ECONOMIC SURVEY

2000

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SUMMARY AND OUTLOOK

International Scene

The world economy picked up from the recession of 1998. The global financial turmoil, which affected most of the emerging market economies of Asia, appeared to have settled. The affected economies seem to be recovering faster than projected. Developments in Russia and Brazil have been less than feared, while the US economy continues to grow robustly. In Japan the recovery was quicker that expected. In Africa growth continued to be hampered by adverse weather and poor trading environments.

Generally, the world economy is winning the war against unemployment, led by Europe and U.S.A., while inflationary pressures have eased in most of the world economies.

The volume of world trade plummeted further in the year as the current account balances of most economies worsened.

The world economy's growth is expected to pick up in 2000 before slowing down in 2001. This is on account of a lower growth expected in U.S.A., uncertain developments in Japan and decline in aggregate demand. Inflationary pressures and unemployment are expected to rise in 2000 before slowing in 2001.

Domestic Economy

The year 1999 witnessed a further decline in real GDP growth from 1.8 per cent in 1998 to 1.4 per cent in 1999. Lower growth rates were recorded in almost all major sectors in 1999 when compared to 1998. Transport, however, recorded a better growth rate of 1.4 per cent during the period under review compared to 1.2 per cent the previous year. Real output growth in agriculture, which contributes 25 per cent to GDP slowed from 1.5 per cent in 1998 to 1.2 per cent in 1999.

Investments recorded a decline of 4.5 per cent in 1999, mainly due to high costs of borrowing, poor infrastructure and a general low investor confidence.

Kenya's fiscal deficit widened on account of increased expenditure on repair of infrastructure, while inflation was contained at an average of 3.5 per cent in 1999, the lowest recorded in four years. The shilling dropped from a mean rate of Kshs. 63 to the US dollar in 1998 to Kshs. 75 to the US dollar in the year under review.

Social Scene

Enrolment in pre-schools recorded a marginal decline of 1.2 per cent from 1,076,606 in 1998 to 1,063,883 in 1999. The proportion of girls to the total enrolment recorded a slight improvement from 48.5 per cent in 1998 to 48.8 per cent in 1999. The

number of pre-school teachers however increased by 6.7 per cent to reach 40,291 in 1999. The pupil teacher ratio improved from 29:1 in 1998 to 26:1 in 1999. Enrolment in primary schools recorded a 0.8 per cent decline from 5.92 million in 1998 to 5.87 million in 1999. The number of primary school teachers also decreased from 192,306 teachers in 1998 to 186,612 teachers during the year under review. In this regard, the pupil-teacher ratio remained constant at the 1998 level of 31:1. Secondary school enrolment also deteriorated by 8.8 per cent in 1999. Enrolment at the public universities grew marginally by 3.0 per cent from 40,613 in 1998/99 to 41,825 in 1999/2000. The composition of female students improved from 30.5 per cent in 1998 to 30.9 percent in 1999. Enrolment in private accredited universities registered a sharp growth of 78.0 per cent to stand at 6,920 students. The proportion of female students was an impressive 54.5 per cent.

The number of health institutions increased by 2.2 per cent from 4,145 in 1998 to 4,235 in 1999. Hospital beds and cots rose significantly by 4.2 per cent to stand at 54,378 during the year under review. The number of doctors per 100,000 population improved from 14.4 in 1998 to 15.3 in 1999 while enrolled nurses increased from 25,803 to 27,073 during the same period. HIV prevalence rose from 12.8 in 1997 to 13.9 in 1999 with the urban areas recording the highest prevalence. Contribution to the National Hospital Insurance Fund (NHIF) increased by 8.4 per cent, while payment of benefits to the members rose markedly by 26.5 per cent to reach K£ 61.60 million in 1999. Total revenue earned by National Youth Service declined by 7.0 per cent. There was no recruitment of both servicemen and servicewomen. Enrolment in Adult education decreased by 9.6 per cent from 100,261 registered in 1998 to 90,686 registered in 1999. Females continued to constitute the majority (72.5 per cent) enrolled in Adult education.

Employment, Earnings and Consumer Prices

An estimated 5.5 million persons were engaged outside small-scale farming and pastoralist activities in 1999, with a total of 395,600 new jobs being created. Growth in persons engaged decelerated from 8.6 per cent in 1997, to 8.2 per cent in 1998 and finally to 7.8 per cent in 1999; largely due to a significant slowdown in the growth in wage employment in the modern sector coupled with weak performance of the domestic economy. Wage employment in the modern sector stood at 1,673.6 thousand persons in 1999, representing a marginal increase of 0.5 per cent. In line with Government objective to achieve budgetary savings and reduce public wage bill, public sector employment declined further by 2.1 per cent in 1999. The informal sector expanded further by 11.5 per cent in 1999, creating 385,200 additional jobs and accounting for 68.3 per cent of the persons engaged in 1999.

The overall wage bill rose from K£ 10,092.8 million in 1998 to K£ 11,709.8 million in 1999, expanding by 16.0 per cent. Average earnings per person increased from K£ 6,062.0 per annum to K£ 6,997.0 per annum, increasing by 15.4 per cent, significantly lower than annual growth recorded in 1998. Despite the current

recession, real average earnings improved by 11.5 per cent, from K£ 988.3 per annum in 1998 to stand at K£ 1,102.3 per annum in 1999. This is mainly due to rise in nominal average earnings and low inflation rate, which is used as a deflator. A total of 328 collective wage agreements were registered compared with 349 and 304 agreements registered in 1998 and 1997 respectively.

Inflationary pressures eased further during the year under review. Inflation rate measured by Nairobi consumer price indices declined further from 6.6 per cent recorded in 1998 to 3.5 per cent in 1999. The decline in overall inflation was attributed to a combination of factors. The main ones are prudent fiscal and monetary policies, increased supply of foodstuffs and lowering of VAT form 16 per cent to 15 per cent during the fiscal year1999/2000.

Money, Banking and Finance

Controlled monetary expansion ensured that growth in broad money supply (M3) remained low at 2.8 per cent in 1999. This helped in achieving the main objective of having money supply expand at the same pace with production of goods and services thus maintaining low inflationary trends. Low interest rates prevailed in 1999 compared to 1998. Commercial Banks and Non Bank Financial Institutions maintained average liquidity ratios of 41.0 per cent and 54.0 per cent respectively compared with mandatory minimum liquidity ratio of 20.0 per cent.

Domestic credit grew from K£ 17,539.8 million in 1998 to K£18,568.1 million in 1999. This was mainly due to increases in credit to private sector including parastatals. On the other hand credit to Central Government declined marginally.

The financial sector performed poorly despite the relative stability achieved in the banking sector during 1999. Majority of the public financial institutions recorded huge losses while the private financial institutions realised reduced profits in 1999 compared to 1998. This was partly due to implementation of international accounting standards, which required banks to provide for bad and doubtful debts in their profit and loss accounts. In other financial sub sectors the scenario was the same with trading volume in the stock market falling as the (NSE) index dropped from 2962 in 1998 to 2303 in 1999. The insurance firms similarly experienced losses due to huge court awards on injury and falsified claims.

Public Finance

The total government expenditure is expected to rise by 18.6 per cent from K£ 12,137.1 million in 1998/99 to K£ 14,392 million in 1999/2000. The total revenue is estimated to grow to K£ 9,452.32 million in 1999/2000 from K£ 9,010.3 million in 1998/99 financial year.

Excise duty is set to fall from K£ 691,596 thousands in 1998 to K£ 663,946 thousands in 1999 mainly due to reduced sales occasioned by both low output and depressed demand for these commodities. Beer, spirits and cigarettes remained the major contributors to the total excise revenue. However import duty is projected to grow as a result of increased imports of fuel and upward adjustment on duty charged and general improvement in tax administration by the Kenya Revenue Authority.

In 1999/2000 financial year, public debt repayments will increase by 32.4 per cent with internal debt redemption projected to grow by K£ 549.5 million while external by K£ 456.2 million. The overall deficit is projected to rise by K£ 558.6 million in 1999/2000 from a surplus of K£ 124.7 million in 1998/99. This deficit will be financed mainly by domestic borrowing.

The introduction of the Medium Term Expenditure Framework strategy by the Government in 1999/2000 financial year is expected to reduce high deficit, domestic borrowing and encourage economic growth. The Government has also intensified her efforts to cut down the share of the GDP absorbed by the real public expenditure and improve the quality of the expenditure by concentrating available resources in areas that will encourage economic growth and poverty reduction.

International Trade and Balance of Payments

Key indicators of international trade and balance of payments show mixed performance in 1999. Imports declined while exports almost stagnated resulting in the trade deficit narrowing marginally. The current account therefore improved to record a surplus for the first time since 1994.

Significant reductions of export prices and volume of various export items mainly explains the sluggish performance of the export sector. The unfavourable terms of trade recorded in 1998 deteriorated further in 1999, a reflection of the relatively high import prices compared to export prices at the international market.

The overall balance of payments deteriorated further to a surplus of K£ 212.0 million in 1999 from a surplus of K£ 228.7 million in 1998. The current account balance recorded a surplus of K£ 38.9 million in 1999, compared to a deficit of K£ 1,440.3 million in 1998, primarily reflecting the narrowing of the trade deficit and improved performance of the services sector mainly arising from increased tourism earnings. Capital and financial account surplus dropped to K£ 633.9 million in 1999 from a surplus of K£ 1,951.3 million in 1998. The decline mirrors the increase in official long-term capital outflows, reduced official long-term capital inflows and a decrease in private long-term capital net inflows.

Agriculture

Gross Domestic Product growth in the agricultural sector decelerated from 1.5 per cent in 1998 to 1.2 per cent in 1999. Overall, output at current prices declined from K£ 8,154.3 million recorded in 1998 to K£ 7,778.7 million in 1999. At constant prices, total value of agricultural output increased by 1.5 per cent to 1,400.0 million in 1999. The increase in output at constant prices is attributed to increases in production of coffee, pyrethrum, sisal, rice and dairy produce.

The value of marketed production declined by 13.5 per cent from K£ 4,240.1 million in 1998 to K£ 3,665.6 million in 1999. Prices of tea and coffee declined while those of sugarcane, pyrethrum, seed cotton and sisal remained virtually static. However, the prices of centrally marketed maize and wheat recorded price increases of 7.9 per cent and 7.4 per cent respectively. In 1999, the National Cereals and Produce Board (NCPB) purchased 192.9 thousand tonnes of maize from farmers to boost its strategic reserves and for relief purposes. However, the country experienced maize production deficits. This led to importation of 73.5 thousand tonnes of maize for relief and commercial purposes. Poor wheat producer prices in 1998 impacted negatively on wheat production in 1999. In addition, the armyworms invasion on the wheat farms in 1999 resulted in massive on farm crop losses. As a result, recorded wheat production registered a paltry 55.4 thousand tonnes in 1999.

Coffee production increased by 27.5 per cent from 53.4 thousand tonnes in 1997/98 to 68.1 thousand tonnes in 1998/99-crop year. Internal wrangles in the coffee co-operatives sector dominated for the better part of 1999 culminating in the splitting of giant coffee societies into smaller units. Tea production declined by 15.5 per cent from 294.2 thousand tonnes in 1998 to 248.7 thousand tonnes in 1999. The decline in tea production in 1999 is attributed to lower precipitation when compared to 1998 when the 'El-nino' weather phenomenon was experienced.

Environment and Natural Resources

The Development expenditure on water supplies and related services grew by 25.2 per cent from K£ 64,599 thousand in 1998 to K£ 80,861 thousand in 1999. The increase was mainly due to increased financial support to rural and urban water supplies.

The fisheries and forestry sub-sector continued to perform poorly relative to past years. The volume of fish landed went down by 3.0 per cent to stand at 167,601 metric tonnes in 1999,down from 172,845 metric tonnes in 1998, attributed to low production from marine sources and reduced demand in European markets. Rising demand for forest products continued to negatively impact on the efforts to improve forest plantation area.

The area under forest plantation decreased by 3.6 per cent from 147.2 thousand hectares in 1998 to 141.9 thousand hectares in 1999.

Total Mineral production grew by 3.0 percent to record 762,080 metric tonnes in 1999 from 737,329 metric tonnes in 1998. This was attributed to improved production of salt and crushed refined soda

Energy

The year 1999 was characterised by escalation of crude oil prices from US$ 9.7 per barrel in December 1998 to US$ 24.8 per barrel in December 1999. This brought the revised yearly average to US$ 17.5 per barrel which was US$ 5.2 per barrel higher than 1998. The increase was mainly attributed to the production cut agreed upon by Organization of Petroleum Exporting Countries (OPEC) and non-OPEC members during the March, 1999 conference, which was meant to facilitate price recovery.

On the domestic scene, retail and wholesale prices of petroleum products went up significantly as a result of crude petroleum prices hike and weakening of the Kenya shilling against major currencies. The total consumption of fossil fuels (oil, coal and coke), hydro and geothermal energy rose by 3.7 per cent in 1999 compared to 0.7 per cent decline in 1998. Imports of crude petroleum declined by 26.3 per cent attributable to liberalisation of petroleum sub-sector where some oil marketing firms prefer importing refined products to crude petroleum. The year 1999 also witnessed entry of new oil marketing firms and opening of new filling stations in most parts of the country.

During the year under review, the government extended exemption of duty for power generation plants and equipment through December 2000. This was meant to encourage private sector to invest in power generation and distribution aimed at achieving self-sufficiency in power. The domestic total electricity generation went up by 2.9 per cent in 1999 to record 4,566.0 GWH. This was mainly due to increase in generation by Independent Power Producers (IPPs). Total installed capacity on the other hand recorded a marginal increase of 1.0 per cent compared with 7.6 per cent increase recorded in 1998. Due to power shortage as a result of drought, the country experienced power rationing which adversely affected the economy.

Manufacturing

Output in the manufacturing sector in real terms rose by 1.0 per cent in 1999, a rate of growth that is below the 1990 to 1999 average of 2.4 per cent and the growth target of 7.8 per cent in the current National Development plan. The slow growth can be attributed to a number of factors prime among them being; the general slowdown in the economy leading to depressed effective demand for manufactured products, high product prices as a result of high input costs, decline in investment portfolio, power rationing and infrastructure bottlenecks. The quota allocation for Kenyan garments to the USA and the fish export ban to the European Union market curtailed growth in the textiles and fish industries respectively. The shift by manufactures from the

traditional packaging materials to plastic materials boosted the plastic products industry and the activities at the Export Processing Zones (EPZ) improved as shown by the major performance indicators.

Employment growth in the sector slowed further to 0.9 per cent in 1999 from a 1.0 per cent growth recorded in 1998. Total sales for locally manufactured goods during this period were K£ 11,007 million compared with K£ 13,352 million the previous year. On the other hand, total investment in the sector remained weak as investor shied away from investing in the manufacturing related ventures

Building and Construction

The performance of building and construction remained subdued in 1999. All sectors' key indicators except provisional index on government expenditure on roads further declined for the second consecutive year. During the year, the sector's growth was hampered by depressed public and private sector investments in building and construction. The poor performance was mainly due to reduced government expenditure on construction related activities as part of its financial austerity measures and suspension of donor funds. However, during the year the sector benefited from the funds for the rehabilitation of roads under El-Nino Emergency Fund and Kenya Urban Transport Infrastructure Programme (KUTIP). High interest rates prevailing in the year constrained growth in private sector building and construction activities.

During the year cement consumption declined by 5.4 per cent, due to falling domestic demand. The overall building and construction index maintained a single digit level. The sector recorded a decline of 13.0 per cent in the total value of building plans approved by towns reflecting weak investors' confidence. Similarly, declines were recorded in value of buildings completed and employment. Number of persons engaged by the sector declined from 79.3 thousand persons in 1998 to 78.7 persons in 1999.

Tourism

The tourism sector showed strong signs of recovery in 1999 as depicted by some of the key industry indicators. The number of visitor arrivals, which declined by 10.6 per cent in 1998, went up by 8.4 per cent in 1999 to stand at 969.3 thousand. Similarly there was an increase in tourism earnings of 22.1 per cent from K£ 875 million in 1998 to K£ 1,068 million in 1999. However, the average length of stay dropped marginally from 9.6 days in 1998 to 9.4 days in 1999.

The number of hotel bed-nights available expanded by 9.2 per cent in 1999 compared to 1998. On the other hand, the number of bed nights occupied went up by 4.9 per cent over the same period. This scenario translated into a decline in bed occupancy rate from 35.3 per cent in 1998 to 33.9 per cent in 1999. The total number of visitors to game parks and game reserves in 1999 went up significantly by 42.1 per cent.

Similarly the number of visitors to museums, snake park and other historical sites went up by 16.0 per cent over the same period.

Transport, Storage and Communications

Indicators of the performance of the Transport, Storage and Communication sector show that the sector posted an overall higher output growth of 9.7 per cent in 1999 from K£ 3,782.5 million in 1998 to K£ 4,148.6 million. The sector's real GDP grew by 1.5 per cent in 1999 against 1.3 per cent in 1998. Receipts from air transport and communications sub-sectors expanded by 42.6 per cent and 4.4 per cent in 1999 compared to 1998 levels. Pipeline and railway transport sub-sectors also recorded improved value of output over the previous year of 8.4 and 27.1 per cent in 1999.

The total number of vehicles registered in 1999 went up modestly by 2.3 per cent from 31,718 vehicles in 1998 to 32,435 vehicles. A total of 2,200 thousand tonnes of freight were transported along the railway network to various destinations in 1999 as compared to 1,688 thousand tonnes transported during 1998. The total volume of cargo handled at the Mombasa harbour dropped by 3.2 per cent from 8,559 thousand tonnes in 1998 to 8,284 thousand tonnes in 1999. The volume of white petroleum products pumped by the Kenya Pipeline Company rose by 8.7 per cent from 2,574.9 thousand cubic metres in 1998 to 2,799.6 thousand cubic metres in 1999. The total number of passengers handled at the two major airports rose slightly by 3.9 per cent to 2,986.5 thousand in 1999 up from 2,873.4 thousand in 1998. New radios sold and licensed increased by 27.5 per cent from 74.6 thousand radios in 1998 to 95.1 thousand in 1999. On the other hand, a total of 35.4 thousand sets of television were sold and licensed in 1999 compared to 28.4 thousand sets in 1998, representing a 24.6 per cent rise.

Poverty in Kenya

The most critical challenges facing Kenya today are enhancement of economic growth and the reduction of poverty. In assessing poverty, poverty lines have been developed which are based on norms and identify the minimum requirements of food and non-food expenditure needed to meet the minimum basic needs. In 1997, the food poverty line was Kshs. 927.1 per month per adult equivalent for rural areas while Kshs. 1,253.9 was derived for urban areas. On the other hand, overall poverty lines for rural and urban areas were Kshs. 1,238.9 and Kshs. 2,648.0 per month per adult equivalent, respectively.

Based on the above lines, national (both rural and urban areas) overall poverty level as at 1997 stood at 52.6 per cent (excluding the 7 Arid and semi-Arid districts). In rural areas, 53.1 per cent (11.4 million people) and 50.1 per cent (2 million people) of the urban population are absolute poor. Poverty in the urban has increased tremendously by 20.3 percentage points in 1997 since 1994. Thus, although poverty has always been associated to be a rural phenomenon, it is now evident that poverty is pre-

dominant in the urban areas too. The hard-core poor were 34.9 per cent (7.5 million people) and 7.7 per cent (0.3 million people) for rural and urban areas respectively.

The population of absolute poor persons during 1997 was estimated at 13.4 million, while the number of absolute poor households was 2.5 million. If the entire country had been covered, then the estimated level of poverty would have reached to about 56.5 per cent. Based on these findings, it is estimated that in 1999, the population of absolute poor stands at 16.2 million persons.

In the rural areas, the proportion of poor households is nearly equal for both men and women, 52.3 per cent and 54.1 per cent respectively. This means that female-headed households are not more prone to poverty than male headed households. This does not mean that both men and women have equal access to resources such as education, credit among others. In terms of poverty gap, rural and urban women are severely affected as the development process affects women more and area of residence plays a major role in poverty status of women.

Provisional Results of the 1999 Population and Housing Census

The government of Kenya has had a long history of commitment to carrying out regular and successful population censuses. The ultimate goal of the 1999 Population and Housing Census was to collect benchmark data on demographic and socio-economic profiles of the Kenyan population which are essential for sound development planning, policy formulation, making administrative decisions and research.

Enumeration commenced on the night of 24/25th August 1999 and continued until 31st August 1999, by which time all persons had been enumerated. The provisional census results indicate that the population of Kenya in 1999 stood at 28.7 million compared to 21.4 million in 1989 and 15.3 million in 1979. These figures translate into average growth rates of 3.4 and 2.9 per cent per annum for the inter-censal periods 1979-89 and 1989-99 respectively. The highest growth rate was observed in N/Eastern province and the lowest in Central province. Overall, population growth rate declined in all provinces save for North Eastern. This overall picture reflects the profound demographic and socio-economic changes that have taken place during the last 20 years particularly the rapid decline in fertility rates, rapid urbanisation rates, changes in migration patterns and mortality rates.

The census data processing is currently underway. The first volume of the census will be published as soon as the data processing exercise is completed. Thereafter, technical monographs detailing population dynamics as well as the concomitant socio-economic profiles will be compiled. Finally, dissemination seminars will be held with all stakeholders to discuss the census results and their implications for future development planning.

CHAPTER 1 - THE INTERNATIONAL SCENE

Introduction

The most striking feature of the global economy in 1999 was the upsurge in growth. The recovery from the deep recession of 1998 was largely as a result of continued strong growth of the economy of the United States of America, pick up in Japan, strengthening of growth in Europe and recovery in the crisis afflicted emerging market economies of Asia. Within the European Union countries, labour reforms and favourable macroeconomic environment characterised by low interest rates and inflation have positively influenced economic activities. Russia and Brazil on the other hand faired better than expected. These developments were to a large extent responsible for the recovery of world output. Overall, among the Organisation for Economic Cooperation and Development (OECD) member countries, growth rose from 2.4 per cent in 1998 to 2.8 per cent in 1999. In Africa, growth continued to be hampered by low prices of her main exports, adverse weather conditions and inappropriate macroeconomic policies.

1.2. The Asian financial crisis that originated in Thailand and spread among other emerging Asian market economies plunged these countries into deep recessions that brought about rising unemployment, poverty and social dislocation. The crisis was caused by reckless borrowing in foreign currencies without adequate hedging which made these economies vulnerable to currency devaluation, poor credit allocation, overvaluation of their asset prices (i.e. equity and real estate prices) and ineffective financial supervision and regulation. The response from the international financial system was to avail large financial packages and prescription of a myriad of structural reforms for these economies. Indonesia, Korea and Thailand were bailed out by the injection of 36, 58 and 17 billion US dollars in their respective economies by the International Monetary Fund (IMF).

1.3. The world economy continued to win the war against unemployment, led by Europe and the U.S.A. Unemployment within the European Union countries declined from 10.1 per cent in 1998 to 9.4 per cent in 1999. The decline was a consequence of real wage moderation, labour market reforms in conformity with European Union requirements and sustained government job creation initiatives. In the U.S.A., increased economic activities supported in part by strong consumer and business confidence have reduced unemployment rate from 4.5 per cent in 1998 to 4.2 per cent in 1999.

1.4. In Japan, however, unemployment rates still remain high as the economy goes through a recession. The economy is faced by corporate restructuring efforts that often involve downsizing, reduced capacity utilization in the short term, rising public debt and other macroeconomic measures aimed at stimulating the economy.

1.5. On the other hand, inflationary pressures have further eased during the year for most of the OECD countries. This has been due to the upswing in global economic activity. Nevertheless, rising oil prices hampered the fight against rising inflation. The oil prices have risen as a result of the agreement by OPEC and some non-OPEC countries to reduce the supply by 7 per cent of the world output.

1.6. Major regions of the world economy continue to be faced by widening current account imbalances. In the USA, current account deficits continued to rise from US$ 221 billion in 1998 to US$ 338 billion in 1999. These were occasioned by strong domestic demand and rising servicing costs on the rapidly growing net foreign debts. In the European Union, the current account surplus fell drastically from US$ 83 billion in 1998 to US$ 28 billion in 1999. In Japan the drop was fairly modest. In other regions, large current account deficits featured prominently.

1.7. The volume of world trade further plummeted for the second consecutive year, to register a growth of 4.9 per cent in 1999 compared to 9.2 and 5.1 per cent in 1997 and 1998 respectively. The slump is essentially due to the continuing effects of financial crisis that rocked the emerging market economies. These include the collapse in demand in Asia, the general slowdown in global economic growth experienced in 1998 and the depressed commodity prices in the world market. As a result of the slower trade growth in 1998 and 1999, and some signs of tensions developing in international trade relations, a ministerial conference of the World Trade Organization (WTO) was held in Seattle in December 1999.

Country/Regional Analysis

1.8. **U.S.A**. The U.S. economy grew by 4.3 per cent in 1998 and 3.8 per cent in 1999. Despite the modest slowdown, growth remained strong due to heavy business investment, notably in information technology and high levels of consumer demand. Capacity utilization was at its highest levels. Inflationary pressures increased due to oil price hikes, rising health care costs and imported non-oil industrial supplies. The rapid growth in aggregate demand has resulted in accelerated imports thus widening the current account deficit. The latter stood at 3.5 per cent of GDP, its highest since the mid - 1980s. Consequently this led to a reduction in the savings rate and increased private consumption.

1.9. **Japan**: Since the beginning of 1999, the Japanese economy has been recovering at a rather unexpected high rate. This is as a result of macroeconomic measures undertaken by the government and reform initiatives of the institutions affected. The measures include:- Stimulus packages aimed at boosting public investments, temporary tax credit schemes that benefited residential investments, stabilization of the banking system and Government credit guarantees that reduced the number of bankruptcies, while improving confidence both among consumers and investors. In the circumstances, the economy rebound from a growth of negative 2.8 per cent in 1998 to a positive 1.4 per cent in 1999. The rapid recovery in most of the emerging Asian markets economies has boosted Japanese exports. In turn this has enhanced manufacturing production in the country.

1.10. On the other hand, substantial corporate restructuring, fall in business investment and rising unemployment have constrained the recovery efforts. Additionally, the appreciation of the yen has curtailed the growth in exports while boosting imports. Reduced net exports have led to a fall in the current account surplus from US$ 121 billion in 1998 to US$ 120 billion in 1999. The government continued its expansionary monetary and fiscal policies while carrying out other structural reforms with a view to enhancing economic recovery.

1.11. **Europe**: The economic scenario in the European Union is one of slowed growth. These stood at 2.7 per cent and 2.1 per cent in 1998 and 1999 respectively. The slowed growth is on account of slump in exports, deteriorating consumer confidence and private consumption. In Germany, the slowdown in activity during 1998 continued in the first half of 1999. In the United Kingdom, the modest slowdown was on account of the strong Sterling Pound, which fuelled import growth and substantial losses in export market shares. Other countries in the Union recorded reduced economic activities.

1.12. **Russia and Central and Eastern Europe**: Russia's economy recovered quickly from the severe recession of 1998 to register a positive growth of 2 per cent in 1999. The recovery has been led by import substitution following the depreciation of the Rouble. The weaker Rouble boosted the exports of the country's manufactured goods. Foreign exchange market pressures have eased and the Rouble has stabilized. The country's overall balance of payments position has improved due to a recovery of energy prices and a sharp reduction of imports. Nevertheless, investment and domestic demand still remain low due to sharp falls in real wages and rising unemployment.

1.13. In Central and Eastern Europe, the impact of the currency crisis in Russia has led to slowed growth considerably. The economies also suffered short falls in revenues and increases in social expenditures.

1.14. **Central and South America**: Most countries in this region (i.e. Argentina, Chile, Colombia, Venezuela and Ecuador) are going through severe recession. These have been primarily due to political uncertainties in Venezuela and Colombia and Ecuador's default on the Brady bonds.

1.15. However, the Brazilian economic slowdown was mild in comparison with the other countries in the region and shows some signs of slow recovery. The forces that are depressing the economy include sluggish export growth, declining industrial production, high interest rates and sharp falls in her export prices.

1.16. **Mexico**: The financial crisis that griped the emerging market economies of Asia, coupled with falling prices of oil further slowed the growth momentum in Mexico. Aggregate domestic demand slowed down as consumption remained restrained by weaker real wages. Buoyant net exports have improved the current account balance, while tight monetary and fiscal policies have stabilized the exchange rate of the currency (Peso).

Table 1.1: KEY ECONOMIC INDICATORS AND PROJECTIONS FOR WESTERN INDUSTRIAL COUNTRIES (OECD)

	1998	1999	2000	2001
	(percentage changes from previous period)			
Real GDP -				
United States	3.5	3.8	3.1	2.3
Japan	-2.6	1.4	1.4	1.2
European Union	2.8	2.1	2.8	2.8
Total OECD ..	2.2	2.8	2.9	2.6
Real total domestic demand -				
United States	4.9	4.8	3.4	2.3
Japan	-3.3	1.5	1.2	1.1
European Union	3.3	2.8	2.7	2.7
Total OECD ..	2.4	3.6	3.0	2.6
Inflation (GDP deflators)				
United States	1.0	1.4	1.9	2.3
Japan	0.7	-0.6	-0.5	-0.3
European Union	1.8	1.5	1.7	1.8
Total OECD ..	3.3	2.6	2.7	2.4
	(US $billion)			
Current balances-				
United States	-221	-338	-412	-422
Japan	121	120	135	143
European Union	83	28	23	37
Total OECD ..	-	-	-	-
	(Per cent of labour force)			
Unemployment-				
United States	4.6	4.2	4.2	4.6
Japan	4.2	4.7	4.7	4.7
European Union	10.6	9.4	8.8	8.4
Total OECD ..	7.1	6.7	6.4	6.3
	(Percentage changes from preceding period)			
World Trade** ..	6.1	4.9	7.1	6.3

Source: OECD Economic Outlook no. 66 December, 1999

** 'Assumptions underlying the projections include:*

- *no change in actual and announced fiscal policies;*
- *unchanged exchange rates from 25th October 1999 '; in particular $1 = ¥ 106.0 and 0.937 euro.*
- *Cut off date for other information used in the compilation of the projections was 3rd November 1999*

****** *Growth rate of the arithmetic average of the world import volumes and world export volumes.*

1.17. **Dynamic Asian Economies (DAE's) and China**: All the Dynamic Asian Economies and China are recovering from the severe recession that hit them in the face of the global financial crisis. The recovery is stronger than earlier expected with Malaysia, Singapore and Thailand showing the strongest rebounds. Indonesia on the other hand has shown the weakest signs of recovery due to its banking and corporate financial problems. The capital inflows into these economies are still low. The recoveries are essentially due to a combination of factors, chief among them, the rebound in export growth particularly of electronic products, restocking of inventories, replenished foreign exchange reserves, low levels of inflation and favourable current account positions.

1.18. China's growth has slowed down to 7.1 per cent in 1999 from 7.8 per cent in 1998. The negative developments are linked to reduced fiscal stimulus, a drop in net

exports, minimal growth in consumption and private investment. Increased industrial production in response to recoveries in the region and merchandise exports is expected to halt the slowing growth. China's trade surplus fell drastically from US$ 29.3 billion in 1998 to US$ 11.0 billion in 1999. This was due to a sharp increase in imports and weak growth in exports.

1.19. **Africa**. Africa's economic growth slowed down from 3.4 per cent in 1998 to 3.1 per cent in 1999. This was mainly due to poor commodity prices of her chief exports, unfavourable weather conditions that impinge on agricultural production and inappropriate macroeconomic policies. In South Africa, renewed financial market confidence and lower interest rates were responsible for the higher growth in 1999. The rest of Sub-Saharan Africa was moderately affected by the recent financial turmoil due to undeveloped financial markets. Overall, inflationary pressures have been contained within single digit levels. The continent's share of global trade has declined from 2.8 per cent in 1990 to 2.3 per cent as at 1997. Despite the substantial reduction in trade barriers, market access remains a concern for all African economies.

Commodity Prices

1.20. The prices of primary non-oil commodities fell as those of oil rose sharply on account of adherence to production cuts agreed among OPEC and some non-OPEC producers in addition to a stronger demand, especially from Asia. Some selected world commodity price indices are shown in Table 1.2. The prices of all commodities fell

Table 1.2: SELECTED WORLD COMMODITY PRICE INDICES, 1995-1999

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Year	``Other milds'' Coffee*	Tea**	Sisal***	Sugar+	Petroleum++	All+++ Commodities	World Bank LMIC's
1995	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1996	80.5	107.9	122.2	99.8	118.4	98.8	94.1
1997	13.8	144.5	109.4	90.9	112.0	95.5	96.2
1998	88.6	145.3	115.6	86.9	76.0	81.5	81.1
1999	68.1	141.3	.....	86.0	105.4	75.9	72.2

Source: IMF, International Financial Statistics, (February ,2000).

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)

during the year. In part, this contributed to the deterioration of balance of payments positions, and reduced Government revenues in most developing countries, Kenya included. Coffee earnings in Kenya dropped by 6.6 per cent.

Outlook

1.21. The prospects of global recession that were expressed at the height of the financial market turbulence in late 1998 and 1999 have dampened. These are on account of a strong

expansion of the US economy, a more rapid resumption of growth in Japan, and a better outlook in Europe. Growth in the OECD area is expected to average 3 per cent in 2000, before slowing to around 2.6 per cent in 2001. Overall, inflationary pressures are expected to pick up, while unemployment is poised to edge down on account of substantial job creation in the European Union. World output is projected to expand at 3.5 per cent in 2000 and 2001. Global economic growth is likely to be hampered by an appreciation of the Japanese Yen, increases in long term interest rates and the substantial US current account deficit.

1.22. World trade is expected to pick up as the health of the global economy improves. In particular, the strong recovery under way in most of the Dynamic Asian Economies, recoveries in Russia, Latin America and Europe. The volume of world trade is thus expected to steadily rise to 7 per cent in 2000 before dropping to about 6 per cent in 2001. The pace of trade liberization will continue to be hampered by protectionist policies.

1.23. The strong expansion of the US economy in 1999 is expected to slow down in the years 2000 and 2001 to stand at 3.1 per cent and 2.3 per cent, respectively. The projected slowdown is on account of higher short term interest rates, slack in real income growth and rising asset prices. Inflationary pressures are expected to increase on account of rising oil prices, increasing health care costs and increases in the prices of imported non-oil industrial supplies. The current account deficit is expected to widen further due to the prevalence of strong aggregate domestic demand, which will lead to an acceleration of import purchases and poorer terms of trade.

1.24. In Japan, the outlook is uncertain. Growth projections indicate that the economy will maintain its 1999 levels in year 2000. The recovery efforts are likely to be hampered by the large appreciation of the Yen and ongoing corporate restructuring efforts that often involve downsizing and capacity reduction in the short term. Other factors include:- risks to confidence arising from concerns about the pension system, the sustainability of government finances and the solvency of parts of the insurance industry. In 2001, real growth might drop on account of the rising inflation, while current account surplus is expected to rise further due to the impact of the Asian recovery on export volumes and a rebound in net investment income. Expectations on recovery are highly based on improved consumer confidence and increased investments particularly in residential buildings.

1.25. The outlook in the European Union is one of increased economic activities, declining unemployment rates, low interest rates and low inflation levels. In part this is due to labour market reforms and appropriate fiscal and monetary policies.

1.26. In Russia, the outlook is rather fragile with very low levels of international reserves, maintenance of a tight fiscal policies, upward pressure on energy and petroleum prices and the appreciation of the currency are some of the negative forces that might curtail economic expansion. However, the weaker Rouble and tight monetary and fiscal policies are forces that make the situation rather optimistic.

1.27. In Central and Eastern Europe, the effects of the Russian crisis are still being felt and the outlook is rather fragile.

1.28. Within the Dynamic Asian Economies economic expansion is likely to gain further momentum over the coming two years, as consumption growth, employment, investment, aggregate demand and continued strength in exports abounds. However, corporate and banking financial problems in Indonesia and a possibility of a credit crunch may hamper recovery efforts.

1.29. The Chinese economy is expected to slightly slow down on account of the myriad structural problems the country is facing. The growth in exports and appropriate fiscal and monetary policies will ensure a steady rise in economic growth.

CHAPTER 1 - THE INTERNATIONAL SCENE

Introduction

The most striking feature of the global economy in 1999 was the upsurge in growth. The recovery from the deep recession of 1998 was largely as a result of continued strong growth of the economy of the United States of America, pick up in Japan, strengthening of growth in Europe and recovery in the crisis afflicted emerging market economies of Asia. Within the European Union countries, labour reforms and favourable macroeconomic environment characterised by low interest rates and inflation have positively influenced economic activities. Russia and Brazil on the other hand faired better than expected. These developments were to a large extent responsible for the recovery of world output. Overall, among the Organisation for Economic Cooperation and Development (OECD) member countries, growth rose from 2.4 per cent in 1998 to 2.8 per cent in 1999. In Africa, growth continued to be hampered by low prices of her main exports, adverse weather conditions and inappropriate macroeconomic policies.

1.2. The Asian financial crisis that originated in Thailand and spread among other emerging Asian market economies plunged these countries into deep recessions that brought about rising unemployment, poverty and social dislocation. The crisis was caused by reckless borrowing in foreign currencies without adequate hedging which made these economies vulnerable to currency devaluation, poor credit allocation, overvaluation of their asset prices (i.e. equity and real estate prices) and ineffective financial supervision and regulation. The response from the international financial system was to avail large financial packages and prescription of a myriad of structural reforms for these economies. Indonesia, Korea and Thailand were bailed out by the injection of 36, 58 and 17 billion US dollars in their respective economies by the International Monetary Fund (IMF).

1.3. The world economy continued to win the war against unemployment, led by Europe and the U.S.A. Unemployment within the European Union countries declined from 10.1 per cent in 1998 to 9.4 per cent in 1999. The decline was a consequence of real wage moderation, labour market reforms in conformity with European Union requirements and sustained government job creation initiatives. In the U.S.A., increased economic activities supported in part by strong consumer and business confidence have reduced unemployment rate from 4.5 per cent in 1998 to 4.2 per cent in 1999.

1.4. In Japan, however, unemployment rates still remain high as the economy goes through a recession. The economy is faced by corporate restructuring efforts that often involve downsizing, reduced capacity utilization in the short term, rising public debt and other macroeconomic measures aimed at stimulating the economy.

1.5. On the other hand, inflationary pressures have further eased during the year for most of the OECD countries. This has been due to the upswing in global economic activity. Nevertheless, rising oil prices hampered the fight against rising inflation. The oil prices have risen as a result of the agreement by OPEC and some non-OPEC countries to reduce the supply by 7 per cent of the world output.

1.6. Major regions of the world economy continue to be faced by widening current account imbalances. In the USA, current account deficits continued to rise from US$ 221 billion in 1998 to US$ 338 billion in 1999. These were occasioned by strong domestic demand and rising servicing costs on the rapidly growing net foreign debts. In the European Union, the current account surplus fell drastically from US$ 83 billion in 1998 to US$ 28 billion in 1999. In Japan the drop was fairly modest. In other regions, large current account deficits featured prominently.

1.7. The volume of world trade further plummeted for the second consecutive year, to register a growth of 4.9 per cent in 1999 compared to 9.2 and 5.1 per cent in 1997 and 1998 respectively. The slump is essentially due to the continuing effects of financial crisis that rocked the emerging market economies. These include the collapse in demand in Asia, the general slowdown in global economic growth experienced in 1998 and the depressed commodity prices in the world market. As a result of the slower trade growth in 1998 and 1999, and some signs of tensions developing in international trade relations, a ministerial conference of the World Trade Organization (WTO) was held in Seattle in December 1999.

Country/Regional Analysis

1.8. **U.S.A**. The U.S. economy grew by 4.3 per cent in 1998 and 3.8 per cent in 1999. Despite the modest slowdown, growth remained strong due to heavy business investment, notably in information technology and high levels of consumer demand. Capacity utilization was at its highest levels. Inflationary pressures increased due to oil price hikes, rising health care costs and imported non-oil industrial supplies. The rapid growth in aggregate demand has resulted in accelerated imports thus widening the current account deficit. The latter stood at 3.5 per cent of GDP, its highest since the mid - 1980s. Consequently this led to a reduction in the savings rate and increased private consumption.

1.9. **Japan**: Since the beginning of 1999, the Japanese economy has been recovering at a rather unexpected high rate. This is as a result of macroeconomic measures undertaken by the government and reform initiatives of the institutions affected. The measures include:- Stimulus packages aimed at boosting public investments, temporary tax credit schemes that benefited residential investments, stabilization of the banking system and Government credit guarantees that reduced the number of bankruptcies, while improving confidence both among consumers and investors. In the circumstances, the economy rebound from a growth of negative 2.8 per cent in 1998 to a positive 1.4 per cent in 1999. The rapid recovery in most of the emerging Asian markets economies has boosted Japanese exports. In turn this has enhanced manufacturing production in the country.

1.10. On the other hand, substantial corporate restructuring, fall in business investment and rising unemployment have constrained the recovery efforts. Additionally, the appreciation of the yen has curtailed the growth in exports while boosting imports. Reduced net exports have led to a fall in the current account surplus from US$ 121 billion in 1998 to US$ 120 billion in 1999. The government continued its expansionary monetary and fiscal policies while carrying out other structural reforms with a view to enhancing economic recovery.

1.11. **Europe**: The economic scenario in the European Union is one of slowed growth. These stood at 2.7 per cent and 2.1 per cent in 1998 and 1999 respectively. The slowed growth is on account of slump in exports, deteriorating consumer confidence and private consumption. In Germany, the slowdown in activity during 1998 continued in the first half of 1999. In the United Kingdom, the modest slowdown was on account of the strong Sterling Pound, which fuelled import growth and substantial losses in export market shares. Other countries in the Union recorded reduced economic activities.

1.12. **Russia and Central and Eastern Europe**: Russia's economy recovered quickly from the severe recession of 1998 to register a positive growth of 2 per cent in 1999. The recovery has been led by import substitution following the depreciation of the Rouble. The weaker Rouble boosted the exports of the country's manufactured goods. Foreign exchange market pressures have eased and the Rouble has stabilized. The country's overall balance of payments position has improved due to a recovery of energy prices and a sharp reduction of imports. Nevertheless, investment and domestic demand still remain low due to sharp falls in real wages and rising unemployment.

1.13. In Central and Eastern Europe, the impact of the currency crisis in Russia has led to slowed growth considerably. The economies also suffered short falls in revenues and increases in social expenditures.

1.14. **Central and South America**: Most countries in this region (i.e. Argentina, Chile, Colombia, Venezuela and Ecuador) are going through severe recession. These have been primarily due to political uncertainties in Venezuela and Colombia and Ecuador's default on the Brady bonds.

1.15. However, the Brazilian economic slowdown was mild in comparison with the other countries in the region and shows some signs of slow recovery. The forces that are depressing the economy include sluggish export growth, declining industrial production, high interest rates and sharp falls in her export prices.

1.16. **Mexico**: The financial crisis that griped the emerging market economies of Asia, coupled with falling prices of oil further slowed the growth momentum in Mexico. Aggregate domestic demand slowed down as consumption remained restrained by weaker real wages. Buoyant net exports have improved the current account balance, while tight monetary and fiscal policies have stabilized the exchange rate of the currency (Peso).

Table 1.1: KEY ECONOMIC INDICATORS AND PROJECTIONS FOR WESTERN INDUSTRIAL COUNTRIES (OECD

	1998	1999	2000	2001
	(percentage changes from previous period)			
Real GDP -				
United States	3.5	3.8	3.1	2.3
Japan	-2.6	1.4	1.4	1.2
European Union	2.8	2.1	2.8	2.8
Total OECD ..	2.2	2.8	2.9	2.6
Real total domestic demand -				
United States	4.9	4.8	3.4	2.3
Japan	-3.3	1.5	1.2	1.1
European Union	3.3	2.8	2.7	2.7
Total OECD ..	2.4	3.6	3.0	2.6
Inflation (GDP deflators)				
United States	1.0	1.4	1.9	2.3
Japan	0.7	-0.6	-0.5	-0.3
European Union	1.8	1.5	1.7	1.8
Total OECD ..	3.3	2.6	2.7	2.4
	(US $billion)			
Current balances-				
United States	-221	-338	-412	-422
Japan	121	120	135	143
European Union	83	28	23	37
Total OECD ..	-	-	-	-
	(Per cent of labour force)			
Unemployment-				
United States	4.6	4.2	4.2	4.6
Japan	4.2	4.7	4.7	4.7
European Union	10.6	9.4	8.8	8.4
Total OECD ..	7.1	6.7	6.4	6.3
	(Percentage changes from preceding period)			
World Trade** ..	6.1	4.9	7.1	6.3

Source: OECD Economic Outlook no. 66 December, 1999

** 'Assumptions underlying the projections include:*

- *no change in actual and announced fiscal policies;*
- *unchanged exchange rates from 25th October 1999 '; in particular $1 = ¥ 106.0 and 0.937 euro.*
- *Cut off date for other information used in the compilation of the projections was 3rd November 1999*

*** Growth rate of the arithmetic average of the world import volumes and world export volumes.*

1.17. **Dynamic Asian Economies (DAE's) and China**: All the Dynamic Asian Economies and China are recovering from the severe recession that hit them in the face of the global financial crisis. The recovery is stronger than earlier expected with Malaysia, Singapore and Thailand showing the strongest rebounds. Indonesia on the other hand has shown the weakest signs of recovery due to its banking and corporate financial problems. The capital inflows into these economies are still low. The recoveries are essentially due to a combination of factors, chief among them, the rebound in export growth particularly of electronic products, restocking of inventories, replenished foreign exchange reserves, low levels of inflation and favourable current account positions.

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exports, minimal growth in consumption and private investment. Increased industrial production in response to recoveries in the region and merchandise exports is expected to halt the slowing growth. China's trade surplus fell drastically from US$ 29.3 billion in 1998 to US$ 11.0 billion in 1999. This was due to a sharp increase in imports and weak growth in exports.

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Chapter 2 - Domestic Economy

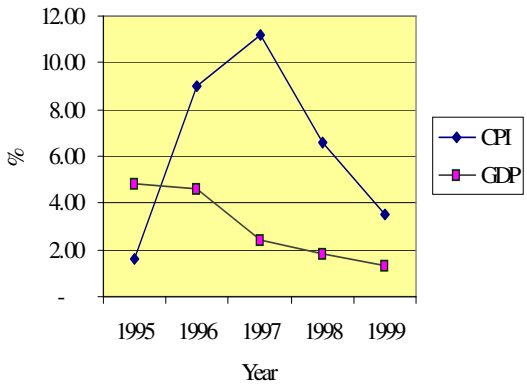
Overview

The Kenyan economy has been in a recession for the third year running. Real GDP growth fell from 2.3 per cent in 1997 to 1.8 per cent in 1998 and further to 1.4 per cent in 1999. The continued slowdown in economic performance was reflected in virtually all the key sectors of the economy. In Agriculture, the growth fell to 1.2 per cent in 1999 from 1.5 per cent recorded in 1998 mainly due to fall in the prices of coffee and tea on the international market and inadequate rainfall in major food growing areas. Growth in Manufacturing further slumped as a result of competition from cheap imports, poor infrastructure and lower aggregate demand. Transport sector recorded a recovery despite high operational costs. Growth in Government expenditure slowed down on account of tight fiscal policies pursued by the Government. In the Financial sector interest rates remained relatively high over the period under review. Overall, real gross fixed capital formation fell by 4.5 per cent in 1999.

2.2. The country's fiscal deficit widened as a result of expenditure increases occasioned by the need to repair the dilapidated infrastructure. Net total domestic borrowing substantially rose to stand at K£ 1,157 million reflecting the need to offset the higher Government deficit.

2.3. Inflation has been contained from a peak of 46.0 per cent in 1993 to 3.5 per cent in 1999, the lowest in the last four years. The annual average inflation rate in 1999 was 3.5 per cent accounted for mainly by the tight monetary and fiscal policies pursued by the Government.

Figure 2.1 Trends in CPI and GDP at constant Prices.



Box 2.1 Inflation as measured by the Nairobi Consumer Price index has been on the decline since 1997. The high growths in 1996 and 1997 were precipitated by shortfall in agricultural output caused by widespread drought in late 1996 and early 1997. Frequent increases in petroleum and petroleum related products coupled with the depreciation of the shilling played a key role in this scenario. The contraction in Money supply and general price stability led to declines in inflation in 1998 and 1999.

2.4. On International trade, overall balance of payments deteriorated further mainly due to decreases in capital inflows and increases in official long term capital outflows. This deterioration occurred despite increases in tourism receipts, which rose from K£ 875 million recorded in 1998 to K£ 1,068 million in 1999. The countries international reserves increased, while the shilling weakened against all the major international currencies.

Sectoral Analysis

Agriculture

2.5. The sector recorded significant decreases in the production of Tea, Wheat, Sugar cane and Maize. Overall marketed production declined by 13.5 per cent. The slow down in the sector has been contributed by the inefficiencies in major processing and marketing organisations, coupled with insufficient rainfall necessary for production of crops. In agriculture, growth was stimulated by increases in production of coffee and other non-conventional crops such as pyrethrum, sisal, rice and dairy produce.

2.6. Coffee Production substantially rose by 27.5 per cent essentially due to favourable weather, increased acreage and improved crop husbandry. On the other hand, coffee prices per tonne declined by nearly half from K£ 12,859 per metric tonne in 1998 to K£ 7,816 per metric tonne in the year under review. Tea production slumped by approximately 50 thousand tonnes reflecting the prevalence of lower than required precipitation.

2.7. Maize production recorded a drop from 27.3 million bags in 1998 to 25.0 million bags in 1999 as a result of insufficient rains in some of the maize growing areas. This necessitated importation of 73.5 thousand tonnes of maize to meet the deficit.

2.8. Wheat production was grossly affected by the poor producer prices and the invasion of army worms in the year that led to massive farm losses. Only 55.2 thousand tonnes of wheat was produced in 1999 compared to 177.1 thousand tonnes in 1998.

2.9. The volume of Horticultural exports expanded by 21 thousand tonnes in 1999. In value terms, the exports recorded a 48.8 per cent growth. This near double growth has been attributed to the improved packaging, particularly of cut flowers and also the weakening of the Kenyan shilling against international currencies during the year. Increases in export volumes were also attributed to intensified use of the alternative and cheaper means of transporting the produce via sea, which is also more convenient for bulk produces such as flowers and fruits.

Manufacturing

2.10. The manufacturing sector remained depressed due to lack of effective demand for locally manufactured products, high input costs that were passed on to consumers through high product prices, power rationing and poor infrastructure. The sector was further affected by the ban on fish exports to European countries and reduction of quota allocation for Kenyan garments.

2.11. Main growth areas in the sector were the agro-based industries 2.4 per cent, plastic industry 14.6 per cent, Textiles 11.8 per cent and Paper and Paper products 7.1 per cent. Most of the other sub-sectors recorded negative growths. Consequently, the sector registered a slowed growth of 1.0 per cent in 1999, much slower than the 1.4 per cent recorded in 1998.

Financial, Insurance, Real Estate and Business Services (FIBS)

2.12. The sector's performance was characterised by slowed growth in money supply, increased net foreign assets and a slump in the growth of domestic credit. Credit to Central Government dropped by 4 per cent while private sector received 9.1 per cent more credit in 1999.

2.13. The banking sub-sector, recorded a much slower growth and higher non-performing loan portfolios. The Central Bank increased the start-up capital requirement of commercial Banks by Kshs. 200 million in 1999, a measure that saw a number of mergers of smaller banks during the year.

2.14. On average the shilling depreciated during the year against major international currencies. This was more pronounced in the third quarter dropping from a mean rate of Kshs. 63 to the US$ to Kshs. 75 to the US$. The depreciation was partly attributable to the decline in foreign exchange inflows from coffee and tea. Towards the end of the year, it appreciated slightly against international currencies in view of the positive signals of aid resumption from the International Monetary Fund.

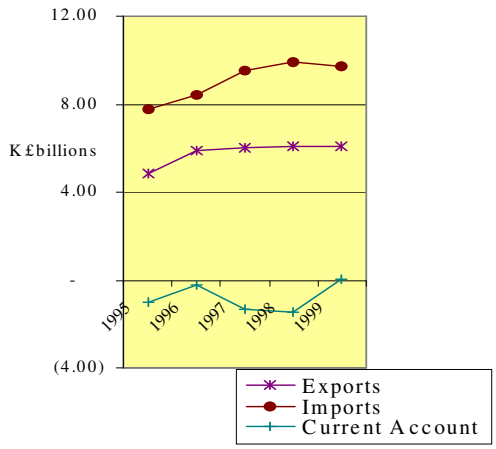
2.15. In response to the upward adjustment of the treasury bill rate commercial banks adjusted their base rates upwards. Domestic interest rates which had fallen to below 10 per cent on the benchmark 91-days Treasury Bill earlier in the year started to rise and had doubled to 20 per cent by the end of the year. The overall inflation rate recorded 3.5 per cent compared to 6.6 per cent in 1998. The weakening of the shilling was translated into increases in prices especially the petroleum industry which adjusted the prices upward. The upward revision of the petroleum levy was also a contributory factor to the upward adjustment of petroleum product prices. The sectors performance slowed down from 2.3 per cent in 1998 to 2.0 in 1999.

International Trade

2.16. Volume of trade in terms of exports and imports recorded marginal declines resulting to narrowing of the trade deficit. Current account improved to record a surplus

for the first time since 1994. Significant falls in export prices and various export items mainly explains the sluggish performance of the export sector.

Figure 2.2: International Trade



Box 2.2 Imports have over shadowed exports in the last five years. In 1996 exports expanded faster than imports hence narrowing the trade deficit. The high surplus and increase in exports resulted to the narrowing down of the current account deficit. In 1997, and 1998, the trade deficit widened hence the deterioration of the current account. In 1999, there was subdued activity in terms of exports and imports. Volumes of exports were slightly higher than imports leading to slight reduction in the trade deficit.

2.17. The balance of payments deteriorated slightly to a surplus of K£ 212 million in 1999 from K£ 228.7 recorded in 1998. The current account balance recorded a surplus of K£ 38.9 million mainly as a result of better performance of the services sectors and improved tourism earnings.

2.18. Early in 1999, the East African Co-operation Treaty was signed and aimed at creating a common market in the region. The end objective of this treaty is to reach a market of about 90 million people, tap economies of scale, reduce duplication of resource allocation, lessen bureaucracy and streamline business relations within the region. This will boost Kenya's exports in the region as it has a relatively stronger industrial base.

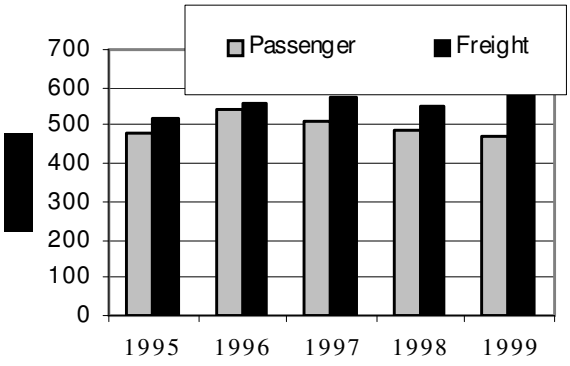
Producer of Government Services

2.19. The slow down in Government expenditure which grew by 7.5 per cent in 1999 compared to 18 per cent in 1998 was due to privatisation and retrenchment in order to create room for improved efficiency in the sector. Real growths were not visible as there were tight budgetary controls in government expenditure. Capital expenditure increased by 44 per cent, due to increase in projects being undertaken by the Government. These projects include *El-Nino* emergency Fund Project, Supply of medical equipment and the Kenya Urban Transport Infrastructure (KUTI), which is meant to rehabilitate the dilapidated urban road network among others. Overall deficit increased to K£ 511 million in 1999 from a surplus of K£ 194 million in 1998/99. The government had to resort to domestic borrowing to finance the deficit on account of shortfall in revenue collection. General Administration, Education Defence recorded growths as compared to health and Agricultural services which recorded declines. The sector recorded a growth of 0.8 percent.

Transport and Communications

2.20. In a bid to revive the sector the government initiated measures in restructuring the communication institution. The Road Transport Board was created to oversee the proper running of the Transport sub-sector. In the communication sub-sector, the giant Kenya Posts and Telecommunication was split into three entities; Posta, Telkom and Communication Commission of Kenya. Another important development was the full liberalisation of the air waves which as a result witnessed entry of a multiple broadcasting and television stations.

Figure 2.3: Passenger and Freight Receipts, 1995-1999



Box 2.3 Receipts from passenger transport have been on the decline for the third year running. Passenger incomes are mainly derived from road sector. This gives an indication of reduced demand for the services possibly as a result of reduced incomes. Freight earnings recovered in 1999 to record 15.6 per cent higher than those of 1998. Railway freight handled grew by 30.3 per cent.

2.39.The sector recorded a growth of 1.4 per cent despite high costs of transport operations. New motor vehicle registrations expanded by 717 more vehicles than in 1998. Of these, Lorries and Trucks, Buses and Coaches, and minibuses recorded growths reflecting an increased demand for the services. Passenger Air Transport recorded a slight growth of 3.9 per cent, which was higher than 1.3 per cent recorded in 1998.

2.40.The relative liberalisation of international trade in the economy has posed great challenges to the port of Mombasa. The Port has been experiencing serious managerial and operational challenges, high port charges and inefficiencies leading to loss of considerable traffic to neighbouring ports. Cargo handled by the Kenya Ports Authority recorded a 3.1 per cent decline.

Building and Construction

2.23. Investment in construction and related activities remained subdued in 1999. The contributing factors included the reduction in Government activites as part of the austerity measures to reduce expenditures. Relatively high interest rates constrained the performance of the sector. The value of building plans approved dropped by 13 per cent reflecting weak investor confidence.

2.39.Cement production, which is an indicator of the construction industry, dropped by 107 thousand tonnes indicating a slow down in the industry. The consumption of the commodity dropped by 5 per cent in 1999. However the sector benefitted from rehabilitation of roads under the El Nino Project and The Kenya Urban Transport Programme (KUTIP). This scenario led to a slowed growth of 0.8 per cent in 1999.

Table 2.4: GROSS DOMESTIC PRODUCTSECTOR SHARES AT CONSTANT (1982) PRICES, 1995 - 1999

Percentage

	1995	1996	1997*	1998*	1999**
A. NON-MONETARY ECONOMY					
Forestry	0.8	0.7	0.7	0.7	0.7
Fishing	0.0	0.0	0.0	0.0	0.0
Building and Construction	1.7	1.6	1.6	1.6	1.6
Water Collection	0.6	0.6	0.6	0.6	0.6
Ownership of Dwellings	2.5	2.5	2.6	2.6	2.6
TOTAL NON-MONETARY ECONOMY	5.6	5.5	5.5	5.6	5.6
B. MONETARY ECONOMY					
1. Enterprises and Non-Profit Institutions					
Agriculture	25.0	25.0	24.6	24.6	24.5
Forestry	1.3	1.3	1.3	1.4	1.4
Fishing	0.3	0.3	0.3	0.3	0.3
Mining and Quarrying	0.2	0.2	0.2	0.2	0.2
Manufacturing	13.5	13.4	13.3	13.3	13.2
Building and Construction	2.5	2.5	2.5	2.5	2.4
Electricity and Water	1.0	1.0	1.0	1.0	1.0
Trade, Restaurants and Hotels	11.8	12.2	12.3	12.4	12.5
Transport, Storage and Communications	6.1	6.0	6.0	6.0	6.0
Finance, Insurance, Real Estate and Business Services	9.8	10.0	10.3	10.5	10.5
Ownership of Dwellings	5.5	5.5	5.6	5.6	5.6
Other Services	3.4	3.4	3.4	3.4	3.4
Less: Imputed Bank Service Charges	-3.8	-3.9	-4.0	-4.0	-4.0
TOTAL	76.5	77.0	77.0	77.1	77.1
2. Private Households (Domestic Services)	2.4	2.5	2.6	2.7	2.8
3. Producers of Government Services					
Public Administration	..	..	..	..	..
Defence	..	..	..	..	..
Education	..	..	..	..	..
Health	..	..	..	..	..
Agricutural Services	..	..	..	..	..
Other Services	..	..	..	..	..
TOTAL	15.4	15.0	14.8	14.9	14.5
TOTAL MONETARY ECONOMY	94.4	94.5	94.5	94.4	94.4
TOTAL MONETARY & NON-MONETARY ECONOMY	100.0	100.0	100.0	100.0	100.0

* Revised.

** Provisional.

Terms of Trade

2.25. Table 2.5 details the adjustments of the estimates of GDP at constant prices to the international terms of trade and its impact on real per capita GDP. The terms of trade deteriorated by about 14.0 per cent from 100 in 1998 to 86 in 1999. This was on account of escalating oil prices and a sharp fall in the price of coffee, a key export commodity for the country. When GDP is adjusted for effects of terms of trade, the 1.4 per cent increase in per capita income recorded in Table 2.1 is wiped out and instead table 2.5 shows a decline in per capita incomes of more than 6 per cent.

Table 2.5: IMPACT OF COMMODITY TERMS OF TRADE ON PER CAPITA GDP, 1995 - 1999

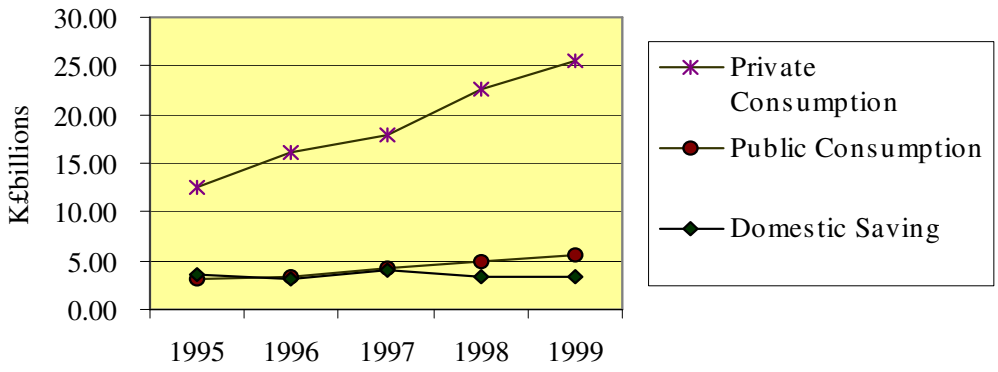
		1995	1996	1997*	1998*	1999**
1	Unadjusted GDP at constant Factor Cost (K£mn.)	4,690.1	4,907.6	5,023.7	5,112.6	5,185.3
2	Adjustment for changes in terms of trade (K£mn.)	-73.0	-121.6	24.0	2.3	-262.7
3	Adjusted GDP (K£mn.)	4,617.1	4,785.9	5,047.7	5,114.9	4,922.6
4	Growth in unadjusted per capita GDP*** ..	4.8	4.6	2.4	1.8	1.4
5	Growth in adjusted per capita GDP***	9.0	-0.5	2.5	-1.6	-6.5

* Revised.
** Provisional.
*** Adjusted on account of new population projection figures.

Use of Resources

2.27. Resources available to the economy in 1999 recorded a much slower growth of 5.5 per cent compared to 11.6 per cent in 1998 (Table 2.6). Within the period of analysis, this is the slowest growth that has been recorded. The overall picture is that one of dampened growth. Government collections expanded by K£ 411 million in 1999 compared to K557 million in 1998. Subsidies which are in essence negative taxes, more than doubled. The overall result was a GDP at market prices that grew at 8.5 per cent compared to 11.8 per cent in 1998.

Figure 2.4: Consumption and Domestic Saving Patterns.



2.28. A positive development was the reduction of import surplus, as a result of increased exports compared to the imports. Consumption on the other hand dampened to a 6.5 per cent growth. Aggregate domestic savings substantially grew by 30.9 per cent. Public consumption on the other hand recorded a growth of 11.8 per cent about the same level to that of 1998. The growth in public consumption was as a result of increased expenditure in education and defence that recorded growths of 10.4 and 12.1 per cent respectively.

Table 2.6: TOTAL USE OF RESOURCES AT CURRENT PRICES, 1995 - 1999

K£million

		1995	1996	1997*	1998*	1999**
	G.D.P. at Factor Cost	19,688.33	22,481.07	26,819.14	29,700.96	32,133.77
	Of which:					
	Non-Monetary	602.14	649.76	693.99	712.14	760.10
	Monetary	19,086.19	21,831.31	26,125.15	28,988.82	31,373.67
	Indirect Taxes ..	3576.32	3,955.90	4,350.08	4,907.54	5,318.32
	Subsidies ..	1.05	0.04	1.54	2.49	5.96
	G.D.P. at Market Prices ..	23,263.60	26,436.93	31,167.68	34,606.01	37,446.13
+	Import of goods and non-factor services ..	9,006.93	9,757.73	11,038.43	11,290.26	11,090.16
-	Export of goods and non-factor services ..	7,629.82	8,622.96	8,742.31	8,652.68	9,347.02
=	Import Surplus ..	1,377.11	1,134.77	2,296.12	2,637.58	1,743.14
	Total Resources available for Domestic Investment and Consumption ..	24,640.71	27,571.70	33,463.80	37,243.59	39,189.27
	Gross Fixed Capital Formation ..	4,974.83	5,223.48	5,493.50	5,692.91	5,660.74
	Change in Stocks	101.00	150.00	270.00	310.50	357.08
	Gross Investment	5,075.83	5,373.48	5,763.50	6,003.41	6,017.81
	Public Consumption	3,452.84	4,226.17	5,035.58	5,678.42	6,351.99
	Private Consumption	16,112.04	17,972.05	22,664.72	25,561.76	26,819.47
	TOTAL CONSUMPTION	19,564.88	22,198.22	27,700.30	31,240.18	33,171.46

* Revised.

** Provisional.

Financing of Capital Formation

2.39. Capital formation is financed by domestic savings, grants and net borrowing from abroad (See Table 2.7 and Fig.2.5). In 1999, the economy was able to finance capital formation from Grants and domestic savings alone. Grants from abroad recorded a growth of 37.8 per cent. The impact has been stimulated by grants that are being channelled to private non-governmental organisations other than the government. Grants through the government contracted by K£ 45 million pounds while private grants expanded by K£ 650 million pounds.

Figure 2.5: Financing of Gross Fixed Capital Formation

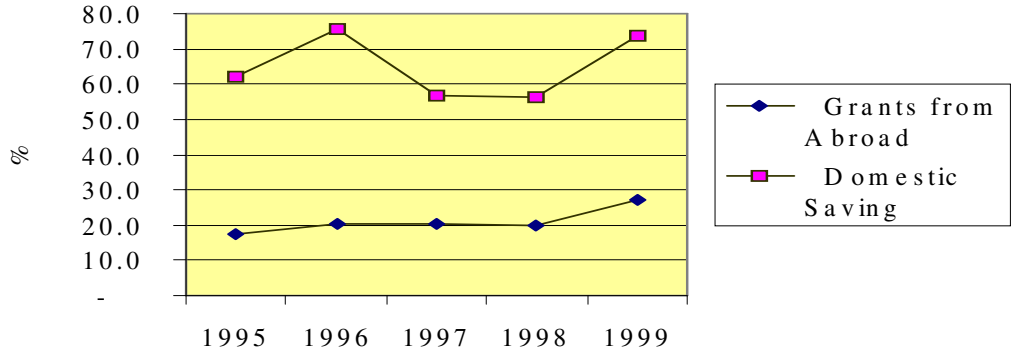


Table 2.7: FINANCING OF CAPITAL FORMATION, 1995 - 1999

K£million

	1995	1996	1997*	1998*	1999**
GROSS CAPITAL FORMATION:					
Gross Fixed Capital Formation	4,974.83	5,223.48	5,493.50	5,692.91	5,660.74
Changes in Stocks	101.00	150.00	270.00	310.50	357.08
TOTAL	5,075.83	5,373.48	5,763.50	6,003.41	6,017.81
FINANCING:					
Grants from Abroad	885.15	1,104.93	1,160.11	1,186.85	1,635.75
Net borrowing from Abroad***	-1,031	209.94	1,341.46	1,440.32	-38.90
Domestic Saving	3,159.82	4,058.61	3,261.93	3,376.24	4,420.96
TOTAL	5,075.83	5,373.48	5,763.50	6,003.41	6,017.81

* Revised.

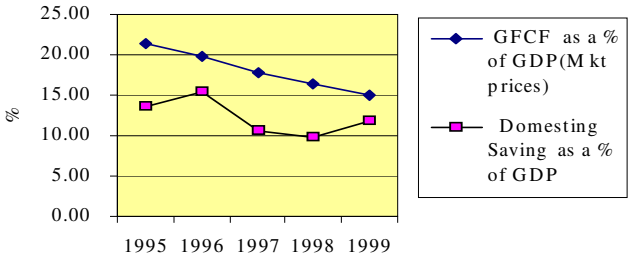
** Provisional.

Factor Incomes and Gross National Product.

2.40.During the period under review, total factor income payments to employees increased by 9.9 per cent compared to an increase of 21.9 per cent in 1998 (see Table 2.8). Despite the fact that annual inflation edged down from 6.6 per cent in 1998 to 3.5 per cent in 1999, the employee's real incomes deteriorated considerably

2.31. Net factor incomes paid abroad rose by 3.6 per cent from K£ 648 million in 1998 to K£ 671 million in 1999. Despite this increased outflow of factor incomes, Gross National Product increased by 8.2 per cent.

Figure 2.6: GFCF and Domestic Saving as a percent of GDP at market prices



Box 2.6 Gross Fixed Capital Formation as a share of GDP at market prices, has been declining since 1995, from 22 per cent to 15 percent in 1999. Domestic savings on the other hand recovered in 1999 after having fallen from 15 per cent in 1996 to about 10 percent in 1998. This increase in saving is also reflected in the financing of capital formation which recorded a growth of 30.9 per cent.

Table 2.8: GROSS NATIONAL PRODUCT AT CURRENT PRICES 1995- 1999

K£million

	1995	1996	1997*	1998*	1999**
FACTOR INCOMES:					
A. Non-Monetary Economy ..	602.14	649.76	693.99	712.14	760.10
B. 1. Remuneration of Employees :					
Enterprises	5,635.99	5,947.46	7,086.52	8,779.63	9,744.88
Private Households	247.21	284.17	308.74	335.51	364.68
Producers of Government Services	2,863.50	2,851.19	3,449.45	4,109.51	4,430.51
T0TAL	8,746.70	9,082.82	10,844.71	13,224.65	14,540.07
2. Rental Surplus (including depreciation)	814.00	936.10	1,048.43	1,117.63	1,218.44
3. Other Operating Surplus (including depreciation)	9,525.49	11,812.39	14,232.01	14,646.54	15,615.16
TOTAL MONETARY ECONOMY	19,086.19	21,831.31	26,125.15	28,988.82	31,373.67
TOTAL FACTOR INCOMES = GROSS DOMESTIC PRODUCT (AT FACTOR COST)	19,688.33	22,481.07	26,819.14	29,700.96	32,133.77
Add:Indirect Taxes	3,576.32	3,955.90	4,350.08	4,907.54	5,318.32
Deduct:Subsidies	1.05	0.04	1.54	2.49	5.96
GROSS DOMESTIC PRODUCT AT MARKET PRICES	23,263.60	26,436.93	31,167.68	34,606.01	37,446.13
Add: Factor Incomes Received From Abroad	65.95	61.24	67.50	124.52	98.42
Deduct: Factor Incomes Paid Abroad	991.58	791.84	748.66	647.92	671.29
GROSS NATIONAL PRODUCT ..	22,337.97	25,706.33	30,486.52	34,082.61	36,873.26

* Revised.

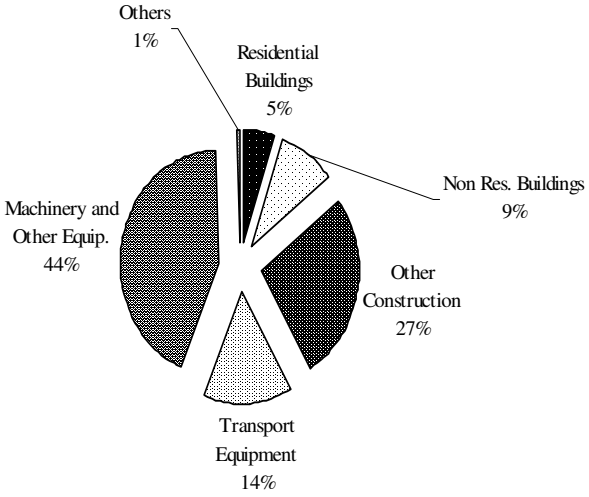
** Provisional.

Gross Fixed Capital Formation

2.32. Real Gross Fixed Capital Formation by asset shows that only “Other Construction” recorded a slight growth of 1.6 per cent in 1999 (see Table 2.9). This is attributable to the ongoing reconstruction of roads through the El Nino Emergency project fund. Transport Equipment and Plant Machinery and Other equipment combined, which contribute over 50 per cent of the GFCF, recorded declines of 8.0 per cent and 7.7 per cent respectively. This is partly due to the increasing exchange rate and high cost of borrowing

2.33. Real capital formation declined by 4.5 per cent from K£ million 952.57 million in 1998 to K£ million 910.14 in 1999 (see Table 2.10). This decline was observed in all sectors of the economy save for Finance, Insurance, Real Estate and Business services that recorded a growth of 5.5 per cent. Apart from the depressed economic performance, insecurity and too much bureaucracy have contributed to reducing Kenya’s attraction as an investment destination compared to other countries within the region.

Figure 2.7: Share contribution of GFCF by type of asset, 1999.



Box 2.5 Analysis of the fixed capital formation by asset indicates that the economy invests heavily in Machinery and Other Equipment. This accounts for 44 per cent of the total. Other Construction which includes roads and bridges account for 27 percent. Investment in buildings, both Residential and Non-Residential account for less than 15% of the overall.

Outlook

2.34. In the short term Kenya's growth prospects appears good in light of recovery efforts being carried out by the government. Global economic growth is projected to pick up in the year 2000 and slow down in 2001. Consequently, the demand for the country's commodities might improve.

2.35. On the domestic scene, erratic and insufficient long rains in key food growing areas, delayed land preparation and lack of pasture for the livestock will constrain production in the above sub-sectors. Additionally, the prevailing low prices of coffee and tea in the international market might persist but are uncertain. However, the ongoing restructuring in the processing and marketing of agricultural produce, weak shilling, efforts in containing the spread of army worms and reduced wrangles in the coffee industry will boost productive activities in the sector. Horticultural production is expected to continue benefiting from the cheaper transport over the sea.

2.36. In the Financial Sector, growth prospects will continue to depend on favourable environment for private sector borrowing. In particular, the expected lower interest rates should foster investor confidence. The continuance of the existing tight monetary stance will result in reduced growth in money supply. This should deter any significant increases in inflation rates. The latter is expected to be contained within the single digit bracket. Restructuring within the sector is expected to continue as is the efforts at recovery of bad and doubtful debts. Consequently, the sector is poised to register higher growth.

2.37. The government is expected to continue its tight spending controls, thus reducing domestic borrowing. This is expected to increase funds available to the private sector for investment and reduce interest rates that are currently high. This developments are expected in turn to reduce the fiscal deficit. Inflationary pressures are expected to be maintained within the single digit level on account of tight spending controls by government.

2.38. In addition, other measures such as the continued improvement in security and marketing of key tourist attraction areas, repairs of road network, restructuring and privatization in the communication sub-sectors will boost activities across wide spectrum of sectors in the economy.

2.39.It is hoped that the release of IMF Poverty Reduction Growth Strategy funds will not only boost the country's balance of payment position but also act as positive signal for investors as well other donors. In view of the above developments, the economy should start on a slow recovery path. A real growth of around 2.1 per cent will be achieved in 2000.

CHAPTER 3 - SOCIAL SCENE

The estimated Government expenditure on social services rose marginally by 2.9 per cent from K£ 3,213.0 million in 1998/99 to K£ 3,303.6 million in 1999/2000 fiscal year as shown in Table 3.1. Recurrent expenditure declined by 2.7 per cent and contributed 90.3 per cent of the total expenditure budget on social services. Education sector continued to receive the largest share of recurrent expenditure accounting for 77.4 per cent. Health sector on the received the highest share of the development expenditure of 60.8 per cent of the total development budget. The transfer of Human Resource Development from the Ministry of Education to the Ministry of Labour led to the rise in both recurrent and development expenditures in the Ministry of Labour and Human Resource Development.

Table 3.1: CENTRAL GOVERNMENT EXPENDITURE ON SOCIAL SERVICES, 1996/97 - 1999/2000

K£million

	1996/97	1997/98	1998/99*	1999/2000**
RECURRENT EXPENDITURE-				
Ministry of Education Science & Technology***	1,478.49	2,086.36	2,161.68	2,307.96
Ministry of Health+	386.36	442.06	595.58	475.93
Ministry of Labour and Human Resource Development	11.25	11.81	10.64	19.58
Ministry of Home Affairs, National Heritage and Sports	36.62	143.57	297.72	178.16
TOTAL	1,912.72	2,683.80	3,065.62	2,981.63
DEVELOPMENT EXPENDITURE-				
Ministry of Education Science & Technology***	65.42	80.35	76.25	75.95
Ministry of Health+	130.82	197.91	62.65	195.67
Ministry of Labour and Human Resource Development	0.30	0.06	0.06	12.35
Ministry of Home Affairs, National Heritage and Sports	5.24	22.90	8.37	38.04
TOTAL	201.78	301.22	147.33	322.01
TOTAL EXPENDITURE	2,114.50	2,985.02	3,212.95	3,303.64

* Provisional.

** Estimates including supplementaries.

*** Expenditure on the Ministry of Education Science and Technology includes expenditure on Harambee Institutes of technology and Youth polytechnics currently under the Ministry of labour.

\+ Expenditure on the Ministry of Health includes expenditure on KEMRI and KETRI formerly in the Ministry of Research,Science and Technology.

3.2. The Local Government expenditure on social services for 1995/96 to 1999/2000 fiscal year are presented in Table 3.2. Total expenditure grew by 10.3 per cent from K£ 82.6 million in 1998/99 to K£ 91.1 million during the period under review. The health sector received 48.0 per cent of local government expenditure on social services. Expenditure on education and other social services increased by 12.2 per cent and 17.0 per cent respectively.

Table 3.2: LOCAL GOVERNMENT EXPENDITURE ON SOCIAL SERVICES, 1995/96 - 1999/2000

K£million

	1995/96	1996/97	1997/98	1998/99*	1999/2000**
Education	18.78	20.66	26.24	26.16	29.35
Health	35.82	30.68	51.06	41.66	44.45
Other Social Services	4.27	12.59	6.15	14.81	17.33
TOTAL EXPENDITURE	58.87	63.93	83.45	82.63	91.13

* Provisional.

** Estimates.

Education

3.3. As presented in Table 3.3, The Ministry of Education Science and Technology expenditure inreased by 10.1 per cent from K£ 2,238.33 million in 1998/99 to K£2,464.3

million in 1999/2000 fiscal year. This includes expenditure on Youth Polytechnics and Harambee Institutes of Technology currently in the Ministry of Labour and Human Resource Development. General administration and planning absorbed the largest share of 83.2 per cent and 39.3 per cent of both recurrent and development expenditure estimates respectively. Higher education was allocated the second largest share of recurrent expenditure having received 11.4 per cent of the total recurrent expenditure while technical, secondary and primary education received 1.5 per cent, 1.3 per cent and 1.0 per cent respectively. It should be noted that the higher education development budget declined drastically by 87.0 per cent from K£ 43.36 million in 1998/99 to K£ 5.6 million in 1999/2000 financial year. The reason for the drastic decline in expenditure on higher education is the reduction in the expenditure to Commission for Higher Education from K£ 38.6 million in 1998/99 to K£ 1.2 million in 1999/2000. Suspension of construction of non-residential buildings in most of the universities is another contributing factor. Similarly, development expenditure on teacher training colleges reduced significantly from K£ 10.4 in 1998/99 to K£ 0.7 million in 1999/2000 due to temporary suspension in the construction of non- residential buildings. Overall, recurrent expenditure estimates consumed 96.6 per cent of the total Ministry of Education budget leaving a marginal 3.4 per cent of the total allocation for development purposes. Polytechnic education did not receive any development expenditure budget for the third year running.

Table 3.3: EXPENDITURE OF THE MINISTRY OF EDUCATION ,SCIENCE AND TECHNOLOGY, 1996/97 - 1999/2000

K£million

	1996/97	1997/98	1998/99*	1999/2000**
RECURRENT EXPENDITURE-				
General Administration and Planning	1,187.21	1,782.83	1,848.84	1,980.59
Pre-Primary Education	0.44	0.34	0.19	0.31
Primary Education	25.31	13.97	18.37	24.17
Secondary Education	27.12	15.96	15.43	29.79
Technical Education+	14.60	22.33	30.68	36.30
Teacher Training	8.59	9.83	9.51	9.29
Special Education	2.73	3.01	3.65	4.08
Polytechnic Education	7.65	9.35	10.08	9.77
Higher Education***	223.72	257.47	216.11	272.49
Miscellaneous	6.14	6.65	9.22	13.19
TOTAL	1,503.51	2,121.74	2,162.08	2,379.98
DEVELOPMENT EXPENDITURE-				
General Administration and Planning	1.75	1.09	8.50	33.12
Pre-Primary Education	0.59	2.29	5.20	25.24
Primary Education	14.14	15.52	8.04	16.30
Secondary Education	1.13	0.53	0.70	2.34
Technical Education+.	0.13	0.14	0.03	0.76
Teacher Training	16.97	16.06	10.41	0.72
Special Education	6.35	2.91	0.01	0.15
Polytechnic Education	0.06	-	-	-
Higher Education***	24.49	41.99	43.36	5.64
Miscellaneous	-	-	-	-
TOTAL	65.61	80.53	76.25	84.27
GROSS TOTAL EXPENDITURE	1,569.12	2,202.27	2,238.33	2,464.25

* Provisional.

** Estimates including supplementaries.

*** Includes expenditure on Universities of Nairobi, Moi , Kenyatta, Jomo Kenyatta University of Agriculture & Technology and Egerton.

\+ Includes Expenditure on Harambee Institutes of Technology and Youth Polytechnics currently under the ministry of Labour and Human Resource Development.

3.4. As shown in Table 3.4, there was a 4.2 per cent increase in the number of educational institutions from 44,446 in 1998 to 46,281 in 1999. The number of pre-schools increased by

6.1 per cent from 23,977 in 1998 to 25,429 in 1999, and constituted 54.9 per cent of the total number of educational institutions. Secondary schools recorded 4.8 per cent growth from 3,081 schools in 1998 to 3,197 in 1999. During the year under review, primary schools increased marginally by 1.5 per cent from 17,356 to 17,623 schools. The number of both primary and secondary teacher training colleges remained constant over the last two years.

3.5. Enrolment in pre-schools recorded a marginal decline of 1.2 per cent from 1,076,606 in 1998 to 1,063,883 in 1999. The proportion of girls to the total enrolment showed a slight improvement from 48.5 per cent in 1998 to 48.8 over the same period. The number of pre-school teachers however increased by 6.7 per cent to reach 40,291 in 1999. The pupil teacher ratio further improved from 29:1 in 1998 to 26:1 in 1999.

Table 3.4: NUMBER OF EDUCATIONAL INSTITUTIONS, 1995 - 1999

Numbers

Category	1995	1996	1997	1998	1999*
Schools:					
Pre-Primary	20,186	21,261	23,344	23,977	25,429
Primary	16,115	16,552	17,080	17,356	17,623
Secondary	2,878	3,004	3,028	3,081	3,197
Training Colleges:					
Primary	25	26	27	29	29
Secondary+..	3	3	3	3	3
TOTAL	39,207	40,846	43,482	44,446	46,281

* Provisional.

\+ Includes Kenya Technical Teachers Colleges

3.6. Table 3.5 shows primary school enrolment by class from 1996 to 1999. Enrolment in primary schools recorded a slight decline of 0.8 per cent from 5.92 million in 1998 to 5.87 million in 1999. The drop may be attributed to the following factors; cost sharing in education that has negatively affected enrolment, perception of declining returns to education as an investment and declining fertility rates in the country because of increased family planning awareness and acceptance. The Aids pandemic has also caused a rise in the number of orphans consequently leading to high dependency ratio. This has resulted in increasing poverty levels in some areas and hence declining enrolments. The proportion of girls to the total primary school enrolment was 49.0 per cent; which shows a near gender balance in primary education. Standard 1 enrolment represented 16.1 per cent of the total enrolment while standard 8 represented only 7.6 per cent of the total. It is interesting to note that there are more girls than boys in standard 6 and 7 but the situation is reversed in other classes. Overall, repetition rate is highly notable in standard 7. The KCPE candidature rose by 1.8 per cent from 446,539 pupils in 1998 to 454,544 in 1999. The private candidates from the Department of Adult Education in the Ministry of Home Affairs, National Heritage and Sports formed 0.8 per cent (or 3,751) of the total candidature.

Table 3.5: PRIMARY SCHOOL ENROLMENT BY STANDARD, 1996 - 1999

'000

	1996		1997		1998		1999*	
Class	Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls
Standard 1	494.2	463.9	498.2	468.2	503.1	473.0	488.9	456.7
Standard 2	437.4	414.9	442.9	421.1	460.4	431.1	485.4	428.5
Standard 3	397.0	374.7	402.1	370.4	428.2	405.8	419.0	396.7
Standard 4	372.9	364.2	379.5	372.4	397.1	390.3	399.4	385.6
Standard 5	330.9	330.8	331.7	334.6	351.3	352.3	348.8	347.5
Standard 6	297.5	307.0	304.1	312.4	316.2	326.0	313.2	321.8
Standard 7	296.2	299.8	301.2	310.9	317.2	331.3	309.7	321.4
Standard 8	217.3	199.0	220.5	207.1	221.0	215.3	228.6	216.6
TOTAL ..	2,843.4	2,754.3	2,880.2	2,797.1	2,994.5	2,925.1	2,993.0	2,874.8
GRAND TOTAL	5,597.7		5,677.3		5,919.6		5,867.8	

* Provisional.

3.7. The total enrolment of students in secondary schools indicates a significant decline of 8.8 per cent from 700,538 in 1998 to 638,509 in 1999 as presented in Table 3.6. Like in the case of primary schools, cost of education could be blamed for the reported decline in enrolment. Female enrolment rose from 46.7 per cent to 47.2 per cent of the total secondary school enrolment in the review period. Form 1 and 4 enrolment constituted 26.1 per cent and 22.0 per cent of the total secondary school enrolment respectively. This indicates a low wastage and high retention rates in secondary schools. The KCSE candidature rose by 2.6 per cent from 169,506 in 1998 to 173,930 in 1999. Female candidates formed 45.9 per cent of the total candidature.

Table 3.6: ENROLMENT IN SECONDARY SCHOOLS BY FORM AND SEX, 1995 - 1999

Numbers

	1995		1996		1997		1998		1999*	
Form	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Form 1	96,360	83,650	97,394	85,917	98,487	88,614	102,449	92,813	86,318	80,434
Form 2	88,737	75,961	93,526	81,444	95,539	86,856	98,066	86,922	92,072	83,392
Form 3	82,623	69,876	83,902	71,924	89,365	79,496	90,293	77,871	83,032	72,811
Form 4	74,087	61,094	78,104	66,042	80,457	68,659	82,632	69,492	75,938	64,512
TOTAL	341,807	290,581	352,926	305,327	363,848	323,625	373,440	327,098	337,360	301,149
GRAND TOTAL	632,388		658,253		687,473		700,538		638,509	

* Provisional.

3.8. Details of the number of primary school teachers by qualification and sex from 1996 to 1999 are shown in Table 3.7. There was a 3.0 per cent decrease in the number of teachers from 192,306 teachers in 1998 to 186,612 teachers in 1999. The significant decline in the number of teachers is largely attributed to natural attrition of teachers coupled with non-employment of teachers for the last two years. The female teachers accounted for 42.7 per cent of the total, which is an improvement from 41.4 per cent recorded in 1998. The number of trained teachers declined by 3.0 per cent of the total while the number of untrained teachers declined by 1.9 per cent. The proportion of trained teachers remained high at 96.5 per cent of the total number of teachers. The 'A' Level untrained Teachers received in-service training and were graded appropriately while the P4 teachers were up graded to P3. The pupil-trained teacher ratio increased slightly from 32:1 in 1998 to 33:1 in 1999. Pupil-Teacher Ratio (PTR) however, remained constant at 1998 level of 31:1.

3.9. The number of secondary school teachers by qualification and sex from 1996 to 1999 are shown in Table 3.8. The number of secondary school teachers declined by 6.7 per cent from 43,694 in 1998 to 40,781 in 1999. The high drop is mostly attributed to, natural attrition earlier mentioned and non-employment of teachers for the last 3 years. The proportion of trained secondary school teachers rose to 96.7 per cent from 92.5 per cent in 1998 while that of untrained teachers declined slightly to 3.3 per cent. The female proportion of teachers declined slightly from 35.4 per cent in 1998 to 35.3 per cent in 1999. Graduate teachers continue to dominate both the trained and untrained teaching force by constituting 61.9 per cent and 77.3 per cent of the total secondary school teachers respectively. The pupil-trained teacher ratio remained at the 1998 level of 16:1. while the pupil-teacher ratio decreased from 17.3:1 to 16:1 during the same period.

3.10. Student's enrolment in Government Primary Teacher Training Colleges (PTTCs) in 1999/2000 are presented in Table 3.9. The number of public PTTCs in 1999 stood at 21 with a student population of 6,678. Female students formed 57.2 per cent of the total student population. During the year under review there were no second year students because of the two years temporary suspension of admission to PTTCs. Most of the students (99.9 per cent) enrolled in PTTCs are pursuing P1 teacher course, while the remainder are taking P2 teacher course.

Table 3.9: STUDENT ENROLMENT IN ALL GOVERNMENT PRIMARY TEACHERS TRAINING COLLEGES,1999/2000*

Numbers

	1st YEAR		2nd YEAR**		TOTAL		
CERTIFICATION	Male	Female	Male	Female	Male	Female	Total
P1	3,108	3,366	-	-	3,108	3,366	6,474
P2	86	118	-	-	86	118	204
TOTAL	3,194	3,484	-	-	3,194	3,484	6,678

* Provisional

** There were no 2nd year students in1999/2000

3.11. The four National Polytechnics enrolled a total of 9,603 student in 1999 of which 29.4 per cent were female. This represented a 5.1 per cent increase from the previous year's enrolment of 9,136 students. Kenya Polytechnic continued to have the largest share of polytechnic enrolment with 46.4 per cent of the total students. Although Eldoret Polytechnic enrolled the least share of students (11.3 per cent), it has shown a remarkable growth of 81.9 per cent from 598 students in 1998 to 1,088 students in 1999. The 20 Technical Training Institutes enrolled 9,741 students compared to 7,979 in 1998. This was a notable rise of 22.1 per cent. Despite the increase in the enrolment, the proportion of female students slightly declined from 40.0 per cent in 1998 to 39.0 percent in 1999. The 17 Institutes of Technology enrolled 6,915 students in 1999 recording a 2.5 per cent decline from 7,094 students in 1998. Female students constituted 29.5 per cent of the total enrolment.

3.12. Enrolment in the public universities grew marginally by 3.0 per cent from 40,613 in 1998/99 to 41,825 in 1999/2000. There was a notable decline in the enrolment at the University of Nairobi by 4.0 per cent, Kenyatta by 7.2 per cent and Maseno University College by18.6 per cent. Significant growths were however recorded at Egerton and Moi universities with 21.6 and 12.7 per cent increase in student enrolment respectively. Female students comprised 30.9 per cent of the total enrolment in public universities, a marginal rise from the previous year's 30.5 per cent. Of the total enrolment, 36,132 or 87.5 per cent were undergraduates, 2,770 or 6.7 per cent were postgraduates while 2,373 or 5.7 per cent were pursuing diploma courses. The University of Nairobi had the biggest share of the total public universities' student enrolment constituting 28.9 per cent, followed by Egerton with 24.2 per cent. Jomo Kenyatta University of agriculture and technology had the least number of students contributing only 7.6 per cent of the total. Parallel degree programmes continued to gain popularity in all the universities.

3.13. University of Nairobi had a total enrolment of 11,929 students in 1999/2000 academic year. This was a 4.0 per cent decline from the previous year's enrolment, which stood at 12,424 students. It is important to note that there has been a marked decline in the enrolment of students since 1997. First year intake also declined by 5.7 per cent with 2,338 students being admitted. Female students comprised 31.9 per cent of first year admissions and 29.5 per cent of the total undergraduate students. During the year under review, 1,447 postgraduate students were enrolled with 23.8 per cent being females.

3.14. Student enrolment at Kenyatta University recorded a decline of 7.2 per cent from 7,758 in 1998/99 to 7,196 in 1999/2000. Female students comprised 41.8 per cent of the total students. Postgraduate students formed 9.8 per cent of the total enrolment. During the same year, 1,816 first year students were admitted with 47.7 per cent being females. Bachelor of Education course continued to be the most popular as it attracted 70.9 per cent of the total undergraduate students.

3.15. Jomo Kenyatta University of Agriculture enrolled 3,137 students in 1999/2000. The university, which offers predominantly science-based courses, enrolled 625 or19.9 percent female students. Postgraduate students constituted 3.7 per cent while diploma students constituted 28.3 per cent or 888 of the total students' population. During the same year, the university admitted 825 first year students out of which 271 were pursuing diploma programmes. The university enrolled a total of 86 students in the postgraduate programmes of which females contributed 18.6 per cent of the total enrolment.

3.16. Moi university (excluding Maseno University College) enrolled 5,795 students in the 1999/2000 academic year. This was a significant increase of 12.7 per cent from the previous year's 5,140 students. The proportion of female students was 39.9 per cent of the total students' population. Postgraduate enrolment stood at only 87 of which 19.5 per cent were female students. In the same period, the university admitted 1,751 first year students of which 519 or 29.6 per cent were females.

3.17. Maseno which is a constituent college of Moi university had a total enrolment of 3,255 in 1999/2000 compared to 3,999 students in 1998/99. This was a marked decline of 18.6 per cent. Female students constituted 37.2 per cent while postgraduate students were 256 or 7.9 per cent of the total student population. It should be noted that 48.4 per cent of the postgraduate students were females, which indicates a near gender balance in the postgraduate enrolment at the college. The college admitted 899 first year students.

3.18. Student enrolment at Egerton University recorded a remarkable growth of 21.6 per cent from 8,200 in 1998/99 to 9,973 in 1999/2000. Female student proportion stood at 28.5 per cent while postgraduates were 159 (or 1.6 per cent) of the total enrolment. There were 2,002 first year students out of which 450 were diploma students. It should be pointed out that Egerton has the highest number of diploma students compared to all other universities having enrolled 1,485 students pursuing diploma programmes.

3.19. The number of private accredited universities rose to five with United States International University (U.S.I.U.) receiving a charter in 1999. Consequently, student enrolment grew notably by 78.0 per cent from 3,888 in 1998/99 to 6,920 during the year under review. All the universities experienced significant growth in student enrolment with Daystar recording 57.3 per cent increase, while Catholic and Baraton recorded 10.1 and 9.9 per cent increase respectively. Gender parity is evident in private universities with female proportion standing at 54.5 per cent of the total student enrolment. It is even higher in Daystar University with a commendable 62.2 per cent of students being females. As noted earlier, the scenario is vice versa in the public universities. Postgraduate students constituted a negligible 4.5 per cent of the total student enrolment with 64.5 per cent (or 199) enrolled at U.S.I.U. Overall, Daystar enrolled the biggest proportion of students (32.9 per cent) while Scott Theological College enrolled the least number of students contributing 1.5 per cent of the total.

Health

3.20. The overall goal of the Government is to promote and improve the health status of all Kenyans by making all health services more effective, accessible and affordable. This will be achieved by the Government increasing its budget to the health sector and creating an enabling environment for increased private sector, NGOs and community involvement in the provision of health services. The health service providers are putting more emphasis on the preventive than curative approach. The Government has continued to improve the facility-based services by expanding the facilities and training the personnel working at health facilities and the community based.

3.21. Table 3.10 gives the distribution of health institution and hospital beds and cots by province. The number of health institutions increased by 2.2 per cent from 4,145 in 1998 to 4,235 in 1999. Consequently, hospital beds and cots rose significantly by 4.2 per cent to reach 54,378 in the same period. This is attributed to increased participation of private investors in health sector. Rift Valley Province with 1,207 health institutions recorded the highest number followed by Eastern province with 804 while North Eastern province with 71 institutions had the lowest number of health institutions.

Table 3.10: HEALTH INSTITUTIONS AND HOSPITAL BEDS AND COTS BY PROVINCE, 1999*

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	54	36	312	402	7,005	328
Coast	46	49	367	462	4,421	177
Eastern..	58	75	671	804	6,736	145
North-Eastern ..	6	9	56	71	1,537	160
Central	51	81	349	481	7,513	202
Rift Valley.. ..	88	151	968	1,207	11,240	161
Nyanza	87	108	303	498	10,006	228
Western	59	84	167	310	5,920	178
TOTAL 1999	449	593	3,193	4,235	54,378	190
TOTAL 1998	420	579	3,146	4,145	52,186	175

* Provisional

3.22. The policy of the government on manpower is to increase the personnel at the periphery level to reduce the workload at the hospitals. Table 3.11 gives the number of registered medical personnel. The number of doctors per 100,000 population improved from 14.4 in 1998 to 3.3 during the year under review. During the same period, the number of enrolled nurses increased by 1270 from 25,803 to 27,073.

Table 3.11: REGISTERED MEDICAL PERSONNEL 1998 - 1999

Number

Type of Personnel	1998		1999*		IN TRAINING	
	Number	No. Per 100,000 Popu-lation**	Number	No. Per 100,000 Popu-lation**	1998-1999 Number	1999-2000 Number
Doctors	4,282	14.4	4,411	15.3	810	817
Dentists	715	2.2	734	2.6	160	157
Pharmacists	1,629	5.5	1,650	5.8	120	212
Pharmaceutical Technologists	1,137	3.8	1,167	4.1	100	109
Registered Nurses	8,336	28.0	8,671	30.2	1,005	1,012
Enrolled Nurses	25,803	86.7	27,073	94.4	3,892	3,898
Clinical Officers	4,007	13.5	4,277	14.9	830	841
Public Health Officers	728	2.4	780	2.7	174	177
Public Health Technicians	4,728	15.9	4,849	16.9	430	427
TOTAL	51,365		53,612		7,521	7,650

* Provisional

** Based on population projections

3.23. The HIV/AIDS scourge in Kenya can no longer be underrated. The country faces high rate of HIV infections. However, the Government aims at slowing down and eventually halting the progression of the AIDS epidemic in the country. This will be achieved through information, communication and education of the people on measures to control and prevent HIV/AIDS infections. Prevalence rates of HIV infections are shown in Table 3.12. The Table indicates that HIV prevalence rate rose by 4.0 percentage points from 9.9 per cent in 1994 to 13.9 per cent in 1998. Urban areas recorded the highest HIV prevalence rate of 18.1 per cent in 1998 compared to 13.0 per cent recorded in rural areas. However, the rate of growth of HIV infections in rural areas is higher than that of the urban areas. It grew by 4.3 percentage points from 8.7 per cent in 1994 to 13.0 per cent in 1998 in rural areas as opposed to the growth of 3.6 percentage points recorded in urban areas in the same period.

Table 3.12: HIV PREVALENCE TRENDS, 1994 - 1998

Number

Prevalence	1994	1995	1996	1997	1998
Urban (%)	14.5	15.5	16.3	16.9	18.1
Rural (%)	8.7	10.0	11.0	11.9	13.0
National (%)	9.9	11.0	11.9	12.8	13.9

* Provisional

3.24. The receipts and benefits from the National Hospital Insurance Fund (NHIF) from 1994/95 to 1998/99 financial year is presented in Table 3.13. receipts to the fund from members contribution increased by 6.5 per cent from K£ 100.2 million in 1997/98 to K£ 106.5 million in 1998/99. Benefits paid to the members decreased by 13.0 per cent from K£ 22.2 million in 1997/98 to K£ 19.1 million in the fiscal year 1998/999. This attributed to stringent measures to manage the fund after detecting a massive fraud attempts by some health institutions. The contributions net of benefits increased to K£ 87.4 million from K£ 78.0 in the previous year.

Table: 3.13: NATIONAL HOSPITAL INSURANCE FUND, 1994/95 -1998/99

K£million

YEAR	Receipts	Benefits	Contribution Net of Benefits
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	100.20	22.20	78.00
1998/99	106.50	19.10	87.40

Other Social services

3.25. **National Youth Service:** Details of National Youth Service recruitment and income earned in Table 3.14, show that there has been no recruitment of service men and women for the last two consecutive years. This was as a result of budgetary constraints making it impossible for any recruitment to take place at the institution. Total revenue earned by the institution in 1999 was K£ 0.93 million, a 7.0 per cent decline from the previous year. This consistent decline in revenue earned may be attributed to a reduction in the services offered by the institution and reduced manpower as a result of the financial constraints.

Table 3.14: NATIONAL YOUTH SERVICE RECRUITMENT AND INCOME EARNED, 1995 - 1999

Year	Recruitment (Numbers)			Income Earned* *
	Service men	Service women	Total	K£ million
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
1999*	-	-	-	0.93

* Provisional

* * Financial year

3.26. **National Social Security Fund, (N.S.S.F):** The National Social Security Fund has the responsibility to provide basic social security welfare support to workers. The N.S.S.F has continued to maintain close contact with its members and the public in general. Table 3.15. Gives information on the number of registered employers and employees as well as annual contribution by its members and the value of benefits paid to members from 1995 to 1999. The number of registered employers rose by 2.7 per cent from 48.0 thousand in 1998 to 49.3 thousand in 1999 after remaining constant between 1997 and 1998. In the same period under review, employees registered with the fund increased from 2,546.5 thousand to 2,671.6 thousand. The annual contribution to the fund increased by 4.4 per cent to register K£ 80.4 million in 1999. Annual benefits paid out to members increased by over 200 per cent, from K£ 26.0 million in 1998 to K£ 95.2 million in 1999, higher than the annual contribution realised in the year. This was due to the high increase in the number of claimants coupled with the increase in interest rate from 9.1 per cent to 15.0 per cent in 1999.

Table 3.15: NATIONAL SOCIAL SECURITY FUND, 1995 - 1999*

	1995	1996	1997	1998	1999*
Employers registered '000	45.7	46.4	48.0	48.0	49.3
Employees registered '000	2,294.3	2,401.1	2,498.2	2,546.5	2,671.6
Annual contribution K£mn.	70.3	80.0	79.5	77.0	80.4
Annual benefits paid K£mn.	17.0	26.0	27.6	26.0	95.2

* Provisional

3.27. **Adult Education:** Adult Education Enrolment by sex is as shown in Table 3.16. In 1999, there was a 9.6 per cent decrease in total enrolment from 100,261 registered in 1998 to 90,686 registered in the year. Male and female enrolment declined by 4.7 per cent and 11.3 per cent respectively. However, females still constitute the majority (72.5 per cent) enrolled in Adult Education.

Table 3.16: ADULT EDUCATION ENROLMENT BY SEX, 1995 - 1999*

Year	Male	Female	Total	% of Female Enrolment
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
1999*	24,955	65,731	90,686	72.5

* Provisional

3.28. As shown in Table 3.17, there was a remarkable increase of 64.0 per cent in the number of candidates who passed the proficiency test in 1999 from the previous year. However, Central and North Eastern provinces registered a decline in the number of adults who passed the proficiency test. The number of Adult candidates who registered for K.C.P.E examinations increased by 11.7 per cent from 3,955 in 1998 to 4,417 in 1999. The highest percentage of candidates was registered in Nyanza province followed by Western and Eastern provinces. Central province registered a decline of 20.1 per cent in candidates who at for K.C.P.E followed by Eastern province with a decline of 15.4 per cent.

Table 3.17: NUMBER OF ADULTS WHO PASSED PROFICIENCY TEST AND THOSE REGISTERED FOR KCPE BY PROVINCE, 1993 - 1997

Province	1995		1996		1997		1998		1999*	
	PTP	KCPE	PTP	KCPE	PTP	KCPE	PTP	KCPE	PTP	KCPE
Nairobi	316	330	191	566	202	522	110	908	400	977
Central	1,016	102	1,091	95	1,174	110	877	139	816	111
Coast	518	78	493	194	283	204	495	212	735	480
Nyanza	1,204	18	1,474	50	1,430	67	1,595	7	2,664	27
Eastern	887	96	2,054	28	1,823	42	2,096	52	3,594	44
N\Eastern	512	30	306	43	580	57	667	146	532	231
Rift Valley	1,472	188	1,724	279	786	308	1,538	2,377	3,169	2,448
Western	768	26	1,072	38	833	61	861	42	1,602	101
Total ..	6,693	868	8,405	1,293	7,111	1,371	8,239	3,955	13,512	4,417

KCPE: Indicates number registered for KCPE including re-sits.

PTP: Indicates number who passed proficiency test.

* Provisional

3.29. **Gender and Development:** The government has continued to incorporate gender concerns in national development and planning. In recognition of the importance of women in national development and eradication of poverty, gender concerns, such as gender equity in access to land and credit facilities and reduction in women's heavy workload especially on fuel and water collection have been outlined in the poverty eradication plan (1999 – 2015).

3.30. Table 3.18 gives details of the registered women groups, their membership, group contributions and government grants. The number of registered women groups increased by 10.0 per cent in 1999. In the same year, membership increased by 9.9 per cent compared to 26.0 per cent in 1998. Group contributions registered an increase of 6.9 per cent from Ksh.381.8 million in 1998 to Ksh.408.2 million in 1999. Government grants to women groups totalled Ksh.1.0 million in 1999 compared to Ksh.200 million and Ksh.0.5 million recorded in 1997 and 1998 respectively.

Table 3.18: REGISTERED WOMEN GROUPS, THEIR MEMBERSHIP, CONTRIBUTION AND GOK GRANTS, 1997 - 1999

	1997	1998	1999
No. of Women Groups	85,205	97,319	107,080
Membership	3,096,102	3,900,548	4,287,701
Group Contribution (Ksh. Million)	352.50	381.80	408.20
Grants by GoK (Ksh. Million)	200.00	0.47	0.98

Source: Women's Bureau

3.31. The women's bureau in 1999 embarked on developing a Gender Fact Sheet and Gender Monitoring and Evaluation indicators in strengthening the database for gender statistics. The completion of the review of the draft on National Policy on Gender and Development will also form a strong benchmark in national gender mainstreaming and advancement of women. In addition, the Women's Bureau, supported by GOK and UNDP is implementing a "Gender Mainstreaming and Empowerment of women" project. It focuses on targeted interventions and affirmative action of both institutional and household levels that will enable Kenyans deal with poverty through the promotion of gender equality and women's social and economic empowerment.

3.32. Table 3.19. shows incidences of reported rape including attempt and allied offences by province. The figures in the Table refer to known reported cases only, which may be an underestimate, as many of these rape cases go unreported. North Eastern province has the least reported incidences followed by Western province for the period 1994 to 1999. However, Nairobi and North Eastern provinces have maintained a steady decline in the number of offences registered to stand at 83 and 12 cases respectively in 1999. All the other provinces indicate an upward trend with the highest incidences being recorded in Rift Valley and Eastern provinces with an increase of 17.6 and 17.0 per cent respectively.

Table 15.19: INCIDENCE OF REPORTED RAPE, ATTEMPTED RAPES AND ALLIED OFFENCES BY PROVINCE, 1994 - 1999*

PROVINCE	1994	1995	1996	1997	1998	1999*
Nairobi	93	81	89	87	86	83
Central	132	146	151	153	164	179
Coast	50	66	73	76	79	75
Eastern	76	108	108	107	105	123
North Eastern	2	5	13	15	14	12
Nyanza	48	54	72	93	102	114
Rift Valley	142	159	164	167	176	207
Western	46	31	42	45	49	56
Total	**589**	**650**	**712**	**743**	**775**	**849**

Source: Women's Bureau

* Provisional

3.33. Table 3.20 indicates known reported cases of violence, namely rape and battering against women. Cases of rape including attempt have been on the increase over the period under review. Incidences of rape increased by 4.3 and 9.6 per cent in 1998 and 1999 respectively. Battering and assault of women has also taken an upward trend with a 0.9 per cent increase registered in 1999 over the previous year. Total cases reported were 6,641 and 6,767 in 1998 and 1999 respectively. However, there has been a steady decline in these cases as the increase in 1999 was only 1.9 per cent from the previous year compared to an increase of 6.6 per cent between 1997 and 1998.

Table 3.20: REPORTED CASES OF VIOLENCE AGAINST WOMEN, 1994 - 1999

	1994	1995	1996	1997	1998	1999
Rape including attempt	589	650	712	743	775	849
Assault/ Battering	4,580	4,889	5,229	5,488	5,866	5,918
Total	**5,169**	**5,539**	**5,941**	**6,231**	**6,641**	**6,767**

Source: Women's Bureau

Conclusion

3.34. The current economic conditions have adversely affected education in terms of access, enrolment and completion rates. This has caused deterioration in human resource development hindering adequate contribution of education sector to overall growth in the economy. The education sector can therefore be strengthened through the reduction in costs of education borne by parents and increasing bursary fund to cater for the girl-child and other disadvantaged groups. Grants in aid to secondary schools in Arid and Semi Arid regions and pockets of poverty in high potential areas should be increased.

3.35. Concerted efforts by all stakeholders should be made in the prevention of the spread of the HIV/AIDS epidemic to help reduce the large economic burden on families, particularly women and children. The NHIF should also endeavour to cover the vast majority of the population by not making contributions employment-related but family-based. There is need for the Government to empower community participation in the provision of their health services, by being involved in the planning, management and evaluation of various health and sanitation programmes.

3.36. Women play key roles in maintaining food production and acquisition thus boosting household food security. Although the Government has continued to support women in their efforts on national development and eradication of poverty, there is need to raise the status of women by improving their education, health, living and working conditions, in addition to paying more attention to their productive role rather than reproductive role. Women's right to self-determination is essential for economic and social progress. Women should be given high priority in Development spending and international aid policies, if poverty reduction, especially at household level is to be achieved.

CHAPTER 4 - EMPLOYMENT, EARNINGS AND CONSUMER PRICES

Overview

Employment creation in 1999 slowed down significantly partly due to the current economic recession and a steady decline in wage employment in public sector. The expanding informal sector continued to absorb a large proportion of the surplus labour force. Inflation rate maintained its single digit level, declining from 11.2 per cent in 1997 to 6.6 per cent in 1998 and finally to 3.5 per cent in 1999. The low inflation rate coupled with upward wage adjustments led to a modest rise in real average earnings, from K£ 988.3 per annum to K£ 1,102.4 per annum.

Employment

4.2. Total employment, excluding small-scale farming and pastoralist activities, rose by 7.8 per cent from 5.1 million persons in 1998 to 5.5 million persons in 1999, representing creation of 394.3 thousand new jobs. The overall growth rate was below the 8.2 per cent growth recorded in 1998, mainly due to slowdown in wage employment in modern sector. The expanding informal sector generated 385.2 thousand additional jobs, compared with 366.6 thousand jobs created in 1998. The trend reflects structural changes in the labour market, where surplus labour force is shifting from formal to the informal sector.

Table 4.1 PERSONS ENGAGED: RECORDED TOTALS: JUNE, 1996 - 1999

'000's

	1996	1997	1998	1999*
Modern Establishments - Urban and Rural Areas:				
Wage Employees	1,618.8	1,647.4	1,664.9	1,673.6
Self-employed and unpaid family workers	63.2	64.1	64.8	65.1
Informal Sector	2,643.8	2,986.9	3,353.5	3,738.8
TOTAL	4,325.8	4,698.4	5,083.2	5,477.5

* Provisional.

Modern Sector – The declining performance of the domestic economy in the recent past coupled with the ongoing public reforms adversely affected the growth in employment within the modern sector. As shown in Table 4.1, employment in the modern sector stood at 1.7 million persons in 1999, with the annual growth decelerating from 1.8 per cent in 1997 to 1.1 per cent in 1998 and further to a marginal 0.5 per cent in 1999. The slight increase in wage employment in the modern sector was confined to the private sector, as wage employment in public sector declined further below the 1998 level. There were 65.1 thousand self-employed and unpaid family workers within the modern sector in 1999, representing an increase of 0.5 per cent.

4.4. Table 4.2 presents sectoral analysis of wage employment in the modern sector. Employment in the private sector grew by 2.3 per cent from 968.3 thousand persons in 1998 to 990.3 thousand persons in 1999. The share of private sector employment in the modern economy rose slightly from 58.2 per cent in 1998 to 59.2 per cent in 1999, mainly due to continued decline in wage employment in public sector. The expansion in wage employment within private sector was notable in community, social and personal services; where employment rose by 4.4 per cent in 1999 to 239.4 thousand persons, and absorbed 24.2 per cent of total employment in private sector. Of the other leading industries in the private sector, wage employment in the agricultural industry rose by 1.8 per

cent, slightly below the 1.9 per cent growth of 1998. The slight improvement is largely attributed to improved output in coffee industry, despite unfavourable weather conditions experienced in 1999. The other notable improvement in employment within the private sector was a slight increase in employment in the transport and communications activities, especially in the electronic and print media industries. Wage employment in the manufacturing activities within the private rose by only 1.8 per cent mainly due to the economic recession and stiff competition from imported consumer goods. Wage employment in the financial sector was adversely affected by lagged effects of 1998 banking instability and ensuing restructuring of the banking industry involving closure of some branches and increased use of Automated Teller Machines (ATM). As a result, the sector's employment creation decelerated from 2.1 per cent in 1998 to 1.9 per cent in 1999.

Table 4.2 WAGE EMPLOYMENT BY INDUSTRY AND SECTOR, 1995 - 1999

'000's

	1995	1996	1997	1998	1999*	% change
PRIVATE SECTOR:						
Agriculture and Forestry	226.8	236.6	240.6	245.5	249.7	1.7
Mining and Quarrying	4.0	4.1	4.3	4.35	4.5	3.4
Manufacturing	165.5	172.3	177.1	181.0	184.2	1.8
Electricity and Water	1.3	1.3	1.4	1.5	1.5	2.7
Building and Construction	47.1	49.6	51.6	51.9	52.2	0.6
Wholesale and Retail Trade, Restaurants and Hotels	127.9	136.2	141.7	144.5	147.5	2.1
Transport and Communications	38.1	41.4	43.1	43.3	43.2	-0.2
Finance,Insurance, Real Estate and Business services	59.7	62.6	65.4	66.7	68.0	1.9
Community, Social and Personal Services	196.6	213.8	221.6	229.6	239.4	4.3
TOTAL PRIVATE SECTOR	867.0	917.9	946.8	968.3	990.2	2.3
PUBLIC SECTOR:						
Agriculture and Forestry	67.2	66.4	65.0	63.5	61.4	-3.3
Mining and Quarrying	0.7	0.7	0.7	0.7	0.7	0.0
Manufacturing	39.3	38.2	37.4	36.1	35.6	-1.4
Electricity and Water	21.6	22.0	22.0	21.7	21.2	-2.3
Building and Construction	29.3	29.2	28.3	27.4	22.8	-16.8
Wholesale and Retail Trade, Restaurants and Hotels	7.0	7.0	6.5	6.4	6.2	-3.1
Transport and Communications	41.0	44.8	42.7	41.8	40.2	-3.8
Finance, Insurance, Real Estate and Business services	18.3	18.4	17.8	17.2	16.4	-4.7
Community, Social and Personal Services	465.6	474.2	480.2	482.0	478.7	-0.7
TOTAL PUBLIC SECTOR	690.0	700.9	700.6	696.6	683.2	-1.9

* Provisional.

4.5. As shown in Tables 4.2 and 4.3, there has been a steady decline of employment within the public sector since 1996. The decline is attributed to the ongoing public sector reform programmes which involve a freeze in employment and natural attrition with a view of reducing and rightsizing staff in the Civil Service and Teachers Service Commission. It also involves privatisation of non-strategic public enterprises and reforming strategic public enterprises. Consequently, wage employment within public sector declined further by 2.1 per cent, from 697.7 thousand persons in 1998 to stand at 683.3 thousand persons in 1999. Also the share of public sector employment in the modern sector declined further from 42.5 per cent in 1997 to 41.9 per cent in 1998 and finally to 40.8 per cent in 1999. The decline in public sector employment was felt in all economic activities, with financial sector recording the highest decline of 4.7 per cent.

4.6. Table 4.3 presents data on employment in the public sector by type of employer. Employment in the Central Government declined further from 214.1 thousand persons in 1998 to 208.5 thousand persons in 1999. The number of civil servants comprised of 206.2 thousand payroll employees and 2.3 thousand casuals and work-paid staff at the end of June 1999. The decline is a reflection of the Civil Service Reform Programme, where a total of 2,548 civil servants retired under Voluntary Early Retirement Scheme (VERS) between June 1998 and June 1999. Within the same period 11,785 persons left the payroll through natural attrition and payroll cleansing, while 2,614 persons were recruited into the service.

Table 4.3 WAGE EMPLOYMENT IN THE PUBLIC SECTOR, 1995 - 1999*

'000's

	1995	1996	1997	1998	1999**	Annual Percentage Change 1999/1998
Central Government***	241.4	228.0	219.1	214.1	208.5	-2.6
Teachers Service Commission ..	219.1	232.9	241.3	247.7	242.3	-2.2
Parastatal Bodies+	111.4	114.3	112.8	108.9	105.2	-3.4
Majority Control by the Public Sector++ ..	50.3	53.9	52.5	49.9	48.5	-2.8
Local Government	67.8	71.8	74.9	77.1	78.7	2.1
TOTAL	690.0	700.9	700.6	697.7	683.2	-2.1

* Revised series based on improved coverage. Figures refer to employment stock 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. The number of persons employed by the Teachers Service Commission (TSC) declined by 2.2 per cent from 247.7 thousand in 1998 to 242.3 thousand in 1999. The notable decline has been occasioned by freezing teachers recruitment since 1997 as part of public sector reforms. Employment by the TSC as at June 1999 was composed of 188.9 thousand primary school teachers, 43.5 thousand post-primary teachers, 5.2 thousand employees in special institutions, 2.9 thousand persons in technical institutions, and 1.6 thousand employees in the TSC secretariat.

4.8. Employment in the parastatals and other institutions with a majority share control by the Government declined as a result of their restructuring and privatisation. These reforms have resulted in retrenchment of workers while the privatisation process has shifted some of the affected employees to the private sector. By the end of June 1999, a total of 167 out of 207 non-strategic public enterprises had been either partially or completely privatised. The giant Kenya Posts and Telecommunication Corporation was split into three entities, namely: Postal Corporation of Kenya, Telkom Kenya and Communications Commission of Kenya. Kenya Re-Insurance is being privatised in phases while Kenya Ports Authority is being restructured for partial privatisation. Consequently, employment in the parastatals declined by 3.4 per cent to 105.2 thousand employees in 1999. Employment in other institutions with a majority control by the Government also declined by 2.8 per cent to 48.5 thousand persons after declining by 5.0 per cent in 1998. Wage employment in the Local Government increased by 2.1 per cent, mainly due to staffing of increased number of local authorities resulting from creation of additional districts.

4.9. Table 4.4 sets out modern sector wage employment by province. Nairobi Province continued to account for the highest share in wage employment in modern sector of 25.1 per cent, and its employment expanded by 0.6 per cent to 420.8 thousand persons in 1999. Rift Valley Province with 374.3 thousand paid employees absorbed the second largest share of 22.4 per cent of total modern sector employment in 1999. On the other hand, North Eastern Province had the smallest share of only 6.6 per cent of modern sector employment, and registered an annual growth rate of 0.3 per cent in wage employment in 1999.

Table 4.4 WAGE EMPLOYMENT BY PROVINCE, 1996 - 1999

'000's

Province	1996	1997	1998	1999*	Percentage Change 1999/1998
Nairobi	410.9	414.9	418.2	420.8	0.6
Coast	201.3	203.6	205.4	206.6	0.6
North Eastern	14.8	15.1	15.4	15.4	0.0
Eastern	136.1	137.9	139.1	139.6	0.4
Central	230.1	235.2	238.5	239.5	0.4
Rift Valley	357.6	367.0	371.8	374.3	0.7
Nyanza	160.7	164.4	166.4	167.0	0.4
Western	107.3	109.3	110.1	110.4	0.3
TOTAL	1,618.8	1,647.4	1,664.9	1673.6	0.5

* Provisional

4.10. Table 4.5 presents wage employment in major towns by six dominant industries for the years 1994 and 1999. Some 131,781 jobs were generated in urban areas during the last five years, giving an overall increase of 17.0 per cent. Within the same period, Eldoret recorded the highest employment growth rate of 45.2 per cent largely due to increased activities in the manufacturing and construction activities. Nakuru and Kisumu recorded the second and third highest growths of 30.0 per cent and 22.1 per cent respectively. The city of Nairobi recorded the lowest growth in wage employment among the urban centres of 5.5 per cent in 1999, but accounted for 44.3 per cent of the total wage employment in the modern sector. Community, social and personal services are the largest employers of the urban labour force, followed by manufacturing and domestic trades. During the last five years, domestic trade and financial activities recorded high employment growth rates of 43.0 per cent and 29.9 per cent respectively; whereas urban wage employment in the construction sector declined by 9.7 per cent.

Table 4.5 WAGE EMPLOYMENT BY URBAN CENTRES AND SELECTED INDUSTRIES*, 1994 AND 1999

'000's

	Manufacturing		Construction		Wholesale and Ret Trade, Restaurants and Hotels		Transport and Communica-tions		Finance, Insurance, Real Estate and Business Services		Community, Social and Personal Services		Total Six Industries	
Towns	1994	1999**	1994	1999**	1994	1999**	1994	1999**	1994	1999**	1994	1999**	1994	1999**
Nairobi	72.1	76.3	38.4	39.9	50.0	57.6	29.8	30.0	44.0	42.4	147.7	156.7	382.0	402.9
Mombasa	28.6	31.5	5.3	6.4	18.6	21.8	28.7	30.7	12.0	13.3	45.2	49.0	138.4	152.7
Kisumu	6.0	7.1	2.0	2.2	3.4	4.3	1.5	1.8	2.1	2.5	17.3	21.6	32.3	39.4
Nakuru	7.0	8.7	2.1	2.6	4.6	5.7	1.2	1.6	1.6	2.6	9.9	13.2	26.4	34.3
Thika	13.9	16.3	0.5	0.6	2.4	3.2	0.3	0.4	1.3	1.8	5.1	5.9	23.5	28.1
Eldoret	10.5	16.4	1.2	1.9	3.4	4.1	0.8	1.0	2.3	2.9	3.3	5.0	21.5	31.2
Malindi	0.4	0.4	0.2	0.3	2.3	3.0	0.2	0.3	0.3	0.4	2.7	3.0	6.1	7.3
Kericho	3.3	4.0	0.9	1.0	1.0	1.3	0.2	0.2	0.3	0.5	5.2	5.5	10.9	12.5
Others	20.5	44.4	15.5	4.8	17.5	46.6	6.8	6.4	4.2	22.2	71.3	75.7	135.8	200.0
TOTAL	162.3	205.1	66.1	59.7	103.2	147.6	69.5	72.3	68.1	88.5	307.7	335.6	776.9	908.7

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

** Provisional.

4.11. As shown in Table 4.6, the number of paid female employees increased by 1.0 per cent to 491.9 thousand persons in 1999, much faster than the overall 0.5 per cent expansion in wage employment in modern sector. The female participation in total wage employment rose from 28.9 per cent in 1998 to 29.4 per cent in 1999. Majority of the females employed in the modern sector were working in community, social and personal services in 1999. Participation of women in industries traditionally dominated by men remained low, where females constituted 6.4 per cent of employment in building and construction industry and only 17.1 per cent in manufacturing sector. Of the total 1,673.5 thousand employees in modern sector 1,374.3 thousand were regular workers of which 397.5 thousand were females.

Table 4.6 WAGE EMPLOYMENT BY INDUSTRY AND SEX, 1998 AND 1999

INDUSTRY	MALES		FEMALES		TOTAL	
	1998	1999*	1998	1999*	1998	1999*
Agriculture and Forestry ..	232.3	234.0	76.5	77.3	308.8	311.3
Mining and Quarrying ..	3.9	4.1	1.1	1.1	5.0	5.2
Manufacturing	180.9	182.1	36.0	37.5	216.9	219.6
Electricity and Water ..	19.2	18.8	4.0	3.9	23.2	22.7
Building and Construction	74.2	73.7	5.0	5.0	79.2	78.7
Trade, Restaurants and Hotels	109.4	111.7	41.3	41.9	150.7	153.6
Transport and Communications	67.6	66.9	17.4	16.9	85.0	83.8
Finance, Insurance, Real Estate and Business Services ..	62.1	62.7	21.9	21.8	84.0	84.5
Community, Social and Personal Services-						
Public Administration ..	102.4	102.5	64.1	58.5	166.5	160.2
Education Services	177.9	176.5	123.5	130.2	301.4	305.1
Domestic Services	58.6	60.2	40.4	39.8	99.0	99.5
Other Services	89.3	92.1	55.9	58.2	145.2	149.4
TOTAL	1,177.8	1,185.3	487.1	492.1	1,664.9	1,673.6
Of which: Regular	980.4	980.7	393.9	397.5	1,374.3	1,378.2
Casual	197.4	204.6	93.2	94.6	290.6	295.4

* Provisional

Wage Earnings in the Modern Sector

4.12. Total wage earnings by industry and sector for the period 1996 to 1999 are presented in Table 4.7. The overall nominal wage bill increased by 16.0 per cent, rising from K£ 10,092.8 million in 1998 to K£ 11,709.8 million in 1999. Private sector wage bill rose by 19.7 per cent from K£ 6,042.0 million in 1998 to K£ 7,233.6 million in 1999, largely due to an improvement in the average nominal wages. Within the private sector, wage earnings in the community and social services industry registered the highest share of 22.4 per cent of the private sector wage bill. Liberalization of the energy sector contributed to a high growth in wage payments within the electricity and water industry of 26.9 per cent.

Table 4.7 ESTIMATED TOTAL WAGE PAYMENTS BY INDUSTRY AND SECTOR, 1996 - 1999

K£million

	1996	1997	1998	1999*
PRIVATE SECTOR:				
Agriculture and Forestry	421.4	513.2	624.5	739.9
Mining and Quarrying	11.3	13.3	15.5	18.1
Manufacturing	811.8	1,009.0	1,227.4	1,454.2
Electricity and Water	6.6	9.2	11.9	15.1
Building and Construction	200.4	250.0	301.9	355.3
Wholesale and Retail Trade, Restaurants	0.0	0.0	0.0	0.0
and Hotels	865.3	1,086.3	1,327.1	1,586.0
Transport and Communications ..	289.6	326.3	424.5	496.5
Finance, Insurance ,Real Estate and	0.0	0.0	0.0	0.0
Business Services	542.9	672.6	807.1	946.0
Community, Social and Personal Services	810.0	1,029.4	1,302.1	1,622.5
TOTAL PRIVATE SECTOR	3,959.3	4,909.3	6,042.0	7,233.6
PUBLIC SECTOR:				
Agriculture and Forestry	158.7	194.7	234.3	264.3
Mining and Quarrying	3.0	3.6	4.3	4.6
Manufacturing	132.3	212.0	239.8	265.8
Electricity and Water	126.2	157.2	186.0	208.5
Building and Construction	104.3	123.2	139.1	149.8
Wholesale and Retail Trade, Restaurants	0.0	0.0	0.0	0.0
and Hotels	35.6	40.7	47.5	53.3
Transport and Communications ..	234.4	274.5	385.9	476.1
Finance, Insurance ,Real Estate and	0.0	0.0	0.0	0.0
Business Services	187.1	250.7	312.3	355.5
Community, Social and Personal Services	1,730.9	2,047.7	2,501.6	2,698.3
TOTAL PUBLIC SECTOR	2,712.5	3,304.3	4,050.8	4,476.2
TOTAL PUBLIC AND PRIVATE ..	6,671.8	8,213.6	10,092.8	11,709.8

* Provisional.

4.13. Public sector wage payments represented 38.2 per cent of the total wage bill in the modern sector; and went up by 10.5 per cent to K£ 4,476.2 million in 1999. This growth was lower than the 22.6 per cent recorded in 1998. This was mainly due to significant decline in wage employment. Community, social and personal services industry continued to account for the largest share of the public sector wage bill of 60.3 per cent. Transport and communication industry registered the largest growth rate of 23.4 per cent from the 1998 level.

4.14. Table 4.8 summarizes wage payments in the public sector by type of employer. Of the public sector employers, the wage bill for the Central Government rose by 6.0 per cent to K£ 1,315.9 million in 1999 - constituting 29.4 per cent of the total public wage bill. The Teachers Service Commission wage bill went up by 6.6 per cent to K£ 1,296.4 million, and absorbed the second largest share of public sector wage bill in 1999. Wage payments for parastatals and institutions which have majority control by the public sector rose by 14.3 per cent and 14.7 per cent respectively. As a result of increased employment and councilors allowances, wage bill for local Government rose significantly by 22.7 per cent to K£ 606.1 million in 1999.

Table 4.8 TOTAL WAGE PAYMENTS IN THE PUBLIC SECTOR, 1996 - 1999

K£million

	1996	1997	1998	1999*
Central Government	915.6	1,040.9	1,241.9	1315.9
Teachers Service Commission** ..	728.8	915.5	1,215.6	1296.4
Parastatal Bodies***	508.7	593.5	684.8	782.5
Majority Control by the Public Sector+.. ..	297.0	358.0	414.4	475.3
Local Government	311.9	396.5	494.0	606.1
TOTAL	2,762.0	3,304.4	4,050.7	4,476.2

* 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. During 1999, average earnings per person went up by 15.3 per cent, rising from K£ 6,064.2 per annum in 1998 to K£ 6,991.4 per annum in 1999. As shown in Table 4.9, average earnings in the private sector increased by 16.7 per cent from K£ 6,250.5 to K£ 7,294.4 per annum in 1999. In the private sector, the financial, transport, trade and distribution industries recorded higher average earnings than those recorded in other activities. However, average earnings for wage employment in primary activities of agriculture, mining and quarrying continued to be below the overall average.

Table 4.9 AVERAGE WAGE EARNINGS PER EMPLOYEE, 1995 - 1999

K£ per annum

	1996	1997	1998	1999*
PRIVATE SECTOR:				
Agriculture and Forestry	1,781.3	2,133.2	2,546.9	2,964.8
Mining and Quarrying	2,728.1	3,121.8	3,559.3	4,016.1
Manufacturing	4,712.4	5,697.8	6,788.6	7,901.7
Electricity and Water	4,970.4	6,334.1	8,068.7	9,923.6
Building and Construction	4,042.0	4,842.3	5,821.6	6,811.7
Trade, Restaurants and Hotels	6,354.1	7,666.1	9,198.3	10,767.1
Transport and Communications	6,988.1	7,563.9	9,850.8	11,376.2
Finance, Insurance ,Real Estate and Business Services	8,671.0	10,290.3	12,076.5	13,888.1
Community, Social & Personal Services	3,788.5	4,645.0	5,678.8	6,776.2
TOTAL PRIVATE SECTOR	4,313.4	5,185.1	6,250.5	7,294.4
PUBLIC SECTOR:				
Agriculture and Forestry	2,390.1	3,012.7	3,681.5	4,262.0
Mining and Quarrying	4,285.7	5,195.6	6,148.3	6,940.0
Manufacturing	3,837.7	5,610.6	6,623.9	7,424.6
Electricity and Water	5,736.4	7,145.0	8,556.3	9,776.5
Building and Construction	3,568.5	4,353.4	5,067.6	5,620.7
Trade, Restaurants and Hotels	5,128.6	6,264.8	7,415.8	8,371.4
Transport and Communications	5,819.2	6,428.4	9,180.0	11,783.4
Finance, Insurance ,Real Estate and Business Services	10,630.4	14,078.5	18,129.2	21,567.2
Community, Social & Personal Services	3,650.6	4,264.1	5,187.6	5,683.4
TOTAL PUBLIC SECTOR	3,940.4	4,716.2	5,806.0	6,551.6
TOTAL PRIVATE AND PUBLIC SECTOR	4,150.1	4,990.2	6,064.2	6,991.4
MEMORANDUM ITEMS IN PUBLIC SECTOR:				
Central Government	4,016.50	4,750.80	5,800.7	6,311.2
Teachers Service Commission**	3,129.20	3,793.20	4,908.4	5,350.2
Parastatal Bodies***	4,449.10	5,261.30	6,287.3	7,437.9
Majority Control by the Public Sector +	5,505.60	6,818.70	8,305.2	9,800.1
Local Government	4,344.20	5,294.80	6,406.7	7,700.9
TOTAL PUBLIC SECTOR	3,940.4	4,716.2	5,806.0	6,551.6

* Provisional.

** Refers to position as at 30th June 1998, 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.

4.16. Average earnings in the public sector rose by 12.8 per cent from K£ 5,806.0 in 1998 to K£ 6,551.6 per annum in 1999 compared to the growth of 23.1 per cent recorded in 1998. The deceleration in the growth of average earnings is attributed to absence of major salary revisions for majority of public sector employees during the year, and the 12.8 per cent increase is solely attributed to promotions and the annual salary increments. Workers in the financial industry within the public sector continued to enjoy higher average earnings as compared to other employees in the public sector.

4.17. Table 4.10 presents percentage changes in wage employment and average earnings for the period 1994 to 1999. During the five-year period, total employment rose by 11.3 per cent; with wage employment in the private sector rising by 21.2 per cent while public sector employment declined by 0.6 per cent. Within the same period,

employment in the Central Government, parastatal bodies, and institutions with majority control by public sector went down by 19.6 per cent, 1.6 per cent and 0.6 per cent respectively. This decline is attributed to the restructuring within the Civil Service and public enterprises. On the other hand, Local Government recorded an increase of 57.4 per cent in wage employment due to a rise in number of local authorities. Total average earnings rose by 149.6 per cent with those of private sector employees rising by 157.9 per cent and public sector earnings expanding by 137.0 per cent within the same period.

Table 4.10 PERCENTAGE CHANGES IN WAGE EMPLOYMENT AND AVERAGE EARNINGS, 1999/94 AND 1999/98

	EMPLOYMENT		AVERAGE EARNINGS	
	1999*/1994	1999*/1998	1999*/1994	1999*/1998
PRIVATE SECTOR:				
Agriculture and Forestry	17.3	1.8	146.9	16.4
Mining and Quarrying	15.9	3.4	103.4	12.8
Manufacturing	16.2	1.8	157.7	16.4
Electricity and Water	31.2	2.7	299.2	23.0
Building and Construction	18.6	0.6	163.9	17.0
Trade, Restaurants and Hotels	23.0	2.1	160.4	17.1
Transport and Communications	17.4	1.3	142.2	15.5
Finance, Insurance ,Real Estate and Business Services	19.3	1.9	133.6	15.0
Community, Social & Personal Services	31.1	4.4	181.9	19.3
TOTAL PRIVATE SECTOR	21.2	2.4	157.9	16.7
PUBLIC SECTOR:				
Agriculture and Forestry	-9.2	-3.0	208.1	15.8
Mining and Quarrying	-7.2	-4.3	110.9	12.9
Manufacturing	-9.5	-1.6	200.4	12.1
Electricity and Water	1.8	-2.2	130.5	14.3
Building and Construction	-9.7	-3.2	134.8	10.9
Trade, Restaurants and Hotels	-8.9	-1.1	142.3	12.9
Transport and Communications	-1.2	-4.3	215.9	28.4
Finance, Insurance ,Real Estate and Business Services	-8.3	-4.5	222.2	19.0
Community, Social and Personal Services	2.3	-1.7	111.1	9.6
TOTAL PUBLIC SECTOR	-0.6	-2.1	137.0	12.8
TOTAL PUBLIC AND PRIVATE	11.3	0.5	149.6	15.3
MEMORANDUM ITEMS IN PUBLIC SECTOR:				
Central Government	-19.6	-2.6	120.8	8.8
Teacher's Service Commission**	8.9	-2.2	137.5	9.0
Parastatal Bodies***	-1.6	-3.4	115.5	18.3
Majority Control by the Public Sector +	-0.6	-2.8	175.3	18.0
Local government	57.4	2.1	234.2	20.2
TOTAL PUBLIC SECTOR	-0.6	-2.1	137.0	12.8

* Provisional.

** Refers to position as at 30th June 1998, 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. Real average earnings per employee by sector and industry are presented in Table 4.11, while changes in real average earnings are shown in Table 4.12. The reduction of inflationary pressure, coupled with upward wage adjustments led to 11.4 per cent

increase in real earnings from K£ 988.3 per annum in 1998 to K£ 1,102.3 per annum in 1999. Real average earnings in the private sector rose by 13.0 per cent to K£ 1,150.7 per annum in 1999. Real average earnings in public sector increased by 9.0 per cent in 1999.

Table 4.11 ESTIMATED REAL AVERAGE WAGE EARNINGS* PER EMPLOYEE, 1996 - 1999

K£ per annum

	1996	1997	1998	1999**
PRIVATE SECTOR:				
Agriculture and Forestry	344.4	370.9	415.2	467.0
Mining and Quarrying	527.4	542.7	580.3	632.7
Manufacturing	911.0	990.1	1,106.9	1,244.8
Electricity and Water	960.9	1,101.2	1,315.4	1,563.3
Building and Construction	781.4	841.9	949.1	1,073.1
Trade, Restaurants and Hotels	1,228.4	1,332.8	1,499.6	1,696.2
Transport and Communications	1,350.9	1,454.3	1,605.8	1,791.4
Finance, Insurance ,Real Estate and Business Services	1,676.3	1,789.0	1,968.4	2,187.8
Community, Social & Personal Services	732.4	807.6	925.6	1,067.5
TOTAL PRIVATE SECTOR	833.9	907.7	1,018.4	1,150.7
PUBLIC SECTOR:				
Agriculture and Forestry	462.0	516.5	601.0	675.0
Mining and Quarrying	828.5	894.1	1,005.3	1,100.1
Manufacturing	741.9	807.5	1,081.3	1,177.4
Electricity and Water	1,108.9	1,220.9	1,399.1	1,550.1
Building and Construction	689.9	756.9	828.6	891.1
Trade, Restaurants and Hotels	991.4	1,075.2	1,212.6	1,327.3
Transport and Communications	1,125.0	1,227.2	1,500.3	1,868.3
Finance, Insurance ,Real Estate and Business Services	2,055.1	2,419.3	2,964.4	3,412.9
Community, Social & Personal Services	705.7	748.4	844.8	895.3
TOTAL PUBLIC SECTOR	761.8	819.9	946.5	1,032.1
TOTAL PRIVATE AND PUBLIC SECTOR	802.3	870.1	988.3	1,102.3
MEMORANDUM ITEMS IN PUBLIC SECTOR:				
Central Government	776.5	826.0	945.7	994.2
Teachers Service Commission***	604.9	659.5	800.2	842.8
Parastatal Bodies+	860.1	914.7	1025	1171.7
Majority Control by the Public Sector++	1,064.3	1,185.5	1354	1543.9
Local Government	839.8	920.5	1044.5	1213.1
TOTAL PUBLIC SECTOR	761.8	819.9	946.5	1032.1

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

** 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.

Table 4.12 CHANGES IN WAGE EMPLOYMENT, PRICES AND REAL EARNINGS, 1996 - 1999

Percentage

	1996	1997	1998	1999*
Wage employment	3.9	1.8	1.1	0.5
Average earnings at current prices	21.7	20.6	25.1	15.3
Consumer prices (Inflation rates)**	9.0	11.2	6.6	3.5
Real average earnings	11.7	8.5	17.3	11.4

* Provisional.

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

Employment in the Informal Sector

4.19. Informal sector has emerged as a major source of employment in the Kenyan labour market as the domestic economy continues to experience declining capacity in the agricultural sector and a slow down in modern sector activities. As shown in Table 4.1, the sector created 385.3 thousand additional jobs, with employment rising by 11.5 per cent to 3.7 million persons in 1999. The share of the sector's employment, excluding employment in small-scale farming and pastoralist activities, rose from 48.9 per cent in 1993 to 68.2 per cent in 1999. The sustained expansion is largely attributed to the shift of surplus labour from formal sector to informal sector as opportunities for securing wage employment in the modern sector have become increasingly scarce. Further more the sector has received support from the Government and Non-Governmental Organisations (NGOs), in terms of infrastructure, availability of credit, training leading to adoption of appropriate technology and expansion of market opportunities.

4.20. As shown in Table 4.13, urban areas continued to dominate informal sector activities. Informal sector employment in urban areas expanded from an estimated 2.2 million persons in 1998 to 2.4 million persons in 1999, with its share standing at 64.1 per cent. Among the urban areas, Nairobi City had 896.0 thousand persons engaged in informal sector activities, and absorbed the highest proportion 24.0 per cent among the eight provinces. The high number includes traders from surrounding districts who commute to the city to engage in these activities. Rift Valley Province controlled the second largest in informal sector employment of 18.9 per cent among the eight provinces, with 708.0 thousand employees. The North Eastern Province on the other hand, had the smallest share of informal sector employment of 0.5 per cent in 1999.

Table 4.13 INFORMAL SECTOR, 1996 - 1999
NUMBER OF PERSONS ENGAGED BY PROVINCE

000's

Province	1996	1997	1998	1999*
Nairobi	623.9	716.4	801.4	896.0
Central	417.7	470.4	530.8	592.4
Nyanza	319.9	359.4	402.7	447.0
Western	187.7	210.5	239.3	267.8
Rift Valley	502.3	563.0	635.9	708.0
Eastern	253.8	284.0	316.3	350.8
Coast	325.2	368.3	410.6	458.6
North Eastern	13.3	14.9	16.5	18.2
TOTAL	2,643.8	2,986.9	3,353.5	3,738.8
Of which				
Urban	1,692.0	1,939.7	2,173.7	2,397.7
Rural	951.8	1,047.2	1,179.8	1,341.1

* Provisional

4.21. Table 4.14 presents informal sector employment by industry. Informal sector employment in trades, hotels and restaurants industry expanded by 11.6 per cent to 2.37 million persons in1999. The expansion in persons engaged in these trades may be attributed to the liberalised market and ease of entry that is associated with the trades industry. Manufacturing industry absorbed the second largest share of 26.5 per cent in informal sector employment in 1999. Informal sector employment in the community and personal services rose by 13.7 per cent to 262.5 thousand persons. Building and construction industry had the smallest share of persons engaged in the sector of 1.6 per cent. The sector faced some constraints, which made its employment creation decelerate from 12.3 per cent in 1998 to 11.5 per cent in 1999. Among the main challenges are the sluggish performance of the economy and strict enforcement of local authority by-laws and regulations, which have led to reduced number of street hawkers and other informal sector operators.

Table 4.14 INFORMAL SECTOR, 1996 - 1999
NUMBER OF PERSONS ENGAGED BY PROVINCE

000s

Activity	1996	1997	1998	1999*
Manufacturing	710.9	803.1	897.6	992.1
Construction	36.0	40.7	51.2	58.9
Wholesale and Retail Trade, Hotels and Restaurants	1,675.5	1,893.0	2,121.1	2,366.5
Transport and Communications**	41.5	46.8	52.8	58.8
Community, Social and Personal Services	179.9	203.3	230.8	262.5
TOTAL	2,643.8	2,987.0	3,353.6	3,738.8

* Provisional

** Includes mainly support services to transport activity

Wage Awards and Registered Collective Agreements

4.22. The Kenyan labour market is undergoing structural changes characterised by the on-going public sector reforms, increasing retrenchment of workers in the private sector, a significant shift of surplus labour to the informal sector and liberalisation of the labour market. These developments have impacted negatively on employment creation in the modern sector to the extent that urban unemployment has increased from 7.0 per cent in 1978 to 14.8 per cent in 1986 and further to 25.0 per cent in 1999. The Government is addressing the problem of increasing unemployment within the broad framework of the poverty reduction programme.

4.23. During the 1999 Labour day speech, whose theme was to create employment and eradicate poverty, the Government raised the minimum monthly wages for workers who fall under the Wages General Order and the rural Agricultural Industrial Wages Order by 7.0 per cent with effect from May 1, 1999. In setting the wage increases, the Government considered several factors, the main one being the need for increased employment opportunities through keeping wage rates in line with productivity and ability to employers.

4.24. As shown in Table 4.15, basic monthly wages for the rural agricultural workers in the private sector were on average raised from Kshs. 1,567 to Kshs. 1,676 per person. The lowest paid employees within the sector, i.e. unskilled employees under 18 years, had their minimum wages raised from Kshs. 898 in 1998 to Kshs. 961 in 1999. The highest paid category had their minimum wages raised from Kshs. 2,269 to Kshs. 2,428.

Table 4.15 GAZETTED MONTHLY BASIC MINIMUM WAGES FOR AGRICULTURAL INDUSTRY, 1996 - 1999

Kshs.

Type of Employee	1996	1997	1998	1999*
UNSKILLED EMPLOYEES				
18 years & above	995	1,095	1,259	1,347
Under 18 years	710	781	898	961
STOCKMAN, HERDSMAN AND WATCHMAN				
Under 18 years	824	906	1,042	1,115
18 year & above	1,148	1,263	1,453	1,555
SKILLED AND SEMI-SKILLED EMPLOYEES				
House servant or cook	1,135	1,249	1,436	1,537
Farm foreman	1,794	1,973	2,269	2,428
Farm clerk	1,794	1,973	2,269	2,428
Section foreman	1,162	1,278	1,470	1,573
Farm artisan	1,190	1,309	1,505	1,610
Tractor driver	1,261	1,387	1,595	1,707
Combined harvester driver	1,389	1,528	1,757	1,880
Lorry driver or car driver	1,458	1,604	1,845	1,974
AVERAGE	1,238	1,362	1,567	1,676

Source: Ministry of Labour

* Provisional

4.25. Table 4.16 shows that the overall gazetted monthly basic minimum wages in urban areas were raised from Kshs 3,347 to Kshs 3,582. In particular the average minimum wages for workers in Nairobi and Mombasa were raised from Kshs 4,241 to Kshs 4,538 per person. Workers in all other municipalities had their monthly minimum wages raised from Kshs 3,934 to Kshs 4,209 per person.

Table 4.16 GAZETTED MONTHLY BASIC MININUM WAGES IN URBAN AREAS (EXCLUDING HOUSING ALLOWANCE), 1997 - 1999

Kshs.

Occupation	Nairobi Area & Mombasa			Other Municipalities plus Mavoko & Ruiru Town Councils			All other towns		
	1997	1998	1999*	1997	1998	1999*	1997	1998	1999*
General Labourer	2,345	2,697	2,886	2,163	2,488	2,662	1,251	1,439	1,540
Miner, stone cutter, turnboy, waiter, cook	2,532	2,912	3,116	2,246	2,583	2,764	1,446	1,663	1,779
Night watchman	2,616	3,008	3,219	2,426	2,790	2,985	1,493	1,717	1,837
Machine attendant	2,657	3,056	3,270	2,473	2,844	3,043	2,005	2,306	2,467
Machinist	3,033	3,488	3,732	2,838	3,264	3,492	2,321	2,669	2,856
Plywood machine operator	3,164	3,639	3,894	2,921	3,359	3,594	2,416	2,778	2,972
Pattern designer	3,612	4,154	4,445	3,302	3,797	4,063	2,816	3,238	3,465
Tailor, Driver (medium vehicle)	3,981	4,578	4,898	3,659	4,208	4,503	3,262	3,751	4,014
Dyer, Crawler, Tractor driver, Salesman	4,395	5,054	5,408	4,100	4,715	5,045	3,701	4,256	4,554
Saw doctor, Caretaker (building)	4,863	5,593	5,985	4,541	5,222	5,588	4,230	4,865	5,206
Cashier, Driver (heavy commercial)	5,292	6,086	6,512	4,979	5,726	6,127	4,669	5,369	5,745
Artisan (Upgraded)	3,164	3,639	3,894	2,921	3,359	3,594	2,416	2,778	2,972
Artisan Grade III	3,981	4,578	4,898	3,659	4,208	4,503	3,268	3,758	4,021
Artisan Grade II	4,396	5,054	5,408	4,100	4,715	5,045	3,701	4,256	4,554
Artisan Grade I	5,792	6,086	6,512	4,979	5,726	6,127	4,669	5,369	5,745
AVERAGE	3,722	4,241	4,538	3,420	3,934	4,209	2,911	3,347	3,582

Source: Ministry of Labour

* Provisional

4.26. The number of collective agreements registered with the Industrial Court went down from 349 in 1998 to 328 in 1999. As shown in Table 4.17, these agreements benefited some 113,758 unionisable employees, compared with 138,147 employees who benefited from the agreements registered in 1998. The agreements offered an overall basic minimum wage of Kshs 6,016 per month. Also, the agreements registered in 1999 offered an average minimum housing allowance of Kshs 1,415, compared with an average housing allowance of Kshs 1,185 per month obtained by the collective agreements registered in 1998. Most of the 1999 agreements were in the food, beverage and tobacco industry.

Table 4.17 COLLECTIVE AGREEMENTS REGISTERED BY THE INDUSTRIAL COURT, 1998 AND 1999

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)	
	1998	1999*	1998	1999*	1998	1999*	1998	1999*
Agriculture Hunting Forestry & Fishing	27	25	74,294	38,208	3,670	3,868	1,057.8	1,166.2
Mining & Quarrying	5	4	434	414	5,036	5,728	1,215.0	764.3
Food, Beverage & Tobacco	32	43	6,315	43,671	6,790	5,879	1,053.8	1,168.4
Textile, Wearing Apparels & Leather Industry	31	21	10,198	3,041	4,621	4,888	1,099.4	1,331.4
Wood & Wood Industry	5	4	230	87	4,301	8,686	828.2	999.0
Paper & Paper Products, Printing & Publishing	17	13	1,642	924	6,682	6,238	1,184.7	1,307.7
Chemical Petroleum Rubber & Plastic Product	38	28	3,830	1,686	9,473	7,522	1,375.4	1,265.0
Glass, Ceramic & Cement	5	3	968	108	9,251	3,509	947.7	1,103.3
Motor Mechanic & Engineering Products	1	-	50	-	6,090	-	900.0	-
Electronics & Electrical Products	39	42	2,484	2,665	4,822	5,580	1,129.1	1,139.7
Other Manufacturing Products	4	2	242	125	7,523	5,719	1,169.0	1,250.0
Electricity and Water	-	2	-	6,248	-	6,575	-	3,150.0
Building & Construction	3	7	496	3,719	4,171	4,962	756.7	958.3
Wholesale & Retail Trade, Restaurant & Hotels	34	44	1,175	4,022	5,031	5,661	1,245.0	1,480.2
Transport and Communication	28	24	18,210	4,283	8,773	7,732	1,873.7	2,159.1
Finance, Insurance, Real Estate & Business Services	34	28	14,403	1,538	6,837	7,806	1,958.2	1,981.1
Community & Social Services	46	38	3,176	3,019	5,111	5,895	1,162.6	1,410.8
Total	349	328	138,147	113,758	6,136	6,016	1,184.8	1,414.7

Source: Ministry of Labour

* Provisional

Consumer Prices

4.27. The overall inflation rate, estimated by Nairobi Consumer Price Indices, declined from 6.6 per cent in 1998 to 3.5 per cent in 1999. The easing of inflationary pressures was pronounced in all income groups. Inflation rate for the lower income group declined from 5.8 per cent in 1998 to 2.6 per cent in 1999. As shown in Table 4.18, inflation rate for middle and upper income groups decelerated from 9.3 per cent and 9.1 per cent in 1998 to 6.1 per cent and 6.0 per cent in 1999, respectively.

Table 4.18: PERCENTAGE INCREASES IN NAIROBI CONSUMER PRICES*, 1995/94 - 1999/98

Income Group **	1995/94	1996/95	1997/96	1998/97	1999/98*
Nairobi Lower Income Index.....	0.8	8.8	12.0	5.8	2.6
Nairobi Middle Income Index.....	4.0	9.8	8.4	9.3	6.1
Nairobi Upper Income Index.....	3.9	8.9	10.9	9.1	6.0
Weighted Average Increases for 12 Months (Inflation rates)***	1.6	9.0	11.2	6.6	3.5

* Provisional

** The Income Groups are re - defined 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 annual average increases are weighted as 0.768 for lower income group, 0.209 for middle income group and 0.023 for upper income group.

Table 4.19: NAIROBI REVISED LOWER INCOME GROUP CONSUMER PRICE INDEX, 1994-1999
Base: Feb/March 1986=100

Months	1994	1995	1996	1997	1998	1999*
January	445.59	456.52	481.96	537.1	597.60	581.77
February	463.17	462.05	484.57	545.91	615.23	603.10
March	473.19	465.28	491.37	579.88	621.06	621.72
April	486.58	462.42	492.55	583.4	617.63	619.95
May	477.63	467.16	496.01	595.87	611.92	619.71
June	469.96	465.85	510.73	584.74	620.26	626.95
July	474.18	465.85	519.35	570.2	634.99	622.44
August	464.91	468.29	521.29	561.38	583.63	624.72
September	457.36	473.88	524.02	569.04	587.22	626.03
October	459.31	472.03	524.24	569.33	583.24	627.84
November	443.56	470.08	525.32	565.72	577.22	623.02
December	446.25	476.25	528.52	570.28	579.85	623.27
Annual average	463.47	467.14	508.33	569.40	602.49	618.38

4.28. The slow down in the expansion of money supply and improved supplies of basic foods explained the fall in inflation in 1999. Other factors included:

- Reduction of VAT rate from 16 per cent to 15 per cent during the 1999/2000 Government Budget;

- Pursuance of prudent fiscal policy that limited Government spending to available revenue and restricted the budgetary financing to non-inflationary sources.

4.29. Table 4.19, 4.20 and 4.21 show a six -year series of the Nairobi Consumer Price Indices for the lower, middle and upper income groups, respectively. Consumer price indices for all income groups rose in the first half of 1999 due to increases in food prices. The lower income index rose from 602.49 in 1998 to 618.38 in 1999; representing an increase of only 15.89 points the lowest among the three income groups. The middle income group index rose by 39.57 points from 647.86 to 687.43 while the upper income

group index rose by 39.72 points from 664.49 to 704.21. There was marginal increase in the food index for lower income households, a major item of consumption for this group.

Table 4.20: NAIROBI REVISED MIDDLE INCOME GROUP CONSUMER PRICE INDEX, 1994-1999

Base: Feb/March 1986=100

Months	1994	1995	1996	1997	1998	1999*
January	452.67	483.04	522.37	568.21	633.05	655.32
February	455.60	485.79	523.75	572.54	637	661.42
March	476.44	487.92	534.75	579.20	646.86	675.55
April	487.90	490.05	538.43	586.87	648.4	677.95
May	494.73	491.83	542.22	586.78	651.41	680.30
June	481.28	499.59	549.90	590.02	659.54	684.63
July	482.44	500.13	551.97	583.60	658.48	683.92
August	486.54	502.68	553.44	594.96	648.67	689.72
September	479.11	505.63	555.85	607.34	645.9	706.80
October	484.30	507.93	559.96	609.58	645.37	709.54
November	487.81	508.50	561.01	613.50	648.96	710.40
December	476.70	513.16	566.06	620.31	650.67	713.66
Annual average	478.79	498.02	546.64	592.74	647.86	687.43

*Provisional.

Table 4.21 NAIROBI REVISED UPPER INCOME GROUP CONSUMER PRICE INDEX, 1994-1999

Base: Feb/March 1986=100

Months	1994	1995	1996	1997	1998	1999*
January	452.29	502.95	522.51	582.63	642.20	679.61
February	459.92	505.5	522.78	586.37	644.61	681.30
March	481.99	496.93	540.29	595.25	659.54	693.67
April	483.37	495.62	544.51	596.07	659.52	697.64
May	504.78	493.44	544.34	599.24	667.77	700.21
June	494.96	496.97	550.73	602.52	671.12	702.87
July	493.05	498.5	552.98	600.2	669.84	702.26
August	489.82	503.25	554.13	614.76	668.70	709.11
September	495.94	509.79	556.44	628.62	674.48	718.89
October	488.25	516.38	563.17	630.83	671.36	721.12
November	492.39	515.54	564.57	633.62	671.07	720.58
December	493.14	519.24	576.61	638.55	673.68	723.22
Annual average	485.83	504.51	549.42	609.06	664.49	704.21

4.30 Table 4.22 presents the Nairobi consumer price indices for food and the other items combined for the three income groups. The food price index for the lower income group rose from 606.86 at the end of the first quarter to 609.87 at the end of the second quarter 1999 compared to an increase from 606.88 to 616.71 for the corresponding period in 1998. Nonetheless, the food index for the lower income group declined during the second half of the year to stand at 592.18 at the close of the year. The increase in the first half was mainly in maize grains and its products, vegetables like cabbages, kale's, onions and tomatoes. On average sugar prices dropped compared to 1998 levels. The trends in

the food index for middle and upper income groups were similar to those of lower income group during the year under review.

Table 4.22 REVISED NAIROBI CONSUMER PRICE INDICES

Base: Feb/March 1986=100

Year	Income group		Food	Others	All Groups
	LOWER INCOME	Weights	0.442	0.558	1.000
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
1999		March	606.86	633.49	621.72
		June	609.87	640.48	626.95
		September	604.32	643.23	626.03
		December	592.18	647.90	623.27
	MIDDLE INCOME	Weights	0.212	0.788	1.000
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
1999		March	641.95	684.59	675.55
		June	645.40	695.18	684.63
		September	666.11	717.75	706.80
		December	663.14	727.25	713.66
	UPPER INCOME	Weights	0.139	0.861	1.000
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
1999		March	652.72	700.28	693.67
		June	674.02	707.53	702.87
		September	678.31	725.44	718.89
		December	676.58	730.75	723.22

4.31 The 1999 Consumer price indices for other items in lower income group increased gradually from the first quarter 1999, to the end of the year. Likewise, consumer prices for others in the middle income group increased by 42.66 points from first quarter to end of the year while upper income indices rose by 30.47 points during the same period. Transport and communication indices rose substantially due to increase of petrol prices that rose by 29 per cent from January 1999 to December 1999. This was mainly due to depreciation of the Kenya shilling against other major currencies.

4.32. The inflation rates prevailing in Nairobi during the year under review were lower than those experienced in the other three major urban centres as indicated in Table 4.23. Inflation rates of 6.3 per cent, 8.2 per cent and 4.9 per cent were recorded for Mombasa, Kisumu and Nakuru respectively, compared to inflation rates of 5.6 per cent, 5.0 per cent and 5.3 per cent recorded in 1998 respectively.

CONSUMER PRICE INDICES** FOR MOMBASA,KISUMU AND NAKURU, 1994-1999

Table 4.23 Base: 1976 = 100

YEAR		Mombasa	Kisumu	Nakuru
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	Annual Average	1510.84	1465.29	1562.92
1999*	March	1550.24	1534.42	1589.92
	June.....	1591.52	1580.13	1633.25
	September.....	1634.24	1610.25	1666.62
	December.....	1649.46	1614.42	1668.68
	Annual Average.....	1606.37	1584.81	1639.62

* Provisional

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

CHAPTER 5 – MONEY, BANKING AND FINANCE

Overall Trends

The Government continued with stringent monetary policy for the fourth consecutive year with the aim of keeping growth in money supply at the same level with production of goods and services. During 1999, price and banking stability remained the top priority of the monetary policy pursued. Low targets were set for both money supply (M3) and inflation rate. Further, the path of monetary expansion was programmed to be in line with fiscal policy. In order to achieve the above objectives, indirect monetary policy instruments were used. Minimum cash and liquidity ratios for both commercial banks and Non-Bank Financial Institutions (NBFIs) were maintained at 12.0 per cent and 20.0 per cent respectively.

5.1. Broad money supply (M3) grew by only 2.8 per cent in 1999, which was within the targeted growth of 5.0 per cent for the period. The low growth of money supply ensured that the main aim of maintaining a stable general price level was achieved as reflected in the 3.5 per cent inflation rate recorded in 1999. The banking sector liquidity was well above the minimum requirement, averaging 41.0 per cent for Commercial banks and 54.0 per cent for NBFIs while average interest rates were lower than in 1998.

Monetary Indicators

5.2. Key monetary indicators are presented in Table 5.1. Broad Money Supply (M3) grew from K£ 15,187.5 million in 1998 to K£ 15,605.8 million in 1999 or 2.8 per cent increase compared with a 3.3 per cent increase recorded in 1998. Net foreign assets, which have been on a declining trend since 1997 reversed the trend in 1999 and recorded a 25.1 per cent increase. These developments are reflected in the balance of payments position.

Table 5.1: MONETARY INDICATORS, 1995 - 1999

	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*	Government	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	2,324.83	12,237.16	4,133.27	16,370.43	14,702.61	37	83
1998	December	2,125.04	13,028.11	4,511.74	17,539.85	15,187.50	38	83
1999	March	2,254.69	13,128.73	4,706.40	17,835.13	15,684.67	43	80
	June	2,374.44	13,883.71	4,789.13	18,672.84	15,489.94	41	84
	September.. .. .	2,477.26	14,423.01	4,431.67	18,854.68	15,149.09	41	91
	Dec	2,658.46	14,235.35	4,332.78	18,568.13	15,605.80	40	89

Source: Central Bank of Kenya.

* Includes other public sectors.

** See Table 5.2 for Coverage.

5.3. Domestic credit to Central Government, other public bodies and private sector registered a mixed performance with the overall credit growing by 5.9 per cent in 1999 compared with 7.1 per cent recorded in 1998. Credit to Central Government dropped by 4.0 per cent, while credit to private sector including other public bodies increased by 9.3

per cent in 1999. Credit to private sector, increased from K£ 12,715.1 million in 1998 to K£ 13,870.2 million in 1999, a 9.1 per cent growth (see Table 5.3). Public sector share in total credit extended by the banking system to the economy stood at 25.3 per cent, one percentage point lower than the previous year. Commercial Banks Liquidity ratio increased from 38 per cent in December 1998 to 43 per cent in the first quarter of 1999 before falling gradually over the second and third quarters to settle at 40.0 per cent in December 1999. The ratio of advances to deposits remained high over the period and peaked at 91 per cent in September 1999 only to drop to 89 per cent by end of period.

Money Supply

5.4. Various money supply aggregates are presented in Table 5.2. Narrow money (M1) grew by 16.2 per cent while, Quasi-money (Near money) of Commercial Banks declined by 2.3 per cent as a result of 8.5 per cent decrease in time deposits. Money supply (M2), which comprises of M1 and Quasi money held by commercial banks increased by 3.9 per cent in 1999 compared with a growth of 2.4 per cent recorded in 1998. Quasi-money held by NBFIs which increased by 18.5 per cent in 1998, declined by 13.7 per cent in 1999 to finally settle at K£ 830.1 million in December 1999.

Table 5.2: MONEY AND QUASI-MONEY SUPPLY, 1995 - 1999

K£million

As 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	3,666.02	7,973.35	11,639.37	1,933.13	13,572.50	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	December	4,735.90	9,489.61	14,225.51	961.99	15,187.50	16,416.05	19,059.39
1999	January	4,893.09	9,518.26	14,411.36	946.41	15,357.77	16,565.93	19,365.27
	February	5,095.06	9,481.80	14,576.87	955.17	15,532.04	16,808.59	19,532.18
	March	5,183.08	9,537.86	14,720.94	963.73	15,684.67	17,027.82	19,654.57
	April	5,132.63	9,425.15	14,557.78	932.63	15,490.41	16,871.11	19,524.92
	May	5,159.64	9,371.57	14,531.20	917.12	15,448.32	16,930.19	19,508.74
	June	5,239.51	9,289.11	14,528.62	881.70	15,489.94	17,030.98	19,582.42
	July	5,295.42	9,489.55	14,784.97	884.01	15,668.98	17,205.01	19,539.92
	August	5,221.49	9,155.92	14,377.41	877.11	15,254.56	16,817.34	19,486.58
	September	5,170.81	9,106.85	14,277.66	871.43	15,149.09	16,841.37	19,883.06
	October	5,130.70	9,154.64	14,285.34	850.80	15,136.14	16,836.72	19,798.30
	November	5,335.30	8,975.47	14,310.77	828.77	15,139.55	16,909.86	20,015.89
	December	5,504.04	9,271.64	14,775.67	830.13	15,605.80	17,251.85	20,520.42

Source: Central Bank of Kenya.

* Currency outside 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.

* * * See Table 5.3 for details

Consolidated Accounts of the Banking Systems

5.5. Consolidated accounts of the banking system are presented in Tables 5.3. Assets and Liabilities of the banking system grew by 7.9 per cent in 1999, recording 2.8 percentage points higher than the previous year. Higher aggregates of money supply M3X and M3XT grew by 5.1 per cent and 7.6 per cent respectively, in 1999. Foreign currency deposits grew by K£ 417.5 million or 34.0 per cent increase compared to 5.6 per cent

increase recorded in 1998. Treasury bill holding which had declined by 0.8 per cent in 1998, increased by 23.6 per cent in 1999 as the Government relied on borrowing from non-bank sources and commercial banks to finance the budget deficit.

Table 5.3: CONSOLIDATED ACCOUNTS OF THE BANKING SYSTEM, 1995 - 1999

K£Million

	AS AT THE END OF							
					1999			
	1995	1996	1997	1998	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	2,800.25	3,329.09	3,406.47	3,354.96	3,355.87
1.2 Currency outside banks .	1,444.35	1,519.50	1,808.89	1,935.65	1,853.99	1,833.04	1,815.85	2,148.16
Sub-Total	3,658.83	3,962.06	4,553.06	4,735.90	5,183.08	5,239.51	5,170.81	5,504.04
2. Quasi-Money(MS):								
2.1Call + 7 days Notice Deposits..	796.61	775.97	922.77	922.64	930.81	872.61	779.04	979.06
2.2 Savings Deposits	2,329.41	2,594.59	2,890.74	3,293.28	3,406.22	3,486.20	3,386.32	3,467.18
2.3 Time Deposits	2,844.33	4,585.66	5,523.96	5,273.69	5,200.83	4,930.30	4,941.49	4,825.40
Sub-Total	5,970.35	7,956.22	9,337.47	9,489.61	9,537.86	9,289.11	9,106.85	9,271.63
Money Supply(M2)	9,629.18	11,918.28	13,890.53	14,225.51	14,720.94	14,528.62	14,277.66	14,775.67
3 Quasi-Money (NBFIs)	2,207.70	1,761.15	1,004.22	1,100.12	1,093.72	987.73	969.03	971.39
Adjustments for Cross Bal.	-282.57	-288.02	-192.15	-138.13	-129.99	-26.40	-97.59	-141.26
Broad Money Supply(M3)	11,554.31	13,391.41	14,702.60	15,187.50	15,684.67	15,489.94	15,149.09	15,605.80
4 Foreign Currency Deposits	683.44	786.07	1,163.09	1,228.55	1,343.15	1,541.05	1,692.28	1,646.05
Broad Money Supply(M3X)	12,237.75	14,177.48	15,865.69	16,416.05	17,027.82	17,030.99	16,841.37	17,251.85
5 Treasury Bill Holdings	2,004.51	2,171.33	2,664.97	2,643.44	2,626.75	2,551.44	3,041.69	3,268.57
Broad Money Supply(M3XT)	14,242.26	16,348.81	18,530.66	19,059.49	19,654.57	19,582.42	19,883.06	20,520.42
6 Other Items (Net)	1,349.00	1,763.81	2,829.77	3,248.85	3,062.00	4,016.30	4,490.58	3,974.74
TOTAL	13,586.75	15,941.29	18,695.46	19,664.90	20,089.81	21,047.29	21,331.95	21,226.59
ASSETS-								
7 Net Foreign Assets	1,150.11	2,342.16	2,958.76	2,125.04	2,254.69	2,374.44	2,477.26	2,658.46
8 Domestic Credit:								
8.1 Central Govt. (Net).. ..	3,871.12	3,688.06	4,133.26	4,511.74	4,706.40	4,789.13	4,431.68	4,332.78
8.2 Other Public Bodies ..	251.45	267.74	393.62	313.04	344.97	357.60	375.57	365.18
8.3 Private Sector	8,314.06	9,643.33	11,209.82	12,715.08	12,783.74	13,526.11	14,047.44	13,870.17
	12,436.63	13,599.13	15,736.70	17,539.86	17,835.11	18,672.85	18,854.69	18,568.13
TOTAL	13,586.74	15,941.29	18,695.46	19,664.90	20,089.81	21,047.29	21,331.95	21,226.59

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 deposits as well as certificates of deposits held by the private and other public sectors with banking institutions. 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) Other 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 sytem.

5.6. Currency outside banks had remained fairly stable for most part of 1999 but eventually increased sharply in the last quarter of 1999 to record 11.0 per cent increase. This was as a result of abnormal demand for currency by the public in anticipation for the Y2K related problems and end of century celebrations. The low 2.8 per cent increase in M3 may be attributed to decrease of 2.3 per cent and 11.7 per cent in quasi money held by

commercial banks and NBFIs respectively. This is reflected in domestic credit of the banking system, which only grew by 5.9 per cent in 1999 from K£ 17,539.9 million to K£ 18,568.1 million. Net Foreign Assets (NFA) which declined by 28.1 per cent in 1998, increased gradually over the period to record 25.1 per cent increase. Credit to Central Government (Net) declined from K£ 4,511.7 million in 1998 to K£ 4,332.8 million in 1999, or 4.0 per cent decrease. This was due to reduced lending by Central Bank to Government as well as build up of Government deposits. On the other hand credit to the private sector and other public sectors grew by 9.1 per cent.

Sources of Changes in Money Supply and Financial Aggregates Real Values

5.7. Changes in money supply and their sources are outlined in Table 5.4. Currency plus demand deposits (M1) increased by K£ 768.1 million or 16.2 per cent as a result of 11.0 per cent increase in currency in circulation and 19.8 per cent increase in demand deposits. These increases were offset by declines in both Quasi Money with commercial banks and NBFIs. Broad money supply (M3X) with foreign currency deposits also increased mainly due to an increase of K£ 417.5 million in foreign currency deposits. These increases in money were due to increases in net foreign assets, domestic credit to private sector including other public sector and other items (net).

CHANGES IN MONEY SUPPLY AND SOURCES OF CHANGES, 1996 - 1999

(comparing year-end values)

Table 5.4 K£million

	1996	1997	1998	1999
MONEY SUPPLY---				
1. Currency plus demand deposits	303.23	591.00	182.84	768.14
2. Quasi-money(MS)	1,985.87	1,381.25	152.14	-217.98
3. Quasi-money(NBFIs)	-452.00	-661.06	149.91	-129.86
4. Foreign Currency Deposits	102.63	377.02	65.46	417.50
5. Money supply (**M3X**)	1,939.73	1,688.21	550.35	837.81
SOURCES OF CHANGES---				
6. Net foreign assets	1,192.05	616.60	-261.29	533.43
7 Domestic credit ---				
(a) to Central Government(net)	-183.06	445.20	423.18	-178.96
(b) to other public sector	16.29	125.88	-80.58	52.13
(c) to private sector	1,329.27	1,566.49	933.18	1,155.09
(d) all domestic credit	1,162.50	2,137.57	1,275.78	1,028.26
8 Other Items (Net)	-414.81	-1,065.95	-464.14	-723.89
9 Total sources of changes	1,939.74	1,688.22	550.35	837.81

5.8. Table 5.5 shows key financial aggregates deflated to derive their real values at 1986 constant prices. In real terms, broad money supply (M3) decreased by 0.7 per cent while, broad money supply (M3XT) grew by 4.1 per cent in 1999. Real marginal increases were also recorded in total commercial banks credit and total liabilities of the banking system. Total liabilities of the banking system, which in real terms decreased by 1.1 per cent in 1998, reversed the trend and increased by 4.1 per cent in 1999. The total liabilities of NBFIs which have been on the decline in real terms for the last four years, further decreased by 17.9 per cent in 1999. The ratio of commercial bank deposits to total liabilities of the banking system in real terms increased by 4.2 percentage points in 1999,

while that of NBFIs liabilities declined by 2.3 percentage points in 1999. These trends reflect the further shifting to commercial banking as more NBFIs merge or convert into

Table 5.5: TRENDS IN THE REAL VALUE OF CERTAIN FINANCIAL AGGREGATES*, 1995 - 1999
AT CONSTANT (1986) PRICES

K£million

		1995	1996	1997	1998	1999
1	Money Supply(M3)....	2,435.3	2,588.8	2,556.1	2,476.0	2,458.5
2	Money Supply(M3XT)....	3,001.9	3,160.5	3,221.7	3,099.8	3,232.7
3	Commercial bank credit to private sector	1,313.4	1,502.1	1,624.7	1,820.9	1,695.6
4	Total commercial bank credit	1,382.0	1,570.2	1,766.9	1,953.7	2,046.1
5	Commercial Banks' Deposit Liabilities	1,667.2	2,007.3	2,197.2	2,102.7	2,327.7
6	Total liabilities of banking system .. .	2,863.5	3,081.8	3,250.3	3,213.3	3,343.9
7	NBFIs credit to private sector	438.7	358.5	241.2	235.0	187.8
8	Total NBFIs Credit	515.7	390.7	281.0	253.5	187.9
9	Total liabilities of non-bank financial institutions(NBFIs)	704.0	557.6	347.1	346.8	284.8
Memorandum Item:						
10	Line 5 as per cent of line 6 ..	58.2	65.1	67.6	65.4	69.6
11	Line 9 as per cent of line 6 ..	24.6	18.1	10.7	10.8	8.5

* Deflated by average Consumer Price Indices.

banks.

Interest Rates

5.9. Interest rates for the period 1997 to 1999 are presented in Table 5.6. Interest rates on average dropped in 1999 compared with the previous period 1998. The discount rate for 91 days Treasury bills reached their lowest in three years to 8.8 per cent in March 1999, but reversed the downward trend to reach 13.40 per cent in June 1999 and finally settled at 20.47 per cent by end of period. Interest rate on advances against Treasury bills increased from 17.07 in December 1998 to 19.40 per cent in June 1999 before rising further to 26.47 by December 1999. This was as a result of increased borrowing from the domestic market by the Government to finance budgetary deficit. Under Bills and Notes in the Crop Finance Scheme, discounts and advances rates increased from 17.07 per cent in December 1998 to 19.40 per cent in June 1999 with a further rise to 26.47 per cent in December 1999.

5.10. All Commercial Bank deposit rates dropped with savings deposits rates dropping from 7.96 per cent in December 1998 to 4.57 per cent in June 1999 before increasing to 6.15 per cent in December 1999. Three months time deposits dropped from 14.83 per cent in 1998, to 12.26 per cent in December 1999. On the other hand, the commercial banks' maximum interest rates for loans and advances remained above 20.0 per cent despite the lower treasury bill rates as banking institutions remained cautious about the long-term trend in Treasury bills and also due to high costs of the banks and the need to maintain margins to safeguard against bad loans. The inter-bank rates dropped to 9.3 per cent in June 1999 before rising to 13.0 per cent in December 1999. Overdraft rates dropped by 5.80 percentage points in June 1998 before gaining 4.72 percentage points in December 1999. Other financial institutions also realized a drop in their interest rates for both deposits and loans, with the low Post Office Savings deposit rate dropping by 1.0 percentage point. Interest rates charged by Agricultural Finance Corporation on loans remained unchanged at 20.0 per cent, the level maintained since 1993. Hire purchase companies and merchant banks time deposits rates dropped ranging between 4.0 - 8.69 per cent in June 1999 and

closing the period at a wide range of 6.0 – 15.25 per cent in December 1999. Interest rates charged by the same institutions on loans dropped from 28.55 per cent in December 1998 to 25.51 in December 1999. Building societies deposits interest rates range narrowed while those on loans remained stable in 1999 but recorded a drop of 13.8 per cent by end

Table 5.6: PRINCIPAL INTEREST RATES, 1997 - 1999

Percentage

	1997	1998	1999	
			June	December
CENTRAL BANK OF KENYA				
Discount Rate for 91 day Treasury Bills	26.36	11.07	13.40	20.47
Advances against Treasury Bills	31.36	17.07	19.40	26.47
Bills and Notes under Crop Finance Scheme:				
Discounts	31.36	17.07	19.40	26.47
Advances	31.36	17.07	19.40	26.47
Other Bills and Notes:				
Discounts	31.36	17.07	19.40	26.47
Advances	31.36	17.07	19.40	26.47
Treasury Bonds (Coupon Rates):				
One Year	15.00	15.00	..	..
Two Years	15.50	15.50	..	..
Five Years	16.00	16.00	..	..
KENYA COMMERCIAL BANKS				
Time Deposits:**				
0 _ 3 Months	20.23	14.83	8.21	12.26
3 _ 6 Months	18.49	14.90	8.17	10.27
6 _ 9 Months	16.75	13.31	7.87	8.63
9 _ 12 Months	15.93	13.95	8.73	9.25
Over 12 Months	15.14	14.05	9.80	10.92
Savings Deposits	9.73	7.96	4.57	6.15
Loans and Advances(Maximum)*	30.43	27.13	20.70	25.19
Inter-bank Rate	18.70	9.38	9.30	13.00
Overdraft	30.40	26.66	20.86	25.58
OTHER FINANCIAL INSTITUTIONS				
Kenya Post Office Savings Bank deposits	6.00	6.00	5.00	5.00
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)	8.40-24.00	7.76-12.43	4.0-8.69	6.0-15.25
Loans	33.70	28.55	20.69	25.51
Building Societies:				
Deposits	6.2-19.10	5.96-19.84	5.94-12.00	8.25-12
Loans	25.00	24.90	21.47	21.47

Source: Central Bank of Kenya.

* Loans and advances for less than 3 years.

** For all commercial banks consolidated

of 1999.

5.11. All real interest rates were positive as shown in Table 5.7. Both discount rates and the advances on Treasury bills substantially rose in real terms and registered over 11.0 percentage points increase by end of 1999. This disrupted the relatively low regime of interest rates that was about to be established, as they constitute the benchmark pointer on the direction for other interest rates. Low Commercial Banks real savings deposit rate, which more than doubled in 1999, remained a key disincentive to savings over the past decade. On the other hand, high interest rates in commercial bank loans and advances have been a key inhibitor to growth of demand for commercial bank credit. POSB real deposits

rate, which has remained negative since 1996 recorded positive interest rate of 1.5 per cent

Table 5.7: TRENDS IN SELECTED REAL INTEREST RATES, 1997 - 1999

Percentage

		Year	Nominal Interest	Inflation Rate*	Real Interest**
1	Discount Rate for Treasury Bills	1997	26.3	11.2	15.1
		1998	11.1	6.6	6.0
		1999	20.5	3.5	17.0
2	Advances against Treasury Bills				
		1997	31.3	11.2	20.1
		1998	17.1	6.6	10.5
		1999	25.5	3.5	22.0
3	Commercial bank savings deposits (ave) .. .				
		1997	9.8	11.2	-1.4
		1998	7.9	6.6	1.3
		1999	6.2	3.5	2.7
4	Commercial bank loans and advances (max)				
		1997	30.4	11.2	19.2
		1998	27.1	6.6	20.5
		1999	25.2	3.5	21.7
5	Inter-Bank Rate				
		1997	18.7	11.2	7.5
		1998	9.4	6.6	2.8
		1999	13.0	3.5	9.5
6	POSB deposits***				
		1997	6.0	11.2	-5.2
		1998	6.0	6.6	-0.6
		1999	5.0	3.5	1.5
7	Building society loans (max)				
		1997	25.0	11.2	13.8
		1998	24.9	6.6	18.3
		1999	21.5	3.5	18.0

* 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.

in 1999.

Central Bank Assets and Liabilities

5.12. Central Bank's assets and liabilities for the period 1995 –1999 are shown in Table 5.8. Assets and liabilities, which dropped in the first quarter and remained almost at the same level upto the third quarter, recorded a marginal growth of 1.0 per cent largely in the last quarter of 1999. Foreign exchange declined in the first quarter and picked up in the second and third quarters to peak at K£ 2,827.5 million in December 1999 registering a 23.0 per cent increase. Advances and discounts to banks drastically increased in the first quarter only to drop at the end of the period by 20.7 per cent compared with the previous period decrease of 87.5 per cent in 1998. Direct advances and overdraft to the government increased marginally by 0.8 per cent in 1999 compared to a 23.1 per cent increase in 1998. Under liabilities, Capital and General Resources Fund remained at December 1998 level over the 1st half of 1999 only to increase and settle at K£ 243.9 million in the third and fourth quarters of 1999. Currency in circulation increased by 13.9 per cent from K£2,416.2 million in 1998 to K£ 2,751.7 million in 1999. On the other hand, total deposits dropped by 0.6 per cent as a result of 8.9 per cent decline in the commercial banks and NBFIs deposits held by the Central Bank.

Table 5.8: CENTRAL BANK OF KENYA ASSETS AND LIABILITIES 1995 - 1999

K£million

ASSETS	1995	1996	1997	1998	1999			
					1st Qr	2nd Qr	3rd Qr	4th Qr
1. Foreign Exchange-								
1.1 Balances with External Banks	1,183.00	2,251.20	2,082.50	2,285.10	2,101.05	2,329.45	2,424.55	2,798.55
1.2 Treasury Bills ..	3.80	3.10	1.75	-	-	-	-	3.20
1.3 Other Investments ..	43.10	57.05	85.40	12.55	9.45	8.95	11.80	16.90
1.4 Special Drawing Rights	3.55	2.10	2.20	1.80	0.85	1.45	1.50	8.85
TOTAL	1,233.45	2,313.45	2,171.85	2,299.45	2,111.35	2,339.85	2,437.85	2,827.50
2. Securities issued or Guaranteed by Kenya Government	-	-	-	-	-	-	-	-
3 Advances & Disc. to Banks ..	488.30	452.80	456.20	57.00	153.05	45.25	67.40	45.20
4 Direct Advances & Overdraft to Kenya Government	2282.10	1,499.65	268.35	330.45	328.95	281.25	339.40	333.2
5 Other Assets including Kenya Treasury Bills & Bonds	1,579.25	1,564.50	3,611.10	3,562.00	3,302.05	3,221.50	3,003.15	3,105.50
TOTAL ASSETS	5,583.10	5,830.40	6,507.50	6,248.90	5,895.40	5,887.85	5,847.80	6,311.40
LIABILITIES :								
1. Capital and General Resources Fund	42.95	83.60	113.20	191.85	191.85	191.85	243.85	243.85
2. Currency in Circulation-								
2.1 Notes	1,667.00	1,776.10	2,108.55	2,167.90	2,033.90	2,000.40	1968.30	2,417.35
2.2 Coins	32.75	40.80	50.05	56.40	64.05	71.25	79.05	90.50
TOTAL CURRENCY	1,742.70	1,900.50	2,271.80	2,416.15	2,289.80	2,263.50	2,291.20	2,751.70
3. Deposits-								
3.1 Kenya Government	-	-	584.90	858.60	687.55	623.75	951.85	946.10
3.2 Kenya Banks *	1,426.45	1,836.60	1,561.00	1,525.25	1,350.30	1,519.55	1,308.25	1,389.50
3.3 External Banks	1,119.70	1,014.35	779.85	644.10	631.75	787.55	648.05	564.60
3.4 Other	705.60	492.55	511.90	464.20	487.45	446.55	570.00	570.00
TOTAL	3,251.75	3,343.50	3,437.65	3,492.15	3,157.05	3,259.60	3,478.15	3,470.20
4. Revaluation Account	-	-	-	-	-	-	-	-
5. Other Liabilities	588.65	586.40	798.05	340.60	448.55	364.75	78.45	89.50
TOTAL LIABILITIES	5,583.10	5,830.40	6,507.50	6,248.90	5,895.40	5,887.85	5,847.80	6,311.40

Source: Central Bank of Kenya.

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

Commercial Banks – Credit and Liquidity

5.13. Commercial banks' bills, loans, and advances are presented in Table 5.9. The overall commercial banks' credit grew from K£ 11,668.9 million in December 1998 to K£ 12,988.1 million in December 1999 recording an 11.3 per cent growth rate compared with a 14.8 per cent growth rate recorded in the previous period. Commercial banks' credit to the public sector dropped marginally from K£ 514.0 million in December 1998 to K£ 512.2 million in December 1999. Share of commercial bank credit to public sector stood at 3.9 per cent in 1999 compared to 5.1 per cent and 4.4 per cent in 1997 and 1998 respectively. Commercial bank credit to private enterprises including other public bodies only dropped by 0.8 per cent in 1999 compared to 16.1 per cent increase in 1998. Agriculture, manufacturing and trade sector's share in total credit to the private sector stood at 10.9 per cent, 25.5 per cent and 18.3 per cent respectively. Credit to agriculture grew by 6.8 per cent in 1999 compared with 22.4 per cent growth recorded in 1998 while to mining and quarrying grew by 13.7 per cent against 8.2 per cent in 1998. Credit to manufacturing and building and construction decelerated to record growths of 10.7 per cent and 22.7 per cent respectively. Credit to transport and communications decreased by 5.7 per cent while trade increased by 7.2 per cent.

Table 5.9: COMMERCIAL BANKS - BILLS, LOANS AND ADVANCES*, 1995 - 1999

K£million

	1995 Dec.	1996 Dec.	1997 Dec.	1998 Dec.	1999 Dec.
PUBLIC SECTOR:					
Central Government	63.53	72.70	108.86	138.94	144.99
Local Government	15.21	17.87	28.61	29.75	44.74
Enterprises, Parastatal bodies and other Public entities	246.33	261.85	378.61	345.34	322.74
TOTAL PUBLIC SECTOR	325.07	352.42	516.08	514.03	512.47
PRIVATE ENTERPRISES:					
Agriculture	723.91	736.52	895.94	1,096.63	1,171.30
Mining and Quarrying	76.49	79.11	120.96	130.85	148.74
Manufacturing	1,608.18	1,919.00	2,143.76	2,481.73	2,746.82
Building and Construction	304.58	423.45	575.39	748.10	918.15
Transport, Storage and Communication	329.71	365.99	548.61	515.45	486.14
Trade	1,089.89	1,295.92	1,643.25	1,837.58	1,970.66
Financial Institutions	162.10	157.86	258.24	323.58	343.82
Other Business	1,691.51	2,435.43	3,159.12	3,302.81	2,924.90
TOTAL PRIVATE ENTERPRISES	5,986.37	7,413.28	9,345.27	10,845.94	10,763.27
COMMUNITY AND PERSONAL SERVICES (including non-profit making institutions)	244.82	260.93	301.88	308.90	354.41
Other Activities (n.e.s)				514.03	1,870.42
TOTAL BILLS, LOANS AND ADVANCES	6,556.26	8,026.63	10,163.23	11,668.87	12,988.09

Source: Central Bank of Kenya.

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

5.14. Deposit liabilities and Liquid assets of commercial banks are illustrated in Table 5.10. Over the past five years, the commercial bank's deposit liabilities have grown steadily from K£ 7,910.0 million in 1995 to peak at K£ 13,972.5 million 1999. Liquid assets on the other hand have also grown from K£ 3,276.9 million in 1995 to K£ 5,562.3 million in 1999. In 1999, commercial banks' deposit liabilities and liquid assets grew by, 8.3 per cent and 12.2 per cent respectively. The liquidity ratio (ratio of deposit liabilities to liquid assets), over the period remained stable and above the minimum requirement of 20 per cent throughout reflecting enhanced stability in the sector. Also low demand for bank credit as evidenced by 11.3 per cent growth in commercial banks bills, loans and advances may have contributed to the high liquidity recorded during the period.

Non- Bank Financial Institutions

5.15. Table 5.11 shows assets and liabilities of Non-bank Financial Institutions (NBFIs). Assets and liabilities of NBFIs that had reversed the downward trend towards end of 1998, resumed the downward trend in 1999, thereby registering a 15.0 per cent decline from K£ 2,126.9 million in 1998 to K£ 1,808.1 million in 1999. Under liabilities, deposits decreased by 15.0 per cent, with deposits from other public sector decreasing by 17.6 per cent while other liabilities registered a decrease of 18.4 per cent. Assets declined as a result of drops in loans and advances to private sector, which declined by 17.3 per cent, and to the public sector, which declined by 99.6 per cent and also due to a 28.7 per cent decline in cash in hand, and banks.

Table 5.10: COMMERCIAL BANKS - DEPOSIT LIABILITIES AND LIQUID ASSETS*, 1995 - 1999

		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	December	12,897.70	4,955.65	38
1999 -				
	January	13,096.60	5,170.20	39
	February	13,398.63	5,416.69	40
	March	13,458.46	5,763.42	43
	April	13,606.26	5,884.61	43
	May	13,657.80	5,741.08	42
	June	14,094.45	5,802.60	41
	July	14,017.80	5,745.10	41
	August	13,677.15	5,778.35	42
	September	13,776.30	5,668.85	41
	October	13,820.85	5,698.90	41
	November	13,676.85	5,527.25	40
	December	13,972.50	5,562.25	40

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

Table 5.11: ASSETS AND LIABILITIES OF NON-BANK FINANCIAL INSTITUTIONS, 1995 - 1999

K£million

	AS AT END OF							
					1999			
	1995	1996	1997	1998	1st Qr	2nd Qr	3rd Qr	4th Qr
LIABILITIES:								
Deposits-								
Central & Local Government	33.95	28.12	38.33	35.49	34.85	31.98	35.08	40.03
Other Public Sector	234.32	256.77	223.75	231.73	235.65	216.78	193.15	191.03
Other Depositors	2,041.57	1,630.55	821.31	901.23	869.69	780.06	784.71	795.29
Other Liabilities	1,030.15	968.93	912.84	958.48	976.20	1,000.95	992.47	781.76
TOTAL LIABILITIES	3,339.99	2,884.37	1,996.23	2,126.93	2,116.39	2,029.77	2,005.41	1,808.11
ASSETS:								
Cash and Banks	649.41	596.90	257.43	344.97	357.15	240.30	210.33	246.02
Other Financial Institutions	32.93	56.34	2.59	7.85	2.49	11.78	15.06	14.30
Associated Companies	19.89	11.78	9.62	3.06	100.54	148.32	158.16	150.66
Investments, Bills, Loans & Advances:-								
Public Sector	365.31	166.59	228.42	113.48	12.48	0.45	0.43	0.40
Private Sector	2,081.31	1,854.55	1387.64	1,441.32	1,452.71	1,424.19	1,421.13	1,192.20
Other Assets	191.14	198.21	110.53	216.25	191.03	204.72	200.30	204.54
TOTAL ASSETS	3,339.99	2,884.37	1,996.23	2,126.93	2,116.39	2,029.77	2,005.41	1,808.11

Source: Central Bank of Kenya

DEVELOPMENTS IN THE FINANCIAL SECTOR

Money Market Developments

5.16. The banking sector was relatively more stable in 1999 compared to 1998. This was due to measures undertaken during the period to enhance bank supervision and restore stability. In the banking sector there were 53 banks, out of which 48 were operational, 4 others under Central Bank's statutory management and one bank was not operational. The number of NBFIs fell from 13 in 1998 to 11 in 1999 owing to one merger with a parent bank while the other wound up voluntarily. The number of building societies and mortgage finance companies remained unchanged at 4 and 2 respectively, while the number of foreign exchange bureaus increased from 45 in 1998 to 48 in 1999.

5.17. Policies employed in management of the banking sector included restraint in monetary policy in a three-pronged approach. On one end, there was intervention in the money market through net sales of Government securities, mainly Treasury bills, to regulate domestic liquidity. At the same time there was sterilization of excess liquidity through Repos sales to commercial banks. Thirdly, the cash ratio was closely monitored and a monthly average of 12.0 per cent maintained during 1999.

5.18. The Banking Act was amended to give the Central Bank powers to remove errant directors, levy penalties and enforce regulations. The Banking Supervision department in Central Bank was strengthened to enhance closer surveillance and early detection of banking problems for timely remedial action. Guidelines for risk classification were revised and issued to enable better risk assessment. Credit reference and rating agencies were encouraged to enter the market. The first such credit reference bureau was launched in February 1999. Other developments includes a circular restricting Directors of Banking institutions to obtain loans at commercial rates, while on the same note a system of vetting Directors and Chief Executives prior to appointment was implemented.

5.19. The Building Societies' Act was also amended to harmonize operations of building societies with those of banking institutions. Minimum subscription capital for building societies was increased from Kshs 5 million to Kshs 50 million.

5.20. In recognition of the significant role being played by Micro-Finance Institutions (MFIs) in promotion and development of small and medium-sized enterprises, the Central Bank in 1999 along with other stakeholders in the micro-finance sub–sector took action aimed at developing the sector. First, a micro–finance unit was established in the Central Bank to co-ordinate micro-finance matters at both local and regional levels. Secondly, licensing of the first micro-finance bank, K-Rep Bank Limited was effected and finally, an Association of Micro–Finance Institutions was registered with an aim of liaising with Central Bank and other stakeholders in micro-finance to develop regulatory, legal and accounting framework for the sub-sector.

Capital Market Developments

5.21. The Capital Markets Authority provided leadership and guidance in development of Kenya's emerging capital market by ensuring compliance with the stipulated regulations. The authority achieved this by strengthening its surveillance and compliance measures through regular and on–sight inspections as well as in-depth investigations of market operators. It is hoped that this will enhance investor confidence and maintain integrity of capital markets and their intermediaries. Another measure taken during the period under review involved ensuring continued reporting by various actors in the markets. During the period, regulatory action was taken against three intermediaries as corrective measures were put in place.

5.22. The players in the capital markets comprised of one securities exchange, 18 stockbrokers, 22 investment advisers and 5 depositories. During the year, one dealer was approved for licensing while two stockbrokers and one investment adviser were put under suspension.

5.23. The Nairobi Stock Market (NSE) experienced a difficult year characterized by plummeting share prices, coupled with low activity on the trading floor. This is reflected in the NSE 20 share index which dropped from 2962 in December, 1998 declining gradually to 2815 points in March 1999 falling further to 2756 in June, 2428 points in September before closing at 2303 in December 1999. The annual turnover grew by 11.8 per cent in 1999 while market capitalization on the other hand dropped from K£ 6,451 million in 1998 to K£ 5,337 million in 1999. Shares traded increased from 112 million in 1998 to 157 million in 1999.

5.24. The bond market has also emerged as an important source of funding for both the Government and the corporate sector. During 1999, floating rate Government bonds worth K£ 1,320 million were issued and listed in the NSE. The corporate sector on the other hand concentrated more on Commercial Paper (CP) issues as a financing source of working capital while the East African Development Bank (EADB) remained the only issuer of corporate bond, which is benchmarked to the 91-day Treasury bills.

5.25. The poor performance in the NSE is a reflection of the economic downturn experienced over the last two years as was evidenced by reduced corporate earnings, while dividend pay outs and turnover declined. High interest rates also continued to favour money market instruments especially Treasury bills at the expense of capital market instruments.

Insurance Sector

5.26. The insurance industry in the recent past has suffered substantial losses due to falsified claims, huge court awards for injuries, damages and other insurance liabilities. Secondly, an amendment of the Finance Act 1999, requiring insurance companies to invest 20 per cent of their assets on long-term government securities impacted negatively on their participation in the stock market.

5.27. In 1999, there were 41 operational insurance companies, supported by a host of intermediaries comprising of 165 insurance brokers, 178 loss assessors, and 16 loss adjusters. Insurance surveyors and claims settling agents remained constant at 26 and one,

respectively. On the other hand, Insurance agents increased to 763 from 490 in 1998 while risk managers increased to 5 from 3.

Conclusion

Money Market Achievements

5.28. Stringent Monetary Policy that Kenya has pursued over the last few years aims at price and banking stability which is a prerequisite for sustainable economic growth. The money supply expansion is programmed to be in line with fiscal policy and restricting it's growth at the same level with that of goods and services. This in the long run will enable achievement of stable Macro-Economic environment.

5.29. Low single digit inflation rate already attained coupled with the low interest rates prevailing, will reduce investment uncertainities and hence increase foreign investor's confidence. As a result, more capital inflow is expected and hence increase in investment which inturn will create more jobs. Also in order to maintain stable exchange rate, there is need for the Kenya's inflation rate to be consistent with that of our major trading partners and whose inflation rates are low. All these achievements in the long run will reduce poverty situation in Kenya.

5.30. On the stability of the banking system, the Central Bank Act which has been revised a number of times, currently addresses a number of weaknesses which used to face the banking system. Also, the banking supervision has been intensified in order to signal early warning about ailing banking institutions. Concerning the capital base of banking institutions, paid up capital of these institutions is gradually being increased such that, weaker banking institutions will be forced to merge in order to improve their capital base. All these, together with restructuring and computerization of the banks already in place, will increase efficiency and hence reduction in operating costs which ultimately reduces cost of investment funds. This will spur economic growth and subsequent creation of employment which will result in poverty reduction in the long run.

5.31. Currently, the informal sector which has steadily grown in size and which has created more jobs in the recent past, faces the inability to compete for such funds in the money market due to cost of funds and collaterals needed. The establishment of the Micro-finance Unit at the Central Bank and the subsequent licensing of micro-finance institutions, will meet the funding needs of the informal sector.

Capital Market Achievements

5.32. Long term funding needed for investment will be mobilised by the Capital Markets given the recent developments. First, the guidelines issued by the Capital Markets Authority will streamline the activities in the capital market. Secondly, the establishment of the East African Member States Securities Authorities (EASRA) will promote cross border listing and trading of securities and hence expansion of the Capital Market. Thirdly, the establishment of the Central Depository System (CDS) in Kenya's and East African region's Capital Markets will increase liquidity of securities traded. All these will increase the ability of the Capital Markets to mobilise investment funds needed and thus promoting economic growth and poverty reduction.

CHAPTER 6 – PUBLIC FINANCE

Overview

The Government's 1999/2000 fiscal operations have been characterised by tight expenditure controls and matching of expenditure with available resources. This fiscal strigency is expected to result into a small gap between planned expenditure and revised expenditure. The amount of the unplanned recurrent expenditure at the end of the financial year is expected to be lowest at K£ 6.4 million at the end of the financial year. General improvement in tax administration during the period under review has also reduced to a lower level the difference between projected and actual revenue yields when compared to the last financial year. The implementation of the Medium Term Expenditure Framework (MTEF) strategy will also go along way in reducing high budget deficits, domestic debts and stimulate economic growth, reduce the share of GDP absorbed by the real public expenditure and improve the quality of expenditure by concentrating available resources into the areas that will encourage economic growth and poverty reduction.

Overall Results

6.2. Table 6.1 presents details of the budget out-turn of revenue and expenditure between 1995/96 and 1999/2000. Current revenue is expected to grow by 4.7 per cent from K£ 8,985.9 million in 1998/99 to K£ 9,408.5 million in1999/2000, while current expenditure is projected to grow by 13.3 per cent, from K£ 8,249.8 million in 1998/99 to K£ 9,343.2 million in 1999/2000.

6.3. Current surplus is expected to decline from K£ 736.1 million from 1998/99 to K£ 65.3 million in 1999/2000. This sharp decline of about 91 per cent is as a result of more funds being allocated for goods and services, operations and maintenance.

6.4. Capital expenditure is expected to grow from K£ 615.4 million in 1998/1999 to K£ 885.0 million in 1999/2000, an increase of 43.8 per cent. The significant growth in expenditure is attributable to more funds being allocated to the projects the government is undertaking during this financial year. This include the El-nino emergency project, Nyayo tea zones, rehabilitation of the Coast General Hospital, supply of medical equipment and the Kenya Urban Transport Infrastructure Project (KUTIP) which is meant to rehabilitate the dilapidated urban road network. Others projects are major roads rehabilitation projects such as Nairobi–Mombasa road, which were extensively damaged by the 1997 El-Nino rains.

6.5. As a result, the overall deficit (including grants) is projected to increase to K£ 558.7 million in 1999/2000 from a surplus of K£ 124.7 million in 1998/99. This deficit will be financed mainly through domestic borrowing of K£ 868.8. More funds are however supposed to be spent on loan repayments compared to the last financial year. This will result into a net outflow of K£ 826.2 million in external loans. External grants too are expected to increase by 76.9 per cent from K£ 130.9 million in 1998/99 to K£ 231.7 million in 1999/2000.

Table 6.1: CENTRAL GOVERNMENT OUT-TURN OF REVENUE AND EXPENDITURE*, 1995/96 - 1999/2000

K£million

	1995/96	1996/97	1997/98**	1998/99**	1999/2000+	Percentage Increases 1995/96 to 1999/2000
Current Revenue	7,142.17	7,275.18	9,030.79	8,985.85	9,408.52	31.73
Current Expenditure***	6,747.65	6,926.74	8,231.62	8,249.80	9,343.20	38.47
Current Surplus	394.52	348.44	799.17	736.05	65.32	-83.44
Capital Revenue	29.02	79.01	51.96	24.46	43.80	50.93
Capital Expenditure***	896.50	782.39	695.71	615.37	885.00	-1.28
Net Lending***	16.25	154.39	32.47	151.39	14.42	-11.26
External Grants	290.70	289.15	263.60	130.94	231.65	-20.31
OVERALL DEFICIT	-198.51	-220.18	386.55	124.69	-558.65	181.42
FINANCING OF DEFICIT:						
External Loans (Net)	-3.25	-331.70	-356.75	-826.17	-688.20	21,075.38
Total Domestic Borrowing	-108.15	955.10	561.10	559.70	868.75	-903.28
Long-term(net)	-352.45	-206.05	57.25	1,375.00	224.10	-163.58
Short-term(net)	244.30	1,161.15	503.85	-815.30	644.65	163.88
CHANGES IN CASH BALANCES						
Increase = (-)	309.91	-403.22	-590.90	141.78	378.10	22.00
MEMORANDUM ITEMS:						
Public Debt Redemption	1,463.96	1,265.79	6,682.01	3,104.03	4,109.73	180.73
(a) External	960.33	917.96	1,068.73	1,151.41	1,607.57	67.40
(b) Internal	503.63	347.83	5,613.28	1,952.62	2,502.16	396.83

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

6.6. Public debt repayments will be enhanced by 32.4 per cent this financial year with internal redemption projected to grow by K£ 549.5 million while external by K£ 456.2 million. This is consistent with the government's policy of reducing domestic borrowing. This will keep demand in the money market down leading to lower interest rates and cheaper funds for the private sector investment.

6.7 Analysis of key fiscal trends for the period between 1995/96 and 1999/2000 is presented in Table 6.2. The surplus/deficit as a percentage of current revenue has been going down for the third consecutive year reaching the lowest level of 0.7 per cent this financial year. Similarly, current surplus as a percentage of capital expenditure and net lending dropped drastically from 96.0 per cent to 7.3 per cent during the same period. The ratio of capital expenditure to current expenditure is projected to increase in 1999/2000 although it had maintained a declining trend for the period between 1995/96 and 1997/98. The increase from 7.5 per cent to 9.5 per cent is mainly due to projected increase in budgetary allocation to capital projects the government intends to undertake during the 1999/2000 financial year. A higher ratio of overall deficit /surplus to current revenue is estimated at 5.9 per cent as opposed to the 1.4 per cent experienced during the

1998/99 financial year. This is as a result of increase in recurrent expenditure and reduced receipts from external grants.

Table 6.2: ANALYSIS OF KEY FISCAL TRENDS, 1995/96- 1999/2000

	1995/96	1996/97	1997/98*	1998/99*	1999/2000**
1. Current Surplus/Deficit as % of Current Revenue	5.5	4.8	8.8	8.2	0.7
2. Current Surplus/Deficit as % of Capital Expenditure plus Net Lending	43.2	38.8	109.7	96.0	7.3
3. Ratio of Capital Expenditure to Current Expenditure	13.3	11.3	8.5	7.5	9.5
4. Overall Deficit as % of Current Revenue ..	-2.8	-3.0	4.2	-1.4	-5.9
5. Overall Deficit as % of Total Expenditure ..	-2.2	-2.4	2.5	-1.0	-3.9
6. External Grants and Loans as % of Capital Expenditure plus Net Lending	31.5	-4.6	-12.5	-90.7	-50.8
7. Net Short-Term Borrowing as % of Capital Expenditure plus Net Lending	-26.8	124.0	69.2	-123.9	71.7
8. Current Revenue as % of GDP at Current Market Prices	28.8	23.2	28.8	26.0	25.0
9. Total Government Expenditure as % of GDP at Current Market Prices	37.0	33.2	49.9	35.0	38.0
10. Overall Deficit as % of GDP at Current Market Prices	-0.9	-0.7	1.2	0.6	-1.4

* Provisional.

** Estimates.

6.8. Table 6.3 presents the comparison of budget estimates with actual outturns for the last five fiscal years. The gap between budgeted recurrent revenue and the actual revenue yields is expected to be lower in 1999/2000 (K£ 28.4 million) compared to the previous year (K£ 310.4). Actual recurrent revenue has fallen short of the estimated revenue for the period between 1996/97 and 1999/2000 except for 1997/98, as opposed to the recurrent expenditure where the budgeted expenditure has consistently been lower than the actual expenditure due to financing of unexpected government expenditure. Actual development expenditure is expected to be lower than the estimated expenditure for 1999/2000. This is mainly due to reallocation of funds to finance additional recurrent government expenditures, payments of pending bills, the 1999 National Population and Housing Census, grants to Local Authorities, purchase of maize for drought victims, increased allocation to the legislature, maintenance of the strategic reserves for food security, grants to the Kenya Agricultural Research Institute (KARI) and the increased allocation of the district cash fund. The scenario is expected to change in the year 1999/2000. The gap between the budgeted and actual for the recurrent revenue and recurrent expenditure will be at their lowest during the 1999/2000 financial year. They will be K£ 28.4 and K£ 6.4 million respectively. This has been achieved as a result of fiscal discipline and stringent financial control, which has been put in place during this financial year. This is expected to improve even further, with the implementation of the Medium Term Expenditure Framework strategy.

Table 6.3. CENTRAL GOVERNMENT COMPARISON OF BUDGET ESTIMATES WITH ACTUAL OUT-TURNS, 1996/97 - 1999/2000

K£million

	1996/97			1997/98*		
	Budget	Actual	Difference	Budget	Actual	Difference
Recurrent Revenue	7,538.29	7,354.19	-184.10	8,367.71	9,082.75	715.04
Recurrent Expenditure	7,616.65	7,844.87	228.22	11,070.05	14,479.51	3,409.46
Recurrent Balance	-78.36	-490.68	-412.32	-2,702.34	-5,396.76	-2,694.42
Development Expenditure + Net Lending	2,143.35	1,496.57	-646.78	2,333.62	1,224.44	-1,109.18
External Financing (Net)**	923.75	-42.55	-966.30	37.75	-93.15	-130.90
Balance for Domestic Financing (Net)	-1,297.96	-2,029.80	-731.84	-4,998.21	-6,714.35	-1,716.14
	1998/99*			1999/2000***		
	Budget	Actual	Difference	Budget	Actual	Difference
Recurrent Revenue	9,308.00	8,997.59	-310.41	9,442.32	9,413.92	-28.40
Recurrent Expenditure	10,168.80	11,132.05	963.25	12,207.09	12,213.51	6.42
Recurrent Balance	-860.80	-2,134.46	-1,273.66	-2,764.77	-2,799.59	-34.82
Development Expenditure + Net Lending	1,851.66	1,156.39	-695.27	2,666.46	2,192.87	-473.59
External Financing (Net)**	-121.00	-695.23	-574.23	-456.55	-456.55	0.00
Balance for Domestic Financing (Net)	-2,833.46	-3,986.08	-1,152.62	-5,887.78	-5,449.01	438.77

* Provisional.

** Includes external grants.

*** Based on printed budget estimates

6.9. Sources of gross receipts on recurrent account are outlined in Table 6.4. Total recurrent revenue collection is expected to increase by K£ 416.3 million in 1999/2000 from K£ 8,997.6 in 1998/99 to K£ 9,413.9. This increase is mainly due to expected rise in revenue yields from direct and indirect taxes of about K£ 231 million and 295 million respectively. Income tax continues to be the only source of direct tax. This year it accounts for 31.8 per cent of the total revenue. Value added tax (VAT) is on both domestic manufacturers and imports have continued to yield more revenue for the last five years. Value added tax (VAT) is expected to contribute about 21.9 per cent of the total revenue receipts.

Table 6.4: CENTRAL GOVERNMENTGROSS RECEIPTS ON RECURRENT ACCOUNT*, 1995/96 - 1999/2000

K£ million

	1995/96	1996/97	1997/98**	1998/99**	1999/2000+
DIRECT TAXATION:					
Income Tax	2,404.12	2,418.75	2,778.90	2,761.74	2,992.50
Other	-	-	0.08	-	-
TOTAL	2,404.12	2,418.75	2,778.98	2,761.74	2,992.50
INDIRECT TAXATION:					
VAT on Domestic Manufactures…..	737.56	727.09	887.40	1,055.74	1,140.00
VAT on imports	682.63	765.41	836.01	904.50	925.00
Import Duties ….	1,058.78	1,129.70	1,228.35	1,422.20	1,532.50
Excise Duties	1,130.59	1,184.36	1,419.08	1,436.66	1,567.50
Export Duties	-	-	-	-	-
Trading Licences ..	17.47	10.60	7.02	6.00	11.80
Licences and Fees Under Traffic Act	22.97	35.93	41.64	41.73	43.75
Other Taxes, Licences and Duties ..	83.15	79.62	82.22	147.86	89.14
TOTAL	3,733.15	3,932.71	4,501.72	5,014.69	5,309.69
OTHER REVENUE AND INCOME:					
Compulsory Fees, Fines and Penalties	85.03	88.14	69.19	93.05	151.65
Income From Property	385.28	243.17	1,055.92	320.36	144.77
Current Transfers	9.90	10.21	14.73	10.61	18.62
Sales of Goods and Services	480.30	525.37	569.89	496.94	718.23
Other	73.41	135.84	92.32	300.20	78.46
TOTAL	1,033.92	1,002.73	1,802.05	1,221.16	1,111.73
TOTAL	7,171.19	7,354.19	9,082.75	8,997.59	9,413.92
MEMORANDUM ITEM:					
Loan Repayments to Government	55.58	57.77	29.68	16.39	39.59

* 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

6.10. Details of central government import duty collections on some end-use commodities for the years between 1995 and 1999 are presented in Table 6.5. Analysis shows that food, drinks and tobacco and fuels are the major contributors to import duty collections. An increase of K£ 81.3 million in total import duty collection is anticipated and this represents a 6.6 per cent increase. It is worth noting that there has been an increasing trend of the import duty collection between 1997 and 1999. This increase was partly as a result of increased imports of fuel and upward adjustment on duty charged and general improvement in tax administration by the Kenya Revenue Authority.

Table 6.5: CENTRAL GOVERNMENT IMPORT DUTY COLLECTIONS, 1995 - 1999

K£million

END-USE CATEGORY	1995	1996	1997	1998	1999*
Food, drinks and tobacco	70.98	104.02	111.70	215.44	219.68
Basic materials	84.28	58.68	57.90	77.72	78.88
Fuels	187.18	221.19	211.04	294.88	315.39
Chemicals	121.18	93.55	85.65	83.82	87.05
Textiles	37.16	18.26	15.83	24.76	31.06
Semi-manufactures	72.85	78.37	81.55	78.86	92.67
Metals	114.57	73.26	64.26	66.56	72.00
Transport Equipment	255.46	173.46	180.93	182.21	175.74
Machinery	208.65	147.76	148.54	151.75	161.88
Miscellaneous commodities	49.87	52.26	54.21	64.15	87.11
TOTAL	1,202.18	1,020.81	1,011.61	1,240.15	1321.46

Source: customs and excise- KRA.

* Provisional.

6.11. Analysis of excise revenue by commodities for the period between 1995 and 1999 is presented in Table 6.6. There has been an upward trend in the excise revenue collected between 1997 and 1998. However, in 1999, revenue from excise duty declined by K£ 27,652 thousands from K£ 691,598 thousands in 1998 to K£ 663,946 thousands in 1999. Beer, spirits and cigarettes are the major ones contributing 90.1 per cent of total excise tax revenue. This fall in revenue was mainly due to lower sales occasioned by both reduced output and depressed demand for these commodities.

Table 6.6: CENTRAL GOVERNMENT EXCISE REVENUE BY COMMODITIES*, 1995 - 1999

K£'000

	1995	1996	1997	1998	1999**
Beer and spirits	332,274	364,901	378,441	401,719	358,057
Sugar	21	12	-	179	-
Cigarettes	211,033	223,329	234,697	240,313	240,200
Other commodities***	49,002	53,325	52,945	49,387	65,689
TOTAL	592,330	641,567	666,083	691,598	663,946

Source: Kenya Revenue Authority, Customs and Excise.

* Data presented in this Table refer to Calender years.

* * Provisional.

*** Includes transfer adjustments not allocated by commodity.

6.12. Table 6.7 provides details of financing of capital expenditure and net lending. An increase of K£ 132.7 million is expected on capital expenditure and net lending. This represents a 17.3 per cent growth, which is due to more allocation of funds for the El-Nino emergency project, rehabilitation of Coast General Hospital and roads. External grants are estimated to rise by K£ 100.7 million, which is an increase of 76.9 per cent. External grants and domestic borrowing are the major sources of financing of capital expenditure and net lending.

Table 6.7: CENTRAL GOVERNMENT FINANCING OF CAPITAL EXPENDITURE AND NET LENDING, 1995/96 - 1999/2000

K£million

	1995/96	1996/97	1997/98*	1998/99*	1999/2000**
EXPENDITURE:					
Capital Expenditure	896.50	782.39	695.71	615.37	885.00
Net Lending	16.25	154.39	32.47	151.39	14.42
TOTAL	912.75	936.78	728.18	766.76	899.42
FINANCING:					
Surplus on Current Account ..	394.52	348.44	799.17	736.05	65.32
Capital Revenue	29.02	79.01	51.96	24.46	43.80
External Loans (Net)	-3.25	-331.70	-356.75	-826.17	-688.20
External Grants	290.70	289.15	263.60	130.94	231.65
Long-Term Domestic Borrowing (Net)	-352.45	-206.05	57.25	1,375.00	224.10
SHORT TERM BORROWING:					
Cereals and Sugar Finance Corporation (Net)	-	-	-	-	-
Treasury Bills (Net)	287.05	429.20	105.10	-655.80	620.70
Other Short-Term Borrowing (Net) ..	-42.75	731.95	398.75	-159.50	23.95
Change in Cash Balances(decrease =+)	309.91	-403.22	-590.90	141.78	378.10
TOTAL	912.75	936.78	728.18	766.77	899.42

* Provisional.

** Estimates.

Analysis of Government Expenditure

6.13. Table 6.8 details analysis on the sectoral allocation of government expenditure from the 1996/97 financial year to 1999/2000. The total expenditure on main services rose from K£ 12,137.1 million in 1998/99 to K£ 14,391.9 million in 1999/2000, an increase of 18.6 percent. The main contributors to this growth in expenditure were the rehabilitation of roads and other infrastructure, National Population Census, grants to Local Authorities through the Local Authority Transfer Fund (LATF), purchase of relief maize for drought victims, geothermal resource exploration, purchase of drugs and funding the car loan for Members of Parliament. Most of the sectors of the government registered significant growth in expenditure with general public administration rising by 32.6 per cent from K£ 2,075.3 million in 1989/99 to K£ 2,751.0 million in 1998/1999. Total economic services rose from K£ 1,364.6 million to K£ 1,917.4 million during the period under review. The other services public debt increased from K£ 5125.4 million to K£ 5,768.4 million over that period. General public administration, defense, social services and economic services received 19.1, 3.7, 23.8 and 13.3 per cent of the total expenditure on main services in 1999, respectively.

6.14. The economic analysis of expenditure for the fiscal years 1995/96 to 1999/2000 is presented in Table 6.9. The total labour costs increased by 7.3 per cent from K£ 1,551.5 million in 19998/99 to K£ 1,665.1 million in 1999/2000. The total other goods and services increased substantially by 39.6 per cent from K£ 2,088.4 million to K£ 2,915.8 million. The total interest however dropped by 18.1 per cent over the same period. The net lending also dropped drastically from K£ 167.8 million in 1998/99 to K£ 54.0 million in 1999/2000. More funds were allocated for the repayment of both internal and external debt. During the period under review the rate of debt repayment rose by 32.4 per cent from K£ 3,104.4 million in 1998/99 to K£ 4,109.7 million in 1999/2000. The growth of expenditure on other goods and services was substantial partly due to purchase of maize for drought and relief, strategic food reserves, grants to Kenya Anti Corruption Authority (KACA) for its operation, conducting the National Population Census, purchase of drugs payment of pending bills and grants to the Kenya Revenue Authority (KRA). Ferry operations were also subsidised by the Government to the tune of K£ 10 million through the Ministry of Information, Transport and Communication.

Table 6.9: CENTRAL GOVERNMENT ECONOMIC ANALYSIS OF EXPENDITURE, 1995/96 - 1999/2000

K£million

	1995/96	1996/97	1997/98*	1998/99*	1999/2000**
CURRENT EXPENDITURE:					
CONSUMPTION EXPENDITURE ON GOODS AND SERVICES:					
Labour Costs	1,312.55	1,297.81	1,654.00	1,551.54	1,665.11
Other Goods and Services	1,607.04	1,830.58	1,848.37	2,088.44	2,915.77
TOTAL	2,919.59	3,128.39	3,502.37	3,639.98	4,580.88
SUBSIDIES	0.06	0.02	3.05	1.93	10.00
INTEREST:					
Foreign	533.52	405.06	388.79	409.32	1,477.54
Domestic	1,466.04	1,277.21	1,601.85	1,395.16	
TRANSFERS TO:					
Households and Unincorporated Enterprises including Private Non-profit Institutions	277.54	568.33	281.11	276.07	
Financial and Non-Financial Enterprises	..	..			
General Government	1,444.78	1,500.62	2,347.07	2,446.23	3,274.70
Rest of the World	28.37	31.53	28.14	15.66	
Funds	77.08	15.58	79.24	65.25	
TOTAL TRANSFERS	1,827.77	2,116.06	2,735.56	2,803.21	3,274.70
OTHERS	0.66			0.25	0.14
1. TOTAL CURRENT EXPENDITURE	6,747.64	6,926.74	8,231.62	8,249.85	9,343.26
2. CAPITAL EXPENDITURE:					
Gross Fixed Capital Formation	818.25	710.32	681.23	602.16	837.81
Capital Transfers	78.25	72.07	14.48	13.21	47.19
TOTAL	896.50	782.39	695.71	615.37	885.00
3. NET LENDING:					
Purchase of Equity in Enterprises		136.33	4.87		0.25
Loans to Households, Enterprises and General Government Agencies	71.50	75.83	57.28	167.79	53.76
Less Loan Repayments to Government ***	-55.25	-57.77	-29.68	-16.39	-39.59
TOTAL	16.25	154.39	32.47	151.40	14.42
4. PUBLIC DEBT REDEMPTION	1,463.96	1,265.79	6,682.00	3,104.04	4,109.70
5. Total Expenditure (1+2+3+4)	9,124.35	9,129.31	15,641.80	12,120.66	14,352.38

* Provisional.

** Revised Estimates

*** including interest

6.15 The breakdown of public debt into funded debt and unfunded debt is given in Table 6.10. The total funded debt, which has consistently dropped for the last five financial years, dropped from K£ 186.5 million in 1998 to K£ 171.5 million in 1999. The internal unfunded debt decreased by 35.3 per cent while external unfunded debt rose by 34.3 per cent. The internal funded debt was mainly the long-term Government stocks issued in the past. While this form of debt has decreased gradually because of continuous redemption on maturity, the external public unfunded debt has increased in amount partly due to the weakening of the Kenya shilling.

Table 6.10: CENTRAL GOVERNMENT PUBLIC DEBT, 1995 - 1999

K£ million

As at 30th June	Public Debt**								
	Funded			Unfunded			Total		
	External	Internal	Total	External	Internal***	Total	External	Internal	Total
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	. .	187.19	186.47	11,551.94	1,177.60	12,729.54	11,551.94	1,364.79	12,916.73
1999*	. .	171.50	171.50	15,511.37	761.79	16,273.16	15,511.37	933.29	16,444.66

* Provisional

** Excludes Short Term Borrowing.

*** Includes Treasury bonds.

6.16. Table 6.11 shows the level of Kenya's indebtedness to both bilateral and multilateral donors. The chief bilateral sources of loans are Japan, France and Netherlands in that order. International Development Association (I.D.A) dominated the international organizations with K£ 7,170.6 million in 1999 compared to K£ 5,524.5 million in 1998. The total stock of outstanding external debt increased by 34.3 per cent over the same period. Outstanding external debt has maintained an upward trend for the last three years.

Table 6.11: CENTRAL GOVERNMENT SOURCES OF UNFUNDED DEBT, 1995 - 1999

K£million

Outstanding as at 30th June	1995	1996	1997	1998	1999
EXTERNAL DEBT:					
Lending Countries:					
Germany	434.31	345.46	293.67	338.42	263.85
Japan	2,330.41	2,111.62	1,792.19	1,874.77	2,609.06
France	979.13	831.58	544.31	479.12	544.86
U.S.A.	13.19	6.70	2.02	29.85	200.47
Netherlands	316.98	341.73	281.54	323.41	397.80
Denmark	215.38	184.23	153.11	131.61	131.81
Finland	29.94	25.90	20.33	18.25	21.48
Other	1,775.27	1,510.16	1,181.02	1,102.35	1,647.37
Total	6,094.61	5,357.38	4,268.19	4,297.78	5,816.70
International Organizations:					
I.D.A	4,654.13	4,759.21	4,964.43	5,524.46	7,170.61
I.B.R.D	400.63	347.31	355.01	292.04	231.14
African Development Bank	491.66	355.44	332.00	313.92	407.39
O.P.E.C.	24.88	54.23	46.91	41.59	12.37
E.E.C.	287.91	220.76	245.24	271.56	242.94
I.M.F.	-	-	-	-	0.00
Arab League	2.62	2.07	0.65	0.71	0.00
Badea	21.67	28.11	23.54	22.03	22.17
I.F.A.D.	72.73	75.63	88.12	118.47	78.05
C.D.C.	-	-	-	-	
A.D.F.	250.51	535.28	581.23	669.38	1,530.00
Total	6,206.74	6,378.04	6,637.13	7,254.16	9,694.67
Total External	12,301.35	11,735.42	10,905.32	11,551.94	15,511.37
INTERNAL DEBT:					
Central Bank of Kenya ..	10.00	10.00	10.00	10.00	10.00
Other	1,294.31	1,398.49	1,163.12	1,167.60	751.79
TOTAL INTERNAL	1,304.31	1,408.49	1,173.12	1,177.60	761.79
TOTAL UNFUNDED DEBT ..	13,605.66	13,143.91	12,078.44	12,729.54	16,273.16

6.17. Table 6.12 outlines the analysis of Government long-term stocks by holders on local register at book value for the years 1995 through 1999. National Social Security Fund remains the dominant holder of long-term stocks of internal debt for the reference period with 67.2 percent of the total internal debt during 1999. Within the private sector, commercial banks were the leading holders of stock. Each holder has seen a gradual decrease in its size of stocks. This is due to non-acquisition of new stocks by the government and the continued and sustained redemption of the old stocks as they mature.

Table 6.12: ANALYSIS OF PUBLIC FUNDED DEBT AT BOOK VALUE BY HOLDERS ON LOCAL REGISTER AS AT 30TH JUNE, 1995 - 1999

K£million

	1995	1996	1997	1998	1999
PUBLIC BODIES:					
National Social Security Fund	155.58	155.58	130.55	126.26	115.31
Central Government	49.51	49.32	44.14	41.60	40.49
Local Government	0.18	0.18	0.06	0.06	0.05
Kenya Post Office Savings Bank ..	2.30	2.30	2.20	2.20	1.65
Former E.A.Community Institutions*	3.28	3.28	3.28	3.28	2.56
Central Bank	0.00	0.00	0.00	0.00	0.00
Other Public Sector	1.10	1.10	2.07	2.07	0.87
OTHER INTERNAL:					
Commercial Banks	4.94	4.94	5.03	5.66	5.27
Insurance Companies	3.48	3.45	3.27	3.05	2.31
Other Companies	8.94	8.94	7.32	2.97	2.97
Private Individuals	0.08	0.08	0.05	0.04	0.03
TOTAL	229.39	229.17	197.97	187.19	171.50

Source: Central Bank of Kenya.

* And their successors.

6.18. Table 6.13 provides the information on debt servicing charges. The net servicing charges decreased drastically to reach K£ 4,892.1 million in 1999, down from K£ 8,643.0 million in 1998. This sharp decline was mainly attributed to internal annual debt, which dropped by 53.6 percent from K£ 7,215.1 million in 1998 to K£ 3,347.8 in 1999.

Table 6.13: CENTRAL GOVERNMENT DEBT SERVICING CHARGES*, 1995 - 1999

K£million

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
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	7215.13***	1,457.52	. .	29.68	29.68	1,457.52	7,185.45	8,642.97
1999**	1,560.73	3347.78	4,908.51	..	16.39	16.39	1,560.73	3,331.39	4,892.12

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

** Provisional

*** includes overdratt

6.19. The relationship between debt service charges on external debt and export of goods and services is given in Table 6.14. The external debt service charges as a percentage of exports of goods and services dropped marginally from 16.9 per cent in 1998 to 16.7 per cent in 1999. This slight change could be attributed to an increase in export of goods of service, and debt service charge which rose by 8.6 per cent and 7.1 per cent respectively

Table 6.14: CENTRAL GOVERNMENT DEBT SERVICE CHARGES ON EXTERNAL DEBT RELATED TO EXPORT OF GOODS AND SERVICES, 1995 - 1999

	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£million	
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
1999*	1,560.73	9,347.02	16.70

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

Local Authorities

6.20. Local authorities have continued with their endeavour to provide quality services to the growing population. However the growth in expenditure has always surpassed that of revenue resulting in budget deficits over the years. Table 6.15 presents figures on gross expenditure for all Local Authorities. The figures exhibit mixed outcomes over the period under review with expenditure reaching a peak of K£ 571.5 million in 1998/99. Some of the projects reported were sanitation in Kisii and Murang'a among other municipalities. The total expenditure is expected to be K£ 543.0 million in 1999/2000 having moderately decreased from K£ 571.5 million in 1998/99. Nairobi City Council one of the main councils accounted for 31.2 per cent of the total local authority expenditure in 1999/2000 financial year. Its expenditure is expected to drop due to lack of major projects. Expenditure for town and county councils is expected to rise from K£ 121.2 million to K£ 133.5 million in 1998/99 and 1999/2000 respectively. The situation in the local authorities is expected to improve with disbursement of funds through the recently launched Local Authority Transfer Fund (LATF).

Table 6.15: EXPENDITURE ON LOCAL AUTHORITIES, 1995/96 - 1999/2000

K£million

	MUNICIPALITIES				
	Nairobi City Council	Other Municipal Councils	Sub-Total	Town and County Councils	Total
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	172.75	175.57	348.32	97.51	445.83
1998/99*	226.19	224.17	450.36	121.17	571.53
1999/2000**	169.44	240.03	409.47	133.49	542.96

* Provisional
** Estimates.

6.21. Analysis of expenditure by function for municipal councils is provided in Table 6.16. The total expenditure is expected to decline from K£ 450.4 million in 1998/99 to K£ 409.5 million in 1999/2000. Of this, water undertakings, health, roads and housing will take 46.1 per cent. While expenditure on administration is expected to drop marginally by 7.6 per cent that on other services is expected to increase.

Table 6.16: MUNICIPAL COUNCILS: CURRENT AND CAPITAL EXPENDITURE ON MAIN SERVICES, 1995/96 - 1999/2000

K£ million

		1995/96	1996/97	1997/98	1998/99*	1999/2000**
	ADMINISTRATION	96.99	98.78	99.75	122.46	113.55
COMMUNITY	Roads	34.76	30.37	13.55	41.90	35.13
SERVICES:	Sanitation	48.61	34.53	53.07	63.04	30.56
	Other	5.67	2.65	6.15	2.93	7.73
	Total	89.04	67.55	72.77	107.87	73.42
SOCIAL	Education	16.17	17.06	17.86	21.29	25.12
SERVICES	Health	29.33	30.10	43.99	40.90	44.10
	Other	3.39	5.29	2.60	6.14	8.65
	Total	48.89	52.45	64.45	68.33	77.87
ECONOMIC	General Administration	12.92	16.58	19.50	20.54	25.57
SERVICES:	Water Undertaking	94.03	68.08	59.89	91.86	57.70
	Housing Estates(including staff housing)	22.97	11.84	17.78	24.41	51.87
	Other	8.52	9.73	14.18	14.90	9.49
	Total	138.44	106.23	111.35	151.71	144.63
	TOTAL EXPENDITURE	373.36	325.01	348.32	450.37	409.47

* Provisional.

** Estimates.

Table 6.17: MUNICIPAL COUNCILS: ECONOMIC ANALYSIS OF EXPENDITURE, 1995/96 - 1999/2000

K£million

	1995/96	1996/97	1997/98	1998/99*	1999/2000**
CURRENT EXPENDITURE:					
Labour Cost	139.81	148.43	149.71	180.50	182.36
Other Goods and Services	92.59	99.99	87.77	153.00	152.23
Transfer to Households & Enterprises	0.43	2.69	3.15	1.84	1.24
Transfer to Funds (Current) ..	1.62	3.60	4.46	3.92	3.54
Interest	0.41		0.46	0.93	3.22
Total	234.86	254.71	245.55	340.19	342.59
CAPITAL EXPENDITURE:					
Gross Fixed Capital Formation ..	131.85	65.21	99.61	105.93	58.82
Loan Repayment***	5.06	3.39	2.72	2.14	8.06
Transfer to Funds (capital)	1.59	1.69	0.44	2.10	0.00
Total	138.50	70.29	102.77	110.17	66.88
TOTAL EXPENDITURE	373.36	325.00	348.32	450.36	409.47

* Provisional.

** Estimates.

*** Includes interest.

Table 6.18: MUNICIPAL COUNCILS: ECONOMIC ANALYSIS OF REVENUE, 1995/96 - 1999/2000

K£million

	1995/96	1996/97	1997/98	1998/99*	1999/2000+
CURRENT REVENUE:					
Direct Taxes (Rates**)	36.23	87.12	87.12	107.23	86.16
Indirect Taxes (Licences and cesses)	21.86	28.15	17.99	27.22	16.81
Income from Property	10.40	20.98	15.46	25.95	18.81
Current Transfers	2.32	1.12	0.50	8.18	0.04
Sale of Goods and Services***	130.52	112.72	107.35	179.16	201.74
TOTAL	201.33	250.09	228.42	347.74	323.56
CAPITAL REVENUE:					
Loans Raised	37.89	3.10	40.91	10.52	14.66
Loan Repayment	0.78	0.47	0.41	0.46	0.42
TOTAL	38.67	3.57	41.32	10.98	15.08
TOTAL REVENUE	240.00	253.67	269.74	358.73	338.64

* Provisional.

\+ Estimates.

** Paid by households and enterprises.

*** Includes service charge.

6.22. Table 6.17 and 6.18 shows the economic analysis of expenditure and revenue respectively for municipal councils. In 1999/2000, expenditure is estimated to be K£ 409.5 million while revenue will be K£ 338.64 million leading to a budget deficit of K£ 70.8 million. In 1998/99, the deficit was K£ 91.6 million. Labour costs and other goods and services will take 81.7 per cent of the total expenditure while Gross Fixed Capital Formation is expected to take 14.4 per cent in 1999/2000. The main sources of revenue for municipal councils continue to be direct taxes i.e. rates paid by households and enterprises, sale of goods and services including grants and fees from licenses. Direct taxes and sales of goods and services contributed 85.0 per cent of the total revenue.

6.23. Figures on economic analysis of expenditure and revenue for town and county councils are presented in table 6.19. Total expenditure is expected to increase from K£ 121.17 million in 1998/99 to K£ 133.5 million in 1999/2000. Revenue is also estimated to rise, from K£ 96.0 million to K£ 112.3 million in 1998/99 and 1999/2000 respectively. The main components of expenditure are labour costs, other goods and services and Gross Fixed Capital Formation accounting for 92.7 per cent of the total expenditure. The main sources of income are taxes and revenue from sale of goods and services which accounted for 97.9 per cent of the total revenue.

Table 6.19: TOWN AND COUNTY COUNCILS ECONOMIC ANALYSIS OF EXPENDITURE AND REVENUE, 1995/96 - 1999/2000

K£million

	1995/96	1996/97	1997/98	1998/99*	1999/2000+
CURRENT EXPENDITURE:					
Labour Cost	49.42	44.51	56.69	70.79	80.03
Other Goods and Services	26.22	25.24	20.92	29.29	30.73
Transfer to households & Enterprises	5.11	4.03	7.74	2.59	6.86
Transfer to Funds (Current)		5.93	1.38	..	1.58
Interest	..	..	0.00	0.88	0.01
Total	80.75	79.71	86.73	103.55	119.21
CAPITAL EXPENDITURE:					
Gross Fixed Capital Formation	6.53	6.21	10.13	17.14	12.94
Loan Repayments**	0.23	..	0.65	..	1.34
Transfer to Funds (capital)	0.25	0.30	0.00	0.48	0.00
Total	7.01	6.51	10.78	17.62	14.28
TOTAL EXPENDITURE	87.76	86.22	97.51	121.17	133.49
CURRENT REVENUE:					
Direct Taxes (Rates***)	24.55	13.22	3.97	23.00	10.42
Indirect Taxes (Licences and cesses)	20.11	16.27	13.37	18.79	22.58
Income from Property	8.05	1.88	0.75	3.03	1.91
Current Transfers	0.21	0.02	0.06	0.02	0.18
Sale of Goods and Services	29.99	29.58	47.87	50.76	76.93
Total	82.91	60.97	66.02	95.60	112.02
CAPITAL REVENUE:					
Loans Raised	-	0.08	0.02	0.35	0.30
Loans Repayments	-	0.00	0.00	0.01	0.00
Total	0.00	0.08	0.02	0.36	0.30
TOTAL REVENUE	82.91	61.05	66.04	95.96	112.32

* Provisional.
** Includes Interest.
*** Paid by households and enterprises.
\+ Estimates

Conclusion

6.24. Based on the 1999/2000 expenditure and the revenue estimates, the overall deficit including grants, will be K£ 558.7 million. Current revenue as a percentage of GDP will be 25.0 per cent. To reduce the level of domestic borrowing added injection of funds will be required in form of external grants.

6.25. To reduce the growing poverty level in Kenya, the Government's fiscal management should reduce domestic borrowing and improve tax administration. This will increase disposable income and hence the demand for goods and services thus stimulating economic growth investments. Increased budget deficits should preferably be as a result of investments only. More funds should continue to be allocated to sectors that improve production such as infrastructure, communication, agriculture and those that benefit the poor directly like health and education.

The endemic 'service gap' in Local Authorities can be reduced by improving their revenue base, collection and more grants from the Central Government. Local Authorities Transfer Fund (LATF) is already a step in the right direction.

CHAPTER 7 - INTERNATIONAL TRADE AND BALANCE OF PAYMENTS

Overview

Key indicators of international trade and balance of payments show mixed performance in 1999. The level of imports declined while exports almost stagnated resulting in the narrowing of the trade deficit, albeit marginally. The current account therefore improved to record a surplus for the first time since 1994. Significant reductions of export prices and volume of various export items mainly explains the sluggish performance of the export sector.

7.2. The volume of trade declined by 0.6 per cent from K£ 15,948.5 million in 1998 to K£ 15,855.8 million in 1999. The decline, the first ever recorded in the last five years was mainly attributed to a fall in the value of imports.

7.3. The overall balance of payments deteriorated further to a surplus of K£ 212.0 million in 1999 from a surplus of K£ 228.7 million in 1998. The current account balance recorded a surplus of K£ 38.9 million in 1999, compared to a deficit of K£ 1,440.3 million in 1998, primarily reflecting the narrowing of the trade deficit and improved performance of the services sector mainly arising from increased tourism earnings. Capital and financial account surplus dropped to K£ 633.9 million in 1999 from a surplus of K£ 1,951.3 million in 1998. The decline mirrors the increase in official long-term capital outflows, reduced official long-term capital inflows and a decrease in private long-term capital net inflows.

Balance of Trade

7.4. The performance of the export sector continued to slow down with domestic exports virtually stagnating at the 1998 levels as shown in Table 7.1. Total imports dropped by 1.4 per cent, re-exports however continued with the upward trend rising modestly by 8.0 per cent in 1999. Consequently, the trade deficit narrowed marginally in 1999 by 4.9 per cent from K£ 3,830.4 million in 1998 to K£ 3,644.6 million in 1999. The deficit was more than half the total value of exports for the third consecutive year.

Table 7.1 BALANCE OF TRADE, 1995 - 1999

K£million

		1995	1996	1997	1998	1999*
EXPORTS	(f. o. b) :					
	Domestic Exports	4,656.19	5,696.30	5,722.97	5,722.27	5,742.08
	Re-exports ..	210.76	213.70	299.29	336.76	363.55
	Total	4,866.95	5,910.00	6,022.26	6,059.03	6,105.63
IMPORTS	(c. i. f) :					
	Commercial ..	7,495.49	8,144.22	9,264.13	9,526.90	9,420.57
	Government ..	262.93	280.09	269.55	362.53	329.62
	Total	7,758.42	8,424.31	9,533.68	9,889.43	9,750.19
BALANCE OF TRADE ..		-2,891.47	-2,514.31	-3,511.42	-3,830.40	-3,644.56
TOTAL TRADE		12,625.37	14,334.31	15,555.94	15,948.46	15,855.82
EXPORT COVER RATIO		62.73	70.15	63.17	61.27	62.62

* Provisional

7.5. Significant reductions in export prices and volumes of various export items mainly explains the sluggish performance of the export sector. Export value in 1999 stood at K£ 6,105.6 million, which covered 62.6 per cent of imports, up from 61.3 per cent recorded in 1998.

Price Changes

7.6. Unit price indices for exports and imports grouped by Standard International Trade Classification (SITC) are presented in Table 7.2. Export and import price indices for non-oil items declined by 8.4 per cent and 2.5 per cent, respectively. The price index for all exports registered a decrease of 6.3 per cent, but rose for all imports by 8.6 per cent.

Table 7.2: PRICE INDICES, 1995 - 1999

1982=100

	1995	1996	1997	1998	1999
EXPORTS:					
Food and live animals	558	530	752	755	651
Beverages and tobacco	390	632	633	619	614
Crude materials, (inedible)	510	625	669	670	563
Mineral fuels	310	383	351	346	370
Animal and vegetable oils and fats	316	229	173	247	274
Chemicals	480	529	621	546	611
Manufactured goods	600	677	636	644	673
Machinery and transport equipment	222	496	513	547	526
Miscellaneous manufactured articles	644	514	552	656	775
All Exports	489	519	608	615	576
Non-oil Exports	530	549	679	689	631
IMPORTS:					
Food and live animals	487	408	475	475	456
Beverages and tobacco	636	828	769	845	804
Crude materials, (inedible)	472	488	718	668	393
Mineral fuels	273	358	357	267	401
Animals and vegetable oils and fats	743	728	759	848	684
Chemicals	603	637	789	804	976
Manufactured goods	669	573	678	663	623
Machinery and transport equipment	629	767	792	1,040	945
Miscellaneous manufactured articles	641	676	756	840	958
All imports	513	560	598	614	667
Non-oil Imports	550	577	629	718	700

7.7. Lower export prices of pyrethrum extract and hides and skins largely contributed to the fall in the price index for crude materials (inedible). Similarly, a drop in the export price of coffee by 32.1 per cent mainly caused the fall in the price index for food and live animals' category. The combined effect immensely contributed to the decrease in the index for non-oil exports and subsequently the index for all exports. Chemicals recorded the highest increase of 11.9 per cent in export price index, which may be attributed to better prices of wattle extract and medicaments.

7.8. Import price of crude petroleum went up by 39.3 per cent while that for refined petroleum products increased by 19.1 per cent. The gradual depreciation of the Shilling against the major currencies during the year and the escalation of crude oil prices in 1999 brought about the steep rise in oil import prices. All non-oil imports, except chemicals and miscellaneous manufactured articles, recorded price reductions. Import price index

for machinery and transport equipment, which grew by 31.3 per cent in 1998, fell by 9.1 per cent in 1999. Overall, all import price index went up by 8.6 per cent.

Terms of Trade

7.9. Terms of trade summarised in Table 7.3 are the ratio of export price index to import price index. As a result of the unit price changes detailed earlier, the unfavourable terms of trade recorded in 1998 deteriorated further in 1999. Terms of trade for all items and non-oil items fell by 14.0 per cent and 6.3 per cent respectively, a reflection of the relatively better prices enjoyed by imports over Kenya's export prices at the international commodities market.

Table 7.3: TERMS OF TRADE, 1995 - 1999

1982=100

	1995	1996	1997	1998	1999
All Items	95	93	102	100	86
Non-oil Items	96	95	108	96	90

Volume Changes

7.10. Changes in the volume of trade as measured by the quantum indices are summarized in Table 7.4. Quantum index for export of various SITC categories dropped except for food and live animals; and crude materials (inedible) which increased by 16.2 per cent and 35.3 per cent respectively. Beverages and tobacco category decreased by 22.2 per cent, mainly as a result of a decrease in export quantities of beer made from malt, whiskeys and tobacco (unmanufactured). Other notable declines were in the export quantities of animal and vegetable oils and fats; machinery and transport equipment; and manufactured goods by 19.4 per cent, 19.9 per cent and 10.1 per cent respectively. However, quantum index for all exports increased by 7.5 per cent in 1999

Table 7.4: QUANTUM-INDICES, 1995 - 1999

1982 =100

	1995	1996	1997	1998	1999
EXPORTS:					
Food and live animals	151	200	138	148	172
Beverages and tobacco	1,618	1,112	988	971	755
Crude materials, (inedible)	178	170	158	150	203
Mineral fuels	59	74	106	106	105
Animal and vegetable oils and fats	6,694	9,237	13,601	10,241	8,257
Chemicals	354	383	332	366	334
Manufactured goods	308	308	340	267	240
Machinery and transport equipment	578	204	232	307	246
Miscellaneous manufactured articles	530	809	697	568	556
All Exports	175	200	174	173	186
Non-oil Exports	207	239	193	191	209
IMPORTS:					
Food and live animals	157	348	608	493	358
Beverages and tobacco	186	122	179	191	205
Crude materials, (inedible)	232	224	180	274	430
Mineral fuels	113	115	129	190	115
Animals and vegetable oils and fats	194	219	194	197	254
Chemicals	231	230	187	191	168
Manufactured goods	193	219	192	182	215
Machinery and transport equipment	179	142	150	125	130
Miscellaneous manufactured articles	166	200	202	222	247
All imports	168	167	177	179	162
Non-oil Imports	216	216	225	204	207

7.11. Import quantum index for all imports declined by 9.5 per cent. Significant increase in import quantities of natural rubber, textile fibre and wood pulp, coupled by the reduced import prices mainly caused the large increase in quantum index for crude materials (inedible). Imported quantities of food and live animals, which recorded a decrease in 1998, declined further by 27.4 per cent in 1999 due substantial fall in export quantities of sugar and maize.

7.12. Further breakdown of quantities of principal exports is presented in Table 7.5. Exports of cement reduced drastically by 32.0 per cent from 417,239 tonnes in 1998 to 283,717 tonnes in 1999. Live animals chiefly for food, animal and vegetable oils, beer and leather recorded substantial declines of 21.3 per cent, 23.1 per cent, 66.0 per cent and 15.3 per cent respectively. During the year under review, export quantities of pyrethrum products, hides and skins and wool more than doubled. Export quantities of coffee went up by 38.8 per cent while for tea and horticulture reduced by 6.8 per cent and 13.6 per cent respectively.

Table 7.5: QUANTITIES OF PRINCIPAL EXPORTS, 1995 - 1999

Commodity	unit	1995	1996	1997	1998	1999*
Coffee	Tonnes	88,519	116,731	70,066	51,578	71,581
Tea	,,	217,937	262,146	199,224	263,771	245,710
Petroleum Products ..	Mn. Lt	446	567	587	792	765
Pyrethrum Products ..	Tonnes	215	717	441	216	623
Meat products	,,	1,068	1,175	1,252	1,275	1,217
Sisal	,,	25,188	21,672	19,154	17,650	16,830
Hides and Skins	,,	2,218	2,301	2,564	2,118	7,302
Soda Ash	,,	205,676	197,021	213,190	214,470	213,374
Fluorspar	,,	64,434	37,764	72,300	45,618	83,707
Cement	,,	501,014	662,036	690,392	417,239	283,717
Maize(raw)	,,	154,291	221,478	263,653	9,126	30,487
Horticulture **	,,	228,576	304,461	192,629	232,217	200,624
Butter and ghee	,,	175	1,594	221	161	72
Cotton(raw)	,,	962	..	81	87	54
Wool	,,	347	295	432	174	596
Animal feeds	,,	11,008	2,116	694	726	845
Fish and fish preparations	,,	15,511	18,769	17,438	14,332	15,951
Live animals chiefly for food	'000 No	379	639	671	2,025	1,593
Meals and flours of wheat	Tonnes	52,444	36,577	29,992	43,865	21,288
Animal and Vegatable oils	,,	34,172	30,794	40,120	40,751	31,340
Tobacco and tobacco manufactures	,,	6,582	13,364	8,520	6,993	6,706
Beer made from malt	' 000 Lt	47,284	36,790	24,902	23,486	7,978
Footwear	' 000 Pairs	78,908	21,557	28,158	28,296	30,113
Margarine and shortening	Tonnes	4,523	9,500	13,040	18,746	16,531
Leather	,,	5,676	5,414	5,864	4,602	3,899
Paper and paperboard	,,	9,429	7,567	8,692	11,340	14,074
Textile yarn	,,	4,597	6,160	1,990	1,123	1,361
Insecticides and fungicides	,,	2,144	3,696	3,122	2,938	2,156
Essential oils	,,	43,038	44,461	41,043	43,800	36,380

* Provisional.

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

.. Negligible

Composition of Exports

7.13. Composition of domestic exports classified by Broad Economic Categories is presented in Table 7.6. In 1999, share of food and beverages in total domestic export

earnings stood at 55.9 per cent, of which 80.4 per cent were primary products. Non-food industrial supplies constituted 17.9 per cent of total domestic exports compared to 18.3 per cent in 1998 and 22.4 per cent in 1997. Contribution to domestic export earnings by transport equipment stood at K£ 49.9 million, representing about one per cent of the total export earnings. Export earnings from fuel and lubricants comprising mainly of processed products contributed 8.2 per cent of domestic export earnings.

Table 7.6: DOMESTIC EXPORTS BY BROAD ECONOMIC CATEGORY, 1995 - 1999

K£million

	1995	1996	1997	1998	1999*
1 FOOD AND BEVERAGES	2,381.03	3,011.41	3,072.87	3,283.32	3,208.36
Primary	1,775.41	2,172.72	2,309.39	2,556.60	2,580.97
For Industry	722.03	831.12	864.24	647.85	605.94
For Household Consumption	1,053.38	1,341.60	1,445.15	1,908.75	1,975.03
Processed	605.62	838.69	763.48	726.72	627.39
For Industry	180.34	234.21	199.48	174.78	112.18
For Household Consumption	425.28	604.48	564.00	551.94	515.21
2. INDUSTRIAL SUPPLIES (Non-Food) ..	1,252.58	1,484.61	1,282.19	1,045.68	1,025.51
Primary	372.33	943.24	320.41	245.56	316.08
Processed	880.25	541.37	961.78	800.12	709.43
3. FUEL AND LUBRICANTS	244.98	377.99	515.92	522.44	471.45
Primary	0.02	0.02	0.31	0.24	0.13
Processed	244.96	377.97	515.61	522.20	471.32
Motor Spirit	72.06	112.09	174.13	208.80	221.44
Other	172.90	265.88	341.48	313.40	249.88
4. MACHINERY & OTHER CAPITAL EQUIPMENT ..	64.47	50.97	32.65	51.67	72.27
Machinery & Other Capital Equipment ..	34.68	28.88	26.10	43.65	67.26
Parts and Accessories	29.79	22.09	6.55	8.02	5.01
5. TRANSPORT EQUIPMENT	24.88	26.14	24.12	36.29	49.91
Passenger Motor Vehicles	2.12	2.61	0.00	0.00	19.59
Other	8.72	6.09	1.97	8.88	6.16
For Industry	8.11	5.67	1.80	8.32	2.80
Non-Industrial	0.61	0.42	0.17	0.56	3.36
Parts and Accessories	14.04	17.44	22.15	27.41	24.16
6. CONSUMER GOODS NOT ELSEWHERE SPECIFIED ..	688.21	745.18	795.22	782.85	914.57
Durable	9.98	21.21	9.59	13.09	16.03
Semi-Durable	215.68	374.14	198.13	158.60	202.81
Non-Durable	462.55	349.83	587.50	611.16	695.72
7. GOODS NOT ELSEWHERE SPECIFIED ..	0.03	0.00	0.00	0.02	0.49
TOTAL	**4,656.18**	**5,696.30**	**5,722.97**	**5,722.27**	**5,742.08**
PERCENTAGE SHARES:					
1. Food and Beverages	51.14	52.87	53.69	57.38	55.87
2. Industrial Supplies (Non-Food)	26.90	26.06	22.40	18.27	17.86
3. Fuel and Lubricants	5.26	6.64	9.01	9.13	8.21
4. Machinery and other Capital Equipment ..	1.38	0.89	0.57	0.90	1.26
5. Transport Equipment	0.53	0.46	0.42	0.63	0.87
6. Consumer Goods not elsewhere specified	14.78	13.08	13.90	13.68	15.93
7. Goods not elsewhere specified	0.00	0.00	0.00	0.00	0.01
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

* Provisional

7.14. Export earnings from non-food industrial supplies declined marginally by 1.9 per cent from K£ 1,045.7 million in 1998 to K£ 1,025.5 million in 1999. Export earnings from machinery and other capital equipment registered a 39.9 per cent increase, mainly due to increase in exports of food processing machines and agricultural appliances, its share contribution to total exports however remained relatively low at 1.3 per cent. Export earnings from primary food and beverages barely increased by less than 1.0 per cent. Earnings from processed food and beverages decreased modestly by 13.7 per cent. Export earnings from consumer goods not elsewhere specified continued with the upward trend, increasing by 16.8 per cent in 1999. Under this category, export earnings from semi-durable and non-durable consumer goods rose by 27.9 per cent and 13.8 per cent respectively.

Domestic Export Prices

7.15. Table 7.7 shows the trend of export prices per unit quantity of selected commodities. The export price of tea continued the upward trend and rose by 6.8 per cent, while of coffee fell sharply by 32.1 per cent owing mainly to decline in world market prices. The export price of horticulture picked up in 1999 and improved by 36.7 per cent. All the mineral products exported namely; soda ash; fluorspar and cement recorded price increases of 5.7 per cent, 33.7 per cent and 27.3 per cent respectively. Wool recorded the highest price decrease of 47.3 per cent from Ksh 109 per kilogram in 1998 to Ksh 58 per kilogram in 1999. Other notable decreases in export prices were in hides and skins (undressed); butter and ghee; fish and fish preparations and textile yarn.

Table 7.7: EXPORT PRICES, 1995 - 1999

Table 7.7 KSh./Unit

Commodity	Unit of Quantity	1995	1996	1997	1998	1999*
Coffee, unroasted	Kg.	163.21	142.47	247.00	252.91	171.75
Tea	Kg.	82.54	86.61	121.10	124.99	133.44
Petroleum Products ..	1,000 Lt.	9,819.66	12,386.86	12,200.91	11,524.99	11,929.29
Maize(raw)	100Kg.	1,173.58	903.15	2,108.25	1,421.01	1,171.79
Meat and meat products	Kg.	83.17	93.29	91.67	100.87	136.23
Pyrethrum Extract	Kg.	5,070.68	5,676.54	6,355.76	6,264.93	7,286.57
Sisal	100Kg.	2,635.00	3,757.16	3,775.08	3,906.71	3,787.89
Hides and Skins(undressed)	Kg.	131.22	100.76	64.29	60.25	42.44
Wattle extract	Kg.	35.44	39.25	38.78	40.99	44.68
Soda Ash	100Kg.	501.17	586.26	621.55	576.36	609.02
Fluorspar	100Kg.	400.86	947.91	505.93	467.48	625.04
Cement	100Kg.	322.82	384.31	331.60	345.89	440.15
Horticulture	Kg.	46.49	44.77	71.39	64.32	87.93
Wool	Kg.	78.46	94.22	93.25	109.28	57.60
Animal feeds	100Kg.	391.76	545.91	1,609.34	1,425.31	1,515.29
Cotton(raw)	Kg.	79.89	375.00	80.00	29.99	84.20
Butter and ghee	Kg.	130.89	74.79	177.10	145.86	79.58
Fish and fish preparations	Kg	108.88	175.46	176.37	159.85	142.12
Live animals chiefly for food	No	265.47	76.61	66.50	12.63	23.45
Meals and flours of wheat	Kg	24.03	28.13	27.93	22.13	19.89
Animal and Vegatable oils	"	56.62	64.14	54.76	58.80	66.88
Tobacco and tobacco manufactures	"	170.96	132.72	202.45	229.78	231.70
Beer made from malt	Lt	26.31	24.32	27.47	27.17	25.33
Footwear	Kg	8.27	38.22	40.32	32.31	37.02
Margarine and shortening	"	75.26	68.43	76.44	75.36	79.01
Leather	"	183.24	122.48	102.70	107.54	99.41
Paper and paperboard	"	45.54	47.36	57.44	44.00	43.91
Textile yarn	"	64.79	65.64	247.56	274.34	222.63
Insecticides and fungicides	"	374.45	165.32	192.49	230.72	232.84
Essential oils	"	67.00	74.26	79.59	76.80	92.45

* Provisional.

7.16. Values of selected exports in 1998 and 1999 together with their percentage changes in value, quantity and prices are presented in Table 7.8. Quantity of coffee exported grew by 38.8 per cent after substantial reduction by 25.7 per cent in 1998 and 40.8 per cent in 1997, however its price tumbled by 32.1 per cent. Export quantities of horticulture, tea, cement and essential oils declined by 13.6 per cent, 6.8 per cent, 32.0 per cent and 16.9 per cent respectively.

Table 7.8: EXPORT CHANGE IN VALUE, QUANTITY AND PRICE *, 1998 - 1999

Commodity	Value (K£ '000)			Percentage change in		
	1998	1999**	Changes	Value	Quantity	Price
Coffee, unroasted ..	640,868.1	598,914.1	-41,954.0	-6.55	38.78	-32.09
Tea	1,648,533.0	1,639,383.5	-9,149.5	-0.56	-6.85	6.76
Petroleum products ..	456,364.6	456,110.7	-253.9	-0.06	-3.44	3.51
Meat and meat products	6,431.0	8,290.6	1,859.6	28.92	-4.54	35.06
Pyrethrum extract ..	35,788.7	32,815.2	-2,973.5	-8.31	379.76	-80.89
Sisal	34,437.6	31,875.3	-2,562.3	-7.44	-4.54	-3.04
Hides and skins (undressed)	6,380.4	15,500.1	9,119.7	142.93	244.76	-29.56
Wattle extract	11,236.2	13,472.0	2,235.8	19.90	9.99	9.00
Soda ash	61,805.8	64,974.5	3,168.7	5.13	-0.51	5.67
Fluorspar	10,662.7	26,160.3	15,497.6	145.34	83.50	33.70
Cement	72,160.3	62,438.5	-9,721.8	-13.47	-32.00	27.25
Horticulture	746,878.3	882,034.2	135,155.9	18.10	-13.60	36.71
Animal feeds..	517.5	640.2	122.7	23.71	16.37	6.31
Wood carvings ..	18,563.6	16,238.6	-2,325.0	-12.52	-9.73	-3.10
Metal scrap .. .	5,697.7	7,348.4	1,650.7	28.97	-2.54	32.35
Fish and fish preparations	114,549.4	113,350.9	-1,198.5	-1.05	11.29	-11.09
Live animals, chiefly for food	1,278.7	1,967.6	688.9	53.88	-21.31	85.67
Meals and flours of wheat	48,542.9	21,168.4	-27,374.5	-56.39	-57.47	-10.12
Animal and Vegatable oils	119,817.4	104,801.6	-15,015.8	-12.53	-23.10	13.74
Tobacco and tobacco manufactures ..	80,344.5	77,688.0	-2,656.5	-3.31	-4.10	0.84
Beer made from malt	31,906.1	10,104.4	-21,801.7	-68.33	-66.03	-6.77
Footwear	45,713.3	55,738.6	10,025.3	21.93	6.42	14.57
Margarine and shortening	70,638.4	65,302.3	-5,336.1	-7.55	-11.82	4.84
Leather	24,743.9	19,377.0	-5,366.9	-21.69	-15.28	-7.56
Paper and paperboard	24,950.9	19,377.0	-5,573.9	-22.34	24.11	-0.20
Iron and steel	191,185.6	138,800.9	-52,384.7	-27.40	-22.25	-6.62
Textile yarn	15,405.5	15,149.5	-256.0	-1.66	21.18	-18.85
Insecticides and fungicides	33,892.9	25,097.9	-8,795.0	-25.95	-26.62	0.92
Essential oils	168,185.5	168,172.7	-12.8	-0.01	-16.94	20.38
All other Commodities	994,785.4	1,049,790.8	55,005.4	5.53	-	-
TOTAL	5,722,265.9	5,742,083.8	19,817.9	0.35	-	-

* Excluding Re-exports

** Provisional

7.17. The performance of principal exports was determined by mixed developments in their respective export prices and quantities. Earnings from coffee fell by 6.6 per cent owing mainly to a decline in world prices while earnings from tea fell marginally by less than one per cent due to fall in export volume. The value of horticultural exports rose by 18.1 per cent entirely on account of better export prices that it fetched during the year. Only wattle extract, fluorspar, animal feeds and footwear registered increases in earnings as a result of an increase in both price and quantity. The quantity of fish and related products exported increased by 11.3 per cent, which was however not enough to offset the decrease in its export price. Cement, and iron and steel recorded significant reductions in export earnings for the second consecutive year. Other exports that recorded significant reduction in export earnings were meals and flour of wheat, animal and vegetable oils, beer, paper and paperboard, and insecticides and fungicides.

Composition of Imports

7.18. A part from non-food industrial supplies and consumer goods not elsewhere specified, all other import categories declined as shown in Table 7.9. Imports of industrial supplies was the major import category accounting for 34.5 per cent of total imports in 1999, up from 33.8 per cent in 1998. Transport equipment imports declined by 5.3 per cent with passenger motor vehicle as the only item in this category, which recorded an

increase. Import of parts and accessories and other industrial transport equipment fell by 4.3 per cent and 9.1 per cent respectively. The 25.4 per cent decrease in primary fuel and lubricants may be attributed to a 26.3 per cent decrease in the value of crude petroleum imported. On the other hand, imports of primary food and beverages for industry increased by 22.8 per cent, while those for household consumption decreased by 10.6 per cent. Generally, imports of food and beverages dropped by 11.0 per cent.

Table 7.9: TOTAL IMPORTS BY BROAD ECONOMIC CATEGORY, 1995 - 1999

K£million

	1995	1996	1997	1998	1999*
1. FOOD AND BEVERAGES	351.13	647.84	631.36	850.53	757.24
Primary	152.00	343.09	266.50	292.34	346.48
For Industry	134.95	326.05	226.91	255.04	313.15
For Household Consumption	17.05	17.04	39.59	37.3	33.34
Processed	199.13	304.75	364.86	558.19	410.76
For Industry	113.89	142.95	182.25	251.21	165.15
For Household Consumption	85.24	161.80	182.61	306.98	245.60
2. INDUSTRIAL SUPPLIES (Non-Food)	3,042.52	3,083.57	3,789.28	3,345.49	3,368.10
Primary	112.71	213.45	766.66	453.64	250.95
Processed	2,929.81	2,870.13	3,022.62	2891.85	3,117.16
3. FUEL AND LUBRICANTS	1,006.78	1,355.48	1,477.89	1,595.56	1,512.35
Primary	590.33	700.36	867.95	763.63	569.51
Processed	416.45	655.12	609.94	831.93	942.84
Motor Spirit	75.43	127.42	128.51	225.14	165.13
Other	341.02	527.70	481.43	606.79	777.71
4. MACHINERY AND OTHER CAPITAL EQUIPMENT	1,493.80	1,529.68	1,612.31	1,743.34	1,686.95
Machinery and Other Capital Equipment	1,079.01	656.97	1,181.22	1329.34	1,204.15
Parts and Accessories	414.79	872.71	431.09	414.00	482.80
5. TRANSPORT EQUIPMENT	1,318.81	1,214.92	1,375.25	1,549.91	1,467.28
Passenger Motor Vehicles	394.94	605.46	314.68	322.94	330.90
Other	611.73	569.89	749.65	826.52	753.02
Industrial	578.60	543.48	722.71	787.15	715.47
Non-Industrial	33.13	26.41	26.94	39.37	37.55
Parts and Accessories	312.14	39.57	310.92	400.45	383.36
6. CONSUMER GOODS NOT ELSEWHERE SPECIFIED	533.55	575.42	613.38	776.25	900.51
Durable	110.08	174.86	118.50	136.47	202.64
Semi-Durable	99.64	265.00	125.45	162.36	199.26
Non-Durable	323.83	135.56	369.43	477.42	498.61
7. GOODS NOT ELSEWHERE SPECIFIED	11.82	17.40	34.21	28.35	57.76
TOTAL	**7,758.41**	**8,424.31**	**9,533.68**	**9,889.43**	**9,750.19**
PERCENTAGE SHARES:					
1. Food and Beverages	4.53	7.69	6.62	8.60	7.77
2. Industrial Supplies (Non-Food)	39.22	36.60	39.75	33.83	34.54
3. Fuel and Lubricants	12.98	16.09	15.50	16.13	15.51
4. Machinery and other Capital Equipment	19.25	18.16	16.91	17.63	17.30
5. Transport Equipment	17.00	14.42	14.43	15.67	15.05
6. Consumer Goods not elsewhere specified ..	6.88	6.83	6.43	7.85	9.24
7. Goods not elsewhere specified	0.15	0.21	0.36	0.29	0.59
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

* Provisional

7.19. Import values of selected commodities presented in Table 7.10 reflect a general decrease. Although import of industrial machinery declined by 2.9 per cent, it continues to be the leading import consuming 15.6 per cent of total imports bill in 1999. For the second year in a row, the value of refined petroleum imported exceeded that of crude petroleum reflecting the comparatively lower prices for refined petroleum products in the world market. The gap widened in 1999 when compared to 1998 as the former rose by 13.9 per cent to stand at K£ 929.7 million from K£ 815.9 million while the latter decreased by 26.3 per cent from K£ 751.8 million to K£ 554.4 million. Maize and sugar imports recorded the largest declines of 81.0 per cent and 68.4 per cent respectively. Value of imported sugar dropped from to K£ 211.6 million in 1998 to K£ 66.8 million in 1999. The drastic drop could be attributed to measures put in place to curb importation of cheap sugar into the local market without paying the necessary imports duty. Fertilizer import value recorded a significant increase of more than half while import value for agricultural machinery and tractors dropped by 18.1 per cent.

Table 7.10: SELECTED IMPORTS, 1995 - 1999

Table 7.10 K£million

Commodity	1995	1996	1997	1998	1999*
Crude Petroleum	579.63	675.20	841.25	751.82	554.35
Industrial Machinery	1,303.21	1,323.22	1,400.70	1,563.08	1,517.79
Iron and Steel	513.10	481.68	537.94	394.98	456.84
Motor Vehicle and Chassis	932.98	790.10	716.45	734.29	594.37
Petroleum Products refined	419.62	648.18	609.44	815.89	929.65
Artificial Resins and Plastic Materials, and Cellulose Esters and Ethers ..	462.80	364.07	366.87	356.38	353.20
Pharmaceauticals	237.38	257.84	278.15	327.97	318.93
Fertilizers	120.56	241.37	218.94	175.79	274.61
Agricultural Machinery and Tractors ..	88.61	88.91	75.32	76.85	62.95
Wheat	116.97	318.88	210.22	239.72	294.94
Paper and Paper Products	234.51	204.96	203.00	169.69	162.72
Rice	22.44	34.94	49.11	45.89	51.94
Sugars, Mollases and Honey	53.03	86.65	71.03	211.60	66.81
Maize	6.37	3.64	630.94	237.88	45.28
Synthetic fibres suitable for spinning	59.52	56.75	62.17	64.62	70.31
Vegetable oils and fats	351.99	372.14	367.57	398.11	411.21
Insecticides, Fungicides, Disinfectants, etc ..	102.12	110.29	122.48	165.24	144.21
Footwear	10.56	18.01	16.59	22.24	19.09
All other Commodities	2,143.02	2,347.48	2,755.51	3,137.39	3,420.99
Total	7,758.42	8,424.31	9,533.68	9,889.43	9,750.19

* Provisional

Import Duty

7.20. Table 7.11 shows values of import duty collected on commodities classified by Standard International Trade Classification (SITC) sections. In 1999, import duty collected rose by 6.6 per cent to K£ 1,321.5 million despite a marginal drop in total imports. The amount realized from mineral fuels and machinery and transport equipment jointly stood at K£ 653.0 million, constituting 49.4 per cent of the total amount collected.

Table 7.11: IMPORT DUTY 1995-1999

Table 7.11 K£ million

SITC (Sections)	1995	1996	1997	1998	1999*
Food and live animals..	60.59	98.96	106.10	209.93	213.20
Beverages and tobacco..	12.08	5.06	5.60	5.51	6.48
Crude materials, inedible,except fuels..	22.55	14.37	18.11	37.27	37.56
Mineral fuels..	196.67	221.19	211.04	294.88	315.39
Animal and vegetable oils and fats..	61.78	44.31	39.78	40.44	41.32
Chemicals..	125.91	93.55	85.65	83.82	87.05
Manufactured goods	244.68	169.90	161.63	170.18	195.73
Machinery and transport equipment..	474.24	321.21	329.48	333.96	337.62
Miscellaneous manufactured articles..	50.65	52.28	54.18	64.15	87.09
Miscellaneous transactions and commodities... ...	0.23	0.00	0.04	0.00	0.02
Total..	1,249.39	1,020.83	1,011.61	1,240.15	1,321.46

Source: Annual Trade Reports-Customs and Excise Department.

* Provisional

Direction of Trade

7.21. As depicted in Table 7.12, African countries continue to be the major market for Kenya's exports followed by the European union (EU). However, exports to African countries declined marginally by less than one per cent, reflected in the decrease in the share of exports to the region from 47.3 per cent in 1998 to 46.5 per cent in 1999. Exports to the EU increased by 4.8 per cent as those to Asia increased by 3.8 per cent accounting for 31.3 per cent and 17.0 per cent of total exports respectively.

7.22. Among the EU countries, United Kingdom continues to be the leading market for Kenya's exports, with a market share of 44.4 per cent of exports to the region. For two consecutive years, UK emerged as the second leading destination for Kenya's exports after Uganda, thereby displacing Tanzania. Exports to United Kingdom, Uganda and Tanzania jointly stood at K£ 2,586.4 million accounting for 42.4 per cent of total exports. Pakistan absorbed nearly 60 per cent of Kenyan exports to the Far East, which stood at K£ 766.7 million. Exports to South Africa almost dropped by half in 1999 as exports to Tanzania tumbled by 15.3 per cent despite the continued promotion of intra-East African trade by the East African Community.

7.23. The origin of imports is shown in Table 7.13. Imports from the Middle East, which have been rising since 1995, slowed down in 1999 by 10.4 per cent. Although the EU remains Kenya's main source of imports, the value of imports from the region declined from K£ 3,244.9 million in 1998 to K£ 3,197.9 in 1999. Imports from South Africa, which declined by 34.7 per cent in 1998, recorded a growth of 20.8 per cent from K£ 709.9 million in 1998 to K£ 857.3 million in 1999, equivalent to 8.8 per cent of total imports. Share of imports from the EU generally has continued to show a steady decline since 1996.

Table 7.12: DESTINATION OF TOTAL EXPORTS *, 1995 - 1999

K£million

	1995	1996	1997	1998	1999**
EUROPE					
WESTERN EUROPE:					
European Union.					
Belgium..	98.88	109.18	93.68	85.23	78.11
Finland	38.07	48.82	57.97	24.00	28.07
France	91.94	99.07	128.53	94.49	114.68
Germany, ...	369.44	441.02	382.56	277.51	289.50
Italy	80.25	103.04	112.70	87.38	81.94
Netherlands	214.59	319.14	284.63	264.22	307.08
Spain	40.57	68.41	44.69	37.82	28.04
Sweden	68.55	59.35	90.67	71.39	67.53
United Kingdom	487.73	616.98	694.18	811.38	849.19
Other	69.06	96.75	81.57	70.36	66.32
TOTAL	1,559.08	1,961.76	1,971.18	1,823.78	1,910.46
Other Western Europe	40.17	60.17	69.73	40.87	49.17
TOTAL	1,599.25	2,021.93	2,040.91	1,864.65	1,959.63
EASTERN EUROPE:					
Poland	3.14	8.24	12.19	13.67	17.74
Romania	0.30	1.90	1.00	0.54	0.55
Other	1.87	5.26	4.19	3.62	12.33
TOTAL	5.31	15.40	17.38	17.83	30.62
TOTAL, EUROPE	1,604.56	2,037.33	2,058.29	1,882.48	1,990.25
AMERICA					
U.S.A	131.66	158.82	170.07	152.83	133.44
Canada	31.02	32.40	29.64	30.71	21.97
Other	0.66	432.49	2.96	5.27	4.59
TOTAL	163.34	623.71	202.67	188.81	160.00
AFRICA					
South Africa	135.30	119.24	53.75	46.90	23.65
Tanzania	631.02	758.25	823.03	805.82	682.74
Uganda	766.70	953.18	909.77	973.32	1,054.44
Other***	843.75	930.34	984.97	1,037.15	1,077.11
TOTAL	2,376.77	2,761.01	2,771.52	2,863.19	2,837.94
ASIA					
MIDDLE EAST:					
Iran	12.05	63.13	37.56	50.30	22.69
Israel	21.99	33.70	40.59	43.28	44.07
Jordan	6.31	6.32	3.21	4.81	6.84
Saudi Arabia	27.30	21.71	18.09	24.40	29.06
United Arab Emirates ..	33.44	26.59	45.43	67.28	96.09
Other	11.34	37.72	47.71	50.40	74.78
TOTAL	112.43	189.17	192.59	240.47	273.53
FAR EAST					
China(Mainland)	3.86	2.79	1.79	3.92	13.66
India	34.56	36.44	59.35	91.23	87.39
Indonesia	4.71	6.19	3.11	4.02	5.97
Japan	32.89	47.86	44.34	47.03	52.09
Korea South	7.73	4.12	15.73	8.94	3.45
Pakistan	317.76	261.65	258.61	412.78	453.05
Singapore	13.45	78.04	38.27	27.68	20.78
Other	115.57	172.70	185.25	165.91	130.33
TOTAL	530.53	609.79	606.45	761.51	766.72
TOTAL, ASIA	642.96	798.96	799.04	1,001.98	1,040.25
AUSTRALIA & OCEANIC					
Australia	11.61	20.59	19.02	18.83	29.37
Other	0.59	4.01	4.57	15.51	3.36
TOTAL	12.20	24.60	23.59	34.34	32.73
All Other Countries	32.83	18.75	0.76	11.28	5.09
Aircraft and Ships Stores	44.34	85.15	120.94	71.07	27.59
Export Processing Zones	2.81	17.58	35.48	18.17	11.79
TOTAL	79.98	121.48	157.18	100.52	44.47
ALL EXPORTS	4,866.95	5,910.00	6,022.26	6,059.03	6,105.63

* Excluding gold and currency but including Re-Exports.

** Provisional

*** See Table 7.14 for details

Table 7.13: ORIGIN OF TOTAL IMPORTS, 1995 - 1999

K£million

	1995	1996	1997	1998	1999*
EUROPE					
WESTERN EUROPE:					
European Union.					
Belgium..	425.06	259.25	176.71	155.50	150.40
Finland	44.98	45.84	50.55	78.87	74.50
France	348.72	412.89	355.50	401.59	327.24
Germany, ...	528.62	512.28	636.40	556.93	557.88
Italy	456.99	274.68	231.75	255.17	248.10
Netherlands	222.06	239.21	237.97	269.82	251.85
Spain	46.83	63.37	85.38	51.49	116.79
Sweden	68.70	82.94	80.46	78.43	84.53
United Kingdom	980.51	1,113.23	1,077.85	1,217.73	1,156.72
Other	102.79	186.17	166.87	179.39	229.86
Total	3,225.26	3,189.86	3,099.44	3,244.92	3,197.88
Other Western Europe	132.51	179.35	138.78	128.75	174.31
TOTAL..	3,357.77	3,369.21	3,238.22	3,373.67	3,372.19
EASTERN EUROPE:					
Poland	7.97	6.55	5.17	2.22	2.50
Romania	17.10	17.40	20.81	6.30	8.47
Other	44.66	80.56	84.86	105.82	154.65
Total	69.73	104.51	110.84	114.34	165.62
TOTAL, EUROPE	3,427.50	3,473.72	3,349.06	3,488.01	3,537.81
AMERICA					
U.S.A	323.06	440.10	705.49	825.46	662.61
Canada	31.98	89.61	79.65	69.66	86.80
Other	139.42	75.91	125.66	392.59	199.84
TOTAL	494.46	605.62	910.80	1,287.71	949.24
AFRICA					
South Africa	601.35	638.63	1,087.66	709.88	857.33
Tanzania	31.10	46.40	43.23	30.50	23.99
Uganda	8.03	1.48	23.36	2.99	15.35
Other**	60.98	118.44	283.85	110.06	199.24
TOTAL	701.46	804.95	1,438.10	853.43	1,095.91
ASIA					
MIDDLE EAST:					
Iran	26.83	6.08	34.56	27.73	67.27
Israel	62.18	70.52	81.13	72.79	71.55
Jordan	0.21	0.06	0.12	6.36	1.69
Saudi Arabia	282.23	423.49	510.80	619.22	557.61
United Arab Emirates	520.33	693.12	950.61	890.51	734.79
Other	109.07	165.68	57.10	178.56	171.49
Total	1,000.85	1,358.95	1,634.32	1,795.17	1,604.40
FAR EAST					
China	159.61	145.30	185.87	206.95	241.04
India	416.14	480.64	410.47	432.43	446.94
Indonesia	179.68	332.60	315.83	153.00	82.48
Japan	852.93	625.41	718.02	783.75	763.22
Korea South	83.82	115.90	89.75	132.35	159.93
Pakistan	19.86	27.50	50.38	50.28	30.54
Singapore	85.99	111.26	98.73	66.56	214.22
Other	303.71	469.76	201.04	484.48	453.14
Total..	2,101.74	2,308.37	2,070.09	2,309.80	2,391.50
TOTAL	3,102.59	3,667.32	3,704.41	4,104.97	3,995.90
AUSTRALIA & OCEANIC					
Australia	24.22	82.33	102.93	86.23	134.62
Other	1.79	2.35	6.30	17.59	6.85
TOTAL	26.01	84.68	109.23	103.82	141.46
All Other Countries N.E.S.	2.27	2.22	0.74	9.61	18.65
Aircraft and Ships Stores	0.00	0.05	13.57	17.15	0.66
Export Processing Zones	4.13	0.40	7.77	13.53	10.56
TOTAL	6.40	2.67	22.08	40.29	29.87
GRAND TOTAL	7,758.42	8,424.31	9,533.68	9,889.43	9,750.19

* Provisional.

** See table 7.14 for details

Table 7.14: TRADE WITH AFRICAN COUNTRIES, 1995 - 1999

K£'000

	EXPORTS					IMPORTS				
	1995	1996	1997	1998	1999*	1995	1996	1997	1998	1999*
COMESA										
EAC										
Tanzania ..	631,021	758,254	823,028	805,818	682,739	31,100	46,399	43,228	30,502	23,988
Uganda ..	766,703	953,177	909,772	973,317	1,054,436	8,032	1,485	23,361	2,987	15,351
Sub-Total	1,397,724	1,711,430	1,732,800	1,779,135	1,737,175	39,132	47,884	66,589	33,489	39,339
Others										
Angola ..	170	2,214	751	691	1,850	-	-	7	13	162
Burundi ..	22,692	22,344	15,721	13,680	39,714	2,308	158	9	-	378
Comoros ..	5,556	8,821	9,799	9,743	21,778	220	-	-	-	-
Congo, D.R ...	79,279	104,350	123,591	100,739	101,481	4,378	1,959	9,322	377	4,435
Djibouti ..	3,687	4,671	10,093	8,015	6,028	261	688	401	140	880
Egypt*** .	149,030	214,776	153,110	284,682	335,570	13,191	18,043	13,287	12,161	68,658
Eritrea	-	3,906	2,787	11,435	10,289	-	-	20	2,518	301
Ethiopia ..	168,454	116,391	108,621	76,752	70,685	174	144	30,515	3,524	352
Madagascar	1,342	7,989	8,205	6,388	2,882	71	861	368	142	111
Malawi ..	7,756	15,227	19,966	20,534	16,847	562	87	274	314	1,046
Mauritius ..	22,190	28,734	40,819	20,442	9,501	5,606	8,088	13,237	29,514	24,013
Namibia	336	207	188	112	180	93	952	176	509	2,482
Rwanda ..	161,281	117,220	189,030	151,861	155,614	263	276	8,661	425	177
Seychelles	6,625	11,171	11,690	7,234	6,602	2,877	150	409	183	32
Sudan ..	61,760	70,986	98,628	149,477	132,284	124	71	16,946	5,153	694
Swaziland ..	23	57	293	769	44	958	149	964	4,539	6,973
Zambia ..	9,173	10,372	13,940	11,426	7,088	8,957	13,208	7,455	6,345	10,746
Zimbabwe ..	6,555	16,540	26,003	27,207	16,068	11,300	13,753	164,771	25,786	18,657
Sub-Total	705,909	755,976	833,234	901,189	934,505	51,343	58,586	266,823	91,643	140,099
Total, COMESA	2,103,633	2,467,406	2,566,034	2,680,323	2,671,680	90,475	106,469	333,412	125,132	179,438
Other Countries										
Algeria & Libya	315	1,959	3,255	791	876	23	50,056	-	187	317
Ghana & Nigeria	9,053	15,901	8,985	8,482	8,960	3,421	4,013	6,000	4,092	4,644
Lesotho ..	100	60	503	-	8.19	163	20	29	-	-
Mozambique	4,133	12,713	6,037	2,789	2,209	80	-	6,998	348	4,529
Reunion ..	15,881	13,496	12,295	15,139	17,691	96	65	15	9	314
Somalia ..	94,398	117,066	100,022	92,117	101,255	869	364	31	152	55
South Africa	135,302	119,239	53,753	46,896	23,650	601,354	638,631	1,087,662	709,880	857,330
All Other African Countries ..	13,953	13,174	20,635	16,658	11,607	4,975	5,328	3,949	13,630	49,278
TOTAL	273,135	293,608	205,485	182,871	166,257	610,981	698,478	1,104,683	728,299	916,467
TOTAL AFRICA	2,376,768	2,761,013	2,771,519	2,863,194	2,837,937	701,456	804,947	1,438,095	853,431	1,095,905
Percentage of all Exports/Imports	48.8	46.7	46.0	47.3	46.5	9.0	9.6	15.1	8.6	11.24

* Provisional

*** Egypt joined COMESA in 1998

7.24. Table 7.14 gives a breakdown of trade with African countries with particular emphasis to the Common Market for Eastern and Southern Africa (COMESA) member states. Kenya's exports to the COMESA region which has been on the upward trend since 1995, virtually remained at their 1998 level. Exports to the COMESA region accounted for 43.8 per cent of total exports in 1999 compared to 46.5 per cent for the whole of Africa. Uganda, Tanzania and Egypt jointly absorbed 77.6 per cent of total exports to the COMESA region. Major exports to Uganda were sugar and sugar products, salt, refined petroleum products, iron and steel, medicaments, paper and paper products, and shoes. Major exports to Tanzania were maize, sugar and sugar products, margarine, refined petroleum products, animal and vegetable oils and fats, essential oils, iron and steel and shoes. Tea and fish were the main exports to Egypt. Exports to Somalia which has been declining since 1997, increased by 9.9 per cent in 1999. Main exports to Somalia were manufactured tobacco, tea and refined coconut and palm oil.

7.25. Imports from the African region were valued at K£ 1,095.9 million or 11.2 per cent of total imports. Imports from COMESA region increased by 43.4 per cent in 1999 compared to 1998 owing to a huge increase of imports from Egypt, which constituted 38.3 per cent of imports from the region. South Africa continued to be the leading source of Kenya's imports, accounting for 78.2 per cent of imports from the continent. Overall, the balance of trade between Kenya and African countries was in favor of Kenya with exports cover ratio of about two and a half times. Major imports from South Africa were milk and milk products, maize, fertilizers, iron and steel, sugar, refined petroleum products, and motor vehicles. Rice, gypsum, animal or vegetable oils and fats, fertilizers, iron and steel bars and tyres were the main imports from Egypt.

Balance of Payments

7.26. Balance of payments estimates presented in this section are based on the revised Balance of Payments Manual, fifth edition, including definitional treatment of transfers, which were not made in 1999 presentation. In this regard grants which are linked to, or conditioned upon the acquisition of fixed assets or projects are now classified under the capital account as capital transfers, previously classified in the current transfers account.

7.27. Table 7.15 summarizes balance of payments outturn. The overall balance of payments deteriorated further to a surplus of K£ 212.0 million in 1999 from a surplus of K£ 228.7 million in 1998. These developments in the balance of payments position resulted from a decline in the performance of capital and financial account which more than offset the significant improvement in the current account.

7.28. The current account recorded a surplus of K£ 38.9 million in 1999 from a deficit of K£ 1,440.3 million in 1998. The current account improved owing mainly to the improvement on the services account which was in-turn due to increased inflow of private external grants and tourism earnings. The visible trade deficit narrowed to K£ 2,915.8 million in 1999 compared to a deficit of K£ 3,053.6 million in 1998 while the invisible trade balance recorded a surplus of K£ 2,954.7 million in 1999 compared to a surplus of K£ 1,613.3 million in 1998.

7.29. Capital and financial account surplus dropped to K£ 633.9 million in 1999 from a surplus of K£ 1,951.3 million in 1998. The deterioration in the capital and financial account was mainly occasioned by the increase in official long-term capital outflows, decline in official long-term capital inflows and a decrease in private long-term capital net inflows.

7.30. Changes in balance of payments magnitudes are summarized in Table 7.16. During the year, adjusted exports of goods earnings magnitude increased marginally by K£ 32.1 million while for adjusted imports fell by K£ 105.8 million. Net service and income earnings grew by K£ 691.4 million mainly due to increased earnings from transportation and tourism. Also, net current transfer expanded by K£ 650.0 million. All these developments resulted in a substantial increase of K£ 1,479.2 million in the current account. Declines were recorded in the capital account, portfolio investment account and other investment long-term account.

Table 7.16: CHANGES IN KENYA BALANCE OF PAYMENTS MAGNITUDES*, 1996 - 1998

K£million

		1996	1997	1998	1999*
1.	Exports Goods	+1,002.54	+107.42	+31.21	+32.05
2.	Imports Goods	-563.34	-1,238.60	-483.34	+105.74
3.	Services & Income (net)	+56.68	-25.21	+313.94	+691.40
4.	Current Transfers (net)	+323.88	+299.83	+39.34	+649.99
5.	Changes on current account	+819.76	-856.82	-98.86	+1,479.20
6.	Capital account	-0.12	-93.31	+29.00	-59.85
7.	Direct investment	-45.67	+13.67	-17.02	+14.14
8.	Portfolio investment	+6.18	+78.79	-96.34	-32.00
9	Other investment	+1,084.35	-709.75	+745.17	-1,239.78
	Long term	+38.18	-484.60	+189.15	-721.33
	Short term	+1,046.17	-225.15	+556.02	-518.33
10.	Errors and ommision (net)	-340.31	+748.38	-669.45	-178.47
11.	Net change on all above items (5 - 10) (Monetary movements)	+1,524.19	-819.04	-107.50	-16.77

* Provisinal.

\1. A positive entry indicates a change that improves the balance of payments outcome; a negative indicates a change worsening the BOP outcome. Thus, an increase in imports or reduction in exports are marked as negative entries.

\2. Exports and imports of goods are derived from Goods Account.

International Liquidity

7.31. Foreign exchange reserves of the Monetary Authorities are summarized in Table 7.17. The international reserve assets consist of external assets available to and controlled by the monetary authorities for financing external obligations and regulating the size of imbalances through foreign exchange market.

7.32. Total net foreign reserves held by the central bank steadily increased but with some fluctuations during the year to reach K£ 2,234 million by end of December 1999 from K£ 1,745 million in December 1998. Use of Fund credit, which stood at K£ 601 million in 1998, decreased gradually to stand at K£ 573 million in 1999. The total liability of the banking system stood at K£ 709 million at the end of 1999. The government reserve position in the IMF increased from K£ 53 million in 1998 to K£ 64 million by the close of the year.

7.33. The performance of the shilling in the foreign exchange market is shown in Table 7.18. The Shilling weakened against the US dollar, Sterling Pound and 100 Japanese yen by 17.8 per cent, 14.6 per cent and 33.2 per cent in 1999, respectively. However, the Shilling appreciated by 15.1 per cent against the Belgium Franc, and depreciated marginally by 1.8 per cent against the Deutsche Mark. By the end of the period, the Shilling exchanged at Ksh.100.4 from Ksh. 86.7 in 1998 to the SDR and Ksh. 73.4 to the Euro. Overall, the Shilling weakened against all the selected currencies as reflected in the trade weighted exchange rate index, which rose by 11.8 per cent from 542.9 in 1998 to 606.9 in 1999.

Table 7.18: FOREIGN EXCHANGE RATES OF KENYA SHILLING FOR SELECTED CURRENCIES, 1993 - 1999

CURRENCY	31st Dec. 1993	31st Dec. 1994	31st Dec. 1995	31st Dec. 1996	31st Dec. 1997	31st Dec. 1998	31st Dec. 1999
1 US Dollar	68.1630	44.8390	55.9390	55.0211	62.6778	61.9056	72.9306
1 Pound Sterling	100.9160	69.9490	86.5590	93.0495	103.9223	103.0364	118.1058
1 Deutsche Mark	39.2980	28.8890	38.9300	35.3431	35.0413	36.8852	37.5535
1 French Franc	11.5670	8.3730	11.4070	10.5058	10.4726	11.0014	11.1969
1 Swiss Franc	46.0560	34.1350	48.5040	40.8195	43.1151	44.8502	45.7615
1 Dutch Guilder	35.1270	25.7780	34.7650	31.5221	31.0739	32.7275	33.3259
1 Swedish Kroner	8.1930	6.0300	8.3910	7.9967	7.9299	7.6254	8.5658
1 Norwegian Kroner	9.0710	6.6010	8.8160	8.5385	8.5692	8.1745	9.0868
1 Zambian Kwacha** ..	0.1030	0.0650	..	..	..	0.0353	0.0274
1 Austrian Schilling	5.5940	4.1150	5.5430	5.0433	4.9804	5.2449	5.3376
1 Belgian Franc	1.8990	1.4080	1.8950	1.7239	1.7037	1.7965	1.5257
1 Danish Kronor	10.0770	7.3660	10.0710	9.1951	9.1942	9.6941	9.8533
1 Canadian Dollar	51.3080	31.9310	41.0900	40.1700	43.7286	40.1036	50.2010
1 Finish Marka	11.7800	9.4470	12.8130	11.8523	11.5478	11.7583	12.3474
1 Australian Dollar**	46.1740	34.5420	..	43.8243	40.9106	38.0010	47.6820
100 Japanese Yen	60.9140	44.9530	54.3800	47.3897	48.2813	53.6138	71.4283
100 Italian Lira	3.9880	2.7660	3.5480	3.6003	3.5813	3.7387	3.7883
1 Indian Rupee	2.1730	1.4340	1.6090	1.5391	1.6060	1.4584	1.6764
1 Pakistan Rupee**	..	1.4420	..	1.3818	1.4085	1.3457	1.4131
100 Burundi Francs** ..	25.8500	18.1700	..	..	15.3500	12.2500	11.6024
100 Rwanda Francs** ..	46.7400	32.3200	..	..	20.5700	19.2831	20.8653
Overall Weighted Index* 1982=100	600.00	419.83	551.56	510.72	527.18	542.89	606.91

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

** Via Us$ Exchange Rates (Austrialian, Pakistan, Zambia, Rwanda and Burundi).

.. not available

Export Market Developments

Trade Policy Facilitation and Regulatory Framework

7.35. The Export Promotion Council (EPC) in 1999 focused on the identification of trade obstacles, tariffs and non-tariffs, which continue to constrain the performance of the export sector. Some of the strategies on how to counter the obstacles in order to enhance the development of the export sector were proposed for consideration during the next budget.

7.36. The council undertook the following activities in 1999: revised the draft "Road Maps for Exporters and Investors" within the pronouncements in the 1999/2000 Budget speech; participated in various activities on cross border initiative, WTO, ITC and

UNCTAD. It also organized a workshop to discuss various policy studies and the draft Business Charter and Code of Conduct for Business and Commerce in Kenya.

Trade Information Delivery

7.37. The Centre for Business Information in Kenya is now fully operational. It offers the following services, among others: trade and market data; Road Maps for investors/exporters; Business Charter and Code of Conduct for Business and Commerce in Kenya; Kenya economic data; sources of raw materials, and information on business support services including sign-posting to other sources of information. These information are available to investors/exporters on both hard and soft copies.

Enhancing International Market

7.38. To broaden Kenya's international market, the objectives of the EPC is to consolidate Kenya's position in its major markets, to identify and introduce new products into the existing markets, and to formulate appropriate strategies to penetrate new markets. In pursuance of these objectives, exporters of commercial crafts and fish were assisted to organize themselves into professional associations during the year. This culminated in the formation of two trade associations namely: Association of Makers and Exporters of Gift and Allied Articles of Kenya (AMEGA); Association of Fish Processors and Exporters of Kenya (AFIPEK). Concerted efforts were made in promoting service export such as banking services and other services by professionals.

7.39. During the year 1999, the following Market Development activities were undertaken: COMESA Trade Exhibition (COMESATEX) in Nairobi, May 1999; EPC sensitized Kenya's business community to participate in the African Exhibition in Japan, in October 1999; and Mwanza Tanzania Solo Exhibition, December 1999.

Product Development and Adaptation

7.40. Kenya has over the years been dependent on a few traditional exports namely tea, horticulture, coffee, petroleum products and tourism earnings which accounted for 65 per cent of export earnings in 1999. The products experience price fluctuations and are increasingly faced with competition. The main goal of activities under the Product Development and Adaptation pillar is to assist both producers and exporters to develop and adapt their products to suit specific market requirements; to enhance quality standards of exports; to increasingly add value; to adopt appropriate technology; and to style and design products in accordance with market requirements. Towards this end, the EPC undertook various activities related to packaging/handling of fresh produce, held several seminars and workshops especially for the horticultural sector and fish industry.

Conclusion

7.41. Kenya's huge trade deficit has been widening and the trend is expected to continue for the next three years. Primary products dominate domestic exports. Moreover, the range of exported goods is narrow and their income elasticity of demand low, and therefore, demand is low in expanding, it would therefore seem counter productive to

allocate more factors of production to the existing export items as the effect will continue to reduce prices and worsen the terms of trade, accompanied by diminishing returns in the export sector and hence reduced income. The scenario will impact negatively in the general living standards.

7.42. The current account is also projected to continue recording deficits, and with the expected outflows in the form of debt repayments and uncertain future of capital inflows, Kenya may experience severe balance of payments difficulties in the next three years. This will impact negatively on the economic growth and lead to worsening of poverty levels. The ultimate solutions is to improve the balance of payments through increased international trade, as there is a better correlation between exports performances and economic growth.

CHAPTER 8 - AGRICULTURE

Overview

Gross Domestic Product growth in the agricultural sector decelerated from 1.5 per cent in 1998 to 1.2 per cent in 1999. Overall output at current prices declined from K£ 8,154.3 million recorded in 1998 to K£ 7,778.7 million in 1999. At constant prices, total value of agricultural output increased mainly due to higher production of coffee, pyrethrum, sisal, rice and dairy produce. In 1999, the value of marketed production declined partly as a result of declines in prices of tea and coffee while those of sugarcane, pyrethrum, seed cotton and sisal remained virtually static. However, the prices of centrally marketed maize and wheat recorded price increases of 7.9 per cent and 7.4 per cent respectively. In 1999, the National Cereals and Produce Board (NCPB) purchased 192.9 thousand tonnes of maize from farmers to boost its strategic reserves and for relief purposes. However, the country experienced maize production deficits coupled with drought in other areas. This led to importation of 73.5 thousand tonnes of maize for relief and commercial purposes. Poor wheat producer prices in 1998 impacted negatively on wheat production in 1999. In addition, the armyworms invasion on the wheat farms in 1999 resulted in massive on farm crop losses. As a result, recorded wheat production declined by 68.7 per cent from 177.1 tonnes in 1998 to 55.4 thousand tonnes in 1999. Coffee production increased by 27.5 per cent to 68.1 thousand tonnes in 1998/99-crop year inspite of the internal wrangles in the coffee co-operatives sector which dominated for the better part of 1999 culminating in the splitting of giant coffee societies into smaller units. Tea production declined in 1999 due to lower precipitation when compared to 1998 when the 'El-nino' weather phenomenon was experienced. The quantity of horticultural exports rose by 26.4 per cent from 78.4 thousand tonnes in 1998 to 99.1 thousand tonnes in 1999. The value of horticultural exports rose by 48.8 per cent from K£ 486.5 million in 1998 to K£ 723.7 million in 1999.

Table 8.1: AGRICULTURAL OUTPUT AND INPUT, 1995 - 1999

K£million

	1995	1996	1997	1998	1999*
AT CURRENT PRICES-					
Total Output	6,367.15	6,778.60	7,580.71	8,154.32	7,778.71
Less Inputs	589.52	545.60	680.77	753.41	781.90
Value Added	5,777.63	6,233.00	6,899.94	7,400.91	6,996.81
AT CONSTANT (1982) PRICES-					
Total Output	1,316.10	1,353.67	1,350.95	1,378.82	1,399.96
Less inputs	142.74	128.32	113.39	122.74	128.71
Value Added	1,173.36	1,225.35	1,237.56	1,256.08	1,271.25

* Provisional.

8.2. The contribution to GDP by the agricultural sector is shown in Table 8.1. It should be noted that since liberalization, new marketing outlets have emerged which may not have been fully captured. All that notwithstanding, total value of agricultural output at current prices declined by 4.6 per cent while total input at current prices increased by 3.8 per cent. At constant prices, total value of agricultural output increased by 1.5 per cent while total input at constant prices increased by 4.9 per cent (Table 8.1). The increase in output at constant prices arose from increases in production of coffee, pyrethrum, sisal, rice and dairy produce.

Marketed Production

8.3. The year witnessed a decline in the value of the marketed production by 13.5 per cent from K£ 4,240.1 million in 1998 to K£3,665.6 million in 1999 as shown in Table 8.2. Livestock and livestock products recorded a value increase of 6.6 per cent. Dairy produce sold centrally increased by 42.9 per cent from 126 million litres in 1998 to 180 million litres sold in 1999. This is a reflection of greater private sector participation in milk marketing. The value for 'Total Crops' decreased by 17.6 per cent and could be attributed to the drop of 23.9 per cent and 20.6 per cent in value of marketed coffee and tea, respectively. In 1999, the auction prices of tea and coffee declined by 39.2 per cent and 6.0 per cent respectively. On the other hand, the value of marketed cereals declined by 20.1 per cent from K£ 339.0 million in 1998 to K£ 270.7 million in 1999. This is mainly due to a decline in wheat production arising from poor prices in 1998 coupled with the African armyworm infection. Pyrethrum, maize, and sisal registered increases of 15.9 per cent, 10.6 per cent and 9.8 per cent, respectively, in the recorded marketed production.

Table 8.2: RECORDED MARKETED PRODUCTION AT CURRENT PRICES, 1995 - 1999

K£million

	1995	1996	1997	1998	1999*
CEREALS-					
Maize	160.4	155.9	140.5	140.0	154.9
Wheat	81.6	105.7	109.9	149.3	50.3
Others	59.8	68.2	64.4	49.7	65.5
Total	301.8	329.8	314.8	339.0	270.7
TEMPORARY INDUSTRIAL CROPS-					
Sugar-cane	341.2	356.3	332.2	398.4	382.0
Pyrethrum	22.1	16.7	16.1	17.5	20.3
Others	30.4	45.2	64.6	83.1	96.3
Total	393.7	418.2	412.9	499.0	498.6
OTHER TEMPORARY CROPS	10.1	16.0	22.7	23.9	26.1
PERMANENT CROPS-					
Coffee	764.5	717.9	827.3	659.9	502.5
Tea	829.8	1,016.8	1,181.8	1,956.9	1,554.4
Sisal	26.7	27.3	39.3	39.8	43.7
Others	8.0	14.5	18.9	16.1	17.5
Total	1,629.0	1,776.5	2,067.3	2,672.7	2,118.1
TOTAL CROPS	2,334.6	2,540.5	2,817.7	3,534.6	2,913.5
LIVESTOCK AND PRODUCTS-					
Cattle and Calves ..	302.6	363.1	435.7	443.9	444.3
Dairy Produce ..	253.8	193.2	143.1	97.3	134.7
Chicken and eggs	73.1	69.2	67.2	70.0	71.6
Others	78.4	86.3	93.0	94.3	101.6
Total	707.9	711.8	739.0	705.5	752.2
GRAND TOTAL	3,042.5	3,252.3	3,556.7	4,240.1	3,665.6

* Provisional.

8.4. In the year under review, both the quantum and price indices of sales to marketing boards decreased by 6.9 points and 108.4 points, respectively. As shown in Table 8.3, the quantum index for cereals declined from 54.3 in 1998 to 35.6 in 1999, mainly due to a significant decline in wheat production. The decline of 211.7 points in the price index of permanent crops could be attributed to the lower prices offered in the world market for tea and coffee in 1999 compared to 1998. This resulted in the overall crop price index declining by 131 points.

8.5. Table 8.4 shows the average gross commodity prices to farmers. The year under review witnessed a decline in prices of coffee, tea, seed cotton and milk. In particular coffee prices declined by 39.2 per cent in 1999 compared to 1998. The prices of sugarcane, sisal and pyrethrum remained virtually static, while those of bacon pigs increased by 6.7 per cent in 1999.

Table 8.3: VOLUME AND PRICE INDICES OF SALES TO MARKETING BOARDS, 1995 - 1999

1982=100

		1995	1996	1997	1998	1999*
QUANTUM	Cereals	65.1	54.6	46.3	54.3	35.6
INDICES	Temporary Industrial Crops ..	93.3	104.0	91.9	96.7	96.1
	Permanent Crops	165.0	175.0	136.1	158.2	147.0
	TOTAL CROPS	137.2	143.9	112.3	131.3	120.5
	Livestock and Products	105.5	126.7	104.8	98.0	107.3
TOTAL GROSS MARKETED PRODUCTION		131.0	140.5	112.4	124.8	117.9
PRICE	Cereals	764.5	923.2	1,151.3	1,088.5	1,161.6
INDICES	Temporary Industrial Crops ..	665.2	646.4	650.7	792.4	794.0
	Permanent Crops	472.1	456.0	753.0	820.0	608.3
	TOTAL CROPS	503.9	563.7	804.4	861.0	729.9
	Livestock and Products	457.7	393.9	500.0	497.7	481.8
TOTAL GROSS MARKETED PRODUCTION		527.5	533.7	733.8	789.4	681.0

* Provisional.

**Data on livestock is from slaughter houses

Table 8.4: AVERAGE GROSS COMMODITY PRICES* TO FARMERS, 1995 - 1999

KSh. per stated unit

	UNIT	1995	1996	1997	1998	1999**
Coffee	100kg	15,966.00	13,913.60	25,150.00	25,718.00	15,632.22
Tea	,,	6,786.80	7,908.00	10,680.00	13,300.00	12,500.00
Sisal	,,	1,915.00	1,915.00	3,891.00	3,973.90	3,989.92
Sugar-cane	Tonne	1,553.00	1,553.00	1,553.00	1,730.00	1,730.00
Pyrethrum (extract equivalent)	Kg	3,600.00	3,600.00	3,600.00	5,200.00	5,200.00
Seed Cotton	100Kg	1,720.00	2,136.00	2,000.00	2,096.00	2,000.00
Maize	,,	800.00	1,055.00	1,373.20	1,284.40	1,385.90
Wheat	,,	1,300.00	1,563.00	1,770.00	1,690.10	1,815.00
Beef (third grade)	,,	3,300.00	3,400.00	3,580.00	3,824.43	4,799.82
Bacon Pigs	,,	6,500.00	6,600.00	8,173.52	7,651.13	8,164.10
Milk	100 litres	1,450.00	1,250.00	1,450.00	1,549.00	1,494.00

* 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. Sales to marketing Boards witnessed a negative growth in 1999. Both small and large farms annual percentage growths declined by 13.5 per cent respectively. The share of small farms was 69.9 per cent in 1999. This reflects the continued importance of the small holder farms in overall output production.

Table 8.5: SALE TO MARKETING BOARDS FROM LARGE AND SMALL FARMS, 1995 -1999

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	
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
1999*	1,105.19	-13.58	2,560.44	-13.54	3,665.63	-13.55	69.85

* Provisional.

8.7. The quantum index for total material inputs rose marginally from 138.9 in 1998 to 143.2 in 1999. On the other hand, the price index for total material inputs declined marginally from 656.7 in 1998 to 647.2 in 1999. However, the price indices for fertilizers, fuel and power, and purchased seeds rose substantially by 81.5 points, 81.3 points and 185.8 points in 1999, respectively. The decline in the overall price index for material inputs is due to lower prices for manufactured feeds, bags and 'other material' inputs.

Table 8.6: AGRICULTURAL INPUT INDICES*, 1995 - 1999

1982=100

	1995	1996	1997	1998	1999**
QUANTUM INDICES-					
Fertilizers	128.0	115.2	124.7	99.6	87.0
Fuel and Power	121.8	129.1	114.9	118.4	116.3
Bags	104.5	110.9	133.3	135.6	140.1
Manufactured Feeds	342.0	273.6	240.4	232.3	245.0
Purchased Seeds	131.3	128.2	125.3	142.7	123.8
Other Material Inputs	101.6	100.3	101.5	104.6	109.8
Total Material Input	128.4	127.2	139.6	138.9	143.2
Service Inputs	113.2	120.8	115.7	127.3	128.6
TOTAL INPUTS	127.8	125.8	132.8	128.2	129.1
PRICE INDICES-					
Fertilizers	218.6	232.8	389.7	446.9	528.4
Fuel and Power	641.7	730.6	804.4	851.5	932.8
Bags	283.6	301.6	296.1	337.4	296.1
Manufactured Feeds	540.6	621.7	886.6	946.5	740.3
Purchased Seeds	830.6	937.4	1,166.8	1,679.7	1,865.5
Other Material Inputs	350.0	378.9	386.2	408.8	340.3
TOTAL MATERIAL INPUT	435.5	489.9	585.6	656.7	647.2
SERVICE INPUTS	220.1	230.4	250.0	265.0	286.2
TOTAL INPUTS	413.0	465.2	549.4	613.8	607.5

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

** Provisional.

8.8. Table 8.7 shows the value of purchased agricultural inputs sold to the agricultural sector. The value of total inputs rose from K£ 573.7 million in 1998 to K£ 596.3 million in 1999. The value of fuel and power increased by 8.8 per cent from K£ 251.8 million in 1998 to K£ 273.9 million in 1999. This is attributed to increases in power tariffs coupled with increasing fuel pump prices. The value of fertilizers sold rose by 18.1 per cent from K£ 86.9 million in 1998 to K£ 102.6 million in 1999. This increase may be due to the weakening of the Kenya shilling resulting in higher fertilizer import bill and distribution costs.

Table 8.7: PURCHASED AGRICULTURAL INPUTS*, 1995 - 1999

K£million

	1995	1996	1997	1998	1999**
MATERIAL INPUTS-					
Fertilizers	53.25	52.20	96.71	86.92	102.61
Other Agricultural Chemicals	14.58	15.21	17.82	16.02	18.91
Livestock Drugs and Medicines	23.90	25.60	28.70	30.33	32.00
Fuel and Power	136.03	146.91	241.62	251.80	273.87
Bags	16.81	17.82	24.15	25.62	22.56
Manufactured Feeds	41.35	38.00	36.02	38.07	37.46
Purchased Seeds	50.25	46.20	54.25	87.91	73.19
Other Material Inputs	11.14	11.70	12.06	12.60	10.49
Total	347.31	343.50	511.33	549.27	571.09
SERVICE INPUTS	20.26	21.80	22.65	24.46	25.19
TOTAL INPUTS	367.57	365.30	533.98	573.73	596.28

* Except labour.

** Provisional.

Table 8.8 gives details of agricultural terms of trade. The general index of agricultural output prices declined from 676.0 in 1998 to 642.0 in 1999 in response to lower prices offered for agricultural commodities such as coffee, tea, cotton and milk. As a result, terms of trade in the agricultural sector declined from 107.3 in 1998 to 105.2 in 1999. Total material inputs index decreased marginally from 613.8 in 1998 to 607.5 in 1999 due to lower prices of farm inputs such as manufactured feeds and bags.

Table 8.8: PRICE AND TERMS OF TRADE INDICES FOR AGRICULTURE, 1995 - 1999

1982=100

	1995	1996	1997	1998	1999*
General Index of Agricultural Output Prices**	442.7	460.7	568.7	676.0	642.0
PRICE PAID					
Purchased Inputs	413.0	465.2	549.4	613.8	607.5
Index of Purchased Consumer Goods-Rural Areas	572.2	632.3	650.4	683.6	727.3
INDICES OF PRICES PAID	505.3	523.7	565.4	630.0	610.0
Agricultural Sector Terms of Trade	87.6	88.0	100.6	107.3	105.2

* Provisional.

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

8.10. Maize production is estimated to have dropped by 8.4 per cent. Production of beans, sorghum, and millet increased by 33.3 per cent, 60.7 per cent and 8.1 per cent respectively in 1999. Production of potatoes remained largely unchanged.

Table 8.9: ESTIMATED PRODUCTION OF SELECTED AGRICULTURAL COMMODITIES, 1995 - 1999**

CROP	Unit	1995	1996	1997	1998	1999*
Maize	million bags	29.99	24.00	24.60	27.30	25.00
Beans	"	4.43	2.30	1.55	3.00	4.00
Potatoes	million tonnes	0.93	0.74	0.37	0.90	0.90
Sorghum	million bags	0.88	0.40	0.39	0.56	0.90
Millet	"	0.60	0.26	0.26	0.37	0.40

* Provisional.

Source: Ministry of Agriculture

8.11. **Rural Market Prices**:- The rural market prices in Kenya Shillings per kilogram of selected agricultural commodities during 1999 is presented in Table 8.10. During the year under review the commodity prices offered were slightly better compared to the previous year. The prices of millet, sorghum and potatoes were slightly higher during the month of

March compared to September while the prices of maize and beans were slightly more attractive in March 1999.

Production by Crop

8.12. Varied weather patterns in 1999 resulted in mixed performance of the agricultural sector. This led to increased production of some crops while others declined. Prices of tea and coffee declined while those of sugarcane, pyrethrum, seed cotton and sisal remained virtually static. However, the prices of centrally marketed maize and wheat recorded price increases of 7.9 per cent and 7.4 per cent respectively. Cereals production was adversely affected by widespread invasion of African armyworm resulting in massive on-farm maize and wheat crops losses in mid 1999. However, to salvage the situation, the Ministry of Agriculture and Rural Development undertook to limit the spread of the moths by supplying farmers with appropriate pesticides.

Table 8.10: RURAL MARKET PRICES FOR SELECTED FOOD CROPS

KSh. per Kg.

CROP	Province	1996		1997		1998		1999	
		March	Sep-tember	March	Sep-tember	March	Sep-tember	March	Sep-tember
Maize	Coast	20.45	23.77	24.70	21.83	17.40	18.30	18.75	19.70
	Eastern	8.73	12.21	14.06	12.28	13.80	12.82	14.60	13.60
	Central	8.04	11.90	10.87	11.93	12.60	12.87	12.84	13.40
	Rift Valley	7.70	11.63	12.72	13.32	12.42	11.58	13.60	12.70
	Nyanza	8.49	10.93	12.65	15.54	14.24	12.20	14.60	13.30
	Western	8.31	13.13	12.22	13.71	13.10	11.70	13.20	12.90
Beans	Coast	32.57	37.91	32.61	37.28	34.87	34.80	36.35	37.20
	Eastern	18.02	31.11	24.00	21.35	19.54	22.50	20.67	23.77
	Central	21.45	28.56	24.48	20.59	23.82	22.40	24.60	23.89
	Rift Valley	23.08	24.16	25.27	20.35	21.96	22.30	23.70	23.78
	Nyanza	20.79	28.64	24.45	22.76	23.45	21.38	23.86	22.30
	Western	20.67	18.54	24.70	23.64	24.59	23.41	25.20	24.70
Potatoes	Coast	21.44	22.14	22.71	22.59	14.36	14.29	15.20	14.90
	Eastern	12.86	12.04	13.84	13.54	10.86	11.17	11.10	11.60
	Central	10.03	10.82	10.55	11.17	10.55	10.69	11.30	11.62
	Rift Valley	12.88	12.98	12.70	13.11	10.70	10.65	11.40	11.80
	Nyanza	9.67	10.65	12.77	11.58	11.77	12.14	12.10	12.60
	Western	11.58	12.52	12.89	13.57	12.89	12.60	13.90	13.40
Sorghum	Eastern	7.21	17.10	14.83	10.10	12.83	13.20	13.50	14.50
	Nyanza	8.29	10.02	12.05	12.43	12.50	13.67	13.09	14.80
	Western	8.51	15.51	16.69	15.00	15.49	14.49	16.00	15.30
Millet	Eastern	10.54	18.13	22.50	27.50	20.50	21.50	22.50	22.80
	Rift Valley	19.26	21.74	26.09	30.43	29.09	30.43	31.57	33.00
	Nyanza	20.62	25.54	27.15	53.17	28.70	30.40	29.87	31.25
	Western	18.66	25.02	26.43	14.16	29.43	30.60	30.58	31.90

8.13. **Maize**:- In 1999, the National Cereals and Produce Board (NCPB) purchased 192.9 thousand tonnes of maize from farmers to boost its strategic reserves and also to cater for relief purposes. However, the country experienced maize production deficits owing to drought in some areas. This led to importation of 73.5 thousand tonnes of maize for relief and commercial purposes.

Table 8.11: SALE OF SOME MAJOR CROPS TO MARKETING BOARDS, 1995 - 1999

CROP	UNIT	1995	1996	1997	1998	1999*
Maize++	'000 tonnes	401.0	295.5	204.6	218.0	223.5
Wheat+	"	125.5	130.0	124.2	176.7	52.9
Rice Paddy + ...	"	14.6	15.9	14.4	11.7	24.3
Cotton+	"	0.2	0.5	0.5	0.5	0.2
Coffee	"	95.8	103.2	68.0	51.3	64.3
Tea	"	244.5	257.2	220.7	294.3	248.8
Sisal	"	27.8	28.1	20.1	19.9	21.9
Sugar-cane+	mn. tonnes	3.8	3.9	4.3	4.6	4.4
Pyrethrum (Extract Equivalent)	tonnes	122.8	93.0	89.4	67.4	78.1

* Provisional.

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

++ Includes maize purchases by NCPB and millers.

8.14. **Wheat**:- The effects of poor wheat producer prices in 1998 acted as a disincentive to increased wheat production in 1999. In addition, the armyworm invasion on the wheat farms in 1999 resulted in massive on-farm crop losses. Consequently, recorded wheat production declined by 68.7 per cent from 177.1 thousand tones in 1998 to register only 55.4 thousand tonnes in 1999.

Table 8.12: PRODUCTION AND IMPORTS OF WHEAT, 1995 - 1999

'000 Tonnes

YEAR	PRODUCTION*	IMPORTS	TOTAL
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
1999*	55.4	583.8	639.2

* Includes retention for seed.

** Provisional.

8.15. **Coffee**:- Production increased by 27.5 per cent from 53.4 thousand tonnes in 1997/98 to 68.1 thousand tonnes in 1998/99 crop year. This was essentially due to favourable weather, improved crop husbandry and newly planted coffee coming into production. Estates recorded a notable increase of 34.7 per cent in production. Area under coffee by estates and co-operatives increased by 5.8 per cent and 4.4 per cent, respectively. The average coffee yield in kilograms per hectare for both the co-operatives and the estates went up by 17.6 per cent and 27.3 per cent, respectively. Internal wrangles in the coffee co-operatives continued for the better part of 1999 culminating in the splitting of giant coffee societies into smaller units.

Table 8.13: PRODUCTION, AREA, AND AVERAGE YIELD OF COFFEE BY TYPE OF GROWER, 1994/95 - 1998/99

	1994/95	1995/96	1996/97	1997/98	1998/99*
AREA (Ha) '000-					
Co-operatives	120.5	122.7	122.7	122.6	128.0
Estates	40.0	38.4	38.4	39.7	42.0
TOTAL	160.5	161.1	161.1	162.3	170.0
Production (tonnes) '000-					
Co-operatives	62.6	56.9	38.3	32.1	39.4
Estates	32.8	40.1	29.7	21.3	28.7
TOTAL	95.4	97.0	68.0	53.4	68.1
Average yield (kg./Ha.)-					
Co-operatives	510.0	463.7	312.0	261.8	308.0
Estates	852.0	1,045.0	774.0	536.5	683.0

* Provisional.

8.16. **Tea**:- Production of tea declined by 15.5 per cent from 294.2 thousand tonnes in 1998 to 248.7 thousand tonnes in 1999. Smallholder tea production stood at 153.9 thousand tonnes in 1999 recording a decline of 12.4 per cent. On the other hand, tea production by the estates declined by 20.0 per cent to stand at 94.9 thousand tonnes in 1999. The decline in tea production is attributed to lower precipitation compared to 1998 when the 'El-nino' weather phenomenon was experienced. Total area planted with tea increased by 1.5 per cent to stand at 120.4 thousand hectares in 1999. Consequently, the average yield declined from 2,052.71 Kg/ha to 1,771.7 Kg/ha for smallholders and from 3,582.4 Kg/ha to 2,823.8 Kg/ha for estates respectively.

Table 8.14: PRODUCTION, AREA AND AVERAGE YIELD OF TEA BY TYPE OF GROWER, 1995 - 1999

	1995	1996	1997	1998	1999*
AREA (Ha) '000					
Smallholder	78.96	81.16	84.66	85.56	86.84
Estates	32.36	32.52	32.69	33.09	33.59
Total	111.32	113.68	117.35	118.65	120.43
PRODUCTION (Tonnes) '000					
Smallholder	138.95	144.07	129.71	175.63	153.85
Estates	105.58	113.09	91.01	118.54	94.85
Total	244.53	257.16	220.72	294.17	248.70
AVERAGE YIELD (Kg/Ha)					
Smallholder	1,996.12	1,775.13	1,532.13	2,052.71	1,771.65
Estates	3,403.61	4,092.56	2,784.03	3,582.35	2,823.76

* Provisionsal

8.17. **Cotton**:- Intake of cotton by cotton ginneries decreased from 538 tonnes in 1998 to 200 tonnes in 1999. The price for a 100-Kg bale of cotton declined from Kshs 2,096.0 in 1998 to Kshs 2,000.0 in 1999. The sub-sector is currently faced with closure of most of the ginneries as fewer farmers grow cotton. Secondly, the adverse impact of imported second hand clothes continue to further stifle the sub-sector.

8.18. **Sugarcane:**- Sugarcane production declined from 4.7 million tonnes in 1998 to 4.4 million tonnes in 1999. In contrast, sugar production went up by 4.7 per cent from 449.1 thousand tonnes in 1998 to 471.3 thousand tonnes in 1999 as indicated in Table 8.15. However, sugar imports declined notably by 69.1 per cent from 186.5 thousand tonnes to 57.7 thousand tonnes in 1999. Improved sugar production despite less cane deliveries in 1999 is attributed to improved sugar recovery from the sugar cane due to the use of improved sugarcane varieties, improved cane husbandry, rehabilitation of sugar factories coupled with improved extension services.

Table 8.15: AREA UNDER SUGAR CANE, AREA HARVESTED, PRODUCTION, AND AVERAGE YIELD, 1995 - 1999

	1995	1996	1997	1998	1999*
Area under cane (Ha)	123,638	131,130	127,560	117,657	108,793
Area harvested (Ha)**	48,588	39,249	43,814	50,111	51,833
Production (Tonnes)	3,826,159	3,870,479	4,278,273	4,661,361	4,415,801
Average yield (Tonnes/Ha)	77.61	90.86	90.81	85.51	78.42

* Provisionsal

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

Source: Kenya Sugar Authority

Table 8.16: PRODUCTION, IMPORTS AND CONSUMPTION OF SUGAR, 1995 - 1999**

'000 Tonnes

YEAR	PRODUCTION	IMPORTS	CONSUMPTION	EXPORTS
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	650.62	-
1999*	471.28	57.70	665.60	-

* Provisional

** Source: Kenya Sugar Authority

8.19. **Horticulture**:- As shown in Table 8.17, the volume of horticultural exports rose by 26.4 per cent from 78.4 thousand tonnes in 1998 to 99.1 thousand tonnes in 1999. The value of horticultural exports rose by 48.8 per cent from K£ 486.5 million in 1998 to K£ 723.7 million in 1999. The increase in value is attributed to improved packaging particularly of cut flowers reinforced with the weakening of the Kenya shilling in 1999. The increase in horticultural export volume is attributed to more use of shipping as an alternative to airfreight. Shipping is cheaper and more convenient especially for fruits and vegetables. The volumes of cut flowers, fruits and vegetables exported were 36.9 tonnes, 15.6 tonnes and 46.6 tonnes, respectively. The value of sales recorded in 1999 were K£ 370.6 million for cut flowers, K£ 62.9 million for fruits and K£ 290.2 million for vegetables.

Table 8.17: EXPORTS OF FRESH HORTICULTURAL PRODUCE*, 1995 - 1999

YEAR	VOLUME '000 Tonnes	VALUE K£million
1995	71.1	320.0
1996	84.8	385.0
1997	84.2	450.0
1998	78.4	486.5
1999**	99.1	723.7

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

** Provisional.

8.20. **Pyrethrum**:- Production of pyrethrum (extract equivalent) increased by 15.9 per cent from 67.4 tonnes in 1998 to 78.1 tonnes in 1999. This was due to good weather in pyrethrum growing areas and good prices offered for the crop deliveries as a result of good world prices. However, pyrethrum prices (extract equivalent) remained static at Kshs. 5,200 per kilogram in 1999 as indicated in Table 8.4.

8.21. **Sisal**:- Sisal production increased by 9.6 per cent from 19,991 tonnes in 1998 to 21,923 tonnes in 1999. Sisal prices improved marginally by 0.3 per cent from Kshs 39,781 per tonne in 1998 to Kshs 39,899 per tonne 1999 as indicated in Table 8.4.

8.22. **Irrigation**:- Table 8.18 presents information on the progress and production at the seven major irrigation schemes in Kenya in 1998/99 crop year. The irrigation schemes registered a marginal decrease in area cropped in hectares by 1.1 per cent in 1999 over the previous year. Similarly the number of plot holders decreased by 4.4 per cent in the same period. The gross value of output increased substantially by 95.5 per cent, which may be attributed to better prices offered for rice. Payments to plot holders dropped drastically by 75.6 per cent in the same period from K£ 10,217 thousand in 1997/98 to K£ 2,496 thousand in 1998/99 due to non-delivery of rice to National Irrigation Board (NIB). Total paddy production increased by 48.2 per cent from 24.7 thousand tonnes in 1997/98 to 36.5 thousand tonnes in 1998/99. All the irrigation schemes recorded increase in paddy production with Ahero recording the highest (89.7 per cent) followed by Mwea (49.3 per cent). Onion production from the Pekera irrigation scheme increased by 85.4 per cent. The rice industry experienced agitation for greater autonomy by farmers in 1999. As a result, most farmers did not deliver their rice to the National Irrigation Board (NIB). Consequently, rice suffered from poor storage and post harvest processing.

Table 8.18: PROGRESS AND PRODUCTION AT SEVEN IRRIGATION SCHEME AREAS, 1994/95 - 1998/99*

	1994/95	1995/96	1996/97	1997/98	1998/99**
MWEA-					
Area cropped-Hectares	5,878	5,901	6,145	6,000	6,052
Plot-holders-Number	3,242	3,243	3,270	3,392	3,381
Gross value of output-K£'000 ..	13,842	17,640	21,754	16,144	35,745
Payments to plot-holders-K£'000 ..	7,134	11,540	14,308	8,881	1,000
ALL (7) SCHEME AREAS-					
Area cropped-Hectares	8,957	9,039	7,551	7,611	7,531
Plot-holders-Number	7,269	7,243	4,471	4,679	4,475
Gross value of output-K£'000 ..	16,988	22,247	25,295	19,699	38,509
Payments to plot-holders-K£'000 ..	8,143	13,896	16,183	10,217	2,496
CROPS PRODUCED - Tonnes					
Mwea-Paddy	24,892	25,987	27,488	21,352	31,876
Ahero-Paddy	1,993	2,054	412	968	1,836
W.Kano-Paddy	1,726	1,645	2,847	1,606	1,976
Bunyala-Paddy	917	920	812	728	837
Total Paddy	29,528	30,606	31,559	24,654	36,525
Pekera-Onions	1,298	889	45	239	443
-Chillies	122	-	50	44	-
-Cotton	120	208	37	116	-
-Water Melon	344	303	13	18	-
-Paw-paw	343	129	9	152	-

* Source: National Irrigation Board

** Provisional

Livestock and Livestock Products

8.23. Total recorded milk production increased by 42.9 per cent from 126 million litres in 1998 to 180 million litres in 1999. Processed whole milk and cream increased significantly by 69 per cent from 138 million litres in 1998 to 156 million litres in 1999. This may be attributed to increased consumption particularly in urban areas and greater participation in distribution by the private milk processors. Production of cheese declined by 24.9 per cent.

Table 8.19: PRODUCTION AND SALE OF LIVESTOCK AND DAIRY PRODUCTS, 1995 - 1999*

	UNIT	1995	1996	1997	1998	1999**
Recorded Milk Production***	Mn. Litres	350	257	197	126	180
Milk Processed:						
Wholemilk and cream	Mn. Litres	215	167	165	138	156
Butter and ghee	Tonnes	3,985	1,964	1,521	1,304	1,238
Cheese	"	365	426	464	342	257
Livestock slaughtered						
Cattle and Calves..	'000 Head	1,067	1,219	1,320	1,443	1,489
Sheep and Goats	"	1,327	1,407	1,603	1,752	1,869
Pigs	"	91	98	88	81	82

* Figures on milk processed are revised.

** Provisional.

*** Including sale licensed by the Kenya Dairy Board.

8.24. The total number of cattle and calves slaughtered increased from 1,443 thousand heads to 1,489 thousand heads in the year under review. Sheep and goats slaughtered increased from 1,752 thousand heads in 1998 to 1,869 thousand heads in 1999. Pigs slaughters increased slightly from 81 thousand heads in 1998 to 82 thousand heads in 1999.

Agricultural Training

8.25. Table 8.20 presents enrolments in Agricultural Training Institutions. Enrolment rate in agricultural degree courses at public universities increased by 6.7 per cent from 3,668 students in 1998 to 3,915 students in 1999. Diploma courses in public universities registered 30.1 per cent increase to 1,815 students in 1999. For degree and diploma courses, the share of female students was less than 30.0 per cent. Enrolment rate declined significantly for both Diploma and Certificate courses in institutions under the Ministry of agriculture and Rural Development. Bukura recorded the highest decrease of 23.7 per cent. The decrease in enrolment of male and female students in the Bukura Institute of Agriculture was 20.4 per cent and 33.3 per cent respectively. Similarly short term vocational courses offered in Naivasha Dairy Training School and Athi River Meat Training school also recorded notable declines in enrolment for both male and female students.

Co-operatives

8.26. The number of societies increased by 5.6 per cent from 8,669 in 1998 to 9,151 in 1999. The number of agricultural societies grew from 4,007 in 1998 to 4,199 in 1999 while total non-agricultural societies increased by 6.2 per cent from 4,577 in 1998 to 4,863 in 1999. The increase in the number of agricultural societies is due to the splitting of agricultural co-operatives societies after liberalization provided by the amendment of Co-operative Society Act in 1997. There was sensitisation and increased member education with the effect of more people realising the importance of forming co-operatives to enhance co-ordination of their economic activities.

Table 8.21: NUMBER OF SOCIETIES AND UNIONS BY TYPE, 1995 - 1999

Number

TYPE OF SOCIETY	1995	1996	1997	1998	1999*
Coffee	215	248	279	308	335
Sugar-cane	90	95	98	99	108
Pyrethrum	57	62	65	66	71
Cotton	78	79	78	78	86
Dairy	267	291	313	323	331
Multi-produce	1,131	1,236	1,342	1,446	1,504
Farm Purchase	429	450	677	698	717
Fisheries	69	71	72	74	79
Other Agricultural Societies	744	803	860	915	968
TOTAL	3,080	3,335	3,784	4,007	4,199
Savings and Credit	2,810	3,031	3,169	3,305	3,538
Other Non-Agricultural Societies	896	1,116	1,276	1,272	1,325
TOTAL	3,706	4,147	4,445	4,577	4,863
Unions	81	82	83	85	89
TOTAL	6,867	7,564	8,312	8,669	9,151

* Provisional

8.27. Table 8.22 shows the sale of selected agricultural produce by co-operatives and contribution to the gross farm revenue. The share of agricultural produce handled by co-operatives increased by 20 per cent from K£ 481.3 million in 1998 to K£ 577.5 million in 1999. The share of coffee handled by co-operatives increased from K£ 383.1 million in 1998 to K£ 385.6 million in 1999. The sales of sugarcane, and pyrethrum handled by co-operatives recorded increases of 2.4 per cent and 0.8 per cent with sales rising to K£ 17.0 million and K£ 6.5 million respectively. On the other hand, dairy products through co-operatives increased by 4.3 per cent and 1.9 per cent from K£ 75.1 million in 1998 to K£ 76.5 million in 1999.

Table 8.22: SALE OF SELECTED AGRICULTURAL PRODUCE BY CO-OPERATIVE AND THEIR CONTRIBUTION TO GROSS FARM REVENUE *, 1995 - 1999

YEAR	COFFEE	SUGAR-CANE	PYRETHRUM	COTTON	MILK	TOTAL
	Sale K£million					
1995	412.90	21.90	19.70	0.60	36.90	491.00
1996	346.65	14.80	5.95	0.23	139.10	506.73
1997	359.40	15.40	6.10	0.23	121.06	502.19
1998	383.05	16.60	6.40	0.23	75.05	481.33
1999**	385.60	17.00	6.45	0.23	76.50	577.48
	Percentage Share					
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
1999**	76.73	4.45	31.77	33.82	56.79	15.75

* Marketed Production in Table 8.2.

** Provisional.

Conclusion

8.28. There is need to reinvigorate the environment for large and positive growth in the agricultural sector. The sector accounts for 70 per cent of the employed and 80 per cent of the export earnings. The sector should be protected from imported and unaccustomed agro-based products. In the past, the sugar and cotton/textiles industries have been adversely affected. Rural infrastructure is a prerequisite, as poor roads are an impediment to effective collection and marketing of agricultural produce. Poor prices offered for agricultural commodities greatly influence decreased production, which in turn triggers poverty and food insecurity. For instance, in 1999, the prices offered for the principal cash crops - coffee and tea declined while those of sugarcane, pyrethrum and cotton remained virtually static. If the status quo is maintained, it will negatively impact on the poverty alleviation efforts. The continued increase in the prices of farm inputs such as electricity, fuel, seeds, and livestock feeds implies higher agricultural production costs. Agricultural output will drop and cause increased poverty. Given the recurrent drought experienced, there is need to encourage technologies that promote small-scale irrigation production as opposed to over-reliance on rain-fed agricultural production. It is also imperative that institutions in the co-operative sector are efficiently managed in order to boost morale and confidence among the smallholder farmers. This in turn will result in increased agricultural production and higher levels of welfare of the population.

CHAPTER 9 - ENVIRONMENT AND NATURAL RESOURCES

Overview

The country continued to experience deforestation, drought, depletion of fish stocks and increased domestic and industrial pollution coupled with diminishing biodiversity in 1999. These factors led to reduced production in the three sub-sectors of fisheries, forestry and wildlife in 1999 as compared to 1998.

The area under forest plantation decreased by 3.6 per cent from 147.2 thousand hectares in 1998 to 141.9 thousand hectares in 1999. Similarly, the quantity of fresh water and marine fish landed declined by 3.0 per cent to stand at 167,601 metric tonnes, down from 172,845 metric tonnes in 1998. However, the quantity of mineral production rose by 3.4 per cent to record 762,080 metric tonnes in 1999 from 737,329 metric tonnes in 1998.

Development expenditure on water supplies and other related services rose from K£ 64,599 thousand in 1998 to K£ 80,861 thousand in 1999.

Water Supply

9.2. The Government through the Department of Water Resources in the Ministry of Environment and Natural Resources continues to pursue the goal of providing all Kenyans with clean portable water within a reasonable walking distance by the year 2010. This is being done through the key strategies of assessement, conservation, development and formulation of policies relating to the water sector. Due to increasing demand for water resources as a result of rapid population growth and budgetary constraints, the Government's water policy strategy has changed to that of participatory management. The focus of the current policy is that the Government through the Ministry will play the role of providing enabling environment through appropriate policies and regulations to all actors in the water sub-sector. The role of provision of water and sanitation is gradually being handed over to local authorities, communities, Non-Governmental Organisations (NGOs) and the private sector.

9.3. In pursuing the goal of providing clean water to all households within a reasonable walking distance, the Ministry in conjunction with other stakeholders continued with the drilling of boreholes and purification points across the country as shown in Table 9.1. The number of boreholes sunk continued to increase from 124 in 1997/98 to 187 in 1998/1999 and to 234 in 1999/2000. Rift valley, Coast and Nyanza provinces recorded an increase in the number of boreholes drilled while the others recorded no increase during 1999/2000 fiscal year. The improvement was mainly due to greater participation by international agencies, NGOs and the private sector.

9.4. In contrasts, the number of water purification points continued to decline as shown in Table 9.1 from 354 points in 1997/98 to 283 points in 1998/99 and down to 282 points in 1999/2000. Only Rift Valley province recorded an increase in the number of purification points from 105 to 107 points even though this was 22 points less than the 1997/98. Central province recorded 3 points less compared to 1998/99. There were no changes in the other provinces. This poor performance is attributed to the Government's budgetary

constraints and the high maintenance costs of the water purification plants.

Table 9.1: Water purification point and Boreholes Drilled, 1997/98 - 1999/2000

Province	1997/98		1998/99		1999/2000*	
	W.P.P	B.H	W.P.P	B.H	W.P.P	B.H
Central	37	21	44	28	41	28
Coast	35	4	16	26	16	28
Eastern	36	35	38	42	38	42
N/Eastern	51	5	4	13	4	13
Nyanza	35	-	46	36	46	43
R/Valley	129	58	105	36	107	72
Western	31	1	30	6	30	6
Total	354	124	283	187	282	232

Source: Ministry of Environment and Natural Resources - Water Department

W.P.P - Water purification point

BH - Borehole

* Provisional

9.5. The Government's effort to provide clean water was further augmented by donor support as demonstrated by the on-going as well as newly initiated water projects during the year. Some of the major water projects that were developed in partnership with the donor agencies include; Water Users Association Support Project (W.U.A.S), Human Resource Development in Water Sector, Ground Water Development Project, Self-help NGO implemented projects, integrated water resource management, Tharaka water supply and sanitation, etc. These are community based participatory projects mainly concerned with sustainable management of water supplies by the communities. For example, Community Management of Water Supply Project funded by SIDA operating in Meru Central, Makueni and Machakos districts identifies existing water schemes to rehabilitate and hand them over to the beneficiary community for management. Ground Water Development Project funded by JICA provides water for human and livestock in ASAL areas. Phase one of the project is already completed in Laikipia district and has drilled and equiped 33 boreholes. Other notable contributions in this regard were from France, Belgium, Germany, IFAD and UNICEF.

9.6. The Ministry of Environment and Natural Resourses in collaboration with Non-Governmental Organisations (NGOs) promoted and enhanced the provision of clean water. The NGOs and the private sector played a complementary role in the provision of water and allied activities. Among the key organisations on the forefront for provision of clean water is the Kenya Water for Health Organisation (KWAHO), Plan International, Action Aid and World Vision. These organisations have confined their activities mainly in the provision of safe drinking water, basic sanitation and small-scale irrigation projects to various communities across the country. The private sector, on the other hand, was more active in the implementation, consultancy and material supplies. However, with the change in water policy towards commercialization, they will be required to be more active in direct provision of water and sanitation.

9.7. Development expenditure on water supplies and related services over the period 1995/96 to 1999/2000 shown in Table 9.2 showed a mixed trend. The total Expenditure

fell from K£ 214,432 thousand in 1995/96 through K£ 153,834 thousand in 1997/98 to K£ 64,599 thousand in 1998/99. This downward trend however reversed with registered increase of 25.2 per cent to K£ 80,861 thousand in 1999/2000. The reversal in expenditure is mainly attributed to more stringent measures applied in collection of Appropriation in Aid (A.I.A).

Table 9.2: DEVELOPMENT EXPENDITURE ON WATER SUPPLIES AND RELATED SERVICES, 1995/96 - 1999/2000

K£'000

	1995/96	1996/97	1997/98	1998/99	1999/2000*
Water Development	34,554	29,551	16,214	18,187	36,120
Training of Water Development Staff	2,899	775	665	625	108
Rural Water Supplies	24,921	25,773	43,243	8,278	13,293
Self-Help Water Supplies** ..	196	60	90	50	45
County Council and Urban Water Supplies	5,085	6,323	6,718	1,635	8,352
Miscellaneous and Special Water Programmes	4,279	5,950	5,640	13,584	3,643
Regional and Irrigation Development	35,794	19,520	13,966	-	-
Water Conservation and Pipeline Corporation	106,704	107,828	55,957	22,240	19,300
Others	-	-	11,341	-	-
TOTAL	214,432	195,780	153,834	64,599	80,861

Sources: Ministry of Environment and Natural Resources, National Water Conservation and Pipeline Corporation

* Provisional.

** Includes contributions by the Ministry of Environment and Natural Resources.

9.8. Expenditure on water development almost doubled during the year 1999/2000 compared to 1998/99 from K£ 18,187 thousand to K£ 36,120 thousand. Similary, expenditure on urban and rural water supplies grew from K£ 1,635 thousand and K£ 8,278 thousand to K£ 8,352 thousand and K£ 13,293 thousand respectively over the same period. This is attributed to the Government's commitment to provision of water to all Kenyans by the year 2010. However, there were substantial reductions in expenditures on training of water development staff, Self-help water supply, National Water Conservation and Pipeline Corporation and special water programmes. This is attributed to the re-allocation of resources as a result of the Government's policy of cost sharing.

Fisheries

9.9. The fisheries sub-sector contributes significantly to foreign exchange earnings and is a major source of food for a number of communities. Inspite of this, the sector has not been performing to its full potential due to the low level of technology applied in the fishing industry and overfishing of the shoreline.

9.10. Over the period 1995 to 1999, fish production continued to decline as shown in Table 9.3. Total quantity of fish landed decreased from 172,845 metric tonnes in 1998 to 167,601 metric tonnes in 1999, a decrease of 3.0 per cent. However, its value rose marginally from K£ 338,938 thousand in 1998 to K£ 339,689 thousand in 1999. The marginal increase in the value of fish was due to reduced exports to European markets due to the ban on the fish imports from the East African region and persistent reduction in production of fresh water fish from Lake Victoria.

Table 9.3: QUANTITY AND VALUE OF FISH LANDED, 1995 - 1999

	1995	1996	1997	1998	1999*
Quantities - Tonnes:					
Freshwater fish-					
Lake Victoria	181,888	166,460	164,174	158,876	155,084
Lake Turkana	2,332	4,799	4,866	4,268	4,002
Lake Naivasha	84	54	69	50	48
Lake Baringo	126	72	99	141	175
Lake Jipe	150	109	130	97	91
Fish Farming	1,083	1,089	1,086	994	986
Other areas	2,231	2,488	2,360	3,421	1,409
TOTAL ..	187,894	175,071	172,784	167,847	161,795
Marine fish	4,665	4,915	4,790	3,966	4,633
Crustaceans	455	461	458	800	951
Other marine products ..	874	887	881	232	222
GRAND TOTAL ..	193,888	181,334	178,913	172,845	167,601
Value - K£'000:					
Freshwater fish ..	242,772	271,496	324,031	322,342	325,373
Marine fish	10,570	11,717	6,689	9,283	7,903
Crustaceans	3,120	3,264	4,953	6,601	5,777
Other marine products	3,748	3,806	4,252	712	636
TOTAL ..	260,210	290,283	339,925	338,938	339,689

* Provisional.

Source : Fisheries Department

9.11. Lake Victoria continues to dominate in fish production, accounting for 96.0 per cent of all fish landed from inland fresh water lakes in the country in 1999. However, its output continued to decline over the five-year period falling from 181,888 metric tonnes in 1995 to 155,084 metric tonnes in 1999. This drop has largely been due to continued presence of water hyacinth that frequently blocked a number of fish beaches hence reducing fishing activities. Fish production in the other inland lakes remained low due to receding waters and siltation. On the other hand, marine fish registered some improved landings in 1999 of 667 tonnes. This was a 16.8 per cent increase from 3,966 metric tonnes to 4,633 metric tonnes registered in 1998 and 1999, respectively. Similarly, production of crustaceans landed improved from 800 tonnes to 951 tonnes over the same period. Other marine species registered low levels.

9.12. On the other hand, the value of fish output grew steadily, rising from K£ 260,210 thousand in 1995 to K£ 339,689 thousand in 1999. However, the value grew marginally from K£ 338,938 thousand in 1998 to K£ 339,689 thousand in 1999. This is attributed to reduced export market over the same period.

Forestry

9.13. The Government recognises the important role played by afforestation programmes and their contribution to the preservation of the environment and water catchment areas. Due to the increasing demand for forest products, and especially woodfuel and charcoal as main source of fuel for the majority of rural households coupled with pressure on forestland for agriculture and human settlements, forest plantation area continued to decline.

9.14. As shown in Table 9.4 forest plantation area declined over the period 1995 to 1999. Total forest plantation area declined from 147.2 thousand in 1998 to 141.9 thousand in

1999 representing a 3.6 per cent decline. This was caused mainly by the continued decline of forest plantation area under exotic softwood (cypress and pines) due to the increasing demand of forest products. The area under pines dropped from 47.3 thousand hectares in 1998 to 44.1 thousand hectares in 1999. Similarly, area under cypress also dropped from 69.3 thousand hectares to 67.2 thousand hectares over the same period. This was as a result of increasing demand for forest products over the same period.

Table 9.4: FOREST PLANTATION AREA, 1995 - 1999

'000 Hectares

Type of Forest	1995	1996	1997	1998	1999*
Indigenous softwood	2.8	1.4	4.5	4.5	4.5
Indigenous hardwood	7.7	13.0	7.8	7.8	7.8
Exotic softwoods-					
Cypress	72.9	73.6	71.4	69.3	67.2
Pines	53.9	53.4	50.6	47.3	44.1
Exotic hardwoods-					
Timber	9.2	6.0	7.9	7.9	7.9
Fuel	13.5	12.2	10.4	10.4	10.4
TOTAL AREA	160.0	159.6	152.6	147.2	141.9

* Provisional.

Source : Ministry of Environment and Natural Resources

9.15. The changes in area under forest plantation for the period 1995 to 1999 is shown in Table 9.5. Due to budgetary constraints and the increasing demand for forest products, plantation area could not be increased in 1999. This is depicted by the area planted stagnating at 0.2 thousand hectares for the last four consecutive years and the area clear felled remaining very high for the last 3 years..

Table 9.5: CHANGES IN PLANTATION AREA, 1995 - 1999

'000 Hectares

	1995	1996	1997	1998	1999*
Previous Plantation Area	155.0	160.0	159.6	152.6	147.2
Area Planted	8.0	0.2	0.2	0.2	0.2
Total	163.0	160.2	159.8	152.8	147.4
Area Clear felled	3.0	0.6	7.2	5.6	5.5
Total Area	160.0	159.6	152.6	147.2	141.9

* Provisional

Source : Ministry of Environment and Natural Resources.

9.16. Changes in recorded sale of forest products over the period 1995 to 1999 are presented in Table 9.6. The sale of timber which reached a peak of 692.0 thousand cubic metres in 1995 dropped sharply to 202.4 thousand cubic metres in 1996, recovered modestly to 316.4 thousand cubic metres in 1997 and then dropped in 1998 and 1999 to 288.1 thousand cubic metres and 260.5 thousand cubic metres respectively. The decline in sales in 1999 resulted from the marked drop in the sales of softwood declining from 287.7 thousand cubic metres in 1998 to 260.1 thousand cubic metres in 1999. Charcoal burning remained at 36.3 thousand stacked cubic metres over the same period. The sales of power and telegraphic poles dropped to 4.9 thousand stacked cubic metres in 1998 before picking up to 5.2 thousand stacked cubic metres in 1999.

Table 9.6: RECORDED SALE OF FOREST PRODUCTS, 1995 - 1999

Forest Product	1995	1996	1997	1998	1999*
Timber - '000 true cu. metres-					
Soft wood	685.7	193.7	314.5	287.7	260.1
Hardwood	6.3	8.7	1.9	0.4	0.4
TOTAL	692.0	202.4	316.4	288.1	260.5
'000 stacked cu. metres-					
Peels/Veener logs/Plywoods	139.3	142.0	140.7	-	-
Pulpwood/Paper production	197.7	136.8	137.3	-	-
Fuelwood /Charcoal	33.6	30.0	63.2	36.3	36.3
Power &Telegraph Poles	38.0	14.6	19.9	4.9	5.2

* Provisional.

Source : Ministry of Environment and Natural Resources.

Mining

9.17. Table 9.7 shows quantity and value of various minerals produced. The output fluctuated over the period 1995 to 1997. The year 1999 registered a growth of 3.4 per cent attributed to substantial increase in salt and fluorspar recorded in 1999. The production of salt increased from 21,742 tonnes in 1998 to 44,886 tonnes in 1999. Similarly, production of fluorspar increased from 60,854 tonnes in 1998 to 93,602 tonnes in 1999. This impressive output was attributed to the increased demand of the two commodities in both domestic and export markets.

9.18. The value of total mineral production also fluctuated over the last five years due to changes in demand in both domestic and export markets and fluctuation of the Kenya Shilling against the major currencies. The total value declined from K£ 132,006 thousand in 1997 to K£ 113,048 thousand in 1998 and then rose sharply to K£ 172,142 thousand in 1999. This impressive growth in value arose from improved prices of salt and fluorspar recorded in 1999.

Table 9.7: QUANTITY AND VALUE OF MINERAL PRODUCTION, 1995 - 1999

Mineral	1995	1996	1997	1998	1999*
Quantities - Tonnes:					
Minerals-					
Soda Ash	218,450	223,000	257,640	242,910	245,680
Fluorspar	74,230	83,000	68,700	60,854	93,602
Salt	73,484	41,000	6,280	21,742	44,886
Limestone Products**	29,574	31,935	32,668	32,000	32,000
Crushed Refined Soda	362,000	375,000	392,000	370,000	335,230
Other	9,017	10,276	10,934	9,823	10,682
TOTAL	766,755	764,211	768,222	737,329	762,080
Value - K£'000:					
Soda Ash***	69,652	85,100	94,701	73,668	92,426
Fluorspar***	13,076	20,816	16,555	17,086	32,563
Salt	5,475	1,543	1,177	3,313	6,812
Limestone Products	1,439	1,509	1,556	1,580	1,580
Crushed Refined Soda	1,393	1,702	1,895	1,474	1,849
Other	6,584	19,830	16,122	15,927	36,912
TOTAL	97,619	130,500	132,006	113,048	172,142

Source : Department of Mines and Geology.

* Provisional.

** Excluding limestone used as input into cement product.

*** Including Export Value.

9.19. Table 9.8 shows the average export prices of soda ash and fluorspar. The average price of these products fluctuated over the entire period because of changes in demand and competition in the domestic and export markets. The average price per tonne for soda ash and fluorspar increased from K£ 343.8 and K£ 280.8 in 1998 to K£ 391.0 and K£ 348.0 in 1999 respectively. The improved price was due to favourable market conditions during the period.

Table 9.8: AVERAGE EXPORT PRICES OF SODA ASH AND FLUORSPAR, 1995 - 1999

K£ per tonne

Mineral	1995	1996	1997	1998	1999*
Soda Ash	333.0	367.0	367.0	343.8	391.0
Fluorspar	176.0	251.0	241.0	280.8	348.0

* Provisional

Wildlife Conservation

9.20. Kenya's tourism industry is largely dependent on wildlife. It is for this reason that the Government and donor organizations have continuously channeled enormous resources towards the operations of Kenya Wildlife Services with the objective of increasing the efficiency in wildlife management and its conservation. Other key organizations that played a leading role in the management and conservation of wildlife in Kenya included the International Union of Conservation of Nature (IUCN), East African Wildlife society (EAWS), African Wildlife Foundation (AWF), World Wild Fund (WWF) and World Conservation International (WCI).

Table 9.9: WILDLIFE POPULATION IN THE KENYA RANGELANDS, 1995 - 1999

'000 Number

SPECIES	1995	1996	1997	1998	1999*
Elephant	21.2	21.5	16.4	16.4	16.4
Buffalo	35.8	34.1	29.0	28.8	27.5
Giraffe	52.2	50.2	40.4	38.6	36.6
B. Zebra	208.2	207.2	181.4	170.8	170.0
G. Zebra	5.1	4.2	7.3	7.3	7.2
Topi	90.0	88.9	57.6	57.6	57.4
Kongoni	25.0	25.2	15.5	12.9	12.2
Wildebeest	173.0	167.3	322.4	311.0	301.0
Oryx	34.2	32.6	27.4	26.4	26.2
Eland	19.0	14.1	18.6	15.6	15.4
H. Hartbeest	0.9	1.6	1.8	1.8	1.8
Waterbuck	6.1	2.5	6.8	6.2	6.0
Kudus	11.8	7.9	10.3	10.4	10.3
Gerenuk	22.3	22.4	26.5	26.7	26.5
Impala	102.0	103.9	78.5	77.6	77.2
G.Gazelle	122.1	150.3	123.3	127.1	127.1
T. Gazelle	65.1	61.9	49.4	56.2	56.2
Warthog	19.1	19.0	14.6	14.1	14.1
Ostrich	34.0	30.9	29.7	27.1	27.0

Source : DRSRS

* Provisional

9.21. Table 9.9 summarises the status of wildlife population within the Kenya rangelands. Overall, there was a marginal drop in virtually all the species due to extensive land use within the rangelands, increased incidence of diseases, drought and poaching. The species that were mostly affected in 1999 were the Buffalo whose population dropped from 28,800

to 27,500; Giraffe from 38,600 to 36,600; Burchells zebra from 170,800 to 170,000; Kongoni from 12,900 to 12,200; impala from 77,600 to 77,200; and Wildbeest from 311,000 to 301,000.

Table 9.10: EXPENDITURE ON PUBLIC HEALTH BY THE NAIROBI CITY COUNCIL, 1995 - 1999

K£ '000

	1995/96	1996/97	1997/98	1998/99	1999/2000*
Cleaning and Administration	1,362.8	1,630.5	1,835.0	1,971.5	2,194.6
Cleaning - General	6,120.0	6,749.9	6,975.7	6,985.7	9,805.0
Refuse Removal	2,577.8	2,512.4	2,545.1	1,437.2	1,485.2
Conservancy	14.3	15.9	16.1	16.1	24.0
Total	10,074.9	10,908.7	11,371.9	10,410.5	13,508.8

Source : Nairobi City Council.

* Provisional

Refuse Management

9.22. Table 9.10 presents expenditure on public health by the Nairobi City Council. The Council maintained a steady, though marginal, expansion in expenditure on public health over the entire period. Total expenditure on general cleaning, refuse removal, conservancy and administration rose from K£ 10,074.9 thousand in 1995/96 to K£ 13,508.8 thousand in 1999/2000. Expenditure on refuse removal recorded a mixed pattern. After stagnating at about K£ 2,500 thousands for 3 consecutive years, the expenditure dropped to stand at K£ 1,485.2 thousands in 1999. This drop in expenditure is a clear reflection of the council's policy shift as a result of privatisation of refuse collection. The saving made from the change in refuse management was re-allocated to general cleaning, administration and conservancy.

Resources Management and Monitoring

9.23. In 1999, the Government continued with activities aimed at realising its stated commitment to conservation of the environment and sustainable utilization of the country's natural resource base. The main concern in biodiversity management is to ensure that the present trend in which biological resources are being depleted at alarming rates is reversed and that the future increase in the country's biological resources will be translated into increased production and hence poverty alleviation. The Government has taken a firm stand to protect its biological diversity through legislation and by setting aside a considerable portion of land (8 per cent) as protected areas for wildlife and forest conservation.

9.24. To realise the objectives of enhanced biodiversity management, the country prepared a National Biodiversity Strategy and Action Plan (NBSAP) through the Ministry of Environment and Natural Resources in 1999. Among others, the strategy identifies action areas by all stakeholders in a wide ranging issues such as research and training of scientific experts in biodiversity assessment and monitoring; management of mountain, aquatic and ASAL biodiversity. The implementation of the NBSAP is expected to begin in mid 2000.

9.25. Other activities in biodiversity conservation include the East African Cross Border Biodiversity project which has been on-going since 1998 and the Regional Rift Valley Lakes Project which was started in 1999. These are regional projects aimed at minimising Biodiversity losses in cross border sites of East Africa as well as sustainable management of Rift valley lakes and their ecosystems respectively. The Projects are being implemented under the auspices of the Ministry of Environment and Natural Resources and the National Museums of Kenya respectively.

9.26. Since 1992 when the United Nations Framework Convention on Climate Change (UNFCCC) was signed, Kenya acknowledged the issue of climatic change mitigation as multisectoral. This has necessitated a review of various sectoral policies and legislations in order to integrate climatic change concerns. The country has signed and ratified other conventions that have a bearing on climate change mitigation. These include the United Nations Convention on Desertification and Drought (UNCCD) (1996), Convention on Biological Diversity (CBD) (1994), Convention on Conservation of Wetlands (Ramsar) (1996) and United Nations Forest Principles.

9.27. In 1999 Kenya received a grant from UNEP to facilitate preparation of an initial Communication to the Conference of Parties (COP) on Climate Change. The National Climate Change Activities Coordinating Sub-committee of the Ministry of Environment and Natural Resources is still preparing the Report.

9.28. On combating desertification and drought, the National Action Programme (NAP) was completed in the year under review. Among the stated actions to combat drought is a comprehensive programme in poverty reduction, which was identified as a significant contributor to the problem. The NAPs provide for establishment of a National Anti-Desertification Trust fund whose proposal was complete and implementation expected to begin by the year 2000. The implementation of the Convention to Combat Desertification and Drought is expected to be a collaborative effort along with the Kenya Capacity 21 Programme under the Ministry of Finance and Planning with assistance from UNDP.

9.29. The integration of environmental concerns into mainstream planning and decision making process is a very critical element in sustainable development. Kenya completed the preparation of a comprehensive programme for Capacity building in environmental management and planning in 1999. The Programme also known as "Kendelevu Programme" is expected to facilitate capacity building in information management, participatory planning, and exchange of experiences during the current GOK-UNDP Country Cooperation Framework (CCF) up to 2003. The implementation of the programme is underway.

9.30. In environmental management, the CCF recognises the need to implement sustainable development programmes that integrate environmental concerns and hence sustainable natural resources management. In this regard, a fully-fledged Programme Support Document (PSD) on poverty alleviation and environment was prepared. The implementation of the document is underway and is expected to take five years from 2000.

9.31. The purpose of the programme is to concentrate on areas with the highest incindence of poverty in Kenya in selected regions or districts which have common poverty and environment related features although they may have varied economic, climatic conditions,

traditions and cultures.

9.32. On the legislative front, Parliament passed the Environmental Management and Coordination Act and the Environment and Development Policy Paper in 1999. The Act is an umbrella legislation whose purpose is to provide a legal framework through which sectoral legislations may be revised to integrate environmental concerns. The Act also provides for an Institutional Framework for implementation namely the establishment of a National Environment Management Authority (NEMA). The Act is expected to be in force by end of 2000.

9.33. One of the immediate measures that the Government is undertaking to protect the environment is to ensure that all public projects have undergone a thorough Environmental Impact Assessment before being implemented. Presently, it is a pre-condition that before any public project is passed over to the Ministry of Finance and Planning for funding considerations, it be vetted through the Mid-Term Expenditure Framework.

9.34. To ensure that this process is extended to the private sector, the Ministry of Environment and Natural Resources through the Proposed National Environment Management Authority (NEMA) in collaboration with other key Ministries, private sector and NGOs is in the process of developing Environment Impact Assessment Guidelines under the Environmental Management and Coordination Act (1999). This will ensure that projects are thoroughly scrutinized to meet environmental standards.

9.35. The East African Wildlife Society (EAWS) continued with its efforts in promoting wildlife and environmental conservation activities. In 1999, the organization continued with its activities in advocacy and lobbying regarding wise resource use. Several projects were undertaken which included Tana Delta Wetland management through which an analysis of the ground situation regarding wetland conservation in Tana River was undertaken. Further, under the auspices of the Kenya Forest Working Group, the organization continues with advocacy activities particularly regarding excisions in Ngong Forest and Mount Kenya forests.

9.36. The organization is also undertaking the Taita Hills Forest Biodiversity Project which is aimed at conserving biodiversity resources within the Taita Forest. The forest is known to be home to certain rare and endemic species of plants and animals. These are only part of the major activities the organization is undertaking to supplement Government activities in this regard.

CHAPTER 10 – ENERGY

Overview

The year 1999 was characterised by escalation of crude oil prices from US$ 9.7 per barrel in December 1998 to US$ 24.8 per barrel in December 1999. This brought the revised yearly average to US$ 17.5 per barrel which was US$ 5.2 per barrel higher than 1998. The increase was mainly attributed to the production cut agreed upon by Organization of Petroleum Exporting Countries (OPEC) and non-OPEC members during the March, 1999 conference, which was meant to facilitate price recovery.

10.2. On the domestic scene, retail and wholesale prices of petroleum products went up significantly as result of crude petroleum prices hike and weakening of the Kenya shilling against major currencies. The total consumption of fossil fuels (oil, coal and coke), hydro and geothermal energy rose by 3.7 per cent in 1999 compared to 0.7 per cent decline in 1998. Imports of crude petroleum declined by 26.3 per cent attributable to liberalisation of petroleum sub-sector where some oil marketing firms prefer importing refined products to crude petroleum. The year 1999 also witnessed entry of new oil marketing firms and opening of new filling stations in most parts of the country.

10.3. During the year under review, the government extended exemption of duty for power generation plants and equipment through December 2000. This was meant to give incentives to the private sector to invest in power generation and distribution aimed at achieving self-sufficiency in power. The domestic total electricity generation went up by 2.9 per cent in 1999 to record 4566.0 GWH. This was mainly due to increase in generation by Independent Power Producers (IPPs). Total installed capacity on the other hand recorded a marginal increase of 1.0 percent compared with 7.6 percent increase recorded in 1998.

Petroleum

10.4. Petroleum fuel constitutes about 22 per cent of the total primary energy consumption and is also the major source of modern energy requirements. In 1999, it accounted for 72.2 per cent of total modern energy consumed. This poses a major challenge to the economy that is highly dependent on imported petroleum fuels for its modern energy requirements. Consequently, the government continues with efforts aimed at encouraging the private sector to participate in the generation of energy, promote energy conservation methods and encourage consumers to adopt alternative sources of energy.

10.5. Table 10.1 depicts quality and value of imports and exports of petroleum products between 1995 and 1999. In 1999, the country's imports of petroleum products declined to 2,425.8 thousand tonnes from 3,585.8 thousand tonnes in 1998, a drop of 32.3 per cent. A similar trend was recorded in the import bill declining by 8.5 per cent. Despite the decline in the importation of petroleum fuels and lubricating greases, importation of refined lubricating oils increased modestly from 38.2 thousand tonnes in 1998 to 41.5 thousand tonnes in 1999, an increase of 8.8 per cent. During the year under review, imports of petroleum fuels accounted for 51.6 per cent of the total petroleum imports. These increases

were attributable to some oil marketing firms preferring importing refined products to crude petroleum.

Table 10.1: QUANTITY AND VALUE OF IMPORTS AND EXPORTS OF PETROLEUM PRODUCTS, 1995 - 1999*

	Quantity ('000 Tonnes)					Value (K£' Mn)				
	1995	1996	1997	1998	1999**	1995	1996	1997	1998	1999**
IMPORTS:										
Crude Petroleum	1,680.33	1,412.95	1,833.73	2,157.70	1,132.62	579.63	675.20	841.25	751.83	554.35
Petroleum Fuels	719.73	963.85	895.65	1,387.81	1,250.90	334.70	471.55	568.31	722.55	787.31
Lubricating Oils	24.81	30.92	29.51	38.16	41.50	31.88	44.30	38.68	54.35	57.24
Lubricating Greases ..	4.54	0.39	0.29	2.17	0.80	6.50	2.26	1.67	6.22	4.97
TOTAL	2,429.41	2,408.11	2,759.19	3,585.84	2,425.82	952.71	1,193.31	1,449.91	1,534.95	1,403.87
EXPORTS:										
Petroleum Fuels	367.10	450.80	652.99	640.59	627.25	218.27	369.67	493.47	458.46	457.36
Lubricating Oils	8.71	8.41	9.67	8.13	3.93	20.49	22.58	20.70	24.59	11.54
Lubricating Greases ..	0.28	0.26	0.17	0.19	0.20	0.11	1.01	0.56	1.47	0.65
TOTAL	376.09	459.47	662.83	648.91	631.38	238.87	393.26	514.73	484.52	469.55
NET BALANCE	2,053.32	1,948.64	2,096.36	2,936.93	1,794.44	713.84	800.05	935.18	1,050.43	934.32

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

** Provisional.

10.6. Exports of petroleum products mainly to the neighbouring countries (Uganda, Rwanda, Burundi and Democratic Republic of Congo) continued to decline since 1997. This decline was occasioned by some of neighbouring countries preferring to import white oils requirements from other countries. In 1999, a total of 631.4 thousand tonnes were exported down from 648.9 thousand tonnes exported in 1998, a decline of 2.7 per cent. Total export earnings decreased by 3.1 per cent from K£ 484.5 million in 1998 to K£ 469.6 million in 1999.

10.7. Throughput statistics depicting crude oil intake by type from 1995 to 1999 is shown in Table 10.2. In 1999, the total crude oil processed by Kenya Petroleum Refineries Limited (KPRL) dropped marginally by 1.4 per cent compared to 4.5 per cent rise recorded in the previous year. This decline was attributed to drop in importation of crude oil input particularly Zakum and Iranian Heavy, which recorded a drop of 44.9 per cent and 63.5 per cent respectively, compared with the previous year. Murban has remained the most important crude oil intake at refinery since 1995. In 1999, it accounted for 73.8 per cent of the total intake up from 61.0 per cent recorded the previous year. United Arab Emirates continued to be the refinery's main crude oil source accounting for 92.0 percent of total crude intake, with the other 8.0 per cent shared among Saudi Arabia, Iran and Kuwait. For the first time since 1996, the refinery processed 49.9 thousand tonnes of crude oil intake from Kuwait.

Table 10.2: CRUDE OIL INTAKE AT THE REFINERY BY TYPE, 1995 - 1999

'000 Tonnes

Crude intake	A.P.I. Gravity	1995	1996	1997	1998	1999*
Arabian Heavy	27.9	29.3	-	27.6	25.0	54.2
Iranian Light	33.9	-	1.0	-	-	-
Iranian Heavy	30.4	23.4	56.3	76.8	84.2	30.7
Kuwait	32.0	59.7	68.0	-	-	49.9
Zakum	40.1	638.7	657.6	582.8	562.0	309.5
Murban	39.6	835.0	834.1	960.2	1,050.4	1,252.7
Reconstituted crude	-	244.0	-	-	-	-
Marib Light	-	-	144.2	-	-	-
Slops	-	2.0	-	-	-	1.1
TOTAL	-	1,832.1	1,761.2	1,647.4	1,721.6	1,698.1

* Provisional.

A.P.I - American Petroleum Institute

10.8. Table 10.3 shows that output of finished petroleum products from KPRL declined by 1.4 per cent from 1,721.7 thousand tonnes in 1998 to 1,698.0 thousand tonnes in 1999. Except for output of fuel oil, light diesel and bitumen that rose in 1999, output of all other finished petroleum products recorded declines. Production of Liquefied Petroleum Gas (LPG) declined from 29.0 thousand tonnes in 1998 to 27.1 thousand tonnes in 1999, while that of illuminating kerosene and jet/turbo fuel fell from 355.1 thousand tonnes to 337.4 thousand tonnes, a drop of 6.6 per cent and 5.0 per cent respectively. These declines were mainly due to increase in imports of the processed products. Fuel oil output rose marginally by 0.6 per cent while light diesel registered an increase of 1.2 per cent. There was a major rise in the output of bitumen from 13.0 thousand tonnes to 18.3 thousand tonnes, an increase of 40.8 per cent in the year under review. This was partly due to increased demand as result of construction and rehabilitation of roads mainly under El-Nino Rehabilitation Programme and Kenya Urban Transport Infrastructure Project (KUTIP).

Table 10.3: FINISHED PETROLEUM PRODUCTS, ** 1995 - 1999

'000 Tonnes

	1995	1996	1997	1998	1999*
OUTPUT-					
Liquefied petroleum gas	32.2	26.8	23.5	29.0	27.1
Motor gasoline premium	152.1	176.2	131.5	158.9	157.9
Motor gasoline regular	153.0	132.9	141.0	135.1	132.9
Illuminating kerosene and Jet/turbo fuel	374.4	380.4	334.6	355.1	337.4
Light diesel oil	446.8	394.1	385.6	401.2	406.0
Heavy diesel oil and Marine diesel oil	28.5	28.1	26.1	27.6	25.1
Fuel oil***	526.8	512.1	498.6	505.9	509.1
Bitumen	26.2	12.7	10.2	13.0	18.3
Intermediates	-6.0	-4.8	-2.7	-1.8	-6.0
Refinery usage	92.7	102.8	93.6	94.1	90.2
THROUGHPUT=TOTAL OUTPUT	1,826.7	1,761.3	1,647.4	1,721.7	1,698.0

* Provisional.

** Excludes lubricants.

*** Revised series.

10.9. Details of supply and demand balance in petroleum products shown in Table 10.4 indicate that domestic demand increased from 2,199.1 thousand tonnes in 1998 to 2,311.6 thousand tonnes in 1999, a 5.1 per cent rise. The growth is mainly attributed to the significant rise in demand of kerosene and fuel oil. Despite this increase, the demand for motor spirit (Premium and Regular), jet/turbo fuel and light diesel oil which contributed 60.7 per cent of the total demand declined by 2.8 per cent, 0.2 and 1.0 per cent respectively. In 1999, the demand for illuminating kerosene rose by 27.8 per cent while

that of fuel oil went up by 10.6 per cent compared with 1998. The rise in demand of illuminating kerosene was as a result of increase in usage by independent power producers for power generation while fuel oil demand rose after tax cut during the 1999 budget.

Table 10.4: PETROLEUM SUPPLY AND DEMAND BALANCE, 1995 - 1999

'000 Tonnes

	1995	1996	1997	1998	1999*
DEMAND-					
Liquefied petroleum gas ..	31.2	31.2	30.7	31.3	32.2
Motor spirit (premium and regular)	378.7	399.3	390.6	395.8	384.6
Aviation spirit	5.7	4.6	4.1	3.2	2.5
Jet/turbo fuel	433.7	444.6	431.9	419.4	418.7
Illuminating kerosene ..	243.1	253.8	267.6	318.2	406.8
Light diesel oil	603.1	646.3	615.9	607.5	601.7
Heavy diesel oil	23.5	26.6	47.6	26.4	25.7
Fuel oil	347.5	424.2	386.9	397.3	439.4
TOTAL	2,066.5	2,230.5	2,175.2	2,199.1	2,311.6
Refinery usage	92.7	102.8	93.6	94.1	90.2
TOTAL DOMESTIC DEMAND	2,159.2	2,333.3	2,268.9	2,293.2	2,401.8
Exports of petroleum fuels ..	367.1	450.8	653.0	640.6	627.3
TOTAL DEMAND**	2,526.3	2,784.1	2,921.9	2,933.8	3,029.1
SUPPLY-					
Imports:					
Crude oil	1,680.3	1,412.9	1,833.7	2,157.7	1,132.6
Petroleum fuels	719.7	963.9	893.7	1,387.8	1,250.9
TOTAL	2,400.0	2,376.8	2,727.4	3,545.5	2,383.5
Adjustment***	126.3	407.3	194.5	603.4	645.6
TOTAL SUPPLY**	2,526.3	2,784.1	2,921.9	2,942.1	3,029.1

* Provisional.
** Difference is due to rounding.
*** Adjustment for inventory changes and losses in production.

10.10. Total net domestic sales of petroleum fuels went up by 1.1 per cent in 1998, but increased by 5.1 per cent to reach 2,311.6 thousand tonnes, in 1999. Sales to agricultural sector, which had recorded an increase of 26.4 per cent in 1998, declined by 18.2 per cent in 1999 due to slowdown in agricultural sector activities experienced during the year. The transport sector (rail, road, marine and aviation) remained the largest consumer accounting for 71.4 per cent of total sales of the petroleum products. Retail pump outlets and road transport alone accounted for 67.3 per cent of the total transport sector fuel requirement. Sales to industrial, commercial and other related consumers continued with the downward trend from its peak in 1996, partly attributed to unfavourable economic conditions experienced in the country during the period. During the year under review, fuel sales to power generation rose by 83.8 per cent, from 152.0 thousand tonnes in 1998 to 279.3 thousand tonnes in 1999. This was as a result of increase in the generation of thermal based electricity by Independent Power Producers (IPPs). Sales to the government declined by 20.9 per cent from 23.5 thousand tonnes in 1998 to 18.6 thousand tonnes in 1999 as a result of the strict budgetary controls adopted by the government through out the year.

Table 10.5: NET DOMESTIC SALE OF PETROLEUM FUELS BY CONSUMER CATEGORY, 1995 - 1999

'000 Tonnes

User	1995	1996	1997	1998	1999*
Agriculture	81.9	99.4	86.6	109.5	89.6
Retail pump outlets & road transport	1,027.1	1,069.7	1,061.9	1,115.8	1,109.7
Rail transport	15.7	20.3	21.6	20.3	15.7
Tourism**	8.4	12.8	12.1	10.9	10.6
Marine (excl. Naval Forces)	55.1	46.5	56.7	73.5	103.5
Aviation (excl. Government)	434.8	445.8	409.5	392.3	421.0
Power Generation	94.9	122.3	149.5	152.0	279.3
Industrial, Commercial and Other	408.9	425.8	403.1	374.4	355.9
Government	37.2	34.4	31.4	23.5	18.6
Balancing Item	-97.5	-46.5	-57.2	-73.1	-92.4
TOTAL	2,066.5	2,230.5	2,175.2	2,199.1	2,311.5

* Provisional.

** Comprises sales to tour operator.

10.11. In 1999, wholesale prices of all petroleum products at Mombasa recorded an increase with respect to 1998 as shown in Table 10.6. The price of illuminating kerosene and fuel oil registered a 15.0 per cent and 3.0 per cent increase respectively. The rise in kerosene prices was due to the rising prices of crude oil coupled with upward adjustment of duty on kerosene. Other products registered an increase of between 6.0 per cent and 11.0 per cent. The depreciation of the Kenya shilling against world major currencies also fuelled the price rises.

Table 10.6: WHOLESALE PRICES* OF PETROLEUM PRODUCTS AT MOMBASA 1995 - 1999

Ksh. per tonne

	21.12.95	Oc. '96	Dec.'97	Dec.'98	Dec.'99
Liquefied petroleum gas	25,200	25,956	45,000	65,000	69,501
Premium motor gasoline	37,906	45,712	49,002	51,049	55,643
Regular motor gasoline	37,632	46,661	48,672	51,196	55,292
Illuminating kerosene	17,247	19,634	25,031	24,504	28,180
Light diesel oil	23,813	31,788	33,456	34,267	38,036
Industrial diesel oil	18,896	24,326	23,798	23,912	25,347
Fuel oil	13,970	18,364	18,372	17,675	18,205

* Including duties and VAT.

10.12. Table 10.7 shows the average retail prices for selected petroleum products between December 1997 and December 1999 in Nairobi. The prices of premium/gasohol, regular, gas oil and illuminating kerosene all rose during the year under review by registering an increase of 25.6 per cent, 26.3 per cent, 31.0 per cent and 27.9 per cent respectively. Illuminating kerosene recorded the highest increase throughout the year. The increase was as a result of tax increase during the year. All the four products recorded a drop in the prices during the month of January 1999 after registering an increase in December 1997. The sharp increase in the second and third quarter of the year was a result of increase of crude oil prices and depreciation of the Kenya shilling against the US Dollar.

Table 10.7: NAIROBI AVERAGE RETAIL PRICES OF SELECTED PETROLEUM PRODUCTS, Dec 1997 - Dec 1999

Ksh. per litre

Date	MOTOR SPIRIT		Gas Oil	Illuminating Kerosene
	Premium/Gasohol	Regular		
Dec'97	38.75	37.70	31.51	23.11
Sept'98	39.80	38.72	31.93	22.12
Dec'98	39.97	38.89	32.10	22.21
Jan'99….. ……	39.41	38.33	31.55	21.70
April'99	40.66	39.43	32.69	22.30
June'99	42.94	41.82	34.98	24.92
Aug'99	46.02	44.88	37.99	24.96
Dec'99	50.19	49.12	42.06	28.40

Electricity

10.13. As depicted by Kenya Power & Lighting Company (KPLC) unit sales, electricity demand registered a growth of 2.0 per cent in 1999 compared with a growth of 2.5 per cent recorded in 1998. This is attributed to low consumption of electricity arising from power rationing that began from September 1998, as a result of drought.

10.14. Details on installed capacity and generation of electricity are given in Table 10.8. The overall installed capacity recorded a marginal increase of 1.1 per cent from 863.3 MW in 1998 to 872.6 MW in 1999. The increase was as a result of government continued efforts to encourage more investments in power generation and distribution. Installed capacity for hydro based and geothermal based electricity remained at previous year's levels of 599.5 MW and 45.0MW respectively.

Table 10.8: INSTALLED CAPACITY AND GENERATION OF ELECTRICITY AS AT JUNE, 1995 - 1999

	INSTALLED CAPACITY * MW **				GENERATION * GWH ***			
	Hydro	Thermal Oil	Geothermal	Total	Hydro	Thermal Oil	Geothermal	Total
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	3,278.0	795.0	366.0	4,439.0
1999+	599.5	228.1	45.0	872.6	3,294.0	882.0	390.0	4,566.0

* Includes estimates for industrial establishment with generation capacity.

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

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

\+ Provisional.

10.15. Total electricity generation went up by 2.9 per cent from 4,439.0 GWH in 1998 compared to 4,566.0 GWH in 1999. Thermal based electricity registered a 10.9 per cent increase to 882.0 GWH in 1999 from 795.0 GWH during the previous year. The increase in generation was mainly attributed to Independent Power Producers (IPPs), which generated 463.0 GWH in 1999 compared with 383.0 GWH in 1998. This is in line with the government policy of encouraging non-hydro power generation capacity, as alternative sources of electricity to circumvent power rationing due to the unpredictable weather pattern, like drought. Generation of hydro and geothermal based electricity recorded a 0.5 per cent and 6.6 per cent increase respectively during the year under review.

10.16. Electricity energy supply and demand balance is shown in Table 10.9. The table shows that consumption rose to 3,787.0 KWH in 1999 compared with 3,714.0 KWH the previous year. Demand for domestic and small commercial consumption rose by 5.2 per cent as a result of expansion of the informal sector and increase in human settlement, particularly in urban areas. Large Commercial and Industrial demand increased marginally to 2,263.0 million KWH in 1999 from 2,261.0 million KWH recorded in 1998. The overall increase in this sector was attributed to higher consumption within the irrigation–based agro-production activities, which registered a growth of 66 per cent. Manufacturing, textile, agriculture and tourism all registered declines in electricity consumption due to the depressed state of the economy. Power rationing in the last quarter of 1999 also contributed to this reduction. Street lighting registered an 18.2 per cent decline while Off-Peak and Rural Electrification recorded an increase of 3.4 per cent and 4.8 per cent respectively. Electricity imports from Uganda declined by 4.1 per cent during the year under review by recording 140.0 Million KWH in 1999 compared with 146.0 KWH during the previous year.

Table 10.9: ELECTRICITY ENERGY SUPPLY AND DEMAND BALANCE, 1995 - 1999

Million KWH

	1995	1996	1997	1998	1999*
DEMAND-					
Domestic and Small Commercial	1,026	1,049	1,116	1,207	1,270
Large Commercial and Industrial	1,995	2,179	2,263	2,261	2,263
Off-peak	124	100	86	89	92
Street Lighting	19	12	10	11	9
Rural Electrification	125	138	150	146	153
TOTAL	3,289	3,478	3,625	3,714	3,787
Transmission losses and unallocated demand **	630	712	742	871	919
TOTAL DEMAND = TOTAL SUPPLY	3,919	4,190	4,367	4,585	4,706
of which imports from Uganda ..	172	149	144	146	140
Net generation	3,747	4,041	4,223	4,439	4,566

* Provisional.

** Revised series.

10.17. Table 10.10 depicts details of production, trade and consumption of energy. Total energy consumption in 1999 went up to 3,302.6 thousand tonnes of oil equivalent of which net imports accounted for 21.3 per cent compared with 1998 when imports were 53.6 per cent of total energy consumption. The decline in net imports was as a result of some oil marketing firms importing more of refined products to crude oil. Consumption of Liquid fuels in 1999 went up modestly by 5.1 per cent to register 2,311.6 thousand tonnes equivalent, compared with 2,199.1 thousand tonnes oil equivalent in 1998. Total consumption of hydro and geothermal electricity rose marginally by a mere 0.9 per cent. The consumption of coal and coke mainly used in cement production lines declined further by 2.9 per cent in 1999 after a decline by 17.6 in 1998. This is attributable to the fall in cement production.

Table 10.10: PRODUCTION, TRADE AND CONSUMPTION OF ENERGY** EXPRESSED IN TERMS OF PRIMARY SOURCES, 1995 - 1999

'000 Tonnes Oil Equivalent

	1995	1996	1997	1998	1999*
COAL AND COKE CONSUMPTION	96.8	89.2	91.5	75.4	73.2
Imports of crude oil	1,680.3	1,412.9	1,833.7	2,157.7	1,132.6
Net exports of petroleum	259.9	410.3	147	562	533.4
Stock changes and balancing item	126.3	407.3	194.5	603.4	645.6
TOTAL CONSUMPTION OF LIQUID FUELS	2,066.5	2,230.5	2,175.2	2,199.1	2,311.6
HYDRO AND GEOTHERMAL ENERGY:-					
Local production of hydro power	749.5	763.9	809.5	786.7	790.6
Local production of geothermal power..	69.6	93.6	94.3	87.8	93.6
Imports of hydro power	44.9	35.8	34.6	35.0	33.6
TOTAL CONSUMPTION OF HYDRO AND GEOTHERMAL ENERGY	864.0	893.3	938.4	909.5	917.8
TOTAL LOCAL ENERGY PRODUCTION***	819.1	857.5	903.8	874.5	884.2
TOTAL NET IMPORTS	1,562.1	1,127.6	1,812.8	1,706.1	706.0
TOTAL ENERGY CONSUMPTION	3,028.8	3,213.0	3,205.1	3,184.0	3,302.6
LOCAL PRODUCTION AS PERCENTAGE OF TOTAL	27.1	26.7	28.2	27.5	26.8
PER CAPITA CONSUMPTION IN TERMS OF KILOGRAMS OF OIL EQUIVALENT	110.1	113.7	110.1	106.6	115.1

* Provisional.

** Modern sector only; fuelwood and charcoal are excluded.

*** Excludes thermal energy production.

Rural Electrification

10.18. According to the Kenya Power and Lighting Company, the year 1999 was marked with wide distribution system reinforcement and maintenance to improve stability and reliability of supply at a cost of Ksh. 925.0 Million that covered 40 schemes. This is in line with the Company's continued effort to implement the Rural Electrification Programme (REP) on behalf of the government. The number of customers under this programme rose by 6.0 per cent from 57,978 in 1998 to 61,436 in 1999.

10.19. Electrification of 57 out of the 168 coffee factories targeted under phase I of the Stabilisation of Exports (STABEX) funded under the Coffee Factories Rural Electrification Programme (COFREP) was completed during the year at a cost of Ksh. 120.0 millions. The success of this first stage of the programme is being evaluated. The electrification of the remaining 111 coffee factories identified under phase I of COFREP will be executed at a cost of Ksh. 240.0 million.

Development and Future Prospects in Energy Sector.

10.20. Kenya is facing strong challenges to meet the demand for electricity as a result of insufficient power generation capacity and variation in the dominant hydro-based power generation, which is controlled by the vagaries of weather. Consequently, all the stakeholders in the sector, including Kenya Electricity Generating Company (KenGen) and the Independent Power Producers (IPPs) are currently undertaking a number of power generating projects, both geothermal and thermal based. The projects include implementation by KenGen of OlKaria II Geothermal with unit capacity of 64 MW and Sondu Miriu hydro-power station (60.0 MW). The IPPs will develop Lanet I diesel (55.0 MW), Eldoret I diesel (55.0 MW), Kipevu II diesel (75.0 MW) and Olkaria III Geothermal

(64.0 MW). The projects are expected to be in place by July 2003 with a combined capacity of 373.0 MW.

10.21. The governments of Kenya and Uganda are working out modalities of extending the pipeline from Eldoret to Kampala in line with the Kenya government policy of transportation of petroleum products by rail or pipeline after banning transportation by road of these products to the neighbouring countries. This ban was necessitated by illegal diversion of the commodities destined for the export market back to the local market. This project was found to be viable by a feasibility study undertaken out in 1998. The liberalisation of the sector has also resulted in the opening of filling stations in most parts of the country, especially by the Independent Petroleum dealers, which is consequently resulting to competitive prices.

Wood Fuel Resources

10.22. According to the Ministry of Energy, wood-fuel meets the bulk of total primary energy consumption of about 70 per cent, and provides over 93 per cent of rural household energy requirements. At least 80 per cent of urban household energy demands are met by charcoal, which dominate the use of fuel wood. Since the rate of fuel wood consumption exceeds replenishment, some measures have been adopted to rectify the supply–demand imbalance, to enhance environmental preservation. To achieve this objective, programmes aimed at promoting energy conservation through the use of technically efficient but cost effective and end use technologies have been adopted. Public information and educational programmes continue to be encouraged to ensure farmers adopt farm tree planting, increase the supply of tree seedlings and promote agro-forestry. The overall government policy is to enhance the adoption of alternative sources of energy.

Other Sources of Energy

10.23. Other sources of energy include solar power, bio–gas and wind energy. Wind is one of the greatest sources of natural energy. It can be used for the production of economical power to pump water or to generate electricity. The major constraints hampering exploitation of this source of energy has been lack of appropriate technology, lack of upto date data on wind regimes in the country and poor promotion strategies.

10.24. Solar Energy as an alternative source has been accepted as a viable source of energy because the technologies are environmentally friendly, and do not contribute to global warming. Its role is becoming increasingly important and various residences, hospital and hotels are using solar water heating systems, while rural households who are not connected to national electric grid find it an attractive option. Major constraints affecting development of this source of energy include poor quality of local batteries, high prices of photo–voltaic (PV) systems, lack of data and lack of qualified PV technical manpower.

10.25. Biogas is one of the other sources of alternative energy adopted in Kenya, which is appropriate for rural areas. Operation can be suitable in high agriculture zones especially where farmers' practice zero–grazing. Lack of extensive programmes as well as strengthening of biogas use training has hampered the exploitation of this source of energy.

CHAPTER 11 - MANUFACTURING

Overview

Output in the manufacturing sector in real terms rose by 1.0 per cent in 1999, a growth rate far below the 1990 to 1999 average of 2.4 per cent as well as a growth target of 7.8 per cent in the current National Development Plan. The slow growth could be attributed to a number of factors, prime among them being; the general slow down in the economy leading to depressed effective demand for manufactured products, high product prices as a result of high input costs, decline in investment portfolio, power rationing and infrastructure bottlenecks. The quota allocation for Kenyan garments to the USA and the fish export ban to the European Union market curtailed growth in the textiles and fish industries, respectively. The shift by manufactures from the traditional packaging materials to plastic materials boosted the plastic products industry while the activities at the Export Processing Zones (EPZ) improved as shown by the major performance indicators. However, investment in the sector was weak as investors tended to move from investing in the manufacturing related ventures. Turnover due to manufacturers declined while stocks held rose.

Employment

11.2. Total wage employment in the manufacturing sector rose marginally by 0.9 per cent from 217,000 persons in 1998 to 219,000 persons in 1999. The slow growth in employment was attributed to retrenchment and the general slowdown in the growth of the economy.

Manufacturing Sales and Stocks

11.3. Depressed effective demand for locally manufactured products led to decline in total sales of manufactured goods in 1999, as shown by provisional data from Business Expectation Enquiry (B.E.E). Total sales during this period were K£ 11,007 million compared with K£ 13,352 million and K£ 11,914 million in 1998 and 1997, respectively. On the other hand, value of stocks held by manufacturing firms as at 31st December 1999 was K£ 3,896 million, compared to K£ 1,959 million for the same period the previous year.

Industrial Output

11.4. The value of manufacturing output at current prices was estimated to have expanded by 5.6 per cent from K£ 35,150.2 million in 1998 to K£ 37,124.6 million in 1999 as shown in Table 11.1. Similarly, manufacturing value added and intermediate consumption grew by 8.9 per cent and 5.2 per cent respectively over the same period. On the other hand, wage cost as a percentage of value added averaged 39.2 per cent in the last 5 years.

Table 11.1: MANUFACTURING SECTOR - OUTPUT , WAGE AND PRODUCT, AT CURRENT PRICES, 1995 - 1999

K£million

YEAR	Value of Output	Intermediate Consumption	Value Added	Total Wages Paid
1995	23,074.29	20,915.05	2,159.24	765.30
1996	28,819.80	26,267.60	2,552.20	958.15
1997	33,761.97	30,845.58	2,916.39	1,182.01
1998	35,150.20	31,491.94	3,658.26	1,440.76
1999*	37,124.60	33,140.80	3,983.80	1,715.20

* Provisional.

Quantum Indices

11.5. As shown in Table 11.2, output in the manufacturing sector recorded mixed performance in 1999. During this period, the agro-based industries recorded a slightly lower growth of 2.4 per cent compared with a 2.5 per cent growth recorded the previous year. The vegetable and canned fruits sub-sector had the fastest growth rate of 14.7 per cent, while the clay and other products sub-sector recorded the highest decline rate of 33.4 per cent. The output in the textile industries recorded growth after years of reduced output, while the output in the leather and footwear industries continued with the downward trend. The plastic industries recorded impressive growth at the expense of the glass and metal industries.

Table 11.2: QUANTUM INDEX OF MANUFACTURING PRODUCTION, 1995 - 1999

1976 = 100

INDUSTRY	1995	1996	1997	1998	1999*	Percentage Change 1998/1997
Meat and Dairy Products	112.3	91.6	91.8	76.38	84.30	10.4
Canned Vegetables, Fish, Oils and Fats	291.5	279.2	310.1	325.19	372.90	14.7
Grain Mills Products	242.8	204.9	213.4	202.68	200.90	-0.9
Bakery Products	299.3	347.4	383.2	352.21	345.20	-2.0
Sugar and Confectionery	196.6	200.7	204.5	226.63	236.60	4.4
Miscellaneous Foods	231.7	249.7	235.1	240.00	227.80	-5.1
Food Manufacturing	194.3	194.2	195.3	200.11	204.90	2.4
Beverages	235.8	206.3	199.4	204.70	155.20	-24.2
Tobacco	212.5	224.7	237.0	202.50	192.70	-4.8
Beverages and Tobacco	230.8	207.5	203.0	203.70	159.70	-21.6
Textiles	136.5	125.7	119.6	118.60	118.70	0.1
Clothing	153.0	152.0	142.4	148.40	154.80	4.3
Leather and Footwear	65.7	68.8	61.6	57.86	48.60	-16.0
Wood and Cork Products	73.4	74.8	74.9	73.37	82.30	12.2
Furniture and Fixtures	52.5	54.5	54.7	55.90	55.90	0.0
Paper and Paper Products	153.0	192.1	196.5	222.31	238.10	7.1
Printing and Publishing	451.6	465.0	465.9	465.90	466.40	0.1
Basic Industrial Chemicals	209.0	201.6	157.5	168.82	162.60	-3.7
Petroleum and Other Chemicals	492.0	531.7	591.7	594.77	616.80	3.7
Rubber Products	621.0	630.9	678.0	668.30	590.80	-11.6
Plastic Products	384.7	397.5	510.9	608.74	697.60	14.6
Clay and Glass Products	2,099.9	2,376.3	2,254.6	2,437.05	1,623.00	-33.4
Non-Metallic Mineral Products	209.6	219.5	230.6	216.73	216.90	0.1
Metallic Products	206.8	246.4	298.6	252.90	270.10	6.8
Non-Electrical Machinery	78.1	113.9	88.7	86.65	85.10	-1.8
Electrical Equipment	253.7	266.9	213.3	221.91	188.40	-15.1
Transport Equipment	529.0	713.7	594.9	433.29	360.10	-16.9
Miscellaneous Manufactures	472.3	569.1	661.6	765.20	917.50	19.9
TOTAL MANUFACTURING	263.9	272.9	278.2	282.2	285.1	1.0

* Provisional

11.6. The meat and dairy products industry recorded growth of 10.4 per cent in 1999 after a decline in 1998. The growth was as a result of the increase in the output of processed milk and beef. Even though the production level of processed milk is far from attaining the 1995 level output of 215,168 thousand litres, its output rose markedly by 12.5 per cent from 138,238 thousand litres in 1988 to 155,510 thousand litres in 1999. This increase in output was attributed to the increase in the number of milk processing firms competing for the milk market gap left by the Kenya Co-operative Creameries (KCC) when its production output fell in the mid 1990s. Beef production also rose by a similar margin in 1999 to 123.4 thousand tonnes from the 1998 output of 108.2 thousand tonnes. The upward trend was also registered in the production of pork and sausages, which rose by 54.1 per cent and 2.1 per

cent respectively. Production of cheese, butter, processed chicken and baby foods fell by various margins.

11.7. The canned vegetables, fish, oils and fats industry recorded the highest growth in the food processing industry in 1999. During this period, production of edible fats and oils rose to 146.9 thousand tonnes from 141.7 thousand tonnes and 127.3 thousand tonnes in 1998 and 1997, respectively. Similarly, the production of edible oils rose by 12.0 per cent while the output in the fish processing industry fell sharply by 45.5 per cent as a result of fish export ban to the European Union market. The ban is still in force. Production of canned vegetables rose by an appreciable 18.5 per cent to 368.4 tonnes during the period under review compared with the 1998 output of 310.8 tonnes. As a result of increased product variety of squashes, output rose by 3.0 per cent in 1999 to stand at 1,561.3 thousand litres. On the other hand, production output of fruits and vegetable juices somewhat remained unchanged and leveled at the 1988 output of 727.0 tonnes.

11.8. Output in the grain mill products industry declined further in 1999 though at a slower rate when compared to 1998. High product prices for wheat products contributed to the continued slump in the local market demand for wheat products. Consequently, production of wheat flour fell to 219.6 thousand tonnes in 1999 from 230.1 thousand tones in 1998, as shown in Table 11.3. Similarly, management bottlenecks that pitted rice growers against the millers resulted in a decline in rice production by 39.4 per cent even though paddy production is estimated to have gone up by 48.2 per cent. However, production of sifted maize meal rose by 2.2 per cent from 265.9 per cent in1998 to 271.6 thousand tonnes in 1999. Production of wheat offal and maize germ also rose while the production of maize offals and bran fell.

Table 11.3: PRODUCTION OF GRAIN MILLING PRODUCTS, 1995 - 1999

'000 tonnes

YEAR	COMMODITY		
	Sifted Maize meal	Wheat Flour	Rice
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
1999*	271.6	219.6	5.7

* Provisional.

11.9. Production output in the bakery products industry fell for the second year in a row largely due to the depressed purchasing power of households. However, in 1999 output in this group of industries fell at a slower rate of 2.0 per cent compared with 8.1 per cent recorded in 1998. As a result, production of bread was 84.3 thousand tonnes in 1999, slightly below the 1998 total production of 86.9 thousand tonnes. Production of scones, cakes and biscuits all rose during this period by between 7.7 per cent and 9.5 per cent.

11.10. The sugar production has been on the increase since 1994 after declining in 1992 following a period of prolonged drought. In 1999, sugar production was 471.3 thousand tonnes, the highest output since the inception of sugar production in the country. This compares favourably with the 1998 output of 449.1 thousand tonnes but unfavourably with the current local demand of approximately 580.0 thousand tonnes. Stringent measures put in place by the Kenya Sugar Authority (KSA) to stem diversion of transit sugar into the local market, coupled with rehabilitation of the sugar factories, improved cane husbandry, timely availability of farm inputs to farmers and improved cane varieties all contributed to the increased output of sugar. Plans are underway to privatize all the sugar industries with

the aim of meeting the current local sugar demand shortfall. Production of sweets, that declined in 1997 and 1998 edged up slightly by 1.4 per cent in 1999 to 7.4 thousand tonnes from the previous year's output of 7.3 thousand tonnes. Similarly, production of toffees rose while that of chewing gum fell.

11.11. Production indicators in the miscellaneous foods industry recorded mixed performance. Though the output of tea remained high in 1999 compared to the production output in 1995, 1996 and 1997 of 244.5 thousand tonnes, 271.2 thousand tonnes and 221.3 thousand tonnes respectively, lower precipitation resulted in a drop to the output of tea by 15.4 per cent. During this period, 248.8 thousand tonnes of tea were produced compared with the 1998 output of 294.3 thousand tonnes. Other significant declines in this sub-sector were recorded in the production of instant coffee and curry powder by 11.8 per cent and 16.8 per cent respectively. However, production of milled coffee rose significantly to 68.1 thousand tonnes in 1999 compared with the production in the previous year of 53.4 thousand tonnes. Other products that recorded increased output were roasted coffee, milo, cattle feeds, poultry feeds and dog and cats feeds. Output of refined salt, rose marginally from 119.8 thousand tonnes in 1998 to 120.0 thousand tonnes in 1999.

11.12. In 1999, developments in the beer industry show that, Castle Brewing Kenya Ltd was in full operation after starting production in 1998; while Kenya Breweries factory at Kisumu relocated to Moshi Tanzania citing loss of regional market for the Kenyan beer, increased imports into the local market and high production costs. In light of these developments, beer production continued with the downward trend mainly as a result of high product prices and depressed local demand for malted beer in 1999. During this period, production of malted beer and stout fell by 27.3 per cent to 191.2 million litres from 263.0 million litres in 1998. Similarly, production of cigarettes fell though at a slower rate of 4.8 per cent from 7599.8 million sticks in 1999 to 7231.4 million sticks.

11.13. In the manufacturing sector, the textile industry was the hardest hit by market liberalization in the early 1990s. Coupled with market restriction abroad, the industry registered big decline margins in the following years, as many textile firms closed down. The highest decline was in 1995 when output fell by 26.9 per cent, but eased down to 0.9 per cent in 1998. In 1999, output stagnated albeit positive. Output of jumpers, jerseys and cardigans rose by 5.5 per cent from 47.7 thousand dozens in 1998 to 50.3 thousand dozens in 1999. Output of cotton woven fabrics however, fell further by 9.3 per cent in 1999 after a fall by 22.5 per cent in 1998 to 20.1 million square metres from 22.1 million square metres. Production of bed sheets, canvas materials and toweling materials rose by 22.5 per cent, 3.3 per cent and 45.2 per cent respectively in 1999. Production of blankets was 2.2 thousand units in 1999 compared with the 1998 production of 2.3 thousand units. Production of gunny bags also fell.

11.14. After experiencing years of difficult business environment occasioned by importation of large quantities of second hand shoes, the largest leather shoe producing company *Bata* Shoe Company closed temporarily in 1999 to clear the accumulated stocks. Consequently, leather shoe production dropped significantly by 15.3 per cent during this period to 701.1 thousand pairs from the previous years' output of 828.2 thousand pairs.

11.15. In 1999, the output in the wood and cork industry grew by 12.1 per cent after several years of stagnation. During the review period, production of saw timber was 93.8 thousand

square metres, well above 85.2 thousand square metres, 85.3 thousand square metres and 83.7 thousand square metres produced in 1996, 1997 and 1998 respectively.

11.16. Expanded local and regional paper market has led to increased output in the paper manufacture industry. As a result, production of exercise books, kraft paper board and envelops rose by 56.1 per cent, 8.8 per cent, and 2.5 per cent respectively in 1999. Production of exercise books was 23.5 million dozens during this period, above 15.1 million dozens produced the previous year. Production of wrapping paper, corrugated paper containers, and teleprinter rolls fell. Output in the production of toilet paper rolls, paper bags and sacks, news prints and paper corks remained at the 1998 output levels.

11.17. Output in the basic industrial chemical sub-sector declined by 3.7 per cent in 1999 after a gain in 1998, mainly as a result of the general slowdown in the manufacturing sector. Except for the output in wattle extract and pyrethrum extract that registered marginal gain of 1.5 per cent and 1.4 per cent respectively, all other production indicators in this group of industries declined. The largest drop was in pyrethrum powder that fell by 51.2 per cent in 1999. In the year under review, production of oxygen, hydrogen and nitrogen was 2.9 million cubic metres, a drop of 19.9 per cent. Similarly, production of acetylene was 270.2 thousand cubic metres in 1999, compared with 307.7 thousand cubic metres output for 1998.

11.18. Overall, production output in the petroleum and other chemicals sub-sector expanded moderately though faster in 1999 than in 1998. On the upward trend was the production of vanishes and lacquers 13.8 per cent, drugs (liquids) 81.2 per cent, pharmaceuticals 5.3 per cent, laundry soap 3.1 per cent, detergent powder 60.0 per cent, cream lotions 10.6 per cent, shoe polish 16.7 per cent and gas oil 1.2 per cent. Production of paints was 7.0 million litres down from 10.4 million litres in 1998. Similarly, production of drugs (tablets) dropped to 1.4 million tablets in 1999 from 1.5 million tablets in 1998. Production of petroleum related products fell as a result of reduced activities at the Kenya Petroleum Refineries in Mombasa.

11.19. The plastic manufacture industry continued with the upward trend by recording a 14.6 per cent growth in 1999. Increased output in the plastic industry is attributed to increased use of plastic products in packaging both at industrial and retail levels. Except for the output of P.V.C pipes that fell, output of other products in this sub-sector rose by big margins in 1999. Hence, production of plastic bottles has more than doubled in the last four years from 3,082 tonnes in 1996 to 4,443 tonnes in 1997, to 5,418 tonnes in 1998 and to 6,617 tonnes in 1999. Similarly, production of plastic crates has more than quadrupled over the same period from 613.9 thousand units in 1996 to 2,992.7 thousand units in 1999. Production of polythene film bags was 4.5 thousand tonnes in the year under review up from 3.9 thousand tonnes produced in 1998. Production of plastic plates rose by 26.2 per cent.

11.20. Importation of rubber products especially motor vehicle tyres, has contributed to the continued decline in output of the rubber products sub-sector. During the last three years, imports of motor vehicle tyres have doubled to reach 3.4 million units in 1999 from 1.7 million units in 1997. Consequently, production of new motor vehicle tyres has been falling over this period from 575.0 thousand units in 1997 to 520.6 thousand units in 1998 and to 427.9 thousand units in 1999. Production of new motor vehicle tubes similarly, fell by 17.8

per cent in 1999 after a drop of 9.5 per cent in 1998. Production of rubber shoes and rubber soles rose marginally.

11.21. Production of clay and glass products declined in 1999 after a gain in 1998. Increase in the use of plastic bottles as an alternative to glass bottles in industrial packaging, contributed to a 41.9 per cent fall in the output of glass bottles. In the year under review, production of glass bottles was 22.9 thousand tonnes way below the 38.7 thousand tonnes produced in 1998. However, production of windscreen rose by 9.6 per cent from 93.8 thousand units in 1998 to 102.9 thousand units in 1999.

11.22. Cement production fell for the second year running in 1999. As shown in Table 11.4, cement production dropped further by 9.4 per cent to 1,291.6 thousand tonnes in 1999 from 1,452.8 thousand tonnes in 1998. The decline was attributed to reduced local and export demand of cement. On the other hand, production of roofing tiles rose by 6.5 per cent after a fall of 7.0 per cent in 1998. Production of concrete pipes and blocks was 675.6 thousand tonnes in 1999 compared with production output of 596.7 thousand tonnes the previous year. Production of limestone fell by 6.3 per cent.

Table 11.4: CEMENT PRODUCTION AND UTILIZATION, 1995 - 1999

'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
1999*.. ..	1,291.6	6.5	1,014.0	117.1	167.0

* Provisional.

11.23. Production of galvanized iron sheets rose to 121.0 thousand tonnes in 1999 compared with the 1998 production output of 119.9 thousand tonnes. Production of sufurias, pad locks, pangas, steel drums, nails, barbed wire, and water tanks all fell by various margins in 1999 as compared to 1998. Output of iron bars and rods, bolts, nuts and jembes stagnated at the 1998 output levels while production output of tabular furniture, gas cylinders, welded mesh, exhaust pipes and silencers rose by 20.6 per cent, 21.7 per cent, 15.4 per cent, 20.5 per cent and 19.9 per cent, respectively in 1999. Production of wheelbarrows in the non-electrical machinery industry declined marginally to 21.5 thousand units in 1999 from 21.8 thousand in1998.

11.24. The local market for electrical machinery, apparatus and appliances has been saturated by imported electrical goods especially from Hong Kong, China and Singapore thus depressing output of the locally produced electrical articles. Consequently, the production of dry cells fell by 17.3 per cent in 1999 after a 12.9 per cent gain in 1998. Output of dry cells was 103.9 million units during this period compared with 125.7 million units in 1998. Production of motor vehicle batteries declined by 11.6 per cent from 148.1 thousand units in 1998 to 130.9 thousand units in 1999. Production of battery plates also fell. Production of electrical lamps, however, recorded growth of 21.8 per cent after declining for several years.

11.25. The market for the locally assembled vehicles has narrowed to corporate bodies with the individual consumers preferring the imported reconditioned vehicles. Despite increase in duty on imported motor vehicles, output in the motor vehicle assembly industry continued with the downward trend. The number of assembled vehicles was a record low of 3,705 units in 20 years in 1999 from 4,393 units in 1998.

Manufacturing Labour Cost and Productivity

11.26. Table 11.5 depicts trends in manufacturing productivity. As the table shows, the rate of growth in employment and real output declined steadily between 1995 and 1999 depicting the poor performance of the manufacturing sector over this period. Over the same period, wage cost as a percentage of gross output averaged 3.7 per cent compared with the 1985 to 1990 average of 4.7 per cent.

Table 11.5: INDICATORS OF LABOUR PRODUCTIVITY IN MANUFACTURING, 1995 - 1999

	INDICATOR	1995	1996	1997	1998	1999*
1.	Change in the quantum index of manufacturing ..	+3.9	+3.7	+1.9	+1.3	+1.0
2.	Change in numbers employed in manufacturing ..	+3.7	+2.8	+1.9	+1.1	+0.9
3.	Implicit change in labour productivity	+0.2	+0.9	+0.0	+0.2	+0.1
4.	Wage cost as percentage of gross output	3.3	3.3	3.5	3.7	4.6
5.	Wage cost as percentage of value added	35.4	37.5	40.5	39.4	43.1

* Provisional.

Export Processing Zones

11.27. Summary of the Export Processing Zones (EPZ) key performance indicators are as shown in Table 11.6. The number of gazetted zones in 1999 remained at 16, as was the case in 1998. Seven of the zones are located in Nairobi, seven in Mombasa, one in Nakuru and the other in Malindi. By 1999, 32 enterprises were licensed to operate in the zones out of which 22 were operational compared to 18 in 1998. The operating enterprises are engaged in the production of garments, pharmaceuticals, printing, computer assembly and horticultural processing.

Table 11.6: Selected EPZ performance Indicators 1995 - 1999

K£ 000

	1995	1996	1997	1998	1999*
Exports Sales	35,819	54,988	63,195	89,466	156,707
Domestic Sales	61,032	24,842	25,180	32,500	15,498
Total Sales	66,851	79,831	88,375	121,965	172,205
Foreign Imports	47,025	50,461	62,900	102,822	90,444
Local Purchases of Goods and Services	10,482	14,610	20,121	25,597	27,420
Investment	194,995	218,522	232,899	287,377	292,877

* Provisional.

11.28. Turnover for the EPZ enterprises rose by 41.1 per cent from K£ 122.0 million in 1998 to K£ 172.2 million in 1999. Approximately K£ 156.7 million or 90.7 per cent of the turnover were earnings from export sales in 1999 compared with K£89.5 million earned from exports in 1998, an increase of 75.1 per cent. On the other hand, sales to the domestic market were K£ 15.5 million in 1999 as opposed to K£ 32.5 million in 1998. Major destination for the EPZ exports are United States of America (55 per cent), the Common Market for Eastern and Southern Africa (37 per cent), Europe (2 per cent) and 6 per cent to the rest of the world.

11.29. Total employment in the EPZ rose from 3,719 persons in 1998 to 4,767 in 1999. Employment for Kenyans in the zones rose by 28.5 per cent to reach 4,684 persons in 1999 from 3,645 employment persons in 1998. Local purchases of goods and services, that is the purchase of local raw materials, payment for power, telephone, salaries, wages and other services was K£ 27.4 million in 1999, an increase of 7.1 per cent.

Industrial Credit

11.30. Table 11.7 show industrial financing by Government and quasi Government development institutions. Credit to the manufacturing sector was characterized by a declining trend in the 1990s. As in the other sectors of the economy, high interest rates, low investor confidence, difficult business environment, poor infrastructure and structural weaknesses in the economy made investors to shy away from investing in the manufacturing related ventures. Total credit in 1991 was K£ 42.8 million ($US 30.5 million) declining to K£ 31.2 million ($US 11.2 million) in 1995 and to K£ 14.1 million ($US 4.1 million) in

Table 11.7: INDUSTRIAL PROJECTS APPROVED BY SELECTED GOVERNMENT OR QUASI-GOVERNMENT INSTITUTIONS, 1995 - 1999

INSTITUTION	NUMBER OF PROJECTS					APPROVED EXPENDITURE K£ MILLION				
	1995	1996	1997	1998	1999*	1995	1996	1997	1998	1999*
Industrial Development Bank Limited (I.D.B.)	7	5	2	5	2	7.1	8.4	6.5	7.5	4.4
Development Bank of Kenya (DBK)	5	3	8	6	3	17.5	5.3	17.8	9.4	6.3
Kenya Industrial Estates Limited (K.I.E.)	59	4	12	11	70	1.2	0.1	0.4	0.2	0.3
Industrial and Commercial Development Corporation (I.C.D.C.)	4	7	4	3	3	5.4	0.8	3.1	3.3	3.1
TOTAL	75	19	26	25	78	31.2	14.6	27.8	20.4	14.1

* Provisional.

1999.

11.31. In 1999, activities at the Kenya Industrial Estate (K.I.E) remained subdued. This was due to the constrained financial position, brought about by the withdrawal of donor funds, subjecting the institution to yields from the ongoing projects as the only source of credit. Consequently, 70 small-scale projects worth K£ 300 thousand were approved during the year of review compared with 11 projects worth K£ 200 thousand approved the previous year. This is a deviation from the tradition whereby the institution would finance both small and large-scale projects. The institution concentrated mainly on collection of debts.

11.32. The Industrial Development Bank approved two projects worth K£ 4.4 million in 1999 compared with 5 projects worth K£ 7.5 million approved in 1998. The two projects will be engaged in saw milling and confectionery activities and are expected to generate 74 new jobs when they become operational.

11.33. The Development Bank of Kenya (DBK) has been approving the highest line of credit to manufacturing concerns. In 1999, the bank approved a total of 10 projects, of which 3 were expansion-manufacturing projects. During this period, the bank approved K£ 6.3 million, the lowest since 1996. This was attributed to weak demand for credit owing to the deepening economic recession.

11.34. In 1999, The Industrial and Commercial Development Corporation (ICDC) recorded low activities in loans approval as the corporation engaged primarily on debt collection and loan recovery efforts. Consequently, there were no new projects approval but equity loan disbursement to four earlier approved projects. Of the four, three were engaged in manufacturing while the other in poultry farming. Total disbursement consequently, fell to K£ 3.1 million in 1999 compared to K£ 3.3 million approved in 1998.

Conclusion

11.35. The three primary reasons for depressed output in manufacturing are; reduced demand occasioned by high product prices, flooding of the Kenyan market with sub-standard imported goods and export market restriction abroad. High inflation witnessed between 1992 and 1996 exerted great pressure on real incomes to majority of Kenyan households thus depressing the local market for manufactured goods. Export market was similarly affected, as prices of Kenyan goods rose and could not compete favourably at the international markets.

11.36. On the domestic scene, liberalisation of the trade regime in the early 1990s, opened the gates for massive imports of manufactured goods thus saturating the already diminishing market. On the other hand, export markets to Europe and America became unreliable as member states imposed quotas and total ban for some Kenyan export goods. The combined effect of these developments were low investments, under utilisation of already existing capacity, de-investment from the sector and and above all, loss of source of income for many workers as factories wound up and loss of market for agricultural goods that were going to the manufacturing sector.

11.37. There is therefore, urgent need to enhance the sectors' output in order to generate more jobs and create market for locally produced inputs. For the sector to achieve meaningful growth, there is need to address infrastructure deficiencies particularly delays at the port, road network and power supply, high interest rates, unfair business competition from imports and trade policies. The prospects for this year are that the sector will grow more or less at the 1999 growth rate but will improve from 2001.

CHAPTER 12 - BUILDING AND CONSTRUCTION

Overview

The performance of the building and construction sector remained subdued in 1999. During the year, the sector's growth was hampered by depressed public and private sector investment in building and construction related activities. The weak performance was partly due to reduced government expenditure as part of its financial austerity measure and suspension of donor funds. However, the sector benefited from rehabilitation of roads and other civil works under the El-Nino emergency fund and the Kenya Urban Transport Infrastructure Programme (KUTIP), which prevented further drop in the sector. High interest rates prevailing in the year constrained growth in private sector building and construction activities. During the year cement consumption declined due to depressed domestic demand. Building and construction inputs registered modest price increases. The value of building plans approved in Nairobi and other towns declined by 13 per cent due to slow down in the economy. Similarly, value of buildings completed and employment recorded declined.

Table 12.1: TRENDS OF THE SELECTED KEY ECONOMIC INDICATORS IN BUILDING AND CONSTRUCTION *, 1995-1999

1982=100

	1995	1996	1997	1998	1999**
"Index" of reported private building work completed in main towns***	37.6	38.0	36.7	32.7	..
"Index" of reported public building work completed in main towns***	3.2	2.6	2.0	1.5	..
"Index" of government expenditure on roads	91.6	81.6	75.0	79.7	108.8
Cement consumption ('000 tonnes)****	1,065.0	1,161.5	1,136.9	1,071.9	1,014.0
"Index" of Cement consumption	183.8	200.5	196.2	185.0	175.0
Employment ('000)	76.4	78.8	79.8	79.3	78.7
"Index" of Employment	126.5	130.5	132.1	131.3	130.3

* 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 buildings

**** Revised

12.2. Analysis of trends in selected key economic indicators in building and construction sector, presented in Table 12.1 show that with exception of Government expenditure on roads, all other sector's indicators further declined for the second consecutive year. Cement consumption, recorded a further decline of 5.4 per cent from 1,071.9 thousand tonnes to 1,014.0 thousand tonnes. The decline was attributed to depressed domestic demand. Employment in the construction industry declined marginally while provisional index on Government expenditure on roads, which declined between 1995 and 1998, rose to 108.8 points in 1999. The rise in expenditure is attributed to more resources allocated to road development, maintenance and repair aimed at improving the conditions of the country's road network.

12.3. Wage employment in building and construction sector remained low. The sector engaged a total of 78.7 thousand persons in 1999 down from 79.3 thousand persons the previous year. Public sector continued to record a downward trend from 29.0 thousand persons in 1996 to 27.3 thousand persons and 26.5 thousand persons in 1998 and 1999 respectively. The drop in employment was mainly due to slow down in building and construction activities over the last two years.

12.4. The purpose of building and construction cost indices is to measure price changes of materials and labour cost over time. High construction costs discourages investment and inhibits economic growth. During the last three years, as inflationary pressure eased, the overall building and construction cost index remained at one-digit level. In 1999, the cost index rose to 8.2 per cent above the 4.6 per cent rise recorded in the previous, year mainly due to higher material and labour costs in 1999 as compared to 1998. However, the rise was more pronounced in labour costs. The prices of construction materials remained generally stable in 1999 with the indices maintaining a single digit level. In 1999, the prices were slightly higher than in 1998 and 1997 by 3.8 and 1.9 percentage points, respectively. Modest price rises were recorded in fuels, bitumen and lubricants category, timber, sand and steel products. The annual percentage increase in building and construction cost indices for the last three years are presented in Table 12.2.

Table 12.2: ANNUAL PERCENTAGE INCREASE IN BUILDING AND CONSTRUCTION COST INDICES*, 1997 - 1999

	MATERIALS			LABOUR			TOTAL COST		
	1997	1998*	1999**	1997	1998*	1999**	1997	1998*	1999**
Residential Buildings ..	4.0	6.0	3.6	16.6	9.1	12.0	6.3	6.6	5.2
Non-Residential Buildings	4.4	1.0	7.1	16.6	9.1	12.0	7.1	3.0	8.4
All Buildings ..	4.2	3.7	7.9	16.6	9.1	12.0	6.7	4.9	8.8
"Other" Construction ..	5.7	0.7	3.4	16.6	9.1	12.0	9.9	4.1	7.1
OVERALL COST INDEX	4.7	2.8	6.6	16.6	9.1	12.0	7.9	4.6	8.2

* From December to December.

* * Provisional.

12.5. Labour is one of the key inputs in building and construction sector due to its intensity in the sector. In 1999, the rise in labour cost surpassed the single digit level, recording a 12.0 per cent rise compared to 9.1 per cent in the previous year, but remained below the 1997 level. During the period under-review, skilled, semi-skilled and unskilled labour costs registered a growth of 11.8 per cent, 12.3 per cent and 18.8 per cent, respectively.

12.6. A summary of building plans approved by Nairobi City Council (NCC) and other towns for the last five years are presented in Table 12.3. The total value of plans approved declined to reach its lowest level of K£ 556.5 million in 1999 from K£ 756 million in 1996. Both Nairobi and "Other" towns category recorded declines reflecting the continued low investors confidence in the sector. During the year under review, the value of building plans approved by NCC declined by 14.9 per cent down from 18.3 per cent decline recorded in previous year. The value of residential plans approved constituted about 68.0 per cent of the total value of plans approved by NCC, reflecting the high demand of residential units in Nairobi due to its large population size. Whereas Nairobi recorded a significant decline in value of plans approved, "Other" towns recorded a marginal decline of only 1.8 per cent, from the K£ 105.4 million in 1998 to K£ 103.6 in 1999.

Table 12.3: VALUE OF BUILDING PLANS APPROVED BY NAIROBI AND OTHER TOWNS, 1995 - 1999

K£million

YEAR	NAIROBI	OTHER TOWNS	TOTAL
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
1999*	452.92	103.60	556.52

* Provisional.

12.7. Table 12.4 provides a comparison of value of private building plans approved and buildings completed for the period 1995 to 1999. While the value of building plans approved consistently declined since 1996, the value of completions recorded mixed perfomance. The value of building works completed as a proportion of building plans approved by local authorities improved from 9.7 per cent in 1996 to 10.8 per cent and 12.0 per cent in 1997 and 1998, respectively. However in 1999 it dropped to 11.4 per cent.

Table 12.4: COMPARISON OF VALUE OF PRIVATE PLANS APPROVED AND BUILDINGS COMPLETED IN MAIN URBAN AREAS*, 1995 - 1999

K£million

YEAR	PLANS APPROVED	BUILDING WORK COMPLETED
1995	637.75	66.21
1996	756.24	73.27
1997	748.84	80.51
1998	637.61	76.50
1999*	556.52	63.75

* Excluding the value of extensions

** Provisional

12.8. A breakdown of value of reported private building works completed in five selected towns presented in Table 12.5, shows that all the towns reported declines in building works completed in 1999. Nairobi City contributing about 47.5 per cent of the total value of private buildings completed reported a decline of 9.8 per cent, from K£ 34.8 million in 1998 to K£ 31.4 million in 1999. Kisumu reported the highest decline during the period under review. The poor performance of the private building completed was partly due to the prevailing economic recession coupled with high interest rates, which impacted negatively to the growth of the sector.

Table 12.5: VALUE OF REPORTED PRIVATE BUILDING* WORKS COMPLETED IN SELECTED MAIN TOWNS, 1995 - 1999

K£million

Year	Nairobi	Mombasa	Kisumu	Nakuru	Malindi	Total
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
1999**	31.42	18.34	2.10	5.85	8.50	66.21

* Including the value of extension.

** Provisional.

12.9. Table 12.6 provides an analysis of reported completions of new private buildings by residential and non-residential. In the last five years, a total of 6,924 units were completed out of which 6,731 units were residential representing 97.2 per cent of the total units. In 1999, the total number of units completed declined to its lowest level from 1,472 units in 1998 to 1,135 units with corresponding costs recording a similar trend. The

number of residential units dropped by 333 units while non-residential units dropped by only 4 units. During the period under review, estimated cost of residential and non-residential units dropped by 19.2 per cent and 10.1 per cent, respectively.

Table 12.6: REPORTED COMPLETIONS OF NEW PRIVATE BUILDINGS* IN SELECTED MAIN TOWNS, 1995 - 1999

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
1997	1,449	33	54.24	26.27	80.51
1998	1,446	26	55.10	21.40	76.50
1999**	1,113	22	44.51	19.24	63.75

* Excluding the value of extensions.

** Provisional

12.10. Public sector continued with dismal performance in 1999. The total number of units completed further declined to 53 units from 73 units and 99 units in 1998 and 1997, respectively The corresponding total cost declined by 16.0 per cent from K£ 1.6 million in 1998 to K£ 1.3 million during the year under review. The poor performance of the public sector was partly due to lack of adequate funds for the completion of the on-going building projects. Analysis of reported completions of new buildings in main towns is shown in Table 12.7.

Table 12.7: REPORTED COMPLETIONS OF NEW PUBLIC BUILDINGS* IN MAIN TOWNS, 1995 - 1999

YEAR	NUMBER		ESTIMATED COST K£million		
	Residential	Non-Residential	Residential	Non-Residential	Total
1995	129	13	2.19	0.82	3.01
1996	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
1999**	46	7	0.88	0.43	1.31

* Including the value of extensions.

** Provisional.

Housing

12.11. Housing is a basic need to individuals and families. In addition, it is an important investment generating regular rental income to households. In the economy, housing construction activities create employment opportunities in both modern and informal sectors. The improvement of housing conditions in the country is used as a measure of economic and social progress. In the recent past, public sector housing development has lagged behind the desired level due to inadequate resource allocation by the Government. National Housing Corporation's housing activities continued to decline reaching its lowest level in 1999, and a similar trend was recorded in the Pool Housing implemented under the Ministry of Public Works and Housing.

12.12. As Table 12.8 shows approved and actual Central Government expenditure on housing over the last fiscal year dropped from its peak of K£ 10.9 million in 1997/98 to K£ 6.8 million in 1998/99, a drop of 37.6 per cent. Resources allocated to housing

development as a percentage of development expenditure similarly dropped from 0.4 per cent to only 0.2 per cent in 1999/2000 fiscal year. Approved expenditure over the same period dropped from K£ 7.4 million to K£ 5.4 million. Lack of adequate resources for housing development continued to be a major constraint to the provision of affordable shelter to both rural and urban population.

Table 12.8: APPROVED AND ACTUAL CENTRAL GOVERNMENT EXPENDITURE ON HOUSING, 1995/96 - 1999/2000

YEAR	K£ Million		Approved Expenditures as Percentage of Development Expenditure
	Approved	Actual	
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	6.83	0.39
1999/00*	5.41	..	0.20

* Provisional.

12.13. National Housing Corporation (NHC) has since its inception played a crucial role in the provision of housing through its mortgage, rental, tenant purchase and site and service housing schemes. Since 1965, NHC has completed a total of 42,062 housing units at a cost of about K£122 million. Between 1994 and 1999, the Corporation housing construction activities slowed down to reach its lowest level in 1999. In 1994, a total of 1,296 units were completed and this declined to 52 units in 1995, 1 unit in 1996, 35 units in 1997 and none in 1999. This reflects difficult time for NHC housing programmes. However, in 1999, five housing schemes comprising a total of 382 units were under various stages of construction in Nairobi, Thika, Eldoret and Malindi towns. In its effort to meet future housing demand, NHC have 16 housing schemes under various planning stages. A breakdown of housing units completed by NHC over the last five years is shown in Table 12.9.

Table 12.9: HOUSING UNITS COMPLETED BY THE NATIONAL HOUSING CORPORATION, 1995 - 1999

	1995	1996	1997	1998	1999*
Units completed					
PROVINCE-					
Nairobi	26	1	. .	53	. .
Coast	. .	. .	. .	. .	. .
North-Eastern	. .	. .	. .	. .	. .
Eastern	. .	. .	. .	. .	. .
Central	26	. .	35	. .	. .
Rift valley	. .	. .	. .	. .	. .
Nyanza	. .	. .	. .	. .	. .
Western	. .	. .	. .	. .	. .
TOTAL NUMBER ..	52	1	35	53	. .
Value of units completed K£'000					
Nairobi	1,363	625	. .	1,721	. .
Coast	. .	. .	. .	. .	. .
North-Eastern	. .	. .	. .	. .	. .
Eastern	. .	. .	. .	. .	. .
Central	865	. .	1,341	. .	. .
Rift valley	. .	. .	. .	. .	. .
Nyanza	. .	. .	. .	. .	. .
Western	. .	. .	. .	. .	. .
TOTAL VALUE ..	2,228	625	1,341	1,721	. .

* Provisional

12.14. Rural housing schemes, one of the NHC housing schemes aimed at improving individual housing units in the rural areas also experienced a decline in amount disbursed and number of beneficiaries. During 1998/99 fiscal year, loans amounting to K£92,500 were advanced to 12 applicants compared to 23 individuals advanced loans in 1998 amounting to K£ 173,000.

Roads

12.15. The road transport remains the dominant mode of transport in the country. The efficiency of road transport in facilitating production activities and mobility depends on the condition of the country's road network. Over the last three years, the condition of some of the country's roads deteriorated due to lack of maintenance. The poor state of roads has led to high production costs thus discouraging investments. This is increasingly hindering economic turn-around and implementation of the country's long term industrialization strategy. The performance of the road sub-sector remained depressed due to inadequate funding for road construction activities. The sub-sector, however, benefited from funding for the rehabilitation and maintenance of roads in both rural and urban areas under the El-Nino Emergency Fund, Kenya Urban Infrastructure Programme (KUTIP) and 2000 Road Programme. The programmes' activities prevented further decline of the sub-sector.

12.16. In 1999, the Government with the support from the country's development partners continued to rehabilitate and maintain roads in various parts of the country and strengthen the management of the road sub-sector. In its effort to improve the condition of the dilapidated road network, a number of roads were being rehabilitated and maintained in both rural and urban areas under the above named programmes, all aimed at improving the efficiency of road transport.

12.17. Table 12.10 shows analysis of kilometres of classified road network. The Ministry of Public Works and Housing (MOPW&H) is responsible for planning and designing, constructing and maintaining of classified road network. As at July 1999, the classified road network covered about 63,300 kilometres representing about 42.2 per cent of the total country's road network of about 151,000 kilometres. Over the last five years, the length of bitumen roads improved marginally by only 1.6 per cent lower than 2.2 per cent growth recorded in the previous five years. Significant gain was recorded in bitumized international trunk roads. The slower growth in the length of paved road in recent past was attributable to emphasis being put on maintenance and rehabilitation of roads already in place. Over the last five years, the length of Earth/Gravel roads declined by 540 kilometres mainly due to upgrading of these roads to bitumen standard.

Table 12.10: KILOMETRES OF ROAD AS AT 1st JULY, 1995 AND 1st JULY, 1999 BY TYPE AND CLASSIFICATION

'000Km

Type of Road	1995		1999	
	Bitumen	Earth/ Gravel	Bitumen	Earth/ Gravel
A- International Trunk ..	2.70	1.00	2.89	0.87
B- National Trunk	1.40	1.30	1.43	1.37
C- Primary	2.60	5.60	2.49	5.18
D- Secondary	1.20	10.10	1.17	10.05
E- Minor	0.70	26.00	0.75	25.80
F- Special Purpose*	0.20	10.90	0.21	11.09
TOTAL	8.80	54.90	8.94	54.36

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

12.18. In 1998/99 actual expenditure on road construction expanded by 2.8 per cent slightly above the 1.0 per cent growth recorded during the previous fiscal year. However, in 1999/2000 fiscal year the road sub-sector benefited from an increased allocation by 57.3 per cent from K£ 388.0 million in 1998/99 to K£ 610 million. The fast growth in expenditure is attributable to more funds allocated for road construction and rehabilitation in various parts of the country. Development expenditure on trunk road continued to record fastest growth in expenditure from K£ 49.8 million in 1997/98 to K£ 152.5 million in 1999/2000, attributed to funding of the two sections of the Nairobi-Mombasa road. During the last three fiscal years, expenditure on primary roads continued to show a decline while that of secondary and miscellaneous road recorded mixed performance. The details in Government expenditure on roads are as shown in Table 12.11.

Table 12.11: TOTAL EXPENDITURE ON ROADS, 1997/98 - 1999/00

K£million

	1997/98	1998/99	1999/00*
DEVELOPMENT:			
Trunk Roads	49.8	71.1	152.5
Primary Roads	57.8	37.6	36.5
Secondary Roads	15.9	6.8	24.4
Miscellaneous Roads.. ..	20.0	18.8	82.0
TOTAL	143.5	134.3	295.4
RECURRENT (maintenance and repair)	234.1	253.7	315.1
TOTAL	377.6	388.0	610.5

* Provisional

12.19. The Government through the Ministry of Public Works and Housing (MOPW&H) continues to give priority to maintenance, rehabilitation, provision of all weather roads and easy access to all parts of the country. Maintenance expenditure continued to take more than half of the total government's expenditure on roads. Since 1997/98 fiscal year, expenditure under this item showed an upward trend from K£ 234.1 million to K£ 315.1 million in 1999/2000. The improved budgetary allocation, mainly from the fuel levy funds and user charges, is aimed at improving the current poor state of the country's roads network. The annual revenue occurring from the levy has increased from about K£ 75.3 million in 1994/95 to about K£ 223.2 million realized between July 1998 and April, 1999.

12.20. The MOPW & H continued to implement the National Strategic Plan for the road sub-sector. For successful implementation plan, routine maintenance on the paved and unpaved road network is contracted whenever such venture proves to be cost effective. At present all road construction works and about 70.0 per cent of periodic road maintenance, are contracted to private contractors with the intention to increase private sector participation in periodic maintenance. Other reforms in the road sub sector towards implementation of the strategic plan include; establishment of Roads Authority to oversee construction, maintenance and managing the trunk road network, prioritisation of maintenance works and commercialisation of critical support functions.

12.21. Minor Roads Programme (MRP), one of the road programmes aimed at improving rural accessibility to enhance rural development activities have since been integrated into the Road 2000 Programme. The entire process of the programme aims at developing and putting in place adequate maintenance on both the unpaved and paved road network. Rehabilitation of roads under the 2000 programme were in progress in Coast province and a number of districts in Central and Eastern provinces, while in the remaining parts of the country, the programme was under preparatory stages.

Conclusion

12.22. The level of building and construction activities is an indicator of the general economic performance. This is due to linkages the sector has with other sectors of the economy. The performance of the sector depends on the level of interest rates in the money market, increased support towards infrastructure development particularly roads and other construction works, and level of government expenditure on construction related activities. The current declining rate of interest if maintained in the next three years, will stimulate private sector investment in building activities hence spur growth in the building sub-sector. However, the upward trend in Government expenditure on roads aimed at improving the country's road network is expected to boost the other construction sub-sector performance. Similarly, the implementation of the roads strategic plan is expected to stimulate growth in the sector.

12.23. Good and well maintained road network encourage investments and employment creation in the economy hence is key to economic growth, industrialization process and poverty reduction. In the rural areas, with high incidence of poverty, accessible roads facilitates marketing of farm produce and development of small scale enterprises, hence contributes significantly towards poverty reduction in the rural areas. The current poor state of the road network is a major constraint to economic growth and major factor in the rising level of poverty in both urban and rural areas.

CHAPTER 13 - TOURISM

Overview

The tourism sector registered remarkable growth in 1999 compared to 1998. International visitor arrivals, the main indicator of the sector's performance used by the World Tourism Organisation (WTO) world wide together with international visitor departures went up significantly by 8.4 per cent and 11.6 per cent respectively. However, hotel bed occupancy dropped by 1.4 percentage points and the average length of stay similarly dropped to 9.4 days from 9.6 days over the same period. Tourism receipts rose substantially by 22.1 per cent from K£ 875 million recorded in 1998 to K£1,068 million in 1999. The total number of visitors to game parks and game reserves rose sharply by 42.1 per cent to stand at 1,533.4 thousand in 1999. Visitors to museums, snake park and other historical sites also went up by 16.0 per cent. This improved performance can partly be attributed to the stable security situation particularly in the Coast region and the depreciation of the Kenya Shilling against the major currencies during the second half of 1999.

Arrivals and Departures

13.2. Table 13.1 presents the number of arriving visitors by quarter and purpose of visit. The total number of arriving visitors went up significantly by 8.4 per cent from 894.3 thousand recorded in 1998 to 969.3 thousand in 1999. However, this number is still substantially lower than the 1,003.0 thousand recorded in 1996. Visitors arriving through Jomo Kenyatta and Moi International airports increased by 7.0 per cent and 18.7 per cent respectively in 1999. The two airports accounted for over half of the total number of arriving visitors. With the exception of the first quarter, which registered a decline of 2.0 per cent, all the other quarters recorded impressive increases in the number of visitor arrivals in 1999 compared to 1998. The highest increase of 18.9 per cent was recorded in the third quarter. This growth in the number of arriving visitors was probably due to the stable security situation particularly in Coast region. The depreciation of the Kenya Shilling against the major currencies during the second half of 1999 also made Kenya a more competitive tourist destination.

13.3. In 1999, the number of arriving visitors by purpose of visit went up in all categories compared to 1998. The number of transit visitors, which surpassed the number of visitors on business in 1998, continued with the same trend in 1999. The number of visitors who came on holiday went up by 8.7 per cent from 686.9 thousand in 1998 to 746.9 thousand in 1999. Similarly, there was an increase of 8.8 per cent in the number of arriving visitors on business from 86.8 thousand to 94.4 thousand, while arriving visitors on transit went up by 5.4 per cent over the same period. The general pattern of arriving visitors by purpose of visit observed in 1998 continued through 1999. Visitors on holiday, transit and business accounted for 77.1 per cent, 11.1 per cent and 9.7 per cent respectively of all arriving visitors.

Table 13.1: QUARTERLY VISITOR ARRIVALS BY PURPOSE OF VISIT, 1995 - 1999

'000

Quarter	Purpose	1995	1996	1997	1998	1999*
1st Qr.	Holiday	212.9	213.8	233.6	192.9	193.8
	Business	26.9	27.0	29.5	24.4	24.5
	Transit	13.8	12.1	14.2	34.1	27.6
	Other	5.8	5.8	6.3	5.2	5.5
	TOTAL	259.4	258.7	283.6	256.6	251.4
2nd Qr.	Holiday	182.1	175.3	176.4	149.6	163.7
	Business	23.0	22.1	22.3	18.9	20.7
	Transit	13.9	12.0	15.5	20.6	24.4
	Other	4.9	4.8	4.8	4.1	4.5
	TOTAL	223.9	214.2	219.0	193.2	213.3
3rd Qr.	Holiday	199.0	212.1	210.0	175.8	207.7
	Business	25.1	26.8	26.5	22.2	26.2
	Transit	14.1	17.2	20.4	23.1	29.1
	Other	5.4	5.8	5.7	4.8	5.7
	TOTAL	243.6	261.9	262.6	225.9	268.7
4th Qr.	Holiday	201.7	219.6	184.8	168.6	181.7
	Business	25.5	27.8	23.4	21.3	23.0
	Transit	14.0	14.9	22.2	24.1	26.3
	Other	5.5	5.9	5.0	4.6	4.9
	TOTAL	246.7	268.2	235.4	218.6	235.9
Year	Holiday	795.7	820.8	804.8	686.9	746.9
	Business	100.5	103.7	101.7	86.8	94.4
	Transit	55.8	56.2	72.3	101.9	107.4
	Other	21.6	22.3	21.8	18.7	20.6
	TOTAL	973.6	1,003.0	1,000.6	894.3	969.3

* Provisional.

Table 13.2: QUARTERLY VISITOR DEPARTURES BY PURPOSE OF VISIT, 1995 - 1999

'000

Quarter	Purpose	1995	1996	1997	1998	1999*
1st Qr.	Holiday	215.2	214.4	221.6	181.2	196.0
	Business	27.1	27.1	28.0	22.9	24.8
	Transit	14.7	17.1	11.8	26.4	26.5
	Other	5.8	5.8	6.0	4.9	5.6
	TOTAL	262.8	264.4	267.4	235.4	252.9
2nd Qr.	Holiday	179.4	183.7	158.8	152.8	165.5
	Business	22.7	23.2	20.1	19.3	20.9
	Transit	14.3	12.6	15.3	17.7	23.2
	Other	4.9	5.0	4.3	4.2	4.5
	TOTAL	221.3	224.5	198.5	194.0	214.1
3rd Qr.	Holiday	194.7	196.4	195.3	166.7	203.0
	Business	24.6	24.8	24.6	21.0	25.0
	Transit	15.4	15.3	20.0	24.0	29.4
	Other	5.3	5.3	5.3	4.5	6.6
	TOTAL	240.0	241.8	245.2	216.2	264.0
4th Qr.	Holiday	196.4	206.0	168.6	172.2	182.0
	Business	24.8	26.0	21.3	21.8	23.0
	Transit	15.1	12.5	19.1	23.8	27.3
	Other	5.3	5.6	4.6	4.7	5.1
	TOTAL	241.6	250.1	213.6	222.5	237.4
Year	Holiday	785.7	800.5	744.3	672.9	746.5
	Business	99.2	101.1	94.0	85.0	93.7
	Transit	59.5	57.5	66.2	91.9	106.4
	Other	21.3	21.7	20.2	18.3	21.8
	TOTAL	965.7	980.8	924.7	868.1	968.4

* Provisional.

13.4. The total number of departing visitors went up by 11.6 per cent from 868.1 thousand in 1998 to 968.4 thousand in 1999 as shown in Table 13.2. There was a general increase in the number of departing visitors in all the quarters of the year with the highest increase of 22.1 per cent recorded for the third quarter. There were increases of 10.9 per

cent and 10.2 per cent for departing visitors who had come on holiday and business from 672.9 thousand and 85.0 thousand to 746.5 thousand and 93.7 thousand respectively in 1999 when compared to 1998. Departing visitors who were on transit shot up from 91.9 thousand to 106.4 thousand over the same period, representing an increase of 15.8 per cent. Departing visitors by purpose of visit continued to exhibit a similar pattern with arriving visitors.

13.5. Departing visitors by country of residence and purpose of visit are shown in Table 13.3. Europe continued to be the major destination of departing visitors from Kenya accounting for slightly over 60 per cent of all departing visitors. Holiday was the most frequently stated purpose of visit to Kenya by departing vistors destined for Europe. Country by country analysis reveals Germany and the United Kingdom to be the main country destinations for departing visitors to Europe with over half of all departing visitors to this region destined for the two countries. Africa was the second most important regional destination constituting up to 15.0 per cent of all departing visitors. Tanzania and Uganda continued to be the main country destinations for departing visitors to Africa. Departing visitors to the two countries accounted for over half of all departing visitors to Africa. Holiday was the main purpose of visit for departing visitors to Tanzania while most departing visitors to Uganda had come on business.

Table 13.3: DEPARTING VISITORS BY COUNTRY OF RESIDENCE AND PURPOSE OF VISIT, 1998- 1999

'000

	Holiday		Business		Transit		Total**	
Country of Residence	1998	1999	1998	1999	1998	1999	1998	1999*
Germany	165.2	180.8	3.9	4.3	10.7	15.2	179.8	200.3
United Kingdom	104.1	115.9	15.9	16.7	9.3	11.3	129.3	143.9
Switzerland	17.2	19.2	2.2	2.5	3.2	3.5	22.6	25.2
Italy	21.4	23.8	2.5	2.8	2.6	2.9	26.5	29.5
France	16.4	18.3	2.3	2.6	2.9	3.2	21.6	24.1
Scandinavia	14.0	15.6	1.9	2.1	2.5	2.8	18.4	20.5
Other Europe	128.1	142.7	2.9	3.2	14.2	15.8	145.2	161.7
TOTAL EUROPE	466.4	516.3	31.6	34.2	45.4	54.7	543.4	605.2
U.S.A.	38.8	43.2	4.4	4.9	3.9	4.4	47.1	52.5
Canada	12.3	13.7	1.6	1.8	2.1	2.3	16.0	17.8
TOTAL NORTH AMERICA	51.1	56.9	6.0	6.7	6.0	6.7	63.1	70.3
Uganda	12.4	13.8	18.4	20.5	4.0	4.5	34.8	38.8
Tanzania	21.9	24.4	4.9	5.5	10.8	12.0	37.6	41.9
Other Africa	26.7	29.8	15.2	16.9	13.2	14.7	55.1	61.4
TOTAL AFRICA	61.0	68.0	38.5	42.9	28.0	31.2	127.5	142.1
India	10.4	11.6	2.1	2.3	2.1	2.4	14.6	16.3
Japan	9.0	10.1	1.1	1.2	1.0	1.1	11.1	12.4
Israel	5.1	5.7	0.7	0.8	0.4	0.4	6.2	6.9
Other Asia	11.0	12.3	2.9	3.2	2.8	3.1	16.7	18.6
TOTAL ASIA	35.5	39.7	6.8	7.5	6.3	7.0	48.6	54.2
Australia and New Zealand	12.0	13.4	1.4	1.6	1.7	1.8	15.1	16.8
All Other Countries	46.9	52.2	0.7	0.8	4.5	5.0	52.1	58.0
TOTAL	672.9	746.5	85.0	93.7	91.9	106.4	849.8	946.6

* Provisional.

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

13.6. Table 13.4 shows details on the number of days stayed by purpose of visit. The overall number of days stayed by all categories of departing visitors other than “other” visitor category went up by 9.2 per cent from 8,183.1 thousand in 1998 to 8,934.9 thousand in 1999. The number of days stayed by visitors who had come on holiday and business rose by 8.7 per cent and 10.2 per cent from 7,132.1 thousand and 646.0 thousand to 7,754.6 thousand and 712.1 thousand respectively in 1999. Departing visitors who were

on transit stayed for 15.8 per cent more days compared to the previous review period. However, the average length of stay fell marginally to stand at 9.4 days from 9.6 days in 1998.

Table 13.4: NUMBER OF DAYS STAYED* BY PURPOSE OF VISIT, 1995 - 1999

'000

Purpose	1995	1996	1997	1998	1999**
Holiday	10,371.2	12,087.6	9,603.0	7,132.7	7,754.6
Business	1,203.7	1,246.1	785.4	646.0	712.1
Transit	232.5	264.5	284.7	404.4	468.2
TOTAL	11,807.4	13,598.2	10,673.1	8,183.1	8,934.9
Average length of stay in days	12.5	14.2	11.8	9.6	9.4

* Excludes days stayed by "Other Visitors" Category.

** Provisional.

Hotel Occupancy

13.7. The hotel sub-sector is yet to recover fully from the adverse effects of 1997 and 1998. The number of hotel bed-nights occupied improved slightly by 4.9 per cent from 2,813.0 thousand in 1998 to 2,951.0 thousand in 1999. This number was still below the 5,061.2 thousand recorded in 1996. On the other hand, hotel capacity as defined by the number of bed-nights available expanded by 9.2 per cent from 7,975.7 thousand to 8,711.4 thousand during the period under review. This was due to the re-opening of several hotel establishments that had temporarily closed in 1998. This scenario precipitated a marginal fall in bed-occupancy by 1.4 percentage points from 35.3 per cent in 1998 to 33.9 percent in 1999. The slight growth in the number of bed-nights occupied can partly be attributed to the continued contraction of the number of bed-nights occupied by clients from United Kingdom, U.S.A. and Kenya residents. These details are presented in Tables 13.5 and 13.6.

13.8. In 1999, Europe maintained its position as the dominant market for Kenya's tourism albeit a marked drop in the relative share of the number of bed-nights to total number of bed-nights recorded in 1996. During the period under review, the number of bed-nights occupied by clients from the continent grew by 7.6 per cent to 1,629.7 thousand from 1,514.4 thousand recorded in 1998. Germany and the United Kingdom continued to be the main sources of tourists coming to Kenya. However, the number of bed-nights occupied by German clients rose by 28.0 per cent from 418.8 thousand in 1998 to 536.1 thousand in 1999, while the number of bed-nights occupied by clients from the United Kingdom dropped significantly by 22.7 per cent from 516.3 thousand to 399.1 thousand over the same period. Though the number of bed-nights occupied by clients from African countries continued to fall in 1999, the continent remained the second most important source of tourists to Kenya. Clients from Africa spent 1.2 per cent fewer bed-nights in 1999 compared to 1998. However, over 70 per cent of these bed-nights were by Kenyan domestic tourists. Notable foreign clients from Africa were from Tanzania, Uganda, East and Central Africa and South Africa. Residents of U.S.A. spent 171.8 thousand bed-nights in 1999 representing over 80 per cent of the total bed-nights by residents of North America though this number was 7.1 per cent lower than the number recorded in 1998.

Table 13.5: HOTEL BED-NIGHTS OCCUPIED BY COUNTRY OF RESIDENCE, 1995 - 1999

'000

	1995	1996	1997	1998	1999*
Permanent Occupants**	99.2	41.8	28.3	11.6	15.2
Germany	1,201.4	1,275.6	1,135.1	418.8	536.1
Switzerland	312.0	301.9	272.6	129.8	164.0
United Kingdom	984.6	934.1	956.0	516.3	399.1
Italy	305.7	174.6	249.3	126.5	151.7
France	310.1	278.0	267.6	123.3	137.5
Scandinavia	86.3	135.4	152.1	54.1	50.6
Other Europe	289.0	360.9	321.9	145.6	190.7
EUROPE	3,489.1	3,460.5	3,354.6	1,514.4	1,629.7
Kenya Residents	689.3	782.6	776.8	696.9	653.8
Uganda	30.8	32.8	36.6	26.4	30.7
Tanzania	40.6	40.3	40.6	35.1	39.4
East and Central Africa ..	41.9	46.5	50.2	35.7	41.4
West Africa	28.2	18.3	21.7	13.5	18.8
North Africa	12.0	15.7	15.0	13.0	16.5
South Africa	23.1	32.3	43.6	36.8	36.4
Other Africa	89.9	69.5	64.4	41.1	50.9
AFRICA	955.8	1,038.0	1,048.9	898.5	887.9
U.S.A.	265.9	232.7	225.7	185.1	171.8
Canada	51.6	28.3	29.9	18.3	21.8
Other America	15.0	14.8	23.2	13.4	16.3
AMERICA	332.5	275.8	278.8	216.8	209.9
Japan	33.4	42.4	49.6	33.5	38.8
India	27.8	54.2	31.1	29.6	29.9
Middle East	29.6	45.3	34.6	48.4	46.9
Other Asia	25.5	37.7	26.2	17.8	17.0
ASIA	116.3	179.6	141.5	129.3	132.6
Australia and New Zealand	25.1	33.9	30.2	21.8	21.2
All Other Countries	36.8	31.6	28.0	20.6	54.5
TOTAL- OCCUPIED	5,054.8	5,061.2	4,910.3	2,813.0	2,951.0
TOTAL -AVAILABLE	11,562.2	11,354.5	9,516.6	7,975.7	8,711.4
Occupancy rate % ..	43.7	44.6	51.6	35.3	33.9

* Provisional.

** Persons staying one month or more in one hotel-includes some block bookings for aircrew.

Table 13.6: HOTEL BED-NIGHTS BY ZONE, 1995 - 1999

'000

Zone	1995	1996	1997	1998	1999*
Coastal-Beach	3,059.6	3,144.9	3,074.4	1,505.3	1,625.2
- Other	166.7	70.9	71.5	109.1	73.9
Coast Hinterland	120.3	114.2	59.0	43.9	48.7
Nairobi-High Class	613.7	774.1	801.5	655.6	685.5
-Other	413.8	313.0	311.8	178.0	173.2
Central	275.4	253.4	218.1	92.9	77.5
Masailand	245.3	237.1	215.0	85.2	84.3
Nyanza Basin	78.6	114.3	88.2	110.8	110.1
Western	65.5	33.0	64.3	27.3	69.2
Northern	15.9	6.3	6.5	4.9	3.4
TOTAL-OCCUPIED	5,054.8	5,061.2	4,910.3	2,813.0	2,951.0
TOTAL-AVAILABLE	11,562.2	11,354.5	9,516.6	7,975.7	8,711.4

* Provisional.

13.9. Details on hotel bed-nights occupied by zone are shown in Table 13.6. The Kenyan Coast with its warm beaches continued to attract most tourists coming to Kenya. In 1999, the number of bed-nights occupied by tourists staying in hotel establishments located at the Kenyan Coastal beach area rose by 8.0 per cent from 1,505.3 thousand recorded in 1998 to 1,625.2 thousand. This proportion of bed-nights represents about half of the total number of bed-nights for the whole country. Hotel establishments located in Coast hinterland also registered a growth of 10.9 per cent in the number of bed-nights occupied from 43.9

thousand in 1998 to 48.7 thousand in 1999. Nairobi, being the regional communication and business centre was the next most preferred destination of tourists. The number of bed-nights recorded by hotel establishments in Nairobi rose by 3.0 per cent to reach 858.7 thousand in 1999 from 833.6 thousand in 1998. All other zones except the western zone recorded decreases in the number of bed-nights occupied. The Northern zone continued to attract the least number of tourists.

13.10. Table 13.7 presents details of the number of bed-nights occupied by area and country of residence. During the period under review, hotel bed-nights occupied in game lodges contracted by 14.0 per cent from 167.0 thousand in 1998 to 143.7 thousand in 1999. The number of hotel bed-nights spent in Nairobi and Coast increased from 833.6 thousand and 1,614.4 thousand to 858.7 thousand and 1,699.1 thousand respectively over the same period. Residents from European countries accounted for three quarters of all hotel bed-nights occupied at the Coast. Germany and the United Kingdom residents accounted for 38.6 per cent and 21.1 per cent respectively of all bed-nights occupied by residents of Europe at the Coast. Most of the residents from U.S.A. and Africa preferred to stay in hotels in Nairobi. About a third of hotel bed-nights occupied by Kenyan residents were spent in establishments in other areas.

Table 13.7: HOTEL BED-NIGHTS OCCUPIED BY AREA AND COUNTRY OF RESIDENCE, 1999*

'000

Country of Residence	Nairobi	Coast	Lodges	Others	Total
Permanent Occupants**	7.5	3.4	0.5	3.8	15.2
Germany	26.0	494.8	13.0	2.3	536.1
Switzerland	10.2	148.9	4.2	0.7	164.0
United Kingdom	90.5	270.5	31.4	6.7	399.1
Italy	19.1	125.7	6.0	0.9	151.7
France	31.9	94.4	9.9	1.3	137.5
Scandinavia	23.6	19.0	6.0	2.0	50.6
Other Europe	50.9	127.0	9.8	3.0	190.7
Kenya	179.0	258.3	10.4	206.1	653.8
Uganda	21.9	5.5	0.1	3.2	30.7
Tanzania	26.9	8.9	0.1	3.5	39.4
East and Central Africa	33.7	6.2	0.1	1.5	41.5
West Africa	16.6	1.7	0.1	0.4	18.8
North Africa	14.4	1.5	0.4	0.2	16.5
South Africa	28.8	6.6	0.3	0.7	36.4
Other Africa	44.8	4.9	0.4	0.8	50.9
U.S.A.	109.8	22.8	32.9	6.3	171.8
Canada	14.8	5.0	1.4	0.6	21.8
Other America	10.8	3.3	1.2	1.0	16.3
Japan	23.0	9.9	4.1	1.7	38.7
India	17.3	10.3	1.6	0.7	29.9
Middle East	25.1	14.7	6.1	1.0	46.9
Other Asia	10.4	5.1	1.0	0.5	17.0
Australia and New Zealand	14.8	3.7	2.4	0.3	21.2
All Other Countries	6.9	47.0	0.3	0.3	54.5
TOTAL	858.7	1,699.1	143.7	249.5	2,951.0

* Provisional.

** Persons staying one month or more in one hotel -includes some block bookings for aircrew.

13.11. The increase in the number of visitors to game parks and game reserves that was observed in 1999 did not have an impact on the number of bed-nights occupied in hotel establishments located in these areas as shown in Table 13.8. The number of bed-nights occupied in game lodges dropped significantly by 14.0 per cent from 167.0 thousand in 1998 to 143.7 thousand in 1999. Over 90 per cent of the total bed-nights occupied were by foreign residents though the number dropped by 4.2 per cent from 139.0 thousand to 133.1

thousand over the same period. The number of bed-nights occupied by East African residents drastically dropped by 62.1 per cent to stand at 10.6 thousand in 1999. Full catering services were preferred to self-service by most visitors to these establishments.

Table 13.8: GAME LODGES* OCCUPANCY, 1997 - 1999

'000

Lodge locality/Type	BED-NIGHTS OCCUPIED					
	Foreign Residents			E.A. Residents		
	1997	1998	1999*	1997	1998	1999*
Game Reserves	178.9	77.7	74.4	18.0	16.2	6.1
National Parks	141.2	61.3	58.7	13.1	11.8	4.5
TOTAL	320.1	139.0	133.1	31.1	28.0	10.6
Of which full catering -	279.3	121.3	116.2	24.4	22.0	8.3
Self Service -	40.8	17.7	16.9	6.7	6.0	2.3

* Lodges in National Parks and Game Reserves only.

** Provisional.

Other Tourist Attractions

13.12. The downward trend in the number of visitors to parks and game reserves observed since 1995 was reversed in 1999 as depicted in Table 13.9. The number of visitors to these tourist attractions went up drastically by 42.1 per cent from 1,079.4 thousand in 1998 to 1,533.4 thousand in 1999. This was mainly as a result of a marked recovery in the number of visitors to the seven most popular parks and game reserves. However, the seemingly high number of visitors that was recorded in 1999 represents a paltry 2.7 per cent increase over the number of visitors that was recorded in 1995. All parks and game reserves with the exception of Aberdare and Samburu showed remarkable recovery in the number of visitors in 1999. Visitors to Nairobi National Park and the adjacent animal orphanage went up by 13.8 per cent and 42.7 per cent from 122.3 thousand and 164.8 thousand in 1998 to 139.2 thousand and 235.1 thousand respectively in 1999. The combined number of visitors to Tsavo West and Tsavo East went up by 41.7 per cent from 121.8 thousand in 1998 to 172.6 thousand in 1999. Lake Nakuru and Masai Mara registered significant increases from 111.0 thousand and 100.4 thousand to 189.1 thousand and 171.0 thousand respectively over the same period. The combined number of visitors to the three marine parks of Mombasa, Malindi and Watamu more than doubled in 1999 as compared to 1998. This good performance can be traced from the improved security and infrastructure, allowing for multiple visits to the various parks and game reserves.

13.13. The museums, snake park and other historical sites recorded improved performance in the number of visitors in 1999 compared to 1998. These details are depicted in Table 13.10. The total number of visitors to these attractions though about a third lower than that recorded in 1995 went up by 16.0 per cent from 494.2 thousand in 1998 to 573.1 thousand in 1999. The National Museum and the next-door Snake Park recorded increases of 13.3 per cent and 6.9 per cent from 173.4 thousand and 75.9 thousand in 1998 to 196.4 thousand and 81.1 thousand respectively in 1999. Similarly, Fort Jesus, Kisumu and Karen Blixen museums registered increases of 21.3 per cent, 32.3 per cent and 21.7 per cent respectively during 1999 compared to 1998. Decreases of 17.6 per cent and 10.7 per cent were noted for Kitale museum and the Hyrax Hills historical site.

Table 13.9: NUMBER OF VISITORS TO PARKS AND GAME RESERVES, 1995 - 1999

'000

	1995	1996	1997	1998	1999*
Nairobi	113.5	158.3	149.6	122.3	139.2
Animal Orphanage ..	212.1	210.6	193.7	164.8	235.1
Amboseli	114.8	109.1	117.2	62.9	77.0
Tsavo (West)	93.1	93.6	88.6	54.9	61.0
Tsavo (East)	228.8	137.5	123.2	66.9	111.6
Aberdare	70.1	60.2	59.0	47.9	44.2
Buffalo Springs.. ..	. .	. .	..	..	..
Lake Nakuru	166.8	156.9	132.1	111.0	189.1
Masai Mara	133.2	130.3	118.3	100.4	171.0
Bamburi Nature Park	109.2	107.0	86.8	77.9	96.4
Malindi Marine	38.8	39.3	27.0	13.7	23.9
Lake Bogoria	14.2	14.2	24.5	20.6	53.0
Meru	7.3	7.8	4.1	1.8	3.5
Shimba Hills	20.0	23.4	22.5	16.8	17.7
Mount Kenya	17.2	17.1	14.8	10.2	22.7
Samburu	9.1	9.1	8.3	7.0	7.0
Kisite/Mpunguti.. ..	32.4	39.9	35.1	29.2	34.2
Mombasa Marine	23.9	21.7	15.2	16.2	36.1
Watamu Marine	16.1	20.2	19.4	18.3	40.8
Hell's Gate	50.1	52.1	47.2	57.1	72.7
Impala Sanctuary (Kisumu)**	..	65.6	62.4	65.6	77.4
Other***	22.4	14.8	15.5	13.9	19.8
TOTAL	1,493.1	1,488.7	1,364.5	1,079.4	1,533.4

* 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.

Table 13.10: VISITORS TO MUSEUMS, SNAKE PARK AND SITES, 1995 - 1999

'000

	1995	1996	1997	1998	1999*
National Museum: (Main Gate)	215.4	218.0	184.5	173.4	196.4
National Museum: (Snake Park)	181.6	170.6	148.6	75.9	81.1
Fort Jesus	245.3	180.2	124.4	88.9	107.8
Kisumu Museum	36.1	49.5	18.2	34.7	45.9
Kitale Museum	27.5	29.0	16.1	27.3	22.5
Gedi	43.7	29.6	29.7	14.8	27.3
Meru Museum	21.0	12.4	9.4	15.8	16.6
Lamu	10.7	12.2	8.6	6.2	6.7
Jumba la Mtwala	11.3	8.5	4.9	4.0	5.5
Olorgessaile	. .	. .	2.2	1.9	2.2
Kariandusi	3.0	2.3	0.7	4.5	5.2
Hyrax Hills	. .	1.9	1.5	2.8	2.5
Karen Blixen	46.1	43.7	38.6	41.1	50.0
Kilifi Mwarani	0.8	0.9	0.7	2.9	3.4
TOTAL	842.5	758.8	588.1	494.2	573.1

* Provisional.

Conference Tourism

13.14. There was increased activity in terms of international conferences held at the Kenyatta International Conference Centre (KICC) in 1999. The number of conferences held rose to 10 from 7 reported for the previous review period. Similarly, the number of conference days as well as the number of delegates went up from 26 and 13,100 to 39 and 20,750 respectively over the same period. Consequently, the occupancy rate improved by 3.6 percentage points to stand at 10.7 per cent. These details are presented in Table 13.11.

Table 13.11: CONFERENCES HELD AT KENYATTA INTERNATIONAL CONFERENCE CENTRE, 1995 - 1999*

	1995	1996	1997	1998	1999*
Number of conferences	18	8	1	7	10
Number of conferences days	126	24	3	26	39
Attendance (Number of Delegates)	12,720	5,660	250	13,100	20,750
Percentage of occupancy	34.4	6.6	0.8	7.1	10.7

* Provisional.

** International conferences/delegates only.

13.15. The Central Bureau of Statistics (CBS) has observed that an increasing number of international conferences were being held away from KICC. In this regard, the CBS launched a monthly survey of conferences in 1999 with the objective of capturing data on conferences held in major hotels and other Conference Centres to supplement data obtained from KICC. Results from this survey point towards a very low capacity utilisation of conference facilities in the country. Table 13.12 shows reported conferences in 1999. A total of 192 international conferences and 1,021 local conferences were reported in 36 centres including KICC. A total of 41,004 delegates attended the local conferences while 27,800 delegates attended international conferences. The average number of days an international conference took was 4.5 days while the local conference took 2.9 days. The occupancy rate as a ratio of delegate days to delegate days available was 2.6 per cent and 2.7 per cent for local and international conferences respectively. These results are shown in Table 13.12.

Table 13.12: REPORTED CONFERENCES, 1999

	Local	International
Number of conferences	1,021	192
Number of delegates	41,004	27,800
Number of delegate days	119,631	126,371
Number of delegate days available	4,666,525	4,666,525
percentage Occupancy	2.6	2.7

Tourism Promotion

13.16. Tourism promotion in Kenya is a joint effort between the Government and the Private Sector. The Kenya Tourist Board is the government agency mandated with the role of co-ordinating promotional activities. The private sector, particularly the well established hotels also promote Kenya's tourism with the emphasis on their establishments. They also promote domestic tourism by offering cheap rates during the low season.

13.17. During 1999, the Kenya Tourist Board co-ordinated Kenya's participation in the following travel fairs:-

- International Travel Market (ITME) held in Chicago, U.S.A.
- Association of Travel Agents (ASTA) held in Strabourg, France
- World Travel Market held in London, U.K.
- Brussels Travel Fair held in Brussels, Belgium
- International Golf Travel Market (IGTM) held in Vitamoura, Portugal.

13.18. The Kenya Utalii College continues to be the leading institution responsible for the training of both middle and high-level manpower for the country's tourism industry. In 1999, a total of 1,399 candidates were trained of whom 1,061 were in-service candidates

while 338 candidates took professional courses. By the end of 1999, the institution had trained a total of 22,437 persons. These details are shown in Table 13.13.

Table 13.13: KENYA UTALII COLLEGE GRADUATES, 1995 - 1999

	In-Service	Professional			Grand Total
		Ordinary	Advanced	Total	
1995	1,218	382	36	418	1,636
1996	1,104	411	32	443	1,547
1997	1,082	360	33	393	1,475
1998	1,322	302	32	334	1,656
1999	1,061	307	31	338	1,399

Source: Kenya Utalii College.

CHAPTER 14 - TRANSPORT, STORAGE AND COMMUNICATIONS

Overview

Transport, storage and communications sector plays a crucial role in facilitating interactions of domestic, regional and international economies. The sector provides a basis for effective exploitation of existing resources through provision of basic infrastructure such as roads, air, rail, marine, pipeline, postal and telecommunications among others. Key indicators of the performance of the sector shows that the sector posted an overall output growth of 9.7 per cent in 1999 as compared to the 3.9 per cent growth achieved in 1998. The sector's real GDP grew by 1.4 per cent in 1999 against 1.2 per cent in 1998. The recorded real growth of the sector is attributable to the improved economic performance of the telecommunications industry, pipeline and air transport industry. Growth in road transport industry was severely constrained by the poor state of the roads in the country.

14.2. The modest output growth recorded in 1999 is associated with the improved receipts to the air transport and railway transport sub-sectors which posted growths of 42.6 per cent and 27.1 per cent from K£ 701.3 million and K£ 204.8 million in 1998 to K£ 1,000.1 million and K£ 260.3 million respectively in 1999. The total number of newly registered motor vehicles rose by 2.3 per cent. Receipts from the road transport industry declined further by 0.6 per cent during the period under review largely due to the poor state of the roads, while receipts from services incidental to transport fell drastically by 18.9 per cent. The volume of cargo handled at the Mombasa Harbour decreased by a 3.2 per cent mainly due to the declining market share in handling transit goods destined for the neighbouring countries. However, the volume of white petroleum products pumped by the Kenya Pipeline Company rose by a significant 8.7 per cent to reach 2,799.6 cubic metres. The number of passengers handled at Jomo Kenyatta and Moi International Airports edged up slightly to 2,986.5 million in 1999 compared to 2,873.4 million handled in 1998. There was a significant rise in the number of new radio and television sets sold and licensed.

Overall Results

14.3. Table 14.1 highlights details of the value of output from the transport, storage and communications sector at market prices. Overall, the sector registered an output growth of 9.7 per cent from K£ 3,782.5 million in 1998 to K£ 4,148.6 million in 1999. The proportion of the earnings from the dominant road transport to the total earnings of the sector, shrunk further by 20.9 per cent in 1999 to stand at K£ 865.1 million from K£ 870.7 million achieved in 1998. Receipts from air transport and communications sub-sectors expanded by 42.6 and 4.4 per cent from K£ 701.3 million and K£ 1,150.6 million to K£ 1,000.1 million and K£ 1,201.4 million respectively in 1999. Pipeline and railway transport sub-sectors also recorded improved value of output over the previous year of 8.4 per cent and 27.1 per cent from K£ 264.1 million and K£ 204.8 million recorded in 1998 to K£ 286.4 million and K£ 260.3 million respectively in 1999.

Water transport and Services incidental to transport recorded declines of 4.5 per cent and 18.9 per cent in their earnings to stand at K£ 371.6 million and K£ 163.7 million respectively in 1999.

Table 14.1: TRANSPORT AND COMMUNICATIONS - VALUE OF OUTPUT, 1995 - 1999

K£million

	1995	1996	1997	1998	1999*
Road Transport	810.7	926.4	949.7	870.7	865.1
Railway Transport**	225.0	183.6	150.0	204.8	260.3
Water Transport..	372.3	367.3	393.4	389.2	371.6
Air Transport	471.1	540.6	592.9	701.3	1,000.1
Services Incidental to Transport	153.8	181.1	248.2	201.8	163.7
Pipeline Transport	197.8	230.7	240.1	264.1	286.4
Communications	805.1	996.1	1,065.2	1,150.6	1,201.4
TOTAL	3,035.8	3,425.8	3,639.5	3,782.5	4,148.6

* Provisional.

** Includes other revenue.

14.4. Table 14.2 shows details of the earnings from road and rail transport. Total earnings from the two modes of transport grew by 6.8 per cent from K£ 1,041.8 million to K£ 1,112.9 million during the period under review. This growth rate was a big improvement over the decline of 4.3 per cent attained in 1998. Total earnings from the road transport continued to decline for the second year running from K£ 870.7 million in 1998 to K£ 865.1 million in 1999. Earnings from rail transport rose significantly by 44.8 per cent to stand at K£ 247.8 million in 1999 up from K£ 171.1 million recorded in 1998. Earnings from passenger traffic declined by 3.2 per cent from K£ 488.1 million in 1988 to K£ 472.6 million in 1999, while freight traffic recorded a rise in earnings of 15.6 per cent from K£ 553.7 million attained in 1998 to K£ 640.3 million in 1999.

Table 14.2: EARNINGS FROM ROAD AND RAIL TRAFFIC, 1995 - 1999

K£million

	1995	1996	1997	1998	1999*
Passenger Traffic:					
Road	466.0	526.9	499.7	474.7	458.2
Rail	14.5	14.9	14.6	13.4	14.4
Total	480.5	541.8	514.3	488.1	472.6
Freight Traffic:					
Road	344.7	399.4	450.0	396.0	406.9
Rail..	171.3	156.7	123.9	157.7	233.4
Total	516.0	556.1	573.9	553.7	640.3
Total Road Traffic	810.7	926.3	949.7	870.7	865.1
Total Rail Traffic	185.8	171.6	138.5	171.1	247.8
Total (Road and Rail)	996.5	1,097.9	1,088.2	1,041.8	1,112.9

* Provisional.

Road Transport

14.5. The total number of vehicles registered in 1999 went up by 2.3 per cent from 31,718 vehicles in 1998 to 32,435 vehicles. Mini buses had the highest registration increase of 13.2 per cent followed by Panel vans and Pick-ups with 11.3 per cent. Analysis of number of vehicles registered by categories show that saloon cars recorded the highest registration figure of 10,949 vehicles. The details are presented on Table 14.3 below.

Table 14.3: NEW REGISTRATION OF ROAD VEHICLES, 1995 - 1999

Number

Type of Vehicle	1995	1996	1997	1998	1999*
Saloon Cars	6,519	8,625	8,995	11,126	10,949
Station Wagons	3,260	4,069	4,259	5,175	5,088
Panel Vans, Pick-ups, etc.	5,778	7,711	7,544	7,295	8,121
Lorries/Trucks	1,778	2,222	2,732	2,578	2,705
Buses and Coaches	743	888	931	887	969
Mini Buses	813	946	927	874	989
Special Purposes Vehicles	32	38	35	25	35
Trailers	444	674	680	539	520
Rollers, Graders, Cranes	89	104	102	63	94
Wheeled Tractors	977	1,047	1,263	1,160	1,246
Crawler Tractors	11	9	6	5	7
Motor and Auto Cycles ..	1,778	2,328	2,415	1,986	1,708
Three Wheelers	2	3	4	5	4
Total	22,224	28,664	29,893	31,718	32,435

* Provisional.

Utility vehicles such as pickups, lorries and buses that promote gainful economic activities recorded growths of 11.3 per cent, 4.9 per cent and 9.2 per cent during 1999 compared to the 1998 levels.

14.6. Table 14.4 summarises details on the number of licences issued for freight and passenger transport vehicles. A total of 39,870 licences were issued during 1999 against 33,443 licenses issued in 1998. This significant rise of 19.2 per cent in the number of licences issued may be attributed to the review of the Traffic Licensing Act by parliament in 1999.

Table 14.4: LICENCES ISSUED FOR FREIGHT AND PASSENGER TRANSPORT VEHICLES, 1995 - 1999

Number

	1995	1996	1997	1998	1999*
Passenger Service Vehicles ** ..	22,820	24,470	21,662	24,334	28,805
Passenger Service Vehicles *** ..	2,185	2,042	1,996	1,952	3,359
Freight Transport Vehicles ..	7,752	6,517	9,031	7,157	7,706
Total	32,757	33,029	32,689	33,443	39,870

* Provisional.

** PSV Matatus.

*** PSV licenses for buses and tourist vehicles only.

The new Act stipulates that all vehicles other than personal cars, acquire a licence from the Transport Licensing Board (TLB) in order to operate. Prior to the review of the act, public service vehicles, other than buses and vehicles owned and operated by tour companies were exempted from the provisions of the act.

Railway Transport

14.7. The passenger and rail freight transport service recorded a remarkable performance during the period under review. A total of 2,200 thousand tonnes of freight were transported to various destinations in 1999 as compared to 1,688 thousand tonnes transported during 1998. This represents a load increase of 30.3 per cent. However, despite this rise, it should be noted that the volume transported represented only 26.0 per cent of total volume of cargo handled at the Mombasa harbour. Correspondingly, the amount of revenue earned from the freight transportation rose by a notable 48.0 per cent to K£ 233.4 million in 1999 from K£ 157.7 million in 1998. Passenger transport business similarly recorded an improved turnover during 1999. Passenger journeys made in 1999 rose by a significant 65.3 per cent from 2,843 thousand journeys in 1998 to 4,700 thousand journeys in 1999 mainly due to the Nairobi urban commuter train. Revenue accruing from this activity rose by 7.5 per cent from K£ 13.4 million earned in 1998 to K£ 14.4 million in 1999. Table 14.5 summarises details of the performance of the railway traffic.

Table 14.5: RAILWAY TRAFFIC, 1995 - 1999

	Unit	1995	1996	1997	1998	1999*
Freight:						
Tonnes	'000	2,090.1	1,826.5	1,620.6	1,688.0	2,200.0
Tonne-km	million	1,456.1	1,218.8	1,068.2	1,111.0	1,491.6
Revenue	K£million	171.3	156.7	123.9	157.7	233.4
Revenue per tonne-Km ..	cts	235.3	257.1	232.0	283.9	313.0
Passenger:						
Journeys	'000	1,624.1	2,379.0	1,981.0	2,843.0	4,700.0
Passenger-Km	million	363.0	371.0	393.0	432.0	306.2
Revenue	K£million	14.5	14.9	14.6	13.4	14.4
Revenue per passenger-Km.	cts	79.9	80.3	74.3	62.0	94.1

* Provisional.

14.8. Alternative use of the port of Dar es Salaam coupled with transportation of freight along the road created stiff competition to the volume of rail freight traffic hauled. Railway operations were severely affected by accidents and locomotive failure mainly due to the use of obsolete equipment such as tracks and engines.

Habours and Shipping

14.9. Details of the freight handled at the port of Mombasa are presented in Table 14.6 below. The total volume of cargo handled dropped by 3.2 per cent from 8,559 thousand tonnes in 1998 to 8,284 thousand tonnes in 1999. Both cargo loaded and landed recorded notable decreases of 4.0 and 3.1 per cent respectively. The drop is associated with the diminishing capacity utilisation of the port in handling transit traffic destined for the neighbouring countries. However, there are a number of initiatives by the Kenya Ports Authority to market the port within the East and Central Africa region. The ultimate objective of the initiatives is to increase the market share of the port in handling the transit traffic.

Table 14.6: FREIGHT HANDLED AT MOMBASA HARBOUR, 1995 - 1999

'000 Tonnes

	1995	1996	1997	1998	1999*
Loaded:					
Dry Cargo	1,752	2,103	1,647	1,755	1,607
Bulk Liquids	181	273	183	162	236
Total	1,933	2,376	1,830	1,917	1,843
Landed:					
Dry Cargo	3,397	3,538	5,096	4,242	3,667
Bulk Liquids	2,643	2,780	1,516	2,400	2,774
Total	6,040	6,318	6,612	6,642	6,441
Total Freight Handled	7,973	8,694	8,442	8,559	8,284

* Provisional.

Pipeline Transport

14.10. Table 14.7 shows that, all the various categories of the petroleum products pumped, recorded substantial increases. Kerosene illuminating oil recorded the highest increase of 20.2 per cent to reach 448.5 thousand cubic metres in 1999 up from 373.0 thousand cubic metres in 1998. The volume of white petroleum products pumped by the Kenya Pipeline Company rose by 8.7 per cent from 2,574.9 thousand cubic metres in 1998 to 2,799.6 thousand cubic metres in 1999. The Jet fuel pumped increased by 12.6 per cent from a revised figure of 579.8 thousand cubic metres recorded in 1998 to 652.8 thousand cubic metres in 1999. Motor spirit premium pumped rose modestly from a revised figure of 615 thousand cubic metres in 1998 to 633.9 thousand cubic in 1999. This increase was relatively lower than the 9.8 per cent rate attained in 1998.

Table 14.7: PIPELINE THROUGHPUT OF WHITE PETROLEUM PRODUCTS, 1995 - 1999

'000 Cubic Metres

Year	Motor Spirit Premium	Motor Spirit Regular	Kerosene Illumin-ating Oil	Light Diesel Oil	Jet Fuel	Total
1995	463.6	204.4	266.4	726.6	579.2	2,240.2
1996	512.6	187.4	303.0	766.9	607.0	2,376.9
1997	587.0	183.8	319.2	790.5	594.4	2,474.9
1998	615.0	185.6	373.0	821.5	579.8	2,574.9
1999*	633.9	196.3	448.5	868.1	652.8	2,799.6

* Provisional.

Air Transport

14.11. Details of the commercial traffic at Jomo Kenyatta and Moi International Airports are presented in Table 14.8. The total number of passengers handled rose slightly by 3.9 per cent to 2,986.5 thousand in 1999 from 2,873.4 thousand in 1998. The number of passengers who landed went up by 7.7 per cent from 1,312.0 thousand in 1998 to 1,412.9 thousand in 1999. Those passengers who embarked increased modestly by 3.8 per cent to stand at 1,355.7 thousand in 1999 from 1,306.4 thousand recorded in 1998. Passengers in transit declined significantly by 14.5 per cent from 255.0 thousand in 1998 to 217.9 thousand in 1999. The volume of cargo handled increased by 3.5 per cent to reach 65.1 thousand tonnes up from 62.9 thousand tonnes handled in 1998. The volume of cargo landed dropped significantly by 10.8 per cent while that of cargo loaded went up by 12.0 per cent. Both volumes of mail landed and loaded also recorded substantial increases.

Table 14.8: COMMERCIAL TRAFFIC AT JOMO KENYATTA AND MOI INTERNATIONAL AIRPORTS, 1995 - 1999

	1995	1996	1997	1998	1999*
Passengers-000':					
Landed	1,104.8	1,137.2	1,259.6	1,312.0	1,412.9
Embarked	1,186.4	1,158.0	1,275.1	1,306.4	1,355.7
In Transit**	383.5	395.8	300.5	255.0	217.9
Total	2,674.7	2,691.0	2,835.2	2,873.4	2,986.5
Freight - 000' tonnes:					
Cargo: Landed	22.2	23.8	23.9	24.0	21.4
Loaded	49.1	40.2	41.7	37.4	41.9
Mail: Landed	1.1	1.0	1.1	1.0	1.2
Loaded	0.5	0.5	0.5	0.5	0.6
Total	72.9	65.5	67.2	62.9	65.1

* Provisional.

** Passengers in transit are those continuing their journey in the same aircraft.

Postal and Telecommunications Services

14.12. Details of selected key network and traffic indicators of the postal and telecommunications industry are presented in Table 14.9. A total of 92 post offices were closed for making losses during the year under review. Thus by the close of the year, the total number of post offices available in the country had dropped by 8.9 per cent to 941 as compared to 1,033 post offices available in 1998. The number of private letter boxes available rose marginally by 1.5 per cent from 340.0 thousand in 1998 to 345.0 thousand in 1999. Total correspondence handled by the newly created Posta Kenya limited rose slightly by 2.0 per cent to 417.0 million correspondences in 1999 up from 409.0 million correspondences handled in 1998. The number of parcels handled decreased significantly by 8.0 per cent from 175.0 thousand to 161.0 thousand in 1999. This can be attributed to declining share of the Posta in handling parcels due to stiff competition from private courier services. The number of money orders and postal orders purchased continued with the downward trend as a result of availability of new alternative technology of sending money like Western Union Money Transfer.

Table 14.9: POSTAL AND TELECOMMUNICATION SERVICES, 1995 - 1999

	Unit	1995	1996	1997	1998	1999*
Post Offices	No	1,061	1,062	1,034	1,033	941
Private Letter Boxes	'000	302	318	326	340	345
Registered and Insured Items Posted	million	2.4	2.5	2.1	2.1	2.0
Total correspondence handled	million	456	506	431	409	417
Parcels handled	'000	257	290	263	175	161
Telephone Exchange connections	'000	250	261	272	280	296
Public Call boxes	No	5,922	5,932	6,309	7,263	8,309
Card Phones	No	48	48	49	212	876
Mobile Telephone	No	2,580	2,727	5,345	8,826	14,628
Manual Telephone Calls made	million	5.7	4.8	4.6	3.7	3.5
Telex Subscribers	'000	1.6	1.4	1.2	1.1	1.0
Money Orders	No.(million)	1.5	1.6	1.7	1.8	1.7
Postal Orders	No.('000)	47	48	77	71	68

* Provisional.

14.13. The total number of exchange connections rose from 280.0 thousand in 1998 to 296.0 thousand in 1999. The number of cardphones purchased quadrupled from 212 in 1998 to 876 in 1999. Similarly, mobile telephone subscribers went up significantly from 8,826 in 1998 to 14,628 in 1999. This was attributed to introduction of the Global

System for Mobile communication (GSM) services in Mombasa town. During the year under review, Very Small Aperture Terminal (VSAT) service was introduced under the brand name KENSAT to target large and decentralised organisations. The second mobile telephone operator was licensed to compete with Telkom Kenya's mobile telephone subsidiary company; the Safaricom Kenya Ltd.

14.14. The performance of the external telecommunications traffic is shown in Table 14.10. Indicators of the international telephone service show that the total number of paid minutes remained almost at the 1998 levels. While the total number of paid minutes for telex service recorded mixed performance, telegraph service recorded some slight decrease. However, outgoing and incoming documents and pages sent through bureau faxes recorded significant rises during the period under review. Bureau fax outgoing documents rose sharply by 65.9 per cent from 6,196 to 10,271 in 1999. Bureau fax outgoing pages also went up by 72.4 per cent to stand at 13,140 from 7,621 recorded in 1998. Bureau fax incoming documents and pages remained at low levels registering an increase of only 1.2 per cent and a decline of 5.2 per cent respectively over the period under review.

Table 14.10: EXTERNAL TELECOMMUNICATIONS TRAFFIC, 1995 - 1999

	1995	1996	1997	1998	1999*
Telephone service-million paid minutes					
Outgoing	25.6	26.2	29.0	29.2	29.0
Incoming	58.0	57.6	69.5	71.5	77.5
Telex service-million paid minutes					
Outgoing	0.7	0.5	0.3	0.2	0.1
Incoming	0.8	0.5	0.4	0.3	0.4
Telegraph service-million paid words					
Outgoing	0.2	0.1	0.2	0.1	0.1
Incoming	0.5	0.2	0.2	0.2	0.1
Bureau fax outgoing					
Documents	20,364	18,250	13,593	6,191	10,271
Pages	24,005	21,326	16,671	7,621	13,140
Bureau fax incoming					
Documents	3,860	4,001	3,169	2,276	2,304
Pages	6,672	7,154	5,941	4,062	3,852

* Provisional.

Information and Mass Media

14.15. There was a significant rise in the number of new radio and television sets sold and licensed as presented on Table 14.11 below. New radios sold and licensed increased by 27.5 per cent from 74.6 thousand radios in 1998 to 95.1 thousand in 1999. On the hand, a total of 35.4 thousand sets of television were sold and licensed in 1999 compared to 28.4 thousand sets in 1998, representing a 24.6 per cent rise.

Table 14.11: NEW RADIOS AND T.V. SETS SOLD AND LICENSED, 1995 - 1998

Number

	1995	1996	1997	1998	1999*
Radios - '000	136.8	163.1	172.1	74.6	95.1
Television Sets - '000.	27.2	35.8	44.3	28.4	35.4

* Provisional.

14.16. Despite the government's intention to have all radios and TV sets licensed, many electronic equipment dealers sell the equipment without issuing licences. Therefore, the figures contained in Table 14.11 do not comprise total coverage of the actual sales.
The future performance of the information and mass media sub-sector appears bright following the liberalisation of the airwaves. Consequently, several private radio and TV broadcasting stations were licensed to operate alongside the public owned Kenya Broadcasting Corporation (KBC) during 1999.

14.17. The average number of daily and weekly newspaper circulation in the country increased marginally during the period under review as shown on Table 14.12. Morning English and Swahili newspapers rose slightly by 2.1 per cent and 2.9 per cent from 257.1 thousand copies and 35.0 thousand copies to reach 262.5 thousand and 36.0 thousand, respectively during 1999. Similarly, a slight increase of 2.3 per cent was recorded for English weekly newspapers from 528.6 thousand copies registered in 1998, to 540.1 thousand copies in 1999. Swahili weekly newspapers also posted a marginal rise of 3.8 per cent from 42.0 thousand copies to 43.6 thousand copies over the period.

Table 14.12: DAILY/WEEKLY AVERAGE LOCAL NEWSPAPER CIRCULATION, 1995 - 1999

'000 Copies

	1995	1996	1997	1998	1999*
Morning Newspapers-					
English	231.6	231.5	263.3	257.1	262.5
Swahili	32.5	31.6	36.2	35.0	36.0
Other Newspapers-					
English Weeklies	447.6	506.4	582.1	528.6	540.1
Swahili	36.5	40.5	44.1	42.0	43.6

* Provisional.

Conclusion

14.18. The provision of well maintained infrastructure is key to economic growth, generation of employment and hence reduction of poverty. In 1999, transport sector performance was severely hampered by the existing poor state of the infrastructure in the country. However real growth in the transport sector is expected to rebound following measures instituted by the government to revitalised activities in the sector. Such measures include creation of the Road Transport Board (RTB) and the Communications Commission of Kenya (CCK). RTB is expected to restore accountability, transparency and professionalism in the roads sector while CCK will oversee efficient delivery of services in the communications sub-sector. The ultimate objective of the measures is reduction of operation costs, avail healthy business competition and efficient accessibility to larger markets.