Summary and Outlook

International Scene

The Global economic recovery sustained the momentum that started in 2002, with real GDP growth estimated at around 5.0 per cent in 2004, the highest growth recorded in the last two decades. Strong growths were experienced in industrialized countries particularly USA and Japan, while an exceptionally rapid expansion was notable in emerging economies, particularly China. This growth was achieved against a backdrop of improved macroeconomic stability, expansion in world trade, higher demand for commodities at improved prices, easing of external debt burdens through the Heavily Indebted Poor Countries (HIPC) initiative and slightly better access to industrial markets.

The recovery was somehow well spread across the world but some countries expanded less rapidly than others due to geopolitical risks, high oil prices and unstable financial markets.

Real GDP growth rate for the sub-Saharan Africa was estimated at 4.6 per cent in 2004. Virtually all the countries achieved real GDP growths of over 2.0 per cent in 2004 except Zimbabwe which contracted by 5.2 per cent. Political instability and conflicts in some parts of the continent notably the Western Sudan and Zimbabwe, have negatively impacted on the continent's growth. The real GDP Growth for the sub-Saharan region is projected at 5.8 per cent and inflation is expected to ease to 9.6 per cent.

Unemployment rate has worsened since 2000 and stood at 9.2 in 2004 which was a marginal deterioration from 9.1 recorded in 2003. Inflation remained subdued at 0.9 per cent in 2004 compared to 1.1 per cent in 2003. Strong growth in exports was spurred by soaring external demand for investment goods particularly in the fast growing transition countries. On the other hand, total domestic demand declined as a result of low consumer confidence, rising unemployment and consumer prices.

With world trade expected to be robust in 2005, the global economic prospects are bright. In the Euro area, real GDP growth is projected at 1.9 per cent in 2005 from 1.8 per cent. Unemployment rate is likely to drop to 8.6 per cent in 2005 from 8.8 per cent in 2004 while inflation is also expected to recede to 1.7 per cent in 2005 compared to 1.9 per cent in 2004.

Domestic Economy

The economy has been on a recovery path since 2002. Real Gross Domestic Product (GDP) computed on the basis of the new System of National Accounts (1993 SNA) expanded by 4.3 per cent in 2004 compared to 2.8 per cent in 2003. Growths were more pronounced in Manufacturing (4.1 per cent), Construction (3.5 per cent), and Wholesale and Retail Trade, Repairs (9.5 per cent), Tourism and Hotels (15.1 per cent), Transport and communication (9.7 per cent).

Total export earnings rose significantly in 2004 on account of improved international commodity prices and export volumes, recording 17.3 per cent growth . Similarly, total value of imports grew by 29.6 per cent. Current account balance made a turnaround in 2004 to record a deficit of KSh 29.6 billion compared to a surplus of KSh 5.1 billion in 2003. Headline inflation rose from 9.8 per cent in 2003 to 11.6 per cent in 2004 mainly due to increases in prices of fuel and power, food and transport and communication.

The good performance recorded for the tourism sector in 2004, could be attributed to aggressive marketing and other incentives by the government and private sector. As a result, tourism earnings grew from KSh 25.7 billion in 2003 to KSh 39.2 billion in 2004.

Total government expenditure as a percenttage of GDP expanded in 2004/2005 leading to an increased deficit to GDP ratio of 4.3 per cent compared to a surplus ratio to GDP of 0.3 per cent in 2003/04. Government expenditure on social services increased by 4.9 per cent from KSh 106.1 billion in 2003/04 to KSh 111.3 billion in 2003/04. Most of spending in social services went to finance the education services. Low interest rates which started in 2003 prevailed in 2004 and resulted to substantial credit expansion particularly to private households, Real Estate, Finance and Insurance and Mining and Quarrying.

Social Scene

Total Government expenditure on social services increased by 4.9 per cent from KSh 106.1 billion in 2003/2004 to KSh 111.3 billion in 2004/2005 financial years. Recurrent expenditure took the highest share of total Government expenditure on social services; with over 80.2 per cent of the expenditure going to the Ministry of Education, Science and Technology. Development expenditure in the Health Sector declined by 12.9 per cent from KSh 5.1 billion in 2003/2004 to KSh 4.5 billion in 2004/2005.

Total Primary school enrolment increased by 3.8 per cent from 7,117.3 thousand pupils in 2003 to 7,384.3 thousand pupils in 2004, while Secondary school enrolment went up by 3.7 per cent. Student enrolment in technical training institutions rose by 19.4 per cent, while admissions to public and private universities increased by 11.5 per cent in 2004. Enrolment in adult education classes went up marginally from 108,431 in 2003 to 109,923 in 2004.

The number of health institutions increased by 4.4 per cent from 4,557 in 2003 to 4,757 in 2004, while the number of registered medical personnel rose by 4.3 per cent from 60,599 in 2003 to 63,227 in 2004. Malaria and diseases of the Respiratory System remain the leading causes of morbidity in the country, accounting for over 50.0 per cent of all the reported cases in 2004.

The number of reported crime cases to the Police increased by 8.4 per cent in 2004. Assault, breakings, robbery and allied offences, and general stealing accounted for 52.6 per cent of the reported cases. The number of reported cases of corruption and rape went up from 50 and 2,308 in 2003 to 200 and 2,908 in 2004, respectively. The number of reported cases of theft of motor vehicles, motor vehicle parts, and theft by servant on the other hand went down by 18.3, 7.5, and 6.6 per cent, respectively in 2004.

Employment, Earnings and Consumer Prices

Total employment in both modern and informal sectors stood at 7,800.1 thousand, representing an increase of 6.5 per cent, with the modern sector recording an extra 36,400 jobs. The informal sector created 437,900 more jobs. The growth was occasioned by steady improvement in the performance of the economy and restructuring of certain sectors in 2004. Reforms in the transport and communications sector also brought about creation of new employment opportunities in this and other sectors such as manufacturing and assembling of motor vehicle parts. Overall increase in private sector credit and enhanced consumer demand for goods and

services during the year under review coupled with increased use of available capacities in the sector resulted in growth of additional jobs. There was improvement in job creation in the horticultural and tea industries.

Average nominal wages rose by 18.9 per cent which in real terms was an increase of 4.4 per cent in 2004. The public sector wage bill increased by 13.8 per cent, while the private sector wage bill increased by 22.1 per cent in the review period.

The average annual rate of inflation in 2004 was 11.6 per cent increasing from 9.8 per cent recorded in 2003. The underlying rate of inflation, which excludes food items from the Consumer Price Index (CPI) basket stood at 6.8 per cent in the year under review, up from 3.8 per cent registered the previous year.

Money Banking and Finance

The banking sector recorded a strong and stable growth during the period under review following improved economic performance. Profitability, deposits and capital all registered significant growth while a higher rate of compliance with statutory and prudential regulations was achieved. The improvement in the performance of the sector was also manifested in the reduced level of non-performing loans. The Commercial Banks and Non-bank Financial Institutions (NBFIs) observed the minimum liquidity requirement of 20 per cent and the statutory cash ratio requirement of 6 per cent. Commercial Banks average liquidity ratio declined from 49 per cent in 2003 to 42 per cent in 2004.

Interest rates maintained a gradual rise for most of the period under review with a rapid surge in the month of November and more than doubled by December, 2004.

In the money supply aggregates, narrow money supply (M1) grew by 8.6 per cent with quasi money expanding by 11.8 per cent; money supply (M2) grew by 10.2 per cent. Money supply (M3) grew by 9.5 per cent compared with 2003 growth of 12.7 per cent.

The Capital Market witnessed improved activity in 2004 as the Capital Market Authority (CMA) continued to initiate various reforms guided by its Strategic Plan 2000-2005. In 2004 the Market experienced a burst of activity as there was improved performance at Nairobi Stock Exchange (NSE) in most of market indicators. These activities translated to the NSE 20 share index expanding by 7.6 per cent from 2,738 points in December, 2003 to 2,946 in December, 2004. The Market capitalization doubled from KSh 246 billion in 2003 to KSh 492 billion in 2004.

During the review period, the number of licensed and operational insurance companies decreased from 42 in 2003 to 41 in 2004 which included two re-insurance and 39 insurance companies. As part of enhancing protection of policy holders, deposit protection fund was introduced where insurance companies will be required to contribute based on the value of the premium under written.

Public Finance

Total Central Government expenditure increased by 21.6 per cent from KSh 352,682.0 million in 2003/04 to stand at KSh 428,719.2 million in 2004/05, while total revenue increased by 7.2 per cent in 2004/05. Current revenue to GDP ratio was 21.6 per cent in 2004/05, almost the same as the targeted 21.0 per cent spelt out in the 2002/03-2004/05 Fiscal Strategy Paper.

Overall deficit increased from KSh 3,145.1 million in 2003/04 to KSh 54,423.79 million in 2004/05. Subsequently, Government's external borrowing more than doubled from KSh 5,646.6 million in 2003/04 to KSh 13,459.0 million in 2004/05.

Government expenditure as a percentage of GDP at current market prices increased from 22.9 per cent in 2003/04 to 33.7 per cent in 2004/05, while overall deficit as percentage of GDP increased to 4.3 per cent in 2004/05 compared to a surplus ratio of 0.3 per cent in 2003/04.

Income tax remained the main source of Government revenue accounting for 27.6 per cent and 28.5 per cent of the total revenue in the years 2003/04 and 2004/05 respectively.

Generally, expenditure in most sectors of the Government registered significant growths. The Government made substantial commitment and investment in free primary education raising education expenditure by 16.5 per cent to KSh 86,117.3 million in 2004/05 from KSh 73,941.4 million in 2003/2004.

Total outstanding debt increased by 10.2 per cent from KSh 642,641.7 million as at 30th June 2003 to KSh 708,394.8 million as at 30th June 2004. The volume of stock remained almost the same level as 2003 even though it had been on a declining trend over the past three years. In 2004, total external debt was KSh 402,160.8 million while total internal debt was KSh 305,176.0 million.

Total expenditure for municipal councils declined from KSh 9,648.1 million in 2003/04 to KSh 9,372.2 million in 2004/05, while revenue from municipal councils increased by 3.4 per cent from KSh 7,168.8 million in 2003/04 to KSh 7,410.5 million in 2004/05. The Government transferred through the Local Authority Transfer Fund (LATF) KSh 4,000.0 million in 2004/05 compared to KSh 3,750.0 million in 2003/04. About 58.5 per cent of this amount was transferred to the town and county councils, while municipal councils received 24.2 per cent.

International Trade and Balance of Payments

Key indicators of international trade and balance of payments show apparent divergence from the previous years. While imports grew immensely, exports recorded a modest rise. This scenario resulted in a drastic deterioration of the trade deficit when compared to 2003. Horticulture, tea, iron and steel, coffee and soda ash accounted for 60.0 per cent of the total domestic export earnings while crude petroleum, petroleum products, industrial machinery, road motor vehicles and iron and steel jointly accounted for 48.9 per cent of the total import bill.

Total exports covered 59.0 per cent of the import bill in 2004 compared to 65.0 per cent in 2003. The general rise in both the import volumes and import prices culminated in a higher value of imports during the year under review. This led to the widening of the trade deficit from KSh 98,690 million in 2003 to KSh 149,415 million in 2004.

Consequently, the visible balance of trade on a balance of payment basis widened by 45.3 per cent in 2004 compared to 2003. This reflects a rapid acceleration in domestic expenditure, which was accompanied by robust growth in the value of imports relative to exports. Large outflows paid out to private investors as investment income and subdued performance of the current transfers account weighed down the invisible balance. The net effect was a turnaround in the current account balance from a surplus of KSh 5,144 million in 2003 to a deficit of 29,550 million in 2004.

Agriculture Agricultural sector GDP decelerated from 2.7 per cent in 2003 to 1.4 per cent in 2004. Adequate rainfall recorded in some parts of the country resulted in better performance in wheat, tea, horticulture, sisal, sugar cane, cotton, rice and dairy sub-sectors. However, the sector was slowed down by poor performance in maize, coffee and pyrethrum sub-sectors. Wheat production increased by 16.8 per cent from 75.6 thousand tonnes in 2003 to 88.3 thousand tonnes in 2004. Tea production increased by 10.5 per cent from 293.7 thousand tonnes in 2003 to 324.6 thousand tonnes in 2004. The volume of marketed milk increased by 35.0 per cent from 203 million litres in 2003 to 274 million litres in 2004. The quantity of horticulture exports increased by 24.7 percent from 133.2 thousand tonnes in 2003 to 166.1 thousand tonnes in 2004. On the other hand, sugar cane production increased by 10.9 per cent during the period under review. Significant decline in production was recorded in the maize, coffee and pyrethrum sub-sectors in the year under review. Production of maize declined from 28.0 million bags (2,520 thousand tonnes) in 2003 to 23.8 million bags (2,142 thousand tonnes) in 2004 resulting in importation of a total of 241.8 thousand tonnes of maize valued at KSh 4.6 billion to cover the deficit. Coffee production declined by 12.6 per cent from 55.4 thousand tonnes in 2003 to 48.4 thousand tonnes in 2004. Average gross commodity price paid for selected agricultural commodities recorded a mixed performance. Coffee and maize recorded 50.0 per cent and 29.0 per cent rise in price respectively, reaching the highest level in the last five years. On the other hand, prices of pyrethrum extract, beef and pig meat declined.

Environment and Natural Resources In the year under review, expenditure on water supplies and related services increased from KSh 4.2 billion in 2003/04 to KSh 5.3 billion in 2004/05. Total fish landed from the freshwater bodies in Kenya increased by 4.0 per cent from 112.7 thousand tonnes in 2003 to 117.2 thousand tonnes in 2004. Total forest plantation area improved from 125.1 thousand hectares in 2003 to 132.3 thousand hectares in 2004. The year witnessed the start and operation of private water and sewerage companies in a number of selected municipalities countrywide.

Energy International crude oil prices reached the highest level recorded in the last 13 years. The rise in international crude oil prices led to the price of Murban crude oil, which accounted for 76.1 per cent of the total crude oil imported into the country, to rise by 28.1 per cent from US$ 30.05 per barrel in December 2003 to US$ 38.50 per barrel in December 2004. The high international petroleum oil prices translated into high prices of petroleum products in the country in 2004.

Factors that contributed to the rise in crude oil price included; the higher than expected global growth in petroleum demand and high economic growth in the United States (US), China and Japan. In addition there were supply interruptions in a number of oil producing countries. Political uncertainties in the Middle East coupled with problems in other petroleum producing countries such as Nigeria and Russia resulted in concerns about supply interruptions as well as very active speculation in the oil market. In an effort to address the issue of escalating oil prices, the Organization of Petroleum Exporting Countries (OPEC) held five meetings in 2004.

The liberalisation of the local oil industry aimed at increasing the level of competition in the sub-sector, paved way for the entry of new players. However, the multi-national companies still control a big share of the oil market in Kenya.

Manufacturing Output in nominal terms in the manufacturing sector expanded by 2.7 per cent in 2004 compared to 1.4 per cent recorded in 2003. The improved performance of the sector was mainly attributed to rise in output of the agro processing industries which included sugar, milk, grain milling, fish, tea, oils and fats. Other key sub-sectors of manufacturing that performed well were manufacture of cigarettes, cement production, motor vehicle assembly and production of galvanized sheets. Favourable product prices as a result of higher demand of agro based industrial products, rubber and engineering products also buoyed growth in domestic manufacturing.

Growth in the sector was however impeded by depressed demand on account of increases in oil prices and increased transport costs. Further, rising operational costs mainly high power costs coupled with deteriorating road and rail networks were other major factors leading to decline in investment and economic activity in the sector.

The estimated employment in manufacturing rose by 0.9 per cent from of 239.8 thousand persons in 2003 to 242.0 thousand persons in 2004, while the EPZ employment number declined by 1.4 per cent from 39,111 persons to 38,560 persons in 2004.

Building and Construction Building and construction sector's key economic indicators recorded improvements in 2004. Cement consumption rose by 11.9 per cent from 1,267.0 thousand tonnes in 2003 to 1,418.3 thousand tonnes in 2004. The total value of building plans approved increased by 58.8 per cent from KSh 22,021.8 million in 2003 to KSh 34,962.4 million in 2004.

Commercial banks' loans and advances to the sector grew by 3.6 per cent from KSh 16,995 million in 2003 to KSh 17,615 million in 2004. The index of government expenditure on roads increased from 71.7 in 2003 to 105.6 in 2004. The total estimated costs of reported new private buildings completed went up by 60.9 per cent from KSh 1, 426.2 million in 2003 to KSh 2,294.9 million in 2004. The overall construction cost index recorded an increase of 9.2 per cent in 2004 as compared to 7.1 per cent in 2003. Total wage employment in the sector increased by 0.9 percent from 76,639 persons in 2003 to 77,349 persons in 2004. The Kenya Roads Board increased its disbursements to the various roads agencies by 21.4 percent from KSh 6.92 billion in 2003 to KSh 8.40 billion in 2004.

Tourism The tourism sector recorded a remarkable growth in 2004. Sector's earning increased significantly from KSh 25.8 billion in 2003 to KSh 39.2 billion in 2004, an increase of 51.9 per cent. International visitor arrivals grew by 18.7 per cent from 1,146,100 to 1,360,700 in 2003 and 2004, respectively. Visitors on business increased by 35.3 per cent, while those on holiday went up by 29.5 per cent in 2004 after declining by 6.6 per cent in 2003.

The number of visitors to Game Parks and Reserves increased by 17.5 per cent in 2004 compared to a decline of 13.0 per cent the previous year. Visitors to Museums, Snake Parks and Historical Sites rose marginally in 2004.

Hotel bed-nights occupancy increased significantly from 2.6 million to 3.8 million in 2004. Hotel bed-nights occupancy rate increased from 33.6 per cent to 37.8 per cent in 2004. Total number of available hotel bed-nights increased from 7.8 million to 10.0 million in 2004, a rise of 29.2 per cent.

In the year under review, conference tourism activities continued to increase. Local conferences held went up from 805 in 2003 to 912 in 2004. The number of International conferences increased from 126 to 145 during the same period. While the number of local delegate days increased by 37.9 per cent in 2004, with international delegate days increasing by 30.3 per cent.

Transport, storage and communications

Overall, all sub-sectors of the transport and communications sector recorded higher output growths in 2004 compared to the levels attained in 2003, except for the railway transport industry. In the communication sub sector, private postal courier outlets increased by 3.3 per cent while exchange capacity for fixed lines increased by 4.5 per cent. The mobile telephone industry was one of the fastest growing sub sectors with the total number of new connections during the year expanding by 42.0 per cent to reach 1.6 million in 2004. Total connections made until the end of 2004 stood at 4.3 million. The recorded growths were supported by heavy investment in the communications industry following the liberalization of air waves, strict enforcement of road transport regulations that boosted the local investor confidence in passenger transport business, rising number of tourist arrivals in the country, and opening of new travel routes and increased frequencies by Kenya Airways. Other factors included the increased volume of cargo traffic at the Port of Mombasa and the rising throughput of white petroleum products by Kenya Pipeline Corporation (KPC) for domestic and export markets. A significant rise of 25.8 per cent in the registration of newly acquired vehicles was recorded during the year, with the number rising to 42,482 from 33,768 in 2003. Total value of output from the transport and communication sector expanded by 16.5 per cent from KSh 264,097 million realized in 2003 to KSh 307,627 million in 2004.

Poverty and Socio-Econimic Dimensions at the Constituency Level

A summary of poverty estimates and concentration, socioeconomic dimensions of poverty and inequality at the constituency level, using small area estimation techniques are presented in the special chapter. All the 8 provinces and the 210 constituencies in the country are covered and analysed with a rural-urban dimenstions. In addition, the summary highlights the differentials of poverty headcount ratio by constituency in various dimensions and, the application of the resulting statistics in decision-making and policy formulation; specifically, the use of poverty statistics in the allocation of the Constituency Development Funds (CDF)

Overall, results show that poverty varies widely among rural areas, from 31.0 per cent in Central Province to 65.0 per cent in Nyanza Province. Among the 210 constituencies, the poverty headcount ratio ranges between 16.5 per cent (in Kabete) and 84.0 per cent (in Ganze), representing the least poor and the most poor constituencies, respectively.

Although the analysis shows that poverty levels differ across provinces, poverty prevalence invariably reduce with increased level of educational attainment of the head of household. Households headed by individuals with no education depict the highest poverty incidence. Results also show that household size is positively correlated with poverty in that smaller households (3 members or less) experience lower poverty incidences compared to larger households (more than 3 members). No significant difference in the poverty incidences between female-headed and male-headed households was identified except for a few areas where female-headed households are poorer compared to their male counterparts.

Outlook Key economic indicators for the first quarter of 2005 show that the economy performed slightly better compared to the same period in 2004. Major sectors recorded mixed performances with transport and communication, construction, electricity and water supply registering modest growths while activities in agriculture and manufacturing slowed down albeit marginally. The economic growth was slowed down in the first quarter of 2005 on account of dry weather and rising oil prices. Inflation edged upwards marginally in the first quarter of 2005 compared to the same period in 2004. The Kenya shilling strengthened against all the major international currencies in first quarter of 2005.

It is expected that the ongoing large infrastructure projects including roads and Sondu Miriu hydro-project, and others to be implemented this year e.g modernization of Jomo Kenyatta International Airport will spur growth in the construction industry. The current rains which started late and continued into May 2005 raise prospects in the agriculture sector. In manufacturing sector, agro processing, cement industry, and engineering will continue to sustain the sector's recovery. In addition, strong economic recovery shall depend on stability in oil prices, low levels of interest rates, and overall macroeconomic stability. Improvement in the investment climate, completion of the constitutional review and continued rehabilitation of the infrastructure are expected to restore investors' confidence. Against this background, the economy is expected to grow at between 4.5- 5.0 per cent in 2005

Table 0: Key Economic and Social Indicators 2000 - 2004*

DESCRIPTION		2000	2001	2002	2003	2004**	
1 Population****	(million)	30.2	30.9	31.8	32.7	33.6	
2 Growth of GDP at constant prices:++	(percent)	0.6	4.4	0.4	2.8	4.3	
3 GDP at market prices :	(Ksh. Mn)	967,838	1,025,918	1,038,764	1,141,780	1,273,716	
4 Net cost of petroleum products	(Ksh. Mn)	53,667.0	44,375.3	40,017.7	64,493.8	95,188.10	
5 Trade balance	(Ksh. Mn)	-113,276.8	-142,518.0	-88,426.7	-98,690.0	-149,415.0	
6 Money Supply (M3)	(Ksh. Mn)	314,686.0	322,923.0	350,733.0	395,116.0	432,568.0	
7 Total domestic credit	(Ksh. Mn)	379,159.0	380,210.0	410,231.0	436,542.0	501,159.0	
8 Balance of payments (current account balance)	(Ksh. Mn)	-18,090.0	-30,119.0	-13,950.0	5,144.0	-29,550.0	
9 Coffe-marketed production	('000 tonnes)	98.0	54.6	45.5	61.2	49.9	
10 Tea-marketed production	('000 tonnes)	236.3	294.6	287.1	293.7	324.6	
11 Horticultural crops exports	('000 tonnes)	99.2	98.9	121.1	133.2	166.1	
12 Maize-marketed centrally	('000 tonnes)	201.2	461.5	398.0	280.5	448.5	
13 Wheat-marketed centrally	('000 tonnes)	70.5	77.7	57.3	72.0	84.1	
14 Sugar-cane production	('000 tonnes)	3,941.5	3,550.8	4,501.4	4,204.1	4,661.0	
15 Milk sold centrally	(Mn litres)	137.0	148.0	178.0	203.0	274.0	
16 Manufacturing output	(Ksh. Mn)	347,742	344,101	348,304	381,859	445,393	
17 Construction output	(Ksh. Mn)	89,444	99,130	97,565	108,639	123,148	
18 Cement Consumption	('000 tonnes)	1,067.0	1,089.0	1,212.3	1,267.0	1,418.3	
19 Petroleum Consumption	('000 tonnes)	2,448.1	2,385.2	2,305.9	2,128.7	2,374.6	
20 Electricity consumption	(GWh)	3,320.7	3,489.8	3,742.0	3,910.4	4,234.1	
21 Tourism earnings	(Ksh. Mn)	16,868.5	24,256.0	21,735.0	25,768.0	39,200.0	
22 New registration of vehicles	(number)	20,236.0	26,024.0	32,527.0	33,768.0	42,482.0	
23 Rail freight	(Mn tonnes - Km)	1,556.9	1,603.0	1,638.0	1,789.0	1,399.0	
24 Air passengers handled	('000)	4,383.0	4,329.0	4,474.0	4,747.0	5,610.0	
25 Wage employment	('000)	1,695.4	1,677.1	1,699.7	1,727.3	1,763.7	
26 Education-primary enrolment	('000)	6,078.0	6,081.9	6,131.0	7,117.3	7,384.8	
27 Education-secondary enrolment	('000)	759.0	797.5	819.2	880.0	912.6	
28 Education-post secondary enrolment*	('000)	102.5	122.3	134.8	139.1	156.2	
29 Hospital beds and cots	(number)	56,416.0	57,540.0	60,657.0	63,407.0	65,971.0	
30 Registered doctors and dentists	(number)	5,252.0	5,393.0	5,501.0	5,585.0	5,857.0	
31 GDP Per capita (Current):	(Ksh.)	32,771	33,743	33,186	35,432	38,393	
32 GDP Per capita (Constant):	(Ksh.)	33,280	33,743	32,905	32,846	33,288	
33 Overall Deficit (% of GDP) at Current Market Prices		0.03	-2.2	-2.5	0.3	-4.3	
34 Overall Deficit (-)/Surplus (+)	(Ksh. Mn)	313.6	-24,970.4	-26,035.0	3,145.1	-54,423.0	
35 Recurrent Revenue and Grants	(Ksh. Mn)	212,284.2	199,401.4	22,160,412.0	249,822.5	295,039.7	
36 Total Expenditure	(Ksh. Mn)	267,992.4	309,779.1	303,673.7	352,682.0	428,719.2	
37 External Debt Service Charge as % of GDP***		2.7	1.2	2.1	2.0	1.6	
38 External Debt Service as % of Exports of Goods & Services		12.5	5.2	8.9	8.4	6.2	
							2000-2004 Annual % Rate
INDEX NUMBERS: (1982=100)							of change
Export volumes		191.0	204.0	226.0	260.0	296.1	11.6
Import volumes		187.0	200.0	169.0	205.0	245.6	7.1
Terms of trade		84.0	79.0	78.0	81.0	77.4	-2.0
NSE 20 Share: (1966=100)		1,913	1,355	1,363	2,738	2,946	11.4
Consumer prices+		123.9	131.0	133.6	146.7	163.7	7.2
Real wages		98.5	107.1	120.7	124.2	129.7	7.1
Agriculture terms of trade: (2001 =100)		111.1	100.0	96.2	92.5	89.1	-5.4

* More precise measures are given in individual chapters.

** Provisional.

*** Year ending 30th June

\+ Weighted New Kenya Index (October 1997 = 100)

"++ Revised in line with SNA'93, (2001 =100)

****The population figures are adjusted to take into account revised HIV prevalence rates

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7	Total domestic credit	(Ksh. Mn)	379,159.0	380,210.0	410,231.0	436,542.0	501,159.0	
8	Balance of payments (current account balance)	(Ksh. Mn)	-18,090.0	-30,119.0	-13,950.0	5,144.0	-29,550.0	
9	Coffe-marketed production	('000 tonnes)	98.0	54.6	45.5	61.2	49.9	
10	Tea-marketed production	('000 tonnes)	236.3	294.6	287.1	293.7	324.6	
11	Horticultural crops exports	('000 tonnes)	99.2	98.9	121.1	133.2	166.1	
12	Maize-marketed centrally	('000 tonnes)	201.2	461.5	398.0	280.5	448.5	
13	Wheat-marketed centrally	('000 tonnes)	70.5	77.7	57.3	72.0	84.1	
14	Sugar-cane production	('000 tonnes)	3,941.5	3,550.8	4,501.4	4,204.1	4,661.0	
15	Milk sold centrally	(Mn litres)	137.0	148.0	178.0	203.0	274.0	
16	Manufacturing output	(Ksh. Mn)	347,742	344,101	348,304	381,859	445,393	
17	Construction output	(Ksh. Mn)	89,444	99,130	97,565	108,639	123,148	
18	Cement Consumption	('000 tonnes)	1,067.0	1,089.0	1,212.3	1,267.0	1,418.3	
19	Petroleum Consumption	('000 tonnes)	2,448.1	2,385.2	2,305.9	2,128.7	2,374.6	
20	Electricity consumption	(GWh)	3,320.7	3,489.8	3,742.0	3,910.4	4,234.1	
21	Tourism earnings	(Ksh. Mn)	16,868.5	24,256.0	21,735.0	25,768.0	39,200.0	
22	New registration of vehicles	(number)	20,236.0	26,024.0	32,527.0	33,768.0	42,482.0	
23	Rail freight	(Mn tonnes - Km)	1,556.9	1,603.0	1,638.0	1,789.0	1,399.0	
24	Air passengers handled	('000)	4,383.0	4,329.0	4,474.0	4,747.0	5,610.0	
25	Wage employment	('000)	1,695.4	1,677.1	1,699.7	1,727.3	1,763.7	
26	Education-primary enrolment	('000)	6,078.0	6,081.9	6,131.0	7,117.3	7,384.8	
27	Education-secondary enrolment	('000)	759.0	797.5	819.2	880.0	912.6	
28	Education-post secondary enrolment*	('000)	102.5	122.3	134.8	139.1	156.2	
29	Hospital beds and cots	(number)	56,416.0	57,540.0	60,657.0	63,407.0	65,971.0	
30	Registered doctors and dentists	(number)	5,252.0	5,393.0	5,501.0	5,585.0	5,857.0	
31	GDP Per capita (Current):	(Ksh.)	32,771	33,743	33,186	35,432	38,393	
32	GDP Per capita (Constant):	(Ksh.)	33,280	33,743	32,905	32,846	33,288	
33	Overall Deficit (% of GDP) at Current Market Prices		0.03	-2.2	-2.5	0.3	-4.3	
34	Overall Deficit (-)/Surplus (+)	(Ksh. Mn)	313.6	-24,970.4	-26,035.0	3,145.1	-54,423.0	
35	Recurrent Revenue and Grants	(Ksh. Mn)	212,284.2	199,401.4	22,160,412.0	249,822.5	295,039.7	
36	Total Expenditure	(Ksh. Mn)	267,992.4	309,779.1	303,673.7	352,682.0	428,719.2	
37	External Debt Service Charge as % of GDP***		2.7	1.2	2.1	2.0	1.6	
38	External Debt Service as % of Exports of Goods & Services		12.5	5.2	8.9	8.4	6.2	
								2000-2004 Annual % Rate of change
	INDEX NUMBERS: (1982=100)							
	Export volumes		191.0	204.0	226.0	260.0	296.1	11.6
	Import volumes		187.0	200.0	169.0	205.0	245.6	7.1
	Terms of trade		84.0	79.0	78.0	81.0	77.4	-2.0
	NSE 20 Share: (1966=100)		1,913	1,355	1,363	2,738	2,946	11.4
	Consumer prices+		123.9	131.0	133.6	146.7	163.7	7.2
	Real wages		98.5	107.1	120.7	124.2	129.7	7.1
	Agriculture terms of trade: (2001 =100)		111.1	100.0	96.2	92.5	89.1	-5.4

* More precise measures are given in individual chapters.

** Provisional.

*** Year ending 30th June

+ Weighted New Kenya Index (October 1997 = 100)

"++ Revised in line with SNA'93, (2001 =100)

****The population figures are adjusted to take into account revised HIV prevalence rates

Chapter 1
International Scene

Introduction

Global economic recovery sustained the momentum that started in 2002 with real GDP growth estimated at around 5.0 per cent in 2004; the highest growth recorded in the last two decades. The growth was particularly high in the first and the second quarter of 2004 but slowed down as oil prices rose significantly in the second half of 2004. Strong growths were experienced in industrialized countries particularly USA and Japan, while exceptionally rapid expansions were notable in emerging economies, particularly in China. The growth was mainly supported by sound macroeconomic policies, rise in corporate profitability, equity markets and rise in employment.

1.2. The global economic expansion was accompanied by a strong upturn in industrial production and expansion in world trade volumes, while private consumption grew considerably because of improved Labour markets. The recovery was somehow well spread across the world but some countries expanded less rapidly than others due to geopolitical risks, impact of high oil prices and unstable financial markets. In the Euro area, though the recovery was well established, it was relatively weak and heavily dependent on external demand.

1.3. Growth in the emerging Asian markets was robust with GDP estimated at 7.0 per cent in 2004. However, real GDP expansion in East Asia slowed. The growth was supported by the activity upswing in China that was fuelled by rapid investment and credit growth; and India where economic expansion was underpinned by global expansion and supportive monetary policy.

1.4. Real GDP growth rate for the sub-Saharan Africa was estimated at 4.6 per cent in 2004. There were disparities in growth between individual countries, with Ethiopia recording an impressive growth of 11.6 per cent. On the other hand, political instability and conflicts in some parts of the continent notably the Western Sudan and Zimbabwe have negatively impacted on the continent's growth. Peace deals in Sudan and Somalia, brokered by Kenya, gave a ray of hope to an end of conflicts that have bedevilled the continent for a long time.

1.5. For over a decade, inflation in both developed and developing countries has been drastically reduced. This was achieved through a combination of more effective and independent central banking institutions and pressure from globalization. High inflation that once prevailed in many developing countries has lately been contained well within the single digit level. The inflationary risks appeared moderate given substantial excess capacity in many countries, while strong corporate profitability provided scope for firms to absorb price pressures leading to well-anchored inflationary expectations. Globally, headline inflation rose marginally in 2004 mainly because of hikes in oil prices.

1.6. Long-term interest rates in the developed economies rose significantly in the first quarter of 2004 but fell back during the other quarters. In the USA the equity market strengthened in the first quarter of 2004 as a result of rise in corporate profitability and progress in balance sheet restructuring. However, during the subsequent quarters long-term interest rates fell while equity markets weakened.

Table 1.1 Key Economic Indicators and Projections For Some Selected Countries (OECD)*

	2001	2002	2003	2004	2005*
	(Percentage change from previous period)				
Real GDP -					
United States	0.8	1.9	3.0	4.4	3.3
Japan	0.4	-0.3	2.5	4.0	2.1
Euro Area	1.7	0.9	0.6	1.8	1.9
Total OECD	1.1	1.6	2.2	3.6	2.9
Real total domestic demand -					
United States	0.9	2.5	3.3	4.7	3.4
Japan	1.2	-1.0	1.8	3.2	1.9
Euro Area	1.1	0.5	1.3	1.7	1.9
Total OECD	0.8	1.8	2.5	3.6	2.8
Inflation (GDP deflators)					
United States	2.4	1.7	1.8	2.0	1.8
Japan	-1.5	-1.2	-2.5	-2.3	-1.3
Euro Area	2.4	2.5	2.0	1.9	1.7
Total OECD	3.0	2.6	2.0	1.8	1.7
	(US $billion)				
Current balances-					
United States	-385.7	-473.9	-530.7	-669.0	-761.3
Japan	89.6	111.7	135.3	164.5	167.6
Euro Area	6.9	47.6	32.1	67.4	61.5
Total OECD	-274.7	-307.1	-338.0	-395.1	-483.0
	(Per cent of labour force)				
Unemployment-					
United States	4.8	5.8	6.0	5.5	5.3
Japan	5.0	5.4	5.3	4.8	4.5
Euro Area	8.0	8.4	8.8	8.8	8.6
Total OECD	6.2	6.8	6.9	6.6	6.5
	(Percentage change from previous period)				
World Trade**	0.2	3.6	5.1	9.5	9.0

Source: OECD Economic Outlook no. 76 December, 2004

**Assumptions underlying the projections include:*

- *no change in actual and announced fiscal policies;*
- *unchanged exchange rates from 5 Nov 2004'; in particular $1 = ¥ 1057 and 0771 euros;*
- *Cut off date for other information used in the compilation of the projections was 18th, November 2004*

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

Country / Regional Analysis

1.7. Table 1.1 presents growths of real GPD, total domestic demand, inflation current balances and unemployment for the major OECD economies for the last four years. Projection for 2005 indicates that the momentum is likely to be maintained but at slower rates. The world trade is also likely to slow down albeit marginally.

1.8. USA: The economy performed better than anticipated to register a growth of 4.4 per cent in 2004 compared to 3.0 per cent in 2003. The growth was against a backdrop of resilient domestic demand, growth in exports and substantial expansion in gross fixed investment. Government finances improved significantly but the gains were partly offset by higher spending especially on defence and internal security.

1.9. Current account deficit continued to deteriorate and almost doubled from US $385.7 billion in 2001 to US $669.0 billion in 2004. This deficit has over the years been mainly offset by high surpluses in Japan and Euro area and partly by emerging Asian economies. Despite increases in energy and other commodity prices, inflationary pressures were kept low by sound macroeconomic policies. Unemployment rate reduced from 6.0 per cent in 2003 to 5.5 per cent in 2004. In the money market, the US dollar appreciated moderately during the first half of 2004 as a result of rise in expectation brought by improvement in economic growth.

1.10. Japan: During the first half of 2004, the economy expanded rapidly but slowed down moderately in the second half. It is estimated to have grown by 4.0 per cent in 2004 compared to 2.5 per cent in 2003. This was the highest growth recorded since 1980s. This expansion was attributed to growth in exports and increased profitability in corporate sector and employment gains that in turn resulted to strong domestic demand. The country recorded a current account surplus of US $164.5 billion in 2004, an increase of 21.6 per cent.

1.11. Unemployment eased slightly to 4.8 per cent in 2004 compared to 5.3 per cent in 2003. The country has been experiencing a negative inflation (deflation) since 1995. However, the Bank of Japan has put in place a policy of quantitative easing and zero interest rates to reduce the risks associated with deflation.

1.12. Euro area: Recovery was somehow sluggish and the region remained heavily dependent on external demand in 2004. High oil prices and renewed appreciation of the Euro impacted negatively on the area's export performance. However, robust world trade spurred growth within the region to a GDP growth of 1.8 per cent in 2004 compared to 0.6 per cent in 2003.

1.13. Closer integration that monetary union was meant to address has not been fully realized neither has it been translated into visible strengthening of the area's economic growth. Domestic demand and investments remained subdued but inflation was relatively stable. Uncertainty over structural reforms, weak labour market conditions and oil price hike weakened household consumption leading to high saving.

1.14. Germany: The economy emerged from three years of stagnation and grew by 1.2 per cent in 2004 compared to a contraction of 0.1 per cent in 2003. This growth was against a background of strengthened export growth that was mainly driven by expansion in world trade. Domestic demand has been weak since 2001 and continued to suppress activity in 2004. However, there are signs that the trend will be reversed in 2005 as consumer demand gradually improves.

1.15. Unemployment rate has worsened since 2000 and stood at 9.2 in 2004 which was a marginal deterioration from 9.1 recorded in 2003. Inflation remained subdued at 0.9 in 2004 compared to 1.1 in 2003. Strong growth in exports was spurred by soaring external demand for investment goods particularly in the fast growing transition countries. On the other hand, total domestic demand declined as a result of low consumer confidence, rising unemployment and consumer prices.

1.16. France: economic activity picked up in the first half of 2004 but slowed down in the second half due to effects of surge in oil prices. Real GDP growth was 2.1 per cent in 2004 compared to 0.5 per cent in 2003. Improved growth was mainly attributed to robust domestic demand and increased exports. Unemployment worsened marginally in 2004 to stand at 9.8 compared to 9.7 in 2003. Inflation rate rose to 1.9 in 2004 from 1.4 in 2003, while current account balance narrowed to US $ 3.4 billion in 2004 from US $ 7.1 billion in 2003. However, core inflation remained low as a result of productivity growth and continued wage moderation.

1.17. United Kingdom: Real GDP grew by 3.2 per cent in 2004 compared to 2.2 per cent in 2003. The growth was mainly supported by improved domestic demand and increase in exports that was favoured by expansion of world trade. Unemployment rate improved from 5.0 per cent in 2003 to 4.7 per cent in 2004, while inflation eased to 2.1 from 3.0 in the same period. Current account balance deficit widened from US $ 33.4 billion in 2003 to US $ 46.5 billion in 2004 and is projected to widen further to US $ 54.3 billion in 2005.

1.18. Canada: The economy expanded at a higher rate than expected mainly on account of significant increase in export of goods and services that was buoyed by growth in world trade. Consequently real GDP grew by 3.0 per cent in 2004 from 2.0 per cent in 2003. Inflation rate edged up to reach 3.5 in 2004 from 3.2 in 2003 as a result of oil prices. Unemployment rate reduced to 7.2 in 2004 from 7.6 in 2003 and is estimated to go down to 7.1 in 2005.

1.19. China: The economy has been expanding rapidly since the country's accession into the World Trade Organization (WTO) in 2001. In 2004, activity was rapid in the first quarter but slowed down as a result of tight macroeconomic policy during the third quarter and rose again in the fourth quarter. As a result of this continued robust expansion, real GDP grew by 9.2 per cent in 2004 compared to 9.3 per cent in 2003. Inflation rate accelerated from 1.2 per cent in 2003 to 4.2 per cent in 2004 mainly driven by rise in prices for commodities. In particular high oil prices pushed inflation up while poor rice harvest necessitated substantial imports. Despite growth in exports, current account balance narrowed to US$ 18.8 billion in 2004 compared to US$ 45.9 billion in 2003 due to strengthening of domestic demand.

1.20. Emerging Asian Economies: Combined growth of these economies was estimated at 7.0 per cent in 2004. The growth was spurred by booming activity in China and India. Despite adverse weather conditions, global expansion and supportive monetary conditions aided expansion in India. The region's domestic demand remained strong while in some cases capital inflows were very high.

1.21. The Russian Federation: The pace of expansion slowed down in 2004 due to substantial decline in exports, associated with negative developments in the oil sector where output declined. Strong domestic demand however, held on and boosted GDP, which grew by 6.4 per cent in 2004, compared to 7.3 per cent in 2003. In spite of a reduction in oil exports, current account balance improved to US$ 55.5 billion in 2004 from US$ 39.5 billion in 2003, which was partly due to improved terms of trade.

1.22. Mexico: The country experienced a strong recovery that was fuelled, through exports, by upturn in US manufacturing sector and high oil prices. Headline inflation

rose moderately and similarly core inflation went up but at a slower rate. Real GDP growth was estimated at 4.2 per cent in 2004 from 1.3 per cent recorded in 2003. Other factors that favoured growth were strong domestic demand and increased investments. Unemployment improved by one percentage point from 2.5 in 2003 to 2.4 in 2004 which was mainly due to improved growth. Current account balance improved from US $15.1 billion in 2003 to US $ 24.2 billion in 2004 which was principally due to rise in exports growth to the USA.

1.23. Latin America: Recovery was well established with GDP growth for the region estimated at 4.6 per cent in 2004. The growth was driven mainly by global expansion, improved commodity prices and strong domestic demand. The region's financial markets vulnerability from adverse shocks has been high in the recent past. High oil prices benefited major exporters but adversely affected the oil importing countries especially Central America, Dominican Republic and Uruguay. Rise in non-fuel commodity prices favoured exporters of metals and agricultural products.

1.24. Brazilian economy grew more strongly than earlier projected. Real GDP growth in 2004 was 4.5 per cent compared to a contraction of 0.2 per cent in 2003. This growth was driven primarily by strong domestic demand underpinned by steady growth of credit to the private sector, falling unemployment and increase in real wages. Trade and external current account balances also strengthened in 2004.

1.25. Africa: Table 1.2 presents the real GDP, consumer prices and current account balances for some selected economies of Africa.

Table 1.2: Real GDP, Consumer Prices, and Current Account Balances for some selected African Countries

	(Annual percentage change)											
	Real GDP				Consumer Prices				Current Account Balance			
	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005
Africa	**3.5**	**4.3**	**4.5**	**5.4**	**9.7**	**10.3**	**8.4**	**8.1**	**-1.5**	**-0.1**	**0.4**	**0.7**
Maghreb	**3.3**	**6.2**	**4.2**	**4.4**	**2.1**	**2.2**	**4**	**3.4**	**4.5**	**7**	**6.1**	**6.8**
Algeria	4	6.8	4.5	4.4	1.4	2.6	5.4	4.5	7.8	13.4	13.1	15.2
Morocco	3.2	5.5	3	4	2.8	1.2	2	2	4.1	3.1	0.2	-1.3
Tunisia	1.7	5.6	5.6	5	2.8	2.8	3.4	2.7	-3.5	-2.9	-2.8	-3
Sub-Sahara	**3.6**	**3.7**	**4.6**	**5.8**	**12.1**	**12.9**	**9.9**	**9.6**	**-3.5**	**-2.4**	**-1.4**	**-1.2**
Ethiopia	1.6	-3.9	11.6	5.7	-7.2	15.1	9.6	5.4	-5.7	-4.7	-3.8	-8.5
Sudan	6	6	6.6	7.6	8.3	7.7	6.5	6	-9.6	-8.2	-6.8	-4.8
Ghana	4.5	5.2	5.2	5	14.8	26.7	10.8	6	0.5	1.7	0.3	-1
Kenya**	0.4	2.8	4.3	4.3	2	9.8	8.1	4	_	-2.5	-7.7	-8.3
Tanzania	7.2	7.1	6.3	6.5	4.6	4.5	4.3	4	-3.8	-2.4	-5.2	-6.2
Uganda	6.8	4.7	5.7	6	5.7	5.1	3.5	3.5	-6	-5.9	-1.2	-5.3
Zimbabwe	-11.1	-9.3	-5.2	1.8	140	431.7	350	450	-2.6	-4.4	-7.1	-10.9
Nigeria	1.5	10.7	4	5.9	13.7	14.4	15.9	11.4	-11.1	-2.8	2.9	1.7
South Africa	3.6	1.9	2.6	3.3	9.2	5.8	2.6	5.7	0.6	-0.8	-2	-2.1

Source: World Economic Outlook
** Provisional*
*** Kenyas Based on SNA 93*

1.26. Real GDP for Africa as a whole grew by 4.5 per cent in 2004. This growth was achieved against a backdrop of improved macro-economic stability, expansion in world trade, higher demand for commodities at improved prices, easing of external debt burdens through the Heavily Indebted Poor Countries (HIPC) initiative and slightly better access to industrial markets. Additionally, growth in oil producing countries was boosted by the increase in oil production and high oil prices while increase in agricultural output favoured growths in Ethiopia, Malawi and Rwanda, which were seriously affected by drought in 2003. The economies experienced varied performances with Zimbabwe on one extreme end recording a contraction of 5.2 per cent while Ethiopia registered a growth of 11.6 per cent.

1.27. Sudan's economy has been growing at over 6.0 per cent since 2002 despite political and civil instability the country has been experiencing. The growth is mainly attributable to favourable oil prices. Zimbabwe on the other hand has been experiencing an economic crisis, recording a string of contraction of 11.1 per cent in 2002, 9.3 per cent in 2003 and 5.2 per cent in 2004. The country has also been experiencing hyper inflation since 2002 and is projected to worsen to 450 per cent in 2005.

Chapter 2
Domestic Economy

Conceptual Overview

The Economic Survey 2004 presented revised national accounts aggregates for the period 1996 to 2003 in a special chapter. The main reasons for the revisions are adoption of the latest international guidelines as prescribed by the United Nations' System of National Accounts agreed on in 1993 (1993 SNA), change of the base year from 1982 to a more recent base year of 2001 for the estimates at constant prices; and availability of new data sources as well as improvements in methodology.

2.2. A revised international national accounting standard was published by the United Nations in 1993 – *the 1993 SNA*. The changes in the 1993 SNA consist mainly of clarifications and adjustments of concepts and definitions and an enlargement of the scope of the system. The enlargement of the scope and redefinition has had the effect of increasing the levels of GDP relative to the previous estimates (based on 1968 SNA).

2.3. Against the above background, the new GDP growths series for some years are substantially higher than previous ones. This is mainly attributed to change of the base year that resulted in different weights of the contributing economic activities. In addition, use of new data sources and methodology in the compilation contributed to different level of GDP and the growth rates. (*Additional notes on compilation of national accounts statistics definitions at the end of this chapter).*

Overview of economic performance

2.4. The economic recovery that started in 2003 continued into 2004. Real Gross Domestic Product (GDP) increased by 4.3 per cent in 2004 compared to a revised growth of 2.8 per cent in 2003. Economic activity was particularly high during the first four months of 2004 before slowing down in May through September in same year partly due to drought and rising oil prices. The economy performance improved again in the last quarter supported by ample short rains and growth in exports particularly horticulture, tea, textiles and a robust tourism sector. Growth was more pronounced in Manufacturing (4.1 per cent), Construction (3.5 per cent), and Trade (9.5 per cent), Tourism and Hotels (15.1 per cent), Transport and communication (9.7 per cent). Growth was further boosted by expansion in private consumption through increased credit to private sector that was encouraged by low interest rates during the period under review.

2.5. Most sectors of the economy recorded modest growth except Agriculture, Electricity and Water supply, Financial Intermediation and Educationwhich grew slowly in 2004. In addition poor state of infrastructure, decline in Net Foreign Direct Investment, high cost of production, low domestic demand and high oil prices constrained better performance of the economy.

2.6. There was significant increase in total value of exports on account of improved international commodity prices resulting to a 17.3 per cent growth in 2004 compared to 8.2 per cent in 2003. On the other hand, imports recorded a substantial growth particularly the mineral fuels, industrial machinery and transport equipments within the same period thereby more than offsetting the gains that resulted from export growth. Higher oil prices further exacerbated the situation. Overall, value of imports rose by 29.2 per cent with commercial

imports recording 29.4 per cent increase while government imports rose by 8.6 per cent in 2004. Trade deficit widened further in 2004 to stand at Ksh 149.4 billion, an increase of 51.4 per cent compared to 2003.

2.7. Current account balance made a turnaround in 2004 to record a deficit of KSh 29.6 billion compared to a surplus of KSh 5.1 billion in 2003, which was attributable to large trade deficit and outflows compared to subdued current transfers.

2.8. Headline inflation as measured by Consumer Prices Indices (CPI) rose from 9.8 per cent in 2003 to 11.6 per cent in 2004. This was occasioned by higher oil prices, significant rise in passenger transport fares, higher food prices due to drought and credit expansion. Average retail price of petroleum products increased by almost KSh 10 per litre between December 2003 and December 2004, due to strong global demand and instability in oil producing countries in particular Iraq, Russia and Venezuela. Underlying inflation increased from 3.6 per cent in 2003 to 6.8 per cent in 2004. The average annual inflation increased from 12.1 per cent in 2003 to 12.4 per cent in 2004.

2.9. Total employment in both formal and informal sectors grew by 6.5 per cent in 2004. This was on account of increased activity in almost all the sectors of the economy. The informal sector continued to offer the bulk of employment opportunities. Employment in Export Processing Zone (EPZ) declined by 1.4 per cent during the period under review.

2.10. The tourism sector recorded remarkable growth in 2004, attributable to aggressive marketing and other initiatives that have been taken by the Government in collaboration with the private sector. As a result, tourism earnings grew from KSh 25.8 billion in 2003 to KSh 39.2 billion in 2004. Number of international arrivals grew significantly by 18.7 per cent in 2004 compared to 14.5 per cent in 2003.

2.11. The total government expenditure as percentage of GDP expanded in 2004/05 leading to an increased deficit /GDP ratio of 4.3 per cent in 2004/05 compared to a surplus/GDP ratio of 0.3 per cent in 2003/04. Government debt consequently increased substantially with external financing as the main source. However, domestic borrowing declined in the year under review.

2.12. Low interest rates which started in 2003 prevailed in 2004. Subsequently, credit expanded to a record of 46.4 per cent, 34.0 per cent and 31.0 per cent for private households, Real Estate, Finance and Insurance and Mining and Quarrying respectively. In the year under review, credit to government declined.

Sector Analysis

Agriculture

2.13. Adequate rainfall recorded in some parts of the country resulted in better performance in wheat, tea, horticulture, sisal, sugar cane, cotton, rice and dairy sub-sectors. However the sector was slowed down by poor performance of maize, coffee and pyrethrum sub sectors. Agriculture terms of trade deteriorated from 92.5 in 2003 to 89.1 in 2004. This was occasioned by higher prices of inputs and consumer goods (in rural areas) relative to the rise in agricultural output prices.

Maize

2.14. Maize production declined significantly by 15 per cent to 23.8 million bags in 2004 from 28 million bags in 2003. This was attributed to unfavourable weather conditions in major maize growing regions, particularly Trans Nzoia and Uasin Gishu, during the year. Though there was a decline in maize production, maize deliveries to National Cereals and Produce Board (NCPB) went up by 60.0 per cent in 2004.

Coffee

2.15. Quantity of coffee produced declined by 12.6 per cent from 55.4 thousand tonnes in 2003 to 48.4 thousand tonnes in 2004. The low production was occasioned by mismanagement in cooperatives and inadequate rainfall in coffee growing zones. The average price rose from KSh 94.80 per kilogram in 2003 to KSh 142 per kilogram in 2004 recording an increase of about 50.0 per cent. Germany and USA remained the leading importers of Kenyan Coffee with a share of 31.8 per cent and 8.9 per cent respectively.

Tea

2.16. Production of tea recorded a growth of 10.5 per cent from 293.7 thousand tones in 2003 to 324.6 thousand tonnes in 2004. The growth was attributed to favourable weather condition in key tea growing areas and increased processing capacity especially in West Rift Valley. Improved extension and leaf collection services further boosted the production in the year under review. Total export earnings increased by 9.3 per cent to stand at KSh 36.1 billion in 2004 on account of better prices and increased exports volumes.

Sugarcane

2.17. Sugarcane production increased from 4.2 million tonnes in 2003 to 4.7 million tonnes in 2004, a 11.9 per cent growth in output. Improved performance was due to revitalization of sugar sector during the review period. Imports of Sugar went down by 10.0 per cent while the export volume rose by 2.5 per cent in 2004. Sugarcane average prices to farmers in 2004 remained at the same level as in 2003.

Horticulture

2.18. Horticulture sub-sector continued to perform well during the review period. The export volume increased from 133.2 thousand tonnes in 2003 to 166.1 thousand tonnes in 2004, a growth of 24.7 per cent. Growth in the sub-sector was mainly driven by increased production of cut flowers and vegetables whose output grew by 44.7 per cent and 18.7 per cent, respectively. Exports of fruits however declined from 23.6 thousand tonnes in 2003 to 20.1 thousand tonnes in 2004. Cut flowers contributed 53.1 per cent of horticulture export volumes, while vegetables and fruits shares were 34.8 per cent and 12.1 per cent, respectively. Overall, the earnings from the sub-sector grew by 13.2 per cent.

Dairy produce

2.19. Milk intake to processing plants rose from 203 million litres in 2003 to 274 million litres in 2004 registering a growth of 35.0 per cent. The growth was attributed mainly to regulatory support to dairy sector, revamping of new KCC and improved producer prices of milk from KSh 14 per litre in 2003 to KSh 16 per litre in 2004.

Manufacturing

2.20. The sector posted a slower real GDP growth of 4.1 per cent in 2004 compared to 4.9 per cent in 2003. This growth was mainly supported by rise in output of agro processing industries among them sugar, milk, grain milling, fish and tea industries. In addition, manufacturing of cigarettes, cement and motor vehicle assembly recorded robust growths.

2.21. Buoyancy of activity in manufacturing was also reflected in the increased electricity consumption which grew by 8.2 per cent in 2004 compared to 4.5 per cent in 2003. The growth was also spurred by increased imports of transport and machinery equipments and intermediate goods. Extension of third country sourcing of fabric under African Growth and Opportunity Act (AGOA) initiative impacted positively on the textile manufacturing especially in the EPZ. Turnover from the zones rose rapidly by 63.4 per cent in 2004 compared to 34.2 per cent in 2003.

Electricity and Water

2.22. Real GDP of the sector grew by 2.1 per cent in 2004 compared to 14.7 per cent in 2003. This was attributed to shortfall in hydro-power generation and which was offset by increased but expensive thermal generation. Growth in the electricity sub-sector was also aided by expansion in generation from geothermal which resulted to reduced dependence on fuel based generation. Total electricity generation grew by 7.1 per cent in 2004 from 4,851.6 GWh in 2003 to 5,194.5 GWh in 2003.

Construction

2.23. This sector recorded a GDP growth of 3.5 per cent in 2004 compared to 1.7 per cent growth in 2003. The improved performance was supported by infrastructure development undertaken within the public sector and increased level of investment in housing. Loans to the sector grew by 3.6 per cent from KSh 17.0 billion in 2003 to KSh 17.6 billion in 2004, which enhanced the sector's performance. Cement consumption rose by 11.9 per cent from 1,267 thousand tonnes in 2003 to 1,418.3 thousand tonnes in 2004.

2.24. Total value of building plans approved increased from KSh 22,021.8 million in 2003 to 34,962.4 million in 2004. The total value of private works completed rose by 57.1 per cent while the Government's total expenditure on roads expanded significantly from KSh 10,462.7 million in 2003/2004 to KSh 16,166.5 million in 2004/2005.

Trade and Restaurants and Hotels

2.25. Indicators of performance of the tourism sector in Kenya show that the sector is on a recovery path. The turn around of the sector is as a result of aggressive marketing of the country overseas as a destination of choice. The revamped marketing strategy is a paradigm shift from the traditional tourists markets to other potential and alternative markets. The latter includes Eastern Europe and Far East. Opening of direct flights to and from Bangkok and Hong Kong by Kenya Airways further boosted the potential of attracting tourists from these markets. These efforts coupled with strengthening of the Tourist Police Unit have enhanced the tourism sector recovery process. Overall, bed-nights occupancy rate rose from 33.6 per cent to 37.8 per cent with European citizens taking the largest share of 53.8 per cent. During the review period, tourism earnings recorded KSh 39.2 billion up from KSh 25.5 billion realized in 2003.

Transport, Storage and Communications

2.27. Transport and communication has been one of the fastest growing sectors in the economy since 2000 recording an average real GDP growth of 8.3 per cent. According to the revised series of national accounts, the sector's share of 10.3 of GDP was second only to agriculture which contributed 23.7 per cent of the total GDP in 2004.

2.28. The impressive growth of this sector was mainly on account of extensive investment in the communications industry particularly for the cell phone services. In addition, the sector has been expanding rapidly since the liberalization of airwaves which led to substantial capital outlays by the internet services providers and radio and television stations' operators. New road transport rules and regulations boosted investors' confidence in exploiting investment opportunities in passenger transport business. The regulations occasioned a significant rise in the number of newly registered vehicles during 2004. A total of 42,482 vehicles were registered during the year compared to 33,768 in 2003 and as a result boosted domestic vehicle assemblies.

Money, Banking and Finance

2.29. The monetary policy pursued in 2004 was in line with the Government's key macroeconomic objective of maintaining an underlying inflation rate of less than 5.0 per cent. Interest rates maintained a steady rise for the better part of 2004 but surged upwards in November and more than doubled by December 2004.

2.30. Net foreign assets of the banking system increased from KSh 125,066 million in 2003 to KSh 143,129 million in 2004, a 14.4 per cent growth. Total domestic credit grew by 14.8 per cent to KSh 501,159 million from KSh 436,542 million as at December 2003. Credit to the private sector including other public sectors registered a 25.6 per cent growth, while credit to Central Government contracted by 9.5 per cent.

2.31. Indicators of activity at the Nairobi Stock Exchange (NSE) reveal increased performance attributable to strong corporate earnings. This resulted from economic recovery and increasing number of investors brought about by an on-going investor education and awareness programme. NSE 20 share index rose by 208 points from 2,738 in 2003 to 2,946 in 2004.

Table 2.1 Gross Domestic Product by Activity

Current prices - KSh million

Industry	2000	2001	2002	2003	2004
Agriculture and forestry	275,191	277,498	258,962	280,663	301,884
Growing of crops and horticulture	194,957	193,959	176,858	197,689	217,087
Farming of animals	66,270	68,778	65,967	65,999	67,161
Agricultural and animal husbandry services	3,599	4,075	4,342	3,856	3,527
Forestry and logging	10,365	10,686	11,795	13,118	14,109
Fishing	6,570	6,532	6,323	5,739	6,221
Mining and quarrying	4,107	4,915	5,106	5,945	6,379
Manufacturing	99,838	99,777	102,249	109,439	126,528
Manufacture of food, beverages and tobacco	29,643	28,519	29,274	32,242	38,119
All other manufacturing	70,195	71,259	72,975	77,197	88,409
Electricity and water supply	18,803	19,669	20,815	23,584	23,397
Electricity supply	13,157	13,375	13,822	15,632	14,412
Water supply	5,646	6,293	6,993	7,952	8,985
Construction	27,420	31,829	32,151	36,787	45,329
Wholesale and retail trade, repairs	87,538	93,531	93,003	103,678	129,166
Hotels and restaurants	11,787	11,864	12,503	10,707	13,483
Transport and communication	85,911	98,689	104,670	113,418	131,288
Transport and storage	72,386	75,836	75,077	82,833	97,801
Post and telecommunications	13,525	22,853	29,593	30,585	33,487
Financial intermediation	33,672	42,124	36,915	48,787	48,662
Real estate, renting and business services	53,386	58,667	62,165	67,316	72,602
Dwellings, owner occupied and rented	25,687	28,530	30,503	33,970	36,394
Renting and business services	27,698	30,137	31,662	33,346	36,207
Public administration and defence	44,557	46,849	45,781	50,664	57,328
Education	56,966	63,064	75,553	89,719	99,200
Health and social work	20,362	23,959	27,211	30,170	32,042
Other community, social and personal services	37,982	41,871	43,986	45,130	48,702
Private households with employed persons	3,403	3,705	3,984	4,561	5,224
Less: Financial services indirectly measured	-8,574	-11,772	-9,070	-10,111	-9,052
All industries at basic prices	**858,919**	**912,770**	**922,304**	**1,016,195**	**1,138,382**
Taxes less subsidies on products	108,919	113,148	116,460	125,585	135,334
GDP at market prices	**967,838**	**1,025,918**	**1,038,764**	**1,141,780**	**1,273,716**
Institutional sector and industry	**2000**	**2001**	**2002**	**2003**	**2004**
Agriculture and forestry	271,410	273,260	254,391	276,620	298,305
Fishing	6,570	6,532	6,323	5,739	6,221
Mining and quarrying	4,107	4,915	5,106	5,945	6,379
Manufacturing	99,838	99,777	102,249	109,439	126,528
Electricity and water supply	17,432	18,158	19,151	21,789	21,528
Construction	23,952	28,158	28,911	33,344	41,252
Wholesale and retail trade, repairs	87,538	93,531	93,003	103,678	129,166
Hotels and restaurants	11,787	11,864	12,503	10,707	13,483
Transport, and communication	76,167	88,759	95,378	104,188	122,660
Financial intermediation	33,672	42,124	36,915	48,787	48,662
Dwellings, owner occupied and rented	25,687	28,530	30,503	33,970	36,394
Other real estate and business services	27,099	29,450	30,876	32,599	35,519
Education	4,343	4,935	6,000	7,599	9,020
Health and social work	11,359	13,994	15,280	17,039	18,424
Other community, social and personal services	35,915	39,600	41,441	42,647	46,245
Private households with employed persons	3,403	3,705	3,984	4,561	5,224
Less: Financial services indirectly measured	-8,574	-11,772	-9,070	-10,111	-9,052
Total value added at basic prices	**731,707**	**775,522**	**772,942**	**848,539**	**955,958**
Agriculture and forestry	3,781	4,237	4,570	4,043	3,579
Water supply	1,371	1,510	1,665	1,795	1,869
Construction	3,468	3,670	3,239	3,443	4,077
Transport, and communication	9,744	9,929	9,292	9,230	8,628
Research and technical services	600	687	786	748	689
Public administartion and defence	44,557	46,849	45,781	50,664	57,328
Education	52,622	58,130	69,554	82,120	90,180
Health and social work	9,003	9,965	11,931	13,131	13,618
Other services	2,067	2,271	2,545	2,483	2,457
Total value added at basic prices	**127,212**	**137,248**	**149,363**	**167,657**	**182,423**

Chapter 3
Social Scene

Overview

Total Government expenditure on social services increased by 4.9 per cent from KSh 106.1 billion in 2003/2004 to KSh 111.3 billion in 2004/2005 financial years. Recurrent expenditure took the highest share of total Government expenditure on social services; with over 80.2 per cent of the expenditure going to the Ministry of Education, Science and Technology. Development expenditure on the Health Sector declined by 12.9 per cent from KSh 5.1 billion in 2003/2004 to KSh 4.5 billion in 2004/2005.

3.2. Total Primary school enrolment increased by 3.8 per cent from 7,117.3 thousand pupils in 2003 to 7,384.3 thousand pupils in 2004, while Secondary enrolement schools went up by 3.7 per cent. Student enrolment in technical training institutions rose by 19.4 per cent while admissions to public and private universities increased by 11.5 per cent in 2004. Enrollment in adult education classes went up marginally from 108,431 in 2003 to 109,923 in 2004.

3.3. The number of health institutions increased by 4.4 per cent from 4,557 in 2003 to 4,757 in 2004, while the number of registered medical personnel rose by 4.3 per cent from 60,599 in 2003 to 63,227 in 2004. Malaria and diseases of the respiratory system remain the leading causes of morbidity in the country, accounting for over 50.0 per cent of all the reported cases in 2004.

3.4 The number of reported crime cases to the Police increased by 8.4 per cent in 2004. Assault, breakings, robbery and allied offences and general stealing accounted for 52.6 per cent of the reported cases. The number of reported cases of corruption and rape went up from 50 and 2,308 in 2003 to 200 and 2,908 in 2004 respectively. The number of reported cases of theft of motor vehicles, motor vehicle parts, and theft by servant on the other hand went down by 18.3, 7.5, and 6.6 per cent respectively in 2004.

Social Sector Expenditure

3.5. Table 3.1 shows the Central Government recurrent and development expenditure on social services for the period 2000/2001 to 2004/2005. Total expenditure on social services increased by 4.9 per cent from KSh 106.1 billion in 2003/2004 to KSh 111.3 billion in 2004/2005 financial year. Recurrent expenditure rose by 43 per cent from KSh 95.9 billion in 2003/2004 to KSh 100.0 billion in 2004/2005. Expenditure on development increased by 10.7 per cent from KSh 10.2 billion to KSh 11.3 billion over the same period. Development expenditure on health decreased by 12.9 per cent from KSh 5.1 billion in 2003/2004 to KSh 4.5 billion in 2004/2005 while recurrent expenditure increased by 9.4 per cent from KSh 16.0 billion to KSh 17.5 billion over the same period. Recurrent expenditure on education sector increased by 10.8 per cent during the review period while development expenditure increased by 36.4 per cent from KSh 4.3 billion in 2002/2003 to KSh 5.9 billion in 2004/2005.

Table 3.1: Central Government Expenditure on Social Services, 2000/2001 - 2004/2005 KSh Million

	2000/2001	2001/2002	2002/2003	2003/2004*	2004/2005**
RECURRENT EXPENDITURE-					
Ministry of Education Science & Technology***	48,594.01	54,016.63	61,557.82	72,410.54	80,239.91
Ministry of Health+	14,870.25	10,527.39	14,448.49	16,004.71	17,515.90
Ministry of Labour and Human Resource Development	825	1,048.19	1,464.76	1,483.12	779.09
Ministry of Home Affairs, National Heritage and Sports	3,882.26	6,581.57	5,234.74	5,992.32	1,478.56
TOTAL	68,171.52	72,173.78	82,705.81	95,890.69	100,013.46
DEVELOPMENT EXPENDITURE-					
Ministry of Education Science & Technology***	777.87	984.86	3,322.63	4,314.24	5,883.23
Ministry of Health+	759.11	3,539.54	4,893.66	5,115.54	4,458.01
Ministry of Labour and Human Resource Development	334.38	493.26	389.23	297.4	466.53
Ministry of Home Affairs, National Heritage and Sports	356.04	890.26	1,126.66	442.33	446.9
TOTAL	2,227.40	5,907.92	9,732.18	10,169.51	11,254.67
TOTAL EXPENDITURE	70,398.92	78,081.70	92,437.99	106,060.20	111,268.13

*Provisional

**Revised Estimates

***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 KETRI currently in the Ministry of Agriculture.

3.6. Details of Local Government expenditure on social services from 2000/2001 to 2004/2005 are presented in Table 3.2. The overall expenditure on social services increased by 3.3 per cent from KSh 2,568.17 million to KSh 2,653.51 million. The expenditure on education rose by 4.1 per cent while that on health increased slightly by 0.5 per cent to stand at KSh 869.3 million and KSh 1,297 million respectively. Expenditures on other social services rose by 10.0 per cent.

Table 3.2: Local Government Expenditure on Social Services, 2000/2001- 2004/2005 KSh million

	2000/2001	2001/2002	2002/2003*	2003/2004*	2004/2005**
Education	693.7	718.2	822.4	834.67	869.3
Health	858.6	922.9	1,107.30	1,290.90	1,297.35
Other Social Services	253.6	231.2	356.78	442.6	486.86
TOTAL EXPENDITURE	1,805.90	1,872.30	2,286.48	2,568.17	2,653.51

* Provisional.

**Revised estimates

Education 3.7. The Government continued to increase resources allocated to education in an effort to provide basic and higher education as shown in Table 3.3. In 2004/2005 financial year, gross expenditure for the Ministry of Education, Science and Technology is estimated to be KSh 86,123.14 million, representing an increase of 12.2 per cent from KSh 76,724.78 million. The highest expenditure was in general administration and planning (73.7 per cent) while Primary and Higher education accounted for 11.3 and 12.0 per cent of the total expenditure respectively. Recurrent expenditures on Technical Education increased by 32.0 per cent while that to Polytechnic Education more than tripled in 2004/2005. Similarly, there were increases in recurrent expenditure for Primary and Higher education by 10.3 and 30.3 per cent respectively.

Table 3.3: Expenditure of the Ministry of Education, Science and Technology, 2000/2001 - 2004/2005

KSh million

	2000/2001	2001/2002	2002/2003*	2003/2004*	2004/2005**
RECURRENT EXPENDITURE-					
General Administration and Planning	39,760.76	44,521.94	49,051.57	55,776.74	59,140.80
Pre-Primary Education	4.83	6.72	5.22	5.51	25.66
Primary Education	816.16	741.98	3,321.65	5,966.52	6,583.42
Secondary Education	697.69	667.31	667.88	945.42	938.79
Technical Education+	748.02	888.34	889.94	1,171.40	1,546.55
Teacher Training	128.18	138.7	144.29	192.83	210.41
Special Education	98.88	107.46	121.39	175.13	209.77
Polytechnic Education	252.09	320.84	342.73	466.01	1,538.20
Higher Education***	5,849.80	6,369.09	6,795.74	7,470.08	9,735.25
Miscellaneous	237.61	254.24	217.4	240.9	311.06
SUB-TOTAL	48,594.01	54,016.63	61,557.82	72,410.54	80,239.91
DEVELOPMENT EXPENDITURE-					
General Administration and Planning	292.17	472.54	1,893.70	954.99	1,517.36
Pre-Primary Education	129.57	204.02	197.52	362.55	6.89
Primary Education	235.86	150.2	796.04	2,214.10	3,189.42
Secondary Education	9.3	3.1	52.24	151.9	201.19
Technical Education+	13.33	9.63	5	4.19	235
Teacher Training	29.21	27.77	6.09	155.12	130.27
Special Education	-	-	-		-
Polytechnic Education	-	-	-		-
Higher Education***	68.43	117.61	372.03	471.4	602.11
Miscellaneous	-	-	-	-	1
TOTAL	777.87	984.86	3,322.63	4,314.24	5,883.23
GROSS TOTAL EXPENDITURE	49,371.88	55,001.49	64,880.45	76,724.78	86,123.14

*Provisional

**Revised Estimates

***Includes expenditure of all Public Universities

+Includes Expenditure on Institutes of Technology, Technical Training Institutes and Youth Polytechnics currently under the ministry of Labour and Human Resource Development

3.8. Development expenditure on education increased by 36.4 per cent from KSh 4.3 billion in 2003/2004 to KSh 5.9 billion in 2004/2005 financial year. Development expenditure on Primary Education increased significantly by 44.0 per cent from KSh 2,214.10 million in 2003/2004 to KSh 3,189.42 million in 2004/2005, accounting for 54.2 per cent of the Ministry's Development expenditure in 2004/2005 financial year. The development expenditure on general administration and planning went up by 58.9 per cent.

3.9. Table 3.4 presents the number of educational institutions for the 2000-2004 period by level and ownership. The total number of educational institutions increased by 1.6 per cent from 52,522 in 2003 to 53,380 in 2004. The number of pre-primary units went up by 349 from 28,995 in 2003 to 29,344 in 2004 whereas primary schools increased from 19,496 in 2003 to 19,938 in 2004; with public primary schools accounting for 90 per cent of the total. Private primary schools increased by 10.9 per cent from 1,674 in 2003 to 1,857 in 2004 while the number of public primary schools increased marginally by 1.5 per cent from 17,822 in 2003 to 18,081 in 2004. The number of secondary schools in the country increased from 3,999 in 2003 to 4,022 in 2004. There was no change in the number of public and private universities in the country.

Chapter 4
Employment, Earnings and Consumer Prices

Overview

The improved performance of the economy and restructuring of certain sectors in 2004 brought about creation of new employment opportunities in almost all economic activities. Increases in credit to private sector and enhanced consumer demand for goods and services during the year under review also enabled increased use of available capacities in the sectors resulting in growth of additional jobs. Total employment in both modern and informal sectors stood at 7,800.1 thousand, an increase of 6.5 per cent. The modern sector recorded an extra 36,400 jobs, which were mainly as a result of reforms in the transport and communications sector. Average nominal wages rose by 18.9 per cent, which in real terms, was an increase of 4.4 per cent in 2004. The average annual rate of inflation in 2004 was 11.6 per cent increasing from 9.8 per cent recorded in 2003. The underlying rate of inflation, which excludes food items from the Consumer Price Index (CPI) basket, stood at 6.8 per cent up from 3.6 per cent registered the previous year.

Employment Conceptual Overview

4.2. The term employment refers to performance of work. It is used to measure the number of persons employed, including persons at work during a short reference period, and also persons temporarily absent from work but holding a job. The concept of work covers all persons undertaking economic activities either for pay, profit or family gain. In addition, economic activity as described in the System of National Accounts (SNA), includes all market production and certain types of non-market production, namely: the production of primary products for own consumption; the processing of primary commodities for own consumption by the producers of these items; the production of fixed assets for own use; and the production for own consumption of other commodities by persons who also produce them for the market. Employment is viewed as a stock (measurement at a particular point in time) concept, and hence the corresponding statistics must, in principle, refer to a precise instant in time. The reference point for measurement of employment used here is 30th June. Employed persons in Kenya are normally categorised as working in three broad sectors i.e. Formal (also known as modern), Informal and Small scale and pastoralist activities. Majority of the employed are engaged in small scale or subsistence farming and pastoralist activities but these are excluded in the employment data analysed in the annual Economic Survey. The 1998/99 Labour Force Survey provides the benchmark for Informal sector estimations. This together with the 1999 Population and Housing Census projections for the Labour Force are used in the estimation of the informal sector employment.

4.3. As shown in Table 4.1, an estimated 7.8 million people were engaged in 2004, an increase of 6.5 per cent from 7.3 million recorded in 2003. The informal sector continued to provide the bulk of additional jobs. The Export Processing Zones (EPZ) had a 1.4 per cent decline in employment in 2004, occasioned by the reduced performance of the garment sub-sector. However this was more than offset by increased employment in the transport and communications sector.

Table 4.1: Total Recorded Employment: June, 2000 - 2004

'000's

	2000	2001	2002	2003	2004*
Modern Establishments - Urban and Rural Areas:					
Wage Employees**	1,695.4	1,677.1	1,699.7	1,727.3	1,763.7
Self-employed and unpaid family workers	65.3	65.4	65.5	65.7	65.8
Estimated Informal Sector **	4,191.1	4,667.3	5,101.6	5,532.7	5,970.6
TOTAL	5,951.8	6,409.8	6,866.8	7,325.7	7,800.1

* Provisional.

** Revised

4.4. **Modern sector** – Table 4.2 gives an analysis of modern sector employment by industry and sector for the period 2000 to 2004. The rate of job creation in the private sector revealed an increasing trend, recording 2.2 per cent, 2.6 per cent and 3.6 per cent in 2002, 2003 and 2004 respectively.

Table 4.2: Wage Employment by Industry and Sector, 2000 - 2004

'000's

	2000	2001	2002	2003	2004*	% change
PRIVATE SECTOR:						
Agriculture and Forestry	251.3	254.7	256.3	259.6	264.8	2.0
Mining and Quarrying	4.6	4.6	4.6	4.7	4.9	4.3
Manufacturing	182.9	183.1	196.4	208.3	211.0	1.3
Electricity and Water	1.5	1.6	1.7	1.8	1.9	5.6
Building and Construction	52.3	52.4	52.5	53.1	54.4	2.4
Wholesale and Retail Trade, Restaurants and Hotels	149.1	150.8	151.4	156.7	161.7	3.2
Transport and Communications	44.5	46.2	47.7	49.2	60.7	23.4
Finance,Insurance, Real Estate and Business services	68.8	68.8	68.6	69.1	70.2	1.6
Community, Social and Personal Services	247.8	256.5	261.5	265.6	276.6	4.1
TOTAL PRIVATE SECTOR	1,002.9	1,018.7	1,040.7	1,068.2	1,106.3	3.6
PUBLIC SECTOR:						
Agriculture and Forestry	60.9	57.8	57.3	56.5	55.8	-1.2
Mining and Quarrying	0.7	0.6	0.6	0.7	0.7	0.0
Manufacturing	35.8	33.5	33.4	31.4	31.0	-1.3
Electricity and Water	21.2	19.8	19.6	19.3	18.9	-2.1
Building and Construction	26.3	24.4	24.0	23.5	23.0	-2.1
Wholesale and Retail Trade, Restaurants and Hotels	6.4	6.1	6.1	6.1	6.3	3.3
Transport and Communications	39.7	38.1	37.8	37.6	37.6	0.0
Finance, Insurance, Real Estate and Business services	16.2	15.0	14.6	14.7	14.9	1.4
Community, Social and Personal Services	485.3	463.1	465.4	469.3	469.2	0.0
TOTAL PUBLIC SECTOR	692.5	658.4	658.8	659.1	657.4	-0.3

* Provisional.

4.5. Fundamental reforms in the transport and communications industry yielded positive results as reflected by an increase in private sector employment in this industry. This also led to a rise in levels of employment in the manufacturing and assembling of vehicles. In addition, there was increased employment in the mobile telephone service providers, including retailing of handsets and new connections. There was improvement in job creation in the agricultural industry as compared to the previous year due to better performance of the horticultural and tea industries. The EPZ, which has been the main driver of employment creation in the

manufacturing industry in the late 90's and early 2000's, recorded reduction in the number of establishments in the garment sub-sector. This resulted in job losses and reduced growth in rate of employment creation in the manufacturing sector. The share of private sector employment in the modern sector wage employment was 62.7 per cent up from 61.8 per cent in 2003.

4.6. Public sector restructuring and continued privatisation of non-strategic public enterprises led to a decline of 0.3 per cent in wage employment in the public sector to stand at 657.4 thousand in 2004 from 659.1 thousand recorded in 2003. Employment in public sector economic activities recorded marginal declines while others remained at their 2003 levels. However, there were marginal increases in wholesale and retail trade, restaurants and hotels and finance, insurance, real estate and business services sectors.

4.7. The employment scenario in various public sector domains is presented in Table 4.3. The Teachers' Service Commission (TSC), which is the major employer, recorded a marginal drop of 0.1 per cent against an increase of 0.2 per cent witnessed in 2003. Although recruitment into the teaching force continued in the year under review, the net effect was a decline in employment. Parastatal bodies registered a decline of 2.0 per cent in employment as a result of Government's strategy for performance improvement via a leaner and more efficient public sector. In this respect, non-performing and non-strategic state enterprises were either sold off or maintained low levels of staff. Employment in Central Government also continued on a declining trend mainly on account of natural attrition inspite of selective recruitment of graduates into the civil service and ring fencing of key positions vital for service delivery. Employment in Local Government recorded an increase of 2.1 per cent though most of these were casual employees.

Table 4.3 Wage Employment in the Public Sector, 2000 - 2004*

4.8. Trend analysis of wage employment by province for the years 2000 to 2004 is presented in Table 4.4. Nairobi, which commands the largest share of modern sector wage employment, had the largest increase of 9,900 persons, followed by Rift Valley with 8,700 jobs created.

Table 4.4: Wage Employment by Province,2000-2004

'000's

Province	2000	2001	2002	2003	2004*	Percentage Change 2004/2003
Nairobi	425.4	419.9	425.6	433.5	443.4	2.3
Coast	209.5	207.7	210.8	214.3	219.2	2.3
North Eastern	15.5	15.5	15.7	15.9	16.2	1.9
Eastern	141.4	139.8	141.9	144.1	147.0	2.0
Central	242.7	240.3	242.7	245.9	249.9	1.6
Rift Valley	379.9	376.0	381.7	388.1	396.8	2.2
Nyanza	169.2	167.4	169.1	171.3	174.3	1.8
Western	111.8	110.5	112.2	114.2	116.9	2.4
TOTAL	1,695.4	1,677.1	1,699.7	1,727.3	1,763.7	2.1

* Provisional

4.9.Wage employment in major urban centres by six selected industries is presented in Table 4.5 for 1999 and 2004. As shown in the table, there were increases in total wage employment in all the major urban centres. Over a five-year period, a total of 62,200 jobs have been created in urban areas, an increase of 6.8 per cent. As expected, the largest growth in wage employment over the five years was in the city of Nairobi followed by Mombasa. This was mainly due to the investments comparative advantage offered by these two major towns. The Transport and Communication industry registered the largest growth over the same period due to the reforms in the public transport industry and expansion of telecommunications industry and the electronic and print media.

Table 4.5: Wage Employment By Urban Centres And Selected Industries*, 1999 And 2004

Towns	Manufacturing		Construction		Wholesale and Retail Trade, Restaurants and Hotels		Transport and Communications		Finance, Insurance, Real Estate and Business Services		Community, Social and Personal Services	
	1999	2004**	1999	2004**	1999	2004**	1999	2004**	1999	2004**	1999	2004**
Nairobi	76.3	81.2	38.4	39.4	57.6	63.2	30	33.9	42.4	40.7	156.7	164.3
Mombasa	31.5	33.9	5.3	6.6	21.8	23.5	30.7	35.8	13.3	12.9	49	51.7
Kisumu	7.1	7.8	2	2.4	4.3	4.7	1.8	2.1	2.5	2.4	21.6	22.6
Nakuru	8.7	9.5	2.1	2.6	5.7	6.2	1.6	1.8	2.6	2.5	13.2	14
Thika	16.3	17.7	0.5	0.6	3.2	3.4	0.4	0.5	1.8	1.7	5.9	6.3
Eldoret	16.4	17.9	1.2	1.9	4.1	4.4	1	1.1	2.9	2.8	5	5.5
Malindi	0.4	0.5	0.2	0.3	3	3.2	0.3	0.3	0.4	0.4	3	3.1
Kericho	4	4.2	0.9	1	1.3	1.4	0.2	0.2	0.5	0.5	5.5	5.8
Others	44.4	51.3	15.5	5.2	46.6	54	6.4	7.9	22.2	23	75.7	85.8
TOTAL	205.1	224	66.1	60	147.6	164	72.4	83.6	88.6	86.9	335.6	359.1

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

** Provisional.

4.10. Males in modern sector wage employment accounted for 70.4 per cent of the total modern sector employment in 2004 as shown in Table 4.6. There was a slight decline in male wage employment in the electricity and water industry while the level of female employment in this industry remained the same. Inter-sectoral comparison shows that formal Agriculture and Forestry engaged the largest number of males accounting for approximately 19.4 per cent of total males engaged. Education services had the largest number of females employed in the country accounting for 27.5 per cent of the total females employed in 2004. Overall, the increase in employment for both males and females was in casual employment as levels of regular employment remained at about the same levels of the previous year.

Table 4.6: Wage Employment by Industry and Sex, 2003 and 2004

'000's

INDUSTRY	MALES		FEMALES		TOTAL	
	2003	2004*	2003	2004*	2003	2004*
Agriculture and Forestry	237.6	241.0	78.5	79.6	316.1	320.6
Mining and Quarrying	4.2	4.3	1.2	1.2	5.4	5.5
Manufacturing	198.0	199.8	41.8	42.2	239.8	242.0
Electricity and Water	17.3	17.1	3.8	3.8	21.1	20.9
Building and Construction	71.7	72.4	4.9	4.9	76.6	77.3
Trade, Restaurants and Hotels	119.2	123.0	43.6	45.0	162.8	168.0
Transport and Communications	69.2	78.4	17.6	19.9	86.8	98.3
Finance, Insurance, Real Estate and Business Services	62.0	63.1	21.7	22.1	83.7	85.2
Community, Social and Personal Services-						
Public Administration	94.4	95.7	55.7	56.5	150.1	152.2
Education Services	185.4	188.1	141.2	143.3	326.6	331.4
Domestic Services	58.9	59.8	39.0	39.6	97.9	99.4
Other Services	98.2	99.7	62.2	63.2	160.4	162.9
TOTAL	1,216.1	1,242.4	511.2	521.3	1,727.3	1,763.7
Of which: Regular	979.5	995.8	401.6	394.7	1,381.1	1,390.5
Casual	236.6	246.6	109.6	126.6	346.2	373.2

* Provisional

Wage Earnings in the Modern Sector

4.11. Table 4.7 gives total wage payments by industry and sector for the period 2000 - 2004. There was an increase of 18.9 per cent in the nominal wage bill, from KSh 425,336.7 million in 2003 to KSh 505,936.5 million in 2004. The private sector wage bill had a higher increase of 22.1 per cent from KSh 264,020.1 million to KSh 322,316.3 million over the one year period. The public sector wage bill stood at KSh 183,620 million, a 13.8 per cent increase which was higher than the 9.4 per cent increase registered in 2003.

Chapter 5
Money, Banking and Finance

Overall trends

The monetary policy pursued in 2004 was in line with the Government's key macroeconomic objective of maintaining low inflation. The monetary policy aimed at achieving a rate of underlying inflation of less than 5.0 per cent. To achieve this, reserve money was targeted to grow by not more than 8.9 per cent, in line with expansion of broad money supply (M3X) the intermediate target. M3X was selected on the basis of its stable relationship with nominal economic activity. The monetary authorities continued to use Open Market Operations (OMO) as the main policy instrument to manage liquidity in the banking system. Interest rates maintained a gradual rise for most of the period under review but surged upwards over the month of November and more than doubled by December 2004. Overall, both the commercial banks and Non Bank Financial Institutions (NBFIs) observed the minimum liquidity ratio requirement of 20.0 per cent and the statutory cash ratio requirement of 6.0 per cent.

Monetary Aggregates and Indicators

Table 5.1: Monetary Indicators, 2000 - 2004

year	As at end of	Net Foreign Assets KSh .Mn	DOMESTIC CREDIT KSh .Mn			Money** Supply(M3) KSh .Mn	Commer-cial Bank Liquidity Ratio per cent	Advances/ Deposits Ratio per cent
			Private*	Government	Total			
2000	December ..	83,616	297,401	81,758	379,159	314,686	43	90
2001	December ..	91,775	279,827	100,383	380,210	322,923	46	84
2002	December ..	104,377	296,847	113,384	410,231	350,733	44	82
2003	December ..	125,066	302,264	134,278	436,542	395,116	49	77
2004	March	133,308	318,567	134,883	453,450	394,789	48	77
	June	133,930	333,354	134,688	468,042	407,303	46	77
	September	133,291	352,577	129,537	482,114	416,956	46	78
	December	143,129	379,616	121,543	501,159	432,568	42	82

Source: Central Bank of Kenya.
* Includes other public sectors.
** See Table 5.2 for Coverage.

5.2. Table 5.1 shows some key monetary indicators. Net foreign assets of the banking system increased from KSh 125,066 million in December 2003 to KSh 143,129 million in December 2004 representing a growth of 14.4 per cent. Domestic credit expanded by 14.8 per cent to KSh 501,159 million from KSh 436,542 million during the same period. Credit to the private sector including other public sectors registered a 25.6 per cent growth, while credit to Central Government contracted by 9.5 per cent to KSh 121,543 million. Money supply (M3) grew by 9.5 per cent from KSh 395,116 million in December 2003 to KSh 432,568 million in December 2004. Over the same period, commercial banks' average liquidity ratio declined from 48 per cent in the first quarter, to 46 per cent in the second and third quarter, before closing the year at 42 per cent. Commercial banks increased their lending to institutions and households during the period under review as evidenced by an increase in the Advances/Deposits ratio by 5 percentage points to 82 per cent in December 2004 from 77 per cent in December 2003.

Table 5.2: Money and Quasi-Money Supply, 2000 - 2004

KSh million

	As at end of	Money and Quasi-Money (MS)				Broad Money Supply***		
		Money* (M1)	Quasi-Money**	Total (M2)	Quasi (NBFIs)	M3	M3X	M3XT
2000	December	119,393	178,479	297,872	18,562	314,686	359,647	424,427
2001	December	130,026	178,709	308,735	14,258	322,325	368,136	449,315
2002	December	150,082	188,162	338,244	13,364	350,733	404,784	513,863
2003	December	193,855	187,161	381,017	14,100	395,116	451,172	565,196
2004	January	193,354	187,047	380,401	14,159	394,326	450,914	565,326
	February	191,858	185,273	377,131	14,245	391,077	452,311	569,076
	March	190,357	203,378	381,034	13,889	394,789	459,271	577,804
	April	193,353	192,127	385,480	13,939	399,226	462,295	581,478
	May	191,258	197,304	388,562	13,976	402,314	468,862	588,985
	June	198,061	209,783	394,479	13,687	407,303	473,795	593,610
	July	201,075	198,044	399,119	13,064	411,440	476,271	599,686
	August	202,394	202,896	405,291	12,186	417,477	484,124	610,739
	September	200,373	217,788	404,928	12,839	416,956	488,292	613,913
	October	211,654	199,441	411,095	12,941	423,132	500,220	652,170
	November	206,772	204,839	411,611	12,625	423,505	502,970	633,858
	December	210,599	209,239	419,837	12,923	432,568	511,426	641,441

Source: Central Bank of Kenya

* Currency outside banks plus all demand deposits except those of Central Government, Local Government, Commercial Banks,Non Residents and foreign currency denominated deposits

** All other deposits except those of Central Government,Local Government, Commercial Banks,

*** Deposits of Non Residents and foreign currency denominated deposits

5.3. Various money supply aggregates are shown in Table 5.2. Narrow money supply (M1) grew by 8.6 per cent from KSh 193,855 million in December 2003 to KSh 210,599 million in December 2004. With quasi money expanding by 11.8 per cent, money supply (M2) grew by 10.2 per cent. Money supply (M3) grew by 9.5 per cent compared to 2003 growth of 12.7 per cent. Foreign currency deposits (FCDs) grew by 40.7 per cent resulting in 13.4 per cent growth in broad money supply (M3X) to stand at KSh 511,426 million in December 2004. The expansion in M3X was supported by an increase in Net Domestic Assets (NDA) of the banking system. Overall liquidity represented by broad money (M3XT) grew from KSh 565,196 million in December 2003 to KSh 641,441 million by December 2004 due to a 14.0 per cent increase in Treasury Bill holding by the non-banking public.

Consolidated Accounts of the Banking System

5.4. Consolidated accounts of the banking system are shown in Table 5.3. Demand deposits of the banking systems grew by 6.9 per cent in 2004 compared to a substantial increase of 43.8 per cent recorded in 2003. Currency in circulation grew by 12.9 per cent in 2004 compared to a growth of 3.1 per cent in the previous period. The growth in demand deposits and currency in circulation resulted in a deceleration of Narrow Money (M1) growth to 8.6 per cent in 2004 compared to a growth of 29.2 per cent recorded in 2003. Quasi-monetary deposits (near money) of the banks increased from KSh 187,161 million in December 2003 to KSh 209,239 million in December 2004 or 11.8 per cent increase compared to the previous period's contraction of 0.5 per cent.

Table 5.3: Consolidated Accounts Of the Banking System, 2000 - 2004

KSh Million

	AS AT THE END OF							
					2004			
	2000	2001	2002	2003	1st Quarter	2nd Quarter	3rd Quarter	4th 2004
LIABILITIES-								
1 Money (M1):								
1.1 Demand Deposits	75,927	84,681	96,187	138,305	135,417	142,351	144,216	147,870
1.2 Currency outside banks	43,466	45,345	53,895	55,550	54,940	55,710	56,157	62,729
Sub-Total	119,393	130,026	150,082	193,855	193,855	198,061	200,373	210,599
2. Quasi-Money(MS):								
2.1Call + 7 days Notice Deposits	18,456	19,658	20,698	19,277	22,986	21,488	18,787	19,463
2.2 Savings Deposits	68,314	66,122	69,620	70,752	69,807	72,226	72,611	74,582
2.3 Time Deposits	91,710	92,929	97,844	97,133	97,884	102,704	113,158	115,194
Sub-Total	178,479	178,709	188,162	187,161	190,677	196,418	204,556	209,239
Money Supply(M2)	297,872	308,735	338,244	381,016	384,532	394,479	404,929	419,838
3 Quasi-Money (NBFIs)	16,814	14,258	13,364	14,100	13,755	13,687	12,839	12,923
Adjustments for Cross Bal.	0	-668	-875	0	-3,498	-863	-812	-193
Broad Money Supply(M3)	314,686	322,325	350,733	395,116	394,789	407,303	416,956	432,568
4 Foreign Currency Deposits	44,961	45,209	54,051	56,056	64,482	66,492	71,336	78,859
Broad Money Supply(M3X)	359,647	368,132	404,784	453,023	459,271	473,795	488,292	511,426
5 Treasury Bill Holdings	64,780	81,172	109,079	114,024	118,533	119,815	125,621	130,014
Broad Money Supply(M3XT)	424,427	449,304	513,863	567,047	577,804	593,610	613,913	641,441
6 Other Items (Net)	105,156	103,853	109,824	114,577	127,487	128,177	127,113	132,862
TOTAL	464,803	471,985	514,608	567,600	586,758	601,972	615,405	644,288
ASSETS-								
7 Net Foreign Assets	83,478	91,775	104,377	125,066	133,308	133,930	133,291	143,129
8 Domestic Credit:								
8.1 Central Govt. (Net)	83,789	100,383	113,384	134,278	134,883	134,688	129,537	121,543
8.2 Other Public Bodies	8,058	8,027	8,016	5,992	8,656	9,214	11,317	10,934
8.3 Private Sector	289,478	271,800	288,831	302,264	309,911	324,140	341,260	368,682
Sub-total	381,325	380,210	410,231	442,534	453,450	468,042	482,114	501,159
TOTAL	464,803	471,985	514,608	567,600	586,758	601,972	615,405	644,288

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**, comprises M3 and foreign currency holdings by residents.

(c) Broad Money , **M3XT**, comprises 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 and deposits with crown agents.

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

5.5. Residents Foreign Currency Deposits (FCDs) grew substantially by 40.7 per cent by December 2004 to KSh 78,859 million compared to a growth of 3.7 per cent in 2003. The increase in FCDs resulted in a 12.9 per cent growth in M3X compared to an increase of 11.9 per cent in December 2003. Investments in Treasury bills increased from KSh 4,024 million as at the end of 2003 to KSh 130,014 million by end of 2004. This growth of 14.0 per cent in Treasury bill holdings was much higher than the December 2003 growth of 4.5 per cent, reflecting the rise in Treasury-bill interest rates that increased from 4.41 per cent in 2003 to 8.00 per cent in December 2004. As a result of the rise in Treasury bill holdings by non-bank public, M3XT grew by 13.1 per cent in 2004 compared to previous year increase of 10.3 per cent. The positive increases of the various components on the liabilities side led to an overall 13.5 per cent growth of the banking system liabilities.

Chapter 6
Public Finance

Overview

The economy has had two main challenges namely; tackling high poverty levels and containing decline in social and economic infrastructure. This is against a backdrop of budget constraints necessitating the need to target and prioritize on use of the scarce resources available. Resources allocation was mainly guided by the Economic Recovery Strategy and predisposed activities towards core growth generating and poverty reducing areas of physical infrastructure- especially rehabilitation of the road network, health, education, energy and security. These priorities have further been informed by the Public Expenditure Reviews (P.E.Rs) institutionalised as part of the budget process within Government ministries. The focal point was to examine the links between budgetary allocations against set priorities, with a view to identifying service delivery gaps and ways of addressing expenditure-output/outcome disparity. Total Central Government expenditure increased by 21.6 per cent while total revenue increased by 7.6 per cent in 2004/05 Financial Year. Current revenue to GDP ratio was 21.6 per cent in 2004/05 fiscal year, almost the same as the targeted ratio of 21.0 per cent as spelt out in the 2002/03-2004/05 Fiscal Strategy Paper.

Overall results

6.2. **Central Government:-** The budget out-turns for 2000/01 to 2004/05 is presented in Table 6.1. Current revenue grew by 7.2 per cent from KSh 256,131.2 million in 2003/04 to KSh 274,619.2 million in 2004/05. Overall deficit increased from a surplus of KSh 3,145.1 in 2003/04 to KSh 54,423.8 million in 2004/05. Subsequently, Government's external borrowing more than doubled from KSh 5,646.6 million in 2003/04 to KSh 13,459.0 million in 2004/05. Total expenditure increased by 21.6 per cent from KSh 352,682.0 million in 2003/04 to stand at KSh 428,719.2 million in 2004/05.

Table 6.1: Central Government out-turn of revenue and expenditure*2000/01-2004/05 (KSh million)

	2000/01	2001/02	2002/03	2003/04**	2004/05+
Current Revenue	192,505.09	185,325.53	204,954.58	256,131.20	274,619.20
Current Expenditure***	176,530.19	197,115.81	213,785.46	232,945.19	297,306.62
Current Surplus/ Deficit	15,974.90	-11,790.28	-8,830.88	23,186.00	-22,687.42
Capital Revenue	7,318.01	2,538.26	783.13	740.46	1,773.70
Capital Expenditure***	33,067.90	27,056.93	33,606.38	28,011.18	50,754.49
Net Lending***	2,372.49	199.09	247.28	4,610.67	1,402.40
External Grants	12,461.05	11,537.64	15,866.40	11,840.47	18,646.82
OVERALL DEFICIT/ SURPLUS	313.57	-24,970.40	-26,035.01	3,145.09	-54,423.79
FINANCING OF DEFICIT:					
External Loans	11,425.09	14,716.55	16,393.29	5,646.56	13,459.12
Total Domestic Borrowing	624.00	39,703.00	46,923.00	8,809.00	-7,559.00
Long-term(net)	6,095.00	61,748.00	55,951.00	28,033.00	-8,916.00
Short-term(net)	-5,417.00	-22,045.00	-9,028.00	-19,224.00	1,357.00
CHANGES IN CASH BALANCES:					
Increase = (-)	-12,362.66	-30,660.57	-37,266.24	-17,606.64	48,523.66
MEMORANDUM ITEMS:					
Public Debt Redemption	56,077.86	85,407.22	56,034.61	87,115.37	79,255.65
(a) External	12,267.92	22,313.24	22,784.54	20,912.06	
(b) Internal	43,809.93	63,093.98	33,250.07	66,203.31	

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 6.3.
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.

+ Revised Estimates

6.3. Some key fiscal indicators for 2000/01 to 2004/05 financial years are shown in Table 6.2. Current surplus/deficit as a percentage of current revenue worsened from a surplus of 9.1 per cent in 2003/04 to a deficit of 8.3 per cent in 2004/05. This was mainly due to higher growth in current expenditure, compared to growth in current revenue. The ratio of capital expenditure to current expenditure increased from 0.1 in 2003/04 to 0.2 in 2004/05. External grants and loans as a percentage of the capital expenditure and net lending increased to 61.6 per cent in 2004/05 as compared to 53.6 per cent in 2003/04. Government expenditure as a percentage of GDP at current market prices increased from 22.9 per cent in 2003/04 to 33.7 per cent in 2004/05, while overall deficit as percentage of GDP increased from a surplus of 0.3 per cent in 2003/04 to 4.3 per cent in 2004/05.

Table 6.2: Analysis of key fiscal trends, 2000/01-2004/05

		2000/01	2001/02	2002/03	2003/04*	2004/05**
1	Current Surplus/Deficit as % of Current Revenue	8.30	-5.56	-4.31	9.05	-8.26
2	Current Surplus/Deficit as % of Capital Expenditure plus Net Lending	45.08	-39.58	-26.09	71.08	-43.5
3	Ratio of Capital Expenditure to Current Expenditure	18.73	13.32	0.16	0.11	0.17
4	Overall Deficit as % of Current Revenue ..	0.16	-12.02	-12.70	1.23	-19.82
5	Overall Deficit as % of Total Expenditure ..	0.12	-7.25	-10.52	1.21	-12.69
6	External Grants and Loans as % of Capital Expenditure plus Net Lending	67.40	100.80	95.29	53.61	61.56
7	Net Short-Term Borrowing as % of Capital Expenditure plus Net Lending	-15.28	-84.64	-26.67	-58.93	2.60
8	Current Revenue as % of GDP at Current Market Prices	19.89	18.06	19.73	20.78	21.56
9	Total Government Expenditure as % of GDP at Current Market Prices	21.66	21.61	23.82	22.86	33.66
10	Overall Deficit as % of GDP at Current Market Prices	0.03	-2.17	-2.51	0.28	-4.27

* Provisional

** Revised Estimates

6.4. Comparisons between the budget estimates and the actual out-turns are highlighted in Table 6.3. Actual Recurrent Revenue surpassed the budgeted revenue by KSh 19,846.3 in the year under review. On the other hand, recurrent expenditure overshot the budget estimate by 6,002.2 million compared to an under-spending of KSh 9,565.6 million in 2003/04.

Table 6.3: Comparison of Central Government budget estimates with actual out-turns, 2001/02 - 2004/05

KSh million

	2001/02			2002/03		
	Budget	Actual	Difference	Budget	Actual	Difference
Recurrent Revenue	216,118.33	187,863.79	-28,254.54	223,056.05	205,737.71	-17,318.34
Recurrent Expenditure	269,988.87	283,484.56	13,495.69	292,715.54	272,287.62	-20,427.92
Recurrent Balance	-53,870.54	-95,620.77	-41,750.23	-69,659.49	-66,549.91	3,109.58
Development Expenditure + Net Lending	43,560.88	24,209.62	-19,351.26	49,753.66	32,027.12	-17,726.54
External Financing (Net)**	-8,673.00	26,254.19	34,927.19	-923.65	32,259.69	33,183.34
Balance for Domestic Financing (Net)	-106,104.42	-93,576.20	12,528.22	-120,336.80	-66,317.34	54,019.46
	2003/04*			2004/05***		
	Budget	Actual	Difference	Budget	Actual	Difference
Recurrent Revenue	237,369.70	256,871.70	19,502.00	256,546.58	276,392.90	19,846.32
Recurrent Expenditure	329,927.08	320,361.44	-9,565.64	353,533.75	359,536.30	6,002.55
Recurrent Balance	-92,557.38	-63,489.30	29,068.08	-96,987.17	-83,143.40	13,843.77
Development Expenditure + Net Lending	59,670.57	39,012.70	-20,657.87	88,116.10	73,632.92	-14,483.18
External Financing (Net)**	35,854.69	17,487.03	-18,367.66	45,991.39	32,105.94	-13,885.45
Balance for Domestic Financing (Net)	-116,373.26	-85,014.97	31,358.29	-141,411.88	-126,970.38	14,441.50

* Provisional.

** Includes external grants.

*** Revised Estimates

\+ Recurrent Revenue = Current Revenue + Capital Revenue

++ Recurrent expenditure consists of current expenditure , capital expenditure and Consolidated Fund Service from the Rec- Estimates

6.5. Table 6.4 gives a breakdown of Central Government gross receipts on recurrent revenue account. There was an expected 7.6 per cent increase in gross receipts during the 2004/05 fiscal year compared to 24.9 per cent increase in 2003/04. Income tax remained the main source of Government revenue accounting for 27.6 per cent and 28.5 per cent of the total revenue in the years 2003/04 and 2004/05 respectively. Amongst the indirect taxes, Excise duties maintained an upward trend while import duties declined from KSh 21,907.0 million in 2003/04 to KSh 21,392.0 million in 2004/05. VAT on imports and import duties declined from KSh 48,399.0 million in 2003/04 to KSh 49,695.0 million in 2004/05. This was mainly attributed to the adoption of the East African Community's Common External Tariff (CET) among other regional trading block's initiatives. Compulsory fees and fines registered a substantial increase from KSh 20,759.9 million in 2003/04 to KSh 24,456.0 million in 2004/05. The main sources of revenue under compulsory fees, fines and penalties were; road use levy, transit toll charges, court fees, import inspection fees, aviation fees and pre-shipment fees. Sales of goods and services increased from KSh 5,950.3 million in 2003/04 to KSh 19,027.8 million in 2004/05.

Table 6.4: Central Government gross receipts on recurrent account* 2000/01 - 2004/05

KSh million

	2000/01	2001/02	2002/03	2003/04**	2004/05+
DIRECT TAXATION:					
Income Tax	53,428.93	55,861.95	66,744.28	70,862.00	78,777.00
TOTAL	53,428.93	55,861.95	66,744.28	70,862.00	78,777.00
INDIRECT TAXATION:					
VAT on Domestic Manufactures.....	26,226.01	26,325.46	26,502.31	32,491.00	34,664.00
VAT on imports	23,994.85	24,546.22	29,632.94	26,492.00	28,303.00
Import Duties	28,803.74	21,583.67	18,436.23	21,907.00	21,392.00
Excise Duties	28,317.99	32,076.93	35,684.12	47,590.00	45,304.00
Trading Licences	86.30	98.66	105.36	197.70	202.05
Licences and Fees Under Traffic Act	1,049.99	885.40	1,145.00	2,349.00	1,989.00
Other Taxes, Licences and Duties	1,170.98	1,312.53	22.98	1,280.11	1,325.71
TOTAL	109,649.86	106,828.87	111,528.94	132,306.81	133,179.76
CAPITAL REVENUE	7,318.01	2,538.26	783.13	740.46	1,773.70
OTHER REVENUE AND INCOME:					
Compulsory Fees, Fines and Penalties	6,180.33	6,580.90	2,895.81	20,759.91	24,456.02
Income From Property	5,283.64	2,996.32	1,363.25	19,306.97	10,701.10
Current Transfers	0.00	0.16	138.77	41.32	12.07
Sales of Goods and Services	16,045.25	7,500.64	16,468.78	5,950.27	19,027.76
Other	9,235.09	6,316.32	5,814.04	6,903.96	8,465.46
TOTAL	36,744.31	23,394.33	26,680.65	53,702.89	62,662.41
TOTAL	207,141.11	188,623.41	205,737.00	256,871.70	276,392.87
MEMORANDUM ITEM:					
Loan Repayments to Government	382.05	629.00	389.60	719.40	382.06

* This account refers to current receipts as well as A in A which is distributed under various heads including sales of goods and services.

** Provisional.

\+ Revised Estimates

6.6. Table 6.5 shows collected import duties on selected commodities by end use for the period 2000 – 2004. All categories recorded increases in import duty collected with exception of food, drinks and tobacco, basic materials, fuels and textiles. Food drinks and tobacco registered a decline of 11.6 per cent mainly due to the removal of the VAT tax waiver on food. There was an increase in the overall import duty from KSh 19,793.1 million in 2003/04 to KSh 21,181.2 million in 2004/05 reversing the declining trend observed in the last three years. This can be attributed to efficient revenue collection.

Table 6.5: Central Government import duty collections for selected items, 2000 - 2004**

KSh million

END-USE CATEGORY	2000	2001	2002	2003	2004*
Food, drinks and tobacco	5,479.55	7,064.32	4,754.02	5,354.73	4,735.76
Basic materials	1,599.50	1,437.40	1,135.57	1,729.92	942.29
Fuels	6,326.64	146.67	850.74	705.37	508.31
Chemicals	1,527.06	1,460.73	1,094.14	753.87	1,012.91
Textiles	536.93	780.81	691.15	694.14	619.12
Semi-manufactures	1,560.87	1,702.31	1,524.76	1,003.54	1,551.77
Metals	1,215.59	1,243.82	1,233.38	1,225.06	1,240.82
Transport Equipment	3,806.70	4,000.40	4,117.37	4,015.48	5,621.52
Machinery	3,103.64	4,224.45	3,094.42	2,668.50	2,865.89
Miscellaneous commodities	1,724.89	2,549.14	2,270.87	1,642.44	2,082.83
TOTAL	26,881.37	24,610.06	20,766.41	19,793.05	21,181.22

Source: Kenya Revenue Authourity, Customs and Excise

* Provisional.

** Data presented in this table refer to calender years

6.7. Analysis of Central Government excise revenue collected from selected locally manufactured commodities is shown in Table 6.6. Overall excise revenue grew by 10.4 per cent from KSh 13,445.5 million in 2003 to KSh 14,842.6 million in 2004. Beer and spirits accounted for 59.8 per cent of the total excise revenue, while receipt from cigarettes accounted for 29.3 per cent. The increase in excise revenue was mainly due to improved administration of the excise duties.

Table 6.6: Central Government excise revenue by commodities*, 2000 - 2004

KSh million

	2000	2001	2002	2003	2004**
Beer and spirits	7,580.83	7,540.36	8,024.73	7,907.96	8,882.97
Sugar	1.00	39.43	0.00	0.00	0.00
Cigarettes	4,697.59	3,830.87	3,578.56	3,629.44	4,345.23
Other commodities***	1,326.00	1,035.52	1,321.76	1,908.08	1,614.35
TOTAL	13,605.43	12,446.18	12,925.05	13,445.48	14,842.55

* Data presented in this Table refer to Calender years

** Provisional.

*** Includes revenue from mineral water, matches, cosmetics and locally assembled vehicles.

Source: Kenya Revenue Authority, Customs and Excise

6.8. Key indicators of Central Government financing of capital expenditure and net lending are shown in Table 6.7. In 2004/05, capital expenditure and net lending amounted to KSh 52,156.9 million as compared to KSh 32,621.9 million in 2003/04 fiscal year. This was financed through grants and loans from external sources which increased from KSh 17,487.0 million in 2003/04 to KSh 32,105.9 million in 2004/05. Financing through short-term borrowing declined in the year under review.

Table 6.7 Central Government Financing of Capital Expenditure and Net Lending,2000/01-2004/05 KSh million

	2000/01	2001/02	2002/03	2003/04*	2004/05**
EXPENDITURE:					
Capital Expenditure	33,067.90	26,065.14	33,606.38	28,011.18	50,754.49
Net Lending	2,372.49	-20.54	247.28	4,610.67	1,402.40
TOTAL	35,440.39	26,044.60	33,853.66	32,621.85	52,156.89
FINANCING:					
Surplus on Current Account ..	15,974.90	-11,790.28	-8,830.88	23,186.00	-22,687.42
Capital Revenue	7,318.01	2,538.26	768.09	740.46	1,773.70
External Loans (Net)	11,425.09	14,716.55	16,393.29	5,646.56	13,459.12
External Grants	12,461.05	11,537.64	15,866.40	11,840.47	18,646.82
Long-Term Domestic Borrowing (Net)	6,095.00	61,748.00	55,951.00	28,033.00	-8,916.00
SHORT TERM BORROWING:					
Treasury Bills (Net)	6,352.00	-18,207.00	-11,522.00	-4,999.00	-4,534.00
Other Short-Term Borrowing (Net) ..	-11,823.00	-3,838.00	2,494.00	-14,225.00	5,891.00
Change in Cash Balances(decrease =+)	-12,362.66	-30,660.57	-37,266.24	-17,600.64	48,523.66
TOTAL	35,440.39	26,044.60	33,853.66	32,621.85	52,156.89

* Provisional.

** Estimates

6.9. The functional allocation of Government expenditure for financial year 2001/2002 to 2004/05 is detailed in Table 6.8 and Figure 6.1. Expenditure in General Administration rose from KSh 40,069.2 million in year 2003/04 to KSh 69,754.9 million in 2004/05. The Government's main focus on financial development programmes to benefit the vulnerable group was still on course. This entailed provision of basic social needs like education, health, water and security. The agriculture, forestry and fishing sub sector which are lead actors in reduction of extreme poverty received a major boost during the review period. For this reason, expenditure on both recurrent and development account on this activity went up from KSh 11,130.0 million in 2003/04 to KSh 12,699.5 million in 2004/05. Development Expenditure on roads in both recurrent and development account rose significantly in 2004/05. Provision of education remained the key focus of Government expenditure in 2004/05. Expenditures for public administration, security, health and roads followed in tow. This was in line with the Government focus on economic recovery strategy framework. The Government made substantial commitment and investment in free primary education raising the expenditure by 16.5 per cent to KSh 86,117.3 million in 2004/05 from KSh 73,941.4 million in 2003/2004. Other services including public debt recorded a 2.6 per cent increase in the review period.

Table 6.8: Central Government Expenditure on Main Services, 2001/02 - 2004/05

	2001/02			2002/03			2003/04*			2	
	Recur-rent Account	Deve-lopment Account	Total	Recur-rent Account	Deve-lopment Account	Total	Recur-rent Account	Deve-lopment Account	Total	Recur-rent Account	I A
GENERAL PUBLIC ADMINISTRATION:											
General Administration	26,060.4	7,864.3	33,924.7	28,053.5	13,061.0	41,114.5	28,135.8	11,933.4	40,069.2	39,511.1	
External Affairs	4,480.4	161.2	4,641.6	4,291.6	122.1	4,413.8	4,768.0	89.2	5,135.7	6,634.0	
Public Order and Safety	18,899.5	562.1	19,461.6	20,454.3	754.0	21,208.3	28,184.0	837.4	26,462.1	30,938.4	
TOTAL	49,440.4	8,587.6	58,028.0	52,799.5	13,937.1	66,736.6	61,087.8	12,859.9	76,283.1	77,083.5	
Defence	16,265.4	0.0	16,265.4	17,603.0	0.0	17,603.0	19,465.0	0.0	19,921.1	21,218.8	
SOCIAL SERVICES											
Education	54,230.0	1,366.5	55,596.5	62,317.0	2,817.8	65,134.8	69,550.6	4,390.8	73,941.4	80,145.1	
Health	12,619.8	2,568.6	15,188.5	14,405.5	945.6	15,351.1	15,432.3	860.8	16,848.7	17,515.9	
Housing and Community Welfare	2,613.9	534.0	3,147.9	2,227.2	868.8	3,096.1	2,663.2	156.0	3,437.4	4,290.7	
Social Welfare	22.0	0.0	22.0	40.3	0.0	40.3	31.4	0.0	80.0	50.0	
TOTAL..	85,751.2	4,469.2	90,220.4	96,593.0	4,632.3	101,225.3	107,142.4	5,407.6	113.168.3	123,220.6	
ECONOMIC SERVICES:											
General Administration	4,093.5	8,793.4	12,886.9	3,663.3	6,074.8	9,738.1	3,434.9	5,765.7	9,200.6	3,327.7	
Agriculture, Forestry and Fishing	7,029.5	1,646.9	8,676.5	7,307.6	2,060.4	9,368.0	7,814.7	3,315.3	11,130.0	8,511.0	
Mining,Manufacturing & Construction	1,836.3	1,234.1	3,070.3	1,944.4	504.3	2,448.7	1538.8	1,341.4	2,880.3	4,486.3	
Electricity, Gas, Steam and Water	1,343.5	1,343.1	2,686.6	1,563.8	1,494.5	3,058.3	1,614.6	2,689.2	4,303.8	1,708.7	
Roads	7,376.1	1,480.6	8,856.7	5,211.6	2,255.6	7,467.2	7,561.8	2,833.6	10,395.4	8,822.3	
Other Transport & Communications	757.5	11.7	769.1	796.6	8.2	804.8	19.0	178.3	197.9	481.2	
Other Economic Services	1,846.6	251.0	2,097.6	2,440.5	808.5	2,148.9	1,397.4	11.0	1,408.4	1,847.1	
TOTAL ECONOMIC SERVICES	24,283.0	14,760.7	39,043.7	22,927.8	13,206.3	35,034.1	23,381.3	16,134.5	39,515.7	29,184.2	
OTHER SERVICES; INCLUDING											
PUBLIC DEBT	123,839.6	0.0	123,839.6	101,067.4	0.0	101,067.4	126,795.1	0.0	126,795.1	130,048.0	
TOTAL**	283,314.1	27,817.6	311,131.7	273,387.6	31,775.7	304,063.3	319,024.9	34,402.0	353,426.9	359,536.3	

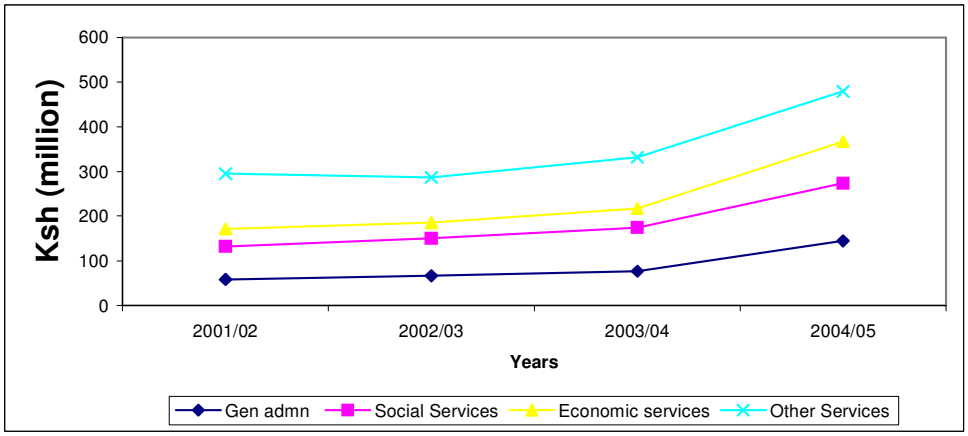
Source : Ministry of Finance

* Provisional.

** Total as shown in this table minus loan repayment to the Government equals total expenditure in Table 6.9

\+ Revised Estimates

Figure 6.1 Government Expenditure on main services



6.10. Table 6.9 shows the economic analysis of Central Government expenditure and net lending for 2000/01 to 2004/05 Financial years. Total current expenditure rose by 27.6 per cent from KSh 232,945.2 million in 2003/04 to KSh 297,306 million. Labour costs rose by 20.3 per cent from KSh 101,823.7 million in 2003/04 to KSh 122,493.7 million in 2004/05. This could be attributed to upgrading of teachers, increase of salaries and allowances for civil servants, lecturers and Police. Net lending dropped by 69.6 per cent as less Government equities were bought amounting to KSh 3,044.5 million in 2004/05 compared to KSh 4,500 million in 2003/04. The wage bill for the civil service for 2004/05 was 9.6 per cent of the GDP slightly above 7.2 per cent projected in the Medium Term Expenditure Framework (MTEF). The total expenditure/GDP ratio of 33.7 per cent was above the 23.9 per cent projected ratio for 2004/05.

Table 6.9: Central Government Economic Analysis of expenditure , 2000/01-2004/05
KSh Million

	2000/01	2001/02	2002/03	2003/04*	2004/05**
CURRENT EXPENDITURE:					
CONSUMPTION EXPENDITURE ON GOODS AND SERVICES:					
Labour Costs	72,015.72	82,159.60	88,988.85	101,823.70	122,493.68
Other Goods and Services	43,279.93	45,610.30	50,020.89	54,262.13	61,868.10
TOTAL	115,295.65	127,769.90	139,009.74	156,085.83	184,361.78
SUBSIDIES	200.02	200.02	200.00	0.00	0.00
INTEREST:					
Foreign	3,848.58	6,948.21	9,471.64	5,822.54	
Domestic	20,576.91	22,902.76	26,090.69	21,920.92	33,696.17
TRANSFERS TO:					
Households and Unincorp Enterprises including Private Non-profit Institutions	13,748.18	10,515.72	11,699.14	14,110.53	
Financial and Non-Financial Enterprises		6.92			
General Government	20,379.32	27,074.07	26,354.01	34,012.49	79,248.67
Rest of the World	838.53	880.54	504.68	678.67	
Funds	1,643.01	817.67	455.55	314.21	
TOTAL TRANSFERS	36,609.05	39,294.92	39,013.39	49,115.90	79,248.67
OTHERS					
1 TOTAL CURRENT EXPENDITURE	176,530.21	197,115.81	213,785.46	232,945.19	297,306.62
2 CAPITAL EXPENDITURE:					
Gross Fixed Capital Formation	28,602.58	25,788.89	25,684.34	24,071.39	33,156.27
Capital Transfers	4,465.32	1,268.04	7,922.04	3,939.79	17,598.22
TOTAL	33,067.90	27,056.93	33,606.38	28,011.18	50,754.49
3 NET LENDING:					
Purchase of Equity in Enterprises	0.00	0.00	0.00	4,500.00	3,044.50
Loans to Households, Enterprises and General Government Agencies	2,754.54	436.72	1,048.87	855.54	1,062.90
Less Loan Repayments to Government ***	(438.10)	(1,039.42)	(801.60)	(744.87)	(2,705.00)
TOTAL	2,316.44	(602.70)	247.27	4,610.67	1,402.40
4 PUBLIC DEBT REDEMPTION	56,077.86	85,407.22	56,034.62	87,115.37	79,255.65
5 Total Expenditure (1+2+3+4)	267,992.41	308,977.26	303,673.73	352,682.00	428,719.16

* Provisional.
** Revised Estimates
*** including interest

6.11. The breakdown of outstanding public debt is shown in Table 6.10 and Figure 6.2. Total outstanding debt increased by 10.2 per cent from KSh 642,641.7 million as at 30th June 2003 to KSh 708,394.8 million as at 30th June 2004. The volume of stock remained almost at the same level as 2003 even though it had been on a declining trend over the past three years. In 2004, total external debt was KSh 402,160.8 million while total internal debt was KSh 306,234.0 million. Out of the outstanding debt, 43.2 per cent is sourced domestically.

Table 6.10: Central Government public debt, 2000 - 2004

KSh million

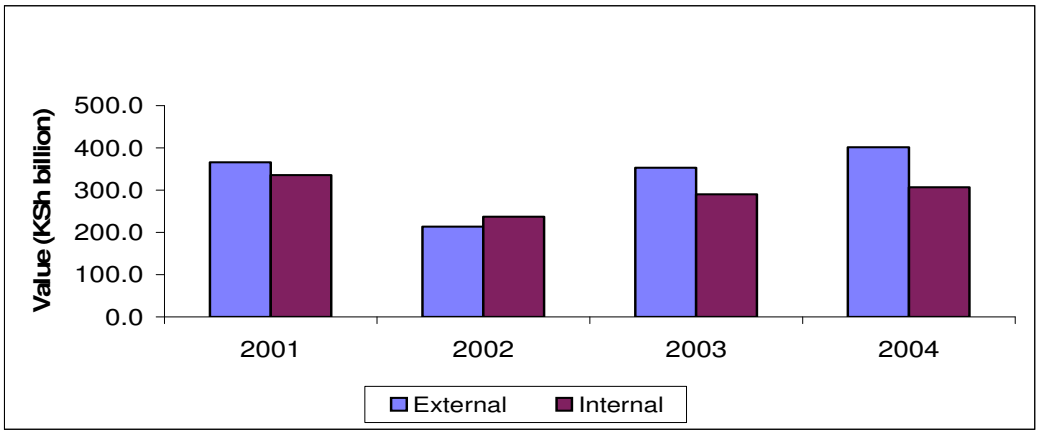
As at 30th June	Public Debt**								
	Stocks			Other debt			Total		
	External	Internal	Total	External	Internal***	Total	External	Internal***	Total
2000	. .	3,005.69	3,005.69	363,149.25	203,053.31	566,202.56	363,149.25	206,059.00	569,208.25
2001	. .	1,467.83	1,467.83	366,127.40	210,345.17	576,472.57	366,127.40	211,813.00	577,940.40
2002	. .	1,467.83	1,467.83	359,370.47	234,501.00	593,871.47	359,370.47	235,968.00	595,338.47
2003	. .	1,057.98	1,057.98	353,264.13	288,319.57	641,583.70	353,264.13	289,377.55	642,641.68
2004*	. .	1,057.98	1,057.98	402,160.81	305,176.02	707,336.83	402,160.81	306,234.00	708,394.81

* Provisional

** Includes Short Term Borrowing.

*** Revised series

Fig. 6.2: Public Debt by source, 2001- 2004



6.12. Table 6.11 shows the stock of public debt held by the central Government by Source for the period 2000 to 2004. The external outstanding debt stood at KSh 402,160.8 million in 2004. Japan remained the principal lender to Kenya amongst the bilateral donors accounting for 40.9 per cent of the total bilateral debt. On the other hand, IDA /IFAD were leading creditors in the category of International Organizations. Treasury bills as instruments of domestic debt have on the other hand maintained a negative trend in the past three years. This is on account of Central Bank of Kenya shifting from the Treasury bills to Treasury bonds which have a longer maturity period. The Central Bank of Kenya has taken action to lengthen the maturity of the Kenyan Debt by concentrating on treasury bonds rather than Treasury Bills in the medium term. This is evidenced by an increase in the use of Treasury bonds, which rose by 16.8 per cent from KSh 161,549.1 million in June 2003 to KSh 188,626.0 million in June 2004. Overall the total unfunded debt increased by 10.2 per cent from KSh 642,641.7 million in June 2003 to KSh 708,394.8 million in June 2004.

Table 6.11: Central Government Outstanding debt by source, 2000 - 2004 KSh million

Outstanding as at 30th June	2000	2001	2002	2003	2004
EXTERNAL DEBT:					
Lending Countries:					
Germany	8,485.65	7,652.00	7,550.20	8,823.00	11,099.42
Japan	57,235.00	47,837.00	50,790.00	50,514.00	51,452.60
France	16,681.00	16,301.00	9,618.00	9,604.00	17,925.34
U.S.A.	5,461.00	5,172.00	4,761.00	6,651.70	5,102.41
Netherlands	4,515.30	4,087.00	2,922.00	3,738.00	3,992.52
Denmark	3,114.00	2,527.00	1,947.00	1,935.75	2,454.14
Finland	155.70	195.00	333.00	267.00	183.31
Other	26,112.85	24,405.40	23,817.30	23,765.17	33,667.25
Total	121,760.50	108,176.40	101,738.50	105,298.62	125,876.99
International Organisations:					
I.D.A / I.F.A.D	170,277.00	179,930.40	186,319.00	186,648.00	212,607.38
I.B.R.D	1,462.00	1,560.00	3,299.00	8,566.25	33.26
O.P.E.C.	526.30	421.80	394.29	295.50	82.24
E.E.C/ E.I.B.	12,413.00	11,735.00	9,492.00	8,566.25	9,199.34
I.M.F.	7,982.17	8,681.40	7,318.50	5,989.23	7,913.11
Badea	125.13	39.40	14.74	0.78	371.00
A.D.F/ A.D.B.	26,087.00	24,882.00	23,943.00	23,844.00	24,692.00
Total	218,872.60	227,250.00	230,780.53	233,910.01	254,898.33
Others	22,516.15	30,701.00	26,851.44	14,055.50	21,385.49
Total External	363,149.25	366,127.40	359,370.47	353,264.13	402,160.81
INTERNAL DEBT:					
Treasury Bills	114,129.00	116,440.00	82,050.00	78,744.00	62,936.00
Treasury Bonds	36,851.00	44,499.00	106,333.00	161,549.10	188,626.00
Non Interest bearing debt	36,917.00	36,917.00	36,917.00	36,917.00	36,917.00
Others(includes stocks)	18,162.00	13,957.00	10,668.00	12,167.30	17,755.00
TOTAL INTERNAL	206,059.00	211,813.00	235,968.00	289,377.40	306,234.00
TOTAL UNFUNDED DEBT	569,208.25	577,940.40	595,338.47	642,641.53	708,394.81

Source: Debt Management Dept & CBK

6.13. Government stocks at book value by holders as at 30th June 2000-2004 is given in Table 6.12. Central Government remained the main holder of stocks as compared to other public bodies followed by NSSF. Government Stocks at book value by holders did not change in 2004.

Table 6.12: Government stocks at book value by holders on local register as at 30th June, 2000 - 2004

KSh million

	2000	2001	2002	2003	2004
PUBLIC BODIES:					
National Social Security Fund	1,936.39	758.80	758.80	408.80	408.80
Central Government	766.78	650.28	650.28	615.58	615.58
Local Government	1.00	1.00	1.00	1.00	1.00
Kenya Post Office Savings Bank ..	33.00	15.00	15.00	0.00	0.00
Former E.A.Community Institutions*	51.15	0.00	0.00	0.00	0.00
Central Bank	0.00	0.00	0.00	0.00	0.00
Other Public Sector	16.43	7.32	7.32	2.20	2.20
OTHER INTERNAL:					
Commercial Banks	94.97	30.70	30.70	28.68	28.68
Insurance Companies	46.20	3.70	3.70	1.70	1.70
Other Companies	59.35	1.00	1.00	0.00	0.00
Private Individuals	0.43	0.03	0.03	0.03	0.03
TOTAL	3,005.69	1,467.83	1,467.83	1,057.98	1,057.98

Source: Central Bank of Kenya.

* And their successors

6.14. Information on Central Government debt servicing charges is provided in Table 6.13. Net servicing charges increased by 56.4 per cent from KSh 55,233.0 million in 2003 to KSh 86,370.6 million in 2004. This was equivalent to 15.7 per cent and 20.1 per cent of the total expenditure in 2003 and 2004 respectively. External net servicing charges decreased by 8.2 per cent from KSh 22,784.5 million in 2003 to KSh 20,912.1 million in the review period while internal servicing charges more than doubled from KSh 32,448.5 million in 2003 to KSh 65,458.5 million in 2004.

Table 6.13: Central Government debt servicing charges*, 2000 - 2004

KSh million

Year ending	ANNUAL DEBT SERVICING CHARGES			INTEREST AND LOAN REPAYMENT RECEIPTS			NET SERVICING CHARGES		
30th June	External	Internal	Total	External	Internal	Total	External	Internal	Total
2000	26,471.50	23,460.30	49,931.80	0.00	418.30	418.30	26,471.5	23,042.00	49,513.50
2001	12,267.92	43,809.93	56,077.85	0.00	438.10	438.10	12,267.92	43,371.83	55,639.75
2002	22,313.24	63,093.98	85,407.22	0.00	1,039.42	1,039.42	22,313.24	62,054.56	84,367.80
2003	22,784.54	33,250.07	56,034.61	0.00	801.61	801.61	22,784.54	32,448.46	55,233.00
2004**	20,912.06	66,203.40	87,115.46	0.00	744.87	744.87	20,912.06	65,458.53	86,370.59

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

** Provisional

6.15. The relationship between external debt servicing charges and earnings from goods and services are as presented in Table 6.14. The ratio of external debt servicing to exports of goods and services earnings stood at 6.2 per cent in 2004 declining from 8.4 per cent in 2003. This was occasioned by increased external loans and interest payments.

Table 6.14 Central Government debt service charges on external debt related to exports of goods and services 2000-2004

KSh million

	Debt Service Charges on External Debt** (Financial Year)	Exports of Goods and Services (Calender Year)	External Debt Service Charges as a Percentage of Exports of Goods and Services
	KSh million	KSh million	
2000	26,471.50	211,432.70	12.50
2001	12,267.92	234,175.25	5.24
2002	22,313.24	250,429.16	8.91
2003*	22,784.54	271,784.55	8.38
2004*	20,912.06	338,085.00	6.19

* Provisional.

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

6.16. **Local Authorities:** The Local Authority Transfer Fund (LATF) was established to strengthen the local authorities by supplementing the revenues they collect and hence improve service delivery to the public. Table 6.15 gives the summarised LATF disbursement to the 176 local authorities that include city, municipal, county and town councils. The Government transferred KSh 4,000.0 million in 2004/05 financial year compared to KSh 3,750.0 million in 2003/04. Around 58.5 per cent of this amount was transferred to the town and county councils, while municipal councils received 24.2 per cent.

Table 6.15: Central Government transfer through L.A.T.F to local authorities, 2000/01 - 2004/05

KSh million

	2000/01	2001/02	2002/03	2003/04	2004/05*
Nairobi City Council	485.32	607.06	607.06	642.39	691.80
Municipal Councils	511.13	816.81	816.81	906.46	969.83
County Councils	1,060.21	1,256.23	1,256.23	1,774.13	1,900.28
Town Councils	250.23	319.90	319.90	427.02	438.09
TOTAL	2,306.90	3,000.00	3,000.00	3,750.00	4,000.00

Source: Kenya Local Government Reform programme

* Provisional

6.17. Table 6.16 gives a summary of expenditure by local authorities, comprising of city, municipal, town and county councils. Total expenditure rose marginally from KSh 14,145.5 million in 2003/04 to KSh 14,436.6 in 2004/05.

Table 6.16: Expenditure by local authorities, 2000/01 - 2004/05

KSh million

	Local authorities				
	Nairobi City Council	Other Municipal Councils	Sub-Total	Town and County Councils	Total
2000/01	4,047.91	3,369.67	7,417.58	2,648.33	10,065.91
2001/02 .. .	4,110.84	3,746.86	7,857.70	3,123.72	10,981.42
2002/03	5,977.53	4,193.67	10,171.19	4,695.97	14,867.16
2003/04*	4,862.70	4,785.40	9,648.10	4,497.44	14,145.54
2004/05**	4,875.06	4,497.11	9,372.17	5,064.47	14,436.64

* Provisional

** Estimates

6.18. A breakdown of current and capital expenditure on main services for municipal councils are shown in Table 6.17 and Figure 6.3. Total expenditure decreased by 2.9 per cent from KSh 9,648.1 million in 2003/04 to KSh 9,372.2 million in 2004/05. Expenditure on economic services accounted for 34.0 per cent of the total expenditure. There were slight increases in expenditures on roads, education and health.

Table 6.17: Municipal Councils: Current and capital expenditure on main services, 2000*01-2004/05

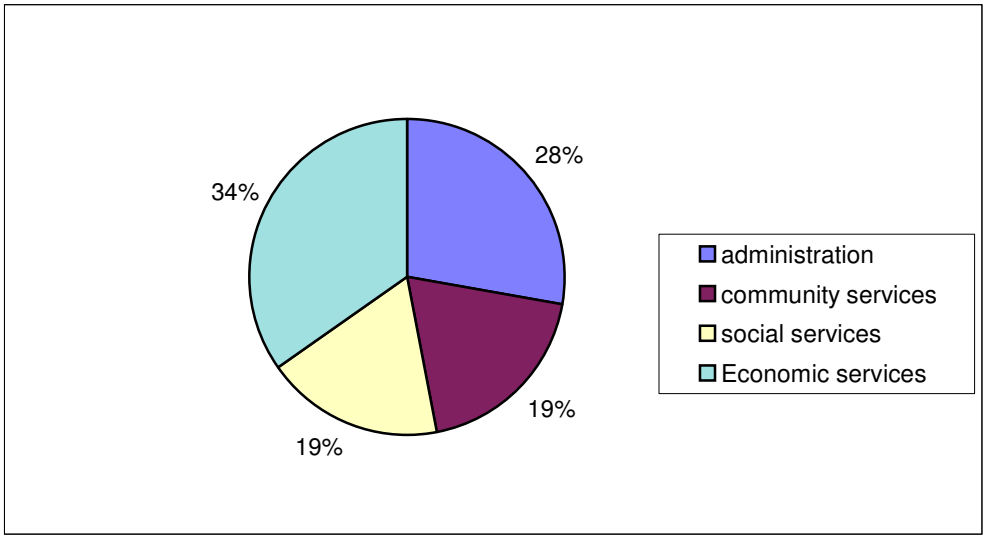
KSh million

		2000/01	2001/02	2002/03	2003/04*	2004/05**
	ADMINISTRATION	2,226.20	2,345.10	2,874.50	2,614.60	2,616.10
COMMUNITY	Roads	405.33	418.10	613.40	824.90	834.50
SERVICES:	Sanitation	583.25	591.00	732.80	736.20	739.70
	Other	133.46	148.70	298.60	281.50	197.20
	Total	1,122.03	1,157.80	1,644.80	1,842.60	1,771.40
SOCIAL	Education	458.25	471.60	509.10	567.30	569.30
SERVICES	Health	746.58	788.50	1,012.40	912.50	917.80
	Other	121.36	162.80	268.70	248.70	247.80
	Total	1,326.19	1,422.90	1,790.20	1,728.50	1,734.90
ECONOMIC	General Administration	497.55	511.90	579.50	582.20	583.70
SERVICES:	Water Undertaking	1,208.94	1,211.00	1,692.80	1,381.00	1,273.90
	Housing Estates(including staff housing)..	578.65	687.20	971.60	865.90	850.30
	Other	457.99	521.80	617.80	633.30	541.90
	Total	2,743.13	2,931.90	3,861.70	3,462.40	3,249.80
	TOTAL EXPENDITURE	7,417.55	7,857.70	10,171.20	9,648.10	9,372.20

* Provisional

** Estimates

Figure 6.3. Percentage Distribution of Municipal Council capital expenditure on main services



6.19. Table 6.18 shows the economic analysis of expenditure of municipal councils. There were marginal declines in both current and capital expenditure during the review period. Current expenditure dropped by 2.4 per cent from KSh 7,601.6 million in 2003/04 to KSh 7,422.9 million in 2004/05. Total expenditure declined by 2.9 per cent from KSh 9,648.1 million in 2003/04 to KSh 9,372.2 million in 2004/05.

Chapter 7
International Trade

Overview Indicators of international trade for 2004 show that the trade deficit, in absolute terms, widened to a record KSh 149,415 million, as a result of a faster growth in imports compared to that of exports coupled with the depreciation of the shilling against the major currencies. While imports grew immensely, exports recorded a modest rise. This scenario is reflected by the deterioration in the export/import cover ratio from 65.0 per cent in 2003 to 59.0 per cent in 2004.

7.2. During the period under review, the volume of trade increased by 24.5 per cent compared to 8.9 per cent growth in 2003. The level of total exports increased by 17.3 per cent while total imports increased by 29.2 per cent in the review period. Consequently, merchandise trade deficit increased by 51.4 per cent, from KSh 98,690 million in 2003 to KSh 149,415 million in 2004. Horticulture, tea, iron and steel, coffee and soda ash accounted for 60.0 per cent of the total domestic export earnings. Crude petroleum, petroleum products, industrial machinery, road motor vehicles and iron and steel jointly accounted for 48.9 per cent of the total import bill.

7.3. The visible balance of trade on a BOP basis widened by 45.3 per cent in 2004 compared to 2003. This predominantly reflects a rapid acceleration in domestic expenditure, which was accompanied by robust growth in the value of imports relative to exports. Large outflows paid out to private investors as investment income and subdued performance of the current transfers account weighed down the invisible balance. The net effect was a turnaround in the current account balance from a surplus of KSh 5,144 million in 2003 to a deficit of KSh 29,550 million in 2004.

Balance of Trade

Table 7.1: Balance of Trade, 2000 - 2004 (KSh Million)

DESCRIPTION	2000	2001	2002	2003	2004*
EXPORTS (fob) :					
Domestic Exports	119,764	121,434	131,394	136,709	159,061
Re-exports	14,763	26,156	37,889	46,445	55,729
Total	**134,527**	**147,590**	**169,283**	**183,154**	**214,791**
IMPORTS (cif) :					
Commercial	240,473	285,107	254,006	278,838	360,941
Government	7,331	5,001	3,704	3,005	3,264
Total	**247,804**	**290,108**	**257,710**	**281,844**	**364,205**
BALANCE OF TRADE	**(113,277)**	**(142,518)**	**(88,427)**	**(98,690)**	**(149,415)**
TOTAL TRADE	382,331	437,698	426,993	464,997	578,996
COVER RATIO ^(in percentage)	54.3	50.9	65.7	65.0	59.0

*Provisional

^Cover Ratio =(Total Exports/Total Imports)*100

Chapter 8
Agriculture

Overview

The Strategy for Revitalizing Agriculture (SRA) was launched in March 2004 as a national policy document for steering development of the agricultural sector in Kenya for the period up to 2014. Under the strategy the vision of the government is "to transform Kenya's agriculture into a profitable, commercially oriented and internationally competitive economic activity".

8.2. Growth of the agricultural sector GDP based on the new international guidelines as prescribed by System of National Accounts (SNA'93) decelerated from 2.7 per cent in 2003 to 1.4 per cent in 2004. Adequate rainfall recorded in some parts of the country resulted in better performance in wheat, tea, horticulture, sisal, sugar cane, cotton, rice and dairy sub-sectors. However, the sector was slowed down by poor performance in maize, coffee and pyrethrum sub-sectors. Wheat production increased by 16.8 per cent in 2004 while tea production increased by 10.5 per cent. The volume of marketed milk increased by 35.0 per cent from 203 million litres in 2003 to 274 million litres in 2004. The quantity of fresh horticulture exports increased by 24.7 per cent from 133.2 thousand tonnes in 2003 to 166.1 thousand tonnes in 2004. However, strict adherence to food safety requirements and environmental and social issues such as the Maximum Residue Levels (MRLs) and appropriate working conditions among others has continued to threaten the industry's traditional market in Europe.

8.3. Significant declines in production were recorded in the maize, coffee and pyrethrum sub-sectors in the year under review. Production of maize declined from 28.0 million bags (2,520 thousand tonnes) in 2003 to 23.8 million bags (2,142 thousand tonnes) in 2004 resulting in importation of a total of 241.8 thousand tonnes of maize valued at KSh 4.6 billion to cover the deficit. Similarly, coffee production declined by 12.6 per cent from 55.4 thousand tonnes in 2003 to 48.4 thousand tonnes in 2004.

8.4. As shown in Table 8.1, Agriculture output at current prices rose by 7.3 per cent from KSh 345,889.9 million in 2003 to KSh 371,255.0 million in the year under review. Agriculture inputs at current prices rose by 6.6 per cent from KSh 78,345.4 million in 2003 to KSh 83,480.0 million in 2004. As a result, the agriculture value added at current prices rose by 7.6 per cent from KSh 267,544.5 million in 2003 to KSh 287,775.1 million in 2004. Agriculture output at constant prices rose by 1.1 per cent from KSh 342,463.4 million in 2003 to KSh 346,076.4 million in 2004. Agriculture inputs at constant prices declined by 0.1 per cent from KSh 77,392.0 million in 2003 to KSh 77,312.7 million in 2004. Consequently, agriculture value added at constant prices rose by 1.4 per cent from KSh 265,071.4 million in 2003 to KSh 268,763.7 million in 2004 as shown in figure 8.1.

Figure 8.1: Agriculture GDP, 2000-2004

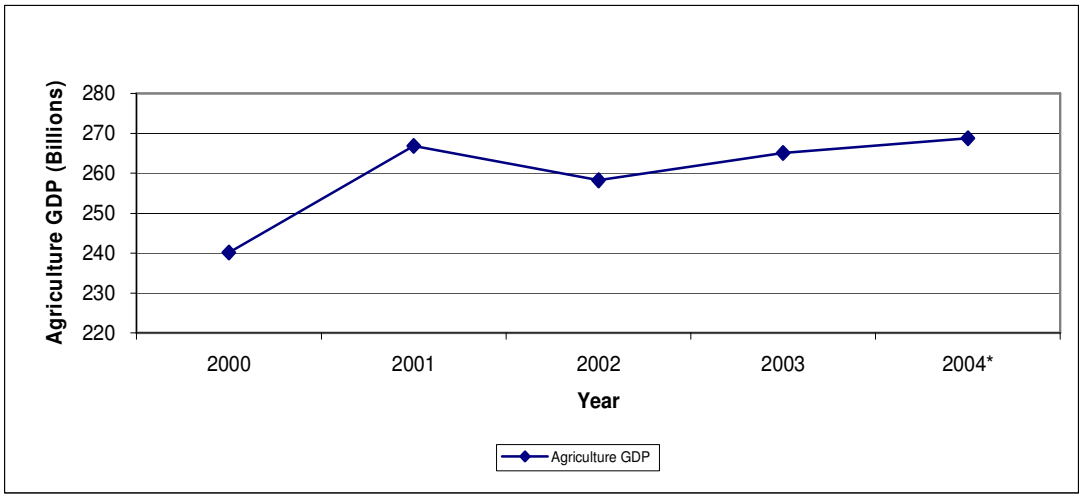


Table 8.1: Agricultural Output and Input, 2000 – 2004

KSh million

	2000	2001	2002	2003	2004*
AT CURRENT PRICES-					
Total Output	325,591.2	344,618.4	322,256.8	345,889.9	371,255.0
Less Inputs	60,765.2	77,806.8	75,089.8	78,345.4	83,480.0
Value Added	264,826.0	266,811.6	247,166.9	267,544.5	287,775.1
AT CONSTANT (2001) PRICES-					
Total Output	310,716.9	344,618.4	333,744.3	342,463.4	346,076.4
Less inputs	70,566.2	77,806.8	75,530.0	77,392.0	77,312.7
Value Added	240,150.6	266,811.6	258,214.3	265,071.4	268,763.7

* Provisional.

8.5. As shown in Table 8.2, total recorded marketed production at current prices for agriculture and livestock increased by 17.2 per cent from KSh 104,368.7 million in 2003 to KSh 122,281.9 million in 2004.The value of marketed production for all crops increased from KSh 85,390.1 million in 2003 to KSh 101,716.2 million in 2004 reflecting a 19.1 per cent growth while the marketed production for livestock products rose from KSh 18,978.6 million to KSh 20,565.6 million in the same period. The value of marketed cereals nearly doubled to stand at KSh 10,013.1 million in the year 2004 from KSh 5,676.3 million in the previous year. Significant growth in marketed production was mainly driven by the maize sub-sector which more than doubled due to the higher prices offered for the cereal in the year under review. Although there was a decline in the production of maize, the higher prices encouraged increased deliveries of the crop to both the National Cereals and Produce Board (NCPB) and private millers. Cut flowers, vegetables, sugar-cane, coffee, tea and sisal recorded positive growth in the year 2004. However, it should be noted that the horticulture values differ from those in Table 7.6 due to inclusion of processed produce in the latter table.

Table 8.2: Recorded Marketed Production at Current Prices, 2000 - 2004

KSh million

	2000	2001	2002	2003	2004*
CEREALS-					
Maize	2,915.4	6,141.6	4,451.4	3,336.5	6,880.5
Wheat	1,132.9	1,429.4	987.5	1,375.3	1,864.0
Others	1,568.8	1,189.5	959.4	964.5	1,268.6
Total	5,617.1	8,760.5	6,398.3	5,676.3	10,013.1
HORTICULTURE**-					
Cut flowers	7,327.0	10,627.0	14,791.0	16,496.0	18,720.0
Vegetables	5,474.0	8,035.0	10,470.0	10,591.0	12,068.0
Fruits	1,089.0	1,560.0	1,461.0	1,753.0	1,803.0
Total	13,890.0	20,222.0	26,722.0	28,840.0	32,591.0
TEMPORARY INDUSTRIAL CROPS-					
Sugar-cane	7,942.2	7,154.8	9,070.2	7,567.3	8,389.8
Pyrethrum	729.3	769.1	1,271.5	781.9	305.7
Others	980.3	1,084.1	676.0	876.0	644.6
Total	10,528.6	9,008.0	11,017.8	9,225.2	9,340.1
PERMANENT CROPS-					
Coffee	11,282.0	6,424.2	5,441.1	5,956.7	7,284.5
Tea	35,969.8	38,564.5	33,414.7	34,631.1	41,212.2
Sisal	809.9	956.9	938.2	1,060.7	1,275.4
Total	48,434.5	45,945.6	39,794.0	41,648.6	49,772.0
TOTAL CROPS	78,470.2	83,936.1	83,932.1	85,390.1	101,716.2
LIVESTOCK AND PRODUCTS-					
Cattle and Calves ..	8,039.8	9,078.6	11,823.8	11,476.1	11,284.8
Dairy Produce ..	2,051.2	1,919.6	2,468.9	2,846.1	4,385.0
Chicken and eggs	1,540.0	2,074.6	1,624.5	1,624.5	1,705.7
Others	2,317.7	2,482.4	3,123.4	3,031.9	3,190.1
Total	13,948.7	15,555.2	19,040.6	18,978.6	20,565.6
GRAND TOTAL	92,418.9	99,491.3	102,972.8	104,368.7	122,281.9

* Provisional.

** Data refers to Horticulture exports only

8.6. Table 8.3 shows the volume and price indices of sales to marketing boards for the last five years. The overall quantum and price indices increased from 117.0 and 99.1 in 2003 to 121.7 and 107.1 in 2004 respectively. The quantum index for cereals increased from 67.8 in 2003 to 97.0 in 2004 in response to higher volumes of maize sold while its price index increased from 94.1 in 2003 to 114.3 in 2004, mainly due to increases in the price of maize and wheat. The horticulture crops quantum index increased from 142.6 in 2003 to 183.3 in 2004 as a result of higher volumes of vegetables sold. However, the price index of horticultural crops decreased from 89.4 in 2003 to 76.9 in 2004 due to lower prices for cut flowers and fruits in 2004. The livestock and products quantum index rose from 123.6 in 2003 to 130.8 in 2004. This is attributed to an increase in volumes of marketed milk. The price index for livestock and products increased from 109.2 in 2003 to 123.0 in 2004. This is due to better prices for milk prevailing during the year.

Table 8.3: Volume and Price Indices of Sales to Marketing Boards, 2000 - 2004

Base 2001=100

		2000	2001	2002	2003	2004*
QUANTUM INDICES	Cereals	58.2	100.0	85.3	67.8	97.0
	Temporary Industrial Crops ..	108.1	100.0	133.1	119.3	120.8
	Horticulture.....	103.7	100.0	167.9	142.6	183.3
	Permanent Crops	94.4	100.0	95.4	101.2	107.6
	TOTAL CROPS	91.5	100.0	99.3	99.0	78.7
	Livestock and Products	96.0	100.0	126.1	123.6	130.8
TOTAL GROSS MARKETED PRODUCTION		95.4	100.0	121.9	117.0	121.7
PRICE INDICES	Cereals	103.6	100.0	87.8	94.1	114.3
	Temporary Industrial Crops ..	99.5	100.0	94.0	86.9	87.5
	Horticulture.....	65.3	100.0	73.9	89.4	76.9
	Permanent Crops	113.2	100.0	78.2	89.3	101.2
	TOTAL CROPS	110.0	100.0	91.0	89.6	73.6
	Livestock and Products**	72.7	100.0	103.6	109.2	123.0
TOTAL GROSS MARKETED PRODUCTION		85.6	100.0	94.8	99.1	107.1

* Provisional.

**Data on livestock is from slaughter houses

8.7. Table 8.4 gives average gross prices paid to farmers for selected agricultural commodities over the last five years. Coffee recorded a 50.0 per cent price increase during the year under review while maize recorded a notable 29.0 per cent price increase reaching the highest level in the last five years. Other agricultural commodities whose prices rose included; wheat, milk, seed cotton, sisal and tea. The prices of pyrethrum extract, beef and pig meat went down while that of sugar-cane remained unchanged.

Table 8.4: Average Gross Commodity Prices* to Farmers, 2000 - 2004

KSh. per stated unit

	UNIT	2000	2001	2002	2003	2004**
Coffee	100kg	11,508.7	11,776.1	11,962.9	9,729.2	14,590.6
Tea	,,	15,223.0	13,089.0	11,638.7	11,792.5	12,696.0
Sisal	,,	3,779.4	4,123.2	4,241.4	4,272.3	4,821.3
Sugar-cane	Tonne	2,015.0	2,015.0	2,015.0	1,800.0	1,800.0
Pyrethrum (extract equivalent)	Kg	9,835.0	9,835.0	7,301.8	7,316.6	7,297.2
Seed Cotton	100Kg	1,910.4	1,800.0	1,729.6	2,107.4	2,243.2
Maize	,,	1,449.4	1,330.8	1,034.0	1,189.5	1,534.2
Wheat	,,	1,651.7	1,840.8	1,724.3	1,908.8	2,216.7
Beef (third grade)	,,	8,153.8	9,375.0	12,169.2	11,861.9	10,351.2
Pig meat	,,	9,021.6	9,516.3	9,417.4	8,754.4	8,673.2
Milk	100 litres	1,400.0	1,300.0	1,387.2	1,400.0	1,600.0

* 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 black tea and processed coffee respectively.

** Provisional.

8.8. Table 8.5 shows the value of sales to marketing boards. Total sales to marketing boards grew by 17.2 per cent in 2004. This was attributed to a 21.2 per cent and 15.8 per cent increase in sales by large and small farms respectively during the year under review. The estimated share of small farms declined marginally to 73.2 per cent in 2004. The continued dominance of small farms reflects the continued importance of this sub-sector in overall agricultural production.

Table 8.5: Sale To Marketing Boards From Large and Small Farms, 2000 -2004

YEAR	LARGE FARMS		SMALL FARMS		TOTAL		PERCENTAGE SHARE OF SMALL FARMS
	KSh mn.	Annual Percentage change	KSh mn.	Annual Percentage change	KSh mn.	Annual Percentage change	
2000	26,257	7.08	66,162	5.03	92,419	5.61	71.59
2001	27,921	6.34	71,570	8.17	99,491	7.65	71.94
2002	26,903	(3.65)	76,069	6.29	102,973	3.50	73.87
2003	27,093	0.70	77,276	1.59	104,369	1.36	74.04
2004*	32,825	21.16	89,456	15.76	122,281	17.16	73.16

* Provisional.

8.9. Table 8.6 shows the agricultural input indices for various agricultural inputs. The increased consumption of agricultural inputs such as manufactured feeds, fertiliser, and purchased seeds, resulted in an increase in the respective quantum indices. The total inputs quantum index rose marginally from 112.3 in 2003 to 115.2 in 2004. The total inputs price index rose from 89.2 in 2003 to 101.5 in 2004, consistent with the increases in all the input prices. The continued increase in the prices of farm inputs prompted the Government through the NCPB to import fertilisers for provision to cereal farmers at affordable prices in the year under review.

Table 8.6: Agricultural Input Indices, 2000 - 2004

Base 2001=100

	2000	2001	2002	2003	2004*
QUANTUM INDICES-					
Fertilisers	94.1	100.0	129.2	156.9	164.8
Fuel and Power	117.7	100.0	86.8	75.5	73.1
Bags	98.0	100.0	88.3	90.0	71.7
Manufactured Feeds	106.1	100.0	170.0	161.5	170.8
Purchased Seeds	90.8	100.0	106.0	121.0	127.0
Other Material Inputs	97.7	100.0	102.0	96.9	102.5
Total Material Input	99.4	100.0	109.3	110.7	115.4
Service Inputs	115.0	100.0	104.0	100.9	104.4
TOTAL INPUTS	99.1	100.0	113.1	112.3	115.2
PRICE INDICES-					
Fertilisers	79.5	100.0	91.8	93.7	110.1
Fuel and Power	82.9	100.0	80.0	81.2	85.5
Bags	107.9	100.0	115.1	92.1	125.8
Manufactured Feeds	97.9	100.0	92.1	83.1	105.4
Purchased Seeds	89.3	100.0	102.8	86.8	90.9
Other Material Inputs	80.6	100.0	102.8	111.8	127.8
TOTAL MATERIAL INPUT ..	84.0	100.0	92.4	89.4	102.2
SERVICE INPUTS	91.1	100.0	100.5	110.6	113.7
TOTAL INPUTS	83.9	100.0	91.7	89.2	101.5

* Provisional.

8.10. As shown in Table 8.7, the total value of purchased agricultural inputs went up by 14.4 per cent from KSh 14,301 million in 2003 to KSh 16,360 million in 2004. This significant increase was mainly attributed to a rise in the value of consumed fuels and power, animal feeds and certified seeds and other agricultural chemicals. Although there was a reduction in the volume of fuel oils consumed, a significant increase in fuel prices translated into a marginal rise in power costs resulting in the value of fuel and power rising by 13.3 per cent to stand at KSh 4,910 million in 2004. The value of fertilisers applied stood at KSh 3,321 million in 2004, up from KSh 3,159 million in the previous year.

Table 8.7: Purchased Agricultural Inputs*, 2000 - 2004

KSh million

	2000	2001	2002	2003	2004**
MATERIAL INPUTS-					
Fertilisers	1,876	2,347	2,946	3,159	3,321
Other Agricultural Chemicals	340	422	606	528	991
Livestock Drugs and Medicines	583	450	771	841	1,077
Fuel and Power	6,239	5,954	4,822	4,333	4,910
Bags	497	486	542	406	442
Manufactured Feeds	748	1,892	2,023	1,799	2,128
Purchased Seeds	1,686	1,687	1,490	2,310	2,541
Other Material Inputs	234	290	390	360	378
Total	12,203	13,528	13,590	13,736	15,789
SERVICE INPUTS	471	542	538	565	571
TOTAL INPUTS	12,674	14,070	14,128	14,301	16,360

* Except labour.

** Provisional.

8.11. Table 8.8 shows the agricultural sector terms of trade using 2001 as the new base year. The general index of agricultural output prices rose from 93.1 in 2003 to 100.6 in 2004 on account of better prices for maize, wheat, coffee, tea, sisal, cotton and dairy produce. However, the indices of purchased inputs and purchased consumer goods in rural areas continued to worsen, resulting in an overall decline in the agricultural sector terms of trade from 92.5 in 2003 to 89.2 in 2004.

Table 8.8: Price and Terms of Trade Indices for Agriculture, 2000 - 2004

Base 2001=100

	2000	2001	2002	2003	2004*
General Index of Agricultural Output Prices	98.5	100.0	95.0	93.1	100.6
PRICE PAID					
Purchased Inputs	83.9	100.0	95.5	89.2	101.5
Index of Purchased Consumer Goods-Rural Areas	93.4	100.0	102.1	112.2	124.1
INDICES OF PRICES PAID	88.7	100.0	98.8	100.7	112.8
Agricultural Sector terms of Trade	111.1	100.0	96.2	92.5	89.2

* Provisional.

8.12. Maize harvested declined by 15.0 per cent to 23.8 million bags in 2004 from 28.0 million bags in 2003 as shown in Table 8.9. Beans production declined to 3.2 million bags in 2004 from 4.0 million bags in 2003. Potatoes and millet registered an increase of 280,000 kgs and 70, 000 bags in 2004, respectively. Sorghum harvested realized 40,000 bags more in 2004 than the previous two years when production stood at 800,000 bags.

Table 8.9: Estimated Production of Selected Agricultural Commodities, 2000 - 2004

CROP	Unit	2000	2001	2002	2003	2004*
Maize	million bags	25.00	30.60	26.00	28.00	23.76
Beans	"	3.70	4.10	4.00	4.00	3.20
Potatoes	million tonnes	1.10	1.50	0.90	1.00	1.28
Sorghum	million bags	0.90	1.20	0.80	0.80	0.84
Millet	"	0.40	0.50	0.60	0.60	0.67

* Provisional.

Source: Ministry of Agriculture

8.13. During the year under review, most prices for maize, beans, potatoes, sorghum and millet remained high in the months of March and September 2004 as shown in Table 8.10. However, in Central and Western Provinces retail price for potatoes registered a slight drop in the month of September 2004 compared with a similar period in 2003. It is worth noting that in both the months of March and September 2004, the retail price of maize remained high in all the provinces. The retail price averages of maize per kilogram varied between KSh 15.8 in Eastern Province in March 2004 to KSh 23.1 in Rift Valley, September 2004. The overall price increase observed for all the food items could be attributed to inadequate supply of the commodities in the market.

Table 8.10: Retail Market Prices for Selected Food Crops, 2001-2004

KSh. per Kg.

CROP	Province	2001		2002		2003		2004	
		March	September	March	September	March	September	March	September
Maize	Coast	27.0	19.4	22.0	15.4	18.2	19.3	20.9	20.8
	Eastern	13.8	10.0	8.9	9.0	10.8	15.0	15.8	20.2
	Central	17.4	12.5	10.5	12.0	12.7	17.3	17.4	20.9
	Rift Valley	19.5	14.5	9.6	12.0	14.6	16.9	19.4	23.1
	Nyanza	13.3	9.9	8.1	11.1	15.2	13.0	16.7	17.6
	Western	14.5	6.5	7.7	10.5	13.8	13.1	17.9	17.7
	National	17.6	12.1	9.7	11.6	14.0	16.4	18.1	19.9
Beans	Coast	47.2	33.2	30.0	29.3	28.4	33.1	33.1	38.1
	Eastern	27.4	26.1	19.1	18.7	19.8	24.7	25.5	37.5
	Central	27.3	29.5	26.0	29.5	30.6	29.2	30.8	37.5
	Rift Valley	33.6	30.9	26.3	25.7	29.7	24.9	30.7	42.9
	Nyanza	29.0	32.0	35.3	31.2	32.8	32.4	33.2	35.9
	Western	28.1	27.1	27.3	25.2	28.1	26.5	31.3	35.4
	National	32.1	29.8	27.8	26.8	28.6	29.3	31.1	37.8
Potatoes	Coast	14.7	16.0	25.1	19.8	21.0	20.8	23.3	21.5
	Eastern	13.7	15.7	28.6	13.6	17.7	14.6	17.4	17.9
	Central	8.6	9.7	12.2	9.5	9.6	9.0	10.4	7.8
	Rift Valley	13.6	15.4	15.4	12.1	11.4	12.9	16.1	13.9
	Nyanza	11.3	12.0	11.6	13.7	10.5	10.1	13.5	11.7
	Western	11.8	12.1	11.7	6.2	10.8	10.5	10.7	9.4
	National	12.3	13.5	14.8	13.4	14.0	13.7	16.3	14.2
Sorghum	Eastern	16.8	14.2	9.1	13.0	12.0	13.4	18.7	22.3
	Nyanza	15.0	14.8	11.4	12.3	20.8	14.1	16.5	20.0
	Western	14.0	13.1	17.9	21.5	21.3	22.4	21.4	23.8
	National	15.3	14.0	19.6	18.3	19.4	22.1	21.6	24.4
Millet	Eastern	21.5	22.0	26.8	35.0	28.8	35.8	35.6	41.7
	Rift Valley	24.5	25.0	24.4	22.2	26.5	28.8	27.4	30.2
	Nyanza	24.1	26.0	31.9	26.6	28.3	27.3	30.7	32.0
	Western	24.3	20.2	26.4	24.5	25.9	25.9	28.7	29.5
	National	23.6	23.3	25.2	26.5	27.4	33.7	33.7	35.3

8.14. In 2004, the NCPB purchased 448.5 thousand tonnes of maize valued at KSh 3.3 billion from farmers to boost its strategic reserve and for relief purposes. The country also imported 241.8 thousand tonnes of maize valued at KSh 4.6 billion in the year under review. Sales of cotton continued to rise while that of pyrethrum (extract equivalent) declined as detailed in Table 8.11.

Table 8.11: Sale of Some Major Crops to Marketing Boards, 2000 - 2004

CROP	UNIT	2000	2001	2002	2003	2004*
Maize***	'000 tonnes	201.2	461.5	398.0	280.5	448.5
Wheat**	"	70.5	77.7	57.3	72.0	84.1
Coffee	"	98.0	54.6	45.5	61.2	49.9
Tea	"	236.3	294.6	287.1	293.7	324.6
Cotton**	"	0.5	0.5	1.1	1.7	2.2
Sugar-cane**	mn. tonnes	3.9	3.6	4.5	4.2	4.7
Pyrethrum (Extract Equivalent)	tonnes	74.2	78.0	174.9	106.9	41.9
Sisal	'000 tonnes	21.4	23.2	22.1	24.8	26.5
Rice Paddy **	"	18.7	19.3	18.9	19.8	26.4

* Provisional.

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

*** Includes maize purchases by NCPB and millers.

8.15. Table 8.12 shows the amount of wheat produced locally and the quantities imported. Production of wheat increased by 16.8 per cent from 75.6 thousand tonnes in 2003 to 88.3 thousand tonnes in 2004. This increase was attributable to adequate rainfall experienced in wheat growing areas during the year under review. An additional of 404.1 thousand tonnes of wheat was imported in 2004 to meet the local demand.

Table 8.12: Production and Imports of Wheat, 2000 - 2004

'000 Tonnes

YEAR	PRODUCTION**	IMPORTS	TOTAL
2000	73.8	636.0	709.8
2001	81.5	617.5	699.0
2002	60.1	515.2	575.3
2003	75.6	502.1	577.7
2004*	88.3	404.1	492.4

* Provisional.

** Includes retention for seed.

8.16. Coffee production by co-operatives and estates declined by 11.8 and 13.6 per cent to 30.0 million and 18.5 million kilogrammes in 2004, respectively as detailed in table 8.13. The decline in production was partly associated with inadequate rainfall and the mismanagement of coffee co-operatives. With the revision of the Co-operatives Act, the sector is expected to streamline the management of these co-operatives. As shown in figure 8.2, coffee prices fluctuated from about KSh 100 per Kg to KSh 180 per Kg during the year 2004.

Fig. 8.2: Prices of Coffee and Tea, 2004

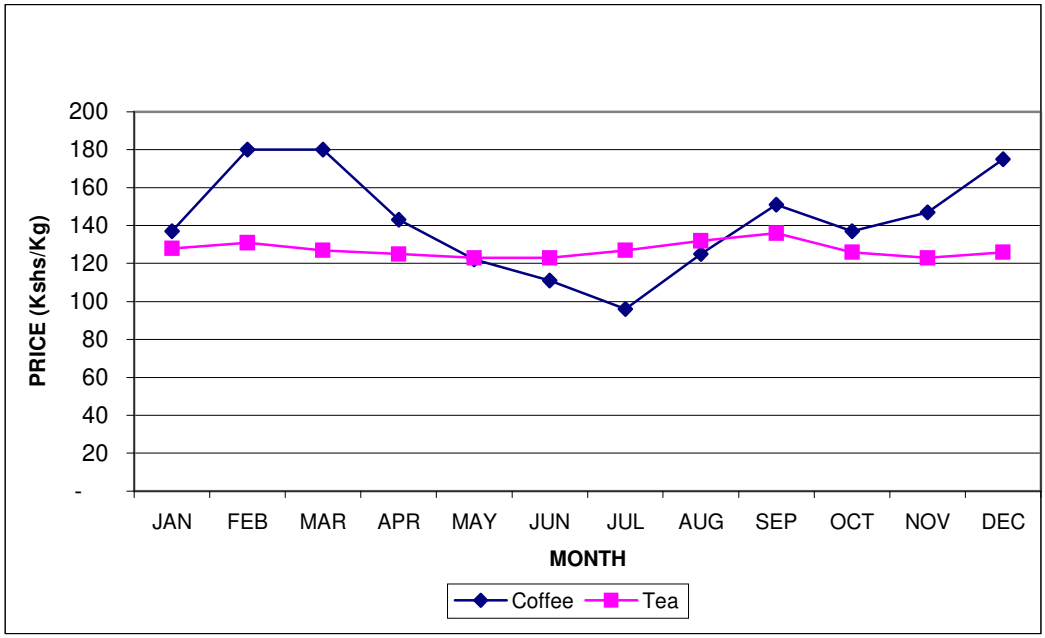


Table 8.13: Production, Area, and Average Yield of Coffee by Type of Grower, 1999/00 - 2003/04

	1999/00	2000/01	2001/02	2002/03	2003/04*
AREA (Ha) '000-					
Co-operatives	128.0	128.0	128.0	128.0	128.0
Estates	42.0	42.0	42.0	42.0	42.0
TOTAL	170.0	170.0	170.0	170.0	170.0
PRODUCTION (Tonnes) '000-					
Co-operatives	62.2	25.0	28.8	34.0	30.0
Estates	38.5	26.9	23.1	21.4	18.5
TOTAL	100.7	51.9	51.9	55.4	48.4
AVERAGE YIELD (Kg./Ha.)-					
Co-operatives	485.9	193.8	198.8	265.8	234.0
Estates	916.7	640.5	537.0	509.9	439.8

Source : Coffee Board of Kenya

* Provisional.

8.17. **Tea:** - Tea production rose by 10.5 per cent from 293.7 thousand tonnes in 2003 to an all time high of 324.6 thousand tonnes in 2004. Tea Sub-sector recorded improved performance as shown in table 8.14. Production by small holders recorded a 6.5 per cent increase to 192.6 thousand tonnes in 2004 while the Estate sub-sector registered a 17.0 per cent increase to stand at 132.1 thousand tonnes in 2004.This good performance was mainly attributed to good weather conditions characterized by well distributed rainfall in tea growing regions coupled with improved extension and leaf collection services. Further, the commissioning of two new processing factories in the year under review helped stem green leaf wastage during flush periods hence increasing production capacity. The area under tea increased by 4.0 per cent from 131.45 thousand hectares in 2003 to 136.7 thousand hectares in 2004.

Table 8.14: Production, Area and Average Yield of Tea by Type of Grower, 2000 - 2004

	2000	2001	2002	2003	2004*
AREA (Ha) '000					
Smallholder**	85.08	85.51	85.94	86.37	87.95
Estates	35.31	38.78	44.40	45.08	48.75
Total	120.39	124.29	130.34	131.45	136.70
PRODUCTION (Tonnes) '000					
Smallholder	145.55	181.72	175.90	180.79	192.55
Estates	90.74	112.90	111.20	112.88	132.05
Total	236.29	294.62	287.10	293.67	324.60
AVERAGE YIELD (Kg/Ha)					
Smallholder	1,793	2,147	2,078	2,136	2,263
Estates	2,790	3,453	3,294	3,331	3,739

Source: Kenya Tea Development Authority

* Provisional

** Revised from 1999 - 2002

8.18. The volume of tea exports increased by 5.0 per cent to stand at 275.3 thousand tonnes up from 262.2 thousand tonnes in 2003. Total export earnings increased by 9.4 per cent from KSh 33.0 billion in 2003 to KSh 36.1 billion in 2004. Average prices for tea at the Mombasa auction rose from KSh 118 per Kilogram in 2003 to KSh 127 per kilogramme in 2004.

8.19. **Sugarcane:** Sugarcane production increased by 11.9 per cent to 4.7 million tonnes in 2004 up from 4.2 million tonnes in 2003. Area of cane harvested also increased from 50.5 thousand hectares in 2003 to 54.2 thousand hectares in 2004. Average yield (tonnes/hectare) increased by 6.7 per cent from 69.2 tonnes/ hectare in 2003 to 73.8 tonnes/hectare in 2004 as shown in Table 8.15. The increase in yield was attributed to revitalization of the sub-sector.

Table 8.15: Area Under Sugar Cane, Area Harvested, Production, and Average Yield, 2000 - 2004

	2000	2001	2002	2003	2004*
Area under cane (Ha)	107,985	117,131	126,826	122,580	131,507
Area harvested (Ha)**	57,243	47,794	54,010	50,468	54,191
Production (Tonnes)	3,941,524	3,550,792	4,501,363	4,204,055	4,660,995
Average yield (Tonnes/Ha)	60.52	63.71	70.67	69.17	73.81

Source: Kenya Sugar Authority

* Provisional

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

8.20. Sugar production went up by 15.2 per cent to stand at 516.8 thousand tonnes in 2004 from 448.5 thousand tonnes in 2003 as depicted in Table 8.16. Exports of sugar also went up slightly by 280 tonnes in 2004 from 11.3 thousand tonnes in 2003 to 11.6 thousand tones in 2004. Sugar imports declined by 10.0 per cent from 182.2 thousand tonnes in 2003 to 164.0 thousand tonnes in 2004. The increased production of sugar was attributed to higher sugarcane production.

Table 8.16: Production, Imports and Consumption of Sugar, 2000 - 2004

'000 Tonnes

YEAR	PRODUCTION	IMPORTS	CONSUMPTION	EXPORTS
2000	401.98	118.01	619.27	2.09
2001	377.44	249.34	630.07	3.60
2002	494.24	129.97	652.13	12.05
2003	448.49	182.23	663.78	11.30
2004*	516.80	164.02	669.91	11.58

Source: Kenya Sugar Board

* Provisional

8.21. **Horticulture: -**The horticulture sub-sector recorded impressive performance with export earnings increasing by 13.2 per cent from KSh 28.8 billion in 2003 to KSh 32.6 billion in 2004. The sub-sector continues to maintain a strong position as a major foreign exchange earner. Total export volumes increased significantly by 24.7 per cent to 166.1 thousand tonnes in 2004 up from 133.2 thousand tonnes exported in the previous year. Cut flower exports increased by 44.6 per cent from 61 thousand tonnes in 2003 to 88.2 thousand tonnes in 2004. Fruit exports dropped to 20.1 thousand tonnes in 2004 from 23.6 thousand tonnes the previous year. Vegetable export volumes rose from 48.7 thousand tonnes in 2003 to 57.8 thousand tonnes in 2004.

Table 8.17: Exports of Fresh Horticultural Produce, 2000 - 2004**

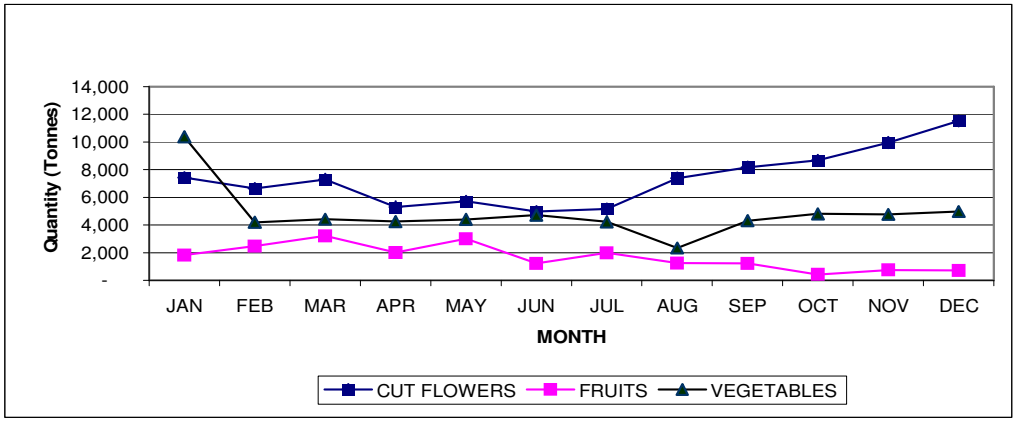
YEAR	VOLUME '000 Tonnes	VALUE KSh billion
2000	99.2	13.9
2001	98.9	20.2
2002	121.1	26.7
2003	133.2	28.8
2004*	166.1	32.6

* Provisional.

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

8.22. Cut flowers continued to dominate the horticulture export trade in 2004, contributing 53.1 per cent of export volumes and 57.4 per cent of export earnings. Vegetables and fruits contributed 34.8 per cent and 12.1 per cent of all export volumes respectively. The improved performance in this sector is attributed to improved production systems and a conducive horticulture export environment. However, strict adherence to food safety requirements, environmental and social issues such as the Maximum Residue Levels (MRLs) and appropriate working conditions among others has continued to threaten the industry's traditional market in Europe.

Fig. 8.3: Horticulture Exports, 2004



8.23. **Irrigation:** -Area cropped in Mwea scheme reduced to 10,000 hectares in 2003/04 from 15,800 hectares in 2002/03. Gross value of outputs rose to KSh 1, 250 million in 2003/04 from KSh889 million in 2002/03 as shown in table 8.18. Total area under crop in all the seven schemes reduced significantly to 10,580 hectares in 2003/04 from 29,662 hectares in 2002/03. The reduction in crop area was partly attributed to low level of irrigation water. Gross value of output decreased to KSh 1,312 million from KSh 1,511 million and plot-holders payments reduced to KSh 881 million from KSh954 million in 2003/04 and 2002/03 respectively. The scheme paddy increased to 47,625 tonnes in 2003/04 from 35,775 tonnes in 2002/03.The rise in paddy production could be attributed to the involvement of National Irrigation Board in revitalising the schemes and inclusion of farmers outside Mwea Irrigation scheme.

Table 8.18: Progress and Production at Seven Irrigation Scheme Areas, 1999/00 - 2003/04

	1999/00	2000/01	2001/02	2002/03	2003/04*
MWEA-					
Area cropped-Hectares	8,617	10,590	6,054	15,800	10,000
Plot-holders-Number**	3,500	3,381	3,835	3,200	3,400
Gross value of output-KSh million ..	1,327	1,238	183	889	1,250
Payments to plot-holders-KSh million ..	-	-	-	573	
ALL (7) SCHEME AREAS-					
Area cropped-Hectares	10,150	12,431	6,534	**29,662**	10,580
Plot-holders-Number	4,777	5,348	5,147	3,713	5,014
Gross value of output-KSh million ..	1,371	1,293	236	1,511	1,312
Payments to plot-holders-KSh million ..	10	27	29	954	881
CROPS PRODUCED - Tonnes					
Mwea-Paddy	44,830	45,810	14,802	35,550	46,875
Ahero-Paddy	1,497	1,222	880	225	750
W.Kano-Paddy	1,580	1,742	-	-	-
Bunyala-Paddy	500	491	-	-	-
TOTAL PADDY	48,406	49,265	15,682	35,775	47,625
Pekera-Onions	101	102	-	-	-
-Chillies	101	32	-	-	-
-Cotton	-	-	-	-	-
-Water Melon	-	-	-	-	-
-Paw-paw	-	-	237	-	-

Source: National Irrigation Board

* Provisional

** Includes farmers outside Mwea Scheme

8.24. **Sisal:** In 2004, Sisal marketed increased by 6.9 per cent to 26.5 thousand tonnes from 24.8 thousand tonnes in 2003. The increase in production was attributed to increased production capacity following redevelopment carried out by sisal estates in the past five years in response to increased demand for sisal fibre in the export market.

8.25. **Dairy Produce:** As shown in Table 8.19, milk intake to the processing plants rose from 203 million litres in 2003 to 274 million litres in 2004. The increase in intake to the processing plants was attributed to regulatory support of the sector, revival of Kenya Co-operative Creameries, favourable weather conditions and a growing regional market for Kenya's dairy products. The increased demand for the product resulted into an increase in the average producer prices to KSh 16 per kilogram in 2004 from KSh 14 per kilogram in 2003.

8.26. The total number of livestock slaughtered declined for all categories in 2004 as a result of favourable weather conditions in some parts of the country resulted in enough water and improved pasture. This led to less animals being disposed off by farmers. The number of cattle slaughtered declined by 1.7 per cent, sheep and goats by 10.2 per cent each and the number of pigs slaughtered went down by 1.7 per cent after an increase of 4.8 per cent in the previous year.

Table 8.19: Production and Sale of Livestock and Dairy Products, 2000 - 2004**

	UNIT	2000	2001	2002	2003	2004*
RECORDED MILK PRODUCTION	Mn. Litres	137	148	178	203	274
MILK PROCESSED:						
Wholemilk and cream	Mn. Litres	60	97	128	131	161
Butter and ghee	Tonnes	113	130	177	215	191
Cheese	"	315	329	448	361	328
LIVESTOCK SLAUGHTERED						
Cattle and Calves..	'000 Head	2,870	1,952	1,854	1,669	1,641
Sheep and Goats	"	4,572	4,671	4,765	4,289	3,851
Pigs	"	189	214	167	175	172

* Provisional.

** Figures are revised for milk processed and livestock, 1999-2001.

8.27. **Agriculture Training:-** The number of students enrolled to study agricultural degree courses in our public universities rose from 4,020 in 2003 to 5,302 in 2004. The male-female ratio of 3:1 in 2003 remained constant in 2004. At diploma levels, both under public universities and Bukura institute of Agriculture, enrolment rose from 2,012 in 2003 to 2,207 in 2004. Certificate courses enrolment in Agriculture and Dairy rose with the male-female ratio declining to 3:1 in 2004 from 2:1 in 2003. The improvement in training is expected to support agriculture core poverty programmes by building more capacity for improved delivery of research and extension services. All three Animal health Institutes offering certificate courses increased enrolment by 16 students in 2004. Short -term vocational courses under Dairy and Meat schools were extended to 74 trainees in 2004 from 76 in 2003.

Table 8.20: Enrollment in Agricultural Training Institutions,2000-2004

	2000			2001			2002			2003			
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male
DEGREE LEVEL -Public Universities													
Nairobi	501	133	634	538	118	656	549	124	673	565	125	690	1,032
Moi	44	18	62	74	46	120	75	48	123	77	48	125	116
Jomo Kenyatta (JKUCAT).	412	142	554	307	83	390	313	87	400	322	88	410	580
Egerton..	1,972	734	2,706	1,945	745	2,690	1,984	782	2,766	2,006	789	2,795	2,187
Total.	**2,929**	**1,027**	**3,956**	**2,864**	**992**	**3,856**	**2,921**	**1,041**	**3,962**	**2,970**	**1,050**	**4,020**	**3,915**
DIPLOMA LEVEL -Public Universities													
Jomo Kenyatta (JKUCAT).	255	97	352	185	66	251	188	69	257	194	70	264	206
Egerton..	1,073	408	1,481	1,112	396	1,508	1,134	416	1,550	1,168	420	1,588	1,215
Total.	**1,328**	**505**	**1,833**	**1,297**	**462**	**1,759**	**1,322**	**485**	**1,807**	**1,362**	**490**	**1,852**	**1,421**
DIPLOMA LEVEL - MOA & RD**													
Bukura Institute of Agriculture	78	23	101	88	33	121	93	25	118	111	49	160	111
CERTIFICATE LEVEL-													
Kilifi Institute of Agiculture	153	72	225	144	28	172	147	50	197	159	51	210	147
Naivasha Dairy Training Institute	40	21	61	44	18	62	39	22	61	35	21	56	34
Total.	**193**	**93**	286	**188**	**46**	**234**	**186**	**72**	**258**	**194**	**72**	**266**	**181**
Animal Health Training Institutes-													
Kabete	95	32	127	94	27	121	78	23	101	86	36	122	86
Nyahururu	48	26	74	50	26	76	44	22	66	49	25	74	57
Ndomba	84	46	130	102	48	150	82	39	121	121	50	171	125
Total.	**227**	**104**	331	**246**	**101**	**347**	**204**	**84**	**288**	**256**	**111**	**367**	**268**
SHORT-TERM VOCATIONAL COURSES-													
Naivasha Dairy Training School	26	25	51	22	22	44	24	26	50	36	19	55	34
Athi River M.T. School	40	11	51	42	10	52	58	16	74	62	14	76	60
Total.	**66**	**36**	**102**	**64**	**32**	**96**	**82**	**42**	**124**	**98**	**33**	**131**	**94**

* Provisional.

** Ministry of Agriculture and Rural Development

Chapter 9
Environment and Natural Resources

Overview

Conservation, sustainable exploitation and management of the environment and natural resources continued to pose major challenges to the Government. In the year under review, the Government continued with policy reforms; mainly in water, forestry, mining and fisheries sub-sector, among others, aimed at mitigating the impact of environmental degradation associated with the process of economic development.

9.2. In the year under review, expenditure on water supplies and related services increased from KSh 4.2 billion in 2003/04 to KSh 5.3 billion in 2004/05. Total fish landed from the freshwater bodies in Kenya increased by 4.0 per cent from 112.7 thousand tonnes in 2003 to 117.2 thousand tonnes in 2004. Total forest plantation area improved from 125.1 thousand hectares in 2003 to 132.3 thousand hectares in 2004. Both quantity and value of mineral production increased in 2004. Average export prices per tonne of soda ash and fluorspar recorded the highest price levels in the last five years.

Water Supply

9.3. The Government continued to implement reforms in the water sector with a view to supplying the population with safe drinking water in line with the Millennium Development Goals (MDGs). This was through the restructuring and improvement of the sector's performance and addressing problems associated with management of water resources; and delivery of water and sewerage services. The long-term objective (vision) of these reforms is to significantly reduce poverty levels in the country, targeting rural areas through a well-managed and sustainable water sub-sector.

9.4. In an endeavor to provide safe drinking water, the Government continued to maintain the existing Water Purification Points (W.P.P.) which have remained the same in the last five year as shown in Table 9.1. The year 2004 witnessed an increase in the number of boreholes drilled from 47 in 2003 to 63 in 2004, a 34.0 per cent increase.

Table 9.1: Water Purification Points and Boreholes Drilled,2000/01- 2004/2005

Province	2000/2001		2001/2002		2002/2003		2003/2004		2004/2005*	
	W.P.P	B.H	W.P.P	B.H	W.P.P	B.H	W.P.P	B.H	W.P.P	B.H
Central	34	43	34	17	34	26	34	7	34	9
Coast	8	8	8	9	8	1	8	6	8	-
Eastern	28	63	28	24	28	31	28	14	28	17
N/Eastern	7	6	7	20	7	1	7	1	7	4
Nyanza	33	2	33	2	33	9	33	2	33	2
R/Valley	43	147	43	68	43	46	43	17	43	28
Western	33	7	33	11	33	4	33	-	33	3
Total	186	276	186	151	186	118	186	47	186	63

Sources: Ministry of Water and Irrigation

W.P.P - Water Purification Point(Water Treatment Point)

BH - Borehole(drilled by Government and private sector)

* Provisional

9.5. In the year under review, overall development expenditure on water supplies and related services shown in Table 9.2 increased from KSh 4.2 billion in 2003/04 to KSh 5.3 billion in 2004/05. This was due to increased spending by County Council and Urban Water supplies which almost tripled due to financing of major water projects. Reduced spending was recorded in water development, water conservation and pipeline corporation; while spending on Training of Water Development staff almost doubled in the year under review. The year also witnessed the start and operation of private water and sewerage companies in selected municipalities countrywide.

Table 9.2 Development Expenditure on Water Supplies and Related Services, 2000/01 - 2004/2005*

KSh 000

	2000/2001	2001/2002	2002/2003*	2003/2004**	2004/2005**
Water Development	329,535	410,444	661,698	960,475	905,379
Training of Water Development Staff	24,090	12,442	23,084	32,515	65,000
Rural Water Supplies	68,632	175,099	261,515	534,919	373,900
County Council and Urban Water Supplies	13,088	322,258	325,500	713,100	2,267,220
Miscellaneous and Special Water Programmes ..	253,160	157,719	224,870	1,446,640	1,370,600
Water Conservation and Pipeline Corporation	243,766	265,164	822,461	481,641	342,500
TOTAL	**932,271**	**1,343,126**	**2,319,128**	**4,169,290**	**5,324,599**

Sources: Ministry of Water and Irrigation
Water Conservation and Pipeline Corporation

* Provisional

** Revised Estimates

Fishery 9.6. The Government continued with efforts to conserve and monitor the exploitation of the fisheries. This was done through more enforcement of the fishing regulations especially in establishing and enforcing the closed fishing seasons and fishing ground as a tool of conservation. In addition, the Government introduced the Beach Management Units (BMUs) which also involves the fishing communities in the management, conservation and decision making process.

9.7. The total fish landed from the freshwater bodies in Kenya increased by 4.0 per cent from 112.7 thousand tonnes in 2003 to 117.2 thousand tonnes in 2004 as shown in Table 9.3. This increase was attributed to a 4.2 per cent and 3.3 per cent increase in the quantity of fish landed from Lake Victoria and Lake Turkana, respectively. Lake Victoria accounted for 94.2 per cent of the overall freshwater fish landed in the year under review. Fish farming which had registered a record high in 2003 declined by 2.3 percent in 2004.

Chapter 10
Energy

Overview

The instability in the crude oil prices which started in the last quarter of 2003 continued to be experienced in 2004. The prices in the world petroleum market reached the highest level registered in the last 13 years. The Abu Dhabi National Oil Corporation (ADNOC) Murban crude oil, which accounts for over 70 per cent of the total crude oil imported into the country, rose to the highest price level of US$ 42.80 per barrel in October 2004.

10.2. Factors that contributed to rise in crude oil prices included; the higher than expected global growth in petroleum demand and due to high economic growth in the United States of America (USA), China and Japan. In addition there were supply interruptions in a number of oil producing countries. Political instability in the Middle East and to some extent Nigeria and Russia resulted to low level supply of crude oil.

10.3. The Organization of Petroleum Exporting Countries (OPEC) held five meetings in 2004 to address the issue of escalating oil prices. The meetings agreed to increase production quotas from the ceiling of 23.5 million barrels per day which was effected in April 2004 to 25.5 million barrels per day effective July 2004. Other production quotas which were effected during the period under review included 26.0 million barrels per day and 27.0 million barrels per day. It is against this volatile background of the international oil prices that higher oil prices prevailed in Kenya in the period under review.

10.4. The liberalisation of the local oil industry, aimed at increasing the level of competition in the sub-sector, paved way for the entry of new players. However, the multi-national companies still control a big share of the oil market in Kenya.

10.5. In 2004, the total installed electricity generating capacity increased by 4.9 per cent from 1,142.2 MW in 2003 to 1,198.1 MW. The increase in total installed capacity was as a result of the commissioning of the Olkaria II project, with an installed capacity of 70.0 MW while 14.2 MW of thermal oil generating capacity were decommissioned.

10.6. Total electricity generated increased by 7.1 per cent to stand at 5,194.5 GWh in 2004 compared to an increase of 3.5 per cent in the previous year. Consequently, overall electricity consumption increased by 8.3 per cent in 2004 compared to an increase of 4.5 per cent in 2003. The per capita consumption of modern energy rose by 8.9 per cent from 79.5 kilograms of oil equivalent per person in 2003 to 86.6 kilograms of oil equivalent per person in 2004 on account of economic recovery.

Petroleum

10.7. Details of quantity and value of imports and exports of petroleum products for the period 2000-2004 are presented in Table 10.1 and Fig 10.1. Total quantity of both crude and refined petroleum products imported into the country rose by 10.6 per cent in 2004 compared to 26.0 per cent recorded in 2003.

10.8. Total oil import bill rose by 37.6 per cent from KSh 64,561.1 million in 2003 to KSh 88,814.8 million in 2004. This increase was attributed to increased crude oil

imports, high international oil prices and the depreciation of the local currency against major international currencies during the year under review.

Table 10.1: Quantity and Value of Imports and Exports of Petroleum Products*, 2000 – 2004

	Quantity ('000 Tonnes)					Value (KSh Mn)				
	2000	2001	2002	2003	2004**	2000	2001	2002	2003	2004**
IMPORTS										
Crude Petroleum	2,452.3	1,965.6	1,493.4	1,382.6	2,043.8	41,907.2	31,179.0	23,940.0	25,415.4	45,953.6
Petroleum Fuels	874.9	1,216.2	1,023.5	1,819.4	1,491.7	19,622.2	24,642.9	18,512.2	37,990.0	41,552.0
Lubricating Oils	40.0	33.0	37.3	26.4	13.2	1,473.4	1,138.4	1,278.0	1,010.2	586.5
Lubricating Greases	0.9	0.7	11.7	5.6	29.7	109.6	78.8	227.2	145.5	722.7
TOTAL	**3,368.1**	**3,215.5**	**2,565.9**	**3,234.0**	**3,578.4**	**63,112.3**	**57,039.1**	**43,957.4**	**64,561.1**	**88,814.8**
EXPORTS										
Petroleum Fuels	441.9	469.1	190.6	2.1	35.3	9,077.7	12,099.3	3,544.6	47.7	832.3
Lubricating Oils	4.8	3.9	5.0	0.1	1.6	355.0	280.4	367.1	9.5	182.8
Lubricating Greases	0.1	0.1	0.2	0.0	0.1	12.5	11.7	28.0	1.6	11.5
TOTAL	**446.8**	**473.1**	**195.8**	**2.2**	**37.0**	**9,445.3**	**12,391.4**	**3,939.7**	**58.9**	**1,026.6**
NET BALANCE						**53,667.0**	**44,647.7**	**40,017.7**	**64,502.2**	**87,788.2**

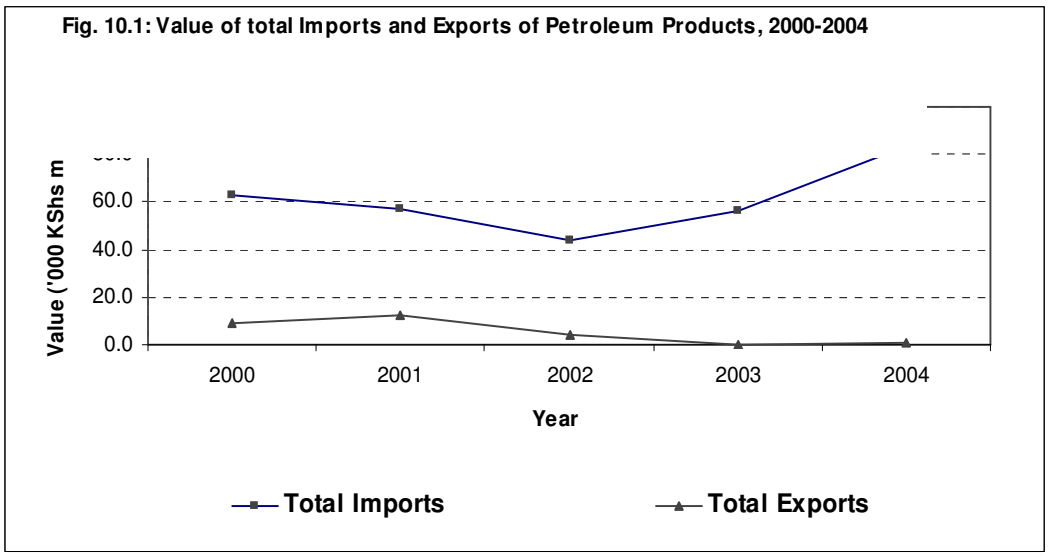
Source: Kenya Revenue Authority

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

** Provisional

10.9. In 2004, crude oil imported into the country increased significantly by 47.8 per cent compared to a decline of 7.4 per cent recorded in 2003. The import bill for crude oil nearly doubled from KSh 25,415.4 million recorded in 2003 to KSh 45,953.6 million in 2004.On the other hand, imports of petroleum fuels declined by 18.0 per cent from 1,819.4 thousand tonnes in 2003 to 1,491.7 thousand tonnes in 2004. Similarly, imports of lubricating oils declined while imports of greases rose.

Fig.10.1: Value of total Imports and Exports of Petroleum Products,2000-2004

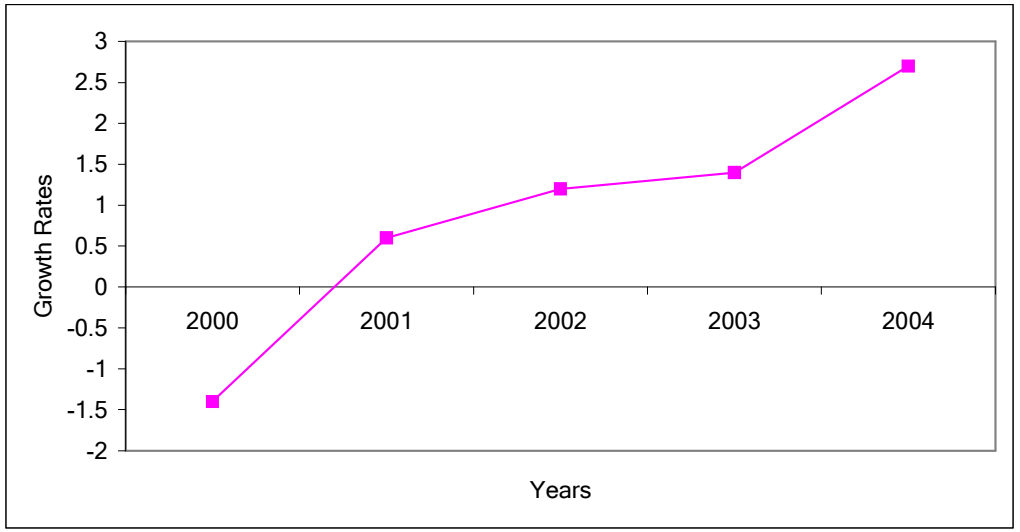


Overview

Real output in the manufacturing sector grew by 2.7 per cent in 2004 compared to a growth of 1.4 per cent recorded in 2003. Favourable product prices as a result of higher demand of agro based industrial products, plastics and engineering products buoyed growth in domestic manufacturing. The sector also benefited from increased trade with Uganda, Tanzania and the Common Market for East and South African (COMESA) region. Demand for Kenya manufactured products are anticipated to increase particularly within Sudan and Somalia with the recently signed peace agreements leading to increased business opportunities.

Growth in the sector was however impeded by depressed domestic demand, increased oil prices and transport costs. Rising operating costs mainly as a result of high power costs coupled with deteriorating road and rail networks further dampened growth in the sector.

Figure 11.1: Growth rates in the Manufacturing Sector, 2000-2004



11.2. The growth in manufacturing sector was mainly attributed to rise in output of the agro processing industries. These included sugar, milk, grain milling, fish, tea, oils and fats processing sub sectors. Other key sub-sectors of manufacturing that performed well were manufacture of cigarettes, cement production, batteries (both motor vehicles and dry cells), motor vehicle assembly and production of galvanized sheets.

11.3. Sales from Export Processing Zones (EPZ) accounted for 7.3 per cent of total turnover of the manufacturing sector in 2004 compared to 4.7 per cent recorded in 2003. Investment in EPZ rose from a revised figure of KSh 16, 716 million in 2003 to KSh 17, 012 million in 2004.

Employment

11.4. Total employment in manufacturing sector rose from 239.8 thousand persons in 2003 to 242.0 thousand persons in 2004. Employment in EPZ

African Growth and Opportunity Act (AGOA) to 2015 continued to impact positively on employment in the textile sub-sector.

Manufacturing Sales and Stocks

11.5. Sales revenue from manufactured goods in 2004 increased by 4.9 per cent relative to 2003, as shown by data from Business Expectation Enquiry (BEE). Total value of manufacturing sales was KSh 332,904 million compared to KSh 317,291 million in 2003.

Manufacturing Industrial Output

11.6. Table 11.1 and Figure 11.2 highlight estimated value of output, intermediate consumption, value added and compensation of employees paid by the manufacturing sector during the period 2000-2004. Nominal estimated value of manufacturing output rose by 16.6 per cent in 2004 compared to 9.6 per cent increase in 2003, while value added increased by 15.6 per cent. Compensation of employees increased by 11.2 per cent in 2004 compared to 13.9 per cent increase in 2003.

Figure 11.2: Manufacturing Sector-Output, Compensation of employees and value added

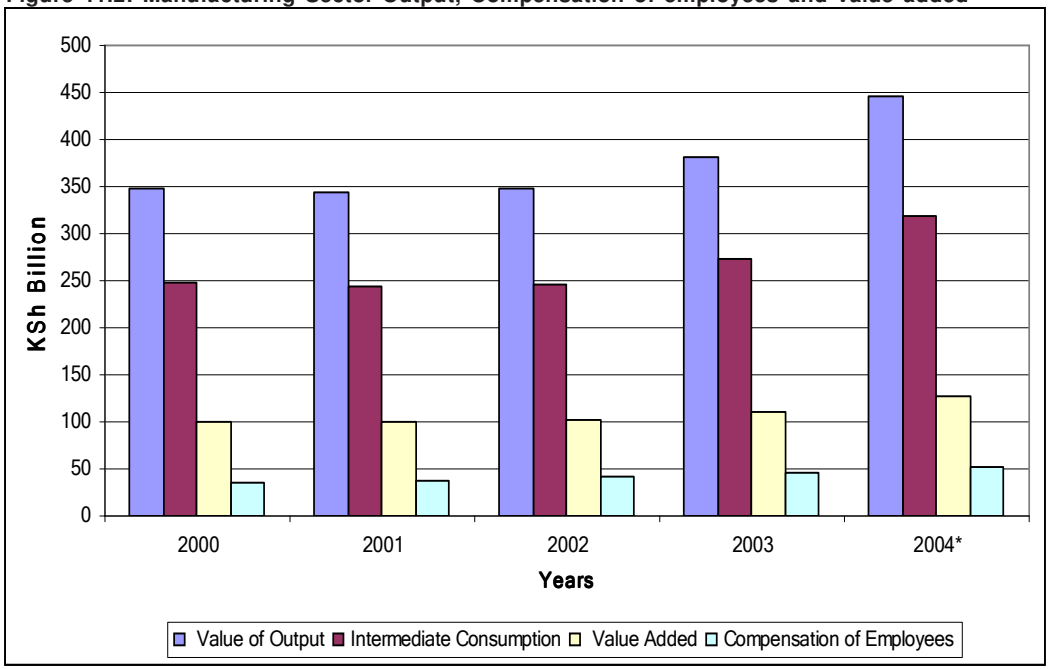


Table 11.1 Manufacturing Sector – Output, Compensation of employees and Value Added, at Current Prices, 2000 – 2004**

Chapter 12
Building and Construction

Overview In 2004, building and construction key indicators recorded improvements due to the Government's commitment to improve infrastructure and maintain a good investment environment. Cement consumption rose by 11.9 per cent from 1,267.0 thousand tonnes in 2003 to 1,418.3 thousand tonnes in 2004. Total value of building plans approved increased from KSh 22,021.8 million in 2003 to KSh 34,962.4 million in 2004. The index of Government expenditure on roads increased from 71.7 in 2003 to 105.6 in 2004. Commercial banks' loans and advances to the sector grew by 3.6 per cent from KSh 16,995 million in 2003 to KSh 17,615 million in 2004. The total estimated cost of reported new private buildings completed went up from KSh 1,426.2 million in 2003 to KSh 2,294.9 million in 2004. Overall construction cost index increased by 9.2 per cent in 2004 compared to 7.1 per cent increase in 2003. Total wage employment in the sector increased by 0.9 per cent from 76,639 persons in 2003 to 77,349 persons in 2004. The Kenya Roads Board increased its disbursement to various roads agencies by 21.4 per cent from KSh 6.92 billion in 2003 to KSh 8.40 billion in 2004.

Key Economic Indicators

12.2. Table 12.1 presents trends of selected key economic indicators in building and construction sector for the period 2000 to 2004. Cement consumption increased by 11.9 per cent in 2004. The index of reported private building works completed in main towns (the average of the actual for two consecutive years is taken in each case for reported completion of buildings) rose to 28.0 in 2003 from 25.2 in 2002. The index of reported public building work completed in main towns went up from 0.6 in 2002 to 0.7 in 2003. The index of government expenditure on roads increased to 105.6 in 2004 from 71.7 in 2003.

Table 12.1: Trends of the Selected Key Economic Indicators in Building and Construction *, 2000-2004

1982=100

	2000	2001	2002	2003	2004**
"Index" of reported private building work completed in main towns***	26.6	24.6	25.2	28.0	
"Index" of reported public building work completed in main towns***	0.5	0.5	0.6	0.7	
"Index" of government expenditure on roads	76.8	83.6	62.7	71.7	105.6
Cement consumption ('000 tonnes)	1,067.0	1,089.0	1,212.3	1,267.0	1,418.3
"Index" of Cement consumption	184.2	188.0	209.2	218.7	244.8
Employment ('000)	78.6	76.7	76.5	76.6	77.3
"Index" of Employment	130.1	127.0	126.7	126.8	128.0

* 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

12.3. During the year under review, the sector's wage employment went up from 76,639 persons in 2003 to 77,349 persons in 2004. Private sector employment increased by 2.4 per cent from 53,118 persons in 2003 to 54,371 persons in 2004. Public sector employment decreased by 2.3 per cent from 23,521 in 2003 persons to 22,978 persons in 2004.

12.4. Data on annual percentage increase in building and construction cost indices for the period 2002 to 2004 is presented in Table 12.2. Overall cost index of materials increased by 10.7 per cent in 2004 compared to 7.6 per cent in 2003. This was caused by prices of aggregates, cypress and cedar increasing by 16.7, 50.0 and 10.1 per cent respectively. Overall construction cost index increased by 9.2 per cent in 2004 compared to 7.1 per cent in 2003.

Table 12.2: Annual Percentage Increase in Building and Construction Cost Indices*,2002 - 2004

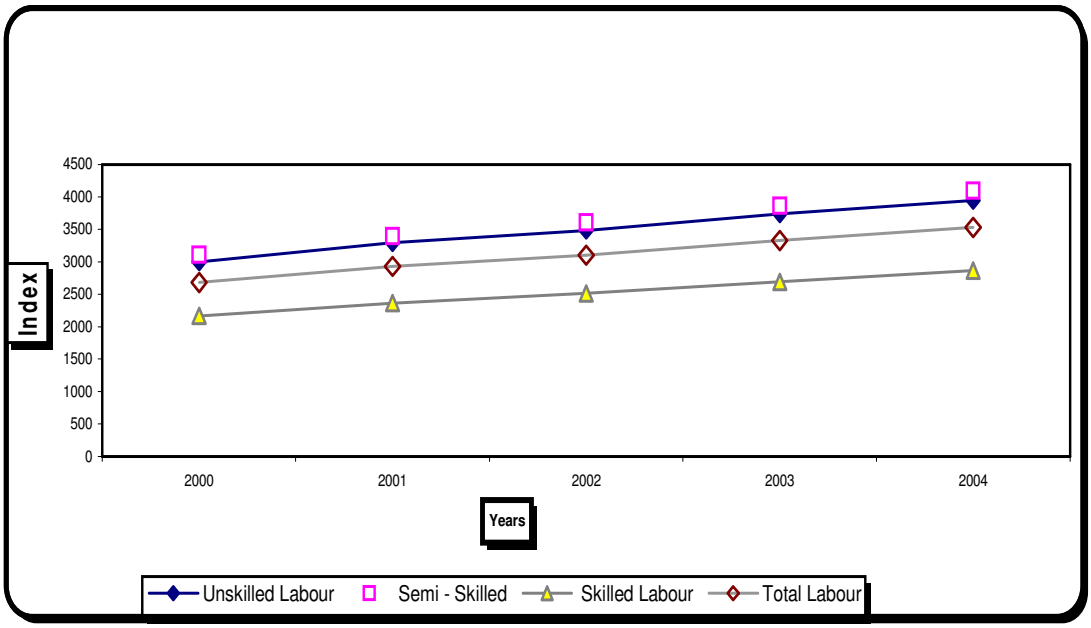
	Materials			Labour			Total Cost		
	2002	2003	2004**	2002	2003	2004**	2002	2003	2004**
Residential Buildings ..	7.5	8.9	8.8	6.1	7.2	6.0	7.2	8.5	8.2
Non-Residential Buildings	5.8	8.9	15.4	6.1	7.2	6.0	5.9	8.5	12.8
All Buildings ..	6.8	8.9	11.8	6.1	7.2	6.0	6.6	8.5	10.4
"Other" Construction ..	0.5	9.3	6.7	6.1	7.2	6.0	0.3	7.8	6.4
Overall Cost Index	2.0	7.6	10.7	6.1	7.2	6.0	1.4	7.1	9.2

* From December to December.

* * Provisional.

12.5. Trends in overall construction labour cost indices for the period 2000 to 2004 are presented in Figure 12.1. Labour costs in the sector recorded a slower growth of 6.0 per cent in 2004 compared to 7.2 per cent in 2003. Wages for unskilled, semi-skilled and skilled labour went up by 5.6, 6.1 and 6.4 per cent respectively in 2004 compared to 7.4, 7.2 and 7.2 per cent increases in 2003. The figure shows that overall construction labour cost indices have been steadily increasing over the last five years.

Figure 12.1: Trend in overall construction labour cost indices, 2000 - 2004 (Base 1982=100)



12.6. Table 12.3 presents data on value of building plans approved by Nairobi City Council and other towns for the period 2000 to 2004. Total value of building plans approved increased by 58.8 per cent from KSh 22,021.8 million in 2003 to KSh 34,962.4 million in 2004. Value of building plans approved by Nairobi City Council rose from KSh 8,076.2 million in 2003 to KSh 11,851.6 million in 2004. The value of building plans approved by other towns went up from KSh 13,945.6 million in 2003 to KSh 23,110.8 million in 2004.

Table 12.3: Value of Building Plans Approved By Nairobi And Other Towns, 2000 - 2004

KSh million

Year	Nairobi	Other Towns	Total
2000	6,601.30	3,374.10	9,975.40
2001	4,343.60	5,774.80	10,118.40
2002	6,311.50	4,295.90	10,607.40
2003	8,076.20	13,945.60	22,021.80
2004*	11,851.59	23,110.81	34,962.40

* Provisional.

12.7 Table 12.4 presents data on value of reported private building works completed in selected main towns for the period 2000 to 2004. The value of reported private building works completed for Nairobi rose from KSh 1,126.5 million in 2003 to KSh 2,003.3 million in 2004. Malindi town recorded a decrease of 1.8 per cent from KSh 108.5 million in 2003 to KSh 106.5 million in 2004. Total value of reported private building works completed in selected main towns increased by 57.1 per cent from KSh 1,549.1 million in 2003 to KSh 2,433.0 million in 2004. Mombasa, Kisumu and Nakuru towns recorded increases in values of reported private building works completed.

Table 12.4: Value of Reported Private Building* Works Completed In Selected Main Towns, 2000 - 2004

KSh million

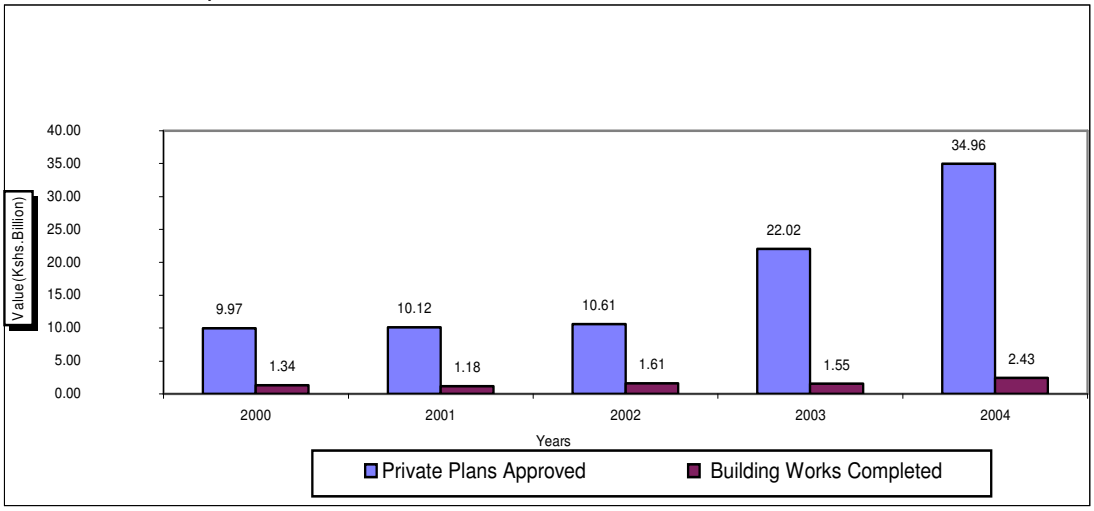
Year	Nairobi	Mombasa	Kisumu	Nakuru	Malindi	Total
2000	746.68	292.09	40.53	123.16	139.16	1,341.62
2001	656.20	257.69	37.52	152.32	80.70	1,184.43
2002	1,261.80	185.60	31.40	64.45	74.50	1,617.75
2003	1,126.47	159.16	37.79	117.20	108.48	1,549.10
2004**	2,003.32	162.70	40.36	120.16	106.45	2,432.99

* Including the value of extension.

** Provisional.

12.8. Comparison of values of private plans approved and private building works completed in main urban areas for the period 2000 to 2004 is presented in Figure 12.2. Total value of private building works completed in main urban areas went up from KSh 1.55 billion in 2003 to KSh 2.43 billion in 2004. Total value of private plans approved rose from KSh 22.02 billion in 2003 to KSh 34.96 billion in 2004. Number of private plans approved has been increasing over the five-year period on account of increased investment in the sector. Large portions of private plans approved in 2004 were however not completed and may be considered as work in progress.

Figure12.2: Comparison of Value of Private Plans Approved and Building Works Completed in Main Urban Areas,2000-2004



12.9. Table 12.5 shows reported completion of new private buildings in selected main towns for the period 2000 to 2004. The number of non-residential units decreased by 41.7 per cent from 36 in 2003 to 21 in 2004, while the number of residential units went up by 49.2 per cent from 1,142 in 2003 to 1,704 in 2004. The estimated cost of residential units increased significantly from KSh 906.1 million in 2003 to KSh 1,988.0 million in 2004. The estimated cost of non-residential units decreased by 41.0 per cent from KSh 520.1 million in 2003 to KSh 306.9 million in 2004. Total cost of both residential and non-residential units increased by 60.9 per cent from KSh 1,426.2 million in 2003 to KSh 2,294.9 million in 2004.

Table 12.5: Reported Completions of New Private Buildings* In Selected Main Towns, 2000 - 2004

Year	Number		Estimated Cost (KSh million)		
	Residential	Non-Residential	Residential	Non-Residential	Total
2000	1,017	37	862.81	353.60	1,216.41
2001	941	11	805.50	169.50	1,025.00
2002	1,040	27	965.90	429.72	1,395.62
2003	1,142	36	906.14	520.05	1,426.19
2004**	1,704	21	1,988.00	306.90	2,294.90

* Excluding the value of extensions.

** Provisional

12.10. Data on reported completion of new public buildings in selected main towns for the period 2000 to 2004 is presented in Table 12.6. The number of residential units completed decreased significantly from 30 in 2003 to 15 in 2004. The estimated cost of residential units went down by 58.7 per cent from KSh 49.9 million in 2003 to KSh 20.6 million in 2004, while cost of non-residential units increased by KSh 9.3 million in 2004. Total cost of reported completion of new public buildings declined by 40.0 per cent from KSh 49.9 million in 2003 to KSh 29.9 million in 2004. The situation is set to change during the financial year 2004/2005 as more funds have been allocated to complete the stalled pool housing projects spread across the country, and the expected completion of several projects by National Housing Corporation.

Table 12.6: Reported Completions of New Public Buildings* In Main Towns, 2000 - 2004

Year	Number		Estimated Cost (KSh Million)		
	Residential	Non-Residential	Residential	Non-Residential	Total
2000	11	10	4.50	11.50	16.00
2001	11	16	6.90	22.24	29.14
2002	10	14	6.50	21.58	28.08
2003	30	0	49.94	0.00	49.94
2004**	15	5	20.60	9.32	29.92

* Including the value of extensions.

** Provisional.

Housing

12.11. Table 12.7 presents the five-year trend of approved and actual Central Government expenditure on housing for the financial years 2000/2001 to 2004/2005. Approved expenditure on housing increased significantly from KSh 81.2 million in 2003/04 to KSh 320.0 million in 2004/2005 financial years. Housing financial allocation in the year under review increased significantly on account of the Civil Servants Housing Fund established in September 2004; with an initial capital of KSh 300 million and the Slum Upgrading Programme which was allocated KSh 20 million. Approved expenditure as a percentage of development expenditure went up to 0.39 per cent in 2004/2005 financial year as compared to 0.35 per cent in 2003/2004 financial year.

Table 12.7: Approved and Actual Central Government Expenditure on Housing, 2000/2001 - 2004/2005

Year	Expenditure in KSh Million		Approved Expenditure as Percentage of Development Expenditure
	Approved	Actual	
2000/2001	10.10	70.50	0.03
2001/2002	24.00	24.50	0.07
2002/2003	48.60	-	0.29
2003/2004	81.20	20.00	0.35
2004/2005*	320.00	-	0.39

* Provisional

12.12. The stalled pool housing projects in four urban centers of Nairobi, Kericho, Voi and Kapsabet received no funds during the year under review although all pending bills on the same were settled in 2004/05 financial year. Construction of Ngara East Phase 1 Redevelopment project and Kibera decanting site are expected to commence in May 2005. The projects will be undertaken by the Housing Department of the Ministry of Lands and Housing. The sale of non-strategic Government houses commenced of which Phase 1 will involve sale of 1,084 houses where 10 per cent deposit is expected to yield KSh 200 million. The proceeds will be used to construct more houses and complete the stalled housing projects. The housing Department also funded construction of a low cost demonstration unit in Embu GK prison. The demonstration unit consisted of 2 units of 2 bedroom houses at an initial cost of KSh 500,000. The Housing Department has also acquired a hydraulic machine for production of soil blocks as a way to improve housing standards. The Slum Improvement Programme is meant to upgrade housing standards (quality and quantity) in informal settlements and slum areas for which a low cost housing infrastructure fund has been approved. The Kenya Government and UN- HABITAT are jointly funding Kibera Slum Upgrading project. The initial phase will target Soweto area in Kibera and construction work is expected to commence in May 2005.

12.13. The National Housing Corporation (NHC) did not complete any housing project in 2004. There were six housing schemes under construction as at 31st December 2004. This consist of rental flats (72 units) in Changamwe (Mombasa), Tenant purchase (89 units) in Bububu (Mombasa), Tenant purchase (93 units) in Mamboleo (Kisumu), Tenant purchase flats (160 units) in Pumwani (Nairobi), Mortgage (24 units) in Kiambu and Mortgage (15 units) in Eldoret. A total of KSh 540.80 million will be used upto the completion stage in June 2005. In the year under review, no rural housing loans were given out as NHC was reorganizing the programme for it to cover both rural and peri-urban areas. NHC also enhanced debt recovery strategies to ensure that the fund had adequate money for lending. The issue of security for the money lent was critically considered with a view of expanding coverage to all parts of the country while ensuring repayment.

Roads 12.14. The country has a road network of approximately 63,000 kilometres of classified roads of which about 9,000 kilometres is bitumen and 54,000 km is gravel/earth, while approximately 88,000 kilometres are unclassified. The exact size of Kenya's road network will however be ascertained as soon as the ongoing Road Inventory and Condition Survey is completed. The total number of kilometres of road as at 1st July 2000 and 1st July 2004 by type and classification is presented in Table 12.8. The total kilometres of road under earth/gravel decreased by 1.6 per cent from 55.26 thousand kilometres in 2000 to 54.36 thousand kilometres in 2004. On the other hand, the total kilometres of road under bitumen increased by 3.2 per cent from 8.66 thousand kilometres in 2000 to 8.94 thousand kilometres in 2004. Minor earth/gravel roads decreased by 1.9 per cent from 26.30 thousand kilometres in 2000 to 25.80 thousand kilometres in 2004. Special Purpose bitumen roads decreased by 4.5 per cent from 0.22 thousand kilometres in 2000 to 0.21 thousand kilometres in 2004. The National Trunk bitumen roads increased by 10 per cent from 1.30 thousand kilometres in 2000 to 1.43 thousand kilometres in 2004.

Table 12.8: Kilometres of Road as at 1st July, 2000 and 1st July, 2004 by Type and Classification

'000Km

	Type of Road	2000		2004**	
		Bitumen	Earth/ Gravel	Bitumen	Earth/ Gravel
A-	International Trunk ..	2.65	0.96	2.89	0.87
B-	National Trunk	1.30	1.37	1.43	1.37
C-	Primary	2.56	5.47	2.49	5.18
D-	Secondary	1.18	10.16	1.17	10.05
E-	Minor	0.75	26.30	0.75	25.80
F-	Special Purpose*	0.22	11.00	0.21	11.09
	TOTAL	8.66	55.26	8.94	54.36

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

** Provisional

2.15. The Roads Department of the Ministry of Roads and Public Works has a total of 59 projects funded by the Roads Maintenance Levy Fund (RMLF). Out of these, 36 are on-going road construction projects covering rehabilitation, resealing and gravelling works at various stages of completion. In the year under review, a total of 275 km of roads were graveled, 91 km bitumen roads rehabilitated (involving pavement reconstruction) and 98 km bitumen roads resealed or recarpeted (mainly involving pothole repair and applying bitumen seal). A total of KSh 3.25 billion was paid out in 2003/2004 financial year for these works. The Department also graded approximately 8,910 km and maintained on a routine basis 9,559 km of roads. The roads that were gravelled in kilometres in the year under review are Chesoi-Chesogon (30.7 Km), Kavati-Mbondoni (10 Km), Londiani-Fort-Ternan (20 km), Mariakani-Ganze-Bamba

(28 Km), Marigat-Muchongoi-Arabel (10 km), Nanyuki-Doldol (30 km),1 Olenguruone-Kiptagich (6.25 km), Olkokwe-Muchongoi (20 km), Shalemba-Bura (28 km) and Sururu-Likia-Pombo (92 km). Those rehabilitated are Juja-Outer ring (4.5 km), Kisumu-Yala (31 km), Magumu-Njabini (7.4 km), Nabkoi-Kapsabet (10 km), Ngong-Kiserian (7 km), Nyeri & Othaya Loop roads (6 km) and Sotik-Amalo (25.8 km). Those resealed/recarpeted in the reference period are Meru-Maua (20 km), Naivasha-Ndunyu Njeru (31.3 km), Nakuru-Marigat (22.4 km), Timboroa-Awasi (4.4 km) and Uplands-Longonot turnoff (20 km). Farm E817-Kawiru road in Meru North was upgraded to bitumen standard and 5 kilometres completed in the financial year 2003/2004. The projects that were funded by Development Funds in the year 2003/2004 and under reconstruction are; Sultan Hamud- Mtito Andei (131 km), Kipsigak-Serem- Shamakhokho (53 Km) and Keroka- Nyangusu (57 km) roads. Kisii-Chemosit road with a length of 74 kilometres was completed in 2004.

12.16. Expenditure data for roads for the financial years 2000/2001 to 2004/2005 is presented in Table 12.9. Recurrent expenditure (maintenance & repair) on roads went up by 5.4 per cent from KSh 6,122.0 million in 2003/04 to KSh 6,450.0 million in 2004/2005. This implies that routine and periodic maintenance was administered on a larger portion of the road network. Development expenditure on primary roads rose significantly from KSh 1,260.5 million in 2003/2004 financial year to KSh 3,059.0 million in 2004/2005. Development expenditure on trunk roads increased significantly from KSh 2,406.0 million in 2003/04 to KSh 5,946.5 million in 2004/2005. The total development expenditure on roads went up significantly from KSh 4,340.7 million in 2003/04 to KSh 9,716.5 million in 2004/2005. The more than double increase in development expenditure was necessitated by the state of dilapidated roads and need for urgent reconstruction. Overall expenditure on roads increased significantly from KSh 10,462.7 million in 2003/2004 to KSh 16,166.5 million in 2004/2005.

Table 12.9: Total Expenditure on Roads, 2000/2001 - 2004/2005 (KSh Million)

	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005*
Development:					
Trunk Roads	711.00	1,385.00	1,459.50	2,406.00	5,946.50
Primary Roads	505.00	601.40	808.34	1,260.50	3,059.00
Secondary Roads	1,131.07	635.80	345.80	320.68	333.00
Miscellaneous Roads.. ..	277.19	-	-	353.51	378.00
Total	**2,624.26**	**2,622.20**	**2,613.64**	**4,340.69**	**9,716.50**
Recurrent (maint. and repair)	6,696.00	8,042.44	6,005.17	6,122.00	6,450.00
Total	**9,320.26**	**10,664.64**	**8,618.81**	**10,462.69**	**16,166.50**

* Provisional

12.17. The Roads 2000 Programme is a strategy for maintenance of the Kenya public road network to an economic level of serviceability using local resources and labour based methods wherever these are cost effective. The strategy is meant to attain and sustain excellence in road maintenance that contributes to poverty reduction and wealth creation. Various development partners have been supporting Kenya in the implementation of the programme activities while others are planning to do so. They have been supporting the programme in Nyeri and Kirinyaga districts since July 1997 and as at June 2004, KSh 660 million of donor funds had been spent. Activities in Kirinyaga district were completed by 30th June 2004, while those in Nyeri district were completed by March 2005. The development partners has been supporting the programme in eight districts in

Eastern Province since March 1998 and a grant amounting to KSh 700 districts in Eastern Province since March 1998 and a grant amounting to KSh 700 million has been provided for the on-going Phase I. Various projects were on-going in Embu, Makueni, Machakos and Meru North districts as at June 2004 and are still on-going. Most of the projects will be completed by March 2005.

12.18. The Kenya Roads Board (KRB) in the year under review disbursed funds as follows; The Roads Department under Ministry of Roads and Public Works which is a designated Roads Agency responsible for the class A, B, C roads, received KSh 4,788 million while class D, E and others under the same department received KSh 934 million. Ministry of Local Government (MoLG), in charge of urban roads received KSh 672 million, Kenya Wildlife Service (KWS), which is in charge of park roads, received KSh 60 million. The District Roads Agency received KSh 350 million while Constituency Roads and KRB received KSh 1,344 million and KSh 252 million, respectively. A total of KSh 8.4 billion was disbursed by KRB to the various roads agencies in the year 2004 as compared to KSh 6.92 billion in the year 2003, recording an increase of 21.4 per cent.

Chapter 13
Tourism

Overview

Tourism sector performance improved in the year under review. Aggressive marketing of Kenya as a tourist destination coupled with reversal of negative travel advisory by the UK resulted in the recovery of the tourism sector in 2004. Strengthening of Tourist Police Unit in 2004 improved security and further enhanced the recovery process of the sector. Tourism earnings increased significantly by 51.9 per cent from KSh 25.8 billion in 2003 to KSh 39.2 billion in 2004. International visitor arrivals grew by 18.7 per cent from 1,146,100 to 1,360,700 in 2003 and 2004 respectively. Significant growth in international arrivals was observed in the second, third and fourth quarters of 2004. Visitors on business increased by 35.3 per cent, while those on holiday went up by 29.5 per cent in 2004 after declining by 6.6 per cent in 2003.

13.2. Number of visitors to Game Parks and Reserves increased by 17.5 per cent in 2004 compared to a decline of 13.0 per cent in 2003. This was partly attributed to the waiver in entry fees as part of the Jamhuri celebrations. Visitors to Museums, Snake Parks and Historical Sites rose marginally in 2004.

13.3. Bed-nights occupancy by European residents increased significantly by 53.8 per cent from 1.4 million in 2003 to 2.1 million in 2004. Hotel bed-nights occupancy by visitors from African countries increased by 59.5 per cent. Bed-nights by visitors from USA and Canada recorded an increase of 50.9 per cent. Overall bed occupancy rate increased from 33.6 per cent in 2003 to 37.8 per cent in 2004.

13.4. In 2004, there were more conference tourism activities compared to 2003. Local conferences held went up from 805 in 2003 to 912 in 2004. The number of International conferences increased from 126 to 145 during the same period. A notable conference held in the country was the 3-day International investors' conference in March 2004. This was in addition to other regional and sub-regional conferences with a wide range of issues including trade, economics and cultural agendas. The number of local delegates increased by 37.9 per cent while international delegates increased by 12.7 per cent in 2004.

Arrivals

13.5. Table 13.1 shows details of visitor arrivals by purpose. Overall, the number of visitor arrivals rose from about 1.1 million in 2003 to 1.4 million in 2004. In the first quarter of 2004, the visitor arrivals increased by 5.5 per cent from 301.0 thousand in 2003 to 317.5 thousand in 2004. Visitor arrivals in the second quarter increased by 23.5 per cent from 224.3 thousand to 277.0 thousand, while third quarter visitors increased by 18.9 per cent from 311.0 thousand to 369.8 thousand. Fourth quarter visitors increased significantly by 27.9 per cent from 309.9 thousand to 396.4 thousand in 2004. During the first quarter, visitors on holiday increased marginally by 1.3 per cent from 206.7 thousand to 209.4 thousand. Visitors on business increased significantly by 47.3 per cent from 34.7 thousand in 2003 to 51.1 thousand in the first quarter. Visitors on transit declined by 8.9 per cent during the quarter under review. In the second quarter, visitors on holiday increased significantly by 58.7 per cent from 112.5 thousand to 178.5 thousand, while visitors on business increased by 10.3 per cent, from 44.7 thousand to 49.3 thousand.

Visitors on transit further declined substantially by 40.2 per cent in the second quarter. In the third and fourth quarters, visitors on holiday increased by 30.1 per cent and 42.8 per cent respectively. Visitors on business increased significantly by 32.6 per cent and 52.5 per cent in the third and fourth quarters respectively.

Table 13.1: Quarterly Visitor Arrivals by Purpose of Visit, 2000-2004 '000

Quarter	Purpose	2000	2001	2002	2003	2004*
1st Qr.	Holiday	194.5	200.3	176	206.7	209.4
	Business	24.6	25.3	26.1	34.7	51.1
	Transit	41.2	39.4	47	51.9	47.3
	Other	5.5	4.9	5.8	7.7	9.7
	TOTAL	265.8	270.7	254.9	301	317.5
2nd Qr.	Holiday	165.5	149.6	158.5	112.5	178.5
	Business	20.9	18.9	17.1	44.7	49.3
	Transit	33	38.5	42.7	48.2	28.8
	Other	4.6	4.2	3.8	18.9	20.4
	TOTAL	224	211.1	222.1	224.3	277
3rd Qr.	Holiday	211.1	184.7	194.1	183.9	239.3
	Business	26.6	23.3	20.4	53.4	70.8
	Transit	32.6	37.7	37.4	62.1	46.9
	Other	5.8	5.1	4.4	11.6	12.8
	TOTAL	276.1	250.8	256.3	311	369.8
4th Qr.	Holiday	207.1	194.2	204	180.9	258.4
	Business	26.2	24.6	23	49.3	75.2
	Transit	31.7	37	36.2	56.9	39.2
	Other	5.6	5.3	4.9	22.8	23.6
	TOTAL	270.6	261	268.1	309.9	396.4
Year	Holiday	778.2	728.8	732.6	684	885.6
	Business	98.3	92.1	86.6	182.1	246.4
	Transit	138.5	152.6	163.3	219.1	162.2
	Other	21.5	19.5	19	61	66.5
	TOTAL	1,036.50	993.6	1,001.30	1,146.20	1,360.70

* Provisional

13.6. Visitors on holiday increased by 29.5 per cent from 684.0 thousand in 2003 to 885.6 thousand in 2004, whereas visitors on business increased by 35.3 per cent from 182.1 thousand in 2003 to 246.4 thousand in 2004. Overall, visitors on transit declined by 26.0 per cent in 2004.

Table 13.2: Quarterly Visitor Departures by Purpose of Visit,2000-2004

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Quarter	Purpose	2000	2001	2002	2003	2004*
1st Qr.	Holiday	204.3	214.9	176.4	184.3	196.2
	Business	25.9	27.2	22.3	31.7	62.1
	Transit	29.6	32.3	37.9	46.3	30.7
	Other	5.8	6.1	5	6.9	13
	TOTAL	265.6	280.5	241.6	269.1	302
2nd Qr.	Holiday	164.3	165.2	166.8	117.9	176.8
	Business	20.7	20.9	21.1	46.9	49.8
	Transit	22.8	33.3	39.9	51.5	31.7
	Other	4.5	4.5	4.5	19.8	15.4
	TOTAL	212.3	223.8	232.2	236.1	273.7
3rd Qr.	Holiday	199	179.6	203.7	147.2	232.6
	Business	24.5	22.1	25.1	42.7	70.2
	Transit	25.3	33.5	41	49.7	46.1
	Other	6.5	5.8	6.6	9.3	13.5
	TOTAL	255.3	241.1	276.4	248.9	362.3
4th Qr.	Holiday	204.6	182.3	197.8	157.3	250.6
	Business	25.9	23	25	42.8	73.7
	Transit	25.8	35	34.8	50.9	39.4
	Other	5.7	5.1	5.5	17.8	18.4
	TOTAL	262	245.5	263.2	268.8	382.1
Year	Holiday	772.2	742	744.6	606.6	856.2
	Business	97	93.2	93.4	164.1	255.8
	Transit	103.5	134.1	153.6	198.4	147.9
	Other	22.5	21.5	21.7	53.8	60.3
	TOTAL	995.2	990.9	1,013.40	1,022.90	1,320.10

* Provisional

13.7. Details of the number of visitors who departed from the country by purpose of visit are shown in Table 13.2. Overall, the number of departing visitors from the country went up by 29.1 per cent in 2004. In the first quarter of 2004, 302.0 thousand visitors departed from the country compared to 269.1 thousand in 2003 depicting a rise of 12.2 per cent. In the second quarter, departing visitors increased by 15.9 per cent from 236.1 thousand to 273.7 thousand. Similar trends were experienced during the third and fourth quarters with increases of 45.6 per cent and 42.2 per cent respectively.

13.8. The total number of visitors departing on holidays from the country increased by 41.1 per cent from 606.6 thousand in 2003 to 856.2 thousand in 2004, while visitors on business increased significantly by 55.7 per cent from 164.1 thousand in 2003 to 255.5 thousand in 2004. Conversely, the number of departing visitors on transit, dropped by 25.4 per cent from 198.4 thousand in 2003 to 147.9 thousand in 2004.

13.9. Table 13.3 presents the number of departing visitors by country of residence and main purpose of visit. The total number of departing visitors increased significantly from 969.1 thousand in 2003 to 1,259.8 thousand representing a rise of 30.0 per cent. Departing visitors to Europe increased by 23.9 per cent from 750.5 thousand in 2003 to 930.0 thousand in 2004. United Kingdom and Germany accounted for more than a half of departing visitors to Europe. Departing visitors to USA more than doubled from 44.9 thousand in 2003 to 109.6 thousand in 2004. Departing visitors to Africa dropped by 12.1 per cent in 2004 compared to 43.1 per

cent increase recorded in the previous year. Visitors destined to Asia recorded a remarkable increase of 72.1 per cent in 2004. This was as a result of Kenya Airways opening new routes to the region. Kenya Tourist Board also signed an agreement with Emirates to bring visitors from Asia.

Table 13.3: Departing visitors by country of residence and purpose of visit, 2003-2004

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	Holiday		Business		Transit		Total	
Country of Residence	2003	2004*	2003	2004*	2003	2004*	2003	2004*
Germany	125.6	118.4	33.9	35.4	39.9	18.5	199.3	172.3
United Kingdom	139.1	208.5	37.5	57.1	44.2	32.5	220.8	298.1
Switzerland	54.2	37.7	14.6	13.3	17.2	10.8	86.1	61.8
Italy	46.8	96.2	12.6	18.6	14.9	14.7	74.3	129.5
France	36	58.2	9.7	18	11.4	9.4	57.2	85.5
Scandinavia	19.1	27.4	5.2	8.5	6.1	4.4	30.3	40.3
Other Europe	52	95	14	31.3	16.5	16.3	82.5	142.5
TOTAL EUROPE	472.8	641.3	127.6	182.1	150.1	106.6	750.5	930
U.S.A	28.3	76.4	7.6	23.7	9	9.5	44.9	109.6
Canada	5.7	19.9	1.5	6.3	1.8	3.2	9	29.5
TOTAL NORTH AMERICA	34	96.3	9.2	30	10.8	12.7	53.9	139.1
Uganda	8.1	8.6	2.2	7	2.6	2.7	12.9	18.3
Tanzania	9.1	10.4	2.5	6.4	2.9	3	14.5	19.8
Other Africa	45.1	25.4	12.2	13.1	14.3	10.4	71.6	48.9
TOTAL AFRICA	62.4	44.4	16.9	26.5	19.8	16.1	99	87
India	7.9	18.5	2.1	12.8	2.5	2.3	12.5	33.6
Japan	8.6	17.4	2.3	5.4	4.7	2.8	13.7	25.6
Israel	6.8	4.2	1.8	1.3	2.2	0.7	10.8	6.1
Other Asia	3.3	8.4	0.4	2.1	1.6	1.7	8.1	12.2
TOTAL ASIA	26.6	48.5	6.7	21.6	11	7.5	45.1	77.6
Australia and New Zealand	5	6.8	1.4	4.9	1.6	2.6	8	14.2
All Other Countries	7.9	8.1	2.1	2.2	2.5	1.6	12.6	11.9
TOTAL	608.7	845.5	163.8	267.2	195.7	147.1	969.1	1,259.80

* Provisional

13.10. Table 13.4 shows the number of days stayed by visitors categorised by purpose of visit. The total number of days stayed rose significantly by 54.4 per cent from 8.4 million in 2003 to 12.9 million in 2004. The number of days stayed by visitors on holiday rose markedly by 63.6 per cent from about 7.0 million days in 2003 to 11.4 million days in 2004. The number of days stayed by visitors on business increased from 1.0 million days to 1.3 million days over the same period. The overall average length of stay improved from 8.4 days in 2003 to 13.0 days in 2004.

Table 13.4: Number of days stayed* by purpose of visit, 2000-2004

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Purpose	2000	2001	2002	2003	2004**
Holiday	7,413.10	7,123.20	7,335.80	6,975.90	11,414.30
Business	814.8	699	717.1	979.8	1,336.00
Transit	279.5	321.8	374.8	396.8	147.1
TOTAL	8,507.40	8,144.00	8,427.70	8,352.50	12,897.40
Average length of stay in days	8.7	8.4	8.5	8.4	13

* Excludes days stayed by"Other Visitors" Category

** Provisional

Hotel Occupancy

13.11. Table 13.5 presents hotel bed-night occupancy by visitors' country of residence. Hotel bed night's occupancy increased significantly from 2.6 million in 2003 to 3.8 million in 2004, registering a 37.8 per cent increment in the hotel bed-night occupancy rate. Total number of available hotel bed-nights increased from 7.8 million in 2003 to 10.0 million in 2004, a rise of 29.2 per cent. This impressive growth was attributed to tourism recovery, which led to the re-opening of the previously closed establishments, expansion of existing ones and the increased length of visitors' stay.

Table 13.5: Hotel Bed-nights by Country of Residence, 2000-2004 ' 000

Country of Residence	2000	2001	2002	2003	2004*
Permanent Occupants**	20.4	21.1	12.9	9.7	32.7
Germany	605.1	541.2	721.3	420.4	465.9
Switzerland	174.8	175.1	218.3	125.9	145.6
United Kingdom	558.6	606	591.4	324.3	516.2
Italy	202.4	136.2	211.9	144	166.9
France	212.8	180.6	164.8	113.9	164.4
Scandinavia	69.9	66.7	56.3	45.6	69.4
Other Europe	259.3	229.6	244.9	213.5	606.2
EUROPE	2,082.90	1,935.40	2,208.90	1,387.50	2,134.50
Kenya Residents	794.1	740.2	656.1	738.7	1,190.30
Uganda	30	34.2	26.9	26.2	43.1
Tanzania	41.4	38.9	26.7	30.4	43.4
East and Central Africa	50	45.8	34.5	27.6	43
West Africa	22.6	24.6	25.1	15.4	27.9
North Africa	15.9	17.3	12.7	16.5	21
South Africa	38.7	39	42.7	34.4	48.2
Other Africa	65.5	50.2	24.9	39.8	65.1
AFRICA	1,058.20	990.2	849.6	928.9	1,482.00
U.S.A	228.9	169.9	149.8	109.6	165.1
Canada	26.8	25.5	22.4	17.6	28.7
Other America	27.7	20.4	22.3	17.5	24.6
AMERICA	283.4	215.8	194.5	144.7	218.3
Japan	55.9	39.5	44.2	26.2	33.5
India	34.7	29.5	25	29.2	38.4
Middle East	50.5	53.7	37.7	20.3	23.4
Other Asia	27.2	19.5	17.3	18.2	35.9
ASIA	168.3	142.2	124.2	93.8	131.2
Australia and New Zealand ..	26.9	20.6	21.9	17	22.5
All Other Countries	47.7	29.6	25	24.2	70.2
TOTAL-OCCUPIED	3,687.80	3,354.90	3,436.80	2,605.90	3,791.50
TOTAL-AVAILABLE	9,382.30	8,327.80	8,182.70	7,765.70	10,030.70
Occupancy rate %	39.3	40.3	42	33.6	37.8

* Provisional

** Persons staying one month or more in one hotel-includes some block bookings for aircrew

13.12. Bed night's occupancy by visitors from European countries grew by 53.8 per cent from 1.4 million in 2003 to 2.1 million in 2004. Bed-nights occupied by visitors from African countries rose significantly from 0.9 million in 2003 to 1.5 million in 2004, an increase of 59.5 per cent while Africa's share of hotel bed nights stood at 39.1 per cent. The United Kingdom recorded the largest bed-nights occupancy of 516.2 thousand in 2004, followed by Germany with 465.9 thousand All countries in Europe recorded increases in bed-nights occupancy during the period under review. Bed-nights occupancy by residents of USA, Canada and other America went up by 50.9 per cent in 2004.

13.13. Kenyan resident's bed-nights increased by 61.1 per cent from 0.74 million in 2003 to 1.2 million in 2004. This was due to improved domestic tourism in the country after substantial marketing. The overall bed-night occupancy rate, which is a measure of the total bed-nights occupied as a percentage of total beds-available, grew from 33.6 per cent in 2003 to 37.8 per cent in the year under review.

13.14. Table 13.6 outlines the distribution of hotel bed-nights stayed by visitors in the various zones of the country. Total number of bed-nights stayed at the *coastal beach hotels* increased by 48.4 per cent from 1.3 million in 2003 to 1.9 million in 2004, compared to a decrease of 41.5 per cent in the previous year. Bed-nights occupancy from *other coastal* hotels, declined by 19.5 per cent from 36.5 thousand in 2003 to 29.4 thousand in 2004. Bed-nights occupancy in *coastal hinterland* hotels declined from 60.9 thousand in 2003 to 52.9 thousand in 2004.

Table 13.6: Hotel bed-nights by Zone, 2000-2004

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Zone	2000	2001	2002	2003	2004*
Coastal-Beach	2,065.2	1,438.2	2,171.8	1,269.6	1,883.5
-Other	85.8	136.1	108.2	36.5	29.4
Coastal Hinterland	76.3	56.6	44.9	60.9	52.9
Nairobi-High Class	836.1	568.6	589.8	572.7	793.7
-Other	167.2	124.9	65.7	124.0	194.5
Central	145.7	74.5	80.7	143.8	247.8
Masailand	141.5	138.3	135.2	130.4	272.3
Nyanza Basin	87.3	94.4	103.7	127.9	167.7
Western	72.4	91.3	95.9	97.2	100.8
Northern	10.3	41.2	40.9	42.9	48.8
TOTAL-OCCUPIED	3,687.8	3,354.9	3,436.8	2,605.9	3,791.5
TOTAL-AVAILABLE	9,382.3	8,327.8	8,182.7	7,765.7	10,030.7

* Provisional

13.15. Bed occupancy in Nairobi's high-class hotels increased significantly by 38.6 per cent compared to a decline of 2.9 per cent in 2003. The other category of Nairobi hotels continued to perform well with bed-nights occupancy increasing by 56.9 per cent from 124.0 thousand in 2003 to 194.5 thousand in 2004. Central region recorded improved bed nights occupancy from 143.8 thousand in 2003 to 247.8 thousand in 2004. Bed nights-occupancy in Masailand more than doubled from 130.4 thousand in 2003 to 272.3 thousand in 2004. The Nyanza Basin, Western zone and Northern Kenya recorded growths of 31.1, 3.7 and 13.8 percent respectively in 2004.

13.16. Table 13.7 details hotel bed-nights by region and country of residence. As shown, most of the visitors preferred to stay in Coastal region hotels as depicted by the share in bed-nights occupancy which stood at 51.2 per cent occupancy in the country during 2004. Nairobi hotels accommodated 26.1 per cent of the visitors, whereas lodges took up 9.4 per cent of the visitors in 2004. Other regions accommodated 13.4 per cent of the visitors. Kenyan residents were the highest consumer of bed-nights at the Coast, followed by visitors from United Kingdom, Germany, other Europe and Italy residents, respectively.

13.17. Table 13.7 further reveals that Kenyan residents followed by United Kingdom and USA, occupied most of the bed-nights in Nairobi. The analysis also shows that most visitors from Europe prefer to stay in the Coastal region which accounted for 68.6 per cent, while those from America, Asia and African countries preferred staying in Nairobi.

Table 13.7: Hotel bed-nights by area and country of residence, 2004*

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Country of Residence	Nairobi	Coast	Lodges	Others	Total
Permanent Occupants** ..	21.4	7.9	0.0	3.4	32.7
Germany..	27.8	403.6	30.6	3.8	465.9
Switzerland..	10.1	126.6	7.8	1.1	145.6
United Kingdom	92.6	332.8	62.6	28.1	516.2
Italy..	10.5	139.2	14.9	2.3	166.9
France..	29.8	102.6	27.9	4.1	164.4
Scandinavia..	21.3	31.8	10.5	5.7	69.4
Other Europe..	61.7	194.6	33.8	16.1	306.2
Kenya..	253.3	492.5	56.8	387.7	1,190.3
Uganda..	28.8	9.8	1.2	3.3	43.1
Tanzania..	29.7	9.8	1.4	2.6	43.4
East & Central Africa	36.1	3.8	0.5	2.7	43.0
West Africa..	24.4	2.3	0.4	0.8	27.9
North Africa..	17.0	1.5	2.0	0.6	21.0
South Africa..	35.2	9.8	2.0	1.2	48.2
Other Africa..	54.0	6.9	2.3	1.9	65.1
U.S.A...	80.0	22.9	39.6	22.6	165.1
Canada..	15.1	3.7	7.2	2.6	28.7
Other America	14.6	4.7	3.2	2.1	24.6
Japan..	19.4	1.4	11.1	1.6	33.5
India..	22.3	5.8	5.5	4.9	38.4
Middle East..	17.0	2.9	2.0	1.5	23.4
Other Asia..	19.3	4.7	8.9	2.9	35.9
Australia & New Zealand	12.3	4.2	3.9	2.1	22.5
All Other Countries	34.4	15.8	19.2	0.7	70.2
TOTAL..	988.2	1,941.6	355.1	506.5	3,791.5
PERCENTAGE SHARE	26.1	51.2	9.4	13.4	100.0

* Provisional

** Persons staying one month or more in one hotel-includes some block bookings for aircrew.

13.18. Table 13.8 provides data on the number of bed-nights occupied in Game Reserves and National Parks of Kenya. The number of bed-nights occupied by foreign residents increased by 61.5 per cent, from 182.9 thousand in 2003 to 295.4 thousand in 2004. Bed nights occupancy by East African residents expanded by 63.7 per cent over the same period. Both foreign and East African residents visiting National Parks and Game reserves preferred full catering as compared to self service.

Table 13.8 Game lodges* occupancy, 2002 – 2004

'000

	BED-NIGHTS OCCUPIED					
	Foreign Residents			E.A. Residents		
	2002	2003	2004**	2002	2003	2004**
Game Reserves.. ..	121.2	120	188.8	11.9	12.2	20.5
National Parks	85.4	62.9	106.6	8	23.6	38.7
TOTAL	206.6	182.9	295.4	19.9	35.8	58.6
Of which full Catering ..	195.1	155.5	246.9	17.2	28.6	45.7
Self Service	28.1	27.4	48.5	5	7.2	13.2

* Lodges in National Parks and Game Reserves

** Provisional

Other Tourists Attractions

13.19. The number of visitors to parks and game reserves in the country is presented in table 13.9. Visitors increased by 17.5 per cent from 1.5 million in 2003 to 1.8 million in 2004. Those visiting Lake Nakuru National park increased by 32.7 per cent from 193.6 thousand to 257.0 thousand in 2004. Visitors to Maasai Mara increased from 233.0 thousand to 240.0 thousand in 2004. Visitors to Animal Orphanage increased from 205.3 thousand to 239.4 thousand, while visitors to Tsavo East grew from 119.2 thousand to 158.5 thousand in 2003 and 2004 respectively. Haller's Park, Nairobi Safari Walk, Kisite/Mpunguti and Nairobi National Park also recorded increases in the number of visitors in 2004. Visitors to Amboseli nearly doubled in 2004 relative to 2003.

Table 13.9: Number of visitors to parks and game reserves, 2000-2004

'000

	2000	2001	2002	2003	2004*
Nairobi	130.3	101.6	90.4	71.3	92.5
Nairobi Safari Walk	-	113.5	114.4	66.3	88.0
Animal Orphanage	266.1	151.1	254.5	205.3	239.4
Amboseli	93.5	91.5	92.0	54.7	101.6
Tsavo (West)	78.6	78.7	76.3	62.6	92.7
Tsavo (East)	124.9	132.7	152.8	119.2	158.5
Aberdare	44.9	40.5	41.5	30.3	44.0
Lake Nakuru	193.3	209.4	229.8	193.6	257.0
Masai Mara	193.5	207.2	231.1	233.0	240.0
Haller's Park	92.6	87.2	87.0	99.9	101.2
Malindi Marine	35.7	26.5	29.8	22.8	27.5
Lake Bogoria	56.1	59.6	18.7	64.7	64.7
Meru	6.0	7.8	8.2	5.7	6.4
Shimba Hills	20.5	18.3	14.4	16.2	18.7
Mount Kenya	11.5	26.3	27.9	25.5	27.7
Samburu	8.2	6.3	6.0	6.0	6.2
Kisite/Mpunguti	37.9	45.7	47.1	35.9	51.7
Mombasa Marine	38.4	29.1	30.5	31.4	32.3
Watamu Marine	28.4	30.0	29.3	21.1	28.4
Hell's Gate	74.0	73.0	60.9	75.1	38.9
Impala Sanctuary(Kisumu)	90.4	96.9	117.7	69.6	63.3
Other**	20.1	17.4	11.0	30.5	30.3
TOTAL	1,644.9	1,650.3	1,771.3	1,540.6	1,810.7

* Provisional

** Other includes Mount Elgon, Ol-Donyo Sabuk, Marsabit, Saiwa swamp, Sibiloi, Ruma National Park, Mwea National Reserve, Central Island National Park, Nasolot National Reserve and Kakamega National Reserve.

13.20. The total number of visitors to museums, snake parks and historical sites as shown in Table 13.10 rose marginally from 686.3 thousand in 2003 to 699.0 thousand in 2004. Visitors to the Nairobi National Museum declined from 275.4 thousand in 2003 to 223.9 thousand in 2004. Visitors to Fort Jesus increased from 122.4 thousand in 2003 to 126.2 thousand in 2004, while visitors to the Snake Park rose from 84.2 thousand in 2003 to 97.9 thousand in 2004. Visitors to Kisumu, Kitale, Gedi, Meru and Karen Blixen recorded increases in the review period.

Table 13.10: Number of visitors to museums, snake park and sites,2000-2004

'000

	2000	2001	2002	2003	2004*
National Museum:(Main Gate)	210.9	251.6	202.7	275.4	223.9
National Museum:(Snake Park)	85.0	83.6	76.2	84.2	97.9
Fort Jesus	96.5	140.3	140.7	122.4	126.2
Kisumu Museum	48.1	62.3	45.1	70.2	78.1
Kitale Museum	28.1	29.6	21.5	34.0	40.9
Gedi	21.8	18.1	23.3	25.6	31.3
Meru Museum	18.1	19.2	14.9	16.9	17.0
Lamu	7.3	4.3	0.8	3.4	4.6
Jumba la Mtwana	5.1	4.6	3.1	2.7	6.0
Olorgessaile	2.4	1.8	7.3	0.0	1.1
Kariandusi	5.0	4.6	5.7	5.5	5.7
Hyrax Hill	3.3	3.4	6.1	3.7	5.8
Karen Blixen	52.6	51.3	46.4	34.0	47.4
Kilifi Mnarani	0.9	1.1	1.8	0.4	0.9
Kabarnet	0.8	0.9	1.2	1.3	3.2
Kapenguria	3.7	3.5	3.4	3.8	5.0
Pete Sites	0.01	0.1	0.1	0.0	1.0
Swahili House	0.7	0.8	0.5	0.5	0.6
German Post	0.09	0.06	0.07	0.1	0.1
Lamu Fort	1.0	1.1	0.8	0.9	0.9
Takwa Ruins	1.5	1.6	1.4	1.3	1.3
TOTAL	585.1	675.8	603.1	686.3	699.0

* Provisional

Conference Tourism

13.21. The Kenyatta International Conference Centre (KICC), a State Corporate was established in 2004 with the mandate to: promote and market conference tourism both locally and internationally; monitor the quality and standard of conference facilities and advice both private and public investors on improvement of such facilities; implement the expansion and modernisation of existing conference facilities and develop new ones among others, is expected to further increase conference tourism activities in the country. In addition, the location of two UN agencies Headquarters in Nairobi will also contribute to the impressive growth in conference activities.

13.22. Increased conference tourism activities were recorded in 2004. The number of local conferences increased by 13.3 per cent from 805 to 912 in 2004. The number of International conferences rose by 15.1 per cent from 126 to 145 in 2004. Number of local delegates rose from 52,477 in 2003 to 75,148 in 2004, while international delegates went up from 16,362 to 18,604. The number of delegate days for locals rose significantly from 209,908 in 2003 to 289,441 in 2004, while delegate days for international conferences rose from 57,267 to 74,615 over the same period. Local and international conference registered occupancy rates of 14.9 per cent and 3.8 per cent in 2004 respectively, compared to almost similar occupancy rates of 12.7 per cent and 3.5 per cent in 2003 as shown in Table 13.11.

Table 13.11: Reported conferences, 2002-2004

	2002		2003		2004*	
	Local	International	Local	International	Local	International
No. of conferences	754	115	805	126	912	145
No. of delegates	28,645	12,405	52,477	16,362	75,148	18,604
No. of delegate days	118,425	48,333	209,908	57,267	289,441	74,615
No. of delegate days available	1,441,233	1,441,233	1,648,201	1,648,201	1,945,227	1,945,227
Percentage Occupancy	8.2	3.4	12.7	3.5	14.9	3.8

* Provisional

Tourism Promotion

13.23. Several initiatives are currently being pursued to boost the level of tourism activity in the country. These include: consultations with airlines that had abandoned Kenya as a destination, discovery and marketing of new tourist sites and products e.g. sport tourism, exploration of new tourist markets mainly from the Far East and the rest of Asia, promotion of domestic tourism and strategic partnership between public and private sector in marketing the country abroad as a tourist destination.

13.24. The Kenya Utalii College continued training those aspiring to work in the tourism industry as shown in Table 13.12. Overall, persons who graduated from Utalii College increased by 6.6 per cent from 1,754 in 2003 to 1,870 in 2004. Graduates who finished in-service courses in 2004 declined from 1,169 in 2003 to 1,108 in 2004.

Table 13.12 Kenya Utalii College graduates, 2000-2004 **Number**

		Professional Courses				
Year	In-Service	MDP**	Ordinary	Service Advance	Total	Grand Total
2000	886	146	270	24	440	1,326
2001	880	128	317	22	467	1,347
2002	983	151	363	18	532	1,515
2003	1,169	179	391	15	585	1,754
2004*	1,108	183	570	9	762	1,870

Source: Kenya Utalii College

* Provisional

** Management Development Programmes (MDP)

13.25. Graduates who were trained on Management Development Programme (MDP) increased from 179 in 2003 to 183 in 2004, while those who graduated at professional ordinary level courses increased significantly by 45.8 per cent from 391 in 2003 to 570 in 2004. Advanced level graduates decreased from 15 to 9 in 2004.

Chapter 14
Transport, Storage & Communications

Overview

Transport and communications sector has been one of the fastest growing sectors of the domestic economy in the recent past as revealed by the new System of National Account 1993 (SNA 93). Output from the sector valued at market prices increased by 16.5 per cent to KSh 307,627 million in 2004 from KSh 264,097 million in 2003. Further, the sector contributed 10.3 per cent of the total economy's value added during 2004, making it the second largest contributor of value added after agricultural sector. The sector's share of value added has also overtaken the hitherto dominant manufacturing sector as detailed in chapter 2.

14.2. Overall, all sub-sectors of the transport and communications sector except the railway transport sub sector recorded higher output growths in 2004 compared to the levels attained in 2003. The growths were supported by heavy capital outlays in the communications industry following full liberalisation of airwaves; the increased investor confidence in passenger transport business, rising number of tourist arrivals in the country, opening of new travel routes and increased frequencies to existing ones by Kenya Airways. Other factors included the increased volume of cargo traffic at the Port of Mombasa and the rising throughput of white petroleum products for both domestic and exports markets. The road transport and communications industries remained the two fastest growing sub sectors of the economy. The combined sub-sectors' value of output accounting for more than half of the total value of output from the transport and communications sector during 2004. A significant rise of 25.8 per cent in the registration of newly acquired vehicles was recorded during the year, with the number rising to 42,482 from 33,768 in 2003.

14.3. Despite the improved economic performance of the transport and communications sector, several factors militated against further output growth from the sector during the period under review. These factors include high input costs due to the rising fuel prices, inefficient and poor infrastructure and the depreciation of the Kenya Shilling against major hard currencies during the second half of 2004.

Table 14.1: Transport and Communications - Value of Output, 2000 - 2004, (KSh million)

	2000	2001	2002	2003	2004*
Road Transport	94,010	100,400	101,481	110,902	137,796
Railway Transport	5,277	4,878	4,653	4,361	4,098
Water Transport	8,964	9,589	10,490	12,501	15,523
Air Transport	52,580	56,141	59,566	63,943	69,191
Services Incidental to Transport	11,613	12,232	12,218	13,692	17,001
Pipeline Transport	6,332	6,532	6,631	6,761	6,810
Communications	28,063	41,270	50,022	51,937	57,208
Total	**206,839**	**231,041**	**245,061**	**264,097**	**307,627**

*Provisional

Chapter 15
Poverty and Socio-economic Dimensions at the Constituency Level

Overview

This chapter presents summary findings of a broader report entitled *Second Report on Geographic Dimensions of Well-being in Kenya: Who and Where are the poor at Constituency Level, Volume II.* This second report presents the results of the analysis of poverty estimates and concentration, socioeconomic dimensions of poverty and inequality at the constituency level, using small area estimation techniques. The reports covers all the 8 provinces and the 210 constituencies in the country analysed with a rural-urban dimensions. This report aims at spearheading improved understanding of the incidences and dynamics of poverty, as well as refining the methodology as a vehicle for targeting of resources towards pro-poor programmes.

15.2. This chapter highlights the differentials of poverty headcount ratio by constituency in various dimensions and, the application of the resulting statistics in decision-making and policy formulation, specifically, the use of poverty statistics in the allocation of the Constituency Development Funds (CDF).

15.3. The constituency analysis of poverty presented here is intended to deepen the understanding of the incidence and dynamics of poverty in Kenya, against the backdrop of the Economic Recovery Strategy (ERS) for wealth and employment creation framework. This information provides a basis for tracking progress and evaluating the impact of new program interventions on the welfare of vulnerable and poor individuals in the society.

Poverty Concepts

15.4. The poverty measures are based on the monetary dimensions of well-being captured through objective and quantitative measures of poverty. Two ingredients are required for constructing poverty measures; a relevant monetary indicator of well being and a threshold or poverty line below which people will be classified as poor.

15.5. The *absolute poverty line* is conceptualised as the minimum standard required of an individual to fulfil his or her minimum recommended calorific requirement and basic non-food needs. According to the 1997 Welfare Monitoring Survey III (WMS III) the absolute poverty line stood at KSh 2,648 per adult per month in urban areas and at KSh 1,239 per adult per month in rural areas.

15.6. The *poverty headcount ratio or index (FGT 0)* is the most widely used measure of poverty and depicts the proportion of the population that is classified as poor.

Methodology

15.7. The principle underlying the method involves combining the WMS III data with the 1999 population and housing census data to produce poverty estimates at the constituency level. First, a regression analysis technique is applied to data from the WMS III to obtain parameter estimates related to household expenditures and a number of socio-economic variables such as household size, education levels, housing characteristics and access to basic services. Secondly, census household expenditures are estimated by applying the WMS III based coefficients together with comparable socio-economic variables from the 1999 population census. This enables the estimation of poverty prevalence at sub-district level(s)

such as an electoral constituency. From the adopted estimation technique, the final poverty estimates refer to 1999/2000. The main report avails further details on the methodology.

Constituency Poverty Incidence

15.8. Poverty varies widely among rural areas, from 31.0 per cent in Central Province to 65.0 per cent in Nyanza Province. The poorest rural residents of Nyanza experience double the poverty incidence faced by their least poor rural counterparts in Central Province. Among the 210 constituencies, the poverty **headcount ratio** ranges between 16.5 per cent and 84.0 per cent , representing the least poor and the most poor constituencies respectively.

15.9. The following paragraphs present a summary of findings for each province. Table 15.2 provides details on the poverty estimates for each province and by constituency.

15.10. **Nairobi Province:** Nairobi province has 8 constituencies corresponding to the 8 administrative divisions. The provincial mean poverty head count is 43.9 per cent and among the constituencies, poverty headcount index ranges from 31.3 per cent in Westlands to 59.1 per cent in Makadara. The poorest constituency (Makadara) is twice as poor as the least poor constituency (Westlands). When ranked nationally in terms of poverty incidence, Westlands is ranked 15th followed by Langata and Embakasi in positions 36 and 39 respectively.

15.11. **Central Province:** Among the 29 contituencies in the province, poverty headcount indices range from 16.5 per cent in Kabete Constituency to 43.2 per cent in Nyeri Town Constituency. The mean headcount poverty index for the province is about 31.1 per cent. This province emerges the least poor region in Kenya. In terms of overall ranking by poverty incidence, Central Province constituencies take up the top ten least poor positions. The poorest constituency in this province is ranked 53rd nationally.

15.12. **Coast Province:** The province has 21 constituencies carved from seven districts. The mean provincial poverty headcount index stands at 57.6 per cent. The poverty headcount indices among constituencies in this province range from 30.5 per cent in Bura to 84.0 per cent in Ganze. In terms of overall national ranking by poverty incidence, Bura constituency take position followed by Mvita constituency (34.5 per cent) which ranks position 25 nationally.

15.13. **Eastern Province:** The overall poverty headcount rate for the 36 constituencies in Eastern Province is 58.3 per cent . Poverty headcount ranges from 34.4 per cent in Ntonyiri (the least poor) to 75.8 per cent in the poorest Kitui South constituency. At the national level, only two constituencies - Ntonyiri (ranked 24) and Laisamis (ranked 37) take positions in the top 50 ranks.

15.14. **North Eastern Province:** The province has 11 constituencies with an overall poverty headcount index of 64.2 per cent, and is the second poorest province in the country. Poverty ranges from 59.8 per cent in Dujis (the least poor) to 70.5 per cent in Wajir North (the poorest). The least poor constituency in the province (Dujis) takes position 131 in the national ranking by poverty incidence.

15.15. **Rift-Valley Province:** This province has 49 constituencies, with the poverty headcount indices ranging between 33.6 per cent in Subukia, and 64.3 per cent in Turkana Central. In terms of overall ranking by headcount index, 10 constituencies take up ranks in the top least poor 50 positions nationally.

15.16. **Western Province:** The mean poverty headcount index for the 24 constituencies in the province is 60.8 per cent. The headcount poverty index amongst the constituencies ranges between 50.3 per cent in Amagoro (Teso District) and 71.7 per cent in Ikolomani in Kakamega District. In terms of overall ranking, the majority of the constituencies in this province take up positions between 100 and 173 in the least poor profiling.

15.17. **Nyanza Province:** There are 32 constituencies in province with a mean poverty headcount index of 64.6 per cent, representing the poorest province in kenya. The least poor constituency is Rongo (43.7 per cent) in Migori District while the poorest constituency is Kuria (80.8 per cent) in Kuria District. In terms of national ranking, most of the constituencies in Nyanza Province take up poverty positions, between 110 and 187.

Socio economic Dimensions of Poverty

15.18. This section presents the socioeconomic dimensions of poverty, focussing on educational characteristics of heads of households, household size and gender - (sex of household head).

Poverty and Education

15.19. All heads of households captured by the 1999 Population and Housing Census are grouped into three categories; those with no education, those that have attained primary education, and those with secondary education and above. Poverty has been estimated for each group using the same regression model. Poverty by constituency is tabulated by the urban rural dichotomy.

15.20. While the poverty level in a household is affected both by the education of the head as well as the education levels of other household members, this report only looks at the education level of the household head. Other studies have shown that education of the household head is typically correlated with measures of household welfare such as consumption expenditure or some other poverty indicators.

15.21. Analysis presented in Table 15.1 below shows that poverty decreases as level of education increases. Households headed by individuals with secondary level of education and above are better off than those headed by individuals with primary level of education. Within each province, households headed by individuals with no education depict the highest poverty incidence. This pattern holds for both urban and rural residents across all provinces.

Table 15.1: Range of Poverty Incidence by Education Level of Head of Household and Place of Residence

Province	No. of Political Constituencies	Head of Household has No Education		Head of Household has Primary Education		Head of Household has Secondary and above Level of Education	
		Rural (FGT0)	Urban (FGT0)	Rural (FGT0)	Urban(FGT0)	Rural (FGT0)	Urban(FGT0)
Nairobi	**8**	**Na**	**58 to 81**	**Na**	**47 to 72**	**na**	**24 to 52**
Central	29	27 to 50	10 to 83	20 to 45	8 to 77	11 to 31	5 to 66
Coast	**21**	**31 to 89**	**45 to 76**	**28 to 79**	**39 to 67**	**13 to 65**	**27 to 56**
Eastern	36	37 to 80	39 to 91	33 to 77	35 to 93	22 to 59	25 to 88
North Eastern	**11**	**62 to 68**	**55 to 76**	**46 to 58**	**52 to 81**	**23 to 42**	**31 to 66**
Nyanza	32	51 to 84	11 to 100	43 to 82	10 to 100	42 to 71	6 to 99
Rift Valley	**49**	**36 to 68**	**27 to 83**	**22 to 54**	**24 to 79**	**22 to 59**	**15 to 62**
Western	24	54 to 81	68 to 87	49 to 73	59 to 85	39 to 59	53 to 80
Kenya	**210**	**27 to 89**	**10 to 100**	**20 to 82**	**8 to 100**	**11 to 71**	**5 to 99**

***Note**: The Poverty headcount index (FGT0) is the per cent age of individuals below the poverty line*

15.22. **Nairobi Province** is considered to be all urban. The province has the second highest poverty prevalence ranging between 58.0 and 81.0 per cent amongst heads of households with no education. This declines tremendously to a prevalence of between 24.0 to 52.0 per cent for heads of household with secondary and above level of education.

15.23. **Central Province** has the least incidences of poverty ranging between 5.0 and 83.0 per cent across all the three categories of heads of households. The poverty incidence by urban residents within the province is almost half that of the rural residents except for heads of household with primary level of education, where it is much less. Urban areas in the province show a wide disparity in poverty incidences as compared to their rural counterparts.

15.24. **Coast Province** presents a contrasting scenario. Poverty incidence is higher for urban residents than for their rural counterparts across all the categories of the education level of heads of households. However, as observed in other provinces, poverty declines with increased level of education.

15.25. **Eastern Province** depicts minimal variation in poverty between urban and rural residents for heads of household with similar level of education. Poverty incidence is much lower for heads of household with secondary level of education in rural areas (between 22.0 and 59.0 per cent) compared to that of their urban counterparts (between 25.0 and 88.0 per cent).

15.26. **North Eastern Province** clearly reveals the benefits of education in that heads of households with secondary and above level of education in urban areas are better of than their urban counterparts who have no education.

15.27. **Rift-Valley Province** has the least variance in poverty incidences among the three categories of education levels of heads of households. The poverty incidences declines slightly with increased level of education of the head of the household. Among rural residents, the poverty incidence of a head of household with primary level of education is similar to that of a head of household with secondary and above level.

15.28. **Western Province** has higher poverty incidences among urban residents compared to their rural counterparts. This holds for all the three education levels of the heads of households. Urban residents in Western Province have the highest poverty incidences (between 53.0 and 80.0 per cent) among urban residents in all provinces whose heads of households have secondary and above level of education.

15.29. **Nyanza Province** shows wide variation in prevalence of poverty by level of head of household across rural and urban areas. For heads of households with no education, poverty incidence ranges between 51.0 and 84.0 per cent among rural residents. Amongst urban residents, the analysis shows that there is no significant difference in poverty incidences between heads of household with no education and, those with primary level of education.

15.30. Although the analysis shows that poverty levels differ across provinces, poverty prevalence invariably reduce with increased level of educational attainment of the head of household. The results are an indicator that education is one of the critical inputs for poverty reduction. It becomes imperative to support the ongoing provision of free primary education and re-focus current policies in order to expand existing education facilities especially at the secondary school level. Promotion of vocational training also becomes a necessity.

Poverty and Household size

15.31. Household size has been known to influence poverty. It is a belief that poverty incidence is directly correlated with household size, such that the larger or bigger the household, the more the poverty incidence. This emanates from overdependence in larger households limiting effective utilisation of scarce resources, contrary to the situation in smaller households. Results of the analysis presented in this section conform to this widely held view. The findings show a wide disparity between smaller households (3 members or less) and larger households (more than 3 members).

15.32. The mean ratio of poverty incidence (poverty incidence of larger households to that of smaller households) in rural areas is smallest for Eastern Province (1.51), implying the poverty incidence of larger households is one-and-a-half times that of smaller ones. In urban areas, Nairobi Province has the smallest mean ratio (1.33) while Nyanza province has the highest (2.14). Analysis by constituency depicts a similar trend where smaller households exhibit lower poverty incidences, albeit with considerable differences between urban and rural residents across provinces, and between constituencies within the same province.

Poverty and Gender

15.33. The report also explored the gender dimension of poverty using female-headed households as a proxy indicator of gender. The sex of household headship is currently the focus in the literature on gender, in development and in planning. This is because of cultural/ ethnic practices which places females at a disadvantaged position.

15.34. Female-headed households have come to be expected by majority of people to be worse off than other households. Given the less favourable terms for women in the labour market and high dependency ratios, one would expect households headed by females as the main income earners to be poorer, and most likely more vulnerable to economic recession.

The Constituency Development Fund (CDF) Allocations

15.35. This section presents an overview of the context in which Constituency Development Fund allocation programme operates and the use of poverty statistics in policy and fund allocation in the country. Initiatives such as the CDF are intended to improve poverty targeting and project implementation by using local information and encouraging community participation.

The Constituency Development Fund Act, 2003 and the subsequent establishment of the Fund by legislation through Kenya Gazette Supplement No. 107 (ACTS No.11) of 9th January, 2004, ensures that the Government sets aside an amount not less than 2.5 per cent of all Government ordinary revenue collected in every financial year. This money is devoted to the constituencies as a strategy in the fight against poverty and for purposes of development at the constituency level.

According to the Gazette Supplement No.107 referred to above, the budget ceiling for each constituency shall be:

1. Three quarters of the Net total CDF divided equally among all constituencies (netting out 5 per cent emergency and 3 per cent administrative takedown); and
2. A quarter of the Net total CDF divided by the national poverty index multiplied by the constituency poverty index.

Whereas implementation of the first component is straight forward, the second component requires estimation of poverty index for each constituency. On one hand, this poses a major challenge in that all constituencies in the North Eastern province and some newly established districts were not in the WMS III of 1997. On the other hand, the CDF was designed to favour the development of rural areas and a weighting factor had to be designed in a way that would give more weight to rural areas. This is intended to develop the rural areas in order to curb rural-urban migration.

Consequently, the following formula was used to share out development funds to the 210 constituencies for financial year 2004/2005 under the CDF.

$$CDFundallocated = \left(\left(\frac{0.75 \times (CDF)}{210} \right) + (0.25 \times (CDF) \times WeightedContributionPoverty) \right)$$

Where;

- CD*Fundallocated* is the Constituency Development Fund allocated to each constituency
- CDF is total net CDF allocation (after netting out 3 per cent administrative budget and 5 per cent Constituency Emergency Budget)
- *WeightedContributionPoverty* is the weighted poverty contribution of each constituency to national poverty.

The weighting factor is derived from the ratio of urban-rural poor population and is derived from the 1999 population and housing census. The weighting favours rural areas by attaching a weight factor of one and of 0.23 to urban areas. The absolute contribution to national poverty of each constituency is multiplied by the corresponding adjusted weight factor.

Table 15.2: Poverty Estimates by Constituency, 1999/2000

Constituency Code	Province and Constituency Name	Estimated Population	Estimated No. of poor	Headcount Index: Per cent of Individuals below Poverty Line	Provincial Poverty Contribution (%)	National Poverty Contribution (%)	National Ranking
	Nairobi Province	**1,991,724**	**874,058**	**43.9**	**100**	**6.1**	
6	WESTLANDS	188,107	58,826	31.3	6.7	0.4	15
4	LANGATA	271,111	108,617	40.1	12.4	0.8	36
8	EMBAKASI	408,921	166,608	40.7	19.1	1.2	39
3	STAREHE	205,225	90,430	44.1	10.3	0.6	59
5	DAGORETTI	229,612	104,934	45.7	12	0.7	69
2	KAMUKUNJI	183,468	84,050	45.8	9.6	0.6	70
7	KASARANI	320,739	151,592	47.3	17.3	1.1	77
1	MAKADARA	184,541	109,001	59.1	12.5	0.8	128
	Coast Province	**2,360,043**	**1,363,282**	**57.8**	**100**	**9.5**	
23	BURA	63,782	19,461	30.5	1.4	0.1	11
12	MVITA	71,108	24,544	34.5	1.8	0.2	25
22	GALOLE	46,094	19,297	41.9	1.4	0.1	44
24	LAMU EAST	16,796	7,088	42.2	0.5	0	45
21	GARSEN	66,392	28,160	42.4	2.1	0.2	47
11	LIKONI	99,582	44,452	44.6	3.3	0.3	61
9	CHANGAMWE	178,184	81,012	45.5	5.9	0.6	66
10	KISAUNI	244,739	111,688	45.6	8.2	0.8	68
14	MATUGA	118,470	62,524	52.8	4.6	0.4	98
26	TAVETA	51,411	28,096	54.6	2.1	0.2	106
25	LAMU WEST	55,713	31,032	55.7	2.3	0.2	108
29	VOI	78,883	46,177	58.5	3.4	0.3	121
28	MWATATE	54,632	32,042	58.7	2.4	0.2	123
19	MALINDI	161,138	98,361	61	7.2	0.7	139
13	MSAMBWENI	203,650	124,574	61.2	9.1	0.9	140
16	BAHARI	227,554	143,362	63	10.5	1	159
27	WUNDANYI	52,249	33,219	63.6	2.4	0.2	162
20	MAGARINI	108,160	74,316	68.7	5.5	0.5	189
17	KALOLENI	190,669	140,797	73.8	10.3	1	206
15	KINANGO	160,301	120,254	75	8.8	0.8	207
18	GANZE	110,536	92,826	84	6.8	0.6	210
	North Eastern Province	**790,657**	**507,305**	**64.2**	**100**	**3.5**	
30	DUJIS	96,440	57,643	59.8	11.4	0.4	131
32	FAFI	46,135	28,436	61.6	5.6	0.2	144
38	MANDERA WEST	71,242	44,478	62.4	8.8	0.3	149
35	WAJIR WEST	68,466	42,856	62.6	8.4	0.3	153
36	WAJIR EAST	95,027	59,667	62.8	11.8	0.4	156
33	IJARA	35,939	22,612	62.9	4.5	0.2	158
31	LAGDERA	74,082	47,513	64.1	9.4	0.3	168
40	MANDERA EAST	75,990	49,178	64.7	9.7	0.3	171
39	MANDERA CENTRAL	91,687	60,894	66.4	12	0.4	179
37	WAJIR SOUTH	75,815	51,822	68.4	10.2	0.4	185
34	WAJIR NORTH	59,834	42,207	70.5	8.3	0.3	196
	Eastern Province	**4,494,566**	**2,619,671**	**58.3**	**100**	**18.2**	
48	NTONYIRI	171,081	58,870	34.4	2.2	0.4	24
44	LAISAMIS	36,314	14,628	40.3	0.6	0.1	37
53	SOUTH IMENTI	151,806	65,473	43.1	2.5	0.5	52
52	CENTRAL IMENTI	123,961	53,999	43.6	2.1	0.4	56
51	NORTH IMENTI	209,242	92,374	44.1	3.5	0.6	60
43	SAKU	34,881	15,861	45.5	0.6	0.1	67
45	ISIOLO NORTH	73,463	34,499	47	1.3	0.2	74
70	MACHAKOS TOWN	176,346	93,548	53	3.6	0.7	100
56	MANYATTA	136,124	72,236	53.1	2.8	0.5	101
46	ISIOLO SOUTH	18,144	9,860	54.3	0.4	0.1	104
76	KIBWEZI	192,827	105,040	54.5	4	0.7	105
47	IGEMBE	182,534	103,297	56.6	3.9	0.7	113

Table 15.2: Poverty Estimates by Constituency, 1999/2000

Constituency Code	Province and Constituency Name	Estimated Population	Estimated No. of poor	Headcount Index: Per cent of Individuals below Poverty Line	Provincial Poverty Contribution (%)	National Poverty Contribution (%)	National Ranking
	Eastern Province Cont.						
54	NITHI	201,586	117,507	58.3	4.5	0.8	119
57	RUNYENJES	131,182	76,533	58.3	2.9	0.5	120
69	KATHIANI	136,131	79,772	58.6	3	0.6	122
68	KANGUNDO	186,145	109,643	58.9	4.2	0.8	124
58	GACHOKA	97,963	57,789	59	2.2	0.4	126
50	TIGANIA EAST	123,071	74,398	60.5	2.8	0.5	135
73	KILOME	80,688	49,378	61.2	1.9	0.3	140
49	TIGANIA WEST	112,551	68,976	61.3	2.6	0.5	142
41	MOYALE	50,342	31,223	62	1.2	0.2	146
42	NORTH HORR	39,604	24,638	62.2	0.9	0.2	147
60	MWINGI NORTH	162,447	101,185	62.3	3.9	0.7	148
61	MWINGI SOUTH	136,171	85,073	62.5	3.2	0.6	151
67	YATTA	122,707	76,797	62.6	2.9	0.5	152
55	THARAKA	98,613	62,249	63.1	2.4	0.4	160
66	MASINGA	104,681	66,581	63.6	2.5	0.5	163
71	MWALA	150,057	96,233	64.1	3.7	0.7	167
72	MBOONI	168,698	110,347	65.4	4.2	0.8	174
74	KAITI	110,594	72,557	65.6	2.8	0.5	175
75	MAKUENI	200,865	132,988	66.2	5.1	0.9	178
62	KITUI WEST	139,770	94,686	67.7	3.6	0.7	180
64	MUTITO	89,021	60,512	68	2.3	0.4	182
59	SIAKAGO	70,010	48,628	69.5	1.9	0.3	190
63	KITUI CENTRAL	159,372	114,696	72	4.4	0.8	202
65	KITUI SOUTH	115,574	87,597	75.8	3.3	0.6	208
	Central Province	**3,556,047**	**1,106,730**	**31.1**	**100**	**7.7**	
103	KABETE	185,570	30,576	16.5	2.8	0.2	1
102	KIAMBAA	177,566	34,222	19.3	3.1	0.2	2
104	LIMURU	103,880	23,093	22.2	2.1	0.2	3
83	MATHIRA	147,969	36,170	24.4	3.3	0.3	4
101	GITHUNGURI	129,421	31,851	24.6	2.9	0.2	5
80	NDARAGWA	81,748	20,706	25.3	1.9	0.1	6
84	OTHAYA	85,339	23,005	27	2.1	0.2	7
82	KIENI	145,108	41,064	28.3	3.7	0.3	8
93	KIHARU	173,824	49,586	28.5	4.5	0.3	9
92	MATHIOYA	92,130	26,810	29.1	2.4	0.2	10
98	GATUNDU SOUTH	111,704	34,333	30.7	3.1	0.2	12
105	LARI	105,715	32,738	31	3	0.2	13
94	KIGUMO	116,978	36,461	31.2	3.3	0.3	14
85	MUKURWE-INI	85,385	26,718	31.3	2.4	0.2	16
91	KANGEMA	79,532	24,894	31.3	2.2	0.2	17
81	TETU	79,438	25,088	31.6	2.3	0.2	18
89	NDIA	91,444	29,125	31.9	2.6	0.2	19
90	KERUGOYA/KUTUS	101,859	33,525	32.9	3	0.2	20
79	OL_KALOU	143,645	48,043	33.4	4.3	0.3	21
88	GICHUGU	117,270	40,249	34.3	3.6	0.3	23
97	GATANGA	170,187	58,942	34.6	5.3	0.4	26
95	MARAGWA	105,002	37,810	36	3.4	0.3	27
96	KANDARA	152,910	55,466	36.3	5	0.4	28
99	GATUNDU NORTH	97,400	36,009	37	3.3	0.3	29
77	KINANGOP	139,848	52,921	37.8	4.8	0.4	30
100	JUJA	237,709	92,698	39	8.4	0.6	33
78	KIPIPIRI	73,283	29,633	40.4	2.7	0.2	38
87	MWEA	132,370	55,293	41.8	5	0.4	43
86	NYERI TOWN	91,813	39,702	43.2	3.6	0.3	53