result, the food-processing sub-sector recorded a growth of 2.5 per cent compared to 0.6 per cent growth recorded in 1997. Other growths were registered in beverages and tobacco, paper and paper products, basic industrial chemicals, plastic products and clay products industries. The transport equipment industry recorded the highest decline in real output.

11.6. In 1998, the meat and dairy products industry declined by 16.8 per cent. This fall was attributed to trading of unprocessed milk in the urban centres that has taken up the prime market of processed milk. Consequently, output of processed milk dropped by 16.4 per cent from 165.3 million litres processed in 1997 to 138.2 million litres in 1998. On the other hand, production of beef increased by 9.3 per cent from 99.0 thousand tonnes in 1997 to 108.2 thousand tonnes in 1998. Output of sausage, processed chicken and mutton all rose while production of cheese, butter, and baby foods declined during the year.

11.7. Output in the canned vegetables, fish, oils and fats sub-sector increased by 4.9 per cent in 1998 compared to a growth of 11.1 per cent recorded in 1997. This increase was attributed to the expanded regional market especially, in the Great Lakes Region. Production of edible fats and oils increased marginally from 106.1 thousand tonnes in 1997 to 107.4 thousand tonnes in 1998. Manufacture of edible oils rose by 12 per cent in 1998 after recording a decline in 1997. Output of squashes rose significantly, while that of canned vegetables recorded a modest growth. The European Union market export ban of fish products from East Africa in the first half of 1998 adversely affected the local fish industry. Output of prepared and processed fish thus fell by 14.6 per cent from 150.5 tonnes in 1997 to 128.5 tonnes in 1998.

QUANTUM INDEX OF MANUFACTURING PRODUCTION. 1994- 1998

Table 11.2 1976 = 100

INDUSTRY	1994	1995	1996	1997	1998*	Percentage Change 1998/1997
Meat and Dairy Products	87.0	112.3	91.6	91.8	76.4	-16.8
Canned Vegetables, Fish, Oils and Fats	275.0	291.5	279.2	310.1	325.2	4.9
Grain Mills Products	204.8	242.8	204.9	213.4	202.7	-5.0
Bakery Products	274.5	299.3	347.4	383.2	352.2	-8.1
Sugar and Confectionery	156.8	196.6	200.7	204.5	226.6	10.8
Miscellaneous Foods	226.9	231.7	249.7	235.1	240.0	2.1
Food Manufacturing	167.7	194.3	194.2	195.3	200.1	2.5
Beverages	225.2	235.8	206.3	199.4	204.7	2.7
Tobacco	196.0	212.5	224.7	237.0	202.5	-14.6
Beverages and Tobacco	219.3	230.8	207.5	203.0	203.7	0.3
Textiles	186.9	136.5	125.7	119.6	118.6	-0.8
Clothing	183.9	153.0	152.0	142.4	148.4	4.2
Leather and Footwear	96.8	65.7	68.8	61.6	57.9	-6.1
Wood and Cork Products	76.0	73.4	74.8	74.9	73.4	-2.0
Furniture and Fixtures	50.6	52.5	54.5	54.7	55.9	2.2
Paper and Paper Products	155.6	153.0	192.1	196.5	222.3	13.1
Printing and Publishing	424.8	451.6	465.0	465.9	465.9	0.0
Basic Industrial Chemicals	213.0	209.0	201.6	157.5	168.8	7.2
Petroleum and Other Chemicals	453.6	492.0	531.7	591.7	594.8	0.5
Rubber Products	613.7	621.0	630.9	678.0	668.3	-1.4
Plastic Products	362.6	384.7	397.5	510.9	608.7	19.2
Clay and Glass Products	1,770.6	2,099.9	2,376.3	2,254.6	2,437.0	8.1
Non-Metallic Mineral Products	211.7	209.6	219.5	230.6	216.7	-6.0
Metallic Products	205.0	206.8	246.4	298.6	252.9	-15.3
Non-Electrical Machinery	100.3	78.1	113.9	88.7	86.7	-2.3
Electrical Equipment	226.2	253.7	266.9	213.3	221.9	4.0
Transport Equipment	571.4	529.0	713.7	594.9	433.3	-27.2
Miscellaneous Manufactures	442.9	472.3	569.1	661.6	765.2	15.7
TOTAL MANUFACTURING	254.5	263.9	272.9	278.2	282.2	1.4

* Provisional

11.8. Falling real household incomes has reduced local demand for packeted grain-milled products. Consequently, there has been a substantial shift of grain-milling business from modern sector to small-scale posho milling. This has led to considerable fall in the output of sifted maize meal, whose data is used for this review. In 1998, the grain-milling sub-sector declined by 5.0 per cent after the 4.1 per cent growth in the previous year. As shown in Table 11.3, production of sifted maize meal in 1998 fell by a 2.5 per cent to 265.9 thousand tonnes. Similarly, output of wheat flour in 1998 fell by a 6.2 per cent to 230.1 thousand tonnes and production of maize germ, wheat offals and maize bran also fell over the year.

PRODUCTION OF GRAIN MILLING PRODUCTS, 1994 - 1998

Table 11.3 '000 tonnes

	COMMODITY		
YEAR	Sifted Maize meal	Wheat Flour	Rice
1994	233.2	191.4	11.0
1995	313.7	237.0	15.0
1996	266.7	227.2	10.9
1997	272.6	245.3	10.6
1998*	265.9	230.1	9.4

* Provisional

11.9. Constraints that hampered growth in the grain-milling sub-sector had spill-over effects on the bakery products sub-sector, even though product prices in this category of

industries remained fairly stable in 1998. Production of bread fell by 7.0 per cent to 86.9 thousand tonnes from 93.4 thousand tonnes in 1997. Output of scones, cakes and biscuits fell by 9.0 per cent, 5.5 per cent and 4.8 per cent respectively in 1998.

11.10. Stringent measures put in place by the government in an effort to resolve price disparities between imported sugar and locally produced sugar coupled with improved monitoring of sugar at the port of Mombasa contributed to better accountability of the imports that previously adversely affected the local sugar industry. Consequently, sugar production during this period rose by 11.8 per cent to 449.1 thousand tonnes compared to 401.6 thousand tonnes produced in 1997. Production of toffees and chewing gum was 693.3 tonnes and 2,998.1 tonnes respectively in 1998 compared to 581.4 tonnes and 2,371.3 produced in 1997.

11.11. The miscellaneous food sub-sector recorded mixed performance in 1998. The *El Nino* rains in the early part of 1998 favoured tea production, where output of processed tea rose significantly by 33.0 per cent to 294.3 thousand tonnes. Despite good international coffee prices during first half of 1998, operational difficulties in the co-operative sector and high input costs depressed output of coffee. Consequently, output of milled coffee declined for the second year running, from 57.0 thousand tonnes in 1997 to 36.7 thousand tonnes in 1998. Output of instant coffee, cocoa, curry powder and ground spices increased by 11.2 per cent. 27.0 per cent, 32.1 per cent and 27.1 per cent respectively.

11.12. The beverages and tobacco sub-sector stagnated in 1998. Production of beer and stout declined from 270.4 million litres in 1997 to 263.0 million litres in 1998, mainly as a result of reduced local demand occasioned by high product prices, increased imports and reduced exports. Imports of beer rose from 124.5 thousand litres in 1996 to 2.3 million litres in 1997 and further to 17.0 million litres in 1998. Exports on the other hand fell from 36.8 million litres in 1996 to 24.5 million litres in 1998. Production of soft drinks rose by 17.5 per cent to 153.8 million litres in 1998. Production of cigarettes fell from 8,898 million sticks in 1997 to 7,598.8 million sticks in 1998.

11.13. Despite stiff competition from imported second hand clothes, shoes and other textile articles, growth in the textile, clothing and leather and footwear sub-sectors was better in 1998 compared to the previous years. Thus, output in the clothing recorded an appreciable growth of 4.2 per cent, but textiles and leather and footwear sub-sectors declined by a marginal 0.8 per cent and 6.1 per cent respectively in 1998. Production of cotton woollen fabrics fell by 22.5 per cent to 22.1 million square metres in 1998. Output of towelling material, blankets, bedsheets and gunny bags also went up, while output of polyester viscose fabrics, canvas material and knitted fabrics went down.

11.14. Production of trousers rose by 10.7 per cent to 43.6 thousand dozens in 1998 up from 39.4 thousand dozens in 1997 while output of vests, singlets and underwear rose by 59.9 per cent. Manufacture of uniforms and overalls rose marginally by 2.8 per cent while manufacture of shirts, sports shirts and T-shirts, dresses and suits declined in 1998. Production of leather shoes declined from 898.8 thousand pairs in 1997 to 828.3 thousand pairs in 1998. Production of other leather products remained largely at the 1997 levels.

11.15. Reduced construction activities in the building and construction sector coupled with high producer prices of wood and substantial conservation efforts constrained demand for wood products in 1998. Production of sawn timber consequently declined marginally from 85.3 thousand metres in 1997 to 83.7 thousand square metres in 1998. Growth of paper and paper-products sub-sector accelerated from 2.3 per cent growth registered in 1997 to 13.1 per cent in 1998. The industry benefited from reduced import duty on inputs to increase production of paper products to meet the increased domestic demand. Production of exercise books increased from 14.0 million dozens in 1997 to 15.1 million dozens in 1998. Similarly, output of kraft paperboards rose by 28.4 per cent while that of paper bags and sacks increased by 14.7 per cent. Output of toilet paper rolls and teleprinter rolls increased, while production of envelopes and corrugated paper containers fell during the year.

11.16. Output in the basic industrial chemicals sub-sector reversed the downward trend since 1993 to record growth of 8.6 per cent in 1998. High demand of insecticides led to doubled production of insecticides (liquids) to 238.0 thousand litres in 1998. Production of insecticides (solids), methylated spirits and other chemicals rose by 22.8 per cent and 19.3 per cent respectively in 1998. After a decline in 1997, production of vaccines rose to 25.0 million in 1998. Production of pyrethrum extract, pyrethrum powder, wattle extract and industrial gases declined during the year.

11.17. No appreciable growth was recorded in the petroleum and other chemical sub-sector. Production of drugs (liquid) fell by 11.4 per cent while output of drugs (solids) remained almost at the 1997 level of 1,517 million tablets. Production of motor spirits, LPG, kerosene and gas oil rose marginally. Manufacture of paints, distempers, vanishes, lacquers and thinners also went up. Production of paints in 1998 was 10.4 million litres, 36.2 per cent above 7.6 million litres produced in 1997. Other significant increases in production in this sub-sector in the period of review were in shoe polish 58.4 per cent, petroleum residue 52.5 per cent, bitumen 19.5 per cent, cosmetics 30.3 per cent and hair oils and tonics 13.1 per cent. Production of toothpaste was 2,292 metric tonnes in 1998 up from 2,095 metric tonnes in 1997.

11.18. Imports of motor vehicle tyres in 1998 went up from 1.7 million units in 1997 to stand at 3.0 ?nillion units in 1998, thereby depressing the local production. Consequently, production of new and retread motor vehicle tyres declined by 3.3 per cent from 876.4 thousand units in 1997 to 847.5 thousand units in 1998 and production of motor vehicle tubes fell by 9.5 per cent. Production of bicycle tyres went up from 14.2 thousand units in 1997 to 25.6 thousand units in 1998 reflecting increasing use of bicycles as an alternative mode of transport. Production of rubber shoes and rubber soles also went up.

11.19. Production of plastics has been growing steadily in the last few years. In 1998, production of plastic crates, plastic plates and P.V.C floor tiles all recorded a rise of over 30.0 per cent, mainly due to increased use in industrial packaging and relatively low prices for household consumers. Output of polythene film bags went up by 15.2 per cent to 3.8 thousand tonnes in 1998. Manufacture of plastic bottles increased to 5.4 thousand tonnes in 1998 compared to 4.4 thousand tonnes produced in the previous year while that of P.V.C pipes rose marginally.

11.20. After declining by 5.1 per cent in 1997, the clay and other product sub-sector recovered to register a growth of 8.1 per cent in 1998. Production of glass bottles went up from 42.1 thousand tonnes in 1997 to 46.4 thousand tonnes in 1998. Production of floor and wall tiles rose by 6.8 per cent to 4.5 million units in 1998. However, production of windscreens fell.

11.21. As a result of depressed activities in the building and construction sector, output in the non-metallic sub-sector declined by 6.0 per cent in 1998. Cement production dropped to 1,425.8 thousand tonnes in 1998, the lowest since 1994 as shown in Table 11.4. Production of concrete pipes and blocks similarly declined by 5.7 per cent from 632.9 thousand tonnes in 1997 to 596.7 thousand tonnes in 1998. Exports of cement were 356.6 thousand tonnes in 1998, down from 369.8 thousand tonnes in 1997.

CEMENT PRODUCTION AND UTILIZATION, 1994 - 1998

Table 11.4 '000 tonnes

YEAR	PRODUCTION	IMPORTS	CONSUMPTION AND STOCKS	EXPORT TO	
				Uganda and Tanzania	All Other Countries
1994	1,452.3	1.9	858.5	182.8	412.9
1995	1,565.6	0.4	1,065.0	160.7	340.3
1996	1,598.5	5.4	1,161.5	115.6	326.8
1997	1,504.1	2.6	1,136.9	41.3	328.5
1998*	1,425.8	2.7	1,071.9	87.9	268.7

* Provisional.

11.22. The metal products industry has consistently registered growth on account of its forward linkage benefits to the modern and informal sector engineering industries. However, consumer preference to plastics checked growth in the industry. Production of galvanised iron sheets, nails, iron rods and bars fell respectively by 6.6 per cent, 11.7 per cent and 6.5 per cent in 1998. Production of galvanised iron sheets declined from 128.4 thousand tonnes in 1998 to 119.9 thousand tonnes compared to the previous year. However, there were marked increases in production of tabular furniture, gas cylinders, welded mesh and exhaust pipes.

11.23. Growth in the electrical machinery industry has been fluctuating due to trade liberalisation. In 1998, output in the sub-sector recorded a growth of 4.0 per cent after a decline in 1997. Production of dry cells increased by 12.9 per cent to 125.7 million units in 1998. Production of motor vehicle batteries increased by 5.8 per cent, while that of electrical lamps fell significantly. Production of wheelbarrows declined from 22.3 thousand units in 1997 to 21.8 thousand units in 1998. Similarly, output of battery plates declined marginally.

11.24 Production of assembled vehicles declined from 6,725 units in 1997 to 4,393 units in 1998 despite an increase in duty on imported reconditioned vehicles and aggressive marketing strategies adopted by local motor vehicle assemblers. Similarly, the number of vehicles imported declined to 17,139 units in 1998 compared to 21,091 units in 1997.

Manufacturing Labour Cost and Productivity

11.25. Table 11.5 shows selected indicators of labour costs and productivity in manufacturing. The implicit change in labour productivity improved slightly by 0.3 per cent in 1998 as a result of increased automation which increased output per worker. Wage cost, as a percentage of gross output went up from 3.5 per cent in 1997 to 3.7 per cent in 1998 mainly a result of salary awards to employees during this period.

INDICATORS OF LABOUR PRODUCTIVITY IN MANUFACTURING. 1994 - 1998

Table 11.5

	INDICATOR	1994	1995	1996	1997	1998*
1.	Change in the quantum index of manufacturing	+1.9	+3.9	+3.7	+1.9	+1.4
2.	Change in numbers employed in manufacturing .	+1.0	+3.7	+2.8	+1.9	+1.1
3.	Implicit change in labour productivity . .	+06	+0.2	+0.9	+0.0	+0.3
4	Wage cost as percentage of gross output ..	3.0	3.3	3.3	3.5	3.7
5	Wage cost as percentage of value added	32.3	35.4	37.5	40.5	39.4

*Provisional

Industrial Credit

11.26. Credit for manufacturing activities has been declining in the 1990s. This can be attributed to a decline in investor confidence in view of dumping of low-priced manufactured imports, high cost of credit, deteriorating infrastructure and difficult business environment related to depressed economic conditions. Industrial credit financing has diversified as a result to cover other economic activities mainly floriculture and hotels. As shown in Table 11.6, a total of 25 manufacturing projects worth K£ 20.4 million were approved in 1998, down from K£ 27.8 million approved in 1997. Out of the 25 industrial projects approved in 1998, ten were new while the rest were mainly expansions and project rationalisation programme.

INDUSTRIAL PROJECTS APPROVED BY SELECTED GOVERNMENT OR QUASI-GOVERNMENT INSTITUTIONS, 1994-1998

Table 11.6

INSTITUTION	NUMBER 0F PROJECTS					APPROVED EXPENDITURE K£ MILLION				
	1994	1995	1996	1997	1998*	1994	1995	1996	1997	1998*
Industrial Development Bank Limited (I.D.B.)	5	7	5	2	5	10.7	7.1	8.4	6.5	7.5
Development Bank of Kenya (DBK)	9	5	3	8	6	17.8	17.5	5.3	17.8	9.4
Kenya Industrial Estates Limited (K.I.E.)	204	59	4	12	11	3.9	1.2	0.1	0.4	0.2
Industrial and Commercial Development Corporation (I.C.D.C.)	1	4	7	4	3	0.8	5.4	0.8	3.1	3.3
TOTAL	219	75	19	26	25	33.2	31. I	14 6	27.8	20.4

11.27. In 1998, Development Bank of Kenya (DBK) approved 5 expansions and one diversification project worth K£ 9.4 million compared with 8 projects worth K£ 17.8 million approved in 1997. The approved projects were mainly for small scale and expansion programmes and were mainly located in Nairobi. A total of 207 new jobs are expected to be generated as a result of these advances.

11.28. The value of loans approved by Kenya Industrial Estate (K.I.E) declined by 50.0 per cent to K£ 200 thousand in 1998. With the withdrawal of African Development Bank (ADB) line of credit to KIE in 1995, the main source of funds has been the yields from the ongoing projects, which was not adequate to process all applications. The lending

capacity of KIE however will improve, if the loan collection measures already instituted through the establishment of a Loans Collection Task Force bear fruit. During this period, 11 projects mainly small scale, were approved and covered flour milling, printing, furniture making, tailoring and general engineering compared to 12 projects approved in 1997.

11.29. Of the K£ 11.7 million advanced to investors by the Industrial Development Bank Limited HDB; in 1998, a total of K£ 7.5 million (64.1 per cent) was advanced to manufacturing activities. This was a slight improvement over the K£ 6.5 million approved in 1997. This increase was attributed to better financial portfolio of the bank. A total of 151 new jobs will be created.

11.30. The Industrial and Commercial Development Corporation (ICDC) approved 3 projects in 1998 worth K£ 3.3 million compared with 2 projects worth K£ 3.1 million approved in 1997. The three projects expected to be operational by mid 1999 will be engaged in cotton ginning, meat processing and manufacture of conveyor belts.

Export Processing Zones (EPZ)

11.31. Export Processing Zones were established to harness investments, generate employment, promote technology transfer, earn foreign exchange and increase value added for domestic inputs. Total investments in the zones increased from K£ 225 million in 1997 to K£ 250 million in 1998, an increase of 11.1 per cent. Total employment in the zones increased to 3,719 persons in 1998 out of which 3,645 persons were locals compared to a total of 2,885 persons of which 2,824 persons were locals in 1997.

11.32. The number of gazetted zones remained at 16. By 1998 the number of companies licensed to operate in the EPZ were 31 out of which 18 were operating compared to 17 in 1997. Of the 18 operating companies, 5 operate at the Sameer Industrial Park, 3 at Rafiki, 7 at Athi River, 1 at Ruaraka, and 2 in Mombasa. Four companies were setting up operations, 6 were dormant, while 3 exited in the course of 1998.

11.33. Total sales from the EPZs rose markedly by 41.2 per cent to K£ 120 million in 1998. Sales to the domestic market rose from K£ 26.5 million in 1997 to K£ 32.5 million in 1998. Export sales went up by a similar margin from K£ 60 million in 1997 to K£ 85 million in 1998. During this period, EPZ exports to the United States of America as a proportion of the total was 65 per cent, COMESA 14 per cent, 11 per cent to Europe and 10 per cent to the rest of the world. Imports of raw materials and other components to the EPZs doubled from K£ 50 million in 1997 to K£ 100 million in 1998.

CHAPTER 12 - BUILDING AND CONSTRUCTION

Overview

The outputs of the building and construction sector namely better roads utilities, buildings and other civil engineering works are vital for the economy to achieve faster growth. The weak performance of the building and construction sector recorded in 1997 continued into 1998 as shown by the key economic indicators. The continued unsatisfactory performance of the sector was mainly due to the general slowdown experienced in the domestic economy in the last two years. Other relevant factors included, high interest rates on borrowing which constrained growth in private sector, cuts in donor funds and inadequate funding from the Government for roads, buildings and other civil works. Consumption of cement, a key indicator in the construction industry declined 5.7 per cent due to depressed demand in the domestic market while employment declined marginally. The percentage increase in the construction cost index maintained a single digit level. Commercial Banks loans and advances to building and construction sector registered a decelerated growth from 43.7 per cent in 1996 to 31.5 per cent and 30.0 per cent in 1997 and 1998.

12.2. Table 12.1 summarises trends of selected key economic indicators in the building and construction sector for the period 1994 to 1998. The key indicators recorded a mixed performance in 1998. Consumption of cement, a key input in the Building and Construction sector, declined by 5.7 per cent from 1,136.9 thousand tonnes in 1997 to 1,071.9 thousand tonnes in 1998, compared to 2.1 per cent decline in the previous year. The slowdown in the activities and low level of investment constrained growth in employment in the construction industry, which declined marginally by 0.8 per cent. "Index" of Government expenditure on roads, which declined between 1995 and 1997, rose to 79.7 due to improved budgetary allocation for roads in 1998/99.

TRENDS OF THE SELECTED KEY ECONOMIC INDICATORS IN BUILDING AND CONSTRUCTION *, 1994-1998

Table 12.1 1982=100

	1994	1995	1996	1997	1998**
"Index" of reported private building work completed in main towns***	34.9	37.6	38.0	36.7	
"Index" of reported public building work completed in main towns***	3.8	3.2	2.6	2.0	
"Index" of government expenditure on roads	80.1	91.6	81.6	75.0	79.7
Cement consumption ('000 tonnes)****	858.5	1,065.0	1,161.5	1,136.9	1,071.9
"Index" of Cement consumption	148.2	183.8	200.5	196.2	185.0
Employment ('000)	73.1	76.4	78.8	79.8	79.2
"Index" of Employment	120.9	126.5	130.5	132.1	131.1

* Actual deflated by various building or construction cost indices.

** Provisional.

***The average of the actual of two consecutive years is taken in each case for reported completion of building

**** Revised

12.3. The slow down experienced in the economy in the last two years coupled with low investment in building and construction projects constrained job creation in the sector. Employment in the sector declined marginally from 79.8 thousand in 1997 to 79.2 thousand in 1998. Similarly, employment in "Other" construction sub-sector declined marginally. In 1998, the sub-sector engaged a total of 45 thousand people, constituting 57 per cent of the total number of people engaged in the building and construction sector.

12.4. Table 12.2 presents a summary of annual percentage changes in the building and construction cost indices over the last three years. The overall growth in the cost index declined to 4.6 per cent in 1998 from 6.7 per cent and 7.9 per cent recorded in 1996 and 1997, respectively. Residential building cost index grew faster than the non-residential and "other" construction indices. The modest increases in the cost indices were attributed to a much lower growth in labour costs, stable building and construction material prices and favourable movements of the Shilling's exchange rate experienced in the year. The materials cost index rose marginally by 2.8 per cent compared to 2.9 per cent and 4.7 per cent recorded in 1996 and 1997 respectively. Material inputs whose prices rose marginally during the period included timber, doors, hardware, windows, plumbing and sanitary fixtures.

ANNUAL PERCENTAGE INCREASE IN BUILDING AND CONSTRUCTION COST INDICES*. 1996 - 1998

Table 12.2

	MATERIALS			LABOUR			TOTAL COST		
	1996	1997	1998**	1996	1997	1998**	1996	1997	1998**
Residential Buildings	1.9	4.0	6.0	18.7	16.6	9.1	4.5	6.3	6.6
Non-Residential Buildings	3.1	4.4	1.0	18.7	16.6	9.1	6.2	7.1	3.0
All Buildings	2.2	4.2	3.7	18.7	16.6	9.1	5.1	6.7	4.9
"Other" Construction	6.9	5.7	0.7	18.7	16.6	9.1	11.8	9.9	4.1
OVERALL COST INDEX	2.9	4.7	2.8	18.7	16.6	9.1	6.7	7.9	4.6

* From December to December

** Provisional

12.5. Labour costs in the construction sector continued to record a slower positive growth from its peak of 32.2 per cent in 1995 to only 9.1 per cent in 1998. A similar trend was recorded in unskilled, semi-skilled and skilled labour recording a rise of 8.1 per cent, 9.6 per cent and 9.3 per cent in 1998 respectively.

12.6. Table 12.3 presents the value of building plans approved by Nairobi City Council (NCC) and other town councils for the period 1994-1998. The total value of plans approved declined from K£ 752.6 million in 1997 to K£ 637.6 in 1998, representing a drop of 15.3 per cent partly attributed weak investors' confidence. Nairobi, due to its industrial and commercial base, contributed over 80 per cent of the total value of plans approved. While Nairobi recorded a sharp decline in plans approved, other towns picked up marginally. The NCC approved plans worth K£ 532.2 million in 1998 compared to K£ 651.1 million approved in the previous year whereas other towns increased from K£ 101.5 million to K£ 105.4 million.

VALUE OF BUILDING PLANS APPROVED BY NAIROBI AND OTHER TOWNS, 1994 - 1998

Table 12.3 K£million

YEAR	NAIROBI	OTHER TOWNS	TOTAL
1994	286.01	127.44	413.45
1995	477.82	167.54	645.36
1996	646.95	109.29	756.24
1997	651.06	101.54	752.60
1998*	532.19	105.42	637.61

*Provisional

12.7. The comparison of value of private buildings completed and plans approved by local authorities for the last five years is summarised in Table 12.4. The value of

buildings completed as a proportion of the plans approved dropped further from 10.8 per cent in 1997 to 12.0 per cent in 1998. This is partly due to the time lag between approval and actual start of the projects and delays in the completion of building works.

COMPARISON OF VALUE OF PRIVATE PLANS APPROVED AND BUILDINGS COMPLETED IN MAIN URBAN AREAS*,1994 - 1998

Table 12.4 K£million

YEAR	PLANS APPROVED	BUILDING WORK COMPLETED
1994	413.45	56.97
1995	637.75	66.21
1996	756.24	73.27
1997	748.84	80.51
1998*	637.61	76.50

* Excluding the value of extensions

** Provisional

12.8. Table 12.5 present analysis of value of reported private building works completed in main towns. High interest rates prevailing in 1998 and the general slowdown in the economy constrained the growth of private sector investment in buildings. The total value of reported buildings works completed including extension dropped by 5 per cent from K£ 83.6 million in 1997 to K£ 79.5 million in 1998. While Nairobi and Mombasa towns recorded declines, other towns Kisumu, Nakuru and Malindi picked up during the period. Nairobi and Mombasa towns continued to attract more investments in buildings due to their industrial and commercial base coupled with high population size compared to other towns.

VALUE OF REPORTED PRIVATE BUILDING* WORKS COMPLETED IN SELECTED MAIN TOWNS, 1994 - 1998

Table 12.5 K£million

Year	Nairobi	Mombasa	Kisumu	Nakuru	Malindi	Total
1994	35.55	15.10		3.66	4.98	59.29
1995	39.80	18.82		4.09	6.21	68.92
1996	42.87	21.96		6.56	4.11	75.50
1997	42.62	24.24	4.80	7.07	4.88	83.61
1998**	34.82	20.28	5.75	9.48	9.13	79.46

* Including the value of extension.

** Provisional.

12.9. Table 12.6 provides a breakdown of reported completion of new private buildings by residential and non-residential categories. The total number of units completed declined marginally by less than one per cent, from 1,482 units in 1997 to 1,472 in 1998, with the corresponding estimated cost dropping by K£ 4.01 million. The number of non-residential units dropped sharply by 21.2 per cent compared to a 0.2 per cent drop for the residential units. However, residential unit constituted the bulk of total number of units completed. The estimated cost of residential units rose marginally by only K£ 0.86 million while that of non-residential dropped by K£ 4.87 million.

Table 12.6

YEAR	NUMBER		ESTIMATED COST K£million		
	Residential	Non-Residential	Residential	Non-Residential	Total
1994	1,062	71	38.41	18.56	56.97
1995	1,289	54	46.03	20.18	66.21
1996	1,434	58	51.64	21.63	73.27
1597	1,449	33	54.24	26.27	80.51
1958**	1,446	26	55.10	21.40	76.50

* Excluding the value of extensions

** Provisional

12.10. Table 12.7 depicts reported completions of public building in main towns. Public sector building activities continued to show a downward trend as shown by decline in reported completed public buildings in main towns. The estimated cost of the completed buildings declined from K£ 2.2 million in 1997 to K£ 1.6 million in 1998. Similarly, the total number of unit dropped from 99 units to 73 units. Lack of adequate funds for public sector building projects continued to hamper the start of new projects and completion of the projects in progress.

REPORTED COMPLETIONS OF NEW PUBLIC BUILDINGS* IN MAIN TOWNS, 1994 - 1998

Table 12.7

YEAR	NUMBER		ESTIMATED COST *K£million*		
	Residential	Non-Residential	Residential	Non-Residential	Total*
1994	141	15	2.40	0.92	3.32
1995	129	13	2.19	0.82	3.01
1556	99	10	1.68	0.61	2.29
1997	90	9	1.66	0.54	2.20
1998	68	5	1.25	0.31	1.56

* Including the value of extensions

** Provisional

Housing

12.11. A summary of Government expenditure on housing is presented in Table 12.8. In 1997/98, actual expenditure on housing rose by K£ 2.74 million, a growth of 33.7 per cent. While actual expenditure maintained an upward trend, approved expenditure as a percentage development expenditure declined in both 1996/97 and 1997/98 but registered a gain of 0.13 percentage points to 0.39 per cent in 1998/99. The value of approved expenditure increased from K£ 6.03 million in 1997/98 to K£ 7.41 million. However, the amount approved in 1998/99 was much lower than the K£ 21.2 million approved in 1994/95 for housing development. Implementation of housing programmes continued to be constrained by inadequate budgetary provision resulting to delays in completion of housing schemes already in progress.

12.12. Inadequate budgetary provision continued to hamper the development of Urban Pool Housing Project under the Ministry of Public Works and Housing. Completion of Voi, Kericho, Kapsabet and Nairobi West Pool Housing projects delayed as only K£ 250 thousand was approved for this project in 1998/99.

APROVAL AND ACTUAL CENTRAL GOVERMENT EXPENDITURE ON HOUSING, 1994/99

Table 12.8

YEAR	K£ Million		Approved Expenditures ass Percentage of Development Expenditure
	Approved	Actual	
1994/95	21.21	8.23	1.24
1995/96	9.46	6.05	0.48
1996/97	6.88	8.12	0.32
1997/98	6.03	10.86	0.26
1998/99*	7.41		0.39

* Provisional

12.13. National Housing Corporation (NHC), the main Government housing agency charged with responsibility of ensuring effective implementation of the Government housing policies and programmes, plays a crucial role in the provision of housing to both low and medium-income earners. Corporation's housing activities continued to be depressed in 1998. Analysis of housing units completed by NHC is presented in Table 12.9. For four consecutive years, the number of housing units completed by the Corporation remained low due to inadequate budgetary provision. Between 1995 and 1998, only 131 units were completed compared to 1,078 units in 1994. In 1998, the Corporation completed only one scheme, the Kibera High-Rise Phase II in Nairobi, comprising of 35 units at a total cost of K£1.7 million. As at the end of the year, two tenant purchase and four mortgage schemes comprising of 458 housing units valued at K£ 44.3 million were at various stages of construction in Nairobi, Eldoret, Nandi, Thika and Malindi towns. Major housing schemes under construction include Kibera High-rise Phase II (120 units), Jonathan Ngeno Estate Nairobi (175 units) and Kapsabet tenant purchase (75 units). In its effort to meet future housing demand in major towns, NHC had 12 schemes comprising of 2,916 units at advanced planning stages. These include Kibera High-Rise Phase III A and B and Pumwani re-development Phase II. The two schemes are part of the urban renewal programme.

12.14. Under the "Rural Housing Loans Scheme", loans amounting to K£ 173,000 were advanced to 23 individuals in 1998. This represented a drop from K£ 214,000 advanced to 31 individuals in the previous year. The objective of the scheme is to assist individuals to construct better houses in the rural areas. The scheme is geared towards improving housing conditions in the rural areas where the majority of the population live.

HOUSING UNITS COMPLETED BY THE NATIONAL HOUSING CORPORATION, 1994-1998

Table 12.9

	1994	1995	1996	1997	1998*
Units completed					
Nairobi	952	16	1		53
Coast	66				
North-Eastern					
Eastern					
Central			26	35	
Rift valley					
Nyanza					
Western	60				
TOTAL NUMBER	1,078	16	27	35	53
Value of units completed K£'000					
Nairobi	17,478	1,363	625		1,721
Coast	768				
North-Eastern					
Eastern .					
Central			812	1,341	
Rift valley					
Nyanza					
Western	258				
TOTAL VALUE	18,504	1,363	1,437	1,341	1,721

*provisional

Roads

12.15. A good and well-maintained road network encourages growth in the economy through increased investments in both modern and informal sectors. Similarly, road construction activities through the use of inputs from other sectors contribute to employment creation throughout the rest of the economy. The slowdown in road construction sub-sector experienced in 1997 continued into 1998. The weak performance was mainly due to inadequate funding for the construction of new roads, periodic and routine maintenance, coupled with cuts in donor funds.

12.16. The poor state of some of the roads was attributable to several factors namely, high axle loads, overloading and *El Nino* rains, which devastated some sections of the roads and some bridges in the country. Total expenditure on roads rose marginally during 1997/98 fiscal year but is expected to rise by 10.6 per cent in 1998/99. The sector however benefited from the recarpeting of the roads in major towns under the World Bank sponsored Urban Transport Infrastructure Project.

12.17. The lengths of classified road network under the Ministry of Public Works and Housing are summarised in Table 12.10. The classified road network covered 63,400 kilometres as at July 1998. Between 1994 and 1998, the total length of bitumen paved roads improved by 2.2 per cent with International trunk and minor roads recording a rise of 7.4 per cent and 14.2 per cent respectively. Earth and Gravel roads, which constituted the bulk of classified road network, covered 27,172 kilometres and 27,181 kilometres respectively.

KILOMETRES OF ROADS AS AT 1st JULY, 1998 BY TYPE AND CLASSIFICATION

Table 12.10 'OOOKm

Type of Road	1994		1998	
	Bitumen	Earth/ Gravel	Bitumen	Earth/ Gravel
A- International Trunk ..	2.7	1.0	2.9	0.9
B- National Trunk	1.4	1.3	1.4	1.4
C- Primary	2.6	5.6	2.5	5.2
D- Secondary	1.2	10.1	1.2	10.0
E- Minor	0.7	26.0	0.8	26.0
F- Special Purpose* . ..	0.2	10.9	0.2	10.9
TOTAL	8.8	54.9	9.0	54.4

*Special purpose roads include Government access, settlement, rural access,sugar, tea and wheat roads

12.18. Total Government expenditure on roads as shown in Table 12.11 rose by K£ 3.9 million during the 1997/98 fiscal year, a growth of only 1.0 per cent. However, expenditure is expected to rise by 10.6 per cent in 1998/99. The slow growth in expenditure was attributable to Government financial austerity measures taken during the last three fiscal years. Development expenditure on trunk roads is expected to rise by over 65.0 per cent from K£ 49.8 million in 1997/98 to K£ 82.0 million in 1998/99 mainly due to funds allocated for the construction and rehabilitation of Nairobi-Mombasa road. Expenditure on miscellaneous roads, which includes Minor Road Programme, is projected to rise from K£ 20.0 million to K£ 65.4 million. However, expenditures on primary and secondary roads are expected to drop significantly during the period.

TOTAL EXPENDITURE ON ROADS, 1996/97 - 1998/99

Table 12.11 K£million

	1996/97	1997/98	1998/99*
DEVELOPMENT:			
Trunk Roads	39.3	49.8	82.0
Primary Roads	41.5	57.8	12.6
Secondary Roads	34.2	15.9	7.8
Miscellaneous Roads.. ..	23.3	20.0	65.4
TOTAL	138.3	143.5	167.8
RECURRENT (maintenance and repair)	235.4	234.1	249.7
TOTAL	373.7	377.6	417.5

*Provisional

12.19. In its effort to provide adequate financial resources for maintenance and rehabilitation of the existing roads, the Government continued to allocate the bulk of its total expenditure on roads to recurrent (maintenance and repair). Although the share of total expenditure on roads continued to decline from 63.0 per cent in 1996/97 to 62.0 per cent in 1997/98 and 59.8 per cent 1998/99. Recurrent funds were mainly drawn from the Road Maintenance Levy Fund (MLF). In 1997/98, recurrent expenditure dropped by K£ 1.3 million but in 1998/99 it is expected to rise by K£ 15.6 million, attributable to allocation of more financial resources for maintenance and repair of roads devastated by the *El Nino* weather phenomenon experienced in the last quarter of 1997 and early 1998.

12.20. During 1997/98 fiscal year, 35 districts implemented the Minor Road Programme (MRP) aimed at supporting rural development activities in the districts. The activities implemented during the year included Earth Road Improvement, gravelling, re-gravelling and routine maintenance. Under routine maintenance, a total of 8,490 kilometres were

CHAPTER 13 - TOURISM

Overview

The performance of the tourism sector slumped further in 1998, mainly as a result of the lagged effects of negative publicity abroad during 1997 and the deterioration of roads. The terrorist bombing of the American Embassy building in Nairobi in August 1998 aggravated the situation. The number of visitor arrivals and the average length of stay are key determinants of the level of tourism earnings. The visitor arrivals and departures fell by 10.6 per cent and 6.1 per cent, respectively while bed occupancy and average length of stay dropped by 16.3 percentage points and 18.6 per cent in 1998. These declines precipitated a sharp reduction of 22.7 per cent in tourism receipts from K£ 1,132 million recorded in 1997 to K£ 875 million in 1998. The number of visitors to game parks and game reserves fell by 20.9 per cent from 1,364,500 in 1997 to 1,079,400 in 1998 while the number of visitors to museums, Snake Park and other historical sites fell by 16.0 per cent to 494,200 in 1998.

Arrivals and Departures

13.2. Total visitor arrivals dropped significantly by 10.6 per cent from 1,000,600 persons recorded in 1997 to 894,300 persons in 1998 as shown in Table 13.1. This was the lowest number of arrivals since the migration data series was revised in 1993. The two main tourist arrival points of Jomo Kenyatta and Moi international airports recorded declines of 21.3 per cent and 33.6 per cent respectively in 1998. All quarters of the year registered substantial decreases in visitor arrivals. However, the highest decrease of 14.0 per cent was registered in the third quarter. This was probably due to the effect of the bombing of the American Embassy in Nairobi in August 1998 and the subsequent travel advice.

13.3. There was a general decrease in the number of arriving visitors by purpose in all categories, with the exception of transit visitors. For the first time, the number of arriving visitors on transit surpassed that of visitors who came on business. This was due to a sudden upsurge in the number of transit arrivals from Tanzania through the border control stations of Namanga and Isebania. Visitors on holiday dropped by 14.6 per cent from 804,800 in 1997 to 686,900 in 1998, and accounted for 76.8 per cent of the total arrivals compared to 80.4 per cent in 1997. Visitors on transit accounted for 11.4 per cent of the total arrivals, up by 40.9 per cent from 72,300 in 1997 to 101,900 in 1998. Those on business accounted for 9.7 per cent of the total arrivals, down from 10.2 per cent in 1997.

13.4. Details of the number of departing visitors by quarter and purpose of visit are shown in Table 13.2. The total number of departing visitors declined by 6.1 per cent from 924,700 recorded in 1997 to 868,100 in 1998. There were decreases of 12.0 per cent and 11.8 per cent in the first and the third quarters of 1998 respectively but an increase of 4.2 per cent in the fourth quarter. Unlike all other categories of departing visitors that recorded significant decreases, visitors on transit increased by 38.8 per cent from 66,200 in 1997 to 91,900 in 1998.

covered during the year. The roads under the MRP including special purpose constituted over 67 per cent of the total classified road network.

12.21. The Government continued to pursue policy initiatives to improve the efficiency of road transport with top priority given to maintenance and rehabilitation of the existing roads. Intensified efforts are being made to provide adequate financial resources for road maintenance and to control overloading by enforcing axle load limits. In order to strengthen the management and institutional framework for the management of roads, an Advisory Road Board has been established with private sector representation. A key role of the board is to provide a link between the Government and the public. This would enable the public to be better informed about the constraints and opportunities existing to the management and funding and, therefore be in a position to have an informed and timely input into the decision making process for roads sector management.

12.22. The Ministry of Public Works and Housing has initiated the Road 2000 Programme. The programme objective is maintenance of the classified network using local resources and labour based methods whenever these are cost effective. The entire process of the programme aims at developing and having in place adequate maintenance on both the unpaved and paved road networks by the year 2000. Other programme key elements are improving funding arrangement, manpower rationalisation initiative, development of appropriate and manageable maintenance systems, involvement of private sector and improved training.

QUARTERLY VISITOR ARRIVALS BY PURPOSE OF VISIT.1994 - 1998

Table 13.1 '000

Quarter	Purpose	1994	1995	1996	1997	1998*
1st Qr	Holiday	212.0	212.9	213.8	233.6	192.9
	Business	26.8	26.9	27.0	29.5	24.4
	Transit	15.7	13.8	12.1	14.2	34.1
	Other	5.7	5.8	5.8	6.3	5.2
	TOTAL	260.2	259.4	258.7	283.6	256.6
2nd Qr	Holiday	190.8	182.1	175.3	176.4	149.6
	Business	24.0	23.0	22.1	22.3	18.9
	Transit	14.2	13.9	12.0	15.5	20.6
	Other	5.2	4.9	4.8	4.8	4.1
	TOTAL	234.2	223.9	214.2	219.0	193.2
3rd Qr	Holiday	206.2	199.0	212.1	210.0	175.8
	Business	26.1	25.1	26.8	26.5	22.2
	Transit	14.3	14.1	17.2	20.4	23.1
	Other	5.6	5.4	5.8	5.7	4.8
	TOTAL	252.2	243.6	261.9	262.6	225.9
4th Qr	Holiday	214.6	201.7	219.6	184.8	168.6
	Business	27.1	25.5	27.8	23.4	21.3
	Transit	14.2	14.0	14.9	22.2	24.1
	Other	5.8	5.5	5.9	5.0	4.6
	TOTAL	261.7	246.7	268.2	235.4	218.6
Year	Holiday	823.6	795.7	820.8	804.8	686.9
	Business	104.0	100.5	103.7	101.7	86.8
	Transit	58.4	55.8	56.2	72.3	101.9
	Other	22.3	21.6	22.3	21.8	18.7
	TOTAL	1,008.3	973.6	1,003.0	1,000.6	894.3

* Provisional

QUARTERLY VISITOR DEPARTURES BY PURPOSE OF VISIT, 1994 - 1998

Table 13.2 '000

Quarter	Purpose	1994	1995	1996	1997	1998*
1st Qr	Holiday	210.2	215.2	214.4	221.6	181.2
	Business	26.6	27.1	27.1	28.0	22.9
	Transit	14.7	14.7	17.1	11.8	26.4
	Other	5.7	5.8	5.8	6.0	4.9
	TOTAL	257.2	262.8	264.4	267.4	235.4
2nd Qr	Holiday	191.9	179.4	183.7	158.8	152.8
	Business	24.2	22.7	23.2	20.1	19.3
	Transit	14.0	14.3	12.6	15.3	17.7
	Other	5.2	4.9	5.0	4.3	4.2
	TOTAL	235.3	221.3	224.5	198.5	194.0
3rd Qr	Holiday	207.5	194.7	196.4	195.3	166.7
	Business	26.2	24.6	24.8	24.6	21.0
	Transit	14.2	15.4	15.3	20.0	24.0
	Other	5.6	5.3	5.3	5.3	4.5
	TOTAL	253.5	240.0	241.8	245.2	216.2
4th Qr	Holiday	198.0	196.4	206.0	168.6	172.2
	Business	25.0	24.8	26.0	21.3	21.8
	Transit	14.2	15.1	12.5	19.1	23.8
	Other	5.4	5.3	5.6	4.6	4.7
	TOTAL	242.6	241.6	250.1	213.6	222.5
Year	Holiday	807.6	785.7	800.5	744.3	672.0
	Business	102.0	99.2	101.1	94.0	85.0
	Transit	57.1	59.5	57.5	66.2	91.9
	Other	21.9	21.3	21.7	20.2	18.3
	TOTAL	988.6	965.7	980.8	924.7	868.1

*Provisional

13.5. Table 13.3 presents details of departing visitors by country of residence and purpose of visit. Most departing visitors were destined for Europe. However, the share of these visitors relative to the total fell marginally from 64.5 per cent in 1997 to 63.9 per cent in 1998. Over 85.0 per cent of the departing visitors to Europe had come for holiday. Germany and the United Kingdom were the main countries of destination accounting for 21.2 per cent and 15.2 per cent respectively of all departing visitors. Africa remained the

second most important regional destination accounting for 15.0 per cent of all visitor departures. Of all departing visitors to Africa, 56.8 per cent were destined to Tanzania and Uganda. Of the departing visitors to Tanzania, 58.2 per cent had come on holiday while 52.9 per cent of the departing visitors to Uganda had come on business.

DEPARTING VISITORS BY COUNTRY OF RESIDENCE AND PURPOSE OF VISIT, 1997- 1998

Table 13.3 '000

Country of Residence	Holiday		Business		Transit		Total**	
	1997	1998	1997	1998	1997	1998	1997	1998*
Germany	182.7	165.2	4.3	3.9	7.7	10.7	194.7	179.8
United Kingdom	115.1	104.1	17.6	15.9	6.7	9.3	139.4	129.3
Switzerland	19.0	17.2	2.4	2.2	2.3	3.2	23.7	22.6
Italy	23.7	21.4	2.8	2.5	1.9	2.6	28.4	26.5
France	18.1	16.4	2.5	2.3	2.1	2.9	22.7	21.6
Scandinavia	15.5	14.0	2.1	1.9	1.8	2.5	19.4	18 4
Other Europe	141.7	128.1	3.2	2.9	10.2	14.2	155.1	145.2
TOTAL EUROPE	515.8	466.4	34.9	31.6	32.7	45.4	583.4	543.4
U.S.A	42.9	38.8	4.9	4.4	2.8	3.9	50.6	47.1
Canada	13.6	12.3	1.8	1.6	1.5	2.1	16.9	16.0
TOTAL NORTH AMERICA	56.5	51.1	6.7	6.0	4 3	6.0	67.5	63.1
Uganda	13.7	12.4	20.4	18.4	2.9	4.0	37.0	34.8
Tanzania	24.2	21.9	5.4	4.9	7.8	10.8	37.4	37.6
Other Africa	29.5	26.7	16.8	15.2	9.5	13.2	55.8	55.1
TOTAL AFRICA	67.4	61.0	42.6	38.5	20.2	28.0	130.2	127.5
India	11.5	10.4	2.3	2.1	1.5	2.1	15.3	14.6
Japan	10.0	9.0	1.2	1.1	0.7	1.0	11.9	11.1
Israel	5.6	5.1	0.8	0.7	0.3	0.4	6.7	6.2
Other Asia	12.2	11.0	3.2	2.9	2.0	2.8	17.4	16.7
TOTAL ASIA	39.3	35.5	7.5	6.8	4.5	6.3	51.3	48.6
Australia and New Zealand	13.3	12.0	1.5	1.4	1.2	1.7	16.0	15.1
All Other Countries	52.0	46.9	0.8	0.7	3.3	4.5	56.1	52.1
TOTAL	744.3	672.9	94.0	85.0	66.2	91.9	904.5	849.8

* Provisional

** The Total does not include "Other Visitors" Category

13.6. Table 13.4 shows the number of days stayed by purpose of visit excluding the 'other' category of visitors. The total number of days stayed dropped by 23.3 per cent from 10,673,100 in 1997 to 8,183,100 in 1998. The number of days stayed by visitors on holiday dropped by 25.7 per cent from 9,603,000 in 1997 to 7,132,700 in 1998. Visitors on business stayed for 17.7 per cent fewer days from 785,400 in 1997 to 646,000 in 1998. However, visitors on transit stayed for 42.0 per cent more days in 1998 when compared to 1997. This resulted in a drop of 18.6 per cent in the average length of stay from 11.8 days in 1997 to 9.6 in 1998.

NUMBER OF DAYS STAYED* BY PURPOSE OF VISIT, 1994 - 1998

Table 13.4 '000

Purpose	1994	1995	1996	1997	1998**
Holiday	13,472.2	10,371.2	12,087.6	9,603.0	7,132.7
Business	1,309.6	1,203.7	1,246.1	785.4	646.0
Transit	204.4	232.5	264.5	284.7	404.4
TOTAL	14,986.2	11,807.4	13,598.2	10,673.1	8,183.1
Average length of stay in days	15.5	12.5	14.2	11.8	9.6

* Excludes days stayed by "Other Visitors" Category.

** Provisional

Hotel Occupancy

13.7. The downward trend in bed availability that started in 1995 continued in 1998 as depicted in Tables 13.5 and 13.6. Total bed availability declined by 16.2 per cent from 9,516,600 bed-nights in 1997 to 7,975,700 in 1998. This was the result of the continued closure of several hotel establishments, particularly at the coast. The number of bed-nights occupied dropped drastically by 42.7 per cent from 4,910,300 bed-nights recorded in 1997 to 2,813,000 bed-nights in 1998. Consequently, the overall hotel occupancy rate dropped by 16.3 percentage points from 51.6 per cent in 1997 to 35.3 per cent in the same period. This poor performance is mainly due to reduced tourism activity at the coast, which is Kenya's most popular tourist destination particularly for European visitors. The number of bed-nights occupied by Kenyan residents also dropped from 776,800 in 1997 to 696,900 in 1998.

HOTEL BED-NIGHTS OCCUPIED BY COUNTRY OF RESIDENCE, 1994 - 1998

Table 13.5 '000

	1994	1995	1996	1997	1998*
Permanent Occupants**	108.5	99.2	41.8	28.3	11.6
Germany	1,334.3	1,201.4	1,275.6	1,135.1	418.8
Switzerland	339.9	312.0	301.9	272.6	129.8
United Kingdom	909.2	984.6	934.1	956.0	516.3
Italy	296.2	305.7	174.6	249.3	126.5
France	324.4	310.1	278.0	267.6	123.3
Scandinavia	90.2	86. 3	135.4	152.1	54.1
Other Europe	289.0	289.0	360.9	321.9	145.6
EUROPE	3,583.2	3,489.1	3,460.5	3,354.6	1,514.4
Kenya Residents	689.6	689.3	782.6	776.8	696.9
Uganda	31.8	30.8	32.8	36.6	26.4
Tanzania	37.7	40.6	40.3	40.6	35.1
East and Central Africa	46.7	41.9	46.5	50.2	35.7
West Africa	28.8	28.2	18.3	21.7	13.5
North Africa	12.0	12.0	15.7	15.0	13.0
South Africa	-	23.1	32.3	43.6	36.8
Other Africa	89.9	89.9	69.5	64.4	41.1
AFRICA	936.5	955.8	1,038.0	1,048.9	898.5
U S A	243.4	265.9	232.7	225.7	185.1
Canada	45.9	51.6	28.3	29.9	18.3
Other America	15.0	15.0	14.8	23.2	13.4
AMERICA	304.3	332.5	275.8	278.8	216.8
Japan	32.6	33.4	42.4	49.6	33.5
India	27.1	27.8	54.2	31.1	29.6
Middle East	27.0	29.6	45.3	34.6	48.4
Other Asia	25.5	25.5	37.7	26.2	17.8
ASIA	112.2	116.3	179.6	141.5	129.3
Australia and New Zealand	28.2	25.1	33.9	30.2	21.8
All Other Countries	36.8	36.8	31.6	28.0	20.6
TOTAL- OCCUPIED	5,109.7	5,054.8	5,061.2	4,910.3	2,813.0
TOTAL -AVAILABLE	11,908.9	11,562.2	11,354.5	9,516.6	7,975.7
Occupancy rate %	43.1	43.7	44.6	51.6	35.3

* Provisional

** Persons staying one month or more in one hotel-includes some block bookings for aircrew

13.8. Europe continued to be the major source of tourists. However, the relative share of bed-nights occupied by visitors from this region compared to total bed-nights occupied fell from 68.3 per cent in 1997 to 53.8 per cent in 1998. The number of bed-nights occupied by residents of Europe fell sharply by 54.9 per cent from 3,354,600 in 1997 to 1,514,400 in 1998, with Scandinavia and Germany having the highest decreases of 64.4 and 63.1 per cent respectively. Germany and the United Kingdom were still the most important tourist generating countries in Europe with clients from the two countries accounting for over 60.0 per cent of all bed-nights occupied by European visitors. However, the number of bed-nights occupied by residents of United Kingdom surpassed those occupied by residents of

Germany during the review period. Africa was the second most important source of tourists with 216,800 bed-nights in 1998. Residents of the United States of America occupied about 85.0 per cent of these. The only positive growth in the number of bed-nights occupied was for residents of the Middle East from 34,600 to 48,400 over the same period.

13.9. Table 13.6 presents details of hotel bed-nights occupied by zone. The relative share of bed-nights spent at the coastal beach hotels fell from 62.6 per cent in 1997 to 53.5 per cent in 1998. The number of bed-nights occupied in these hotels dropped drastically by 51.0 per cent from 3,074,400 to 1,505,300 over the same period. The number of bed-nights occupied in Other Coast hotels however went up from 71,500 in 1997 to 109,100 in 1998. Nyanza Basin was the only other zone that registered an increase in the number of bed-nights occupied during 1998 from 88,200 to 110,800. Bed-nights occupied in Nairobi high class and other hotels dropped from 801,500 and 311,800 to 655,600 and 178,000 respectively over the same period. There was a corresponding poor performance in all the other zones.

HOTEL BED-NIGHTS OCCUPIED BY ZONE, 1994 - 1998

Table 13.6 '000

Zone	1994	1995	1996	1997	1998*
Coastal-Beach	3,071 5	3,059.6	3,144.9	3,074.4	1,505.3
- Other	185.2	166.7	70.9	71.5	109.1
Coast Hinterland	133.2	120.3	114.2	59.0	43.9
Nairobi-High Class	550.7	613.7	774.1	801.5	655.6
-Other	454.7	413.8	313.0	311.8	178.0
Central	299.0	275.4	253.4	218.1	92.9
Masailand	247.8	245.3	237.1	215.0	85.2
Nyanza Basin	82.8	78.6	114.3	88.2	110.8
Western	69.9	65.5	33.0	64.3	27.3
Northern	15.2	15.9	6.3	6.5	4.9
TOTAL-OCCUPIED	5,110.0	5,054.8	5,061.2	4,910.3	2,813.0
TOTAL-AVAILABLE	11,908.9	11,562.2	11,354.5	9,516.6	7,975.7

* Provisional

13.10. Details of hotel bed-nights occupied by area and country of residence are shown in Table 13.7. The number of bed-nights occupied in hotels in Nairobi and Coast dropped by 25.1 and 48.7 per cent, respectively in 1998. Similarly, bed-nights occupied in lodges and other areas dropped by 52.4 and 34.0 per cent from 351,200 and 299,900 to 167,000 and 198,000 over the same period. Residents of Kenya and those from the United States of America were the major clients of hotel establishments in Nairobi accounting for 24.8 and 14.4 per cent of bed-nights occupied respectively. Coast hotels were more popular with European residents who accounted for over 70.0 per cent of total bed-nights occupied. The number of bed-nights occupied by Kenyan residents at the Coast in 1998 went up to 303,000 from 291,800 for the previous year. Over 60.0 per cent of bed-nights occupied in lodges were by residents of United Kingdom, Kenya and the United States of America. About 80.0 per cent of hotel bed-nights occupied in other areas were by Kenya residents. Residents of all other countries spent most of their hotel bed-nights in Nairobi confirming the business nature of their visits.

HOTEL BED-NIGHTS OCCUPIED BY AREA AND COUNTRY OF RESIDENCE, 1998*

Table 13.7 '000

Country of Residence	Nairobi	Coast	Lodges	Others	Total
Permanent Occupants**	3.6	6.8	0.9	0.3	11.6
Germany	23.1	384.4	9.3	2.0	418.8
Switzerland	7.4	117.2	4.3	0.9	129.8
United Kingdom	97.9	377.2	34.8	6.4	516.3
Italy	15.7	104.3	4.7	1.8	126.5
France	21.4	89.1	11.1	1.7	123.3
Scandinavia	19.3	28.2	4.7	1.9	54.1
Other Europe	45.1	88.8	9.5	2.2	145.6
Kenya	206.8	303.0	27.2	159.9	696.9
Uganda	17.2	6.3	0.2	2.7	26.4
Tanzania	20.9	8.7	0.6	4.9	35.1
East and Central Africa	22.9	11.1	0.5	1.2	35.7
West Africa	11.3	1.6	0.3	0.3	13.5
North Africa	11.8	1.0	0.1	0.1	13.0
South Africa	27.3	7.9	1.2	0.4	36.8
Other Africa	32.2	6.7	1.2	1.0	41.1
U S A	119.7	21.9	38.9	4.6	185.1
Canada	12.4	3.8	1.4	0.7	18.3
Other America	7.7	3.0	1.9	0.8	13.4
Japan	24.5	3.9	4.0	1.1	33.5
India	14.9	11.8	1.9	1.0	29.6
Middle East	34.2	9.2	4.0	1.0	48.4
Other Asia	11.3	4.9	1.2	0.4	17.8
Australia and New Zealand	15.6	2.7	2.9	0.6	21.8
All Other Countries	9.4	10.9	0.2	0.1	20.6
TOTAL	833.6	1,614.4	167.0	198.0	2,813.0

* Provisional

** Persons staying one month or more in one hotel -includes some block bookings for aircrew

13.11. The continued contraction in the number of visitors to parks and game reserves depressed bed-occupancy in game lodges as shown in Table 13.8. The number of bed-nights fell drastically from 351,200 in 1997 to 167,000 in 1998. The number of bed-nights occupied by foreign residents dropped by over a half from 320,100 in 1997 to 139,000 in 1998, while bed-nights occupied by East African residents dropped from 31,100 to 28,000 over the same period. Full catering was preferred to self-service by most visitors to game lodges.

GAME LODGES' OCCUPANCY. 1996 - 1998

Table 13.8 '000

Lodge locality/Type	BED-NIGHTS OCCUPIED					
	Foreign Residents			E.A. Residents		
	1996	1997	1998*	1996	1997	1998**
Game Reserves	255.5	178.9	77.7	20.9	18.0	16.2
National Parks	201.7	141.2	61.3	15.1	13.1	11.8
TOTAL	457.2	320.1	139.0	36.0	31.1	28.0
Of which full catering -	398.9	279.3	121.3	28.2	24.4	22.0
Self Service	58.3	40.8	17.7	7.8	6.7	6.0

* Lodges in National Parks and Game Reserves only.

** Provisional

Other Tourist Attractions

13.12. The decline in the number of visitors to parks and game reserves that started in 1995 worsened in 1998 as shown in Table 13.9. The number went down by 20.9 per cent from 1,364,500 in 1997 to 1,079,400 in 1998. There were substantial decreases in the number of visitors to all 8 major national parks with Amboseli, Tsavo East and Tsavo West having the highest decreases of 46.3, 45.7 and 38.0 per cent respectively when compared to 1997. The number of visitors to Amboseli went down from 117,200 to 62,900 over the same period.

Visitors to Tsavo West and the adjacent Tsavo East went down from 88,600 and 123,200 in 1997 to 54,900 and 66,900 respectively in 1998. This poor performance was mainly due to the poor state of roads and the lagged effects of the 1997 disturbances at the coast, which caused the decline in the number of arrivals. Mombasa Marine. Hell's Gate and Impala Sanctuary were the only parks that recorded increases in the number of visitors in 1998.

NUMBER OF VISITORS TO PARKS AND GAME RESERVES. 1994 - 1998

Table 13.9 '000

	1994	1995	1996	1997	1998*
Nairobi	163.2	113.5	158.3	149.6	122.3
Animal Orphanage	182.0	212.1	210.6	193.7	164.8
Amboseli	159.5	114.8	109.1	117.2	62.9
Tsavo (West)	105.4	93.1	93.6	88.6	54.9
Tsavo (East)	132.4	228.8	137.5	123.2	66.9
Aberdare	60.2	70.1	60.2	59.0	47.9
Lake Nakuru	164.3	166.8	156.9	132.1	111.0
Masai Mara	138.2	133.2	130.3	118.3	100.4
Bamburi Nature Park	98.9	109.2	107.0	86.8	77.9
Malindi Marine	39.4	38.8	39.3	27.0	13.7
Lake Bogoria	43.2	14.2	14.2	24.5	20.6
Meru	7.9	7.3	7.8	4.1	1.8
Shimba Hills	31.6	20.0	23.4	22.5	16.8
Mount Kenya	17.2	17.2	17.1	14.8	10.2
Samburu	9.2	9.1	9.1	8.3	7.0
Kisite/Mpunguti	34.8	32.4	39.9	35.1	29.2
Mombasa Marine	48.0	23.9	21.7	15.2	16.2
Watamu Marine	32.1	16.1	20.2	19.4	18.3
Hell's Gate	44.9	50.1	52.1	47.2	57.1
Impala Sanctuary (Kisumu)**			65.6	62.4	65.6
Other***	15.1	22.4	14.8	15.5	13.9
TOTAL	1,527.5	1,493.1	1,488.7	1,364.5	1,079.4

* Provisional

** For 1994 and 1995 Impala Sanctuary is Included under other

*** Other includes Mount Elgon, Ol-Donyo Sabuk, Marsabit, Saiwa Swamp, Sibiloi, Ruma National Park, Mwea National Reserve. Central Island National Park, Nasolot National Reserve and Kakamega National Reserve

13.13. In 1998, there were mixed trends in the number of visitors to Museums, the Snake Park and other historical sites as depicted in Table 13.10. The number of visitors to the three most popular attraction sites of National Museum, Snake Park and Fort Jesus declined substantially by 6.0 per cent, 48.9 per cent and 28.5 per cent, respectively. Significant decreases in the number of visitors were also recorded for Gedi, Lamu, Jumba La Mtwala and Olorgesailie museums over the same period. On the other hand, there were significant increases in the number of visitors to all other museums, the most notable being Kisumu, Kitale and Meru museums. Consequently, the overall number of visitors to all attraction sites went down by 16.0 per cent to stand at 494,200 in 1998 from 588,100 recorded for the previous year.

VISITORS TO MUSEUMS, SNAKE PARK AND SITES, 1994 - 1998

Table 13.10

'000

	1994	1995	1996	1997	1998*
National Museum: (Main Gate)	217.9	215.4	218.0	184.5	173.4
National Museum: (Snake Park)	187.0	181.6	170.6	148.6	75.9
Fort Jesus	221.4	245.3	180.2	124.4	88.9
Kisumu Museum	33.2	36.1	49.5	18.2	34.7
Kitale Museum	23.9	27.5	29.0	16.1	27.3
Gedi	45.7	43.7	29.6	29.7	14.8
Meru Museum	22.6	21.0	12.4	9.4	15.8
Lamu	10.4	10.7	12.2	8.6	6.2
Jumba la Mtwala	9.6	11.3	8.5	4.9	4.0
Olorgesailie				2.2	1.9
Kariandusi	2.1	3.0	2.3	0.7	4.5
Hyrax Hills			1.9	1.5	2.8
Karen Blixen	43.8	46.1	43.7	38.6	41.1
Kilifi Mwarani	0.7	0.8	0.9	0.7	2.9
Total	818.3	842.5	758.8	588.1	494.2

* Provisional

Conference Tourism

13.14. There has been diminishing activity in terms of international conferences held at the Kenyatta International Conference Centre (KICC), as major conference organisers prefer to utilise major hotels with international standard conference facilities. The Central Bureau of Statistics takes cognisance of this fact and arrangements to monitor international conferences held outside KICC are at advanced stage. There were 7 international conferences held at KICC in 1998 for a total of 26 days with 13,100 delegates in attendance. Consequently, KICC 's occupancy rate rose to 7.1 per cent in 1998 from 0.8 per cent in 1997. These details are presented in Table 13.11.

CONFERENCES HELD AT KENYATTA INTERNATIONAL CONFERENCE CENTRE, 1994 - 1998

Table 13.11

	1994	1995	1996	1997	1998*
Number of conferences	16.0	18.0	8.0	1.0	7.0
Number of conferences days	119.0	126.0	24.0	3.0	26.0
Attendance (Number of Delegates)**	11,560.0	12,720.0	5,660.0	250.0	13,100.0
Percentage of occupancy	32.6	34.4	6.6	0.8	7.1

* Provisional

** International conferences/delegates only.

Tourism Promotion

13.15. The continued dismal performance of the tourism sector has prompted renewed efforts in tourism promotion by both the public and the private sector. The Kenya Tourist Board (KTB) is mandated to co-ordinate tourism promotional activities. The Government promotes tourism mainly through the Department of Tourism of the Ministry of Tourism and Wildlife. At the international level, this is achieved through the activities of the 9 tourist offices located in the major tourist generating countries of United Kingdom, Germany, France, Switzerland, Sweden, Italy, United States of America and South Africa.

13.16. In 1998, the Board and the Ministry participated in the following tourism related international fairs:

- International Tourism Exchange (BIT'98) held in Milan, Italy.
- International Tourism Exchange (ITB'98) held in Berlin, Germany.

- Swedish International Travel and Tourism fair (TUR'98) held in Gothernberg, Sweden.
- European Incentive and Business Travel Exhibition held in Geneva, Switzerland.
- World Travel Fair (WTF'98) held in Tokyo, Japan.
- World Travel Market (WTM'98) held in London, United Kingdom.
- Brussels Travel Fair (BTF'98) held in Brussels. Belgium.

13.17. On the local scene, the Ministry participates in Agricultural Society of Kenya (ASK) shows in order to promote domestic tourism as a strategy of countering the effects of the low season. The private sector, especially through the major hotel chains, also promotes tourism with special emphasis on their establishments. A new private sector initiative through the recently formed Kenya Tourism Federation (KTF) is expected to supplement these activities.

13.18. The tourism industry draws high and middle level manpower from the Kenya Utalii College, which is responsible for training tourism personnel. The College had trained a total of 21,038 candidates at ordinary, advanced and in-service level by the end of 1998. A total of 1,656 candidates were trained in 1998, of whom 1,322 trainees undertook in-service courses.

CHAPTER 14 - TRANSPORT, STORAGE AND COMMUNICATIONS

Overview

The overall performance of the transport, storage and communications sector was adversely affected by the general decline in the country's economic performance in 1998. The deteriorating state of infrastructure and the high cost of borrowing funds exacerbated the unsatisfactory performance of the sector. In nominal prices, the sector posted an overall output growth of 4.8 per cent in 1998 compared to 6.0 per cent and 12.8 per cent recorded in 1997 and 1996 respectively. The modest output increase in 1998 is associated with the improved turnover of pipeline transport, air transport and communications sub-sectors. Despite having faced technical, financial and operational constraints, the value of output from the railway transport rose by 24.9 per cent.

14.2. Total receipts from the road transport industry declined by 8.3 per cent, largely attributable to the poor state of the roads which prevailed in 1998 following the *El Nino* rains in 1997. Registration of newly acquired motor vehicles expanded by 6.1 per cent in 1998 to reach 31,718 vehicles compared to 29,893 vehicles registered in 1997. Activity at the port of Mombasa recorded slight increases in the volumes of outward bound and incoming cargo. Improved exports of tea in 1998 largely accounted for the slight increase in the volume of dry cargo handled for export. Total volume of white petroleum products pumped during 1998 rose by a significant 11.0 per cent from 2,474,900 cubic metres in 1997 to 2,747,300 cubic metres in 1998.

14.3. The recession experienced in the tourism industry during 1998 coupled with the depressed demand for freight and passenger road transport services had detrimental spill over effects to services incidental to transport, including clearing and forwarding, booking and travel, storage and warehousing. Receipts accruing to the sub-sector declined by a significant 14.0 per cent during the year.

Overall Results

14.4. Table 14.1 summarises details of value of output from transport and communications sector at market prices. The sector recorded an output increase of 4.8 per cent from K£ 3,631.5 million in 1997 to K£ 3,806.4 million in 1998. Substantial output increases were realised in the railway transport, pipeline transport and communications which rose by 24.9 per cent, 15.7 per cent and 14.2 per cent respectively in 1998. The performance of air transport continued to improve, reaching K£ 650.5 million in 1998 compared to K£ 592.7 million in 1997, a 9.8 per cent rise. However, despite being the key player in the sector, road transport value of output declined by 8.3 per cent from K£ 949.7 million in 1997 to K£ 870.7 million in 1998. While the value of output from the water transport sub-sector remained at almost the 1997 level, value of output from services incidental to transport fell significantly by 14.0 per cent from K£ 217.1 million in 1997 to K£ 186.7 million in 1998.

TRANSPORT AND COMMUNICATIONS - VALUE OF OUTPUT, 1994 - 1998

Table 14.1 K£million

	1994	1995	1996	1997	1998*
Road Transport	762.2	810.7	926.4	949.7	870.7
Railway Transport**	185.5	225.0	183.6	150.0	187.4
Water Transport	250.7	372.3	367.3	410.0	408.6
Air Transport	408.8	471.1	540.6	592.7	650.5
Services Incidental to Transport	118.4	1538	181.1	217.1	186.7
Pipeline Transport	143.6	197.8	230.7	240.2	278.0
Communications	683.8	805.1	996.1	1,071.8	1,224.5
TOTAL	2,553.0	3,035.8	3,425.8	3,631.5	3,806.4

* Provisional

** Includes other revenue

14.5. Table 14.2 summarises details of the earnings from road and rail traffic in the period 1994 to 1998. Though road transport continued to play a leading role in the transport sector, its total earnings declined by 8.3 per cent from K£ 949.7 million in 1997 to K£ 870.7 million in 1998. Total earnings from rail transport grew by 23.5 per cent from K£ 138.5 million in 1997 to K£ 171.1 million in 1998. Earnings from road passengers decreased by 5.0 per cent from K£ 499.7 million in 1997 to K£ 474.7 million in 1998. Road freight earnings declined by 12.0 per cent from K£ 450.0 million in 1997 to K£ 396.0 million in 1998, while earnings from rail freight rose by 27.3 per cent from K£ 123.9 million in 1997 to K£ 157.7 million in 1998.

EARNINGS FROM ROAD AND RAIL TRAFFIC, 1994 - 1998

Table 14.2 K£million

	1994	1995	1996	1997	1998*
Passenger Traffic:					
Road	451.3	466.0	526.9	499.7	474.7
Rail	15.2	14.5	14.9	14.6	13.4
Total	466.5	480.5	541.8	514.3	488.1
Freight Traffic:					
Road	310.9	344.7	399.4	450.0	396.0
Rail	152.0	171.3	156.7	123.9	157.7
Total	462.9	516.0	556.1	573.9	553.7
Total Road Traffic	762.2	810.7	926.3	949.7	870.7
Total Rail Traffic	167.2	185.8	171.6	138.5	171.1
Total (Road and Rail)	929.4	996.5	1,097.9	1,088.2	1,041.8

Provisional

Road Transport

14.6. Details of the total number of newly registered motor vehicles are presented in Table 14.3. The total grew by 6.1 per cent from 29,893 vehicles in 1997 to 31,718 vehicles in 1998. Substantial increases were recorded for saloon and station wagon vehicles, which rose by 23.7 per cent and 21.5 per cent respectively. However, notable declines were recorded for trailers, wheeled tractors and motor auto cycles that reduced by 20.7 percent, 8.2 per cent and 17.8 per cent respectively. The decline in demand for commercial vehicles could be attributed to the poor performance of the domestic economy.

Table 14.3 Number

Type of Vehicle	1994	1995	1996	1997	1998*
Saloon Cars	7,031	6,519	8,625	8,995	11,126
Station Wagons	2,699	3,260	4,069	4,259	5,175
Panel Vans, Pick-ups, etc	3,380	5,778	7,711	7,544	7,295
Lorries/Trucks	1,315	1,778	2,222	2,732	2,578
Buses and Coaches	390	743	888	931	887
Mini Buses	427	813	946	927	874
Special Purposes Vehicles	19	32	38	35	25
Trailers	541	444	674	680	539
Rollers. Graders. Cranes	53	89	104	102	63
Wheeled Tractors	578	977	1,047	1,263	1,160
Crawler Tractors	6	11	9	6	5
Motor and Auto Cycles	1,488	1,778	2,328	2,415	1,986
Three Wheelers	1	2	3	4	5
Total	17,928	22,224	28,664	29,893	31,718

* Provisional

14.7. Table 14.4 presents the number of licenses issued for freight and passenger transport vehicles for the period 1994 to 1998. Passenger Service Vehicles (PSVs) licenses for buses and tourist vehicles declined by 2.2 per cent from 1,996 in 1997 to 1,952 in 1998. This may partly be attributed to poor performance of the tourism industry in 1998. Licenses for Freight Transport Vehicles (FTV) dropped by 20.8 per cent from 9,031 in 1997 to 7,157 in 1998, mainly because of the El Nino weather phenomenon that damaged the roads network. Conversely, licenses for Passenger Service Vehicles (matatus) recorded a growth of 12.3 per cent from 21,662 licenses issued in 1997 to 24,334 in 1998. Nairobi accounted for 32 per cent of matatu licenses issued countrywide.

LICENCES ISSUED FOR FREIGHT AND PASSENGER TRANSPORT VEHICLES, 1994 - 1998

Table 14 4 Number

	1994	1995	1996	1997	1998*
Passenger Service Vehicles ** .	20,170	22,820	24,470	21,662	24.334
Passenger Service Vehicles ***	2,399	2,185	2,042	1.996	1,952
Freight Transport Vehicles	8,414	7,752	6,517	9,031	7,157
Total	30,983	32,757	33,029	32,689	33,443

* Provisional

** PSV Matatus

*** PSV licenses for buses and tourist vehicles only.

Railway Transport

14.8. Railway transport plays a major role in the transportation of bulky goods and long distance freight. However, the Kenya Railways Corporation (KRC) has not adequately responded to transport demand due to technical, financial and operational constraints. Table 14.5 shows the summary of Kenya Railways traffic performance for the period 1994 to 1998. Freight tonnage carried rose by 4.2 per cent from 1,620,600 tonnes hauled in 1997 to 1,688,000 tonnes in 1998 mainly due to increased cargo transportation to the neighbouring countries. The tonne-kilometre haulage grew by almost a similar margin of 4.0 per cent from 1,068.2 million to 1,111.0 million. Revenue collected from freight haulage increased by 27.3 per cent from K£ 123.9 million in 1997 to K£ 157.7 million in 1998. Passenger

journeys made rose by 43.5 per cent from a revised figure of 1,981,000 passengers in 1997 to 2,843,000 in 1998, while passenger-kilometres grew by 9.9 per cent over the same period.

14.9. The increase in number of passenger journeys was largely due to the commuter train services which increased the number of coaches from two to four in February 1998, in response to the increased demand for urban transport in Nairobi. However, revenue declined by 8.2 per cent from K£ 14.6 million in 1997 compared to K£ 13.4 million in 1998.

RAILWAY TRAFFIC, 1994 - 1998

Table 14.5

	Unit	1994	1995	1996	1997	1998**
Freight:						
Tonnes	'000	1,901.0	2,090.1	1,826.5	1,620.6	1,688.0
Tonne-km	million	1,172.0	1,456.1	1,218.8	1,068.2	1,111.0
Revenue	K£million	152.0	171.3	156.7	123.9	157.7
Revenue per tonne-Km	cts	259.4	235.3	257.1	232.0	283.9
Passenger						
Journeys	'000	1,910.6	1,624.1	2,379.0	1,981.0	2,843.0
Passenger-Km	million	408.0	363.0	371.0	393.0	432.0
Revenue	K£million	15.2	14.5	14.9	14.6	13.4
Revenue per passenger-Km	cts	74.5	79.9	80.3	74.3	62.0

* Provisional.

14.10. The Corporation expects to improve performance by implementing a job evaluation report geared towards reducing the workforce from 14,500 to 8,500 persons and the on-going overhaul and maintenance of class 93/94 locomotives by the General Electric Company of U.S.A. The Corporation intends to privatise the Gulf marine service and improve the operation of MV Uhuru, the cargo vessel on Lake Victoria. The future of KRC depends on the government's divestiture programme, which will make it commercially viable to compete effectively with road transport.

Harbours and Shipping

14.11. Table 14.6 portrays the performance of freight traffic at the port of Mombasa. Total freight handled increased marginally by 1.4 per cent in 1998 to stand at 8,559,000 tonnes, up from 8,442,000 tonnes hauled in 1997. Dry cargo loaded rose by 6.6 per cent to 1,755,000 tonnes in 1998 compared to 1,647,000 tonnes recorded in 1997. Conversely, bulk liquids handled recorded a drop of 11.5 per cent, declining from 183,000 tonnes loaded in 1997 to 162,000 tonnes in 1998. Dry cargo landed recorded a drastic drop of 16.8 per cent from 5,096,000 tonnes in 1997 to 4,242,000 tonnes in 1998, while bulk liquids landed recorded a major increase of 58.3 per cent from 1,516,000 tonnes to 2,400,000 tonnes over the same period.

14.12. The low capacity utilisation of the harbour may be largely attributed to the civil strife in the Great Lakes states of Congo, Burundi and Rwanda, which are served by the harbour. Further, the poor state of the Mombasa-Nairobi highway could also have contributed to the under-utilisation of the port. Improved performance is expected once Burundi sanctions are lifted fully, the expansion of trade as a result of the East Africa Co-operation and completion of rehabilitation work on the Mombasa-Nairobi highway.

Table 14.6

000 Tonnes

	1994	1995	1996	1997	1998*
Loaded:					
Dry Cargo	1,446	1,752	2,103	1,647	1,755
Bulk Liquids	213	181	273	183	162
Total	1,659	1,933	2,376	1,830	1,917
Landed					
Dry Cargo	3,930	3,397	3,538	5,096	4,242
Bulk Liquids	2,680	2,643	2,780	1,516	2,400
Total	6,610	6,040	6,318	6,612	6,642
Total Freight Handled	8,269	7,973	8,694	8,442	8,559

* Provisional.

Pipeline Transport

14.13. Table 14.7 shows that total pipeline throughput rose by 11.0 per cent from 2,474,900 cubic metres in 1997 to 2,747,300 cubic metres in 1998. Motor spirit premium pumped rose by 9.5 per cent to 642,500 cubic metres in 1998 from 587,000 cubic metres in 1997. Motor spirit regular pumped rose by 5.0 per cent in 1998 to 192,900 cubic metres from 183,800 cubic metres in 1997. Illuminating kerosene oil registered the highest increase of 31.2 per cent, rising from 319,200 cubic metres in 1997 to 418,700 cubic metres in 1998. Light diesel oil pumped rose by 8.9 per cent from 790,500 cubic metres in 1997 to 860,800 cubic metres in 1998, while jet fuel pumped rose by 6.4 per cent from 594,400 cubic metres to 632,400 cubic metres over the same period.

PIPELINE THROUGHPUT OF WHITE PETROLEUM PRODUCTS, 1994 - 1998

Table14.7

'000 Cubic Metres

Year	Motor Spirit Premium	Motor Spirit Regular	Kerosene Illumin-ating Oil	Light Diesel Oil	Jet Fuel	Aviation Turbo	Total
1994	362.9	219.5	205.0	600.5	633.9		2,021.8
1995	463.6	204.4	266.4	726.6	505.3	73.9	2,240.2
1996	512.6	187.4	303.0	766.9	580.0	27.0	2,376.9
1997	587.0	183.8	319.2	790.5	594.4		2,474.9
1998*	642.5	192.9	418.7	860.8	632 4		2,747.3

* Provisional

Air Transport

14.14. Table 14.8 details the performance of commercial traffic at Jomo Kenyatta and Moi International airports. Total passenger movements rose modestly by 1.3 per cent from 2,835,200 in 1997 to 2,873,400 in 1998. The number of passengers who landed rose by 4.2 per cent in 1998 while that of those who embarked rose by 2.5 per cent. Total number of passengers in transit recorded a significant decline of 15.1 per cent from 300,500 in 1997 to 255,000 in 1998. Total freight handled dropped by 6.4 per cent from 67,200 thousand tonnes in 1997 to 62,900 thousand tonnes in 1998. Cargo landed improved marginally by 0.4 per cent in 1998 to 24,000 tonnes from 23,900 tonnes recorded in 1997, whereas cargo loaded fell drastically by 10.3 per cent from 41,700 tonnes in 1997 to 37,400 tonnes in 1998. Volume of mail landed in 1998 declined slightly compared to that handled in 1997, while mail loaded stagnated at 500 tonnes for the period 1995 to 1998.

COMMERCIAL TRAFFIC AT JOMO KENYATTA AND MOI INTERNATIONAL AIRPORTS, 1994 - 1998

Table 14.8

	1994	1995	1996	1997	1998*
Passengers-000':					
Landed	1,187.4	1,104.8	1,137.2	1,259.6	1,312.0
Embarked	1,214.4	1,186.4	1,158.0	1,275.1	1,306 4
In Transit**	370.8	383.5	395.8	300.5	255.0
Total	2,772.6	2,674.7	2,691.0	2,835.2	2,873.4
Freight - 000' tonnes:					
Cargo: Landed	23.0	22.2	23.8	23.9	24.0
Loaded	59.2	49.1	40.2	41.7	374
Mail: Landed	1.2	1.1	1.0	1.1	1.0
Loaded	0.8	0.5	0.5	0.5	0.5
Total	84.2	72.9	65.5	67.2	62.9

*Provisional

**Passengers in transit are those continuing their journey in the same aircraft

Postal and Telecommunications Services

14.15. Details of the performance of the postal and telecommunications network and traffic services are presented in Table 14.9. The closure of one sub-post office reduced the number of post offices from 1,034 in 1997 to 1,033 in 1998. Installed private letter boxes grew by 4.3 per cent to 340,000 in 1998, up from 326,000 in 1997. Total correspondence handled dropped by 4.2 per cent to 413 million in 1998 from 431 million in 1997, while parcels handled fell by 15.2 per cent from 263,000 in 1997 to 223,000 in 1998. Public call boxes grew by 14.9 per cent to 7,249 in 1998. A total of 212 card phones were available in 1988 as compared to 49 in 1997. This increase was the Corporation's deliberate decision to install more of such facility as the card phone is less prone to vandalism and offers a convenient service. Subscription for mobile telephones has more than trebled in a span of three years, with the number of subscribers rising significantly by 65.1 per cent from 5,345 in 1997 to 8,826 in 1998. Manual telephone calls made declined significantly by 32.6 per cent as a result of continued automation and phasing out of manual exchanges. Postal orders declined by 7.8 per cent to 71,000 in 1998 from 77,000 in 1997.

POSTAL AND TELECOMMUNICATION SERVICES, 1994 - 1998

Table 14.9

	Unit	1994	1995	1996	1997	1998*
Post Offices	No.	1,074	1,061	1,062	1,034	1,033
Private Letter Boxes	'000	280	302	318	326	340
Registered and Insured Items Posted	million	3.0	2.4	2.5	2.1	1.9
Total correspondence handled	million	450	456	506	431	413
Parcels handled	'000	278	257	290	263	223
Telephone Exchange connections	'000	229	250	261	272	280
Public Call boxes	No	5,910	5,922	5,932	6,309	7,249
Card Phones	No	58	48	48	49	212
Mobile Telephone	No	1,727	2,580	2,727	5,345	8,826
Manual Telephone Calls made	million	6.8	5.7	4.8	4.6	3.1
Telex Subscribers	No. '000	1.5	1.6	1.4	1.2	1.2
Money Orders	No.(million)	1.7	1.5	1.6	1.7	1.8
Postal Orders	No.('000)	41	47	48	77	71

* Provisional

14.16. The postal sector's minimal growth was attributed to the economic hardships in 1998, the continued liberalisation of the sector and the growth of courier firms and electronic mail services in the Internet. As result of stiff competition, service providers in

the sector are striving to provide high quality services through enhanced marketing strategies, development of more products and at the same time improving the existing ones.

14.17. Table 14.10 summarises details of external telecommunications traffic provided by the Kenya Posts and Telecommunication Corporation (KPTC). Apart from telephone services, other services recorded decline in performance. Outgoing and incoming telephone services in million paid minutes registered a growth of 5.9 per cent and 11.9 per cent in 1998 respectively. Telex and telegraphic services have become insignificant as a result of the increased use of alternative services such as the Internet. Bureau fax outgoing documents dropped by 54.5 per cent from 13,593 in 1997 to 6,191 in 1998, while incoming documents declined by 28.2 per cent from 3,169 in 1997 to 2,276 in 1998. Bureau fax outgoing pages reduced by 54.3 per cent to 7,621 in 1998 from 16,671 in 1997, while incoming pages declined by 31.6 per cent to 4,062 in 1998 from 5,941 in 1997.

EXTERNAL TELECOMMUNICATIONS TRAFFIC, 1994 - 1998

Table 14.10

	1994	1995	1996	1997	1998*
Telephone service-million paid minutes					
Outgoing	20.9	25.6	26.2	29.0	30.7
Incoming	51.7	58.0	57.6	69.5	77.8
Telex service-million paid minutes					
Outgoing	1.1	0.7	0.5	0.3	0.2
Incoming	1.2	0.8	0.5	0.4	0.2
Telegraph service-million paid words					
Outgoing	0.2	0.2	0.1	0.2	0.1
Incoming	0.5	0.5	0.2	0.2	0.0
Bureau fax outgoing					
Documents	1,727	20,364	18,250	13,593	6,191
Pages	6,256	24,005	21,326	16,671	7,621
Bureau fax incoming					
Documents	3,620	3,860	4,001	3,169	2,276
Pages	5,930	6,672	7,154	5,941	4,062

* Provisional

14.18. To compete effectively in the liberalised economy, the telecommunications department was reorganised into five core business activities in order to prioritise and have better focus on key areas of operations. These are Local Access Network, Engineering Trunk Network, Commercial Services, International Telecoms Network and Communications Regulatory Affairs. In spite of stiff challenges from other communications service providers, the department realised commendable achievements such as the expansion of safaricom coverage to most parts of Nairobi. Instafon has installed the Fixed Wireless Telephone System, currently with over 200 line connections in Nairobi. A telephone service, which combines the use of both card and coins called Combiphone, was started and an Internet access for Internet Service Providers, called Jambonet, was installed. However, the department has been constrained by high cost of borrowing capital due to high interest rates, deterioration of the country's infrastructure and shortage of skilled manpower due to early retirement of employees.

14.19. The KPTC intends to improve its performance by increas.ng card phones that are easier to operate and cost effective in terms of revenue collection. The corporation is also set to split into three entities viz.; Telkom Kenya Limited (TKL), the Postal Corporation of Kenya (POSTA) and the Communication Commission of Kenya (CCK). Twenty-six (26) per cent of Telkom Kenya Limited equity is expected to be sold to a strategic investor

followed by a 20 per cent initial public offer at Nairobi Stock Exchange (NSE) and 3 to 5 per cent of shares will be offered to the staff. By creating an environment conducive to private investment, CCK is expected to play a vital role in ensuring fair competition and optimal development of the sector.

Information and Mass Media

14.20. Table 14.11 presents details of the new radio and television sets sold and licensed since 1994. There was a significant decrease in the television and radio sets sold and licensed in 1998 despite the Government decision to liberalise the airwaves. The number of new radio sets sold and licensed went down by 56.7 per cent from 172,000 in 1997 to a mere 74,000 in 1998. Although the sales of new radio and television sets declined, the figures tend to be understated. The completion of KBC modernisation programme on television transmission and expansion to Webuye and Kisii is also expected to boost the sub-sector.

NEW RADIOS AND TV SETS SOLD AND LICENSED, 1994 - 1998

Table14.11 Number

	1994	1995	1996	1997	1998*
Radios - '000	109.1	136.8	163.1	172.1	74.6
Television Sets - '000	27.1	27.2	35.8	44.3	28.4

* Provisional

14.21. As shown in Table 14.12, there was a general decline in the circulation of the daily and weekly newspapers in 1998. The hard economic times faced in 1998 may have contributed to this fall. Morning English newspaper circulation fell from 263,000 copies in 1997 to 257,000 copies, recording 2.4 per cent drop. The morning Swahili newspapers also dropped by 3.3 per cent to reach 35,000 copies in 1998 from 36,000 copies in 1997. English weekly circulation copies went down by 9.2 per cent from 582,100 in 1997 to 528,600 in 1998 while the circulation copies of Swahili weeklies dropped by 4.8 per cent to 42,000 in 1998 from 44,100 in 1997.

DAILY/WEEKLY AVERAGE LOCAL NEWSPAPER CIRCULATION, 1994 - 1998

Table 14.12 '000 Copies

	1994	1995	1996	1997	1998*
Morning Newspapers-					
English	213.1	231.6	231.5	263.3	257.1
Swahili	29.6	32.5	31.6	36.2	35.0
Other Newspapers-					
English Weeklies	392.8	447.6	506.4	582.1	528.6
Swahili	30.5	36.5	40.5	44.1	42.0

* Provisional

CHAPTER 15 - THE SOCIAL SCENE

Overview

The Central Government expenditure on social services rose by 9.1 per cent from K£ 2,985 million in 1997/98 to K£ 3,257.0 million in 1998/99 as detailed in Table 15.1. Recurrent expenditure rose by 6.4 per cent and it accounted for 87.7 per cent of the total Central Government expenditure budget on social services. The education sector continued to take the largest share of recurrent expenditure (77.7 per cent of the recurrent budget) and was followed by the Health sector (15.9 per cent). However, the health sector continued to dominate the development expenditure budget taking 60.0 per cent. It should be noted that the merging Ministry of Home Affairs and National Heritage with that of Culture and Social Services enlarged both the recurrent and development expenditure allocation in the new ministry for social services.

CENTRAL GOVERNMENT EXPENDITURE ON SOCIAL SERVICES, 1995/96 -1998/99

Table 15.1 K£million

	1995/96	1996/97	1997/98*	1998/99**
RECURRENT EXPENDITURE-				
Ministry of Education	1,391.69	1,478.49	2,086.36	2,218.65
Ministry of Health	361.11	386.36	442.06	454.73
Ministry of Labour	10.69	11.25	11.81	11.12
Ministry of Home Affairs. National Heritage. C&SS***	34 33	36.62	143.57	171.24
TOTAL	1,797.82	1,912.72	2,683.80	2,855.74
DEVELOPMENT EXPENDITURE-				
Ministry of Education	83.37	65.42	80.35	107.36
Ministry of Health	83.75	130.82	197.91	240.64
Ministry of Labour	0.50	0.30	0.06	0.07
Ministry of Home Affairs, National Heritage, C&SS***	5.15	524	22 90	53.17
TOTAL	172.77	201.78	301.22	401.24
TOTAL EXPENDITURE	1,970.59	2,114.50	2,985.02	3,256.98

* Provisional

** Estimates including supplimentaries

C&SS = Culture and Social Services which until 1997/98 was an independent Ministry.

15.2. Local Government estimated expenditure on social services declined by 1.0 per cent from K£ 83.5 million in 1997/98 financial year to K£ 82.6 million in 1998/99 financial year as shown in Table 15.2. Estimated expenditure on education and health declined by 0.3 and 18.4 per cent respectively. However, estimated expenditure on other social services more than doubled to K£ 14.8 million in 1998/99 financial year. Health sector continued to take the biggest share of the Local Government expenditure allocation accounting for 50.4 per cent, followed by the education sector with 31.7 per cent and other social services which took 17.9 per cent of the total.

LOCAL GOVERNMENT EXPENDITURE ON SOCIAL SERVICES, 1994/95 - 1998/99

Table 15.2 K£million

	1994/95	1995/96	1996/97	1997/98*	1998/99**
Education	22.68	18.78	20.66	26.24	26.16
Health	26.24	35.82	30.68	51.06	41.66
Other Social Services	2.65	4.27	12.59	6.15	14.81
TOTAL EXPENDITURE .	51.57	58.87	63.93	83.45	82.63

Provisional.

Estimates.

Education

15.3. Estimated expenditure on education (which includes the entire Ministry of Education and Human Resource Development and some education items under the Ministry of Research and Technology) increased by 9.7 per cent from K£ 2,202.3 million in 1997/98 to K£ 2,415.0 million in 1998 99 financial year. General administration and planning continued to take the biggest share in recurrent expenditure, accounting for 84.2 per cent. Higher education was the second highest consumer of recurrent expenditure taking 11.0 per cent of the total recurrent expenditure. The high recurrent expenditure and general administration and planning is attributed to teachers salaries. Overall, recurrent expenditure estimates accounted for 95.5 per cent of the total budget in the Ministry leaving a mere 4.5 per cent of the total allocation for development activities. Higher education took the biggest proportion (53.6 per cent) of estimated development budget followed by general administration and planning taking 13.7 per cent. The estimated recurrent and development expenditures are detailed in Table 15.3.

EXPENDITURE OF THE MINISTRY OF EDUCATION AND HUMAN RESOURCE DEVELOPMENT
1995/96- 1998/99

Table 15.3 K£million

	1995/96	1996/97	1997/98*	1998/99**
RECURRENT EXPENDITURE-				
General Administration and Planning	1,106.76	1,187.21	1,782.83	1,941.65
Pre-Primary Education	0.24	0.44	0.34	0.24
Primary Education	18.84	25.31	13.97	24.68
Secondary Education	16.12	27.12	15.96	26.62
Technical Education+	13.32	14.60	22.33	26.38
Teacher Training++	10.26	8.59	9.83	9.67
Special Education	2.33	2.73	3.01	3.32
Polytechnic Education+	6.93	7.65	9.35	9.89
Higher Education***	235.47	223.72	257.47	254.74
Miscellaneous	4.44	6.14	6.65	9.59
TOTAL	1,414.71	1,503.51	2,121.74	2,306.78
DEVELOPMENT EXPENDITURE-				
General Administration and Planning	7.29	1.75	1.09	14.86
Pre Primary Education		0.59	2.29	9.89
Primary Education	18.19	14.14	15.52	11.23
Secondary Education	1.85	1.13	0.53	2.33
Technical Education+	0.12	0.13	0.14	0.87
Teacher Training++	6.27	16.97	16.06	10.70
Special Education	1.98	6.35	2.91	0.37
Polytechnic Education +	0.06	0.06	-	-
Higher Education***	47.85	24.49	41.99	57.97
Miscellaneous		-	-	
TOTAL	83.61	65.61	80.53	108.22
GROSS TOTAL EXPENDITURE	1,498.32	1,569.12	2,202.27	2,415.00

*Provisional

**Estimates including supplimentaries

***Includes expenditure on Universities of Nairobi, Moi, Kenyatta, Jomo Kenyatta University of Agriculture & Technology and Egerton

\+ Currently under the Ministry of Research and Technology

++ Includes Expenditure on Kenya Technical Teachers College

15.4. As shown in Table 15.4, there was 2.2 per cent increase of educational institutions from 43,482 in 1997 to 44,444 in 1998. Pre-schools accounted for more than half of the institutions. The growth in pre-schools slowed down from 9.8 per cent in 1997 to 2.7 per cent in 1998. Primary and secondary schools recorded marginal increases of less than 2.0 per cent, while the secondary school and primary school teachers training colleges remained constant.

15.5. Enrolments in pre-primary schools improved slightly by 1.2 per cent from 1,064,053 in 1997 to 1,076,606 in 1998. Girls' proportion of the total enrolment dropped slightly to 48.5 per cent in 1998 from 49.2 per cent in 1997. The number of pre-school teachers increased by 4.5 per cent to stand at 37,752 in 1998, while pupil teacher ratio improved slightly from 29.5 in 1997 to 28.5 in 1998. The pupil trained teacher ratio recorded a further improvement from 71.0 in 1997 to 67.8 in 1998.

NUMBER OF EDUCATIONAL INSTITUTIONS. 1994 - 1998

Table 15.4 Numbers

Category	1994	1995	1996	1997	1998*
Schools:					
Pre-Primary	19,083	20,186	21,261	23,344	23,977
Primary	15,906	16,115	16,552	17,080	17,356
Secondary	2,834	2,878	3,004	3,028	3,081
Training Colleges:					
Primary	25	25	26	27	27
Secondary**	3	3	3	3	3
TOTAL	37,851	39,207	40,846	43,482	44,444

*Provisional.

**Includes Kenya Technical Teachers Colleges

15.6. Primary school enrolments for the period 1995 - 1998 are presented in Table 15.5. Enrolment in primary schools rose by 4.3 per cent from 5.7 million in 1997 to 5.9 million in 1998. The proportion of girls to the total primary school enrolment was 49.4 per cent which depicts a near gender balance at this level of education. Standard 1 enrolment represented 16.5 per cent of the total enrolment while standard 8 represented 7.4 per cent of the total enrolment, indicating high drop out and repetition rates at higher grades. It is worth noting that retention for girls at standard 5, 6 and 7 is higher than that of boys while the trend changes drastically in standard 8. In 1998, there was less than two per cent rise in total candidature for Kenya Certificate of Primary Education (KCPE) examination with 446,539 candidates compared to 438,904 in 1997. Private candidates from the Ministry of Home Affairs, National Heritage, Culture and Social services contributed a 0.6 per cent or 2,823 of the total candidature.

PRIMARY SCHOOL ENROLMENT BY STANDARD. 1995 - 1998

Table 15.5 '000

Class	1995		1996		1997		1998*	
	Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls
Standard 1	492.1	459.9	494.2	463.9	498.2	468.2	503.1	473.0
Standard 2	426.8	405.8	437.4	414.9	442.9	421.1	460.4	431.1
Standard 3	392.3	373.3	397.0	374.7	402.1	370.4	428.2	405.8
Standard 4	368.1	366.2	372.9	364.2	379.5	372.4	397.1	390.3
Standard 5	329.2	334.0	330.9	330.8	331.7	334.6	351.3	352.3
Standard 6	292.0	300.4	297.5	307.0	304.1	312.4	316.2	326.0
Standard 7	290.2	300.5	296.2	299.8	301.2	310.9	317.2	331.3
Standard 8	211.6	194.0	217.3	199.0	220.5	207.1	221.0	215.3
TOTAL	2,802.3	2,734.1	2,843.4	2,754.3	2.880.2	2,797.1	2,994.5	2,925.1
GRAND TOTAL	5,536.4		5,597.7		5,677.3		5,919.6	

* Provisional

15.7. Secondary school enrolment is detailed in Table 15.6. Total enrolment went up by 1.9 per cent from 687,473 students in 1997 to 700,538 students in 1998. However, the female population in secondary school enrolment declined slightly from 47.1 per cent in 1997 to 46.7 per cent in 1998. Form 1 enrolment accounted for 27.9 per cent of the total enrolment in secondary schools while the share of Form 4 was 21.7 per cent. This comparison is a crude indicator of low repetition and drop out rates in secondary schools. A total of 169,506 students registered for Kenya Certificate of Secondary Education examination in 1998 as compared to 156,714 students in 1997, a rise of 8.2 per cent. Females formed 45.7 per cent of the candidates.

ENROLMENT IN SECONDARY SCHOOLS BY FORM AND SEX, 1994 - 1998

Table 15.6 Numbers

Form	1904		1995		1996		1997		1998*	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Form 1	90,774	78,140	96,360	83,650	97,394	85,917	98,487	88,614	102,449	92,813
Form 2	87,993	76,549	88,737	75,961	93,526	81,444	95,539	86,856	98,066	86,922
Form 3	79,067	66,328	82,623	69,876	83,902	71,924	89,365	79,496	90,293	77,871
Form 4	78,605	62,383	74,087	61,094	78,104	66,042	80,457	68,659	82,632	69,492
TOTAL	336,439	283,400	341,807	290,581	352,926	305,327	363,848	323,625	373,440	327,098
GRAND TOTAL	619,839		632,388		658,253		687,473		700,538	

* Provisional.

15.8. The number of primary school teachers by qualification and sex from 1995 to 1998 is shown in Table 15.7. The number increased by 3.1 per cent from 186,590 in 1997 to 192,306 in 1998. Female teachers constituted 42.1 per cent of the total primary school teaching force. The proportion of trained teachers rose to 96.6 per cent, while the number of untrained teachers decreased by 37.8 per cent from 10,556 in 1997 to 6,570 in 1998. The pupil trained teacher ratio remained at the 1997 level (32) while the pupil-teacher ratio declined slightly from 30.4 in 1997 to 30.8 during the year. Although the policy of Ministry of Education is to maintain a low pupil teacher ratio as a measure of quality education, it is too expensive to sustain. The number of P4 teachers rose from 34 in 1997 to 1,114 in 1998. There was a slight variation in the distribution of teachers by qualification because the data for 1998 is extracted from the Teachers Head-count database (which was a complete enumeration of all teachers) as opposed to the previous years' sourced from the District Education Officer's aggregated records.

15.9. Table 15.8 shows the number of secondary school teachers by qualification and sex from 1995 to 1998. The secondary school teaching force decreased by 1.5 per cent to stand

at 43,694 in 1998. This could be attributed to the exclusion of teachers in private schools since they were not covered during the Teachers Head-count exercise. The methodology used in the Head-count exercise also caused a change in the distribution of secondary school teachers by qualification since graduate teachers were aggregated with approved teachers. The proportion of female secondary school teachers increased slightly from 33.5 per cent in 1997 to stand at 35.4 per cent in 1998. The proportion of trained secondary school teachers however, rose from 86.6 per cent in 1997 to 92.5 per cent in 1998 while that of untrained teachers declined to 7.5 per cent in 1998. Pupil-teacher ratio dropped to 16.0 in 1998 from 15.5 in 1997 while pupil trained teacher ratio improved from 17.9 in 1997 to 17.3 in 1998. The increased proportion of trained secondary school teachers together with improved pupil trained teacher ratio is in line with the Ministry's policy to provide quality education at all levels.

NUMBER OF PRIMARY TEACHERS BY QUALIFICATION AND SEX. 1995-1998

Table 15.7

	1995			1996			1997			1998*		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
TRAINED -												
Graduate	9	10	19	21	37	58	17	14	31			
Approved **	866	448	1,314	994	610	1,604	1,364	795	2,159	924	727	1,651
S1/Diploma	6,287	3,351	9,638	7,873	4,939	12,812	9,993	5,392	15,385	12,363	7, 381	19,744
P1	66,728	44,396	111,124	69,042	48,112	117,154	70,017	50,221	120,238	73,311	54,299	127,610
P2	19,158	13,015	32,173	18,128	13,132	31,260	17,809	13,108	30,917	16,544	12,541	29,085
P3	4,714	4,797	9,511	4,050	4,071	8,121	3,474	3,796	7,270	3,158	3,374	6,532
P4	69	67	136	21	25	46	11	23	34	708	406	1,114
TOTAL	97,831	66,084	163,915	100,129	70,926	171,055	102,685	73,349	176,034	107,008	78,728	185,736
UNTRAINED:-												
K.A.C.E . ('A' Level)	1,612	942	2,554	1,027	556	1,583	622	387	1,009	246	71	317
K.C.E./K.S.C.E. CO' Level)	7,786	4,675	12,461	6,006	3,734	9,740	4,940	2,935	7,875	3,501	1,848	5,349
K. J. S. E	1,523	515	2,038	954	375	1,329	873	350	1,223	490	156	646
C.P.E	216	197	413	188	156	344	151	129	280	120	82	202
Other	335	259	594	197	145	342	74	95	169	42	14	56
TOTAL	11,472	6,588	18,060	8,372	4,966	13,338	6,660	3,896	10,556	4,399	2,171	6,570
GRAND TOTAL	109,303	72,672	181,975	108,501	75,892	184,393	109,345	77,245	186,590	111,407	80,899	192,306

* Provisional

** An approved teacher has completed the equivalent of a University Education

1998 data for approved teachers include university graduates

NUMBER OF SECONDARY TEACHERS BY QUALIFICATION AND SEX 1995 1998

Table 15.8

	1995			1996			1997			1998*		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
TRAINED												
Graduate	11,413	6,719	18,132	12,825	7,770	20,595	14,706	8,559	23,265	18,326	11,062	29,388
Approved **	1,169	373	1,542	1,976	902	2,878	2,237	866	3,103			
S1/Diploma	8,285	4,030	12,315	7,108	3,610	10,718	7,123	3,908	11,031	6,644	3,490	10,134
Technical	770	414	1,184	387	163	550	699	171	870	575	203	778
P1	214	56	270	143	39	182	135	23	158	107	30	137
TOTAL	21,851	11,592	33,443	22,439	12,484	34,923	24,900	13,527	38,427	25,652	14,785	40,437
UNTRAINED												
Graduate	2,196	753	2,949	1,896	533	2,429	2,068	545	2,613	2,032	497	2,529
Dip\Technical	846	311	1,157	494	183	677	482	164	646	439	152	591
K . A . C . E ('A' Level)	2,098	622	2,720	2,040	578	2,618	1,516	474	1,990	58	18	76
K.C. E. /K.S.C.E.('O' Level)	633	223	856	269	97	366	362	89	451	37	5	42
Other	278	81	359	196	71	267	173	78	251	13	6	19
TOTAL	6,051	1,990	8,041	4,895	1,462	6,357	4,601	1,350	5,951	2,579	678	3,257
GRAND TOTAL	27,902	13,582	41,484	27,334	13,946	41,280	29,501	14,877	44,378	28,231	15,463	43,694

* Provisional

** An approved teacher has completed the equivalent of a University Education

1998 data for university graduates include approved teachers

15.10. Enrolment in Government Primary Teacher's Training Colleges (PTTC's) declined by 51.5 per cent from 18,407 in 1997/98 to 8,929 in 1998/99 as shown in Table 15.9. This was due to the Ministry's temporary suspension of further admissions to PTTC's. Female students accounted for 49.1 per cent of the total enrolment. There were 8,624 students pursuing the PI course compared to 305 pursuing P2 course. Females' representation of the PI and P2 courses were 48.5 per cent and 65.9 per cent respectively.

STUDENT ENROLMENT IN ALL GOVERNMENT PRIMARY TEACHERS TRAINING COLLEGES. 1998/99*

Table 15.9 Numbers

	1st YEAR**		2nd YEAR		TOTAL		
CERTIFICATION	Male	Female	Male	Female	Male	Female	Total
P1	-	-	4,445	4,179	4,445	4,179	8,624
P2	-	-	104	201	104	201	305
TOTAL	-	-	4,549	4,380	4,549	4,380	8,929

* Provisional

** There was no 1st Year intake in 1998/99

15.11. With conversion of Kisumu Technical Training Institute into a national polytechnic the number of national polytechnics increased to four. There was a 5.5 per cent increase in national polytechnic enrolment from 8,658 students in 1997 to 9,136 in 1998, despite the 33.6 per cent drop in student enrolment at the Mombasa Polytechnic. Kenya Polytechnic is by far the largest polytechnic with an enrolment of 5,014 students, while Eldoret polytechnic is the smallest with only 598 students. Male students constituted 71.6 per cent of the total enrolment. Enrolment in the 20 Technical Training Institutes also declined from 8,553 in 1997 to 7,979 students in 1998. Female students were 40.0 per cent of the total enrolment, which indicates that technical subjects are still less popular among females. There was a remarkable increase of 13.0 per cent in the enrolment of the 17 Institutes of Technology, from 6,280 in 1997 to 7,094 in 1998. Male students continued to dominate constituting 63.9 per cent of the total.

15.12. Enrolment in the five public universities dropped from 43,591 in 1997/98 academic year to 40,523 in 1998/99, representing 7.0 per cent decline. Female students constituted 30.5 per cent of the total in 1998/99 compared to 29.2 per cent in 1997/98. The University of Nairobi contributed 30.7 per cent of the total student population with 12,424 students followed by Egerton University with 8,200 students (20.2 per cent) while Jomo Kenyatta University of Agriculture and Technology had the lowest enrolment of 3,092 (7.6 per cent). Most of the public universities have introduced parallel degree programmes for any qualified persons to join. This is mainly to cope with the demands of a liberalised economy as well as income generation.

15.13. Enrolment of students at the University of Nairobi declined by 19.3 per cent to stand at 12,424 in 1998/99, which can be attributed to the rising levels in the cost of education and hence inability to pay fees. The proportion of female students improved from 25.9 per cent in 1997/98 to 27.8 per cent in 1998/99. There were 11 foreign students enrolled. Postgraduate students constituted 12.2 per cent of the total, while first year students enrolment was 2,897 in 1998/99 of which 31.7 per cent were females.

15.14. Enrolment at Kenyatta University also declined by a similar margin (19.5 per cent) from 9,641 students in 1997/98 to 7,758 students in 1998/99. There were 1,071 students

pursuing postgraduate studies with a female composition of 29.8 per cent. First year students in 1998/99 were 2,009 of which 42.5 per cent were female students.

15.15. Enrolment at Jomo Kenyatta University of Agriculture and Technology grew by 2.9 per cent to 3,092 in 1998/99. Female students were 20.3 per cent of the total undergraduate enrolment and 38.9 per cent of the postgraduate population, equal to 20.1 per cent of the total student population. This represented an improvement from 15.0 per cent recorded in 1997/98. There were 728 Diploma students.

15.16. Moi University (excluding Maseno University College) enrolled 5,050 undergraduate students in 1998/99 compared to 4,810 enrolled in 1997/98. Females comprised 27.9 per cent of the students. The University admitted 1,678 first years, with 27.7 per cent being female students.

15.17. Enrolment in Maseno University College rose by 42.4 per cent from 2,809 in 1997/98 to 3,999 in 1998/99. Postgraduate students constituted 7.4 per cent of the total student population. The bulk of postgraduate students (79.7 per cent) were pursuing postgraduate diploma in education course. Female students comprised 32.8 per cent of the total student population.

15.18. Egerton University enrolled 8,200 students in 1998/99 compared to 8,056 students in 1997/98, representing 1.8 per cent rise. The proportion of female students rose from 29.2 per cent in 1997/98 to 31.0 per cent in 1998. Postgraduate students constituted 1.4 per cent of the total enrolment. The University admitted 2,347 first years of which 36.1 per cent were female students.

15.19. Enrolment in the four private universities accredited by the Government went up by 6.6 per cent to stand at 3,888 in 1998/99 academic year. There was a slight decline in the proportion of female students from 50.3 per cent in 1997/98 to 46.7 per cent in 1998/99. The highest enrolment was in Daystar University with 37.2 per cent of the total students while the lowest was recorded in Scott Theological College constituting 2.5 per cent of the total.

Health

15.20. The Government continues to increase the coverage and accessibility of health services. This is achieved through intersectoral collaboration with active community participation. The Ministry of Health has addressed some of the major problems including chronic unavailability of drugs and poor maintenance of health facilities and equipment. The Ministry will decentralise the health-care delivery system to involve the local population to participate in decision making. During 1997/98 financial year 9.0 percent of the Government revenue was spent on the provision of health services. The Government undertook various expansion projects including new facilities and expanding existing ones.

15.21. Table 15.10 gives the distribution of health institutions and hospital beds by province. The number of health institutions increased by 1.9 per cent from 4,069 in 1997 to 4,145 in 1998 while the total number of beds and cots increased by 2.5 per cent from 50,909 to 52,186. However, the number of beds per 100,000 dropped by 1 point from 176 to 175.

HEALTH INSTITUTIONS AND HOSPITAL BEDS AND COTS BY PROVINCE. 1998*

Table 15.10

Province	HEALTH INSTITUTIONS				HOSPITAL BEDS & COTS	
	Hospitals	Health Centres	Health sub-centres and Dispensaries	Total	No. of Beds and Cots	No. Per 100.000 Population
Nairobi	51	36	303	390	6,691	321
Coast	44	48	361	453	4,227	176
Eastern	55	73	665	793	6,516	130
North-Eastern	6	9	53	68	1,501	212
Central	47	78	345	470	7,218	184
Rift Valley	84	148	963	1,195	10,401	147
Nyanza	82	104	298	484	9,879	194
Western	51	83	158	292	5,753	165
TOTAL 1998	420	579	3,146	4,145	52,186	175
TOTAL 1997	398	566	3,105	4,069	50,909	176

* Provisional

15.22. Table 15.11 gives the number of health personnel trained in maternal health-care from 1994 to 1998. This training has been integrated in other training programmes of the Ministry. A total of 242 health workers were trained in 1998 as compared to 212 in 1997.

STAFF TRAINED ON THE MATERNAL HEALTH CARE 1994 - 1998

Table 15.11 Number

Type of Personnel	1994	1995	1996	1997	1998*
Enrolled Community Nurses	244	106	237	190	210
Kenya Registered Nurses/Midwife	48	74	14	22	32
Clinical Officers	4	19	-	-	-
Total	296	199	251	212	242

15.23. As shown in Table 15.12, the total number of registered medical personnel by category for the period 1997-1998 increased by 6.0 per cent from 48,462 in 1997 to 51,365 in 1998, mainly due to the increased output from local training institutions. Most of the medical doctors are graduates from Nairobi and Moi Universities while the other medical personnel are mainly graduates from the local medical training centres. A total of 7,521 students were undergoing medical training.

REGISTERED MEDICAL PERSONNEL 1997 - 1998

Table 15.12 Number

Type of Personnel	1997		1998*		IN TRAINING	
	Number	No. Per 100,000 Popu-lation**	Number	No. Per 100,000 Popu-lation**	1997-98 Number	1998-99 Number
Doctors	4,078	14.1	4,282	14.4	795	810
Dentists	704	2.4	715	2.4	163	160
Pharmacists	1,539	5.3	1,629	5.5	120	120
Pharmaceutical Technologists	1,047	3.6	1,137	3.8	90	100
Registered Nurses	8,006	27.6	8,336	28.0	1,031	1,005
Enrolled Nurses	24,602	84.8	25,803	86.7	3,880	3,892
Clinical Officers	3,232	11.1	4,007	13.5	834	830
Public Health Officers	668	2.3	728	2.4	175	174
Public Health Technicians	4,586	15.8	4,728	15.9	424	430
TOTAL	48,462		51,365		7,512	7,521

* Provisional

** Based on population projections

15.24. Control of Aids: The community is losing young adults in their most productive years of life to AIDS. The heavy costs of medical care, drugs, funeral expenses and a rise in the number of orphaned children, thus increasing the level of dependency in the economy. The Government is implementing a multi-sectoral prevention and control strategy as well as playing a leadership role and creating an enabling environment for all partners to participate effectively in the control of AIDS. The prevalence of AIDS is expected to rise from the 9.0 per cent in 1997 to 10.0 per cent by the turn of the century. The estimated population with HIV in the period 1993 to 1997 is shown in Table 15.13.

ESTIMATED POPULATION WITH HIV 1993 - 1997

Table 15.13

	1993	1994	1995	1996	1997
Number of Adults	678,524	890,723	1,031,627	1,134,567	1,325,000
Children aged < 15 yrs	46,597	61,169	70,845	77,915	91,000
Total Population with HIV	725,121	951,892	1,102,472	1,212,482	1,416,000
Prevalence rate	5.3	6.7	7.5	8.5	9.0

Source: NASCOP/MOH

15.25. National Hospital Insurance Fund (NHIF): The NHIF became a parastatal in 1997/98 financial year. The receipts and benefits from the National Hospital Insurance Fund for the financial year's 1993/94 - 1997/98 are presented in Table 15.14. Members contributions were K£ 94.20 million in 1997/98 with K£ 48.70 millions paid out as members benefits, hence contributions net of benefits stood at K£ 45.50 million.

NATIONAL HOSPITAL INSURANCE FUND, 1993/94 -1997/98

Table 15.14 K£million

YEAR	Receipts	Benefits	Contribution Net of Benefits
1993/94	50.85	44.65	6.20
1994/95	61.44	52.49	8.95
1995/96	71.90	17.10	55.00
1996/97	82.40	27.20	55.20
1997/98	94.20	48.70	45.50

Other Social Services

15.26. National Youth Service (NYS): Due to lack of funds, there was no recruitment of both service women and men in 1998. Income earned from development activities such as sale of farm produce and livestock farming declined from K£ 2.2 million in 1997 to K£ 1.0 million in 1998, largely due to adverse effects *El-Nino* rains. In addition, mechanical transport branch stopped leasing out their machines, which resulted in loss of income. National Youth Service enrolment and earnings are shown in Table 15.15.

NATIONAL YOUTH SERVICE ENROLMENT AND INCOME EARNED, 1994 - 1998

Table 15.15

Year	Enrolment (Numbers)			Income Earned K£ million
	Service men	Service women	Total	
1994	2,748	1,061	3,809	1.88
1995	3,888	1,087	4,975	2.03
1996	2,208	597	2,805	1.70
1997	2,737	465	3,202	2.20
1998*	-	-	-	1.00

* Provisional

15.27. National Social Security Fund (NSSF): Details of employers and employees registered with the fund, their annual contribution and benefits are shown in Table 15.16. Employers registered with the fund remained constant at 48.0 thousand while employees increased from 2,498.2 thousand in 1997 to 2,546.5 thousand in 1998. However, annual contribution to the fund decreased by 3.14 per cent.

NATIONAL SOCIAL SECURITY FUND, 1994 - 1998

Table 15.16

	1994	1995	1996	1997	1998*
Employers registered '000	44.1	45.7	46 4	48.0	48.0
Employees registered '000	2,229.6	2.294.3	2,401.1	2,498.2	2.546.5
Annual contribution K£mn	73.8	70.3	80.0	79.5	77.0
Annual benefits paid K£mn	17.1	17.0	26.0	27.6	26.0

15.28. The National Social Security Fund aims at providing basic social security services and benefits to its members. In addition, the Fund mobilises public savings for general development, such as housing schemes, which it eventually hands over to the public, thus improving the quality of life of its members. Presently, the Government in collaboration with the employers is in the process of reviewing the Fund's Act with a view to expanding its benefit package to its members.

15.29. Adult Education: The total number of persons enrolled in the adult literacy classes declined by 1.1 per cent from 101,354 in 1997 to 100,261 in 1998, as shown in Table 15.17. There was a 7.0 per cent drop in male enrolment from 28,139 in 1997 to 26,180 in 1998. However, female enrolment increased slightly by 1.2 per cent to stand at 74,081. The Government's policy is to raise literacy levels as the country prepares to get industrialised by the year 2020.

ADULT EDUCATION ENROLMENT BY SEX 1994 - 1998

Table 15.17

Year	Male	Female	Total	% of Female Enrolment
1994	26,595	87,684	114,279	76.7
1995	27,572	88,479	116,051	76.2
1996	26,612	89,029	115,641	77.0
1997	28,139	73,215	101,354	72.2
1998*	26,180	74,081	100,261	73.9

* Provisional

15.30. Table 15.18 shows details of adults who passed proficiency tests and those who enrolled for KCPE from 1994 to 1998. The number of candidates who passed the proficiency tests increased by 15.9 per cent from 7,111 in 1997 to 8,239 in 1998, while those who enrolled for KCPE examinations more than doubled to stand at 3,883 in 1998. The increase in enrolment for both proficiency test and KCPE examinations could be attributed to the successful post-literacy programmes organised by the department of adult education.

1.12. ***Europe.*** The overall picture in OECD -Europe (now the European Union) has been that of robust economic growth rates. These stood at 2.6 and 2.8 per cent in 1997 and 1998 respectively. Strong domestic demand and consumer confidence, low rates of inflation within the Euro area, high levels of productivity and investment contributed to the accelerated growth in the region. Germany, France, Belgium, Denmark, Finland, Hungary, Iceland and Ireland are some of the European economies that recorded buoyant economic growth rates. This was inspite of the financial turbulence that affected the Russian economy and most of the emerging market economies of Asia. On the other hand, United Kingdom and Italy recorded declines in economic growth resulting from lack of sufficient aggregate demand.

1.13. During the year, economic growth was hampered by lack of external demand brought about by the financial turbulence in the global economy. This is the single most important factor that will slow the expansion of the regional economy. Most of the economies in this region are set to join the European Economic and Monetary union. In part, this involves handing over some considerable measure of responsibility in monetary policy formulation to the newly formed European Central Bank.

1.14. ***Russia and Central and Eastern Europe***: Russia is currently facing a major economic crisis as a result of unstable Russian financial markets. Low investor confidence and high government's debt coupled with declining foreign reserves has caused this. There was hardly any growth for the first half of the year relative to the same period in 1997, while current account balances weakened as a result of the drop in oil prices. This partly contributed to the financial tumult experienced in the second half of the year.

1.15. As a result of the crisis in Russia, financial market volatility increased in many of the countries of the region. A major shift in market orientation in Central and Eastern Europe largely sheltered these economies from the turmoil in Russia. The Baltic countries, however, have been affected by this impact as Russia absorbs 20-25 per cent of their exports. The sustainability of growth in other countries such as Romania has been uncertain due to large external imbalances. These countries face a bleak outlook mainly due to lack of professional adjustment strategies and uncertainty over the impact of the present situation in international financial markets. The biggest risk to growth prospects in the transition countries would be a slowdown of EU growth.

1.16. ***Central and South America:*** The Brazilian economy continued to suffer setbacks in 1998 recording a growth of only 0.8 per cent. Fiscal problems posed considerable risks, which could have been managed, while an unsustainable policy mix led to severe erosion of investor confidence. The effect of tight monetary policy adopted in 1997, continued to be felt by the Chilean and Colombian economies in 1998, resulting in slower growth rates of 5.0 and 2.5 per cent, respectively. The uncertainties surrounding the results of the December 1998 presidential polls in Venezuela impeded a tighter rein on public spending and a more aggressive implementation of privatisation plans necessitated by falling oil prices.

1.17. ***Mexico:*** The spillover effects of the Asian crisis dominated economic developments in 1998. Rising inflation, slower economic growth and falling oil prices characterized the Mexican economy. GDP growth was constrained due to the tightening of macro-economic policies. As oil related receipts account for a third of the Government revenue, falling oil earnings were accompanied by tight fiscal policies. The