Chapter 1

International Scene

Introduction

The world economy registered a robust GDP growth of 4.3 per cent in 2005 ,despite the increase in energy prices. Underlying inflation remained subdued while labour market outcomes were positive overall. High growth momentum was mainly witnessed in North America and most of the Asian countries. The growth was driven by capital formation and exports, strengthened by continued low long-term interest rates and stable inflation. Gradual withdrawal of monetary stimulus further boosted the positive developments. USA economy stayed buoyant and Japan expansion spread to domestically-oriented activity while signs of rebound were notable in the Euro area where, weak domestic demand acted as a drag. The African continent maintained a healthy growth level supported by strong global demand and improved domestic macroeconomic policies.

1.2. The exceptionally vigorous growth in global economy fuelled large price increases in oil and commodity markets. The high prices acted as an impediment to recovery in economies that did not fully participate in the global expansion but moderately affected economies where aggregate demand was already buoyant.

1.3. Virtually all countries maintained price stability despite the oil shocks. The high fuel prices did not trigger higher wage demands, and long-term inflation expectations seemed well anchored. As a result, although headline inflation surged, core inflation remained minimal. Low oil use intensity in OECD countries and substantial output gaps in many countries eased pressure on prices**.**

1.4. Global external imbalances have persisted with USA currently absorbing the bulk of the aggregate current account surpluses in the world. In 2005, USA current account balance stood at a deficit of US$ 805.7 billion from a deficit of US$ 668.1 billion in 2004. The deficit is projected to reach US$980 billion in 2007. This phenomenon is attributed to low domestic savings in US and investment behaviour in the emerging Asian economies, particularly China.

1.5. Financial markets remained calm with long-term interest rates maintaining unusually low levels. This scenario was supported by increased monetary policy credibility evident in low and well anchored inflation expectations and private portfolio shifts to bonds due to a change in risk perceptions. Strong demands for US government bonds associated with dollar reserve accumulation in external surplus countries also contributed to the low interest rates.

Table 1.1: Key Economic Indicators and Projections for OECD Countries

		2003	2004	2005*	2006[1]	2007[2]
Real GDP		**(Percentage changes from previous period)**				
	United States	2.7	4.2	3.6	3.5	3.3
	Japan	1.4	2.7	2.4	2	2
	Euro area	0.8	1.8	1.4	2.1	2.2
	Total OECD	**2**	**3.3**	**2.7**	**2.9**	**2.9**
Real Total domestic demand		**(Percentage changes from previous year).**				
	United States	3	4.7	3.6	3.4	3.3
	Japan	0.8	1.8	2.4	1.4	1.5
	Euro area	1.4	1.9	1.7	1.9	2.1
	Total OECD	**2.3**	**3.5**	**2.8**	**2.8**	**2.8**
Inflation (GDP Deflator)		**(Percentage change from previous year)**				
	United States	2	2.6	2.7	2.5	2.3
	Japan	-1.4	-1.2	-1.1	-0.1	0.6
	Euro area	2	1.8	1.8	1.7	1.9
	Total OECD	**2.3**	**2.2**	**2.1**	**1.9**	**1.9**
Current Account Balances		**(US $ Billion)**				
	United States	-519.7	-668.1	-805.7	-889.6	-980
	Japan	137.2	172	158	171.7	215.1
	Euro area	23.9	43.6	-17	-19.2	-5.9
	Total OECD	**-328.7**	**-420.5**	**-642.9**	**-721.1**	**-755.3**
Unemployment		**(Percentage change from previous year)**				
	United States	6	5.5	5.1	4.8	4.7
	Japan	5.3	4.7	4.4	3.9	3.5
	Euro area	8.7	8.8	8.7	8.4	8.1
	Total OECD	**6.9**	**6.7**	**6.5**	**6.3**	**6**
		(Percentage change from previous year)				
World Trade**		**5.5**	**10.3**	**7.3**	**9.1**	**9.2**

Source: OECD Economic Outlook no.78 December, 2005

** Provisional*

+Assumptions underlying the projections include:

- *no change in actual and announced fiscal policies;*
- *unchanged exchange rates as from 11th November 2005; in particular 1USD=118.00 Yen and 0.85 Euros;*

The cut off date for other information used in the compilation of the projections was 22nd November 2005.

***World Trade growth rate is the arithmetic average of world merchandise import and export volumes*

2006[1] -Projections

2007[2] -Projections

Country/ Regional Analysis

1.6. Table 1.1 presents key economic indicators for the major OECD countries in the last three years and projections for 2006 and 2007. The projections point to sustained momentum in global growth.

1.7**. USA**: The economy remained vibrant despite the temporary hurricane-related losses, registering a growth of 3.6 per cent in 2005. This was supported by robust productivity growth, buoyant house prices; and fiscal and monetary stimulus. Private demand remained solid with 3.5 per cent growth, spurred by continued housing boom, high motor vehicles sales, real personal income and improved net exports. Strong productivity growth of 2.1 per cent and government transfers related to prescription drugs and hurricane assistance boosted real personal income, while re-spending of oil revenues by oil producing countries strengthened export growth.

1.8. Headline inflation surged, reflecting the large increases in oil prices. However, the underlying inflation remained subdued averaging 2.0 per cent. Unemployment rate dropped to 5.1 per cent in 2005 from 5.5 per cent in 2004 while employment grew steadily and quickly from zero per cent in 2003 to 1.6 per cent in 2005. The hurricane incident halted production and consequently led to loss of jobs. However, the spending on recovery and reconstruction activities mitigated the reduction in GDP growth resulting in an estimated net effect of 0.5 percentage points decline.

1.9**. Canada**: Canada exhibited a more solid economic performance recording GDP growth of 3.0 per cent in 2005. Final domestic demand continued to account for most of the gains in GDP. Export volumes, which restrained activity in 2004, picked up despite the marked appreciation of the Canadian dollar. This phenomenon could be attributed to adaptability to high currency level of some trade-exposed sectors, such as the automotive sector. Employment gains continued and unemployment rate fell to 6.8 per cent, the lowest in 30 years.

1.10. High commodity prices pushed up corporate profits, and capacity utilization rose above its long-term average. These factors together with low import prices favoured investment growth. Inflation edged upwards with headline measure exceeding the upper end of the monetary policy target range of one to three per cent.

1.11. **Brazil**: Real GDP growth slowed from mid 2004, as domestic demand moderated in response to the tightening of the monetary policy, but rebounded in 2005 with 3.3 per cent GDP growth, strengthened by recovery in private consumption and investment. Booming consumer credit, falling unemployment and rising real earnings fuelled private consumption while; investment picked up on account of sustained consumer demand and favourable external conditions. Fiscal performance also remained favourable and tight fiscal stance is expected to further reduce public debt ratio.

1.12. **Euro area:** The long awaited recovery failed to materialise despite having in place the necessary fundamental conditions for a take-off.

Economic activity slowed down in 2005 and the region registered real GDP growth of 1.4 per cent from 1.8 per cent in 2004. Uncertainty about job prospects and economic reforms kept consumers cautious while growth in disposable income barely kept pace with inflation. Employment grew by 1.0 per cent in 2005 supported by moderate wage developments and job creation programmes. Unemployment rate remained around 9 per cent and the output gap widened while underlying inflation remained stable.

1.13. **Germany:** Economic activity remained weak in 2005 recording an estimated GDP growth of 1.1 per cent mainly supported by export growth. Export growth benefited from strong demand by the new European Union countries and re-spending of revenues by oil exporting countries. The growth was further supported by gains in the economy's competitiveness. However, private consumption contracted as increased energy prices weighed down on real disposable incomes. Headline inflation rose by 2.3 per cent in 2005 driven mainly by high energy prices and an increase in tobacco tax.

1.14. **France**: After a decline in GDP growth between mid-2004 and mid-2005, recovery gained hold in the second half of 2005 resulting in a growth of 1.6 per cent. Consumer demand and export volume exhibited strong growth after a long period of weakness. Stock-building declined and imports grew strongly, though less than the exports. Headline inflation rose by 1.9 per cent on account of higher oil prices while the underlying inflation remained relatively stable.

1.15. **United Kingdom**: The economy decelerated from 3.2 per cent GDP growth in 2004 to 1.7 per cent in 2005 occasioned by weaker consumption associated with the slowdown in the house price boom**.** Overall Inflation edged upwards by 2.3 per cent driven by energy and import prices. Unemployment rate remained at 4.8 per cent in 2005 and it is projected to increase to 5.1 per cent in 2006.

1.16. Increased net immigration, especially from the new EU member countries, helped to relieve pressure in the labour market and contributed to faster potential growth of the economy. It was estimated that net immigration contributed 0.7 percentage points to the population growth of working-age in 2005 in the UK.

1.17. **Russian Federation**: Real GDP in Russia declined to 5.5 per cent in 2005 from 7.2 per cent in 2004. Buoyant consumption supported by strong wage growth, rapid money supply, credit expansion and spillover from favourable commodity market developments, remained the main driving force. However, policy uncertainty and higher marginal tax rates in the oil sector contributed to sluggish investment and sharply lowered output growth in the oil sector.

1.18. Inflation rose to 12.6 per cent in the year under review reflecting rapid consumption growth, production nearing its full capacity in some sectors and continued substantial net foreign inflows.

1.19. **Japan**: The economy recovered from a pause in the latter half of 2004, recording real GDP growth of 2.4 per cent in 2005**.** Activity became more broad

based, extending beyond the export-dependent sector. Improved private domestic demand supported by strong corporate profits, rising employment and wages contributed to the growth. Business confidence was at its highest level in more than a decade while private consumption benefited from a progressive shift from mostly part-time to mainly full-time employment. The shift in favour of full-time employment growth boosted total labour compensation which turned positive for the first time in five years.

1.20. Headline inflation indicated a declining trend with a steady core deflation rate close to zero. Old age related spending continued to put upward pressure on government outlays despite the cuts in public investments.

1.21. **Emerging Asian Economies**: The region recorded a GDP growth of 7.9 per cent in 2005 occasioned by vigorous exports and marked increase in domestic demand, strengthened by supportive macroeconomic policies and financial market conditions. The expansion in Asia continued to be led by the booming Chinese economy. While growth in China and India remained relatively robust, expansion in most of the other countries slowed down, reflecting the impact of higher oil prices. Current account surplus declined modestly from 4.1 per cent of GDP in 2004 to 3.7 per cent in 2005.

1.22. **China**: China's expansion has continued to exceed expectations, registering GDP growth of 9.0 per cent in 2005. The notable rapid growth of the economy has markedly increased its importance to the world economy. The growth was mainly driven by an upswing in global electronics demand which gained momentum. The positive developments more than counteracted the negative effects on growth occasioned by high oil prices.

1.23. Private consumption growth remained strong, especially in rural areas which benefited from selective tax relief. Current account surplus increased markedly to US $148 billion in 2005 from US $69 billion in 2004. It is projected to increase further to US $192 billion in 2006 boosted by the country's increased share in the world trade.

1.24. **Africa**: Table 1.2 presents the real GDP, consumer prices and current account balances for selected African economies. The continent attained an estimated GDP growth of 4.5 per cent in 2005 which is expected to accelerate to 5.9 per cent in 2006. If achieved, this would be the strongest expansion in the region since early 1970s. The growth of economies in the region continued to be driven by strong global demand, improved domestic macroeconomic policies, progress with structural reforms and fewer armed conflicts.

Table 1.2: Real GDP Growths, Consumer Prices and Current Account Balances for Selected African Countries

	Real GDP				Consumer Prices[1]				Current Account Balances[2]			
	2003	2004	2005*	2006**	2003	2004	2005*	2006**	2003	2004	2005*	2006**
Africa	**4.6**	**5.3**	**4.5**	**5.9**	**10.4**	**7.8**	**8.2**	**7**	**-0.5**	**0.1**	**1.6**	**3.5**
Maghreb	**6.2**	**5**	**3.7**	**5.6**	**2.2**	**2.9**	**2.9**	**3.3**	**7.1**	**7.1**	**9.9**	**12.4**
Algeria	6.9	5.2	4.8	5.3	2.6	3.6	3.5	4.3	13	13.1	19.1	23.6
Morocco	5.5	4.2	1	5.9	1.2	1.5	2	2	3.6	2.2	-1.6	-2.8
Tunisia	5.6	5.8	5	5.9	2.8	3.6	2.9	2.5	-2.9	-2	-2.6	-2.5
Sub-Sahara	**4.1**	**5.4**	**4.8**	**5.9**	**13**	**9.3**	**9.8**	**8.2**	**-3**	**-2.1**	**-1**	**0.8**
Ethiopia	-4.2	11.5	7.3	5	15.1	8.6	6.8	6	-2.7	-6.2	-5.7	-8.2
Sudan	4.6	6.9	8	13.6	7.7	8.4	7.5	7	-7.8	-6.2	-6	-0.8
Congo	5.7	6.8	6.6	7	12.8	3.9	23.2	8	-1.5	-5.5	-5.1	-7.9
Kenya[3]	**2.8**	**4.9**	**5.8**	**6.0**	**9.8**	**11.6**	**10.3**	**9.0**	**-0.2**	**-2.2**	**-2.6**	**-2.6**
Tanzania	7.1	6.7	6.9	7.2	4.5	4.3	4.1	4	-2.4	-5.5	-5.1	-6.6
Uganda	4.5	5.8	5.9	6.6	5.7	5	8.2	4.5	-6.3	-1.7	-3.2	-5.5
Angola	3.4	11.1	14.7	27.6	98.3	43.6	22	10.5	-5.2	4.4	8.8	15.9
Zimbabwe	-10.4	-4.2	-7.1	-4.8	365	350	190.4	253.1	-2.8	-6.9	-5.8	-1.5
Ghana	5.2	5.8	5.8	5.8	26.7	12.6	14.3	8.7	1.7	-2.7	-4	-4.5
Nigeria	10.7	6	3.9	4.9	14	15	15.9	7.3	-2.7	4.6	9.5	13.4
Cameroon	4.1	3.5	2.8	4.3	0.6	0.3	1.5	1.8	-2.1	-0.9	-0.7	-0.2
Cote d'voire	-1.6	1.6	1	2	3.3	1.5	3	3	0.9	-1.4	2.1	2.6
South Africa	**2.8**	**3.7**	**4.3**	**3.9**	**5.8**	**1.4**	**3.9**	**5.3**	**-1.5**	**-3.2**	**-3.7**	**-3.5**

Source: World Economic Outlook
[1]Movements in consumer prices indicated are for annual averages
[2]Percent of GDP
**Provisional*
***Projections*
[3]Kenya figures based on SNA93

1.25. Growth in sub-Saharan Africa decelerated to 4.8 per cent in 2005 from 5.4 per cent in 2004. Oil-exporting countries in the region benefited from the continued high oil prices. However, oil-importers faced more challenges as non-oil commodity prices rose less strongly. In Zimbabwe, growth declined further recording a negative 7.1 per cent in 2005 from negative 4.2 percent in 2004. Eastern and Southern Africa experienced food production shortfalls due to poor harvests arising mainly from drought conditions.

1.26. In Nigeria, real GDP growth slowed to 3.9 per cent in 2005 from 6.0 per cent in 2004. Much of the growth in 2005 was attributable to the activity in the oil and gas sector Capacity constraint in oil production was the major impediment but the situation is expected to ease gradually. Inflation picked up owing to higher food prices and sharp and accelerated monetary growth.

1.27. In Morocco, GDP growth declined drastically from 4.2 per cent in 2004 to 1.0 per cent in 2005 due to unfavourable weather conditions that affected agricultural output and weak performance in the textile industry, partly reflecting the elimination of world trade quotas. Angola performed exceptionally well for the second year running, recording GDP growth of 14.7 per cent in 2005 supported by the new oil fields that came on stream.

1.28. South African economy which grew by 3.7 per cent in 2004, accelerated to 4.3 per cent in 2005 despite the continued strengthening of the Rand. Buoyant domestic demand, low interest rates, coupled with robust consumer and business confidence spurred the growth. Tanzania, Uganda and Sudan maintained high growth rates recording an estimated real GDP of 6.9 per cent, 5.9 per cent and 8.0 per cent in 2005, respectively. The upward trend is expected to be upheld for these countries, with Sudan achieving a growth rate of 13.6 per cent in 2006.

1.29. Egypt maintained an upward trend in real GDP growth registering an increase by 4.8 per cent in 2004 from 3.2 per cent in 2005. The growth was primarily driven by export revenues and improved external competitiveness. However, agriculture remains the pillar of the Egyptian economy, although its contribution to GDP has been on a declining trend.

1.30. Developments in the international environment provided a positive drive to economic activity in Kenya. Overall, Kenya's trade volume increased by 16.5 per cent in 2005, while total export earnings grew by 13.7 per cent in the same period. African countries continued to be the dominant market for Kenya's exports followed by European Union with a market share of 49.3 per cent and 30 per cent respectively. United Kingdom and Netherlands claimed 67 per cent of the total exports to European Union. Similarly, tourism earnings grew by 24.7 per cent in 2005 with most of the visitor arrivals originating from Europe. (See chapters 7 and 13 for details).

Commodity Prices

1.31. The overall index of primary commodity prices increased by 29 per cent in US dollar terms. Energy prices, which rose by 41 per cent in 2005, remained the main driver of the index, reflecting strong growth in crude oil consumption and expectations of tight crude oil product market moving forward. In contrast, the non-fuel commodity price index rose by only 4.6 per cent in US dollar terms over the same period.

1.32. The continued growth in crude oil prices mainly stemmed from fast economic growth in countries such as China, India, Brazil and USA which are all oil intensive users. The unexpectedly strong rise in the demand occurred at a time when global spare production capacity had diminished dramatically. Tightness was further worsened, though temporarily, by substantial hurricane-related damage to the USA oil production and refinery infrastructure.

Table 1.3: Non-Energy Commodity Prices (Percentage change from January to August 2005)

	U.S Dollar terms	Contribution[1]
Food	3.7	42.6
Beverages	0.2	6.6
Agricultural raw materials	-1.1	20.7
Metals	8.6	29.8
Overall Non-energy	4.6	100.0

Sources: World Economic Outlook
[1]Contributions to change in overall non-energy price index in U.S. dollar terms, in per cent

1.33. Table 1.3 presents the percentage change of non-energy commodity prices and their contribution to the overall index. Metal prices rose by 8.6 per cent largely due to robust demand, for construction and manufacturing products both in US and China. Food prices rose by 3.7 per cent owing to strong growth in China's demand for soybeans. Reduced harvests in South America and lower North America grain output placed upward pressure on prices of agricultural products. Severe drought experienced in Vietnam pushed Robusta coffee prices up by 40 per cent. In contrast, sizeable tea harvests in Asia allowed prices to ease by 10 per cent. Metals and food prices remained the major contributors to non-energy index.

1.34. Production of agricultural raw materials surpassed global demand, leading to a marginal price reduction of 1.1 per cent in 2005. Increased harvest eased timber prices while cotton prices edged upwards by 5 per cent owing to strong Chinese demand.

Outlook

1.35. Leading economic indicators point to sustained growth momentum in 2006 and 2007 with the global GDP approaching its potential. The current positive outlook, however, is clouded with considerable risks stemming from energy prices and the current account imbalances.

1.36. The expected future tightness in the market is anticipated to account for the continued growth in the petroleum prices. These expectations are based on forecasts of continued robust global expansion, low spare capacity among OPEC producers and fears that the recent slowdown in the non-OPEC production may persist.

1.37. United States is expected to maintain solid growth in the next two years, recording growth rates of 3.5 per cent and 3.3 per cent in 2006 and 2007 respectively. The growth is expected to be supported primarily by pickup in fixed investment, reflecting firms' healthy balance sheets and strong profitability. Final domestic demand growth is anticipated to decelerate gradually, as household saving rate edges up, and residential construction slows down. Employment growth is projected to resume its pre-hurricane pace and real wages to rise in line with robust labour productivity growth. High energy prices are expected to feed into core inflation in 2006, but with a declining effect to 2.3 per cent in 2007. Costly energy imports and strong growth in non-energy imports is projected to push current account deficit to US $980.0 billion in 2007.

1.38. In Japan, the economy is projected to grow by 2.0 per cent in the next two years. Gains in employment, accompanied by higher wages are expected to support private consumption, while reducing unemployment rate to 3.5 per cent by 2007. Export growth and sustained investment are expected on account of strong overseas demand and increased profits in the business sector, respectively.

1.39. In the Euro area, economic activity is set to pick up moderately in 2006 to 2007, driven by exports as growth in world trade accelerates. Private consumption is likely to recover but might be constrained by relatively dull growth in real disposable income. In the business sector, the cost of missed opportunities will eventually exceed the value of the "wait and see" strategy and firms are expected to implement their investment plans. However, slow reform efforts may act as an impediment to investment bounce-back.

1.40. In Germany, the economy is expected to expand by 1.8 per cent in 2006 and slow down marginally to 1.7 per cent in 2007. Foreign demand is likely to remain the main driving force to the recovery. Export growth rate is expected to expand as world trade remains strong. Private consumption is projected to strengthen gradually with the ceasing of inflation and labour market uncertainties.

1.41. In United Kingdom, strengthening of investment and exports is expected to lift growth to 2.4 per cent in 2006. Buoyed investment is expected on account of continued equity market recovery and high corporate profitability.

1.42. Activity in Canada is projected to grow at a solid pace, attaining a GDP growth of 3.2 per cent in 2006, as exports benefit from strengthening external demand. Energy price development is the only uncertainty surrounding the projections.

1.43. In Mexico, demand is expected to be driven by recovery in export growth, higher government spending and sustained investment and household consumption expansion, the latter supported by formal sector employment growth. GDP growth is projected to accelerate to 3.9 per cent in 2006.

1.44. Despite the brakes imposed on textile imports by a number of economies, China is likely to continue to increase its share in world trade, albeit less rapidly than in 2005. Pick up on domestic demand seems probable due to broadly neutral domestic policy and lower inflation which are expected to boost real incomes. Current account surplus is projected to increase further to US $192 billion in 2006 and US $202 billion in 2007.

1.45. In Africa, growth is expected to accelerate to 5.9 per cent in 2006, although country specific developments will be largely responsible for the pickup. Maghreb and Sub-Saharan countries are expected to maintain a solid growth in 2006. Countries with large textile industries (including Kenya, Lesotho, Madagascar, Mauritius and Swaziland) are likely to be negatively affected by the elimination of world trade quotas. The coming up of new oil production facilities in Angola and Mauritius is expected to substantially boost growth. Susceptibility of the region to climatic change, political instability and other unanticipated shocks remain major challenges to growth.

1.46. The expected strong growth in OECD countries, Africa and Asia are anticipated to help sustain the demand for Kenyan goods and services in 2006.

Chapter 2
Domestic Economy

Overview of economic performance

The economy maintained the momentum that started in 2003 with most sectors recording accelerated growth in 2005. Economic activities remained high throughout the year except in the fourth quarter, when drought experienced in some parts of the country adversely affected the livestock sub-sector. Real GDP grew by 5.8 per cent in 2005 compared to a revised growth of 4.9 per cent in 2004. The expansion in Gross Domestic Product (GDP) was mainly underpinned by Agriculture and Forestry, Wholesale and Retail trade and, Transport and Communication with growths of 6.7 per cent, 6.5, and 8.3 per cent respectively. From the expenditure side, final domestic demand accounted for most of the gains in GDP. Private final consumption expanded by 7.1 per cent supported by better access to money and credit facilities while gross fixed capital formation recorded an impressive growth of 27.4 per cent in the same period.

2.2. Agriculture and Forestry, Transport and Communication, Manufacturing and, Wholesale and Retail trade activities accounted for 62.6 per cent of the total GDP growth. However, the same industries in 2004 contributed 47.1 per cent due to low growth in the agriculture sector. Construction, Real estate, Renting and Business services similarly recorded accelerated growths in the year under review. Overall, agriculture which heavily relies on weather continued to dominate the economic performance and its output has significantly shaped the GDP growth over the years (see Table 2.4).

2.3. Tourism, which is basically an amalgam of activities in Transport and Hotels and Restaurants industries, has in the last three years experienced tremendous growth. The expansion in tourism partly contributed to strengthening of the Kenyan shilling against regional and major international currencies in 2005. Tourism earnings grew by 27.0 per cent from KSh 38.5 billion in 2004 to KSh 48.9 billion in 2005. However, this growth was lower than the 51.9 per cent recorded in 2004. The sectors' remarkable performance was attributed to rigorous marketing of the country as a preferred tourists' destination by both the government and the private sector. A policy on concentrating on high value visitors also bore fruit while there was notable increase in visitors from new targets mainly Japan, India and China. International visitors' arrivals grew by 8.7 per cent to stand at 1.5 million in 2005 while number of visitors from the US surpassed those from Germany. Growth in domestic tourism was phenomenal and partly contributed to growth in bed occupancy from 37.8 per cent in 2004 to 41.3 per cent in 2005. In addition, Kenya was voted the second best ecotourism destination in Africa after Egypt which further contributed to the rise in tourism activities.

2.4. Oil prices remained high throughout 2005 mainly due to geopolitical risks in the Middle East. Rising demand due to global economic expansion and disruption of production in the US oil plants by bad weather also exacerbated the oil prices. Despite the rise in fuel prices and drought in the fourth quarter of 2005, overall inflation decreased from 11.6 per cent in 2004 to 10.3 per cent in 2005.

2.5. Balance of Payments improved by KSh 18.1 billion to a surplus of KSh

21.1 billion in 2005 supported by increased short term capital inflows as reflected by the recorded surplus in financial and capital account.

2.6. Extended broad money supply (M3X) grew by 9.1 per cent in 2005 compared to 13.4 per cent growth in 2004 mainly as a result of expansion in Net Foreign Assets and Domestic Credit. Deceleration of growth in M3X was occasioned by tight monetary policy adopted in pursuit of a 5.0 per cent underlying inflation target. Overall maximum commercial lending rates increased to 13.2 per cent in 2005 from 12.3 per cent in 2004 while short term interest rates remained stable. The relatively high interest rates and tight monetary policy resulted in a slowdown in total credit demanded. Domestic credit to private sector expanded moderately by 8.1 per cent in 2005 compared to 22.9 per cent in 2004 while credit to the Central Government declined by 2.2 per cent in the period under review. Share of public sector credit to total domestic credit declined from 24.3 per cent in 2004 to 22.4 per cent in 2005 due to contraction in Central Government borrowing.

2.7. Rebound in economic activities was mirrored by upswing in activity at the stock market where the number of transacted deals quadrupled and shares traded increased from 3.9 million in 2004 to 15.7 million in 2005. Value of shares traded rose from KSh 1442 million in December 2004 to KSh 4065 million in 2005. Rising corporate profitability and investor optimism fuelled by speculative demand were the major factors that underpinned activities of the Nairobi Stock Exchange. The 20 share index rose from 2946 in December 2004 to 3973 in December in 2005. Share prices of a number of companies fell significantly in the third quarter of 2005 in an apparent correction of prices which were seen as unrealistic and not reflecting earning potentials of the companies.

2.8. Government revenue collection including grants grew by 11.5 per cent from KSh 307.1 billion in 2004/05 to KSh 342.3 billion in 2005/06 supported by improved efficiency in tax collection and higher profitability in corporate sector. Overall net lending/borrowing almost doubled in 2005/06 to stand at KSh 70.9 billion leading to deterioration in deficit from 10.0 per cent revenue in 2004/05 to 22.7 per cent in 2005/06. Famine related expenditures and salary awards to civil servants in the year under review contributed to the increased deficit. Total stock of public debt declined from KSh 697.8 billion as at June 2004 to KSh 687.9 billion as at June 2005. Multilateral agencies remained the main source of Kenya's loans due to their favourable lending terms.

2.9. In 2005, export earnings grew by 13.7 per cent compared to a growth of 17.3 per cent in 2004. The strong shilling impacted negatively on export earnings but encouraged growth in imports resulting to a widened trade deficit which stood at KSh 186.5 billion in 2005 representing a 24.6 per cent growth in nominal terms. Higher import values notably in aircrafts and associated equipments, food items and chemicals contributed to the deficit. Tea and horticulture continued to dominate in export earnings and contributed 44.8 per cent of the total export earnings in 2005. Terms of trade for non-oil items remained stable while all items terms of trade continued to decline and stood at 72 in 2005 reflecting the effect of high oil prices that prevailed in the year. The country's trade policy is oriented towards regional integration with focus on COMESA and EAC, which accounts for most of her trade within Africa.

Sector Analysis

Agriculture and Forestry

The sector's performance was robust in 2005 reaching 6.7 per cent in comparison to 1.6 per cent in 2004. This expansion was mainly supported by increased production in cereals, horticulture, sugarcane and dairy farming.2.10 Increase in agricultural production was attributed mainly to good weather conditions that prevailed in 2005 and increased use of certified seeds. Marketed milk increased by 21.2 per cent in 2005. Improvement in the management of the dairy sub-sector contributed to the positive development. However, part of the country experienced drought in the fourth quarter of 2005 and this impacted negatively on livestock farming. Real value added for Agricultural and animal husbandry services contracted by 1.4 per cent.

2.11. Positive developments remained below potential due to fluctuating weather conditions and deteriorating agricultural terms of trade. The sector's terms of trade declined to 78.8 in 2005 from 89.2 in 2004. Unpredictable input price movements also continue to hinder investments, production and profitability in the sector. High costs of fertilizers and herbicides have been cited as key factors that have for a long time impacted negatively on agricultural production. In addition cost of land preparation has also been going up mainly due to rising oil prices. Horticulture sub-sector was also faced with increased competition from North Africa, which is closer to Europe and, stringent Euro-gap phytosanitary regulations.

2.12. Tea output surpassed 2004 production level by 1.2 per cent to stand at 328.5 thousand tonnes in 2005. The growth was attributed to favourable weather conditions and enhanced processing capacity that reduced green leaf wastage during flush periods. However, the appreciation of the local currency and oversupply in the world market mitigated the earnings. Cereals quantum index rose from 97.0 in 2004 to 105.9 in 2005 supported by increased production of maize, wheat, rice, barley, millet and sorghum. Maize which contributes about 12.7 per cent to agriculture output recorded a growth of 11.4 per cent in 2005 compared to 3.5 per cent growth in 2004. The revival of West Kano and Bunyala irrigation schemes led to increased acreage and as a result boosted the production of rice from 47.6 thousand tonnes in 2004 to 62.7 thousand tonnes in 2005.

2.13 Horticulture has increasingly continued to be one of the major foreign exchange earners in the economy and contributed 23.0 per cent of total export earnings in 2005. Quantum and price indices increased from 155.8 to 179.2 and from 88.6 to 92.8 in 2004 and 2005 respectively. Coffee production declined by 6.6 per cent in 2005 occasioned by high input costs and unfavourable weather in the coffee growing areas. However, the value of marketed coffee grew by 23.5 per cent due to high prices that prevailed during the period under review.

Fishing

2.14 Quantity of fish landed increased by 6.2 per cent to 135,658 tonnes in 2005 from 127, 696 tonnes in 2004. The sector gross value added grew by 7.4 per cent in 2005 compared to 6.7 per cent in 2004 with catches from Lake Victoria accounting for most of the growth.

Mining and Quarrying

2.15 There was moderate improvement in performance of the sector in 2005 registering growth of 2.7 per cent up from 2.2 per cent in 2004. Buoyant

construction industry and increased production of soda ash and crushed refined soda boosted the outcome.

Manufacturing

2.16. Growth in this sector was robust and well spread across its sub-sectors. Real value added grew by 5.0 per cent in 2005 compared to a revised figure of 4.5 per cent in 2004. Consumption of electricity and fuels and intermediate

2.17. inputs for the sector grew significantly reflecting expansion in manufacturing activities. Some factors that contributed to the growth included tax exemption on some imports for intermediate use and enforcement of anti-dumping measures in the EAC and the COMESA regions. Further growth in sector was, however, constrained by rise in cost of production associated with the rise in oil prices and the appreciation of the Kenya shilling that resulted in lower export earnings.

2.18. Real value added for the Export Processing Zones declined by 8.7 per cent in 2005 compared to a growth of 57.6 per cent in 2004. The decline resulted from a downswing in production against a background of both internal and external factors. On the external front, was the phasing out of textile quotas under World Trade Organization (WTO) which increased competition in the textile/apparel trade thereby slowing growth momentum within the free economic zones. Internally, the requirement for upfront payment of 50 per cent of duty on petroleum products impacted negatively on activities of EPZ enterprises as refund process was slow and therefore reduced the operational cash.

Electricity and water

2.19. Electricity consumption increased by 6.8 per cent in 2005 reflecting increase in demand due to vibrancy of the economy during the year. Real value added for water supply grew by 7.4 per cent in 2005 while value added in electricity supply declined by 2.3 per cent within the same period. The contraction in value added for electricity supply was attributed to increased production of thermal power resulting to higher cost of intermediate inputs.

Construction

2.20. The sector grew by 7.2 per cent in 2005 compared to 4.0 per cent in 2004. Activities in this sector were bolstered by increased activities in housing sub-sector, road construction and rehabilitation and completion work on stalled Government projects during the period under review.

Hotels and Restaurants

2.21. The sector grew by 13.3 per cent in 2005 mainly supported by the tourism industry. The number of visitors on holiday increased by 20.1 per cent while visitors to Game parks and reserves grew by 17.2 per cent in the year under review.

Transport and Communication

2.22. The sector continued with a rapid expansion and registered a growth of 8.3 per cent in 2005 compared to 6.7 per cent in 2004. The expansion mainly stemmed from air transport and mobile telecommunications. Air transport recorded impressive growth in 2005 despite high in oil prices and competition from international airlines. During the year under review, a number of international airlines increased their flights to Kenya in an effort to cope with the increased number of visitors. The national carrier (Kenya Airways) continued in its fleet modernization and route expansion programme that saw acquisition of two additional Airplanes.

Financial Intermediation

2.23 The sector's growth accelerated from 1.4 per cent in 2004 to 8.1 per cent in 2005 supported by favourable macroeconomic environment that prevailed. Pre-tax profit increased by 47.8 per cent to stand at KSh 20.1 billion in 2005 from KSh

13.6 billion in 2004. Interest income, which accounted for half of the total income, grew by 51.0 per cent boosted by substantial growth in loans and advances. Non-performing loans maintained a downward trend while gross loans increased leading to better asset quality ratio and increased profitability.

2.24. Banks have gradually been shifting to lending to private sector as opposed to purchase of Treasury Bills and bonds due reduced government borrowing. The productive sector, comprising agriculture, manufacturing, construction, trade, transport and communication, and renting and business services have been the main beneficiary of the lending.

2.25. Tables 2.1 and 2.2 provide detailed breakdown and analysis of value added by industries and institutional sectors at basic prices for the period 2001 to 2005. The economy recorded GDP of KSh 1,415.2 billion at current prices in 2005 compared to a revised value of KSh 1,282.5 billion in 2004, representing a growth of 10.3 per cent. Agriculture and Forestry, Manufacturing, Wholesale and retail trade and, Transport and communication remain the dominant sectors and contributed 56.4 per cent to GDP in 2005. On the other hand, Fishing and, Mining and Quarrying maintained the least shares, each contributing 0.5 per cent to GDP. Electricity and Water contribution to GDP remained somewhat constant while construction industry upheld an upward trend for the last five years. Overall, all the key sectors except Agriculture and Forestry continued to grow in share contribution to GDP.

2.26. General government sector contributed 13.6 per cent to total value added at basic prices in 2005. The sector's contribution to GDP decreased from 14.1 per cent share in 2002 to 13.6 per cent in 2005. This could be attributed to the declining trend in employment in public sector which was adopted to contain the high wage bill.

Table 2.1: Gross Domestic Product by Activity*

Current prices - KSh million

Industry	2001	2002	2003	2004	2005**
Agriculture and forestry	277,592	261,472	287,289	312,007	342,366
Growing of crops and horticulture	194,053	177,117	198,052	224,043	249,629
Farming of animals	68,778	68,222	72,275	69,482	71,886
Agricultural and animal husbandry services	4,075	4,342	3,856	4,254	5,624
Forestry and logging	10,686	11,791	13,106	14,228	15,228
Fishing	6,532	6,323	5,739	6,402	6,431
Mining and quarrying	4,915	5,106	6,217	6,491	7,173
Manufacturing	99,777	101,748	109,959	127,502	148,188
Manufacture of food, beverages and tobacco	28,519	30,011	33,613	38,327	43,116
All other manufacturing	71,259	71,737	76,346	89,175	105,072
Electricity and water supply	19,671	7,399	21,643	24,877	27,823
Electricity supply	13,375	409	13,730	15,941	17,924
Water supply	6,296	6,990	7,913	8,935	9,899
Construction	31,829	32,378	37,680	46,429	56,298
Wholesale and retail trade, repairs	93,531	92,852	104,074	126,986	153,528
Hotels and restaurants	11,864	12,506	10,713	16,214	19,533
Transport and communication	92,931	99,378	104,411	127,271	154,412
Transport and storage	70,079	69,786	75,905	97,104	119,728
Post and telecommunications	22,853	29,593	28,507	30,167	34,683
Financial intermediation	42,124	37,178	48,921	44,343	44,489
Real estate, renting and business services	58,667	62,165	67,316	72,702	79,015
Dwellings, owner occupied and rented	28,530	30,503	33,970	36,394	39,348
Renting and business services	30,137	31,662	33,346	36,308	39,667
Public administration and defense	46,771	45,736	46,435	53,165	64,023
Education	63,015	75,471	90,432	100,427	104,967
Health and social work	23,940	27,163	30,173	32,754	35,624
Other community, social and personal services	41,781	43,961	45,488	49,058	52,981
Private households with employed persons	3,705	3,984	4,561	5,224	5,787
Less: Financial services indirectly measured	-11,772	-9,070	-10,111	-9,052	-11,412
All industries at basic prices	**906,874**	**905,748**	**1,010,939**	**1,142,799**	**1,291,227**
Taxes less subsidies on products	113,148	116,460	125,348	139,705	123,928
GDP at market prices	**1,020,022**	**1,022,208**	**1,136,288**	**1,282,504**	**1,415,155**
Institutional sector and industry					
Corporations, Non-Profit Inst. and Households					
Agriculture and forestry	273,355	256,902	283,246	307,687	336,744
Fishing	6,532	6,323	5,739	6,402	6,431
Mining and quarrying	4,915	5,106	6,217	6,491	7,173
Manufacturing	99,777	101,748	109,959	127,502	148,188
Electricity and water supply	18,158	5,738	19,888	23,057	25,851
Construction	28,158	29,138	34,237	42,164	51,731
Wholesale and retail trade, repairs	93,531	92,852	104,074	126,986	153,528
Hotels and restaurants	11,864	12,506	10,713	16,214	19,533
Transport, and communication	88,762	95,417	101,439	124,926	151,199
Financial intermediation	42,124	37,178	48,921	44,343	44,489
Dwellings, owner occupied and rented	28,530	30,503	33,970	36,394	39,348
Other real estate and business services	29,450	30,876	32,599	35,779	39,470
Education	4,977	6,005	8,211	9,180	9,800
Health and social work	13,994	15,280	17,039	18,424	19,989
Other community, social and personal services	39,600	41,441	42,647	46,245	50,452
Private households with employed persons	3,705	3,984	4,561	5,224	5,787
Less: Financial services indirectly measured	-11,772	-9,070	-10,111	-9,052	-11,412
Total value added at basic prices	**775,662**	**761,924**	**853,347**	**967,968**	**1,098,303**
General Government					
Agriculture and forestry	4,237	4,570	4,043	4,320	5,622
Water supply	1,513	1,662	1,756	1,819	1,972
Construction	3,670	3,239	3,443	4,265	4,567
Transport, and communication	4,169	3,962	2,972	2,344	3,213
Research and technical services	687	786	748	529	197
Public administration and defense	46,771	45,736	46,435	53,165	64,023
Education	58,038	69,466	82,221	91,247	95,167
Health and social work	9,946	11,883	13,134	14,329	15,635
Other services	2,181	2,520	2,841	2,813	2,529
Total value added at basic prices	**131,212**	**143,824**	**157,592**	**174,831**	**192,924**

* Revised

** Provisional

Table 2.2: Percentage contribution to Gross Domestic Product by Activity*

Industry	2001	2002	2003	2004	2005**
Agriculture and forestry	27.2	25.6	25.3	24.3	24.2
Growing of crops and horticulture	19.0	17.3	17.4	17.5	17.6
Farming of animals	6.7	6.7	6.4	5.4	5.1
Agricultural and animal husbandry services	0.4	0.4	0.3	0.3	0.4
Forestry and logging	1.0	1.2	1.2	1.1	1.1
Fishing	0.6	0.6	0.5	0.5	0.5
Mining and quarrying	0.5	0.5	0.5	0.5	0.5
Manufacturing	9.8	10.0	9.7	9.9	10.5
Manufacture of food, beverages and tobacco	2.8	2.9	3.0	3.0	3.0
All other manufacturing	7.0	7.0	6.7	7.0	7.4
Electricity and water supply	1.9	0.7	1.9	1.9	2.0
Electricity supply	1.3	0.0	1.2	1.2	1.3
Water supply	0.6	0.7	0.7	0.7	0.7
Construction	3.1	3.2	3.3	3.6	4.0
Wholesale and retail trade, repairs	9.2	9.1	9.2	9.9	10.8
Hotels and restaurants	1.2	1.2	0.9	1.3	1.4
Transport and communication	9.1	9.7	9.2	9.9	10.9
Transport and storage	6.9	6.8	6.7	7.6	8.5
Post and telecommunications	2.2	2.9	2.5	2.4	2.5
Financial intermediation	4.1	3.6	4.3	3.5	3.1
Real estate, renting and business services	5.8	6.1	5.9	5.7	5.6
Dwellings, owner occupied and rented	2.8	3.0	3.0	2.8	2.8
Renting and business services	3.0	3.1	2.9	2.8	2.8
Public administration and defense	4.6	4.5	4.1	4.1	4.5
Education	6.2	7.4	8.0	7.8	7.4
Health and social work	2.3	2.7	2.7	2.6	2.5
Other community, social and personal services	4.1	4.3	4.0	3.8	3.7
Private households with employed persons	0.4	0.4	0.4	0.4	0.4
Less: Financial services indirectly measured	-1.2	-0.9	-0.9	-0.7	-0.8
All industries at basic prices	**88.9**	**88.6**	**89.0**	**89.1**	**91.2**
Taxes less subsidies on products	11.1	11.4	11.0	10.9	8.8
GDP at market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Institutional sector and industry					
Corporations, non-profit institutions and households	76.0	74.5	75.1	75.5	77.6
General government	12.9	14.1	13.9	13.6	13.6

* Revised
** Provisional

Table 2.3: Gross Domestic Product by Activity*

Constant 2001 prices - KSh million

Industry	2001	2002	2003	2004	2005**
Agriculture and forestry	277,592	269,189	276,312	280,819	299,762
Growing of crops and horticulture	194,053	186,471	194,004	195,540	211,108
Farming of animals	68,778	67,965	67,406	70,359	73,500
Agricultural and animal husbandry services	4,075	4,050	4,012	3,977	3,920
Forestry and logging	10,686	10,703	10,889	10,943	11,234
Fishing	6,532	5,119	4,765	5,086	5,464
Mining and quarrying	4,915	5,036	5,213	5,326	5,469
Manufacturing	99,777	99,894	105,891	110,617	116,157
Manufacture of food, beverages and tobacco	28,519	29,736	31,363	32,222	35,091
All other manufacturing	71,259	70,158	74,527	78,395	81,067
Electricity and water supply	19,671	23,749	27,074	27,895	27,924
Electricity supply	13,375	17,257	20,454	20,954	20,466
Water supply	6,296	6,492	6,620	6,941	7,458
Construction	31,829	31,218	31,538	32,790	35,143
Wholesale and retail trade, repairs	93,531	91,233	92,805	100,655	107,155
Hotels and restaurants	11,864	12,428	9,903	13,747	15,581
Transport and communication	92,931	101,408	105,091	112,126	121,479
Transport and storage	70,079	71,239	73,871	78,238	82,187
Post and telecommunications	22,853	30,169	31,220	33,889	39,293
Financial intermediation	42,124	41,443	42,064	42,657	46,111
Real estate, renting and business services	58,667	60,452	61,864	63,740	65,882
Dwellings, owner occupied and rented	28,530	29,629	30,780	31,987	33,250
Renting and business services	30,137	30,823	31,084	31,753	32,632
Public administration and defense	46,771	46,742	47,002	47,071	46,464
Education	63,015	64,750	71,142	72,630	72,848
Health and social work	23,940	24,750	25,433	26,409	27,250
Other community, social and personal services	41,781	42,926	42,917	44,390	45,693
Private households with employed persons	3,705	3,780	3,855	3,932	4,011
Less: Financial services indirectly measured	-11,772	-10,665	-10,315	-10,801	-11,798
All industries at basic prices	**906,874**	**913,451**	**942,554**	**979,090**	**1,030,597**
All industries excluding agriculture and forestry	629,282	644,263	666,242	698,271	730,835
Taxes less subsidies on products	113,148	112,403	113,900	128,626	141,493
GDP at market prices	**1,020,022**	**1,025,854**	**1,056,454**	**1,107,715**	**1,172,090**
Institutional sector and industry	**2001**	**2002**	**2003**	**2004**	**2005**
Corporations, non-profit institutions and households					
Agriculture and forestry	273,355	265,001	272,180	276,749	295,776
Fishing	6,532	5,119	4,765	5,086	5,464
Mining and quarrying	4,915	5,036	5,213	5,326	5,469
Manufacturing	99,777	99,894	105,891	110,617	116,157
Electricity and water supply	18,158	22,237	25,638	26,353	26,086
Construction	28,158	27,381	27,504	28,362	30,436
Wholesale and retail trade, repairs	93,531	91,233	92,805	100,655	107,155
Hotels and restaurants	11,864	12,428	9,903	13,747	15,581
Transport, and communication	88,762	97,047	100,563	107,144	115,911
Financial intermediation	42,124	41,443	42,064	42,657	46,111
Dwellings, owner occupied and rented	28,530	29,629	30,780	31,987	33,250
Other real estate and business services	29,450	30,142	30,401	31,076	31,960
Education	4,977	5,469	7,050	7,363	7,736
Health and social work	13,994	14,428	14,902	15,714	16,358
Other community, social and personal services	39,600	40,632	40,594	42,004	43,336
Private households with employed persons	3,705	3,780	3,855	3,932	4,011
Less: Financial services indirectly measured	-11,772	-10,665	-10,315	-10,801	-11,798
Total value added at basic prices	**775,662**	**780,233**	**803,793**	**837,970**	**889,000**
General government					
Agriculture and forestry	4,237	4,188	4,132	4,070	3,986
Water supply	1,513	1,512	1,436	1,543	1,838
Construction	3,670	3,838	4,034	4,427	4,708
Transport, and communication	4,169	4,361	4,528	4,983	5,569
Research and technical services	687	681	683	678	672
Public administration and defense	46,771	46,742	47,002	47,071	46,464
Education	58,038	59,281	64,092	65,267	65,112
Health and social work	9,946	10,322	10,531	10,695	10,891
Other services	2,181	2,293	2,323	2,386	2,357
Total value added at basic prices	**131,212**	**133,218**	**138,761**	**141,120**	**141,596**

* Revised
** Provisional

2.27 Tables 2.3 and 2.4 show GDP by activity in real terms and the percentage

growth in each of the industries. The economy continued on an upward trend since 2002 reaching a record of 5.8 per cent since the last decade.The Agriculture and Forestry sector grew by 6.7 per cent in 2005 compared to 1.6 per cent in 2004. This robust growth was witnessed mainly in production of cereals, horticulture and sugarcane. In the manufacturing sector, food, beverages and tobacco sub-sector recorded the highest growth of 8.9 per cent in 2005 compared to a growth of 2.7 per cent in 2004. Hotels and Restaurants sector which was mainly supported by the continued recovery in tourism industry recorded a growth of 13.3 per cent in 2005 compared to 38.8 per cent in 2004. There was a slight increase of 0.1 per cent in the Electricity and Water sector compared to a growth of 3.0 per cent in 2004. The depressed growth in the sector was partly attributed to increased production of thermal power that resulted in high cost of intermediate inputs. Public administration and defense also declined by 1.3 per cent in 2005 compared to a growth of 0.1 per cent. This decline was mainly attributed to the reclassification of the government finance statistics into the GFS 2001 system. The sound macroeconomic environment resulted into the financial sector growing by 8.1 per cent in 2005 compared to 1.4 per cent in 2004. This was reflected in the financial reports of some banks where huge pre-tax profit margins were recorded.

Table 2.4: Percentage changes in Gross Domestic Product*

Percentage

Industry	**2001**	**2002**	**2003**	**2004**	**2005****
Agriculture and forestry	10.5	-3.0	2.6	1.6	6.7
Growing of crops and horticulture	12.3	-3.9	4.0	0.8	8.0
Farming of animals	8.6	-1.2	-0.8	4.4	4.5
Agricultural and animal husbandry services	-5.0	-0.6	-0.9	-0.9	-1.4
Forestry and logging	-1.2	0.2	1.7	0.5	2.7
Fishing	-18.3	-21.6	-6.9	6.7	7.4
Mining and quarrying	8.4	2.5	3.5	2.2	2.7
Manufacturing	1.6	0.1	6.0	4.5	5.0
Manufacture of food, beverages and tobacco	4.1	4.3	5.5	2.7	8.9
All other manufacturing	0.6	-1.5	6.2	5.2	3.4
Electricity and water supply	5.3	20.7	14.0	3.0	0.1
Electricity supply	5.4	29.0	18.5	2.4	-2.3
Water supply	5.0	3.1	2.0	4.8	7.4
Construction	3.8	-1.9	1.0	4.0	7.2
Wholesale and retail trade, repairs	5.7	-2.5	1.7	8.5	6.5
Hotels and restaurants	-3.4	4.7	-20.3	38.8	13.3
Transport and communication	13.8	9.1	3.6	6.7	8.3
Transport and storage	3.2	1.7	3.7	5.9	5.0
Post and telecommunications	66.3	32.0	3.5	8.5	15.9
Financial intermediation	-10.6	-1.6	1.5	1.4	8.1
Real estate, renting and business services	2.8	3.0	2.3	3.0	3.4
Dwellings, owner occupied and rented	3.8	3.9	3.9	3.9	4.0
Renting and business services	1.8	2.3	0.8	2.2	2.8
Public administration and defense	-3.1	-0.1	0.6	0.1	-1.3
Education	1.4	2.8	9.9	2.1	0.3
Health and social work	1.8	3.4	2.8	3.8	3.2
Other community, social and personal services	3.9	2.7	0.0	3.4	2.9
Private households with employed persons	2.0	2.0	2.0	2.0	2.0
Less: Financial services indirectly measured	-5.7	-9.4	-3.3	4.7	9.2
All industries at basic prices	**5.1**	**0.7**	**3.2**	**3.9**	**5.3**
All industries excluding agriculture and forestry	2.8	2.4	3.4	4.8	4.7
Taxes less subsidies on products	-0.1	-0.7	1.3	12.9	10.0
GDP at market prices	**4.5**	**0.6**	**3.0**	**4.9**	**5.8**
Institutional sector and industry					
Corporations, non-profit institutions and households	6.2	0.6	3.0	4.3	6.1
General government	-1.1	1.5	4.2	1.7	0.3

* Revised
** Provisional

Table 2.5 Sources of Growth

Percentages

Industry	2001	2002	2003	2004	2005
Agriculture and forestry	60.6	-144.1	23.3	8.8	29.4
Growing of crops and horticulture	48.8	-130.0	24.6	3.0	24.2
Farming of animals	12.5	-13.9	-1.8	5.8	4.9
Agricultural and animal husbandry services	-0.5	-0.4	-0.1	-0.1	-0.1
Forestry and logging	-0.3	0.3	0.6	0.1	0.5
Fishing	-3.4	-24.2	-1.2	0.6	0.6
Mining and quarrying	0.9	2.1	0.6	0.2	0.2
Manufacturing	3.6	2.0	19.6	9.2	8.6
Manufacture of food, beverages and tobacco	2.6	20.9	5.3	1.7	4.5
All other manufacturing	1.0	-18.9	14.3	7.5	4.1
Electricity and water supply	2.3	69.9	10.9	1.6	0.0
Electricity supply	1.6	66.6	10.4	1.0	-0.8
Water supply	0.7	3.4	0.4	0.6	0.8
Construction	2.7	-10.5	1.0	2.4	3.7
Wholesale and retail trade, repairs	11.5	-39.4	5.1	15.3	10.1
Hotels and restaurants	-1.0	9.7	-8.2	7.5	2.8
Transport and communication	25.9	145.3	12.0	13.7	14.5
Transport and storage	5.0	19.9	8.6	8.5	6.1
Post and telecommunications	20.9	125.4	3.4	5.2	8.4
Financial intermediation	-11.4	-11.7	2.0	1.2	5.4
Real estate, renting and business services	3.6	30.6	4.6	3.7	3.3
Dwellings, owner occupied and rented	2.4	18.8	3.8	2.4	2.0
Renting and business services	1.2	11.8	0.9	1.3	1.4
Public administration and defence	-3.4	-0.5	0.9	0.1	-0.9
Education	2.0	29.7	20.9	2.9	0.3
Health and social work	1.0	13.9	2.2	1.9	1.3
Other community, social and personal services	3.6	19.6	0.0	2.9	2.0
Private households with employed persons	0.2	1.3	0.2	0.2	0.1
Less: Financial services indirectly measured	1.6	19.0	1.1	-0.9	-1.5
All industries at basic prices	100.2	112.8	95.1	71.3	80.0
All industries excl. agriculture and forestry	39.7	256.9	71.8	62.5	50.6
Taxes less subsidies on products	-0.2	-12.8	4.9	28.7	20.0
GDP at market prices	100.0	100.0	100.0	100.0	100.0

2.28 Table 2.5 shows how various sectors of the economy contributed to GDP growth from 2001 to 2005. Agriculture continues to be the main driving force of the economy as the sector contributed 29.4 per cent of the total growth in 2005. Other key contributors to this growth are Transport and Communication, Wholesale and Retail trade, Manufacturing and Financial Intermediation which recorded 14.5, 10.1, 8.6 and 5.4 per cent respectively. Contribution to growth by taxes on products has improved significantly since 2003. The impact of drought in 2002 contributed to a significant decline of 144.1 per cent in Agriculture and Forestry sector share. The other sectors, however, pulled up the economy to record the growth of 0.6 per cent with transport & communication contributing 145.3 per cent of the growth. With the introduction of free primary education in 2003, education sector contributed 20.9 per cent of the growth in that year while Agriculture and Forestry, Manufacturing and Electricity supply accounted for 23.3, 19.6 and 10.9 per cent respectively. In 2004, the main sectors that contributed to the growth were wholesale and retail trade, transport and communication and manufacturing which contributed 15.3 per cent, 13.7 per cent and 9.2 per cent respectively.

Table 2.6 Annual production accounts by industry*

KSh million

Industry	2001	2002	2003	2004	2005**
Agriculture and forestry					
Output at basic prices	356,779	335,852	361,058	395,524	438,394
Intermediate consumption	79,187	74,380	73,769	83,517	96,028
Gross value added at basic prices	277,592	261,472	287,289	312,007	342,366
Compensation of employees	31,914	34,546	37,860	41,879	46,503
Gross operating surplus/mixed income	245,678	226,927	249,429	270,128	295,863
Fishing					
Output at basic prices	8,710	8,431	7,652	8,536	8,575
Intermediate consumption	2,177	2,108	1,913	2,134	2,144
Gross value added at basic prices	6,532	6,323	5,739	6,402	6,431
Compensation of employees	871	843	765	854	857
Gross operating surplus/mixed income	5,661	5,480	4,974	5,548	5,573
Mining and quarrying					
Output at basic prices	10,152	10,397	10,814	11,930	12,898
Intermediate consumption	5,236	5,292	4,596	5,439	5,725
Gross value added at basic prices	4,915	5,106	6,217	6,491	7,173
Compensation of employees	2,907	2,917	3,248	3,458	3,754
Gross operating surplus/mixed income	2,008	2,189	2,970	3,033	3,419
Manufacturing					
Output at basic prices	344,101	347,063	384,446	445,084	502,115
Intermediate consumption	244,324	245,315	274,487	317,582	353,927
Gross value added at basic prices	99,777	101,748	109,959	127,502	148,188
Compensation of employees	37,161	39,285	42,727	46,803	50,473
Gross operating surplus/mixed income	62,617	62,463	67,232	80,699	97,715
Electricity and water					
Output at basic prices	34,497	32,667	33,105	37,081	40,053
Intermediate consumption	14,826	25,268	11,461	12,205	12,230
Gross value added at basic prices	19,671	7,399	21,643	24,877	27,823
Compensation of employees	7,974	8,995	8,766	8,399	5,528
Gross operating surplus/mixed income	11,697	-1,596	12,877	16,477	22,295
Construction					
Output at basic prices	99,130	98,342	108,677	124,479	141,273
Intermediate consumption	67,301	65,964	70,997	78,050	84,974
Gross value added at basic prices	31,829	32,378	37,680	46,429	56,298
Compensation of employees	12,795	12,753	13,461	15,361	16,494
Gross operating surplus/mixed income	19,034	19,625	24,219	31,068	39,804
Wholesale and retail trade, repairs					
Output at basic prices	203,980	202,524	226,985	277,001	334,794
Intermediate consumption	110,449	109,672	122,911	150,015	181,266
Gross value added at basic prices	93,531	92,852	104,074	126,986	153,528
Compensation of employees	52,100	56,474	64,863	74,369	83,329
Gross operating surplus/mixed income	41,431	36,377	39,211	52,617	70,199
Hotels and restaurants					
Output at basic prices	36,348	38,245	33,439	49,892	60,026
Intermediate consumption	24,483	25,739	22,727	33,678	40,493
Gross value added at basic prices	11,864	12,506	10,713	16,214	19,533
Compensation of employees	5,862	6,158	5,320	8,065	9,746
Gross operating surplus/mixed income	6,002	6,347	5,393	8,149	9,788
Transport and communication					
Output at basic prices	207,408	220,495	235,578	283,258	329,923
Intermediate consumption	114,477	121,117	131,166	155,988	175,511
Gross value added at basic prices	92,931	99,378	104,411	127,271	154,412
Compensation of employees	45,765	48,030	51,400	58,140	64,431
Gross operating surplus/mixed income	47,166	51,349	53,012	69,131	89,981

* Revised
** Provisional

Table 2.6 Annual production accounts by industry* (Continued)

KSh million

Industry	2001	2002	2003	2004	2005**
Financial intermediation					
Output at basic prices	64,102	64,828	72,167	69,398	72,660
Intermediate consumption	21,978	27,650	23,246	25,055	28,171
Gross value added at basic prices	42,124	37,178	48,921	44,343	44,489
Compensation of employees	22,860	22,420	22,657	23,557	24,757
Gross operating surplus/mixed income	19,264	14,758	26,263	20,786	19,732
Finance, real estate and business services					
Output at basic prices	71,478	75,719	81,820	88,554	96,401
Intermediate consumption	12,811	13,553	14,505	15,852	17,385
Gross value added at basic prices	58,667	62,165	67,316	72,702	79,015
Compensation of employees	16,198	17,104	18,089	19,636	21,329
Gross operating surplus/mixed income	42,469	45,062	49,227	53,066	57,686
Public administration and defense					
Output at basic prices	82,649	83,643	89,991	97,292	105,914
Intermediate consumption	35,878	37,907	43,556	44,128	41,891
Gross value added at basic prices	46,771	45,736	46,435	53,165	64,023
Compensation of employees	34,058	32,544	31,422	36,183	45,989
Gross operating surplus/mixed income	12,712	13,192	15,013	16,982	18,034
Education					
Output at basic prices	79,570	92,986	111,797	124,745	130,786
Intermediate consumption	16,555	17,515	21,365	24,318	25,819
Gross value added at basic prices	63,015	75,471	90,432	100,427	104,967
Compensation of employees	54,269	65,534	79,282	87,796	89,952
Gross operating surplus/mixed income	1,710	1,861	2,118	2,396	2,545
Health and social work					
Output at basic prices	33,315	36,653	40,597	44,970	49,863
Intermediate consumption	9,376	9,490	10,424	12,217	14,239
Gross value added at basic prices	23,940	27,163	30,173	32,754	35,624
Compensation of employees	16,223	18,231	19,860	22,013	24,437
Gross operating surplus/mixed income	7,717	8,932	10,313	10,741	11,187
Other community, social and personal services					
Output at basic prices	67,394	70,928	74,179	80,370	86,601
Intermediate consumption	21,908	22,984	24,130	26,088	27,833
Gross value added at basic prices	45,486	47,944	50,049	54,282	58,768
Compensation of employees	19,350	20,594	21,902	23,760	25,470
Gross operating surplus/mixed income	26,136	27,351	28,147	30,522	33,299
Less: Financial services indirectly measured					
Intermediate consumption	11,772	9,070	10,111	9,052	11,412
Gross value added at basic prices	-11,772	-9,070	-10,111	-9,052	-11,412
All industries at basic prices					
Output at basic prices	1,699,613	1,718,772	1,872,306	2,138,116	2,410,275
Intermediate consumption	792,740	813,024	861,367	995,317	1,119,047
Gross value added at basic prices	906,874	905,748	1,010,939	1,142,799	1,291,227
Other taxes on production	3,334	4,033	3,821	2,308	2,086
Less: Subsidies	-2,312	-5,489	-8,403	-10,188	-5,829
Compensation of employees	360,308	386,427	421,622	470,275	513,049
Gross operating surplus/mixed income	545,543	520,777	593,900	680,404	781,921
Total economy					
Output at basic prices	1,699,613	1,718,772	1,872,306	2,138,116	2,410,275
Taxes on products	113,148	116,460	125,348	139,705	123,928
Intermediate consumption	792,740	813,024	861,367	995,317	1,119,047
GDP at market prices	1,020,022	1,022,208	1,136,288	1,282,504	1,415,155
Taxes on production and imports	116,482	120,493	129,170	142,013	126,014
Less: Subsidies	-2,312	-5,489	-8,403	-10,188	-5,829
Compensation of employees	360,308	386,427	421,622	470,275	513,049
Gross operating surplus/mixed income	545,543	520,777	593,900	680,404	781,921

* Revised

** Provisional

2.29 Table 2.6 shows the production account by industry. Manufacturing, Agriculture and Forestry, and Transport and communication contributed 52.7 per cent of the total output in 2005. Manufacturing has the largest share of 20.8 per cent to the total output followed by Agriculture with a share of 18.2 per cent. However, Agriculture has a larger share of value added to GDP compared to manufacturing because costs of inputs are much higher in manufacturing as opposed to that of agriculture. Gross operating surplus together with mixed income accounted for 55.3 per cent of the GDP while compensation of employees contributed 35.9 per cent in 2005.

Table 2.7 Expenditure on the Gross Domestic Product*

Current prices - KSh million

Expenditure category	2001	2002	2003	2004	2005**
Government final consumption expenditure	162,959	176,829	205,140	226,016	242,409
Private final consumption expenditure	811,793	814,361	875,154	965,528	1,077,071
Gross fixed capital formation	185,186	178,480	179,282	206,634	263,063
Changes in inventories	6,517	-21,729	7,288	10,546	-25,311
Gross domestic expenditure	**1,166,455**	**1,147,941**	**1,266,865**	**1,408,724**	**1,557,231**
Exports of goods and services	225,172	244,468	270,118	336,360	378,068
Imports of goods and services	345,899	313,851	338,394	434,234	529,749
Discrepancy [1]	-25,706	-56,350	-62,302	-28,345	9,605
Gross domestic product at market prices	**1,020,022**	**1,022,208**	**1,136,288**	**1,282,504**	**1,415,155**

[1] Difference between GDP production approach and GDP expenditure approach
* Revised
** Provisional

2.34. Tables 2.7 and 2.8 present expenditure on the GDP and percentage shares respectively. Total domestic demand at current prices stood at KSh 1,563.0 billion in 2005 from KSh 1,406.6 billion in 2004 with private final consumption constituting the largest share. The share of Gross Fixed Capital Formation (GFCF) to GDP edged upwards from 16.0 per cent in 2004 to 18.4 per cent in 2005 while government final consumption share declined from 17.6 per cent to 17.0 per cent over the same period. Growth in the share of GFCF reflects improvement in the level of investment in the economy. The share of private final consumption to GDP rose from 74.8 per cent in 2004 to 75.8 per cent in 2005. Share of net exports deteriorated from a decline of 7.6 per cent in 2004 to a decline of 10.6 per cent in 2005. This is attributable to a higher level of imports compared to exports. The import share grew from 33.7 per cent in 2004 to 37.1 per cent while export share improved marginally from 26.1 per cent to 26.5 per cent in the same period.

Table 2.8 Percentage share of Expenditure on the Gross Domestic Product*

Expenditure category	2001	2002	2003	2004	2005**
Government final consumption expenditure	16.0	17.3	18.1	17.6	17.1
Private final consumption expenditure	79.6	79.7	77.0	75.3	76.1
Gross fixed capital formation	18.2	17.5	15.8	16.1	18.6
Changes in inventories	0.6	-2.1	0.6	0.8	-1.8
Gross domestic expenditure	**114.4**	**112.3**	**111.5**	**109.8**	**110.0**
Exports of goods and services	22.1	23.9	23.8	26.2	26.7
Imports of goods and services	33.9	30.7	29.8	33.9	37.4
Discrepancy [1]	-2.5	-5.5	-5.5	-2.2	0.7
Gross domestic product at market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1] Discrepancy expressed as a percentage of GDP
* Revised
** Provisional

2.35 Table 2.9 contains details of broad categories of expenditure on GDP. Real gross domestic expenditure grew by 7.1 per cent in 2005 compared to a growth of 2.8 per cent in 2004. Percentage changes in the expenditure categories are shown in Table 2.10, which reveals that GFCF recorded the high

Table 2.11b Private Consumption*

Percentage

Expenditure category	2001	2002	2003	2004	2005**
Food and beverages	48.2	46.2	46.8	46.0	46.5
Clothing and footwear	4.6	4.1	4.3	3.4	3.3
Housing	7.6	7.8	7.6	7.7	8.0
All other goods	12.6	12.5	13.4	13.3	12.4
All other services	31.8	34.3	33.3	35.6	35.8
Direct purchases abroad	0.8	0.5	0.4	0.5	0.5
Less: Direct purchases by non-res in Kenya	-5.6	-5.4	-5.8	-6.5	-6.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Revised
** Provisional

2.36 Tables 2.12a and 2.12b present analysis of GFCF by expenditure categories at current prices. There were significant growths in the major types of assets which is an indication that the growth is sustainable at least in the short term. The rapid growth in investments in transport equipments was principally due to imports of aircrafts. In 2005, GFCF as a percentage of GDP increased to 18.6 per cent from 16.1 per cent in 2004.

est growth of 27.4 per cent and private final consumption expenditureregrew by 7.8 per cent in 2005. On the contrary government final consumption and stocksmanufacturing as opposed to that of agriculture. Gross operating surplus together with mixed income accounted for 55.3 per cent of the GDP while compensation of employees contributed 36.3 per cent in 2005.

Table 2.9 Expenditure on the Gross Domestic Product*

Constant 2001 prices - KSh million

Expenditure category	2001	2002	2003	2004	2005**
Government final consumption expenditure	162,959	165,648	175,622	177,294	173,682
Private final consumption expenditure	811,793	819,050	838,848	859,397	920,459
Gross fixed capital formation	185,186	173,961	160,241	170,950	217,827
Changes in inventories including discrepancy [2]	6,517	-21,206	7,892	8,962	-14,933
Gross domestic expenditure	**1,166,455**	**1,137,454**	**1,182,603**	**1,216,603**	**1,297,035**
Exports of goods and services	225,172	241,197	258,963	293,200	306,856
Imports of goods and services	345,899	305,968	306,058	342,908	391,857
Discrepancy [1]	-25,706	-46,828	-79,054	-59,179	-39,945
Gross domestic product at market prices	**1,020,022**	**1,025,854**	**1,056,454**	**1,107,715**	**1,172,090**

[1] Difference between GDP production approach and GDP expenditure approach
* Revised
** Provisional

Table 2.10 Percentage changes in Expenditure on Gross Domestic Product* (Constant 2001 prices)

Expenditure category	2001	2002	2003	2004	2005**
Government final consumption expenditure	1.3	1.7	6.0	1.0	-2.0
Private final consumption expenditure	5.2	0.9	2.4	2.4	7.1
Gross fixed capital formation	12.4	-6.1	-7.9	6.7	27.4
Changes in inventories [2]	0.0	-2.7	2.8	0.1	-2.2
Gross domestic expenditure	**5.7**	**-2.5**	**4.0**	**2.9**	**6.6**
Exports of goods and services	3.7	7.1	7.4	13.2	4.7
Imports of goods and services	19.5	-11.5	0.0	12.0	14.3
Discrepancy					
Gross domestic product at market prices	**4.5**	**0.6**	**3.0**	**4.9**	**5.8**

[2] Change in changes of inventories as a percentage of GDP of the previous year
* Revised
** Provisional

2.30 Breakdown of final private consumption by purpose is shown in Table 2.11a while Table 2.11b depicts the percentage shares of components of consumption. Private consumption has been expanding more rapidly for the last three years. Aggressive marketing and promotion by producers, improved access to money and credit facilities have been the main drivers of the private consumption. Despite a 10 per cent duty increase on cigarettes and beer in 2005/2006 budget, their consumption increased resulting to an increase in production by 36.9 and 12.1 per cent respectively in 2005. Increase in cigarette production in 2005 was also attributable to increase in external demand.

Table 2.11a Private Consumption*

Current prices - KSh million

Purpose	2001	2002	2003	2004	2005**
Food and beverages	391,548	376,193	409,508	441,783	506,658
Clothing and footwear	37,682	33,107	37,246	32,869	35,538
Housing	61,809	63,839	66,832	74,800	85,892
All other goods	102,067	101,573	116,892	128,618	133,839
All other services	257,861	278,961	291,549	343,502	385,089
Direct purchases abroad	6,431	4,401	3,456	4,609	5,284
Less: Direct purchases by non-residents in Kenya	-45,606	-43,714	-50,330	-62,772	-69,423
Total	**811,793**	**814,361**	**875,154**	**963,410**	**1,082,877**

* Revised
** Provisional

Table 2.12a : Gross Fixed Capital Formation*

Current prices - Ksh million

Expenditure category	2001	2002	2003	2004	2005**
Buildings and structures	85,870	85,613	94,964	108,174	122,365
Transport equipments	54,881	50,086	37,129	37,169	75,508
Other machinery and equipments	43,325	41,614	46,016	60,052	63,887
Cultivated assets	997	1,120	1,142	1,169	1,229
Intangible assets	112	48	32	71	73
Total	**185,186**	**178,480**	**179,282**	**206,634**	**263,063**

* Revised
** Provisional

Table 2.12 b: Gross Fixed Capital Formation*

Current prices - percentage shares

Expenditure category	2001*	2002*	2003*	2004*	2005**
Buildings and structures	46.4	48.0	53.0	52.4	46.5
Transport equipments	29.6	28.1	20.7	18.0	28.7
Other machinery and equipments	23.4	23.3	25.7	29.1	24.3
Cultivated assets	0.5	0.6	0.6	0.6	0.5
Intangible assets	0.1	0.0	0.0	0.0	0.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Revised
** Provisional

2.37 Distribution of income is shown in Tables 2.13 and 2.14. The aggregate value of the gross balances of primary incomes for all sectors which is defined as Gross National Income (GNI) increased by 10.6 per cent to stand at KSh 1,407.0 billion in 2005 compared to KSh 1,272.5 billion in 2004. The components of GNI, i.e. the compensation of employees, primary incomes payable to the rest of the world and receivable from the rest of the world increased by 9.1 per cent 1.1 per cent and 55.3 per cent respectively in the year under review. There was an increase in current transfers from the rest of the world by 26.1 per cent which resulted into the income available to the nation for final consumption and gross saving measured by Gross National Disposable Income (GNDI) increasing by 12.1 per cent to stand at KSh 1,484.6 billion in 2005 compared to KSh 1,324.8 billion in 2004.

Table 2.13 Gross National Income and Gross National Disposable Income*

	2001	2002	2003	2004	2005**
CURRENT PRICES, KSh million					
Compensation of employees	360,308	386,427	421,622	470,275	513,049
Consumption of fixed capital	94,384	98,454	109,883	121,558	123,914
Net operating surplus	451,159	422,323	484,017	558,847	658,007
Gross domestic product at factor cost	**905,852**	**907,205**	**1,015,521**	**1,150,679**	**1,294,970**
Taxes on production and imports	116,482	120,493	129,170	142,013	126,014
Subsidies	-2,312	-5,489	-8,403	-10,188	-5,829
Gross domestic product at market prices	**1,020,022**	**1,022,208**	**1,136,288**	**1,282,504**	**1,415,155**
Primary incomes					
Receivable from the rest of the world	3,618	2,786	4,526	3,564	5,536
Payable to rest of the world	-13,142	-14,061	-11,254	-13,581	-13,730
Gross national income at market prices	**1,010,498**	**1,010,934**	**1,129,560**	**1,272,487**	**1,406,961**
Current transfers					
Receivable from the rest of the world	67,101	54,280	67,162	**65,587**	82,711
Payable to rest of the world	-1,239	-955	-1,071	-13,311	-5,028
Gross national disposable income	**1,076,361**	**1,064,259**	**1,195,650**	**1,324,763**	**1,484,644**
Per capita, KSh					
Gross domestic product at market prices	32,776	31,827	34,286	37,510	40,127
Gross national income at market prices	32,470	31,476	34,083	37,217	39,894
CONSTANT PRICES					
GDP at market prices, KSh million	1,020,022	1,025,854	1,056,454	1,107,715	1,172,090
Per capita	32,776	31,940	31,877	32,397	33,235
- Annual percentage change	1.2	-2.6	-0.2	1.6	2.6
Population, '000	31,121	32,118	33,142	34,191	35,267

* Revised
** Provisional

Table 2.14: National Disposable Income and Saving

KSh Million

Current prices - KSh million	2001	2002	2003	2004	2005*
Gross national disposable income	1076361	1064259	1195650	1329740	1497412
Consumption of fixed capital	94384	98454	109883	121558	123914
Net national disposable income	981976	965805	1085767	1208182	1373498
Final consumption expenditure					
Private	811793	814361	875154	963410	1082877
General government	162959	176829	205140	226016	242409
Discrepancy on GDP					
Saving, net	7225	-25385	5473	18756	48211
General government					
All Other serctors					
Financing of capital formation					
Saving, net	7225	-25385	5473	18756	48211
Capital transfers, receivable from abroad	4043	6467	12381	11495	7807
Capital transfers, payable from abroad	0	0	0	0	0
Total	**11268**	**-18918**	**17854**	**30251**	**56018**
Gross fixed capital formation	185186	178480	179282	206634	263063
Consumption of fixed capital	-94384	-98454	-109883	-121558	-123914
Changes in inventories	6517	-21729	7288	10546	-25311
Net lending (+) / Net borrowing(-)	-97319	-58297	-76688	-95622	-113837
Total	**11268**	**-18918**	**17854**	**30251**	**56018**

Outlook

2.31 Forward looking indicators show that growth in most sectors will be sustained in 2006. In agriculture sector, the failure of short rains during the last quarter of 2005 negatively impacted on production for the first quarter of 2006, however the long rains which commenced on good time and are also well spread across the country might substantially mitigate the effects of the drought. Against this background, agriculture is likely to record a moderate growth. Manufacturing, Construction and Mining and quarrying are likely to maintain their momentums. Electricity and water are expected to be major beneficiaries of good rains leading to rapid growths. Riding on the back of the current boom in tourism, hotels and restaurants and transport are expected to record growths within the levels of 2005 this year.

2.32 Cargo handling in JKIA is expected to improve drastically after completion of the expansion of the airport's apron in 2006. Jomo Kenyatta International Airport experienced growth in freight handled of 7.0 per cent in 2005 compared to 2004. Opening of Dubai flower and perishable center is likely to translate into higher demand for freight handling as there is a likelihood of a collection base being set up in JKIA.

2.33 Activities in financial sector are likely to be on the upswing supported by the good corporate management and rising credit to the private sector. Recent sale of KenGen shares by the government to the public, good corporate profitability and the expected sale of National Bank and Telcom shares to the public are likely to maintain activities of Nairobi Stock Exchange in an upbeat mood. GDP growth is therefore likely to record a solid growth in 2006.

2.34 The first quarter of 2006 witnessed increases in prices of some food commodities due to drought during the fourth quarter of 2005. Prices of vegetables more than doubled while fuel prices remained on an upward trend. Food index increased by 9.2 per cent from 244.1 in January to 266.6 in March. However, the underlying inflation rate is expected to remain within target in the next twelve months supported by disciplined monetary policy, prudent money supply and appreciation of the Kenya shilling.

Chapter 3
Social Scene

Overview

Provision of social services such as education and health by the Government has been key to improving livelihoods of the majority of Kenyans through capacity building and empowerment. The attainment of Universal Primary Education (UPE) is a top priority of the Government as stated in Investment Programme for Economic Recovery Strategy (IP-ERS), and in line with Millennium Development Goals(MDGs). IP-ERS primary objective under health is to enhance the accessibility and affordability of quality basic health care for all Kenyans with special emphasis on the poor and vulnerable. Expenditure on the social services increased by 11.5 per cent from KSh 113.6 billion in 2004/2005 to an estimated amount of KSh 126.7 billion in the 2005/2006 financial year. The sector's development and recurrent expenditure increased by 21.9 and 10.1 per cent, respectively.

3.2. The Free Primary Education (FPE) Programme which was implemented in 2003 was intended to broaden access to primary schooling especially among the poor households. An extra 1.6 million children joined primary education under the initiative with enrolment increasing from 6.0 million in 2002 to 7.6 million pupils in 2005. Primary school enrolment increased from 7.4 million in 2004 to 7.6 million pupils in 2005, representing an increase of 2.0 per cent while enrolment in secondary schools rose by less than one per cent. Similarly, enrolment in primary teacher training colleges increased by 2.1 per cent in 2005 compared to 3.3 per cent in 2004.

3.3. Information on distribution of health facilities in the country is critical in ensuring efficient access and implementation of cost-effective health-care strategies. The number of health facilities increased by 3.0 per cent from 4,767 in 2004 to 4,912 in 2005. Rift Valley province had the highest number of health facilities (1,181) while North Eastern province had the lowest number at 139. In 2005, the number of registered medical personnel increased by 4.2 per cent from 63,227 in 2004 to 65,914 in 2005.

3.4. The Government has continued to put in place various measures to fight and curb crime against individuals and property. Cases of crime reported to Police reduced from 83,841 in 2004 to 75,400 in 2005, representing a decline of 10.1 per cent. The total number of reported cases of violence against women increased by 1.4 per cent from 11,867 in 2004 to 12,036 in 2005. On the other hand, the total prison population dropped by 10.2 per cent from 395,322 in 2004 to 355,481 in 2005 as a result of the Government's commitment to decongest prisons through community service orders. However, the number of cases pending before magistrates courts increased by 29. 1 per cent from 6.5 million in 2004 to 8.4 million in 2005.

Social Sector Expenditure

3.5. Total expenditure on social services increased from KSh 77.9 billion in 2001/2002 financial year to KSh 126.7 billion in 2005/06 as shown in Table 3.1. This increase in expenditure reflects Government's commitment in improving provision of social services that include health and education. Recurrent expenditure rose from KSh 100.1 billion in 2004/2005 to KSh 110.2 billion in 2005/2006, representing an increase of 10.1 per cent, with education and health getting increments of 10.1 and 7.9 per cent, respectively. Development expenditure on social services rose

by 21.9 per cent from KSh 13.5 billion to KSh 16.4 billion over the same period. Development expenditure in the Ministries of Home Affairs, National Heritage and Sports rose significantly from KSh 446.90 million in 2004/05 to KSh 2.3 billion in 2005/06 financial year. The expenditure increase was mainly towards implementation of reforms in Kenya Prison Service Department. Development expenditure in the Ministry of Education, Science and Technology declined by 16.1 per cent, from KSh 4.8 billion in the 2004/05 financial year to KSh 4,002.84 million in 2005/2006 mainly due to delays in commitment of grants by the donor community.

Table 3.1: Central Government Expenditure on Social Services, 2001/2002 - 2005/2006

KSh million

	2001/2002	2002/2003	2003/2004	2004/2005*	2005/2006**
RECURRENT EXPENDITURE-					
Ministry of Education Science & Technology***.. ..	54,016.63	61,557.82	72,410.54	80,239.91	88,357.51
Ministry of Health+	10,527.39	14,448.49	16,004.71	17,605.18	19,000.00
Ministry of Labour and Human Resource Development	1,048.19	1,464.76	1,483.12	779.09	891
Ministry of Home Affairs, National Heritage and Sports	6,581.57	5,234.74	5,992.32	1,478.56	2,000.00
SUB-TOTAL	72,173.78	82,705.81	95,890.69	100,102.74	110,248.51
DEVELOPMENT EXPENDITURE-					
Ministry of Education Science & Technology***.. ...	825.03	2,547.59	4,314.24	4,771.47	4,002.84
Ministry of Health+	3,539.54	4,893.66	5,115.54	7,803.91	9,943.17
Ministry of Labour and Human Resource Development.	493.26	389.23	297.4	466.53	194
Ministry of Home Affairs, National Heritage and Sports	890.26	1,126.66	442.33	446.9	2,307.30
SUB-TOTAL	5,748.09	8,957.14	10,169.51	13,488.81	16,447.32
TOTAL EXPENDITURE	77,921.87	91,662.95	106,060.20	113,591.55	126,695.83

*Provisional.

**Revised Estimates.
***Expenditure on the Ministry of Education Science and Technology includes expenditure on Youth polytechnics.

+Refers to Government structure as at June 2005

3.6. Table 3.2 shows the Local Government expenditures on social services for the last five financial years. Expenditure on social services by Local Government increased by 19.8 per cent from KSh 2.7 billion in 2004/2005 to KSh 3.2 billion in 2005/2006. Expenditure on health constituted the largest proportion of the total social services budget, at 41.6 per cent, while education and other social services accounted for 28.6 and 29.8 per cent, respectively. Budgetary provisions on other social services that include construction of roads, water and sanitation facilities doubled from 486.86 million in 2004/05 to KSh 947.07 million in 2005/06.

Table 3.2: Local Government Expenditure on Social Services, 2001/2002- 2005/2006

KSh Million

Sectors	2001/2002	2002/2003	2003/2004	2004/2005*	2005/2006**
Education	718.20	822.40	834.67	869.30	910.01
Health	922.90	1,107.30	1,290.90	1,297.35	1,320.54
Other Social Services ..	231.20	356.78	442.60	486.86	947.07
TOTAL EXPENDITURE	1,872.30	2,286.48	2,568.17	2,653.51	3,177.62

* Provisional.

** Revised Estimates.

Education 3.7. The expenditure by Ministry of Education, Science and Technology for the financial years 2001/2002 to 2005/2006 is shown in Table 3.3. Over the five-year period, total expenditure for the ministry increased by 68.4 per cent from KSh 54.8

billion in the 2001/2002 to KSh 92.4 billion in 2005/2006. The total recurrent expenditure is estimated at KSh 88.4 billion in the 2005/2006 financial year, representing an increase of 10.1 per cent from KSh 80.2 billion spent in the 2004/ 2005. Primary, secondary and higher education combined account for 24.8 per cent of the ministry's total recurrent expenditure in 2005/2006. Increments in teachers' and civil servants' salaries contributed to the increase in expenditure on general administration and planning from KSh 59.1 billion in 2004/2005 financial year to KSh 64.1 billion in 2005/2006. Recurrent expenditure on higher education increased substantially by 22.1 per cent from KSh 9.7 billion to KSh 11.9 billion over the same period mainly due to the increase in lecturers' salaries.

3.8. Overall development expenditure on education declined by 16.1 per cent from KSh 4.8 billion in 2004/2005 financial year to KSh 4.0 billion in 2005/2006. There was a shift in funding of development projects from both primary and secondary education to technical education, teacher education and general administration and planning. Primary education had a significant decrease of 59.0 per cent in its development expenditure from KSh 3.2 billion in the 2004/2005 to KSh 1.3 billion in 2005/2006. Similarly, secondary education had a reduction of 17.3 per cent in its development expenditure from KSh 205.5 million in 2004/2005 financial year to KSh 170.0 million in 2005/2006. Development expenditure on technical education more than doubled from KSh 70 million to KSh 185 million over the same period. Expenditure on teacher education increased significantly by 78.8 per cent from KSh 80.3 million in 2004/2005 to KSh 143.5 million in 2005/2006.

Table 3.3: Expenditure of the Ministry of Education, Science and Technology, 2001/2002 - 2005/2006

KSh million

	2001/2002	2002/2003	2003/2004	2004/2005*	2005/2006**
RECURRENT EXPENDITURE-					
General Administration and Planning	44,521.94	49,051.57	55,776.74	59,140.80	64,139.32
Pre-Primary Education	6.72	5.22	5.51	25.66	57.00
Primary Education	741.98	3,321.65	5,966.52	6,583.42	7,148.58
Secondary Education	667.31	667.88	945.42	938.79	2,893.70
Technical Education+	8`88.34	889.94	1,171.40	1,546.55	1,291.09
Teacher Education	138.70	144.29	192.83	210.41	177.72
Special Education	107.46	121.39	175.13	209.77	193.14
Polytechnic Education	320.84	342.73	466.01	1,538.20	571.72
Higher Education***	6,369.09	6,795.74	7,470.08	9,735.25	11,885.24
Miscellaneous	254.24	217.40	240.90	311.06	-
SUB-TOTAL	54,016.63	61,557.82	72,410.54	80,239.91	88,357.51
DEVELOPMENT EXPENDITURE-					
General Administration and Planning	472.54	1,893.70	954.99	651.00	1,705.04
Pre-Primary Education	204.02	197.52	362.55	6.60	-
Primary Education	3.10	26.00	2,214.10	3,196.90	1,311.60
Secondary Education	-	52.24	151.90	205.50	170.00
Technical Education+.	-	-	4.19	70.00	185.00
Teacher Education	27.77	6.09	155.12	80.27	143.50
Special Education	-	-	-	-	-
Polytechnic Education	-	-	-	-	-
Higher Education***	117.61	372.03	471.40	560.20	487.70
Miscellaneous	-	-	-	1.00	-
TOTAL	825.03	2,547.59	4,314.24	4,771.47	4,002.84
GROSS TOTAL EXPENDITURE	54,841.66	64,105.41	76,724.78	85,011.38	92,360.35

* Provisional.

** Revised Estimates.

*** Includes expenditure of all Public Universities

\+ Includes Expenditure on Youth Polytechnics

3.9. The number of educational institutions by category and ownership from 2001 to 2005 are presented in Table 3.4. The country had a total of 56,146 educational

institutions in 2005 that were categorized into schools, training colleges and universities. More than a half of the educational institutions in the country are pre-primary schools while primary schools constitute 35.4 per cent of all the educational institutions. Out of 19,849 primary schools in the country, 17,864 (90.0 per cent) are public. There are 4,197 secondary schools in the country out of which 12.4 per cent are private. In the last five years, the number of training colleges increased by 1 to stand at 33 whereas the number of universities increased by 7 from 17 to 24.

Table 3.4: Number of Educational Institutions by category and ownership+, 2001 - 2005

Number

Category	2001	2002	2003	2004	2005*
Schools:					
Pre-Primary	27,573	28,279	29,455	31,879	32,043
Primary:					
Public	17,544	17,589	17,697	17,804	17,864
Private	1,357	1,441	1,857	1,909	1,985
Total	**18,901**	**19,030**	**19,554**	**19,713**	**19,849**
Secondary:					
Public	3,241	3,247	3,583	3,621	3,676
Private	416	437	488	490	521
Total	**3,657**	**3,684**	**4,071**	**4,111**	**4,197**
Training Colleges:					
Primary	29	29	29	30	30
Secondary+	3	3	3	3	3
Total	**32**	**32**	**32**	**33**	**33**
Universities					
Public	6	6	6	7	7
Private	11	13	17	17	17
Total	**17**	**19**	**23**	**24**	**24**
TOTAL	**50,180**	**51,044**	**53,135**	**55,760**	**56,146**

* Provisional.

** Revised

+ Includes Kenya Technical Training College

Source : Ministry of Education, Science and Technology

3.10. **Pre-primary Education:** Pupil enrolment and number of teachers in Early Childhood Development (ECD) centres from 2001 to 2005 are presented in Table 3.5. The number of teachers increased by 3.0 per cent from 70,058 in 2004 to 72,182 in 2005. Pupil teacher ratio improved from 28:1 in 2001 to 23:1 in 2005. Untrained teachers constitute about 30.0 per cent of the total pre - primary school teachers.

Table 3.5: Pupil Enrolment and Number of Teachers in Early Childhood Development Centres, 2001-2005

Number

	2001	2002	2003	2004	2005*
Enrolment					
Boys	674,578	742,764	816,577	823,417	830,828
Girls	648,876	712,863	785,655	804,304	812,347
TOTAL	**1,323,454**	**1,455,627**	**1,602,232**	**1,627,721**	**1,643,175**
Number of Teachers					
MaleTrained	1,435	1,650	2,378	4,786	4,930
Female Trained	20,876	23,594	38,637	44,272	46,043
Sub Total	**22,311**	**25,244**	**41,015**	**49,058**	**50,972**
Male Untrained	1,452	1,429	2,456	4,068	4,109
Female Untrained	23,356	23,216	20,179	16,932	17,101
Sub Total	**24,808**	**24,645**	**22,635**	**21,000**	**21,210**
TOTAL	**47,119**	**49,889**	**63,650**	**70,058**	**72,182**

* Provisional

Source: Ministry of Education, Science and Technology

3.11. **Primary Education:** Table 3.6 presents primary school enrolment by class and gender for the last five years. Free Primary Education Programme implemented by the Government in 2003 has increased enrolment from 6.0 million in 2002 to 7.6 million in 2005. Enrolment in primary schools rose by 2.7 per cent from 7.4 million in 2004 to 7.6 million in 2005. Primary schools Gross Enrolment Ratio (GER) remained constant at about 105 per cent in 2005 as was recorded in the previous year. The Net Enrolment Ratio (NER) increased from 82.1 to 83.2 per cent during the same period. The Government continues to support Non-Formal Education Schools (NFS), especially those that cater for children in urban slums with a total of 143 centers/schools having received grants under Free Primary Education programme. The Primary School Completion Rate (PCR) improved from 76.2 per cent in 2004 to 79.9 per cent in 2005. The number of registered KCPE candidates rose by 26,734 candidates from 644,816 registered in 2004 to 671,550 in 2005. In 2005, there were 352,826 boys and 318,724 girls who sat for standard 8 examinations.

Table 3.6: Primary School Enrolment by Class and Gender, 2001 - 2005**

'000

	2001		2002		2003		2004		2005*	
Class	Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls
Standard 1	482.1	456.8	488.8	469.4	679.0	632.7	646.2	606.2	620.4	585.8
Standard 2	447.7	426.3	434.6	416.1	526.4	492.0	588.3	551.1	575.8	551.6
Standard 3	423.6	404.8	415.0	397.4	490.8	454.4	493.9	459.8	549.2	517.5
Standard 4	392.6	390.6	408.9	400.2	475.7	446.9	477.7	445.7	493.7	469.9
Standard 5	366.5	364.5	369.3	371.8	436.0	418.8	444.0	402.5	449.1	410.8
Standard 6	327.5	333.6	338.8	353.3	400.9	392.3	418.8	399.9	429.3	413.6
Standard 7	307.3	321.1	328.3	336.2	383.2	378.9	412.6	404.9	443.0	430.0
Standard 8	255.1	241.4	290.3	244.5	282.4	269.1	334.0	309.1	342.1	309.6
TOTAL	3,002.5	2,939.1	3,073.9	2,988.8	3,674.4	3,485.1	3,815.5	3,579.3	3,902.7	3,688.8
GRAND TOTAL	5,941.6		6,062.7		7,159.5		7,394.8		7,591.5	

*Provisional
**Revised
Source: Ministry of Education, Science and Technology

3.12. The number of public primary school teachers by qualification and gender from 2001 to 2005 is shown in Table 3.7. Over the last five years, the number of teachers declined by 5.4 per cent from 180,860 in 2001 to 171,033 in 2005, due to attrition and other natural causes. During the same period, the number of approved teachers in primary schools increased from 19,233 to 47,202 and graduate teachers from 176 to 890. There were 75,926 female teachers, accounting for 44.4 per cent of the total number of primary school teachers, with most of them having undergone primary teacher training course. The current proportion of trained primary school teachers is 99.1 per cent with the number of untrained teachers having declined from 1,803 in 2004 to 1,469 in 2005. The Pupil Teacher Ratio in public primary schools in 2005 was 44.1 as compared to 42.1 in 2004.

Table 3.7: Number of Primary School Teachers by Qualification and Gender[+], 2001 - 2005

* Provisional

+This data is only for public schools and does not include teachers on study leave, disciplinary cases and those performing non-teaching duties.

Source : Ministry of Education, Science and Technology

3.13. **Secondary Education:** Enrolment in secondary schools by form and gender between 2001 and 2005 is shown in Table 3.8. The number of students enrolled increased by 19.2 per cent from 778,601 in 2002 to 928,149 in 2005. Also, admission to form one increased tremendously from 49.0 per cent in 2002 to 64.0 per cent in 2005, especially as a result of the Government's policy on expansion of secondary schools that has put in place mechanism for introduction of extra classrooms. The GER for secondary schools was 29.3 per cent in 2005 as compared to 29.1 per cent in 2004.

Table 3.8: Enrolment in Secondary Schools by Form and Sex+, 2001 - 2005

Number

	2001		2002		2003		2004		2005*	
Form	**Boys**	**Girls**	**Boys**	**Girls**	**Boys**	**Girls**	**Boys**	**Girls**	**Boys**	**Girls**
Form 1	107,442	98,892	110,965	99,501	128,887	122,935	145,145	125,542	124,469	111,384
Form 2	102,222	91,399	105,576	97,836	121,279	117,500	124,585	114,053	132,867	119,471
Form 3	98,979	86,391	100,423	88,282	106,262	98,239	117,975	105,118	122,912	107,770
Form 4	94,747	83,174	94,813	81,205	102,322	85,089	101,301	89,416	110,909	98,367
TOTAL	403,390	359,855	411,777	366,824	458,750	423,763	489,006	434,128	491,157	436,992
GRAND TOTAL	**763,245**		**778,601**		**882,513**		**923,134**		**928,149**	

* Provisional.

Source : Ministry of Education

+ Revised

3.14. The number of secondary school teachers by qualification and gender is given in Table 3.9. Total number of teachers in the country's secondary schools remained above 47,000 in 2005. Majority (98.0 per cent) of secondary school teachers are trained with the proportion of untrained having dropped from 4.8 per cent in 2003 to 2.1 per cent in 2005. The number of male teachers is almost double that of female teachers.

Table 3.9: Number of Public Secondary School Teachers by Qualification and Gender*, 2001 - 2005

3.15. **Teacher Training Institutions:** Table 3.10 shows the number of teacher trainees enrolled by gender from the year 2001 to 2005. Enrolment in teacher training colleges increased by 2.0 per cent from a total of 21,839 trainees in 2004 to 22,280 trainees in 2005. Since 2003 more female trainees enrolled compared to males. Public primary teacher colleges had an enrolment of 17,404 constituting 78.1 per cent of the total teacher trainees enrolled in 2005. The number of teacher trainees enrolled for diploma training increased by 10.0 per cent from 1,891 in 2004 to 2,080 in 2005.

Table 3.10: Teacher Trainees Enrolment by Certification and Gender, 2001- 2005

Number

	2001		2002		2003		2004		2005*	
TYPE OF CERTIFICATION	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Public Primary Teachers (P 1)										
1st Year	4,358	4,018	4,269	4,122	4,316	4,210	3,931	4,508	4,589	4,334
2nd Year	3,952	3,381	3,871	3,468	3,963	4,305	4,449	4,730	3,951	4,530
SUB TOTAL	**8,310**	**7,399**	**8,140**	**7,590**	**8,279**	**8,515**	**8,380**	**9,238**	**8,540**	**8,864**
Private Primary Teachers (P 1)	1,243	1,268	1,089	1,133	1,044	1,178	1,117	1,213	1,340	1,456
Diploma Teachers**										
1st Year	365	294	438	294	434	331	231	193	254	212
2nd Year	485	324	401	297	399	300	411	331	452	364
3rd Year	363	298	475	321	352	305	421	304	463	334
SUB TOTAL	**1,213**	**916**	**1,313**	**912**	**1,185**	**935**	**1,063**	**828**	**1,170**	**910**
TOTAL	**10,766**	**9,583**	**10,542**	**9,635**	**10,508**	**10,628**	**10,560**	**11,279**	**11,050**	**11,230**
GRAND TOTAL	**20,349**		**20,177**		**21,136**		**21,839**		**22,280**	

*Provisional

**Includes Kenya Technical Teachers Training College

Source: Ministry of Education, Science and Technology

3.16 **Technical, Industrial and Vocational Educational Training (TIVET) Institutions:** Table 3.11 presents student enrolment in TIVET Institutions by certification and gender from 2001 to 2005. Data on youth polytechnics is a new inclusion which was not captured in previous years. Over the five year period, total student enrolment has steadily increased from 45,076 in 2001 to 68,379 in 2005. About 74.0 per cent of the students enrolled in technical institutions are absorbed in technical training institutes, institutes of technology, and youth polytechnics. The remainder are enrolled in the national polytechnics. Enrolment in national polytechnics went up by 10.5 per cent from 16,397 students in 2004 to 18,116 students in 2005. The data shows wide gender disparities in enrolment in the national polytechnics in 2005 with 64.3 per cent being males. On the contrary, there were more female students (62.0 per cent) enrolled in youth polytechnics in 2005.

Table 3.11: Student Enrolment by Gender in Technical Institutions, 2001 - 2005

Number

INSTITUTION	2001		2002		2003		2004		2005*	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
National Polytechnics										
Kenya Polytechnic	4,523	1,385	4,586	1,984	4,488	2,016	4,937	2,218	5,430	2,395
Mombasa Polytechnic	3,567	1,092	3,149	1,401	2,647	1,390	2,778	2,436	3,111	2,631
Kisumu Polytechnic	785	240	947	410	937	421	1,124	476	1,349	619
Eldoret Polytechnic	647	515	1,527	660	1,523	684	1,675	752	1,759	820
Total	**7,283**	**2,989**	**9,604**	**4,155**	**9,595**	**4,511**	**10,514**	**5,883**	**11,650**	**6,466**
Other TIVET Institutions										
Technical Training Institutes	5,295	4,160	5,547	4,539	7,436	5,648	9,653	8,350	9,846	8,684
Institutes of Technology	4,674	3,672	4,898	4,007	4,799	3,927	4,715	3,755	4,904	3,943
Total	**9,969**	**7,832**	**10,445**	**8,546**	**12,235**	**9,575**	**14,368**	**12,105**	**14,749**	**12,627**
Youth Polytechnics	4,980	12,023	5,975	12,624	7,171	13,255	8,605	13,918	8,691	14,196
TOTAL	**22,232**	**22,844**	**26,024**	**25,325**	**29,001**	**27,341**	**33,487**	**31,906**	**35,090**	**33,289**
GRAND TOTAL	**45,076**		**51,349**		**56,342**		**65,392**		**68,379**	

* Provisional

Source: Ministry of Education, Science and Technology

3.17 **University Education:** Table 3.12 gives details on student enrolment by gender in public and private universities for academic years 2001/2002 to 2005/2006. During this period, total enrolment in all universities rose from 71,349 students in 2001/2002 to 89,979 in 2005/2006. However, total enrolment in 2005/06 academic year dropped by 1.7 per cent to 89,979 students compared to the previous year. In 2005/2006 academic year, student enrolment at the University of Nairobi accounted for 40.9 per cent of the total public university students enrolment followed by Kenyatta University with 19.7 per cent and Moi University with 15.1 percent. Maseno University and Western University College enrolled 5.7 and 1.3 per cent, respectively. Similar pattern is also observed among enrolment of part time students with University of Nairobi and Kenyatta University absorbing 49.4 and 23.7 per cent respectively while Moi University had 12.8 per cent. Private universities enrolled 10,244 students which is equivalent to 11.4 per cent of all students enrolled in universities. Despite affirmative action efforts to reduce university admission entry point for female students, their enrolment has remained below 40.0 per cent.

Table 3.12: Student Enrolment by Gender in Universities, 2001/2002 - 2005/2006

Numbers

INSTITUTION	2001/2002		2002/2003		2003/2004		2004/2005		2005/2006*	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Public Universities										
Nairobi	**15,426**	**9,270**	**16,200**	**9,489**	**16,992**	**9,720**	**21,268**	**11,706**	**20,940**	**11,665**
Full time	8,724	4,450	9,163	4,428	9,603	4,406	9,987	5,250	9,800	5,325
Part Time	6,702	4,820	7,037	5,061	7,389	5,314	11,281	6,456	11,140	6,340
Kenyatta	**6,831**	**4,984**	**10,737**	**4,998**	**10,753**	**5,023**	**11,252**	**4,803**	**10,896**	**4,787**
Full time	5,384	3,983	4,972	3,329	5,221	3,495	4,313	2,887	4,356	2,947
Part Time	1,447	1,001	5,765	1,669	5,532	1,528	6,939	1,916	6,540	1,840
Moi	**5,469**	**3,869**	**6,274**	**4,549**	**5,804**	**4,643**	**6,796**	**5,214**	**6,731**	**5,314**
Full time	4,066	3,179	4,086	3,195	4,107	3,211	4,304	3,195	4,311	3,200
Part Time	1,403	690	2,188	1,354	1,697	1,432	2,492	2,019	2,420	2,114
Egerton	**6,816**	**2,285**	**6,975**	**2,387**	**6,908**	**2,444**	**6,350**	**2,247**	**6,262**	**2,236**
Full time	6,161	2,053	6,307	2,151	6,207	2,196	5,540	1,960	5,322	1,890
Part Time	655	232	668	236	701	248	810	287	940	346
Jomo Kenyatta(JKUAT)	**2,565**	**1,115**	**3,184**	**1,404**	**3,202**	**1,455**	**4,315**	**1,959**	**4,207**	**1,111**
Full time	857	339	1,442	613	1,373	624	2,201	999	2,240	1,016
Part Time	1,708	776	1,742	791	1,829	831	2,114	960	1,967	95
Maseno	**2,530**	**1,518**	**3,505**	**2,130**	**3,428**	**2,179**	**3,413**	**2,168**	**2,826**	**1,698**
Full time	1,922	1,132	2,885	1,736	2,777	1,765	2,660	1,690	2,106	1,240
Part Time	608	386	620	394	651	414	753	478	720	458
WEUCO	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	775	287
Full time	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	420	182
Part Time	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	355	105
SUB-TOTAL	**39,637**	**23,040**	**46,875**	**24,957**	**47,088**	**25,462**	**53,394**	**28,097**	**52,637**	**27,098**
Private Universities										
Private Accredited	3,122	4,089	3,476	4,163	3,650	4,371	3,796	4,546	3,820	4,624
Private Unaccredited	949	511	748	742	763	757	801	907	853	947
SUB-TOTAL	4,071	4,600	4,224	4,905	4,412	5,128	4,597	5,453	4,673	5,571
TOTAL	**43,709**	**27,640**	**51,099**	**29,862**	**51,500**	**30,590**	**57,990**	**33,551**	**57,310**	**32,669**
GRAND TOTAL	**71,349**		**80,961**		**82,090**		**91,541**		**89,979**	

* Provisional

Source: Ministry of Education, Science and Technology

Health 3.18 Information on different categories of health institutions by province for the period between 2002 and 2005 is presented in Table 3.13. The information provided include the total number of different categories of health institutions and Voluntary Counseling and Testing Sites. The number of health facilities increased by 3.0 per cent from 4,767 in 2004 to 4,912 in 2005. Rift Valley had the highest number of health facilities (1,181) while North Eastern Province had the lowest number (139) in 2005.

Table 3.13: Number of Health Institutions by Province, 2002-2005

Province	2002	2003	2004	2005*
Nairobi	356	361	377	389
Central	819	829	868	894
Coast	519	525	550	566
Eastern	778	788	824	849
North Eastern	127	127	135	139
Nyanza	466	472	494	509
Rift Valley	1,082	1,096	1,146	1,181
Western	352	357	373	385
Total	**4,499**	**4,557**	**4,767**	**4,912**

* Provisional

Source: Health Management Information System, Ministry of Health

3.19. Table 3.14 shows the National Hospital Insurance Fund (NHIF) resources by receipts, benefits and contributions net of benefits for the last five financial years. Whereas contributions from members have been rising, total benefits accrued has been declining for the past two financial years. Total receipts rose by 18.1 per cent from KSh 2,639.5 million in 2003/2004 to KSh 3,117.2 million in 2004/2005 financial year. Total benefits accrued to members declined by 3.9 per cent from KSh 713.3 million in 2003/2004 to KSh 685.5 million in 2004/2005 due to stringent measures to curb inflated rebates by registered health faciilities. Contributions net of benefits rose by 26.2 per cent from KSh 1,926.2 million in 2003/2004 to KSh 2,431.8 million in 2004/2005.

Table 3.14: National Hospital Insurance Fund Resources, 2000/2001- 2004/2005

KSh Million

Financial Year	Receipts	Benefits	Contributions Net of Benefits
2000/2001	2,147.7	710.0	1,437.7
2001/2002	2,143.9	591.4	1,552.6
2002/2003	2,523.9	822.0	1,701.9
2003/2004	2,639.5	713.3	1,926.2
2004/2005*	3,117.2	685.5	2,431.8

* Provisional
Source: National Hospital Insurance Fund

3.20. The number of registered medical personnel per 100,000 population and those in training for the years 2004 and 2005 are presented in Table 3.15. In 2005, the number of medical personnel increased by 4.2 per cent from 63,227 in 2004 to 65,914 in 2005. Similarly, the number of medical personnel in training increased by 21.1 per cent from 9,558 in 2004/2005 academic year to 11,571 in 2005/2006. The ratio of registered medical personnel per 100,000 population declined from 198 in 2004 to 186 in 2005.

Table 3.15: Number of Registered Medical Personnel and those in Training, 2004- 2005

Number

	Registered Medical Personnel				In Training	
	2004		2005			
Type of Personnel	Number	No.Per 100,000 Population	Number	No.Per 100,000 Population	2004/2005	2005/2006*
Doctors	5,016	16	5,446	15	2,177	2,214
Dentists	841	3	871	3	147	137
Pharmacists	2,570	8	2,637	7	266	301
Pharmaceutical Technologists	1,620	5	1,656	5	142	1598
BSc. Nursing	280	1	367	1	349	311
Registered Nurses	10,210	32	10,657	30	1,342	1402
Enrolled Nurses	30,562	96	31,895	90	4,015	4,218
Clinical Officers	4,953	16	5,059	14	633	1128
Public Health officers	1,314	4	1,388	4	233	105
Public Health Technicians	5,861	18	5,938	17	254	157
Total	63,227	198	65,914	186	9,558	11,571

* Provisional
Source: Health Management Information System, Ministry of Health

3.21. The distribution of undergraduate and postgraduate medical students by type of course for the last five academic years registered in Nairobi and Moi universities are detailed in Table 3.16 below. Over 60.0 per cent of undergraduate students admitted for medical courses registered for Bsc in Medicine and Surgery. Apart from enrolment in Bachelor of Science in Nursing, there were more male students enrolled in all other medical courses. Overall, about 11.1 per cent of medical students in the two universities enrolled for postgraduate courses.

The number of students enrolled for medical courses increased by 3.6 per cent from 3,496 in 2004/2005 academic year to 3,623 in 2005/2006.

Table 3.16: Number of Undergraduate Medical Students by Course and Gender, 2001/2002 - 2005/2006

Number

Undergraduate Medical Degree	2001/2002		2002/2003		2003/2004		2004/2005		2005/2006	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Medicine & Surgery	1,011	544	1,157	622	1,075	743	1,388	789	1384	830
Bsc (Nursing)	124	149	122	159	145	157	165	184	155	156
Dental Surgery	63	55	67	61	80	61	82	65	71	66
Environmental Health	61	35	73	48	69	53	68	52	87	50
Pharmacy	172	140	168	129	168	127	181	123	174	127
Bsc (Biochemistry)			11	13	28	27	61	57	65	56
Sub-Total	**1,431**	**923**	**1,598**	**1,032**	**1,565**	**1,168**	**1,898**	**1,279**	**1,936**	**1,285**
Postgraduate students	122	32	146	42	168	68	239	80	297	105
Total	**1,553**	**955**	**1,744**	**1,074**	**1,565**	**1,733**	**2137**	**1,359**	**2,233**	**1,390**

Source: University of Nairobi and Moi University

3.22. The number of middle level trainees in public medical colleges for the period 2001 to 2005 are shown in Table 3.17. The data indicates that trainees increased by 7.5 per cent from 3,818 in 2004 to 4,106 in 2005. Courses that continue to attract many students are nursing and clinical medicine. Majority (34.2 per cent) of trainees in 2005 were enrolled in diploma courses in nursing followed by diploma in clinical medicine (27.5 per cent).

Table 3.17: Middle Level Medical Trainees in Public Medical Training Colleges, 2001 - 2005

Number

Level of Training	2001	2002	2003	2004	2005
Certificate in Community Health Sciences & edu[1]	148	176	236	119	155
Certificate in Medical Laboratories	30	51	135	145	-
Certificate in Medical Engineering	62	139	176	96	161
Certificate in Health Records & Information	..	..	28	69	102
Sub-Total	**240**	**366**	**575**	**429**	**418**
Diploma in Nursing	605	851	951	1142	1402
Diploma in Community Nutrition	34	58	62	96	61
Diploma in Environmental Health Sciences	201	238	282	254	157
Diploma in Medical Laboratory Sciences	218	217	135	311	184
Diploma in Clinical Medicine	352	507	406	633	1,128
Diploma Bridging Course in Medical Laboratory	19	29	50	54	-
Diploma in Medical Engineering	13	16	45	55	50
Diploma in Dental Technology	20	52	28	33	20
Diploma in Health Records and Information	39	50	47	56	13
Diploma in Occupational Therapy	40	47	41	71	40
Diploma in Orthopaedic Technology	21	44	29	27	26
Diploma in Pharmacy	128	151	132	155	147
Diploma in Physiotherapy	42	40	44	33	52
Diploma in Medical Imaging Sciences	38	39	34	36	38
Sub Total	**1,770**	**2,339**	**2,286**	**2,956**	**3,318**
Higher Diploma in Medical Education	38	..	..	..	-
Higher Diploma in Pharmacy	7	5	3	8	12
Higher Diploma in Environmental Department[2]	253	235	213	223	105
Higher Diploma in Medical Laboratory Sciences[3]	91	68	52	62	67
Higher Diploma in Nursing[4]	45	59	78	80	43
Higher Diploma in Clinical Medicine[5]	40	124	57	60	143
Sub-Total	**474**	**491**	**403**	**433**	**370**
Total	**2,484**	**3,196**	**3,264**	**3,818**	**4,106**

Source: Kenya Medical Training College, Ministry of Health

Notes: 1. Includes Community Health Nursing , Community Oral Health and Medical Education
2. Includes food science and inspection, epidemiology, health education, solid waste management and occupational health management.
3. Includes clinical chemistry, haematology, histology, parasitology, virology, bacteriology, microbiology, biochemistry and blood transfusion service management
4. Includes midwifery, intensive care nursing, KRCHN, post basic and ophthalmic nursing
5. Includes paediatrics, orthopaedics; ear, nose and throat, anaethesia, cataract and surgery, reproductive health and ophthalmology

3.23. Child immunization is vital to child survival and growth as it prevents children from immunizable diseases. Table 3.18 shows full immunization coverage by province between 2001 and 2005. At the national level, full immunization coverage improved from 59.0 per cent in 2004 to 63.0 per cent in 2005. Though the national average shows an improvement over the previous period, coverage in Eastern and North Eastern Provinces deteriorated. In North Eastern Province, coverage declined from 55.0 to 49.0 per cent while in Eastern Province coverage reduced from 83.0 to 67.0 per cent. Central province registered impressive improvement in immunization coverage from 83 per cent in 2004 to 93.0 per cent in 2005. Full immunization coverage in Nairobi, Coast, Nyanza, Rift Valley and Western Provinces recorded slight improvements.

Table: 3.18: Full Immunization Coverage Rate of under One year old Children by Province, 2001 - 2005

Percentage

[Province	2001	2002	2003	2004	2005
Nairobi	49	60	90	70	75
Central	69	60	78	83	93
Coast	53	52	66	55	61
Eastern	44	56	62	83	67
N/Eastern	60	45	66	55	48
Nyanza	36	30	47	48	53
R/Valley	41	42	49	49	57
Western	42	45	57	53	57
National Coverage	**46**	**47**	**60**	**59**	**63**

* Provisional
Source: Kenya Expanded Programme on Immunization, Ministry of Health

3.24. Table 3.19 presents ten leading diseases in Kenya from 2001 to 2005. Of the 22 million cases reported in 2005 over 7.5 million patients suffered from malaria. Malaria and diseases of the respiratory system combined accounted for over half (58.1 per cent) of all morbidity cases reported in 2005.

Table 3.19: Prevalence of Diseases causing Morbidity in Kenya, 2001- 2005 +

DISEASE	2001		2002		2003		2004		2005*	
	Number	%	Number	%	Number	%	Number	%	Number	%
Malaria	3,262,931	31.2	3,319,399	33.4	4,770,301	36.5	5,338,008	34.5	7,545,539	33.3
Disease of the Respiratory System	2,424,302	23.2	2,117,060	21.3	2,897,779	22.2	3,489,589	22.5	5,595,402	24.7
Disease. of the Skin (Incl. Ulcers)	711,555	6.8	681,980	6.9	839,616	6.4	996,227	6.4	1,492,357	6.6
Diarrhoel Diseases	483,941	4.6	424,422	4.3	579,547	4.4	700,013	4.5	1,038,650	4.6
Intestinal Worms	484,271	4.6	453,792	4.6	535,635	4.1	622,685	4.0	1,029,048	4.5
Pneumonia	281,988	2.7	286,288	2.9	358,169	2.8	439,511	2.8	599,963	2.7
Accidents (incl.. fractures, burns etc)	309,224	3	311,684	3.1	367,753	2.8	411,121	2.7	596,059	2.6
Rheumatism, Joint pains etc	197,507	1.9	192,434	1.9	227,454	1.7	280,047	1.8	417,614	1.8
Urinary Tract Infections	222,212	2.1	196,506	2	235,738	1.8	258,497	1.7	390,080	1.7
Eye Infection	204,326	2	168,543	1.7	218,306	1.7	254,996	1.6	355,275	1.6
All Other Diseases	1,875,855	17.9	1,786,212	17.9	2,039,020	15.6	2,699,714	17.5	3,571,371	15.9
TOTAL	**10,458,112**	**100**	**9,938,320**	**100**	**13,069,318**	**100**	**15,490,408**	**100**	**22,631,358**	**100**

* Provisional
Source: Health Management Information System, Ministry of Health
+ Revised.

Other Social Services

3.25. **National Youth Services (NYS):** Table 3.20 shows the number of service men and women recruited into the National Youth Service and their allowances from 2001 to 2005. The number of male recruits decreased by 45.5 per cent from 2,768 in 2004 to 1,508 in 2005 while female recruits decreased by 33.2 per cent from 783 in 2004 to 523 in 2005. The total number of recruits dropped by 42.8 per cent, from 3,551 recruits in 2004 to 2,031 recruits in 2005. Allowances paid to the recruits decreased by 75.9 per cent from KSh 29.8 million in 2004 to KSh 7.8 million in 2005.

Table 3.20: National Youth Services Recruitment and Allowances, 2001-2005*

Year	Recruitment (Numbers)			Allowances KSh Million
	Service Men	Service Women	Total	
2001	2,964	788	3,752	0.67
2002	2,483	760	3,243	0.58
2003	277	23	300	2.52
2004	2,768	783	3,551	29.82
2005*	1,508	523	2,031	7.81

* Provisional
Source: National Youth Service

3.26. **National Social Security Fund (NSSF):** The National Social Security Fund provides social security to workers. Table 3.21 shows the number of registered employers and employees, annual contributions and benefits paid to members between 2001 and 2005. Registered employers rose by 10.1 per cent while the number of registered employees increased by 0.6 per cent in 2005 compared to 2004. Annual contributions increased marginally by 0.6 per cent from KSh 3,773.3 million in 2004 to 3,794.6 million in 2005. Benefits paid went up by 0.5 per cent from KSh 2,513.5 million in 2004 to KSh 2,525.3 million in 2005.

Table 3.21: National Social Security Fund, 2001- 2005

	2001	2002	2003	2004	2005*
Registered Employers '000	51.5	52.7	54.8	55.7	61.3
Registered Employees '000	2,832.5	2,926.8	3,030.4	3,026.2	3,045.4
Annual contribution KSh (million)	1,736.9	3,394.2	3,535.3	3,773.3	3,794.6
Annual benefits paid KSh (million)	2,223.1	2,264.3	2,451.5	2,513.5	2,525.3

*Provisional
Source: National Social Security Fund,

3.27. **Adult Education:** Table 3.22 provides information on enrolment in adult education programmes by gender from 2001 to 2005. The number of learners enrolled for adult classes went up by 14.9 per cent from 109,923 in 2004 to 126,324 in 2005. The number of female learners increased by 11.5 per cent from 78,411 in 2004 to 87,422 in 2005 while male learners increased by 23.5 per cent from 31,512 in 2004 to 38,902 in 2005. Female learners remained the majority at 69.2 per cent in 2005.

Table 3.22: Adult Education Enrolment by Gender, 2000- 2004

Year	Male	Female	Total	% Female Enrolment
2001	26,479	66,573	93,052	72.0
2002	41,341	73,524	114,865	64.0
2003	31,305	77,126	108,431	71.1
2004	31,512	78,411	109,923	71.3
2005*	38,902	87,422	126,324	69.2

* Provisional
Source: Department of Adult Education

3.28. The number of adults who passed proficiency tests (PPT) and those registered for Kenya Certificate of Primary Education (KCPE) are contained in Table 3.23. The number of adult learners who passed proficiency tests declined by 16.5 per cent from 15,590 in 2004 to 13,021 in 2005. In contrast, the number of adult learners who registered for KCPE increased by 16.1 per cent from 7,606 in 2004 to 8,828 in 2005. Rift Valley Province recorded the highest number (3,471) of adult learners who passed proficiency tests in 2005 while Nairobi Province had the highest number (3,369) of adult learners who registered for KCPE examinations. All provinces recorded increases in the number of candidates who registered for KCPE in 2005 except Coast Province which recorded a decline of 31.6 per cent.

Table 3.23: Adults who Passed Proficiency Tests and those registered for KCPE by Province, 2001-2005

Province	2001		2002		2003		2004		2005*	
	PPT	KCPE	PPT	KCPE	PPT	KCPE	PPT	KCPE	PPT	KCPE
Nairobi	426	1,607	100	200	120	2,350	408	2,522	381	3,369
Central	1,141	149	610	105	1,018	209	1,196	196	1,203	203
Coast	1,042	342	430	601	852	501	1,172	310	910	212
Eastern	2,499	636	840	65	2,234	55	2,676	97	2,537	127
N/Eastern	394	636	150	60	420	1146	550	1,958	883	2,024
Nyanza	2,803	101	730	114	2,144	147	2,593	148	2,267	253
R/Valley	1,372	2,722	1,150	602	2,927	2,189	4,830	2,326	3,471	2,585
Western	1,179	213	490	43	844	37	2,165	49	1,369	55
Total	10,856	6,406	4,500	1,590	10,559	6,634	15,590	7,606	13,021	8,828

*Provisional

Source: Department of Adult Education

3.29 **Women Groups:** Women groups represent the primary decision-making outlets for women in Kenya and the potential for community driven development. Registered women groups increased by 1.6 per cent from 133,135 in 2004 to 135,294 in 2005 while membership went up by 3.2 per cent from 5.1 million in 2004 to 5.3 million in 2005, as shown in Table 3.24. Contributions by the groups increased from KSh 531.6 million in 2004 to KSh 538.4 million in 2005. Support to the groups from the Government increased from KSh 46.0 million in 2004 to KSh 48.1 million in 2005, representing 4.6 per cent rise.

Table 3.24: Registered Women Groups, membership, contribution and GOK grants, 2001- 2005

Year	No. of registered Women	Membership	Group contribution (KSh million)	Grants by GOK (KSh million)
2001	115,884	4,520,178	457.9	9.00
2002	122,441	4,766,625	484.5	20.0
2003	127,951	4,928,690	509.7	40.0
2004	133,135	5,115,980	531.6	46.0
2005*	135,294	5,279,691	538.4	48.1

* Provisional
Source: Department of Gender.

Public Safety, Law and Order

3.30. The Government has continued to put in place various measures to fight and curb crime against individuals and property. The introduction of Special Police Units led to reduction in rape cases and robberies along the major highways. Community policing initiative, which is a collaborative effort between the Police and the Community has also contributed to the fight against crime in the country.

3.31. Table 3.25 shows the distribution of crime statistics reported to the Police department in the last five years. Crime cases reported to Police reduced from 83,841 in 2004 to 75,400 in 2005, representing a decline of 10.1 per cent. Significant declines in cases reported are noted among theft of motor vehicle parts (28.9 per cent), robbery and allied offences (26.1 per cent), theft of motor vehicles (25.1 per cent) and theft from motor vehicles (24.2 per cent) . Reported causes of assault and murder also decreased by 12.8 and 10.7 per cent respectively.

Table 3.25: Annual Crime Statistics, 2001 - 2005

Numbers

Cases reported to Police Stations	2001	2002	2003	2004	2005*
Murder (including attempt)	1,688	1,661	1,395	1,411	1,260
Manslaughter	8	3	5	22	22
Rape (including attempt)	1,987	2,005	2,308	2,908	2,867
Assault	12,611	12,689	13,401	15,715	13,708
Other offences against the person	3,020	3,006	3,516	4,221	3,538
Robbery and Allied offences	9,180	8,504	8,711	7,863	5,811
Breakings	10,363	8,338	9,037	9,150	7,902
Theft of Stock	2,327	2,087	2,291	2,659	2,238
General stealing	8,919	8,340	9,916	11,392	11,480
Theft of M/vehicle	960	1,043	803	758	568
Theft of M/vehicles parts	753	587	708	655	466
Theft from m/ vehicles	558	420	399	326	247
Theft of bicycles	565	448	623	616	527
Theft by servant	2,757	2,371	2,957	2,761	2,666
Dangerous drugs	5,300	4,467	4,742	5,940	6,398
Handling stolen property	347	299	299	301	314
Corruption	23	76	50	200	89
Causing death by dangerous driving	301	298	296	210	225
Other offences against property	3,073	3,363	3,753	4,011	3,663
All other penal code offences	10,612	10,418	12,131	12,722	11,421
Total	75,352	70,423	77,340	83,841	75,400

* Provisional

Source: Kenya Police Department

3.32. Firearms and ammunitions found illegally in the hands of people contribute to criminal activities reported in the country. Table 3.26 and Figure 3.1 present data on firearms and ammunitions recovered or surrendered to the Government between 2001 and 2005. The number of firearms recovered declined by 21.4 per cent from 443 in 2004 to 348 in 2005 while the number of ammunitions recovered declined by 17.2 per cent from 5,316 in 2004 to 4,402 in 2005. The number of firearms surrendered increased tremendously from 118 in 2004 to 1,952 in 2005. Ammunitions surrendered more than tripled from 1,114 in 2004 to 4,687 in 2005. This could be attributed to the Government's amnesty to those who surrender the firearms and ammunitions voluntarily.

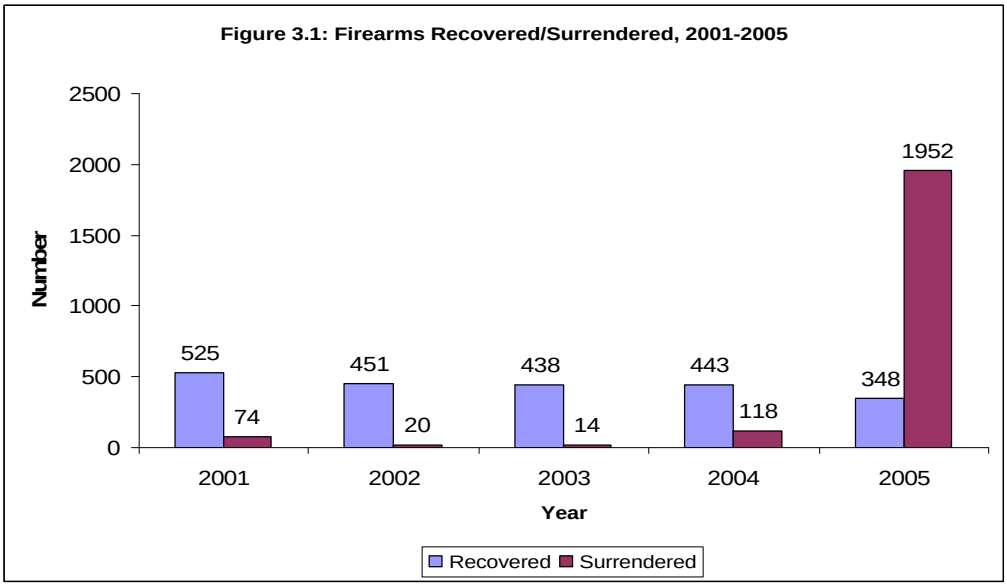
Table 3.26: Firearms and Ammunition Recovered/Surrendered, 2001 - 2005

Number

	Firearms							Ammunition		Magazines
	Recovered			Surrendered						Recovered
Year	Rifles	Pistols	Total	Toys	Rifles	Pistols	Total	Recovered	Surrendered	
2001	192	333	525	-	73	1	74	8,520	399	112
2002	168	283	451	-	19	1	20	7,080	96	54
2003	140	298	438	-	12	2	14	5,136	102	18
2004	142	301	443	83	31	4	118	5,316	1,114	26
2005*	132	216	348	-	1,929	23	1,952	4,402	4,687	7

* Provisional

Source: Kenya Police Department



3.33. Table 3.27 shows annual crime reported to the Police department by Province. There was a general decline in cases reported to the Police across all the provinces between 2004 and 2005. About 20.0 per cent of all the cases reported occurred in Rift Valley Province. Western Province registered the highest decline in cases reported by 15.3 per cent from 10,093 in 2004 to 8,546 in 2005. Other notable declines were in Eastern (13.4 percent), Nyanza (12.4 per cent), and Rift Valley (12.3 per cent) Provinces. Coast Province recorded the least reduction in reported cases of crime at 1.2 per cent.

Table 3.27: Crime reported to Police by Province, + 2001 - 2005

Number

Cases reported to Police Stations by Province	2001	2002	2003	2004	2005*
Nairobi	14,856	13,507	13,580	13,426	12,300
R/Valley	7,911	7,341	9,045	17,478	15,320
Central	15,549	14,930	15,895	13,187	12,237
Eastern	8,662	8,937	10,298	10,921	9,454
Nyanza	8,520	7,516	6,788	9,035	7,913
Coast	10,413	9,628	11,506	8,735	8,629
Western	496	687	789	10,093	8,546
North Eastern	8,481	7,506	8,960	615	605
Railways	291	274	333	294	270
KAPU	173	99	146	57	126
Total	**75,352**	**70,423**	**77,340**	**83,841**	**75,400**

*Provisional
** Kenya Airport Police Unit
+ Includes Railways and KAPU.
Source: Kenya Police Department

3.34. Violence affects the lives of Kenyans, regardless of their economic status and cuts across cultural and religious barriers. Domestic violence continues to be the most common form of abuse in the country. Table 3.28 shows incidences of reported rape including attempted rape, defilement/incest, and assault cases against women by province. The figures in the table refer to reported cases only, which may be an under-estimate, as many of rape cases go unreported. About 30.0 per cent of these cases were reported in Rift Valley Province followed by Central and Eastern Provinces with 17.4 and 14.0 per cent, respectively. North Eastern Province recorded the lowest number of cases (202 or 1.7 per cent). The total number of reported cases increased by 1.4 per cent from 11,867 in 2004 to 12,036 in 2005.

Table 3.28: Reported Rape, Attempted Rape, Defilement/Incest, and Assault Cases against women by Province, 2001 - 2005

Number

Province	2001	2002	2003	2004	2005*
Nairobi	639	736	809	885	609
Central	1,673	1,921	2,101	2,306	2,095
Coast	747	883	968	1,057	1,146
Eastern	1,082	1,205	1,321	1,445	1,691
N/Eastern	96	119	128	135	202
Nyanza	1078	1,254	1,373	1,502	1,188
R/Valley	2,368	2,667	2,925	3,198	3,556
Western	952	1,116	1,222	1,339	1,549
Total	8,635	9,901	10,852	11,867	12,036

*Provisional
Source: Kenya Police Department

3.35. Table 3.28 provides information on different forms of violence against women for the last five years. To protect women against different forms of violence and to encourage them to report all cases of violence, the Government has set up a Police Station at Kilimani in Nairobi to deal specifically with issues of violence against women and children. The Government has also established gender desks in every district police station where gender-based violence victims are encouraged to report cases with assurances of professional treatment by those manning the desks. The total number of reported cases of violence against women increased by 1.4 per cent from 11,867 cases reported in 2004 to 12,036 in 2005. Reported cases of rape including attempted, reduced by 2.2 per cent from 1,419 in 2004 to 1,451 in 2005. Assault and battering of women constitutes over three quarters of all reported cases of violence against women.

Table 3.29: Reported Rape, Attempted Rape, Assault and Battering cases, 2001 - 2005

Number

Offence	2001	2002	2003	2004	2005*
Rape and attempted rape	933	984	1,126	1,419	1,451
Defilement/incest	1,094	1,021	1,182	1,489	1,416
Assault and Battering	6,648	7,896	8,544	8,959	9,169
Total	8,635	9,901	10,852	11,867	12,036

* Provisional
Source: Kenya Police Department

3.36. Table 3.30 gives the breakdown of the number of cases filed, pending and decided upon by the various magistrates' courts throughout the country. The number of pending cases increased by 29.1 per cent from 6.5 million in 2004 to 8.4 million in 2005, attributed to the lower number of magistrates in the Law Courts. Filed cases and those decided upon in the period under review increased by 34.4 and 35.2 per cent, respectively. Traffic offences constituted 63.2 per cent of the pending cases in 2005 followed by civil and criminal offences which account for 18.5 and 15.3 per cent, respectively.

Table 3.30: Cases Filed, Pending and Decided on by Magistrates Courts, 2004 and 2005

	2004			2005*		
Type of Cases	Filed	Pending	Decided on	Filed	Pending	Decided on
Criminal	191,583	928,023	165,727	219,800	1,290,170	212,958
Traffic	131,976	4,331,743	121,439	209,911	5,322,660	183,015
Land	604	26,386	428	1,141	27,848	735
Succession	3,944	87,520	4,012	4,650	107,969	3,810
Affiliation	1,805	12,635	1,645	1,564	44,736	1,165
Miscellaneous	2,602	55,925	2,288	5,425	74,993	4,051
Civil	31,311	1,083,778	22,871	46,480	1,554,201	24,859
Total	**363,825**	**6,526,010**	**318,410**	**488,971**	**8,422,577**	**430,593**

Source: The Judiciary Department
* Provisional

Notes:
1. The number of cases filed refers to all cases brought before the magistrates' courts during the year under reference
2. Pending cases refer to the cases which had not been arbitrated on by 31st December during the year under reference
3. Cases decided on refer to those cases that judgment was entered by 31st December during the year under reference
4. These cases exclude those of High Courts and the Court of Appeal

3.37. Quick disposal of cases in the Law Courts is highly dependent on the number of magistrates available to handle the cases. Table 3.31 shows the number of magistrates in the Law Courts by cadre in 2004 and 2005. The total number of magistrates increased by 25.3 per cent from 186 in 2004 to 233 in 2005. Almost all cadres of magistrates increased during the period under review, except for Chief Magistrates and Senior Resident Magistrates, whose staffing levels declined by 1 and 7 respectively. The most improved staffing level was that of Senior Principal Magistrates, which doubled within the same period, followed by that of Resident Magistrates (65.9 per cent) and District Magistrates II, which rose by 62.5 per cent. The ratio of magistrates to the pending cases in 2005 was 1:36,148. Similarly, the ratio of magistrates to the number of cases decided upon was 1:1,848.

Table 3.31: Distribution of Magistrates in Law Courts by Cadre, 2004 and 2005

Category of Magistrates	2004	2005*
Chief Magistrates	10	9
Senior Principal Magistrates	9	18
Principal Magistrates	24	31
Senior Resident Magistrates	83	76
Resident Magistrates	44	73
District Magistrate (II)	16	26
Total	**186**	**233**

* Provisional
Source: The Judiciary Department

3.38. Table 3.32 shows the convicted prison population by age and gender for the period 2001 to 2005. The number of convicts increased by 15.6 per cent from 89,289 in 2004 to 103,208 in 2005. Female convicts accounted for 13.3 per cent of the total convicted population in 2005, up from 12.2 per cent in 2004. More than half of the convicted population comprised of young people aged below 25 years. Youth aged 16 and 17 formed 4.8 per cent of the convicts, while those aged 18-20 and 21 - 25 constitute 18.8 and 31.1 per cent of the jailed population respectively in 2005.

Table 3.32: Convicted Prison Population by Age and Gender, 2001 - 2005

Number

	2001		2002		2003		2004		2005*	
AGES	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Under 16	9	2	2	-	1	-	166	-	511	11
16-17	3,057	448	2,476	521	5,465	644	3,706	351	4,486	505
18-20	11,751	1,537	14,258	1,722	17,465	3,071	19,134	2,874	16,909	2,517
21-25	17,786	1,986	21,320	2,184	26,382	2,776	27,921	3,780	27,356	4,713
26-50	24,071	3,279	27,187	3,455	28,629	3,304	19,846	3,290	33,346	5,027
50+	5,178	326	5,752	565	6,150	333	8,559	562	6,870	957
TOTAL	61,852	7,378	70,995	8,447	84,092	10,128	78,432	10,857	89,478	13,730
GRAND TOTAL	69,230		79,442		94,,220		89,289		103,208	

* Provisional
Source: Kenya Prisons Service Department

3.39. The distribution of the Daily Average Populations (DAP) of convicted and remand prisoners by gender from 2001 to 2005 are presented in Table 3.33. The total DAP in Kenyan jails declined by 1.0 per cent from 48,251 in 2004 to 47,961 in 2005. The total daily average number of convicted prisoners dropped by 1.2 per cent from 26,802 in 2004 to 26,487 in 2005. The decline was attributed to Government's efforts to put most of the petty offenders on probation sentences and community service orders to de-congest prisons.On the other hand, remandees increased from 21,449 in 2004 to 21,474 in 2005

Table 3.33: Daily Average Population of Prisoners by Gender, 2001 - 2005

Numbers

Categories of Persons Committed to Prisons	2001		2002		2003		2004		2005*	
	M	F	M	F	M	F	M	F	M	F
Sentenced to 2 yrs or more	9,227	360	9,195	419	9,787	451	9,895	465	11,937	380
Sentenced 1 Month-2yrs	44,102	5,880	44,589	6,650	58,532	8,436	59,640	8,530	58,050	7,267
Less than 1 Month	8,514	1,338	17,209	1,378	25,772	1,241	14,825	2,207	14,556	2,250
Committed for debt	762	130	1,240	146	800	185	799	182	818	191
Committed for safe custody (remands)	191,297	11,557	190,945	11,695	212,624	13,345	284,723	14,056	245,594	14,438
Total	**253,902**	**19,265**	**263,178**	**20,288**	**297,515**	**23,658**	**369,882**	**25,440**	**330,955**	**24,526**
Number Previously convicted	15,308	2,059	18,188	1,991	23,757	2,269	22,359	1,710	30,271	3,665
Daily Average Population in Prison	34,462	1,648	36,560	1,732	39,550	2,163	46,185	2,066	45,268	2,434
Deaths (Excluding Executions)	516	13	581	10	636	15	693	14	603	16
Prison population per 100,000 of national population	117		122		129		156		154	

* Provisional
Source: Kenya Prisons Service Department

3.40. Prison population by duration of sentence and gender for the period 2001 to 2005 is given in Table 3.34. The total prison population dropped by 10.1 per cent from 395,322 in 2004 to 355,481 in 2005. The number of persons committed for safe custody (remandees) also decreased by 13.0 per cent from 298,779 in 2004 to 260,032 in 2005. The total number of convicts serving jail terms ranging from one month to 2 years reduced by 4.2 per cent from 68,170 in 2004 to 65,317 in 2005. Similarly, the population of prisoners serving less than one month reduced by 1.3 per cent from 17,032 in 2004 to 16,806 in 2005. The number of prisoners with previous convictions went up by 41.0 per cent from 24,069 prisoners in 2004 to 33,936 in 2005. The ratio of prison population to 100,000 of national population decreased slightly from 156 in 2004 to 154 in 2005.

Table 3.34: Prison Population by Sentence Duration and Gender, 2001 - 2005

Numbers

Categories of Persons Committed to Prisons	2001		2002		2003		2004		2005*	
	M	F	M	F	M	F	M	F	M	F
Sentenced to 2 yrs or more	9,227	360	9,195	419	9,787	451	9,895	465	11,937	380
Sentenced 1 Month-2yrs	44,102	5,880	44,589	6,650	58,532	8,436	59,640	8,530	58,050	7,267
Less than 1 Month	8,514	1,338	17,209	1,378	25,772	1,241	14,825	2,207	14,556	2,250
Committed for debt	762	130	1,240	146	800	185	799	182	818	191
Committed for safe custody (remands)	191,297	11,557	190,945	11,695	212,624	13,345	284,723	14,056	245,594	14,438
Total	**253,902**	**19,265**	**263,178**	**20,288**	**297,515**	**23,658**	**369,882**	**25,440**	**330,955**	**24,526**
Number Previously convicted	15,308	2,059	18,188	1,991	23,757	2,269	22,359	1,710	30,271	3,665
Daily Average Population in Prison	34,462	1,648	36,560	1,732	39,550	2,163	46,185	2,066	45,268	2,434
Deaths (Excluding Executions)	516	13	581	10	636	15	693	14	603	16
Prison population per 100,000 of national population	117		122		129		156		154	

* Provisional
Source: Kenya Prisons Service Department

3.41. Table 3.35 gives the number of convicted prisoners by type of offences. A total of 95,449 people were convicted in 2005 under different grouped offences. This was a slight reduction from a total of 96,543 convicted in the previous year. Majority (89.4 per cent) of those convicted in 2005 were males. About 31.0 per cent of convicts in 2005 were convicted due to various cases related to by - laws under the Local Government Act, Traffic Act, Tax Act etc. Those convicted under the Liquor Licensing Act ranked second with a total of 26,527 convicts i.e. 27.8 per cent of the total number of cases.

Table 3.35: Convicted Prisoners by Type Offences 2001 - 2005

Source: Kenya Prisons Service Department

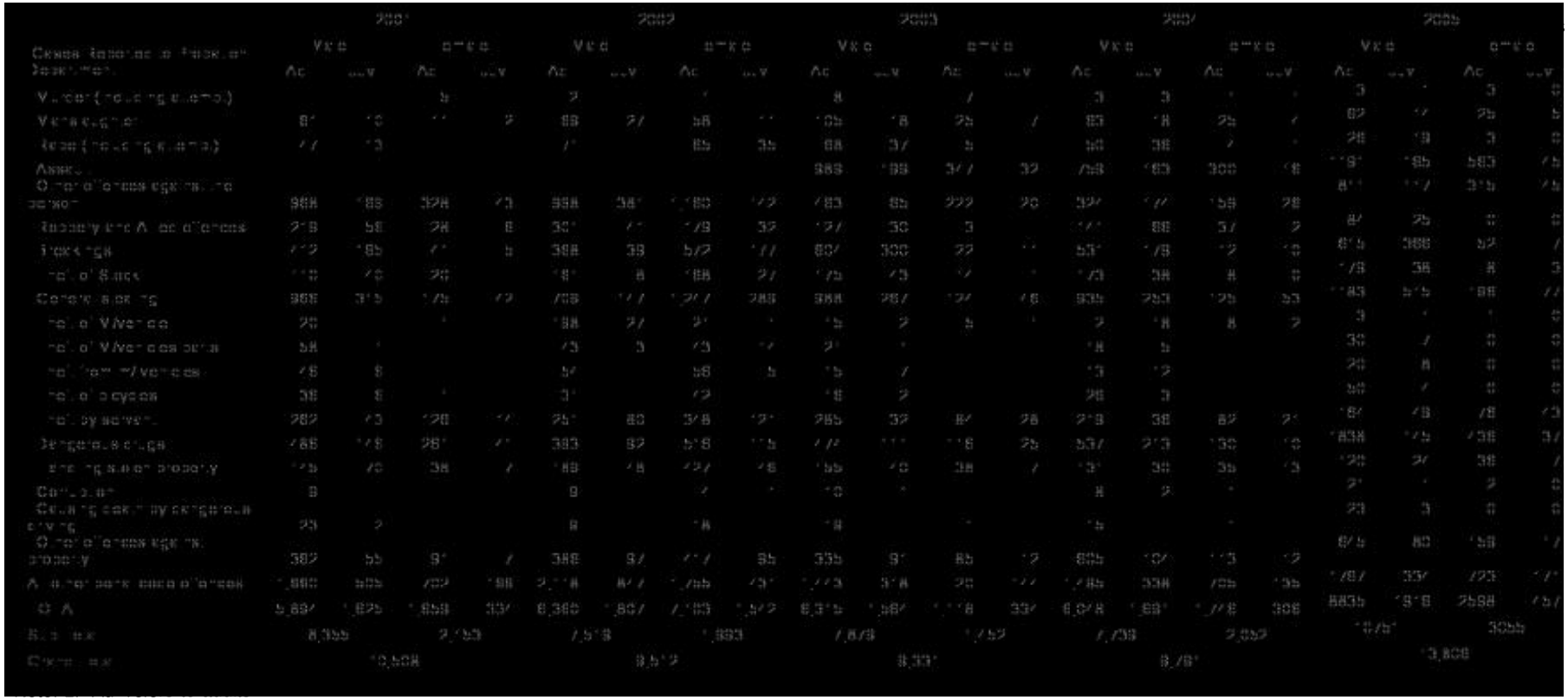
Key 1: These include treason, incitement to mutiny, aiding civil disobedience
2: These include stealing govt. property, stealing by person in public service, stealing from state corporations
3: These include assault, grievous harm, murder etc
4: These include theft, robbery with violence, arson
5: These include attempts to commit offences, neglect to prevent offence, conspiracies to commit offences
6: These include employment of aliens without permit
7: These include possession, manufacture, trafficking etc of any quantity
8: These include bylaws under the local govt. act, traffic act, tax act etc

Probation Services and Community Service Order

3.42. Table 3.36 gives the number of prisoners serving probation sentence by gender and type of offence between 2001 and 2005. The Government has been undertaking reforms in the Penal System aimed at de-congesting prisons through community service order and probation sentence. These reforms have subsequently led to an increase in the number of prisoners serving probation sentences by 41.0 per cent from 9,791 in 2004 to 13,806 in 2005. Most of those serving probation sentences in 2005 were males. Juveniles constitute about 17.0 per cent of the prison population serving on probation terms. Most of the offences committed by those serving probation sentence were assault, handling dangerous drugs, general stealing, breakings and other offences against the person or property.

3.43. Information on the distribution of prisoners serving community service order by gender and type of offence is presented in Table 3.37. The number of prisoners serving community sentence increased significantly by 57.2 per cent from 26,554 in 2004 to 41,752 in 2005. Females constituted 22.7 per cent of those serving under community service orders. About 2.0 per cent of the prison population serving under this scheme are juveniles. Majority of those serving community service orders were involved in general stealing, assault and other offences.

Table 3.36: Number of Offenders Serving Probation Sentence by Gender and Type of offence, 2001 -2005



2. "Juv" refers to juveniles

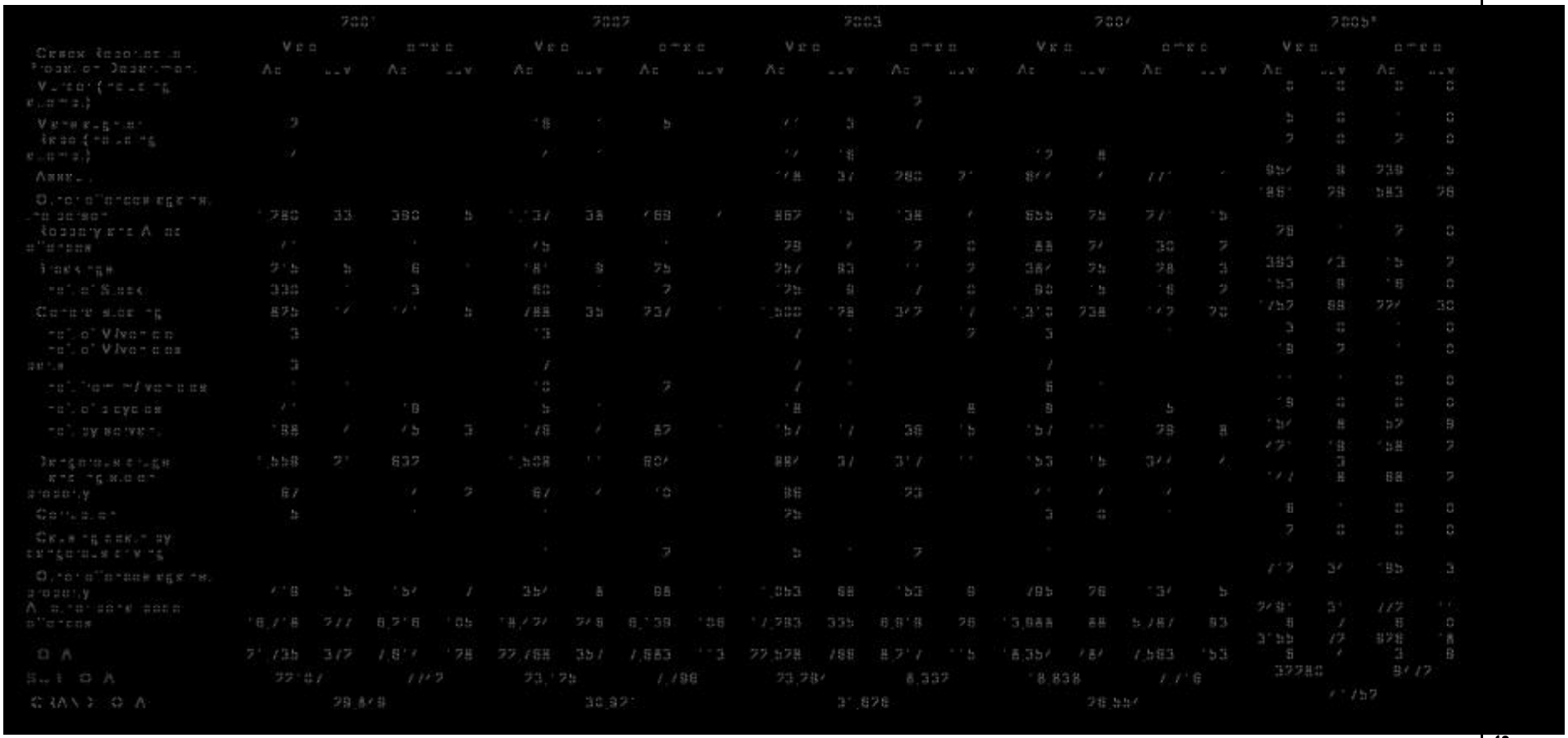
3. Assault figures were combined with other offences against the person for the years 2000 to 2002.

* Provisional

Source: Probation and Aftercare Department

Table 3.37: Number of Offenders Serving Community Service Order by Offence, 2001 - 2005

Numbers



Note: 1. “Ad” refers to adults
2. “Juv” refers to juveniles
3. Assault figures were combined with other offences against the person for the years 2001 to 2002.
* Provisional
Source: Probation and Aftercare Department

Democracy 3.44. Table 3.38 shows the number of registered voters by province from 2001 to 2005. The number of registered voters has continuously increased from 9,410,947 people in 2001 to 11,608,891 in 2005. Although females constitute slightly more than a half of Kenyan population, female voters constitute only 45.9 per cent of the registered voters in 2005. In all provinces, there are less female registered voters than males. In 2005, Rift Valley Province recorded the highest number of registered voters with 2,672,327 accounting for 23.0 per cent of the total registered voters followed by Eastern Province with 1,979,519 registered voters accounting for 17.1 per cent of the total registered voters. North Eastern Province had the lowest registered voters at 2.0 per cent of the national total registered voters.

Table 3.38: Number of Registered Voters by Province and gender, 2001 - 2005

Source: Electoral Commission of Kenya

Chapter 4
Employment, Earnings and Consumer Prices

Overview

Performance of the economy shows that it continued on the recovery path due to increased economic activities as was reflected in creation of new employment opportunities. Economic growth was supported by increased demand for Kenya's goods and services by the rest of the world particularly in the agricultural sector and tourism. The economy created 458.9 thousand new jobs in 2005, representing an increase of 5.9 per cent with majority coming from the Informal Sector. The average annual inflation rate decreased from 11.6 per cent in 2004 to 10.3 per cent in 2005. However, the underlying inflation, which excludes food commodities rose marginally from 6.8 per cent to 7.4 per cent over the same period. Average nominal wages rose by 15.0 per cent, which was 4.3 per cent in real terms in 2005.

Employment

4.2. Number of persons engaged outside small scale farming and pastoralists activities went up by 5.9 per cent from 7,822.8 thousand in 2004 to 8,281.7 thousand in 2005. Modern sector created 44.5 thousand new jobs in the year under review, which were attributed to improvement in the economy and mainly in agriculture, transport and communication and wholesale and retail trade sectors. Export Processing Zones (EPZs) that had indicated a decline in their levels of employment in 2004, showed a reversed trend with a slight growth of 0.7 per cent during the period under review. Table 4.1 shows that the wage employees in the modern sector increased by 2.5 per cent compared to a growth of 2.1 per cent in 2004.The informal sector created 414,400 new jobs, which constituted 90.3 per cent of all new jobs arising from activities outside small scale agriculture. Total number of self employed and unpaid family workers within the modern sector went up marginally from 66.3 thousand persons in 2004 to 66.8 thousand persons in 2005.

Table 4.1: Total Recorded Employment: June, 2001 - 2005

'000's

	2001	2002	2003	2004	2005*
Modern Establishments - Urban and Rural Areas:					
Wage Employees	1,677.1	1,699.7	1,727.3	1,763.7	1,807.7
Self-employed and unpaid family workers	65.4	65.5	65.7	66.3	66.8
Informal Sector**	4,668.7	5,108.3	5,546.4	5,992.8	6,407.2
TOTAL	6,411.2	6,873.5	7,339.4	7,822.8	8,281.7

* Provisional.

** Revised

4.3. The sectoral analysis of wage employment in the modern sector as presented in Table 4.2, indicates an increase of 47.9 thousand jobs in 2005 compared to 37.3 in 2004 in the private sector. Despite the remarkable growth in the number of jobs in the private sector, the overall growth in the modern sector employment stood at 44.5 thousand due to the continuing decline in public sector employment.

Table 4.2: Wage Employment by Industry and Sector, 2001 - 2005

'000's

	2001	2002	2003	2004	2005*	% change
PRIVATE SECTOR:						
Agriculture and Forestry	254.7	256.3	259.6	264.8	272.4	2.9
Mining and Quarrying	4.6	4.6	4.7	4.9	5.1	4.1
Manufacturing	183.1	196.4	208.3	211.0	217.6	3.1
Electricity and Water	1.6	1.7	1.8	1.9	1.9	0.0
Building and Construction	52.4	52.5	53.1	54.4	55.9	2.8
Wholesale and Retail Trade, Restaurants and Hotels	150.8	151.4	156.7	161.7	169.3	4.7
Transport and Communications	46.2	47.7	49.2	62.4	76.5	22.6
Finance,Insurance, Real Estate and Business services	68.8	68.6	69.1	68.7	70.9	3.2
Community, Social and Personal Services	256.5	261.5	265.6	275.7	283.9	3.0
TOTAL PRIVATE SECTOR	1,018.7	1,040.7	1,068.2	1,105.5	1,153.5	4.3
PUBLIC SECTOR:						
Agriculture and Forestry	57.8	57.3	56.5	55.8	55.1	-1.3
Mining and Quarrying	0.6	0.6	0.7	0.7	0.7	0.0
Manufacturing	33.5	33.4	31.4	31.0	29.9	-3.5
Electricity and Water	19.8	19.6	19.3	18.9	18.3	-3.2
Building and Construction	24.4	24.0	23.5	23.0	22.5	-2.2
Wholesale and Retail Trade, Restaurants and Hotels	6.1	6.1	6.1	6.3	6.5	3.2
Transport and Communications	38.1	37.8	37.6	38.4	40.8	6.3
Finance, Insurance, Real Estate and Business services	15.0	14.6	14.7	14.9	14.8	-0.7
Community, Social and Personal Services	463.1	465.4	469.3	469.2	465.6	-0.8
TOTAL PUBLIC SECTOR	658.4	658.8	659.1	658.2	654.2	-0.6

* Provisional.

4.4. The share of private sector employment in the modern sector wage employment continued to rise and stood at 63.8 per cent in 2005. The highest growth in employment by industry in the private sector was in the Transport and Communications industry just as it was in 2004. This is attributed to the reforms in this sector that continued in the period under review, which resulted to significant investment in modern sector transport and the employment of persons to promote subscription to mobile service providers. Other sectors that recorded improved growth in wage employment included; Manufacturing and Finance, Insurance, Real Estate and Business services, at 3.1 per cent and 3.2 per cent, respectively. Agriculture industry had mixed performance, which saw certain sub-sectors grow while others had negative growths. Sugar, horticulture and tea sub-sectors registered growths in the period under review whereas coffee and sisal declined.

4.5. The Government continued in its efforts to maintain a leaner work force and privatisation of non-strategic public enterprises in an effort to contain public sector wage bill. Public sector employment registered a decline in Central Government and Teachers Service Commission, which are the main employers, resulting in an overall decline of 0.6 per cent in wage employment in the sector, which stood at 654.2 thousand in 2005 from 658.2 thousand the previous year. Most of the industries registered negative growths in public sector employment except Wholesale and retail Trade, Restaurants and Hotels and Transport and Communications.

Table 4.3 Wage Employment in the Public Sector+, 2001 - 2005

'000's

	2001	2002	2003	2004	2005*	Annual Percentage Change 2005/2004
Central Government***	195.7	194.9	195.0	194.2	189.5	-2.4
Teachers Service Commission ..	231.3	234.3	234.8	234.5	232.8	-0.7
Parastatal Bodies++	101.6	99.0	97.3	96.0	97.5	1.6
Majority Control by the Public Sector+++ ..	47.5	46.7	46.4	46.1	46.9	1.8
Local Government	82.3	83.9	85.6	87.4	87.5	0.1
TOTAL	**658.4**	**658.8**	**659.1**	**658.2**	**654.2**	-0.6

+ Figures refer to employment stock as at 30th June.

* Provisional.

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

++ Refers to Government wholly-owned corporations.

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

4.6. Data on wage employment in the public sector by type of employer is set out in Table 4.3. Local government registered a slight growth in wage employment from 87,400 in 2004 to 87,500 in the year under review. Employment in Central Government declined further by 2.4 per cent from 194.2 thousand persons in 2004 to 189.5 thousand in 2005. Employment in the Teachers Service Commission (TSC) also declined marginally from 234.5 thousand persons in 2004 to 232.8 persons in 2005. This was occasioned by non recruitment and natural attrition in the period under review. Wage employment in parastatals and institutions with majority control by the public sector went up as a result of conversion of certain Government Departments to autonomous and semi-autonomous status.

4.7. Distribution of wage employment in the modern sector by province is presented in Table 4.4. All provinces recorded about the same levels of growth in employment. Central Province registered the highest increase in wage employment among the provinces and was followed by Nyanza. Nairobi province, which commands the largest share of modern sector wage employment, recorded an increase of 2.3 per cent from 443.4 thousand to 453.6 thousand. Rift Valley had its wage employment growing by 2.4 per cent from 396.8 thousand persons in 2004 to 406.3 thousand persons in 2005.

Table 4.4: Wage Employment by Province, 2001 - 2005

'000's

Province	2001	2002	2003	2004	2005*	Percentage Change 2004/2003
Nairobi	419.9	425.6	433.5	443.4	453.6	2.3
Coast	207.7	210.8	214.3	219.2	224.4	2.4
North Eastern	15.5	15.7	15.9	16.2	16.6	2.5
Eastern	139.8	141.9	144.1	147.0	150.8	2.6
Central	240.3	242.7	245.9	249.9	257.2	2.9
Rift Valley	376.0	381.7	388.1	396.8	406.3	2.4
Nyanza	167.4	169.1	171.3	174.3	179.2	2.8
Western	110.5	112.2	114.2	116.9	119.6	2.3
TOTAL	1,677.1	1,699.7	1,727.3	1,763.7	1,807.7	2.5

* Provisional

4.8. Table 4.5 presents wage employment by industries in urban areas for the years 2000 and 2005. Over the last five years, 97.0 thousand jobs were generated in the urban areas giving an overall increase of 10.7 per cent. While Nairobi had the highest wage employment among other towns, its share in urban wage employment has declined from 44.2 per cent in 2000 to 43.0 per cent in 2005. The data also shows that growth in wage employment in the major towns expanded at a slower rate compared to that of other towns. High growths in wage employment in 2000 to 2005 were recorded in the Community, Social and Personal Services followed by manufacturing and Transport and Communications sector. Over the same period, wage employment within financial services recorded the lowest growth from 81.7 thousand persons in 2000 to 82.5 thousand persons in 2005.

Table 4.5: Wage Employment by Urban Centres and Selected Industries, 2000 and 2005

4.9. The number of females rose from 521.2 thousand in 2004 to 532.3 thousand in 2005, representing 29.4 per cent in wage employment. As shown in Table 4.6, Education Services followed by Agriculture and Forestry remained the major female employer. Majority of females employed in the modern sector (57.3 per cent) were working in the Community, Social and Personal services in 2005. There were 404.6 thousand female regular employees in the year under review. Overall, there was an increase in females in both casual and regular employment.

Table 4.6: Wage Employment by Industry and Sex, 2004 and 2005

'000's

INDUSTRY	MALES		FEMALES		TOTAL	
	2004	2005*	2004	2005*	2004	2005*
Agriculture and Forestry ..	241.0	246.1	79.6	81.4	320.6	327.5
Mining and Quarrying ..	4.3	4.5	1.2	1.2	5.5	5.7
Manufacturing	199.8	204.3	42.2	43.2	242.0	247.5
Electricity and Water ..	17.1	16.7	3.8	3.6	20.9	20.3
Building and Construction	72.4	73.2	4.9	5.0	77.3	78.2
Trade, Restaurants and Hotels	123.0	128.6	45.0	47.1	168.0	175.7
Transport and Communications	80.4	93.5	20.4	23.8	100.8	117.3
Finance, Insurance, Real Estate and Business Services ..	62.0	63.5	21.7	22.2	83.7	85.7
Community, Social and Personal Services-						
Public Administration ..	93.2	90.1	55.0	53.3	148.2	143.4
Education Services	189.7	191.7	144.6	146.3	334.3	338.0
Domestic Services	59.1	60.2	39.1	39.8	98.2	100.0
Other Services	100.5	103.0	63.7	65.4	164.2	168.4
TOTAL	1,242.5	1,275.4	521.2	532.3	1,763.7	1,807.7
Of which: Regular	995.8	1,020.6	394.7	404.6	1,390.5	1,425.2
Casual	246.7	254.8	126.5	127.7	373.2	382.5

* Provisional

4.10. Table 4.7 presents analysis of total wage payments by industry and sector for the period 2001 to 2005. Overall nominal wage bill rose from KSh 506.5 billion in 2004 to KSh 596.9 billion in 2005, an increase of 17.8 per cent. The private sector wage bill went up by 23.3 per cent from KSh 322.5 billion in 2004 to KSh 397.5 billion in 2005, while the public sector wage bill went up by 8.4 per cent, which is lower than the increase of 14.1 per cent recorded in 2004. Due to their large share in wage employment, the community, social and personal services absorbed 42.0 per cent of the total wage bill in the year under review.

Table 4.7: Estimated Total Wage Payments by Industry and Sector, 2001 - 2005

KSh million per annum

	2001	2002	2003	2004	2005*
PRIVATE SECTOR:					
Agriculture and Forestry	19,002.0	21,366.8	24,588.6	28,175.4	32,534.1
Mining and Quarrying	473.3	545.9	625.0	742.6	893.5
Manufacturing	19,972.6	23,203.2	28,075.7	33,108.1	40,709.2
Electricity and Water	517.6	631.7	776.7	965.6	1,107.1
Building and Construction	9,204.9	10,529.9	12,271.8	14,422.8	17,081.9
Wholesale and Retail Trade, Restaurants and Hotels	43,962.4	51,457.6	61,800.8	74,257.0	90,569.4
Transport and Communications ..	14,880.2	18,283.0	22,008.1	33,768.1	49,225.9
Finance, Insurance ,Real Estate and Business Services	25,777.6	29,885.2	35,097.5	41,213.6	50,265.4
Community, Social and Personal Services	56,402.0	66,733.2	78,775.9	95,859.0	115,127.5
TOTAL PRIVATE SECTOR	**190,192.5**	**222,636.4**	**264,020.1**	**322,512.2**	**397,514.0**
PUBLIC SECTOR:					
Agriculture and Forestry	6,919.1	8,040.7	8,734.9	9,946.1	10,541.0
Mining and Quarrying	109.1	120.8	126.5	139.1	144.8
Manufacturing	4,819.8	5,379.5	5,220.7	5,840.1	6,000.7
Electricity and Water	4,853.8	5,621.4	6,086.9	6,802.9	7,096.3
Building and Construction	4,210.5	4,874.1	5,247.7	5,902.5	6,211.8
Wholesale and Retail Trade, Restaurants and Hotels	1,415.3	1,893.7	2,132.3	2,581.2	2,969.3
Transport and Communications ..	9,747.4	11,589.1	12,957.1	15,811.3	18,603.6
Finance, Insurance ,Real Estate and Business Services	7,032.1	8,124.4	8,896.6	10,888.7	12,083.1
Community, Social and Personal Services	88,527.0	101,878.4	111,913.8	126,084.8	135,710.5
TOTAL PUBLIC SECTOR	**127,634.2**	**147,522.1**	**161,316.6**	**183,996.7**	**199,361.1**
TOTAL PUBLIC AND PRIVATE ..	**317,826.7**	**370,158.5**	**425,336.7**	**506,508.9**	**596,875.1**

*Provisional

4.11. The rise in the private sector wage bill is partly attributed to rise in wage employment and increase in average nominal wages. The commitment of the government to reduce the public sector wage bill over the recent years by slowing down wage employment except in essential services, as well as the restructuring and privatisation of non-strategic public sector enterprises, has resulted in its wage bill being consistently lower than that of the private sector during the review period. The data shows that the public sector accounted for 33.4 per cent of the total wage bill in the modern sector in 2005.

4.12. A summary of wage payments in the public sector by type of employer is presented in Table 4.8. The Central Government wage bill increased by 18.6 per cent to KSh 42.9 billion in 2005, compared to the increase of 25.8 per cent registered in 2004. This was occasioned by the salary increment awarded to civil servants in July 2004 but was excluded in the analysis of that period as it fell outside the reference period of 30th June 2004. The share of the Central Government wage bill to total public sector wage bill went up from 19.7 per cent in 2004 to account for 21.5 per cent of the total wage bill in 2005. The Teachers Service Commission wage bill rose by 10.7 per cent to KSh 57.0 billion, and still accounted for the largest share of public sector wage bill in 2005.

Table 4.8: Total Wage Payments in the Public Sector, 2001 - 2005

KSh million

	2001	2002	2003	2004	2005*
Central Government**	26,588.5	27,825.1	28,732.9	36,158.9	42,880.4
Teachers Service Commission** ..	37,871.2	44,670.1	46,866.5	51,510.0	57,008.1
Parastatal Bodies***...	27,918.7	33,107.5	37,561.5	41,828.1	43,286.0
Majority Control by the Public Sector+.. ..	17,174.4	20,500.3	23,521.6	26,529.1	27,499.5
Local Government	18,081.5	21,419.1	24,634.2	27,970.6	28,687.1
TOTAL	127,634.2	147,522.1	161,316.6	183,996.7	199,361.1

* Provisional.

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

*** Refers to Government wholly-owned corporations.

+ Refers to institutions where the Government has over 50 per cent shareholding but does not fully own them.

4.13. Total average wage earnings per employee rose by 15.0 per cent from KSh 286.9 billion in 2004 to KSh 330.0 billion in 2005. As shown in Table 4.9, annual average earnings in the private sector increased from KSh 291.7 billion in 2004 to KSh 344.6 billion in 2005, an increase of 18.1 per cent. Average earnings per person were still higher in the private sector than in the public sector. In the private sector, average earnings in the Finance, Insurance, Real Estate and Business Services were the highest followed by Transport and Communications. Annual average earnings for employees in primary activities of agriculture, mining and quarrying and building and construction remained below the national average.

Table 4.9:Average Wage Earnings Per Employee, 2001 - 2005

KSh

	2001	**2002**	**2003**	**2004**	**2005***
PRIVATE SECTOR:					
Agriculture and Forestry	74,595.6	83,363.5	94,702.2	106,387.0	119,415.5
Mining and Quarrying	102,657.4	117,418.3	132,774.2	152,861.4	176,401.8
Manufacturing	109,084.0	118,042.0	134,774.1	156,932.8	187,090.4
Electricity and Water	316,976.6	367,484.4	429,833.3	496,452.4	570,074.4
Building and Construction	175,759.3	200,698.8	231,029.9	265,267.1	305,328.4
Trade, Restaurants and Hotels	291,620.5	339,820.1	394,329.0	459,278.0	534,841.0
Transport and Communications	322,235.4	383,274.6	447,574.1	541,146.3	643,761.7
Finance, Insurance ,Real Estate and Business Services	374,652.5	435,384.7	508,261.0	599,532.1	708,782.7
Community, Social & Personal Services	219,899.3	255,187.9	296,552.4	347,719.6	405,724.2
TOTAL PRIVATE SECTOR	**186,707.3**	**213,870.9**	**247,168.4**	**291,737.5**	**344,624.7**
PUBLIC SECTOR:					
Agriculture and Forestry	119,630.7	140,419.3	154,721.0	178,273.9	191,290.9
Mining and Quarrying	168,132.9	186,465.8	194,673.0	212,428.0	216,435.7
Manufacturing	143,907.9	165,405.0	166,063.3	188,335.9	200,524.0
Electricity and Water	245,573.2	287,056.3	315,593.8	359,067.2	386,781.4
Building and Construction	172,860.2	202,731.8	223,109.0	256,874.2	275,847.1
Trade, Restaurants and Hotels	230,244.8	310,497.0	350,191.6	407,835.5	460,284.7
Transport and Communications	255,784.2	306,727.3	344,364.4	412,138.7	456,116.9
Finance, Insurance ,Real Estate and Business Services	432,613.8	540,615.8	606,575.5	729,513.0	815,431.1
Community, Social & Personal Services	191,148.5	218,880.6	238,460.5	268,737.2	291,460.8
TOTAL PUBLIC SECTOR	**193,826.8**	**223,925.5**	**244,771.4**	**279,545.3**	**304,762.5**
TOTAL PRIVATE AND PUBLIC SECTO	**189,361.7**	**217,816.5**	**246,248.5**	**286,867.2**	**330,032.8**
MEMORANDUM ITEMS IN PUBLIC SECTOR:					
Central Government**	135,863.5	142,766.0	147,348.0	186,194.0	226,282.0
Teachers Service Commission**	163,661.2	190,653.4	199,601.8	219,658.8	244,880.0
Parastatal Bodies***	274,790.0	334,419.4	386,037.7	435,710.0	443,958.9
Majority Control by the Public Sector + ..	361,596.0	438,977.5	507,477.4	575,468.0	586,344.3
Local Government	219,702.0	255,293.7	287,782.7	320,030.0	328,030.9
TOTAL PUBLIC SECTOR	**193,826.8**	**223,925.5**	**244,771.4**	**279,545.3**	**304,762.5**

* Provisional.

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

*** Refers to Government wholly-owned corporations.

+ Refers to institutions where the Government has over 50 per cent shareholding but does not fully own them.

4.14. Annual average earnings in the public sector rose by 9.0 per cent from KSh 279,545.3 in 2004 to KSh 304,762.5 in 2005 while that of private sector grew by 18.1 per cent. Annual average earnings for employees in Central Government went up by 21.5 per cent, compared to an increase of 26.4 per cent registered in 2004 while those of the Teachers Service Commission rose by 11.5 per cent. Annual average earnings for employees for both parastatals and institutions under Government's majority control grew by 1.9 per cent.

4.15. Table 4.10 presents percentage changes in wage employment and average earnings for the period 2000 to 2005. During the five-year period, total employment rose by 6.6 per cent; with wage employment in the private sector rising by 15.0 per cent and public sector declined by 5.5 per cent. Over the same period, employment in Central Government dropped by 15.0 per cent. This was followed by a fall of 6.3 per cent in employment in parastatal organisations. Local Government is the only public sector employer that recorded a positive growth of 8.4 per cent over the five-year period, in wage employment.

4.16. Total annual average earnings in the economy have doubled over the five-year period. Private sector average earnings more than doubled while earnings in the public sector went up by 80.4 per cent over the same period. Private sector employees in Agriculture and Forestry industry had the lowest rise in average earnings over the period 2000 to 2005. The highest rises in average earnings in the public sector were for employees in organisations in which the Government has majority control (95.6 per cent) while the lowest was for employees of the Teachers Service Commission (57.1 per cent).

Table 4.10: Percentage Changes in Wage Employment and Average Earnings, 2005/2000 and 2005/2004

	EMPLOYMENT		AVERAGE EARNINGS	
	2005/2000	2005/2004*	2005/2000	2005/2004*
PRIVATE SECTOR:				
Agriculture and Forestry	8.4	2.9	78.1	12.2
Mining and Quarrying	10.9	4.1	96.0	15.4
Manufacturing	18.6	3.1	87.5	19.2
Electricity and Water	26.7	0.0	107.7	14.8
Building and Construction	6.5	2.8	94.3	15.1
Trade, Restaurants and Hotels	13.5	4.7	113.0	16.5
Transport and Communications	68.1	22.6	139.7	19.0
Finance, Insurance ,Real Estate and Business Services	5.2	3.2	120.4	18.2
Community, Social & Personal Services	15.1	2.9	115.8	16.7
TOTAL PRIVATE SECTOR	15.0	4.3	113.1	18.1
PUBLIC SECTOR:				
Agriculture and Forestry	-9.7	-1.3	87.5	7.3
Mining and Quarrying	0.0	0.0	43.4	1.9
Manufacturing	-14.5	-3.5	60.2	6.5
Electricity and Water	-13.7	-3.2	86.0	7.7
Building and Construction	-14.4	-2.2	87.1	7.4
Trade, Restaurants and Hotels	1.6	3.2	129.9	12.9
Transport and Communications	1.0	6.3	109.1	10.7
Finance, Insurance ,Real Estate and Business Services	-8.6	-0.7	100.4	11.8
Community, Social and Personal Services	-4.0	-0.8	73.9	8.5
TOTAL PUBLIC SECTOR	-5.5	-0.6	80.4	9.0
TOTAL PUBLIC AND PRIVATE	6.6	2.5	100.6	15.0
MEMORANDUM ITEMS IN PUBLIC SECTOR:				
Central Government***	-15.0	-2.4	86.9	21.5
Teacher's Service Commission***	-1.7	-0.7	57.1	11.5
Parastatal Bodies+	-6.3	1.6	95.2	1.9
Majority Control by the Public Sector ++	-2.2	1.8	95.6	1.9
Local government	8.4	0.1	76.1	2.5
TOTAL PUBLIC SECTOR	-5.5	-0.6	80.4	9.0

* Provisional

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

\+ Refers to Government wholly-owned corporations.

++ Refers to institutions where the Government has over 50 per cent shareholding but does not fully own t

4.17. Real average earnings per employee by sector and industry are shown in Table 4.11 and 4.12. Average real earnings went up by 4.3 per cent from KSh 175.2 billion to KSh 182.7 billion per annum. Private sector real earnings rose by 7.1 per cent from their 2004 levels whereas those for public sector employees went down marginally. Real earnings for employees of Teachers Service Commission (TSC) reversed their declining trend by registering a marginal increase of 1.1 per cent in 2005. Other public sector employees registered considerable declines in real earnings over the same period.

Table 4.11: Estimated Real Average Wage Earnings Per Employee+, 2001 - 2005

KSh per annum

	2001	2002	2003	2004	2005*
PRIVATE SECTOR:					
Agriculture and Forestry	56,947.6	62,416.5	64,568.2	64,981.1	66,121.5
Mining and Quarrying	78,370.4	87,914.3	90,525.8	93,367.6	97,675.4
Manufacturing	83,276.6	88,381.2	91,889.4	95,854.4	103,593.8
Electricity and Water	241,985.4	275,145.6	293,061.5	303,232.6	315,655.8
Building and Construction	134,177.7	150,268.7	157,516.8	162,024.9	169,063.3
Trade, Restaurants and Hotels	222,628.1	254,432.5	268,854.6	280,526.5	296,146.7
Transport and Communications	246,000.0	286,968.1	305,157.2	330,531.6	356,457.2
Finance, Insurance ,Real Estate and Business Services	286,016.1	325,984.4	346,533.7	366,193.6	392,460.0
Community, Social & Personal Services	167,874.8	191,066.1	202,190.3	212,386.8	224,653.5
TOTAL PRIVATE SECTOR	**142,535.5**	**160,131.0**	**168,520.1**	**178,193.0**	**190,822.1**
PUBLIC SECTOR:					
Agriculture and Forestry	91,328.1	105,135.7	105,489.2	108,889.5	105,919.7
Mining and Quarrying	128,355.5	139,612.0	132,728.5	129,750.8	119,842.6
Manufacturing	109,861.7	123,843.2	113,222.4	115,035.4	111,032.1
Electricity and Water	187,474.7	214,926.8	215,172.7	219,317.9	214,164.7
Building and Construction	131,964.4	151,790.8	152,116.3	156,898.5	152,739.3
Trade, Restaurants and Hotels	175,772.8	232,477.5	238,761.6	249,105.5	254,864.2
Transport and Communications	195,270.0	229,655.0	234,788.5	251,733.9	252,556.4
Finance, Insurance ,Real Estate and Business Services	330,264.8	404,773.8	413,564.8	445,585.8	451,512.2
Community, Social & Personal Services	145,926.0	163,881.8	162,583.0	164,144.4	161,384.7
TOTAL PUBLIC SECTOR	**147,970.7**	**167,659.1**	**166,885.8**	**170,766.8**	**168,750.0**
TOTAL PRIVATE AND PUBLIC SECTOR	**144,562.0**	**163,085.1**	**167,892.9**	**175,218.2**	**182,742.4**
MEMORANDUM ITEMS IN PUBLIC SECTOR:					
Central Government***	103,720.5	106,892.8	100,462.3	113,727.1	125,294.6
Teachers Service Commission***	124,941.7	142,747.4	136,089.1	134,167.4	135,592.5
Parastatal Bodies++	209,779.3	250,388.9	263,201.6	266,131.2	245,824.4
Majority Control by the Public Sector+++	276,048.6	328,674.4	345,999.5	351,495.2	324,664.6
Local Government	167,724.3	191,145.3	196,211.0	195,474.0	181,633.9
TOTAL PUBLIC SECTOR	**147,970.7**	**167,659.1**	**166,885.8**	**170,766.8**	**168,750.0**

+Average current earnings adjusted for the rise in consumer prices. Real Earnings and the consumer price indices, are based on October 1997.

* Provisional.

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

++ Refers to Government wholly-owned corporations.

+++ Refers to institutions where the Government has over 50 per cent shareholding but does not fully own the

Table 4.12: Changes in Wage Employment, Prices and Real Earnings, 2001 - 2005

Percentage

	2001	2002	2003	2004	2005*
Wage employment	-1.1	1.3	1.6	2.1	2.5
Average earnings at current prices	14.9	14.9	13.0	16.5	15.0
Consumer prices (Inflation rates)**	5.8	2.0	9.8	11.6	10.3
Real average earnings+	8.7	12.7	2.9	4.4	4.3

* Provisional.

Employment in the Informal Sector

4.18. The informal sector, also referred to as the *jua kali* sector continues to play an important role in absorbing the unemployed persons in the labour force that are not able to get into the modern sector. However, as the economy steadily continues to perform well in terms of employment creation in the modern sector, the growth of the informal sector has been slowing down. The Kenyan informal sector covers all small-scale activities that are normally semi-organised, unregulated and uses low and simple technologies while employing few persons. The ease of entry and exit into this sector coupled with use of low level or no technology makes it an avenue for employment creation. Employment in the sector has grown by 37.2 per cent over the past four years from an estimated 4,668,700 persons in 2001 to 6,407,200 persons in 2005.

4.19. Job creation in this sector in 2005, as shown in Table 4.13, was 414,400 indicating a lower increase in absolute terms compared to an increase of 446,400 registered in 2004. This was a rise of 6.9 per cent from the estimated employment of 6.0 million persons in 2004 to 6.4 million persons in 2005. Given shrinking public sector employment and job cuts in the private sector, the informal sector has provided necessary employment interface between modern sector and small-scale farming and pastoralist activities.

Table 4.13: Informal sector+: Number of Persons Enganged by Province, 2001- 2005

'000's

Province	2001	2002	2003	2004	2005*
Nairobi	1,124.5	1,233.9	1,343.3	1,445.0	1,548.1
Central	739.2	808.7	878.2	948.7	1,014.4
Nyanza	554.2	603.9	653.1	710.6	757.3
Western	337.0	370.2	403.5	432.7	464.3
Rift Valley	884.2	967.1	1,049.4	1,134.3	1,212.6
Eastern	432.2	469.9	507.0	554.2	589.3
Coast	575.1	630.5	686.0	738.8	791.0
North Eastern	22.3	24.1	25.9	28.5	30.2
TOTAL	4,668.7	5,108.3	5,546.4	5,992.8	6,407.2
Of which					
Urban	1,596.3	1,730.4	1,889.1	2,030.9	2,171.4
Rural	3,072.4	3,377.9	3,657.3	3,961.9	4,235.8

* Provisional
\+ Revised

4.20. Analysis of persons engaged in the informal sector by province is presented in Table 4.13. Rural areas absorbed 66.1 per cent of informal sector employment. In the year under review, Nairobi province accounted for 24.2 per cent and the highest informal sector employment of 1,548.1 thousand persons, followed by Rift Valley Province, which absorbed 1,014.4 thousand persons, representing 15.8 per cent of the total employment in the sector. North Eastern Province absorbed the least number of persons in the sector.

Table 4.14: Informal Sector+ ; Number of Persons Enganged by Activity, 2001 - 2005

'000's

Activity	2001	2002	2003	2004	2005*
Manufacturing	1,039.7	1,121.0	1,199.3	1,281.0	1,386.1
Construction	140.9	150.2	158.9	168.8	183.9
Wholesale and Retail Trade, Hotels and Restaurants	2,717.1	2,986.4	3,256.6	3,529.1	3,760.9
Transport and Communications**	136.9	150.8	165.0	181.2	191.3
Community, Social and Personal Services	422.3	467.9	514.5	560.5	593.8
Others	211.8	232.0	252.1	272.2	291.2
TOTAL	4,668.7	5,108.3	5,546.4	5,992.8	6,407.2

* Provisional

** Includes mainly support services to transport activity

+ Revised

4.21. Distribution of the informal sector employment by industry is presented in Table 4.14. Employment in the sector was highest in the wholesale and retail trades, hotels and restaurants industry, which absorbed 58.7 per cent of persons. This is attributed to the ease of entry and exit into the industry. The highest rise in employment was in the Construction industry (8.2 per cent) followed by Manufacturing, which in absolute terms registered the highest increase.

Wage Awards and Registered Collective Agreements

4.22. The main objective of the national wage policy is to assure wage earners a reasonable share of the national product; to create harmonious industrial relations and to heed as far as practicable to the demands of the national economy. In pursuance of this objective the Government issues minimum statutory wages.

4.23. The Government increased salaries for Civil Servants in the Job Groups ‘A’ to ‘N’ by 14 percent effective from July 2005. The minimum salary at Job Group ‘A’ was increased from KSh 4,985 to KSh 5,685 per month (p.m) whereas the minimum salary at Job Group ‘N, was raised from KSh 22,439. to KSh 25,590 p.m. On Labour Day 2005, the Government announced a minimum wage increase of 9.0 per cent for workers falling under Agricultural Industry Wages Order and a 7.0 per cent wage increase for workers under the Wages General Order compared to 10.0 per cent and 11.0 per cent respectively in 2004.

4.24. As shown in Table 4.15, the overall minimum wage for agricultural workers, on average rose from KSh 2,870 p.m in 2004 to KSh 3,060 p.m in 2005. Unskilled employees who are the lowest paid had their monthly wages raised from KSh 2,096 in 2004 to KSh 2,285 in 2005. Monthly wages for the highest paid category namely farm foreman and farm clerks were increased from KSh 3,780 to KSh 4,120 in 2004 and 2005 respectively.

Table 4.15: Gazetted Monthly Basic Minimum Wages for Agricultural Industry, 2001 – 2005

KSh

	2001	2002	2003	2004	2005*
Type of Employee					
UNSKILLED EMPLOYEES					
18 years & above	1,535	1,642	1,888	2,096	2,285
Under 18 years	1,095	..	..	..	..
STOCKMAN, HERDSMAN AND WATCHMAN					
Under 18 years	1,271	..	..	..	..
18 year & above	1,772	1,896	2,180	2,420	2,638
SKILLED AND SEMI-SKILLED EMPLOYEES					
House servant or cook	1,751	1,874	2,155	2,392	2,607
Farm foreman	2,767	2,961	3,405	3,780	4,120
Farm clerk	2,767	2,961	3,405	3,780	4,120
Section foreman	1,792	1,917	2,205	2,448	2,668
Farm artisan	1,835	1,963	2,257	2,505	3,730
Tractor driver	1,945	2,081	2,393	2,656	2,895
Combined harvester driver	2,142	2,292	2,636	2,926	3,189
Lorry driver or car driver	2,249	2,406	2,767	3,701	3,347
AVERAGE	1,910	2,199	2,529	2,870	3,060

Source: Ministry of Labour

.. Monthly Basic minimum Wages for under 18 years were Degazetted in 2002

4.25. Table 4.16 presents the gazetted basic minimum wages in urban areas. Average monthly basic wages for workers in Nairobi, Mombasa and Kisumu rose from KSh 6,818 in 2004 to KSh 7, 295 in 2005. On average workers in municipalities had their monthly minimum wages raised from KSh 6,323 in 2004 to KSh 6,766 in 2005 and from KSh 5,381 in 2004 to KSh 5,756 in 2005 for workers in other urban areas.

Table 4.16: Gazetted Monthly Basic Mininum Wages in Urban Areas (Excluding Housing Allowance), 2003 - 2005

KSh

Occupation	Nairobi Area & Mombasa			Other Municipalities plus Mavoko & Ruiru Town Councils			All other towns		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
General labourer	3,905	4,335	4,638	3,603	3,999	4,279	2,083	2,312	2,474
Miner, stone cutter, turnboy, waiter, cook	4,218	4,682	5,010	3,742	4,154	4,445	2,408	2,673	2,860
Night watchman	4,357	4,836	5,175	4,039	4,483	4,797	2,486	2,759	2,952
Machine attendant	4,426	4,913	5,257	4,119	4,572	4,892	3,339	3,706	3,965
Machinist	5,052	5,608	6,001	4,727	5,247	5,614	3,865	4,290	4,590
Plywood machine operator	5,271	5,851	6,261	4,865	5,400	5,778	4,022	4,464	4,776
Pattern designer	6,016	6,678	7,145	5,499	6,104	6,531	4,689	5,205	5,569
Tailor, Driver (medium vehicle)	6,629	7,358	7,873	6,094	6,764	7,237	5,432	6,030	6,452
Dyer, Crawler, Tractor driver, Salesman	7,318	8,123	8,692	6,828	7,579	8,110	6,163	6,841	7,320
Saw doctor, Caretaker (building)	8,100	8,991	9,620	7,562	8,394	8,982	7,045	7,820	8,367
Cashier, Driver (heavy commercial)	8,813	9,782	10,467	8,293	9,205	9,849	7,776	8,631	9,235
Artisan (Ungraded)	5,271	5,851	6,261	4,865	5,400	5,778	4,022	4,464	4,776
Artisan Grade III	6,629	7,358	7,873	6,094	6,764	7,237	5,442	6,041	6,452
Artisan Grade II	7,318	8,123	8,692	6,828	7,579	8,110	6,163	6,841	7,320
Artisan Grade I	8,813	9,782	10,467	8,293	9,205	9,849	7,776	8,631	9,235
AVERAGE	**6,142**	**6,818**	**7,295**	**5,697**	**6,323**	**6,766**	**4,848**	**5,381**	**5,756**

Source: Ministry of Labour and Human Resource Development

4.26. Wage Guidelines which have provided a basis for negotiations of terms and conditions of employment, arbitration and settlement of trade disputes were revised in November 2005 from the revision in 1994. In the latest revision, the Government took into consideration the dwindling growth of the economy experienced since 1994; persistent inflationary pressures associated with the cost of energy and food items that have threatened to dampen growth prospects; and the higher increase in rental index relative to the overall cost of living index reflecting the inability of the housing industry to meet the growing demand of housing for the population. The essential elements for consideration in determining wages according to the new guidelines will continue to be the realized productivity gains, the ability of the economy to sustain increased labour costs and the cost of living compensation.

4.27. The industrial relations machinery provides for wage negotiation between workers' and employers' representatives and arbitration by the industrial court. Table 4.17 presents the number of collective bargaining agreements registered by the Kenya Industrial Court in 2004 and 2005. The number of these agreements decreased from 297 in 2004 to 275 in 2005 whereas the number of workers covered by the agreements increased from 46,221 to 59,455 respectively. There was an increase in the number of collective agreements registered in Food, Beverage and Tobacco (17); Paper and paper products, printing and publishing (8); Chemical, Petroleum and Plastic Products (8); Electronics and Electrical Products (3), and Transport and Communication (3). The average monthly basic wages decreased by 28.7 percent from KSh 14,885.8 in 2004 to KSh 10,619.1 in 2005. The average monthly housing allowances declined by 1.3 per cent from KSh 2,354.3 to KSh 2,322.9 in 2004 and 2005, respectively.

Table 4.17: Collective Agreements Registered by the Industrial Court, 2004 and 2005

Consumer Prices

4.28. The overall inflation rate, estimated using the Consumer Price Indices, declined from 11.6 per cent in 2004 to 10.3 per cent in 2005 as shown in Table 4.18. The fall in inflation rate was more pronounced in Nairobi lower income group where inflation rate decreased from 14.4 per cent in 2004 to 11.7 per cent in 2005. In urban towns outside Nairobi, inflation rate dropped from 10.6 per cent in 2004 to 9.6 per cent in 2005. However, inflation rate for middle/upper income group rose from 8.0 per cent in 2004 to 10.1 per cent in 2005. Overall inflation rate in Nairobi declined from 13.2 per cent in 2004 to 11.4 per cent in 2005.

Table 4.18: Percentage Changes in Consumer Price Indices, 2001-2005

Income Group **	2001/2000	2002/2001	2003/2002	2004/2003	2005/2004
Nairobi Lower Income Inflation.....	3.6	1.7	10.8	14.4	11.7
Nairobi Middle/Upper Income Inflation	4.3	2.1	4.8	8.0	10.1
Nairobi Inflation.....	3.7	1.8	9.6	13.2	11.4
Rest of Urban Towns Inflation...	7.1	2.1	9.9	10.6	9.6
Kenya Inflation Rate.....	5.8	2.0	9.8	11.6	10.3

**The Income Groups are defined as :
1 The lower income group comprises households with monthly earnings below KSh 10,000 in October 1997
2 The middle/upper income group comprises households with monthly earnings above KSh10,000 in October 1997
*** The Nairobi composite index is weighted as 0.8 for lower income group and 0.2 for middle/upper income group while Kenya composite index is weighted as 0.399 for Nairobi and 0.601 for rest of Urban Towns.

4.29. The underlying inflation, which exclude food commodities from the CPI basket, increased from 6.8 per cent in 2004 to 7.4 per cent in 2005. The high rise was mainly due to high international oil prices and electricity cost. On average, a litre of diesel was retailing at KSh 59.32 in 2005 compared KSh 50.34 in 2004, an increase of 17.8 per cent.

4.30. Tables 4.19, 4.20, 4.21, 4.22 and 4.23 show a five-year series of the Consumer Price Indices for the lower, middle, upper, Nairobi, Rest of Urban and overall Kenya respectively. Nairobi lower income groups, the annual average index rose by 11.7 per cent from 164.75 points in 2004 to 184.07 points in 2005. The highest inflation of 19.9 per cent was recorded in April 2005 while the lowest of 1.3 per cent was recorded in September 2005. The annual average index for Nairobi middle/upper income group increased by 10.1 per cent from 142.64 points to 157.04 points. In this group, the highest inflation of 13.7 per cent was also recorded in April 2005. Similarly, in the rest of urban towns, the highest month on month inflation of 14.3 per cent was also in April 2005. The annual average index rose by 9.6 per cent from 165.97 points in 2004 to 181.9 points in 2005. Overall Kenya index is made up of about 40 per cent of Nairobi index and 60 per cent of the rest of urban towns. Lower income group constitutes about 80 per cent of the population in Nairobi.

Table 4.19: Consumer Price Indices Nairobi Lower Income Group, 2001-2005

Base October 1997=100

Months	2001	2002	2003	2004	2005
January	129.67	127.07	135.40	149.80	176.87
February	127.68	127.26	137.22	153.41	180.15
March	127.04	127.52	143.23	156.08	184.38
April	127.92	127.34	147.87	157.91	189.36
May	127.42	130.51	154.49	160.08	189.43
June	127.42	133.20	153.92	161.71	184.63
July	127.10	131.60	145.05	161.54	183.01
August	128.53	131.05	140.32	173.48	182.68
September	128.08	130.17	139.70	177.75	179.99
October	128.13	130.75	143.69	178.35	181.90
November	127.92	130.95	143.24	173.26	186.10
December	127.58	132.63	144.29	173.62	190.29
Annual average	127.87	130.00	144.04	164.75	184.07

Table 4.20: Consumer Price Indices, Nairobi Middle/Upper income Group, 2001-2005

Base October 1997=100

Months	2001	2002	2003	2004	2005
January	122.97	124.39	128.43	136.11	152.76
February	123.27	124.61	129.28	137.24	153.63
March	121.71	124.63	130.59	137.90	154.46
April	123.28	125.07	131.84	138.50	157.48
May	123.56	125.44	135.39	139.71	157.55
June	123.61	126.38	135.36	142.64	158.22
July	123.47	126.03	132.56	142.10	157.13
August	123.67	126.01	131.66	145.35	157.64
September	122.65	126.64	131.80	147.93	158.25
October	124.24	127.30	132.99	149.43	158.81
November	124.40	127.85	132.69	147.99	158.80
December	124.22	127.95	132.92	146.79	159.70
Annual average	123.42	126.03	132.13	142.64	157.04

Table 4.21: Consumer Price Indices, Overall Nairobi, 2001-2005

Base October 1997=100

Months	2001	2002	2003	2004	2005
January	128.33	127.34	134.00	147.06	172.05
February	126.80	127.66	135.63	150.18	174.84
March	125.98	128.13	140.71	152.45	178.40
April	127.00	128.24	144.67	154.03	182.99
May	126.65	131.49	150.67	156.01	183.05
June	126.66	133.63	150.21	157.90	179.35
July	126.37	131.79	142.55	157.65	177.83
August	127.55	131.17	138.59	167.85	177.67
September	127.00	130.50	138.12	171.79	175.64
October	127.35	131.20	141.55	172.57	177.28
November	127.23	131.30	141.13	168.21	180.64
December	126.91	132.69	142.02	168.25	184.17
Annual average	126.99	130.43	141.65	160.33	178.66

Table 4.22: Consumer Price Indices, Rest of Urban Towns, 2001-2005

Base October 1997=100

Months	2001	2002	2003	2004	2005
January	131.40	133.59	142.50	154.99	175.97
February	131.12	133.75	144.06	157.47	176.94
March	130.28	133.98	146.93	159.14	178.75
April	132.90	134.84	148.52	160.83	183.75
May	134.56	136.40	155.52	163.86	185.43
June	134.86	137.65	156.40	166.52	184.61
July	135.47	137.39	153.82	165.01	183.33
August	135.11	137.44	150.27	169.13	181.89
September	134.81	137.08	148.93	172.21	181.86
October	134.90	137.23	149.90	173.92	181.53
November	134.50	138.08	151.07	173.83	182.83
December	134.44	139.98	152.12	174.75	185.85
Annual average	133.70	136.45	150.00	165.97	181.90

Table 4.23: Consumer Price Indices, Kenya 2001-2005

Base October 1997=100

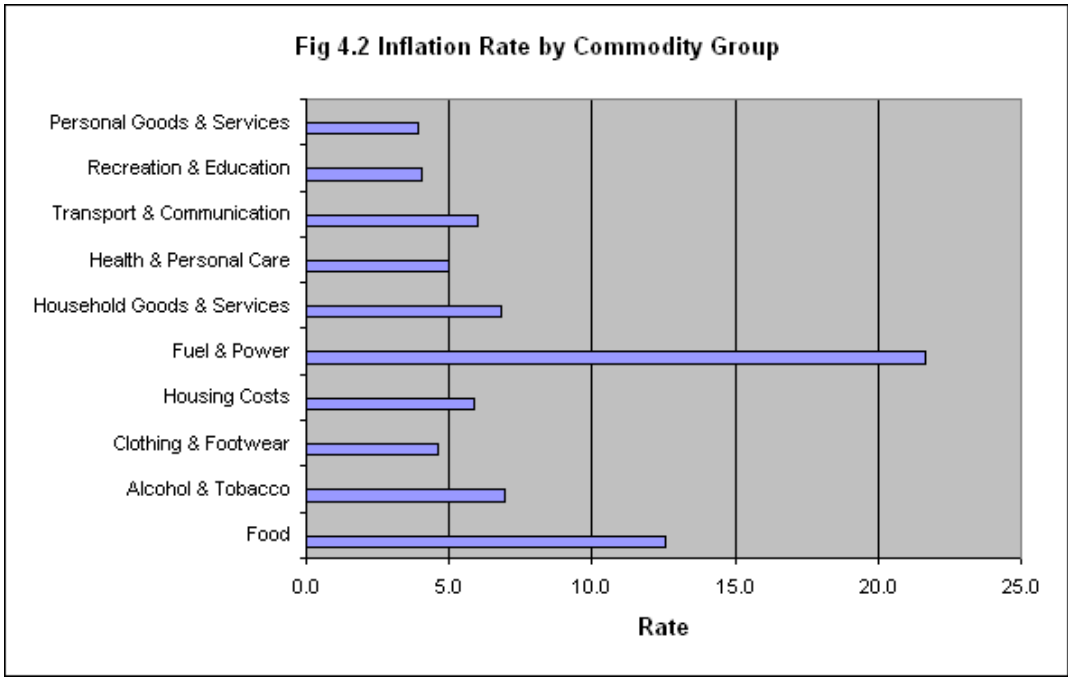
Months	2001	2002	2003	2004	2005
January	130.18	130.77	139.11	151.83	174.41
February	129.40	130.95	140.70	154.56	176.10
March	128.56	131.17	144.45	156.47	178.61
April	130.55	131.67	146.98	158.12	183.45
May	131.41	133.65	153.58	160.73	184.48
June	131.58	135.33	153.93	163.08	182.51
July	131.84	134.64	149.32	162.07	181.14
August	132.09	134.49	145.61	168.62	180.21
September	131.69	134.04	144.62	172.04	179.38
October	131.89	134.37	146.57	173.38	179.83
November	131.45	134.99	147.10	171.59	181.96
December	131.30	136.67	148.09	172.16	185.18
Annual average	130.99	133.56	146.67	163.72	180.61

4.31. Table 4.24 shows inflation by commodity groups in 2004 and 2005. In 2005, the highest inflation of 21.6 per cent was in Fuel and Power index. The high rise was as a result of increases in the prices of kerosene, cooking gas and electricity. On average, a litre of paraffin increased by 23.8 per cent from KSh 40.18 in 2004 to Kshs. 49.73 in 2005. During the year, food index rose by 12.5 per cent mainly due to rise in prices of sugar, rice and dry beans. For instance, a kilogramme of sugar retailed, at KSh 64.18 in 2005 compared with KSh 51.65 in 2004 an increase of 24.3 per cent. During the same period, Alcohol and Tobacco index edged up by 7.0 per cent mainly due to rise in prices of cigarettes and beer. In 2005, household goods and services index increased by 6.8 per cent compared with 2004 mainly due to rise in the prices of washing detergents and furniture. Transport and Communications index rose by 6.0 per cent in 2005 as a result of rise in petroleum products. For instance, on average a litre of super gasoline was retailing at KSh 71.04 in 2005 compared with KSh 63.99 in 2004 an increase of 11.0 per cent. Housing cost index increased by 5.9 per cent in 2005 compared with 2004. The indices for Clothing and Footwear, Health and Personal Care, Recreation and Education and Personal Goods and services increased by 4.6 per cent, 5.0 per cent, 4.0 per cent and 3.9 per cent respectively during the period under review.

Table 4.24: New CPI Inflation by Commodities 2004 and 2005

Base October 1997=100

Broad Item Group	Weights (Percentage)	Annual Average Index 2004	Annual Average Index 2005	% Change
Food	50.50	184.37	207.49	12.5
Alcohol & Tobacco	2.97	148.17	158.50	7.0
Clothing & Footwear	9.00	114.61	119.93	4.6
Housing Costs	11.74	138.55	146.70	5.9
Fuel & Power	4.18	197.62	240.37	21.6
Household Goods & Services	5.82	126.49	135.12	6.8
Health & Personal Care	1.59	172.89	181.48	5.0
Transport & Communication	5.75	166.89	176.93	6.0
Recreation & Education	6.02	142.55	148.29	4.0
Personal Goods & Services	2.45	127.03	131.99	3.9
Average of all Items	**100.00**	**163.72**	**180.60**	**10.3**



Chapter 5
Money, Banking and Finance

Overview

During the twelve months to December 2005, the Government through the Central Bank at Kenya (CBK), focused its monetary policy on maintaining price stability by containing inflation at less than 5.0 per cent. The Bank implemented monetary policy through the monetary targeting framework with extended broad money (M3X) as the intermediate target and reserve money as the operational target. Open Market Operations (OMO) was the main instrument of monetary policy as no changes were made to cash reserve requirements. Implementation of the monetary policy for the year ending December 2005 was anchored on quarterly reserve money targets. Under the IMF-supported PRGF programme, a ceiling on reserve money and a floor on net foreign assets of the CBK (allowing for adjustment for any shortfall of programmed budgetary support) were to be observed for every quarter. By use of a liquidity-forecasting framework, CBK monitored developments in reserve money and sold repurchase agreement securities (REPOs) to commercial banks so as to reduce liquidity from the system. Consequently, growth of broad money supply M3X (Monetary policy benchmark) decelerated to expand by 9.1 per cent in twelve months period to December 2005 compared to 13.4 per cent recorded in December 2004. The liquidity ratio of banking system remained high at 42.0 per cent as at December 2005 against a minimum requirement of 20.0 per cent. Interest rates observed in 2005 were high compared to those recorded in 2004, but remained stable with the benchmark 91 day Treasury Bill rate settling at 8.14 per cent in December 2005.

Table 5.1: Monetary Indicators, 2001-2005

As at end of		Net Foreign Assets KSh m	DOMESTIC CREDIT KSh mn			Money** Supply(M3X) KSh mn	Commercial Bank Liquidity Ratio per cent	Advances/ Deposits Ratio per cent
			Private*	Government	Total			
2001	Dec	91,775	279,814	100,383	380,196	368,136	46	85
2002	Dec	104,377	296,848	113,384	410,232	404,784	44	84
2003	Dec	123,561	308,880	134,278	443,157	451,172	49	77
2004	Dec	143,129	379,617	121,543	501,160	511,425	42	82
2005	Mar	152,133	387,449	120,702	508,150	517,970	43	82
	Jun	156,200	392,023	106,803	498,825	523,715	43	81
	Sep	155,999	399,391	111,970	511,360	538,231	43	80
	Dec	158,055	410,476	118,915	529,392	557,770	42	80

Source: Central Bank of Kenya

* Includes other public sectors

** See Table 5.2 for coverage

Monetary Indicators

5.2. Monetary indicators for the period 2001 to 2005 are presented in Table 5.1. The Net Foreign Assets (NFA) of the banking system that has been on an upward trend for the last five years grew further by 10.4 per cent to KSh 158,055 million in December 2005 from KSh 143,129 million recorded in December 2004, compared to a growth of 15.8 per cent recorded in previous period. Domestic credit to private sector (including other public entities) grew by 8.1 per cent while credit to Central Government declined by 2.2 per cent over the same period. Broad money supply (M3X) increased by 9.1 per cent from KSh 511,425 million in December 2004 to KSh 557,770 million in December 2005 (See Table 5.3). The average liquidity ratio of the banking system rose by 1.0 percentage point to stand at 43.0 per cent in the first,

second and third quarters of 2005 before falling back to its December 2004 position of 42.0 per cent. A decline was recorded in advances to deposits ratio of the banking system from 82.0 per cent in December 2004 to 80.0 per cent in December 2005. The fall in the ratio was as a result of a fall in demand for credit due to the relatively higher interest rates during the period under review.

Table 5.2: Money and Quasi-Money Supply, 2001-2005

KSh million

		Money and Quasi-Money (MS)			Quasi (NBFIs)	Broad Money Supply***		Overall liquidity
		Money* (M1)	Quasi- Money**	Total (M2)		M3	M3X	M3XT
2001	Dec	130,026	178,709	308,735	13,591	322,326	368,132	449,304
2002	Dec	150,082	188,162	338,243	12,490	350,733	404,784	513,863
2003	Dec	193,855	187,161	381,017	14,100	395,116	451,172	565,196
2004	Dec	210,598	209,239	419,837	12,729	432,567	511,425	641,440
2005	Jan	209,282	207,106	416,388	12,322	428,711	508,512	639,831
	Feb	202,872	213,428	416,301	12,511	428,812	510,928	639,779
	Mar	206,193	216,375	422,568	12,346	434,914	517,970	648,588
	Apr	211,241	211,442	422,684	12,652	435,336	516,725	655,031
	May	208,000	217,502	425,502	12,045	437,547	518,733	657,471
	Jun	221,928	208,265	430,193	12,209	442,402	523,715	664,814
	Jul	222,273	210,551	432,824	12,380	445,204	530,453	678,922
	Aug	225,455	215,487	440,942	12,027	452,969	539,203	689,946
	Sep	220,847	220,928	441,776	11,995	453,770	538,231	688,128
	Oct	231,490	220,892	452,382	11,537	463,920	548,849	695,778
	Nov	228,536	230,288	458,824	11,485	470,309	553,516	698,979
	Dec	231,122	231,402	462,524	11,966	474,490	557,770	706,504

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. Table 5.2 Presents monetary aggregates for the period 2001 - 2005. Narrow money (M1) increased by 9.7 per cent while quasi monetary deposits on the commercial banks grew by 10.6 per cent in the period under review. The expansion of the two translated to a 10.2 per cent growth in money supply (M2) from KSh 419,837 million in December 2004 to KSh 462,524 million in December 2005. A decline was recorded for the quasi monetary deposits of the Non-Bank Financial Institutions (NBFIs). Consequently broad money supply, M3 grew by 9.7 per cent in December 2005 compared to 9.5 per cent recorded in the previous year. Overall liquidity (M3XT) including Treasury Bill holdings by non banking public grew by 10.1 per cent from KSh 641,440 million in December 2004 to KSh 706,504 million December 2005.

Consolidated Accounts of the Banking System

5.4. Consolidated accounts of the banking system for the period 2001 -2005 are shown in Table 5.3. The assets and liabilities grew by 6.7 per cent from KSh 644,288 million in December 2004 to KSh 687,446 million in December 2005. Demand deposits and currency outside banks (M1) increased by 9.7 per cent in December 2005 compared to 8.6 per cent growth recorded in December 2004. This was due to an increase of 5.7 per cent in currency outside banks and 11.4 per cent increase in demand deposits of the commercial banks. Quasi monetary deposits of the commercial banks grew by 10.6 per cent from KSh 209,239 million in 2004 to KSh 231,402 million in December 2005. This resulted in a 10.2 per cent increase in money supply (M2) in December 2005, similar to the increase recorded in 2004. Quasi monetary deposits of the NBFIs declined by 6.0 per cent in the

period to December 2005 while broad money supply (M3) expanded by 9.7 per cent. Foreign currency deposits by residents increased by 5.6 per cent in December 2005 compared to a 40.7 per cent increase recorded in December 2004.This led to a decelerated expansion in extended broad money supply (M3X) of 9.1 per cent in December 2005 compared to a 13.4 per cent increase in December 2004.

Table 5.3: Consolidated Accounts of the Banking System, 2001-2005

KSh million

						2005			
		December 2001	December 2002	December 2003	December 2004	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
LIABILITIES-									
1	Money (M1):								
	1.1 Demand Deposits . ..	84,681	96,186	138,305	147,870	148,151	162,558	161,479	164,795
	1.2 Currency outside banks ..	45,349	53,895	55,550	62,728	58,042	59,370	59,369	66,327
	Sub-Total	130,029	150,082	193,855	210,598	206,193	221,928	220,847	231,122
2.	Quasi-Money(MS):								
	2.1 Call + 7 days Notice Deposits..	19,658	20,698	19,463	16,413	17,235	19,131	23,307	23,628
	2.2 Savings Deposits	66,122	69,620	76,972	88,893	86,405	72,528	73,305	75,462
	2.3 Time Deposits	92,929	97,844	90,726	103,934	112,735	116,606	124,316	132,313
	Sub-Total	178,709	188,162	187,161	209,239	216,375	208,265	220,928	231,402
	Money Supply(M2)	308,738	338,243	381,017	419,837	422,568	430,193	441,776	462,524
3	Quasi-Money (NBFIs)	13,591	12,490	14,100	12,729	12,346	12,209	11,995	11,966
	Broad Money Supply(M3)	322,329	350,733	395,116	432,567	434,914	442,402	453,770	474,490
4	Foreign Currency Deposits	45,807	54,051	56,056	78,858	83,056	81,313	84,460	83,281
	Broad Money Supply(M3X)	368,136	404,784	451,172	511,425	517,970	523,715	538,231	557,770
5	Treasury Bill Holdings	81,168	109,079	114,024	130,014	130,618	141,099	149,898	148,734
	Broad Money Supply(M3XT)	449,304	513,863	565,196	641,440	648,588	664,814	688,128	706,504
6	Other Items, (OIN)	103,849	109,824	115,547	132,863	142,313	131,310	129,129	129,676
	TOTAL (M3X+OIN)	471,985	514,608	566,719	644,288	660,284	655,025	667,359	687,446
	ASSETS-								
7	Net Foreign Assets	91,775	104,377	123,561	143,129	152,133	156,200	155,999	158,055
8	Domestic Credit:								
	8.1 Central Govt. (Net).. ..	100,383	113,384	134,278	121,543	120,702	106,803	111,970	118,915
	8.2 Other Public Bodies ..	8,027	8,016	5,992	10,934	11,146	10,298	10,622	11,960
	8.3 Private Sector	271,800	288,831	302,888	368,683	376,302	381,724	388,768	398,517
	Sub Total	380,210	410,231	443,157	501,160	508,150	498,825	511,360	529,392
	TOTAL	471,985	514,608	566,719	644,288	660,284	655,025	667,359	687,446

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 system.

5.5. Treasury Bill holdings by non-banking public increased from KSh 130,014 million in December 2004 to KSh 148,734 million in December 2005. This was an increase of 14.4 per cent compared to 14.0 per cent increase in December 2004. This resulted in a 10.1 per cent increase in broad money supply (M3XT) in December 2005. Other items net decreased from KSh 132,863 million in December 2004 to KSh 129,676 million in December 2005.This was a 2.4 per cent decrease as compared to 15.0 per cent increase recorded in December 2004. Consequently, this resulted in a 6.7 per cent growth in total liabilities by December 2005.

5.6. Net foreign assets increased by 10.4 per cent from KSh 143,129 million in December 2004 to KSh 158,055 million in December 2005. Growth in overall domestic credit decelerated to 5.6 per cent from 13.1 per cent increase in 2004 increasing from KSh 501,160 million in December 2004 to KSh 529,392million in December 2005. Credit to Central Government declined by 2.2 per cent in December 2005 compared to 9.5 per cent decline registered in 2004. However, credit to other public sector increased by 9.4 per cent in 2005 compared to a 82.5 per cent expansion recorded in 2004. Growth in credit to private sector decelerated from 22.2 per cent registered in December 2004 to 8.1 per cent in December 2005. The ratio of credit to the Central Government in total domestic credit declined from 24.3 per cent recorded in December 2004 to 22.5 per cent in December 2005.

Table 5.4: Changes in Money Supply and Sources of Changes*, 2001-2005

KSh million

		2001	2002	2003	2004	2005
MONEY SUPPLY						
1.	Currency plus demand deposits	10,636	20,052	43,774	16,743	20,524
2.	Quasi-money(MS)	230	9,453	-1,001	22,078	22,163
3.	Quasi-money(NBFIs)	-3,223	-1,101	1,610	-1,370	-764
4.	Foreign Currency Deposits	846	8,244	2,005	22,802	4,422
5	Money supply (**M3X**)	8,489	36,649	46,388	60,253	46,345
SOURCES OF CHANGES						
6.	Net foreign assets	8,299	12,602	19,185	19,567	14,926
7	Domestic credit ---					
	(a) to Central Government(net)	16,594	13,002	20,893	-12,735	-2,628
	(b) to other public sector	-31	-11	-2,024	4,942	1,026
	(c) to private sector	-17,691	17,045	14,056	65,796	29,834
	(d) all domestic credit	-1,129	30,036	32,925	58,003	28,232
8	Other Items (Net)	1,319	-5,989	-5,722	-17,317	3,188
9	Total sources of changes	8,489	36,649	46,388	60,253	46,345

*Compare year end values

Sources of Changes in Money Supply and Real Values of Selected Financial Aggregates

5.7. Table 5.4 presents changes in money supply and sources of the changes. The benchmark monetary aggregate, broad money supply (M3X) expanded by KSh 46,344 million or 9.1 per cent due to a 10.4 per cent and 5.6 per cent growth in net foreign assets and overall domestic credit, respectively. A decline in credit to Central Government toned down the combined effect of a 9.4 per cent and 8.1 per cent increases in credit to other public bodies and private sectors, respectively.

These changes contributed to money supply aggregates M1 and M3 expanding by 9.7 per cent each and M2 by 10.2 per cent. The marginal decline in Quasi monetary deposits of the non bank financial institutions had little significance in the expansion of Broad Money Supply (M3) since only one institution was in operation.

Table 5.5: Trends in the Real Value of Selected Financial Aggregates*,2001 – 2005
at Constant (1997) Prices

KSh million

		2001	2002	2003	2004	2005
1	Money Supply(M3)....	246,525	262,603	268,059	289,818	262,730
2	Money Supply(M3XT)....	343,006	384,743	382,907	391,791	391,198
3	Commercial bank credit to private sector	158,298	157,067	147,270	169,248	163,728
4	Total commercial bank credit	198,653	207,781	197,448	239,032	216,984
5	Commercial Banks' Deposit Liabilities	231,235	250,806	258,083	268,371	273,112
6	Total liabilities of banking system .. .	360,321	385,301	383,280	393,530	380,646
7	NBFIs credit to private sector	19,822	12,546	9,907	8,613	7,634
8	Total NBFIs Credit	2,411	12,546	9,907	8,613	7,634
9	Total liabilities of non-bank financial institutions(NBFIs)	22,137	18,251	16,398	13,651	12,014
Memorandum Item:						
10	Line 5 as per cent of line 6 ..	64	65	67	68	72
11	Line 9 as per cent of line 6 ..	8	5	4	3	3

* Deflated by average Consumer Price Indices.

5.8. Real value trends at 1997 constant prices for selected financial aggregates are presented in Table 5.5. Money supply (M3) reduced in real terms by 9.3 per cent to KSh 262,730 million in December 2005. M3XT recorded a marginal reduction from KSh 391,791 million in December 2004 to KSh 391,198 million in December 2005. Commercial banks credit to the private sector declined in real terms by 3.3 per cent to KSh 163,728 million in December 2005 from KSh 169,248 million in December 2004. Total commercial bank credit in real terms declined by 9.2 per cent from KSh 239,032 million in 2004 to KSh 216,984 million in 2005. On the other hand, real commercial banks deposit liabilities grew by 1.8 per cent from KSh 268, 371 million in 2004 to KSh 273, 112 million in 2005.

5.9. Total liabilities of the banking system declined in real terms by 3.3 per cent from KSh 393,530 million in 2004 to KSh 380,646 million in 2005. NBFIs' credit and liabilities declined by 11.4 per cent and 12.0 per cent, respectively in 2005. In real terms the ratio of deposit liabilities to total liabilities of the banking system rose from 68.2 per cent in December 2004 to 71.7 per cent in December 2005. This ratio has been on an upward trend, an indication of a healthy banking sector. Ratio of NBFI liabilities to overall liabilities of the banking sector stood at 3.2 per cent in 2005.

Table 5.6: Principal Interest Rates, 2002-2005

Percentage

	2002	2003	2004	2005	
				June	December
CENTRAL BANK OF KENYA					
Average Interest Rate for 91 day Treasury Bills	8.37	1.41	8.29	8.46	8.14
Advances against Treasury Bills	11.37	4.41	11.29	11.46	11.14
Treasury Bonds (Coupon Rates, End Period):					
COMMERCIAL BANKS					
Time Deposits:*					
0-3 Months	5.42	2.99	3.34	5.20	5.61
3-6 Months	5.13	3.43	-		
6-9 Months	4.82	5.28	-		
9-12 Months	5.10	4.09	-		
over 12 Months	4.83	3.99	-		
Savings Deposits	3.47	1.38	0.98	1.24	1.38
Loans and Advances(Maximum)**	18.34	13.47	12.25	13.09	13.16
Inter-bank Rate	8.70	0.81	9.41	7.37	7.79
Overdraft	18.56	13.74	12.69	13.83	13.67
OTHER FINANCIAL INSTITUTIONS					
Kenya Post Office Savings Bank deposits	2.00	1.50	1.50	2.50	2.50
HIRE-PURCHASE COMPANIES AND MERCHANT BANKS					
Deposits(time)	3.03 - 7.72	2.75 - 4.95	2.00 - 6.35	4.00-7.75	4.00-9.08
Loans	18.17	15.50	15.50	18.50	18.50
Building Societies:					
Deposits	2.59 - 8.71	1.46 - 5.64	1.03 - 4.92	1.01-6.27	1.04-5.35
Loans	16.11	16.00	16.00	18.75	18.75

Source: Central Bank of Kenya.

* For all commercial banks consolidated

** Loans and advances for less than 3 years.

Principle Interest Rates

5.10. Table 5.6 presents the principal interest rates for the period 2002 to 2005. The average interest rate for benchmark 91 day treasury bills rose marginally over the first half of 2005 to register a rate of 8.46 per cent in June before declining marginally to 8.14 per cent in December 2005. This was partly due to the CBK implementation of a tight monetary policy with expansion of reserve money being confined to below 5.0 per cent by June 2005. This was well below the expansion in nominal GDP of over 10.0 per cent. Similarly, the advances against treasury bills interest rate rose marginally to 11.46 per cent in June 2005 before a slight decline to 11.14 per cent by December 2005. Time deposits rates for 0 - 3 months rose from 3.34 per cent in December 2004 to 5.61 per cent in December 2005. Savings deposits interest rates remained low despite a rise of 0.40 percentage points from 0.98 per cent in December 2004 to 1.38 per cent in December 2005. A marginal rise of 0.91 percentage point was recorded for the maximum interest loans and advances to 13.16 per cent over the same period. The inter-bank lending rate dropped from an average of 9.41 per cent in December 2004 to 7.79 per cent in December 2005.

5.11. Savings deposits held by Kenya Post Office Savings Bank (POSB) attracted an interest rate of 2.50 per cent in 2005 compared to 1.50 per cent in 2004 and 2003.

Interest rates on time deposit by hire purchase companies and merchant banks ranged between 4.00 - 9.08 per cent in December 2005, widening the range from 2.00 - 6.35 per cent recorded in December 2004. The interest on loans by these companies also rose from 15.50 per cent in December 2004 to 18.50 per cent in December 2005. Building societies deposit interest rates ranged between 1.04 - 5.35 per cent in December 2005 which was lower than the range observed in June 2005 of between 1.01 - 6.27 per cent. Interest on loans by building societies rose by 2.75 percentage points to 18.75 per cent in December 2005.

Table 5.7: Trends in Selected Nominal and Real Interest Rates, 2002 - 2005

Percentage

			Nominal Interest	Inflation Rate	Real Interest*
1	Average Interest Rate for 91-dayTreasury Bills	2002	8.4	2.0	6.4
		2003	1.4	9.8	-8.4
		2004	8.3	11.6	-3.3
		2005	8.1	10.3	-2.2
2	Advances against Treasury Bills	2002	11.3	2.0	9.3
		2003	3.4	9.8	-6.4
		2004	11.3	11.6	-0.3
		2005	11.1	10.3	0.8
3	Commercial bank savings deposits (ave)	2002	3.5	2.0	1.5
		2003	1.4	9.8	-8.4
		2004	1.0	11.6	-10.6
		2005	1.4	10.3	-8.9
4	Commercial bank loans and advances (max)	2002	18.3	2.0	16.3
		2003	13.5	9.8	3.7
		2004	12.3	11.6	0.7
		2005	13.2	10.3	2.9
5	Inter-Bank Rate	2002	8.8	2.0	6.8
		2003	0.8	9.8	-9.0
		2004	9.4	11.6	-2.2
		2005	7.8	10.3	-2.5
6	POSB deposits**	2002	2.0	2.0	0.0
		2003	1.5	9.8	-8.3
		2004	1.5	11.6	-10.1
		2005	2.5	10.3	-7.8
7	Building society loans (max)	2002	16.1	2.0	14.1
		2003	16.0	9.8	6.2
		2004	16.0	11.6	4.4
		2005	18.8	10.3	8.5

* Nominal interest rate minus inflation rate, gives the appropriate measure.
** POSB deposits are exempt from income tax on interest earned.

Selected Nominal and Real Interest Rates

5.12. Trends in selected nominal and real interest rates for the period 2002 to 2005 are shown in Table 5.7. All deposits interest rates were negative in real terms while all lending interest rates were positive. Average interest rate for 91-day Treasury Bill was negative 2.2 per cent in December 2005 compared to negative 3.3 per cent recorded in December 2004.

5.13. For the advances against the 91- day Treasury Bills, the real interest improved from negative 0.3 per cent in 2004 to a positive 0.8 per cent in December 2005. Commercial bank savings deposits interest rate improved slightly but remained negative rising from negative 10.6 per cent in December 2004 to negative 8.9 per cent by December 2005. Commercial bank loans and advances interest rate rose from 0.7 per cent in 2004 to 2.9 per cent in 2005. The inter-bank real interest rate fell marginally from negative 2.2 per cent in 2004 to negative 2.5 per cent in December 2005. Real interest rates for the Post Office Savings Bank deposits improved slightly to negative 7.8 per cent in 2005. Maximum real interest charged by the building societies loans increased by 4.1 percentage points to 8.5 per cent in December 2005.

Table 5.8: Central Bank of Kenya Assets and Liabilities, 2001-2005

KSh million

ASSETS	2001	2002	2003	2004	2005			
					1st Qr	2nd Qr	3rd Qr	4th Qr
1. Foreign Exchange:-								
1.1 Balances with External Banks	81,899	80,673	110,822	115,711	105,937	119,245	124,839	128,568
1.2 Treasury Bills	..	..	..	..	..	..	..	..
1.3 Other Investments	259	218	308	397	414	462	550	651
1.4 Special Drawing Rights	80	320	171	46	21	50	24	30
TOTAL	82,238	81,211	111,301	116,155	106,372	119,757	125,413	129,248
2. Advances & Disc. to Banks	1,362	7,484	674	67	8,259	8,261	8,259	8,259
3. Direct Advances & Overdraft to govt including Kenya Tbills & bonds	44,410	45,067	44,634	51,777	46,918	48,838	46,940	47,010
4. Other assets	22,359	20,623	19,827	8,613	1,637	660	-3,870	-3,972
TOTAL ASSETS	**150,369**	**154,385**	**176,436**	**176,612**	**163,187**	**177,516**	**176,742**	**180,545**
LIABILITIES :								
1. Capital and General Resources Fund	5,748	9,452	10,400	11,033	11,033	11,033	6,898	6,898
2. Currency in Circulation-								
2.1 Notes	50,892	59,916	60,628	68,090	64,355	64,416	65,003	73,752
2.2 Coins	2,184	2,605	2,547	2,872	2,895	2,901	2,910	3,035
TOTAL CURRENCY	53,076	62,521	63,175	70,962	67,250	67,317	67,914	76,787
3 REPO SECURITIES*								
3.1 OMO-repo sales	15,517	6,979	3,125	7,019	4,345	5,336	5,063	5,251
3.2 Repo-tap sales	..	..	..	..	..	..	..	..
TOTAL	15,517	6,979	3,125	7,019	4,345	5,336	5,063	5,251
4.1 Kenya Government	28,537	25,886	42,237	28,868	26,472	43,775	40,685	43,281
4.2 Kenya Banks **	26,052	25,932	24,337	30,092	26,433	27,241	33,553	30,415
4.3 External Banks	9,783	9,157	11,800	11,928	16,515	15,841	19,025	17,730
4.4 Other	8,731	9,858	9,693	10,379	8,389	7,914	8,371	7,177
TOTAL	73,103	70,833	88,067	81,267	77,808	94,771	101,634	98,604
5. Other Liabilities	2,925	4,600	11,669	6,331	2,751	-940	-4,767	-6,995
TOTAL LIABILITIES	**150,369**	**154,385**	**176,436**	**176,612**	**163,187**	**177,516**	**176,742**	**180,545**

Source: Central Bank of Kenya

*-REPOs securities included in the breakdown from January 2001.

**- Deposits from commercial banks excluding non-bank financial institutions (NBFIs)

Central Bank Assets and liabilities

5.14 Assets and liabilities of the Central Bank are presented in Table 5.8. Overall, the assets grew by 2.2 per cent in the period to December 2005. The increase was supported by a 4.1 per cent growth in balances with external banks from KSh 115,711 million in December 2004 to KSh 128,568 million in December 2005. The growth was further supported by a 64.0 per cent growth in other investments from KSh 397 million in 2004 to KSh 651 million in 2005. However the growth was moderated by a 34.8 per cent decline in Special Drawing Rights (SDRs) from KSh 46 million to KSh 30 million in 2005. Decline in direct advances and overdraft to the Government, other assets including Treasury Bills and bonds further contributed to currency in circulation increasing by 8.2 per cent from KSh 70,962 million in 2004 to KSh 76,787 million in December 2005.

Table 5.9: Commercial Banks - Bills, Loans and Advances*, 2001 - 2005

KSh million

	2001 Dec.	2002 Dec.	2003 Dec.	2004 Dec.	2005 Dec.
PUBLIC SECTOR:					
Central Government	2,431	3,122	2,805	3,007	2,068
Local Government	659	687	658	338	630
Enterprises, Parastatal bodies and other Public entities	6,601	7,824	6,282	11,168	10,830
TOTAL PUBLIC SECTOR	9,691	11,633	9,745	14,514	13,529
PRIVATE ENTERPRISES:					
Agriculture	23,795	25,304	28,117	30,807	32,984
Mining and Quarrying	2,169	1,982	1,493	1,934	2,399
Manufacturing	49,597	50,765	52,476	63,004	62,701
Building and Construction	17,288	17,298	16,995	17,615	21,421
Transport, Storage and Communication ..	9,901	16,705	16,750	20,194	27,093
Trade	45,989	46,593	46,619	47,498	51,275
Financial Institutions	5,391	6,788	6,372	7,641	13,292
Other Business	53,218	50,404	50,482	60,184	83,827
TOTAL PRIVATE ENTERPRISES	207,349	215,839	219,303	248,877	294,992
COMMUNITY AND PERSONAL SERVICES (including non-profit making institutions) .	8,732	16,446	22,938	36,148	44,188
Other Activities (Nes)	34,445	39,654	41,625	63,589	38,463
TOTAL BILLS, LOANS AND ADVANCES	260,216	283,572	293,612	363,127	391,172

Source: Central Bank of Kenya.

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

Commercial Banks Credit and Liquidity

5.15 Commercial banks bills, loans and advances are summarized in Table 5.9. Total credit by commercial banks to the economy increased by 7.7 per cent from KSh 363,127 million in December 2004 to KSh 391,172 million in December 2005. Borrowing by the public sector decreased by 6.8 per cent in December 2005 compared to the same period in 2004. Decrease in credit to the public sector was largely due to the decrease in borrowing by the Central Government which fell from KSh 3,007 million in December 2004 to KSh 2,068 million in December 2005 representing a 31.2 per cent decrease. This accounted for 95.3 per cent of the decrease in the public sector borrowing. The share of the public sector in total credit by the commercial banks declined to 3.5 per cent in December 2005 from 4.0 per cent in December 2004. The reduced lending to Government was more than offset by increased credit to private sector, which grew by 18.5 per cent by December 2005 compared to 13.5 per cent in the same period in 2004.

5.16. Lending to the private sector by commercial banks increased by 18.5 per cent from KSh 248,877 million in December 2004 to KSh 294,992 million in December 2005. While credit to private sector represented a deceleration in the twelve months to December 2005, the level of expansion of credit to private sector remained high due to improved macroeconomic stability and investor confidence in the recent past. Credit to agriculture increased from KSh 30,807 million in December 2004 to KSh 32,984 million by December 2005, representing 7.1 per cent increment thus raising its share in total credit to 8.4 per cent. Credit to manufacturing decreased marginally by 0.5 per cent.

5.17 Lending to trade sector increased by 8.0 per cent while lending to financial institutions expanded by 74.0 per cent during the year under review. The share of trade in total lending by the commercial banks remained the same at 13.1 per cent in the two periods 2004 and 2005. The share of other business in total lending increased from 16.6 per cent in 2004 to 21.4 per cent in 2005. In the community and personal services category, other activities (nes) registered a decrease from KSh 63, 589 million in December 2004 to KSh 38,463 million in December 2005 representing a 39.5 per cent decline. The share of non profit making institutions in total credit increased from 10.0 per cent in 2004 to 11.3 per cent in 2005.

5.18. Commercial banks liquid assets and deposit liabilities are shown in Table 5.10. Deposit liabilities of the commercial banks increased by 15.4 per cent while the liquid assets increased by 13.9 per cent in 2005. The liquidity ratio remained high for most of the year rising from 42 per cent in December 2004 to 43 per cent before settling at 42 per cent by December 2005.

Table 5.10: Commercial Banks - Deposit Liabilities and Liquid Assets*, 2001 - 2005

		Deposit Liabilities KSh million	Liquid Assets** KSh million	Current Liquidity Ratio*** per cent
2001	December	302,895	137,855	46
2002	December	334,976	147,786	44
2003	December	378,391	186,224	49
2004	December	423,826	179,425	42
2005 -				
	January	433,198	181,118	42
	February	436,144	185,607	43
	March	445,741	192,738	43
	April	451,054	194,717	43
	May	451,552	192,630	43
	June	457,466	195,516	43
	July	459,944	198,007	43
	August	466,239	199,219	43
	September	470,149	202,230	43
	October	474,475	202,085	43
	November	481,352	201,351	42
	December	489,018	204,435	42

Source: Central Bank of Kenya.

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

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

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

Assets and Liabilities of Non Bank Financial Institutions

5.19. As shown in Table 5.11, assets and liabilities of the NBFIs registered a decline of 2.9 per cent by December 2005 from KSh 22,350 million in December 2004 to KSh 21,698 million in December 2005. Deposits from Central and local government decreased from KSh 15.0 million in December 2004 to KSh 1.0 million in December 2005, a 93.3 per cent decline while deposits from other public sectors increased by 3.5 per cent from KSh 2,725 million in 2004 to KSh 2,821 million in 2005. Moreover deposits from other depositors increased by 3.8 per cent from KSh 10,207 million in December 2004 to KSh 10,592 million in December 2005. Other liabilities of NBFIs decreased by 11.9 per cent from KSh 9,403 million in December 2004 to KSh 8,283 million in December 2005.

Table 5.11: Assets and Liabilities of Non-Bank Financial Institutions, 2001 - 2005

KSh million

	AS AT THE END OF							
					2005			
	2001	2002	2003	2004	1st Qr	2nd Qr	3rd Qr	4th Qr
LIABILITIES:								
Deposits-								
Central & Local Government..	438	258	3	15	2	2	2	1
Other Public Sector ..	2,468	2,700	2,927	2,725	2,729	2,661	2,589	2,821
Other Depositors ..	12,041	10,664	11,484	10,207	10,264	10,413	10,609	10,592
Other Liabilities	9,070	10,754	9,870	9,403	9,251	9,068	8,386	8,283
TOTAL LIABILITIES	**24,016**	**24,376**	**24,283**	**22,350**	**22,246**	**22,144**	**21,586**	**21,698**
ASSETS:								
Cash and Banks	2,325	1,738	2,607	1,598	2,036	2,529	2,537	2,785
Other Financial Institutions ..	75	..	..	..	..	..	..	..
Associated Companies ..	3,506	3,061	4,029	4,153	3,680	3,347	3,317	3,545
Investments, Bills, Loans & Advances:-								
Public Sector	..	..	..	..	..	..	..	1,184
Private Sector	15,709	16,756	14,671	14,101	14,118	13,991	13,746	12,602
Other Assets	2,401	2,821	2,976	2,497	2,412	2,277	1,987	1,582
TOTAL ASSETS ..	**24,016**	**24,376**	**24,283**	**22,350**	**22,246**	**22,144**	**21,586**	**21,698**

Source: Central Bank of Kenya

5.20 In the case of assets, cash held in banks increased by 74.3 per cent from KSh 1,598 million in 2004 to KSh 2,785 million in 2005. Assets for associated companies decreased by 14.6 per cent from KSh 4,153 million in December 2004 to KSh 3,545 million in December 2005. Loans and advances to public sector registered KSh 1,184 million in 2005. Lending to the private sector declined by 10.6 per cent from KSh 14,101 million in 2004 to KSh 12,602 million in 2005. Other assets recorded a decline of 36.6 per cent from KSh 2,497 million in 2004 to KSh 1,582 million in 2005. The decline in assets and liabilities of the NBFIs was as a result of meger of one NFBI with a commercial Bank.

Table 5.12: Capital Markets: Nairobi Stock Exchange (NSE), 2001 - 2005

	2001	2002	2003	2004	2005			
					1st Qr	2nd Qr	3rd Qr	4th Qr
No. of Deals ('000)	1,607	1,908	8,350	3,865	6,503	18,960	19,331	15,652
No. of Shares('000)	5,250	27,995	31723	37,950	31,991	101,955	150,998	85,885
Value of Shares (KSh mn)	150	528	2,081	1,442	1,513	3,839	2,759	4,065
NSE 20 Share Index- (base Jan 1966=100)	1,351	1,363	2,738	2,946	3,209	3,972	3,833	3,973
Market Capitalization(KSh bn)	86	112	318	306	329	420	450	462

Source: Nairobi Stock Exchange

The Stock Market Indicators

5.21 Table 5.12 presents the Nairobi Stock Exchange indicators. There was robust growth in the stock market due to investor optimism fuelled by speculative demand and anticipated good profitability results for most listed companies. The number of deals transacted increased from 3,865 thousand registered in 2004 to 15,652 thousand by December 2005. The number of shares traded more than doubled from 38 million in 2004 to 85.9 million in 2005. Value of shares traded rose from KSh 1.4 billion in December 2004 to KSh 4.1 billion in 2005, a threefold rise. The share prices for most listed companies rose substantially as reflected in the NSE 20 share index that rose from 2,946 in December 2004 to 3,973 in December 2005 increasing by 1,027 points.

Developments in the Financial Sector

Banking Sector

5.22 During the twelve months to December 2005, the banking sector remained stable, mainly due to the favourable macroeconomic environment that prevailed. Non performing loans (net of provisions) maintained a downward trend, while gross loans increased, leading to better asset quality ratios and increased profitability. The number of financial institutions declined from 49 in December 2004 to 45 in December 2005 due to mergers and closures. The decrease in the number of financial institutions was as a result of closure of two institutions that were under statutory management and the acquisition of assets and liabilities of two institutions. However, the number of forex bureaus increased from 85 to 95 over the same period.

Capital and Reserves

5.23. Over the same period, capital and reserves of the banking sector increased by 16.3 per cent from KSh 70.6 billion as at December 2004 to KSh 82.1 billion. The increase in capital and reserves in the sector was a result of fresh capital injection by some institutions and retention of profits. Capital adequacy in the sector, as measured by the ratio of total capital to total risk weighted assets ratio declined slightly to 16.3 per cent in December 2005 from 16.8 per cent in 2004. The decrease in the ratio over the period was attributed to a more than proportionate increase in total risk weighted assets that offset the increase in total capital.

Profitability

5.24 Pre-tax profit of the banking sector increased by 47.8 per cent to stand at KSh 20.1 billion during the twelve months of 2005 from KSh 13.6 billion (unaudited) over a similar period in 2004. However, the profits are expected to decline once year end audit adjustments have been taken into account. Interest income on

advances increased by 51.0 per cent to KSh 39.7 billion in 2005 from KSh 26.3 billion in 2004 and accounted for 51.0 per cent of total income. The increase in interest income was attributed to substantial growth in loans and advances and increase in the interest margin which rose to 8.1 per cent in 2005 from 6.8 per cent in 2004. Non- funded income from fees and commissions increased by 17.8 per cent from KSh 16.9 billion in December 2004 to KSh 19.9 billion in December 2005. Return on assets for the sector increased from 1.9 per cent in December 2004 to 2.5 per cent, while return on shareholders funds increased from 19.2 per cent to 24.4 per cent over the same period.

Compliance and Prudential Regulations

5.25 During the period under review, the Central Bank continued to enforce compliance with the requirements of the Banking Act and Prudential Guidelines through penalties and other administrative sanctions. Incidences of non-compliance reduced from 19 as at December 2004 to 9 as at December 2005. Similarly, the number of institutions that were non-compliant declined from 9 as at December 2004 to 7 as at the end of December 2005. The Government through the Central Bank intends to continue monitoring the level of compliance in the banking sector with a view to ensuring that all institutions are fully compliant with statutory and prudential requirements.

Other Developments in the Banking Sector

5.26 In November 2005, the Central Bank issued revised Prudential Guidelines and Risk Management Guidelines (RMGs) to the banking sector. The revisions were done to take into account developments in global supervisory practices, corporate governance and International Financial Reporting Standards. The RMGs were issued following a survey carried out by CBK in 2004 amongst Kenyan banks that indicated gaps in their Risk Management practices. The Guidelines define the minimum requirements for institutions Risk Management Programmes (RMPs) to identify, assess and mitigate risks they face. The RMGs cover the common risks faced by financial institutions which include strategic, credit, liquidity, interest rate, foreign exchange, operational risk and regulatory risk. The key changes to the guidelines are:-

- Enhanced provision requirements for non performing assets.
- Reduced reliance on collateral when assessing provisions for non-performing loans and advances.
- Requirement that shareholders with more than 5.0 per cent shareholding should not participate in executive management.
- Recommendation that three fifths of the Board of Directors of banks be non-executive with the majority being independent of the shareholders and management of the institution.

Institutions are expected to submit their RMPs to the CBK for review by May 2006. The RMPs will form the basis of the Risk Based Supervision approach that the CBK is moving to.

Banking Sector Outlook

5.27. The sector's performance is expected to improve further as the economy continues on the growth path, more institutions embrace risk management frameworks and as the Government continues to ensure full compliance with statutory and prudential requirements.

The Capital Markets

5.28 There were a total of 65 licensed players in the capital markets during the year under review. The Nairobi Stock Exchange continued as the sole securities exchange along with one Central Depository. During the year under review, 11 investment banks were in operation, 10 stockbrokers, 15 investment advisors, 14 fund managers, 5 collective investment schemes and 5 authorised depositories/custodians. Also participating in the market was one credit rating agency and 2 venture capital funds.

5.29 During the reference period the Capital Markets Authority (CMA) proposed to the Government to provide additional incentives to issuers of asset backed securities. This followed the 2005/06 budget proposal by the Minister to exempt from tax interest income earned on asset backed securities issued by a company or a trust set up as a Special Purpose Vehicle (SPV). Under the CMA the proposed SPV will enable institutions in providing infrastructure services to raise long-term capital through securitization. Asset backed securities will contribute significantly to economic development in that the needed capital for infrastructure development e.g. housing, roads, air and rail transport can be raised through this modality. This will also hold for the utility and services sector as well as the social services sector, thereby creating an enabling environment for the accomplishment of the Millennium Development Goals.

5.30 Other boosts to the capital market include the requirement that retirees access their retirement benefits only after attaining the retirement age, thereby locking in funds with pension schemes who in turn will invest in the capital market on corporate bonds, commercial paper, and equity. A tax incentive aimed at boosting pension savings by targeting the tax deductible limits was a benefit for the capital market in that it raised the disposable income that could be channeled for investment in the market. A rise in the benchmark for tax on benefits, advantages or facilities enjoyed in respect of employment from KSh 24,000 to KSh 36,000 per annum had a similar effect in that; disposable income available for investment in the market was increased.

5.31 During 2005, two rights issues were made. Uchumi Supermarkets issued 120 million ordinary shares raising KSh 1.2 billion while CFC bank issued 12 million shares raising KSh744 million. The cumulative number of shares floated for state owned enterprises stood at 907.4 million, raising KSh 12.16 billion by end of 2005. No privatisation took place during the period in review but plans are at an advanced stage to privatize the power generation and distribution in the energy sector by June 2006. By December 2005 five new corporate bonds were issued with a total value of KSh7.5 billion. The total of corporate bonds outstanding as at December 2005 stood at KSh10.2 billion. Commercial Paper aggregate value for the period to December 2005 stood at KSh2.72 billion whereas the total amount outstanding was KSh1.95 billion at year's close.

The Capital Market Infra-structure

5.32 Since the introduction of the Central Depository System (CDS) in 2004, the Central Depository and Settlement Company (CDSC) has succeeded in depositing 344,278 certificates and processed 1.47 billion shares by end of 2005. The CMA continued to prioritize implementation of automated trading system (ATS), regulation and legal framework for operation of venture capital funds, and implementation of an investor education and awareness programme.

Pensions and Pension funds

5.33 The number of private pension fund managers remained 12 while the number of private pension schemes increased from 929 schemes in December 2004 to 992 schemes in December 2005. The value of their investment portfolio also grew by 20.6 per cent from KSh 100.1 billion in December 2004 to KSh 120.7 billion in December 2005. On the other hand, NSSF pension investment portfolio grew by 38.0 per cent from KSh 39.5 billion in December 2004 to KSh 54.5 billion in 2005.

5.34 During the 2005/06 budget changes were instituted with regard to pension administration. The changes included limitation of access to benefits before attaining the retirement age of a pension scheme, commutation of trivial pension into a lump sum, and members of a pension scheme will also earn interest in case of a delay in payment of their benefits among other legal reforms.

Insurance Industry

5.35. In 2005 there were 44 licensed insurance companies of which 2 were in the reinsurance business while the number of licensed brokers stood at 205. During the year one insurer that had insured the highest percentage of vehicles in the public transport sector, was placed under statutory management. The industry has over the past five years been hit by the collapse of a number of companies. The continued collapse of insurance firms, leaves the burden to compensate accident victims with vehicle owners. Collapse of insurance companies is as a result of cheap premiums combined with poor portfolio investment of the insurer's funds and fraud by clients (moral hazard) and management. Regulation of the industry has been difficult due to the limited legislative and enforcement powers and financial resources at the disposal of the insurance regulator. The Government's intention to grant the insurance regulator more power and if possible make it autonomous by end of 2006 will enhance the regulatory ability. A task force was formed consisting of five members from the Association of Kenya Insurers and three from the Ministry of Finance to look into the modalities of achieving this.

5.36. Despite the challenges, the insurance industry posted a 50.1 per cent increase in profitability to KSh 2.9 billion as a result of 41.5 per cent growth in income and controlled expenditure. Re-insurance business overtook the insurance segment as the major source of growth for the sector. The industry's major portfolios of business included commercial motor, motor private, industrial fire and personal accident accounting for 73.0 per cent of the total gross direct premium written under general insurance business.

5.37 Kenya Reinsurance corporation was rated as one of the best companies in the continent by AM Best, an international rating agency for insurance companies, due to its ability to meet its ongoing obligation to clients. It was rated B+ for its outstanding performance and adherence to international standards. It became the first local organisation to be rated by the renowned agency where the ratings are based on evaluation of a company's balance sheet, operating performance, and business profile.

5.38 During the period under review, new products were introduced. The first product offered complete protection in motor insurance laced with several services which included roadside rescue and related services from Automobile Association of Kenya (AAK). The second product covers policy holders against loss of future income as well as offering employed professionals financial security if partially or totally unable to meet their professional obligations. In addition, the product is designed to cover personal accidents providing for payments of the benefits agreed in the event of the insured person sustaining a physical injury in an accident which results in death or disability. This also cover those who stop working due to disability as a result of injury such as contractors, farmers, surgeons and traveling salesmen. Only two insurance firms were among listed companies at the Nairobi Stock Exchange in 2005.

5.39 During the year, there were moves to push for legalisation of bank assurance that is sale of insurance products through banks by doing away with legislation that inhibited growth of the sector. At the same time insurers rejected motor pool cover on *matatus* claiming that the pool cover would not solve transport problems; instead they urged the government to enhance the regulation of insurance industry through the establishment of a regulatory authority to deal with the problems in the sector.

5.40 Given the expected good performance for the economy and increasing consciousness by households and establishments on the need for risk management insurance firms have got potential to broaden their business horizons. This will further be enhanced by the establishment of the deposit protection fund that became effective from January 2005.

Chapter 6

Public Finance

Conceptual Framework

The Government in 2005 adopted the Government Finance Statistics (GFS 2001) Classification which is a universal framework recommended by the IMF for the reporting of fiscal statistics. The system is a major advancement in the standards for compilation and presentation of fiscal statistics and part of a worldwide trend towards greater accountability and transparency in Government finances, operations and oversight. The GFS 2001 system represents a substantial modernisation and expansion of the system described in the GFS 1986 system which has been in use. The concepts and principles set out in the GFS 2001 system are harmonised with those of the 1993 System of National Accounts (1993 SNA) and Balance of Payments thus making it easier to utilise jointly with other macroeconomic statistics. (For details see chapter 15). This chapter therefore presents Government Finance Statistics in close accordance with GFS 2001 system.

Overview

6.2. The formulation of policy, planning as well as the execution of the budget processes have been guided by two important instruments, namely; the Public Expenditure Review (PER) and the Medium Term Expenditure Framework (MTEF) Ceilings. Over the years, public expenditure has been prioritized to cover the Core Poverty Programs (CPP) whose implementation is expected to impact directly on the standards of living in our society by increasing incomes for the poor, thus improving the quality of life, enhancing security, improving governance as well as promoting equity and equality within the society.

6.3. In the medium term, the Government's policy is to contain the wage bill and domestic borrowing to more sustainable levels. Within the wage bill target for fiscal 2005/06, the government set aside KSh 2.1 billion salary awards for the civil servants and KSh 4.9 billion for the teachers. The strategic grain reserve is expected to receive KSh 1.0 Billion boost in the Government's attempt to achieve food security. To finance the execution of the budgeted activities, the Government intends to raise KSh 326.1 billion of which KSh 296.1 billion will be sourced from ordinary revenue and KSh 30.0 billion from Appropriation-In-Aid.

Overall results

6.4. **Central Government: -** The statement of Central Government operations for the period between 2001/02 and 2005/06 is presented in Table 6.1. Total Government revenue (including grants) is expected to go up by 11.5 per cent from KSh 307.1 billion in 2004/05 to KSh 342.3 billion in 2005/06. Net Operating Balance and the net lending/borrowing have been adopted as the balancing items. Net Operating Balance is a summary measure of the effect of the Government's transactions on the net worth. Net operating balance is expected to worsen from a deficit of KSh 6.0 billion in 2004/05 to a deficit of KSh 13.8 billion in 2005/06. This is explained by the expected increase in expense which is relatively higher than the expected increase in revenue. Net lending/borrowing on the other hand measures the extent to which the government either provides financial resources to other sectors of the economy and the rest of the world (Net lending) or uses financial resources generated by other sectors of the economy (Net borrowing). Net

borrowing is expected to worsen from KSh 35.8 billion in 2004/05 to KSh 70.9 billion in 2005/06. This was occasioned by increase of domestic borrowing and a commitment to repay external loans.

Table 6.1: Statement of Central Government operations 2001/02-2005/06

KSh Million

	2001/02	2002/03	2003/04	2004/05*	2005/06+
Revenue**	210,785.48	228,163.39	270,920.22	307,147.42	342,340.20
Expense	202,535.36	229,557.92	265,759.63	314,778.52	356,160.57
Current Expenditure	196,563.38	223,164.19	258,474.85	307,080.80	337,624.42
Capital Transfers	5,971.98	6,393.73	7,284.78	7,697.72	18,536.14
Net Operating Balance(N.O.B)	8,250.12	-1,394.53	5,160.59	-6,026.87	-13,820.37
Acquisition of Non-Financial Assets(net)	21,151.13	24,154.55	24,381.40	29,777.35	57,091.47
Net lending/Borrowing	-12,901.01	-25,549.08	-19,220.81	-35,804.22	-70,911.84
FINANCING	24,469.09	33,999.08	22,930.14	-7041.80	45,926.23
Net Acquisition of Financial Assets	-1,984.91	-779.92	5,312.14	256.20	246.00
Domestic	-1,984.91	-779.92	5,312.14	256.20	246.00
Foreign	0.00	0.00	0.00	0.00	0.00
Net Incurrence of Liabilities	26,454.00	34,779.00	17,618.00	-7298.00	45,680.23
Domestic	39,768.00	46,922.00	8,809.00	-6673.00	16,704.00
Foreign	-13,314.00	-12,143.00	8,809.00	-625.00	28,976.23
MEMORANDUM ITEMS:					
Public debt Redemption	84,502.00	55,063.23	86,635.67	78,822.93	78,987.94
(a) External	22,313.24	21,384.89	20,912.06	18,076.33	19,066.06
(b) Internal	62,188.75	33,678.34	65,723.60	60,746.60	59,921.88

Source: CBS and MoF

* Provisional

+Revised estimates

** incudes grants & A-I-A

Expense= current expenditure +capital transfers

Net operating Balance=Revenue-Expense

Acquisition of Non financial assets(net)=Acquisition of Non financial assets-Disposal of Non financial assets

Net Lending=Net Operating Balance (N.O.B) -Acquisition of Non- financial assets

Financing=Net acquisition of financial assets+Net incurence of liabilities

6.5. Table 6.2 presents an analysis of key fiscal trends for the fiscal years 2001/02 to 2005/06. Net lending/ borrowing as a percentage of revenue is expected to worsen for the second year running from 10.1 per cent in 2004/05 to 22.7 per cent in 2005/06. Net short term borrowing as a percentage of acquisition of non financial assets is expected to decline substantially from 29.7 per cent 2004/05 to 0.8 per cent in 2005/06. Similarly, Net borrowing as a percentage of total expenditure is expected to deteriorate further from 6.7 per cent in 2004/05 to 14.40 per cent in 2005/06. Net borrowing as a percentage of GDP is expected to worsen from 2.8 in 2004/05 to 5.0 per cent in 2005/06.

Table 6.2: Analysis of key fiscal trends, 2001/02-2005/06

	2001/02	2002/03	2003/04	2004/05*	2005/06**
1. Net operating balance as a percentage of revenue	3.91	-0.06	1.90	-1.96	-4.04
2. Net operating balance as % of Acquisition of Non financial assets(net)	3.90	-5.77	21.12	-20.24	-24.20
3. Ratio of Acquisition of Non financial assets(net) to Current Expenditure	10.76	10.82	9.43	7.33	16.91
4. Net Lending/Borrowing as % of Revenue ..	-6.23	-11.93	-8.24	-10.12	-22.74
5. Net Lending/Borrowing as % of Total Expenditure ..	-4.18	-8.23	-5.10	-6.73	-14.40
6. External Grants and Loans as % of Acquisition of Non financial assets(net)	-30.68	11.58	30.41	63.00	1.00
7. Net Short-Term Borrowing as % of Acquisition of nonfinancial assets(net)	-10.42	-37.00	-78.84	-29.65	-0.80
8. Revenue as % of GDP at Current Market Prices	20.66	22.36	23.84	23.94	24.19
9. Total Government Expenditure as % of GDP at Current Market Prices	30.21	30.42	33.12	33.00	34.78
10. Net Lending/Borrowing as % of GDP at Current Market Prices	-1.26	-2.50	-1.69	-2.79	-5.01

* Provisional

** Revised Estimates

6.6. Table 6.3 shows a comparative analysis of the budgeted estimates and actual out-turns of revenue and expenditure for the period 2002/03 -2005/06. In the year under review, slight differences are expected between the budgeted estimates and the expected actual out-turns. The actual out-turn of the recurrent revenue is expected to surpass by KSh 2.6 billion while that of the recurrent expenditure is expected to deviate downwards by KSh 3.7 billion. Actual out-turn of development expenditure is expected to differ from the budgeted estimates, attributable to Government's intervention in funding famine related activities.In 2004/05, huge disparities of up to KSh 36.4 billion and KSh 18.8 billion were realised for recurrent revenue and expenditure respectively.

Table 6.3: Comparison of Central Government budget estimates with actual out-turns, 2002/03 -2005/06

KSh million

	2002/03			2003/04		
	Budget	Actual	Difference	Budget	Actual	Difference
Recurrent Revenue	223,056.05	214,149.26	-8,906.79	237,369.70	254,696.22	-17,326.52
Recurrent Expenditure++	292,715.54	274,113.29	-18,602.25	329,927.08	314,956.68	-14,970.40
Recurrent Balance	-69,659.49	-59,964.02	9,695.47	-92,557.38	-81,976.59	10,580.79
Development Expenditure	49,753.66	32,529.59	-17,224.07	59,670.57	46,167.59	-13,502.98
External Financing (Net)**	-923.65	-6,491.00	-5,567.35	35,854.69	2,799.00	-33,055.69
Balance for Domestic Financing	-120,336.80	-98,984.62	21,352.18	-116,373.26	-125,345.18	-8,971.92
	2004/05*			2005/06***		
	Budget	Actual	Difference	Budget	Actual	Difference
Recurrent Revenue	256,546.58	292,942.42	-36,395.84	311,846.84	314,474.89	-2,628.05
Recurrent Expenditure	353,533.75	372,359.68	18,825.93	404,605.78	400,885.57	-3,720.22
Recurrent Balance	-96,987.17	-90,571.08	6,416.10	-92,758.95	-88,312.53	4,446.42
Development Expenditure	88,116.10	53,167.68	-34,948.42	104,112.09	91,909.85	-12,202.24
External Financing (Net)**	45,991.39	14,280.00	-31,711.39	56,841.54	56,841.54	0.00
Balance for Domestic Financing	-139,111.88	-129,458.76	9,653.13	-140,029.49	-123,380.84	16,648.66

* Provisional.

** Includes external grants.

*** Revised Estimates

++ Recurrent expenditure consists of current expenditure , Acquisition of Nonfinancial assets(net) and Consolidated Fund Service from the Rec- Estimates

6.7. Details of Central Government Gross receipts on the recurrent account for the period 2001/02- 2005/06 are shown in Table 6.4. Ordinary revenue increased over the last five years as a result of increased efficiency and positive impact of the tax amnesty by KRA. Total ordinary revenue is expected to grow by 7.5 per cent from KSh 292.9 billion in 2004/05 to KSh 314.8 billion in 2005/06. Taxes on incomes, profits and capital gains and taxes on goods and services are expected to grow by 14.8 and 9.7 per cent respectively. Income tax from corporations has risen over the five year period, principally due to increased profitability in most corporate companies. Income tax from individuals has also followed a similar trend which could be as a result of an increase in taxable labour force

Table 6.4: Central Government Gross Receipts on the reccurent account 2001/02-2005/06

KSh million

	2001/02	2002/03	2003/04	2004/05**	2005/06+
Taxes on income, Profits and Capital gains	55,861.98	70,140.28	77,409.73	100,702.00	115,600.50
Income Tax from individuals(P.A.Y.E)	30,903.39	34,400.06	41,627.10	53,764.00	62,909.50
Income Tax from corporations(other incom	24,958.59	35,740.22	35,782.63	46,938.00	52,691.00
**Taxes on property .. .. ..

Table 6.5: Central Government import duty collections for selected items, 2001- 2005**

KSh million

END-USE CATEGORY	2001	2002	2003	2004	2005*
Food, drinks and tobacco	7,064.32	4,754.02	5,354.73	4,735.76	5,429.06
Basic materials	1,437.40	1,135.57	1,729.92	942.29	889.92
Fuels	146.67	850.74	705.37	508.31	551.58
Chemicals	1,460.73	1,094.14	753.87	1,012.91	2,183.40
Textiles	780.81	691.15	694.14	619.12	512.92
Semi-manufactures	1,702.31	1,524.76	1,003.54	1,551.77	1,384.42
Metals	1,243.82	1,233.38	1,225.06	1,240.82	1,177.85
Transport Equipment	4,000.40	4,117.37	4,015.48	5,621.52	3,787.79
Machinery	4,224.45	3,094.42	2,668.50	2,865.89	2,567.76
Miscellaneous commodities	2,549.14	2,270.87	1,642.44	2,082.83	1,907.19
TOTAL	24,610.06	20,766.41	19,793.05	21,181.22	20,391.90

Source: Customs and Excise-K.R.A

* Provisional.

** Data presented in this table refer to calender years

6.9. Table 6.6 shows the Central Government excise revenue collected from selected locally manufactured commodities. Total excise revenue registered a 9.4 per cent growth from KSh 14.8 billion in 2004 to KSh 16.2 billion in 2005. Excise revenue from beer and spirits accounted for 61.0 per cent of total excise duty in 2005 compared to 59.8 per cent in 2004, while that of cigarettes remained at 29.3 per cent in the same period. The increase in excise duty may partly be attributed to efficiency measures in tax collection put in place by the Kenya Revenue Authority.

Table 6.6: Central Government excise revenue by commodities*, 2001- 2005

KSh million

	2001	2002	2003	2004	2005**
Beer and spirits	7,540.36	8,024.73	7,907.96	8,882.97	9,899.93
Sugar	39.43	0.00	0.00	0.00	0.00
Cigarettes	3,830.87	3,578.56	3,629.44	4,345.23	4,763.01
Other commodities***	1,035.52	1,321.76	1,908.08	1,614.35	1,570.81
TOTAL	12,446.18	12,925.05	13,445.48	14,842.55	16,233.75

\+ 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.

6.10. Table 6.7 depicts the financing of the Central government's Non financial assets in the fiscal period 2001/02 to 2005/06. In the year under review, the Government intends to spend KSh 73.5 billion to finance the acquisition of Non-financial assets. External financing including grants and long term domestic borrowing are expected to be the major source of financing and are estimated to account for 77.3 and 23.4 per cent of the total financing respectively. Net short term domestic borrowing is expected to result to a repayment of KSh 509 million while net long term domestic borrowing is expected to increase substantially from KSh 718.85 million in 2004/05 to KSh 12.5 billion in 2005/06.

Table 6.7: Central Government Financing of Non financial assets , 2001/02-2005/06

KSh million

	2001/02	2002/03	2003/04	2004/05*	2005/06**
EXPENDITURE:					
Acquisition of Non financial Assets(net)	20,968.4	24,123.7	23,781.4	29,633.2	57,091.5
TOTAL	**20,968.4**	**24,123.7**	**23,781.4**	**29,633.2**	**57,091.5**
FINANCING:	33,212.0	49,722.0	16,224.0	8,326.6	73,545.5
External Loans (Net)	-13,314.0	-12,143.0	-8,809.0	-625.0	28,976.2
External Grants	6,823.0	14,942.0	16,224.0	14,905.0	27,865.3
Long-Term Domestic Borrowing (Net)	61,748.0	55,951.0	28,033.0	718.9	17,213.0
SHORT TERM BORROWING:	-22,045.0	-9,028.0	-19,224.0	-6,672.2	-509.0
Treasury Bills (Net)	-18,207.0	-11,522.0	-4,999.0	718.9	12,545.0
Other Short-Term Borrowing (Net) ..	-3,838.0	2,494.0	-14,225.0	-7,391.1	-13,054.0
CHANGE IN CASH BALANCES: Increase=(+)	-12,243.6	-25,598.3	7,557.4	21,306.6	-16,454.1
TOTAL	**20,968.4**	**24,123.7**	**23,781.4**	**29,633.2**	**57,091.5**

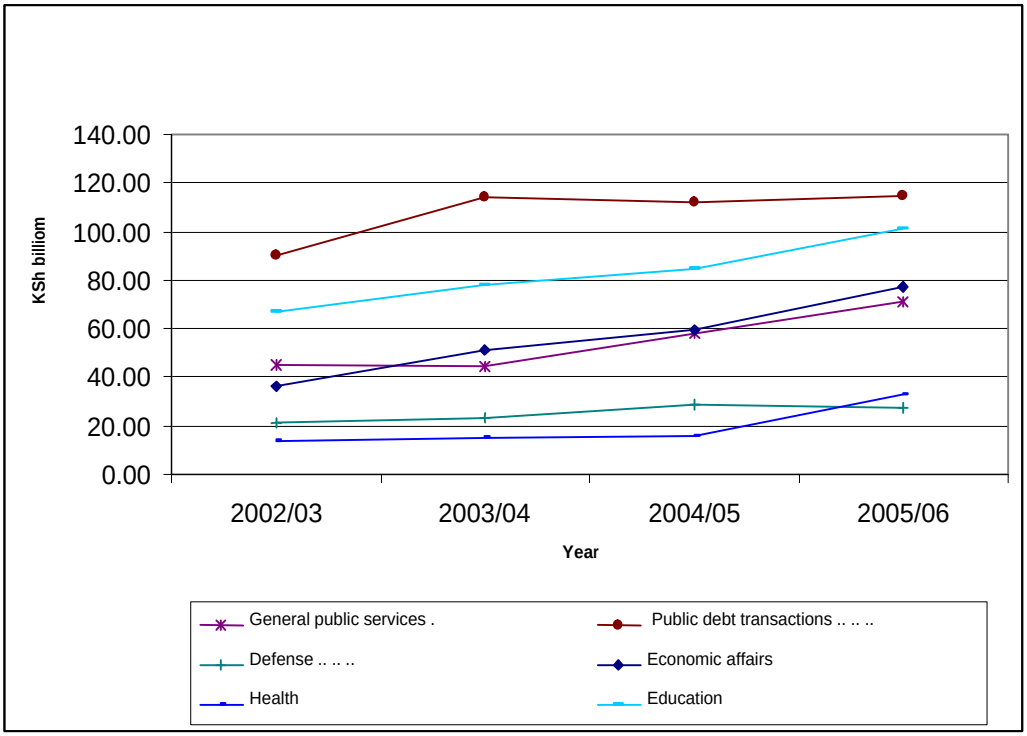
* Provisional.

** Estimates

6.11. Analysis of Central Government total outlays by Classification of Functions of Government (COFOG) for the period between 2002/2003 and 2005/06 is detailed in Table 6.8 and Figure 6.1. This classification identifies what the Government is doing and how the allocations relate to the Government priorities. Expenditure on education is expected to rise by 19.1 per cent from KSh 84.7 billion in 2004/05 to KSh 100.9 billion in 2005/06 as the Government continues to fund free primary education. Provision of basic health services remains a key priority to the Government and is expected to more than double in the year under review to KSh 32.6 billion. In response to the fast increasing demand for electricity and other sources of energy, the government has committed quite a substantial amount of resources towards expansion of the National grid, geothermal development and petroleum exploration to ease the burden on petroleum imports in the long run. Development expenditure on fuel and energy rose steadily from KSh 5.8 billion in 2002/03 to KSh 11.4 billion in 2004/05 mainly as a result of reduced domestic borrowing. Government's commitment to finance activities aimed at conserving the environment is demonstrated a 23.0 per cent increase in expenditure from KSh 1.3 billion 2004/05 to KSh 1.5 billion in 2005/06.

Table 6.8: Classification of Functions of Government (COFOG)

Figure 6.1 Classification of Functions of Governmnet (COFOG)



6.12. Economic classification of expenditure for the period from 2001/02 to 2005/06 is presented in Table 6.9. Total Central Government expenditure is expected to increase by 16.3 per cent from KSh 423.4 billion in 2004/05 to KSh 492.2 billion in 2005/06. Consumption of goods and services is expected to remain on the increasing trend with expenditure on compensation of employees and use of goods and services rising over the years. In the year under review, expenditure on compensation of employees is expected to go up by 13.4 per cent from KSh 160.6 billion in 2004/05 to KSh 182.1 billion in 2005/06. The increment is mainly on account of salary awards for teachers and civil servants. As a result of reduced domestic borrowing, domestic interest payment is expected to decline slightly from KSh 28.1 billion in 2004/05 to KSh 27.3 billion in 2005/06. The government has committed considerable amount of resources towards acquisition of non financial assets, particularly on research and development and construction of building and structures. Expenditure on both non produced assets and building and structures is expected to increase substantially in the year under review.

Table 6.9: Central Government Economic Analysis of Expenditure 2000/01-2005/06

KSh Million

	2001/02	2002/03	2003/04	2004/05*	2005/06**
EXPENSE					
CONSUMPTION EXPENDITURE ON GOODS AND SERVICES:					
Compensation of employees	110,417.97	105,961.36	131,672.87	160,578.74	182,113.25
Use of Goods and Services	44,850.82	63,305.84	76,055.34	77,404.97	96,977.60
TOTAL	155,268.79	169,267.20	207,728.22	237,983.71	279,090.84
SUBSIDIES	4,423.56	6,553.68	10,253.06	10,122.94	1,535.11
INTEREST:	29,850.97	35,677.87	27,743.46	33,404.60	35,587.35
Domestic	22902.76	25828.67	21,920.92	28,076.74	27,303.92
Foreign	6,948.21	9,849.20	5,822.54	5,327.86	8,283.43
GRANTS TO:					
International organisations	197.70	728.31	729.36	1,423.69	1,565.19
Foreign governments	0.00	142.71	40.82	99.98	0.00
General Government units	1,020.60	4,542.96	5,842.14	17,951.74	19,845.93
TOTAL GRANTS	1,218.30	5,413.97	6,612.33	19,475.40	21,411.12
Social benefits	1,040.35	620.00	865.20	879.94	0.00
Other expense	4,761.42	5,631.47	5,272.58	5,214.21	0.00
Total current expenditure	196,563.38	223,164.19	258,474.85	307,080.80	337,624.42
Capital Grants(TRANSFERS)	5,971.98	7,989.89	7,284.78	7,697.72	18,536.14
1. Total Expense	202,535.36	231,154.08	265,759.63	314,778.52	356,160.57
2. Acquisition of Non Financial Assets(net)	20,968.40	24,123.70	23,781.40	29,633.23	57,091.47
Building and structures	16,891.10	18,446.10	15,043.87	23,398.32	35,811.40
Machinery and equipment	3,934.08	5,422.65	8,077.51	4,581.86	14,766.77
Inventories	0.00	0.00	0.00	0.00	2,039.91
Valuables	0.00	0.00	0.00	0.00	0.00
Non- produced assets	325.95	285.80	795.34	1,797.17	4,473.39
Less Disposal of Non financial assets	-182.73	-30.85	-135.32	-144.12	0.00
3 PUBLIC DEBT REDEMPTION	84,502.00	55,063.23	86,635.67	78,822.93	78,987.94
4 Total Expenditure (1+2+3+4)	308,005.75	310,341.01	376,176.69	423,234.67	492,239.97

* Provisional.

** Revised Estimates

*** including interest

Total Expenditure =Expense+Acquisition of Non Financial Assets(net)+ Public debt redemption

6.13. Table 6.10 shows the breakdown of the outstanding public debt as at 30th June 2001-2005. Figure 6.2 gives a graphical presentation of the outstanding public debt in the period. Total public debt decreased from KSh 698.9 billion in June 2004 to KSh 689.0 billion in June 2005. The volume of stocks remained unchanged and stood at KSh 1.1 billion. Domestic borrowing declined from KSh 254.6 billion in June 2004 to KSh 253.5 billion in June 2005. The stock of external debt registered a 2.0 per cent decline from KSh 443.1 billion in June 2004 to KSh 434.4 billion in June 2005.

Table 6.10: Central Government public debt, 2001- 2005

KSh million

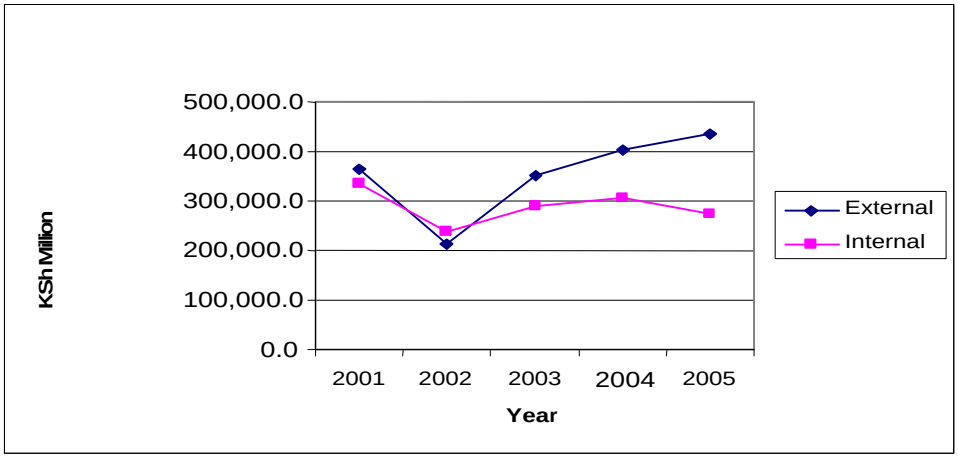
As at 30th June	Public Debt**								
	Stocks			Other debt			Total		
	External	Internal	Total	External	Internal ***	Total	External	Internal ***	Total
2001	. .	1,467.83	1,467.83	366,127.40	210,345.17	576,472.57	366,127.40	211,813.00	577,940.40
2002	. .	1,467.83	1,467.83	359,370.47	234,501.00	593,871.47	359,370.47	235,968.83	595,339.30
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	443,157.00	254,647.00	697,804.00	443,157.00	255,704.98	698,861.98
2005	. .	1,057.98	1,057.98	434,453.00	253,493.00	687,946.00	434,453.00	254,550.98	689,003.98

* Provisional

** Includes Short Term Borrowing.

*** Revised series

Figure 6.2: Public Debt



6.14. Details of Central Government outstanding debt by source as at 30th June 2005 are shown in Table 6.11. Loans from multilateral agencies constituted 37.1 per cent of Kenya's total debt due to low interest rates and long term repayment period. Bilateral lenders accounted for 22.9 per cent of the total debt. The stock of domestic debt including Government deposits to Central Bank and Commercial Banks decreased from KSh 254.6 billion in June 2004 to KSh 253.5 billion In June 2005.This decline may be attributed to lower than expected domestic borrowing through the Fixed rate and Floating rates treasury Bonds in the period under review. The stock of Treasury Bills held by the Central Bank, commercial banks, Non-financial Institutions and Non residents increased from KSh 62.9 billion in June 2004 to KSh 71.9 billion in June 2005 while the stock of Treasury bonds increased from KSh 188.6 billion in June 2004 to KSh 193.5 billion in June 2005

Table 6.11: Central Government Outstanding debt by source, 2001 - 2005

KSh million

Outstanding as at 30th June	2001	2002	2003	2004	2005
EXTERNAL DEBT:					
Lending Countries:					
Germany	7,652.00	7,550.20	8,823.00	11,482.58	12,926.76
Japan	47,837.00	50,790.00	50,514.00	88,652.17	84,550.11
France	16,301.00	9,618.00	9,604.00	16,831.19	18,085.88
U.S.A.	5,172.00	4,761.00	6,651.70	6,241.99	6,050.72
Netherlands	4,087.00	2,922.00	3,738.00	4,420.05	2,205.39
Denmark	2,527.00	1,947.00	1,935.75	2,195.37	2,362.37
Finland	195.00	333.00	267.00	257.89	134.12
Other	24,405.40	23,817.30	23,765.17	36,791.95	31,353.27
Total	108,176.40	101,738.50	105,298.62	166,873.18	157,668.62
International Organisations:					
I.D.A / I.F.A.D	179,930.40	186,319.00	186,648.00	212,607.38	210,098.84
I.B.R.D	1,560.00	3,299.00	8,566.25	33.26	38.10
O.P.E.C.	421.80	394.29	295.50	82.24	76.27
E.E.C/ E.I.B.	11,735.00	9,492.00	8,566.25	9,199.34	8,458.82
I.M.F.	8,681.40	7,318.50	5,989.23	7,913.11	13,107.36
Badea	39.40	14.74	0.78	371.00	9.22
A.D.F/ A.D.B.	24,882.00	23,943.00	23,844.00	24,692.00	23,623.74
Total	227,250.00	230,780.53	233,910.01	254,898.33	255,412.35
Others	30,701.00	26,851.44	14,055.50	21,385.49	21,372.03
Total External	366,127.40	359,370.47	353,264.13	443,157.00	434,453.00
INTERNAL DEBT:					
Treasury Bills	116,440.00	82,050.00	78,744.00	62,937.00	71,938.00
Treasury Bonds	44,499.00	106,333.00	161,549.10	188,626.00	193,367.00
Non Interest bearing debt	36,917.00	36,917.00	36,917.00	36,917.00	35,917.00
Others(includes stocks)	13,957.00	10,668.00	12,167.30	20,086.00	16,580.00
Less govt deposits & on-lending	-49,578.00	-35,360.00	-43,747.00	-53,919.00	-64,309.00
TOTAL INTERNAL(net)	211,813.00	235,968.00	245,630.40	254,647.00	253,493.00
TOTAL UNFUNDED DEBT	577,940.40	595,338.47	598,894.53	697,804.00	687,946.00

Source: Debt Management Dept & CBK

6.15. Government stocks at book value by holders as at 30th June 2001-2005 are 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 2005.

Table 6.12: Government stocks at book value by holders on local register as at 30th June, 2001 - 2005

KSh million

	2001	2002	2003	2004	2005
PUBLIC BODIES:					
National Social Security Fund	758.80	758.80	408.80	408.80	408.80
Central Government	650.28	650.28	615.58	615.58	615.58
Local Government	1.00	1.00	1.00	1.00	1.00
Kenya Post Office Savings Bank ..	15.00	15.00	0.00	0.00	0.00
Former E.A.Community Institutions*	0.00	0.00	0.00	0.00	0.00
Central Bank	0.00	0.00	0.00	0.00	0.00
Other Public Sector	7.32	7.32	2.20	2.20	2.20
OTHER INTERNAL:					
Commercial Banks	30.70	30.70	28.68	28.68	28.68
Insurance Companies	3.70	3.70	1.70	1.70	1.70
Other Companies	1.00	1.00	0.00	0.00	0.00
Private Individuals	0.03	0.03	0.03	0.03	0.03
TOTAL	1,467.83	1,467.83	1,057.98	1,057.98	1,057.98

Source: Central Bank of Kenya.

* And their successors

6.16. Table 6.13 depicts the Central Government debt servicing charges for the financial years 2000/01 to 2004/05. Annual debt servicing charges decreased from KSh 114.9 billion in 2003/04 to KSh 112.2 billion in 2004/05 while receipts from loan repayments and interest registered a substantial increase from KSh 719.40 million in June 2004 to KSh 1.7 billion in June 2005. Overall, Net servicing charges declined by 3.8 per cent from KSh 114.9 billion in June 2004 to KSh 110.5 billion in 2005.

Table 6.13: Central Government debt servicing charges*, 2001 - 2005

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
2001	16,116.50	64,386.84	80,503.34	..	438.10	438.10	16,116.50	63,948.74	80,065.24
2002	29,261.45	85,996.74	115,258.19	..	1,014.84	1,014.84	29,261.45	84,981.90	114,243.35
2003	32,256.18	59,340.76	91,596.94	..	389.61	389.61	32,256.18	58,951.15	91,207.33
2004.. ..	26,734.60	88,124.32	114,858.92	..	719.40	719.40	26,734.60	88,124.32	114,858.92
2005**	23,404.19	88,823.34	112,227.53	..	1,706.77	1,706.77	23,404.19	87,116.58	110,520.77

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

** Provisional

6.17. Table 6.14 depicts the relationship between the Central Government debt service charges and export of goods and services. External debt service charges as a percentage of the export of goods and services declined from 7.9 to 6.0 as 30th June 2004 and 2005, respectively. This was due to the combined effect of a decline in external debt servicing as opposed to exports of goods and services which have increased consistently over the last five years.

Table 6.14: Central Government debt service charges on external debt related to exports of goods and services 2001-2005

	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	
2001	16,116.50	234,175.25	6.88
2002	29,261.45	250,429.16	11.68
2003	32,256.18	271,784.55	11.87
2004	26,734.60	338,647.00	7.89
2005*	23,404.19	387,237.58	6.04

* Provisional.

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

\+ Estimate for Financial Year

6.18. **Local Authorities:** The Local Authority Transfer Fund (LATF) was established to enable Local Authorities to; improve service delivery, financial management and reduce outstanding debts. LATF is expected to continue playing a pivotal role in the fight against poverty as identified in the Economic Recovery Strategy paper on Wealth and Employment Creation (ERSWC). Local Authorities are expected to effectively combine LATF monies with locally mobilized revenues to finance those services and investments most needed at the local level**.** Table 6.15 gives the summarized LATF disbursement to the 176 local authorities that include city, municipal, county and town councils. The Government transferred KSh 4.9 billion in 2005/06 financial year compared to KSh 4.0 billion in 2004/05. This represents a 25.0 per cent growth in LATF disbursement. County councils continued to receive the largest share of the LATF money accounting for 47.2 per cent of the total LATF disbursements. Nairobi city council received a 28.6 per cent increase in LATF allocation from KSh 691.80 million in 2004/05 to KSh 889.45 million in 2005/06.

Table 6.15: Central Government transfer through LATF to local authorities, 2001/02 - 2005/06

KSh million

	2001/02	2002/03	2003/04	2004/05	2005/06*
Nairobi City Council	607.06	607.06	642.39	691.80	889.45
Municipal Council	816.81	816.81	906.46	969.83	1,223.31
County Council	1,256.23	1,256.23	1,774.13	1,900.28	2,302.74
Town Councils	319.90	319.90	427.02	438.09	529.00
TOTAL	3,000.00	3,000.00	3,750.00	4,000.00	4,944.50

Source: Kenya Local Government Reform program (KLGRP)

* Provisional

6.19. Aggregate expenditures by type of Local Authority for the financial years 2001/02 to 2005/06 are shown in Table 6.16. Total expenditure for all types of local authorities is expected to decline from KSh 13.3 billion in 2004/05 to KSh 12.4 billion in 2005/06. The decline may be attributed to measures put in place by the Kenya Local Government Reform Program (KLGRP) to cut down on unnecessary expenditure. However, expenditure for Nairobi City Council is expected to increase from KSh 4.3 billion in 2004/05 to KSh 4.4 billion in 2005/06. Nairobi City Council is also expected to take the major share of the total expenditure, accounting for 34.8 per cent. Expenditures by Municipal councils, county and town councils are expected to register slight declines in the year under review.

Table 6.16: Expenditure by local authorities, 2001/02 - 2005/06

KSh million

	Local authorities				
	Nairobi City Council	Other Municipal Councils	Sub-Total	Town and County Councils	Total
2001/02	4,110.84	3,746.86	7,857.70	3,204.85	11,062.55
2002/03	5,218.73	3,571.68	8,790.41	3,431.13	12,221.54
2003/04	5,977.53	4,343.53	10,321.06	4,592.44	14,913.50
2004/05*	4,259.24	4,176.69	8,435.93	4,910.77	13,346.70
2005/06**	4,317.98	3,684.40	8,002.38	4,416.34	12,418.72

* Provisional

** Estimates

6.20. Classification of Municipal councils' current and capital expenditure by functions is shown in Table 6.17. Expenditure on administration is expected to go down slightly from KSh 2.5 billion in 2004/05 to KSh 2.4 billion 2005/06. LATF regulations stipulate that each Kenya Local authority should allocate at least 50 per cent of the LATF service delivery account to capital projects. Consequently, commitment to provide the local communities with basic services and improvement of infrastructure has been the main priority of most local authorities. Though resources allocated to provision of community, social and economic services are expected to decrease in the year under review, funding for these services has been remarkable over the years. The three categories of services accounted for 72.4 and 70.7 per cent of the total expenditure in 2003/04 and 2004/05 respectively.

Table 6.17: Municipal Councils: Current and capital expenditure on main services, 2001/02- 2005/06

KSh Million

		2001/02	2002/03	2003/04	2004/05*	2005/06+
	ADMINISTRATION	2,345.10	2,651.23	2,847.36	2,466.10	2,394.17
COMMUNITY	Roads	418.10	582.51	718.25	826.16	777.14
SERVICES:	Sanitation	591.00	529.64	723.24	569.70	468.13
	Other	148.70	298.60	357.21	197.20	200.53
	Total	1,157.80	1,410.75	1,798.70	1,593.06	1,445.80
SOCIAL	Education	471.60	509.10	728.05	569.30	551.27
SERVICES	Health	788.50	762.54	964.00	917.80	883.61
	Other	162.80	182.60	452.92	247.80	224.57
	Total	1,422.90	1,454.24	2,144.97	1,734.90	1,659.45
ECONOMIC	General Administration	511.90	592.01	887.29	583.70	543.89
SERVICES:	Water Undertaking	1,211.00	1,294.57	1,405.41	1,143.90	1,068.24
	Housing Estates(including staff housing)..	687.20	971.60	721.56	492.32	487.26
	Other	521.80	416.07	515.77	421.95	403.57
	Total	2,931.90	3,274.25	3,530.03	2,641.87	2,502.96
	TOTAL EXPENDITURE	7,857.70	8,790.47	10,321.06	8,435.93	8,002.38

* Provisional

+Estimates

6.21. Economic classification of municipal councils' expenditure is presented in Table 6.18. Current expenditure is expected to decrease by 7.5 per cent in 2005/06 while capital expenditure is expected to increase by 10.1 per cent. The rise in capital expenditure is attributable to efforts by Local Authorities to rehabilitate the basic infrastructures within their jurisdiction. The trend is however being reversed mainly due to the restructuring taking place in most of these local authorities.

Table 6.18: Municipal Councils: Economic analysis of expenditure, 2001/02 - 2005/06

KSh Million

	2001/02	2002/03	2003/04	2004/05	2005/06**
CURRENT EXPENDITURE:					
Labour Cost	4,011.80	4,978.95	5,394.51	4,517.67	4,325.99
Other Goods and Services	2,838.00	2,567.27	4,067.51	2,651.85	2,293.29
Transfer to Households & Enterprises	48.03	49.90	62.30	65.40	68.24
Transfer to Funds (Current) ..	33.98	54.20	75.43	53.50	56.21
Interest	4.80	6.80	47.00	31.70	30.24
Total	6,936.61	7,657.12	9,646.75	7,320.12	6,773.97
CAPITAL EXPENDITURE:					
Gross Fixed Capital Formation ..	804.70	1,074.12	389.95	912.24	1,014.05
Loan Repayment***	116.40	59.17	284.36	203.57	214.36
Transfer to Funds (capital)	..	..	..	..	..
Total	921.10	1,133.29	674.31	1,115.81	1,228.41
TOTAL EXPENDITURE	7,857.71	8,790.41	10,321.06	8,435.93	8,002.38

* Provisionals

** Estimates

*** Includes interest.

6.22. Table 6.19 depicts the economic analysis of Municipal councils' revenue for the period 2001/02 to 2005/06.Total revenue is expected to increase by 11.5 per cent from KSh 6.5 billion in 2004/05 to KSh 7.3 billion in 2005/06 after declining for the previous two years. Sale of goods and services is expected to be the major source of revenue as has been the case in the previous years by accounting for 37.4 per cent of the total revenue.

Table 6.19:Municipal Councils: Economic analysis of revenue 2001/2002- 2005/2006

KSh million

	2001/02	**2002/03**	**2003/04**	**2004/05**	**2005/06+**
CURRENT REVENUE:	8,145.73	8,273.74	6,878.74	6,224.70	6,974.03
Direct Taxes (Rates**)	2,005.21	2,119.87	1,666.12	1,674.27	1,587.34
Indirect Taxes (Licences and cesses)	712.53	792.35	642.12	411.97	753.21
Income from property	480.33	543.66	552.80	531.93	725.06
Current Transfers	1,490.58	1,356.13	1,046.70	1,236.84	1,191.93
Sale of goods and services***	3,457.08	3,461.73	2,971.00	2,369.69	2,716.49
CAPITAL REVENUE:	214.65	210.90	290.08	294.62	294.52
Loans Raised	211.79	208.65	287.09	291.52	291.50
Loan Repayment	2.86	2.25	2.99	3.10	3.02
TOTAL REVENUE	8,360.38	8,484.64	7,168.82	6,519.32	7,268.55

*Provisionals

**Paid by households and enterprises

*** Includes services charge

6.23. Economic analysis of revenue and expenditure for the town and county councils is shown in Table 6.20. Total expenditure is expected to decrease by 10.1 per cent in 2005/06 despite a 6.9 per cent increase recorded in 2004/05 in the year under review. Both current and capital expenditure are expected to decrease by 7.5 and 17.1 per cent, respectively. Labour cost and expenditure on other goods and services are expected to continue taking the major share of the total expenditure. Total revenue is expected to go up from KSh 1.9 billion in 2004/05 to KSh 2.5 billion in 2005/06.

Table 6.20: Town and County Councils: Economic analysis of expenditure and revenue, 2001/02 - 2005/06

KSh million

	2001/02	2002/03	2003/04	2004/05	2005/06+
CURRENT EXPENDITURE:					
Labour Cost	1,798.57	1,342.52	1,858.99	1,790.07	1,719.68
Other Goods and Services	637.59	776.09	1,347.33	1,352.25	1,253.43
Transfer to households & Enterprises	186.44	258.37	415.55	392.54	305.55
Transfer to Funds (Current)	21.45	31.88	22.37	82.09	65.71
Interest	..	..	..	..	..
Total	2,644.05	2,408.86	3,644.24	3,616.95	3,344.37
CAPITAL EXPENDITURE:					
Gross Fixed Capital Formation	541.83	1,010.40	936.66	1,278.49	1,057.70
Loan Repayments**	18.97	12.87	11.54	15.33	14.27
Transfer to Funds (capital)	..	..	..	..	..
Total	560.80	1,023.27	948.20	1,293.82	1,071.97
TOTAL EXPENDITURE	3,204.85	3,432.13	4,592.44	4,910.77	4,416.34
CURRENT REVENUE:					
Direct Taxes (Rates***)	210.33	283.80	211.35	224.11	218.91
Indirect Taxes (Licences and cesses)	680.15	756.12	567.24	305.38	492.53
Income from Property	11.78	13.08	8.70	25.83	38.67
Current Transfers	1,407.11	1,560.17	827.20	658.02	771.46
Sale of Goods and Services++	813.19	1,029.81	828.80	761.59	845.91
Total	3,122.56	3,642.98	2,443.29	1,974.93	2,367.48
CAPITAL REVENUE:					
Loans Raised	1.16	0.72	0.68	0.92	105.46
Loans Repayments	0.00	0.00	0.00	0.00	0.00
Total	1.16	0.72	0.68	0.92	105.46
TOTAL REVENUE	3,123.72	3,643.70	2,443.97	1,975.85	2,472.94

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

Chapter 7
International Trade and Balance of Payments

Overview

Major indicators of international trade for 2005 exhibited a trend similar to 2004 with imports growing at a faster rate than the expansion in exports. The export to import ratio consequently deteriorated from 58.9 per cent in 2004 to 56.7 per cent in 2005. Trade deficit widened to KSh 186,542 million in 2005 from KSh 149,764 million in 2004. The appreciation of the shilling against all the major currencies boosted the import growth.

7.2. The volume of trade increased by 16.5 per cent in 2005 compared to 24.6 per cent growth in 2004. Total export earnings increased by 13.7 per cent while total import bill grew by 18.2 per cent during the review period. Consequently, merchandise trade deficit increased by 24.6 per cent compared to an increase of 51.8 per cent in 2004. Significant increases in exports were recorded in horticulture, tea, coffee, iron and steel products and cement which accounted for 59.2 per cent of the total domestic export earnings. Importation of aircrafts and associated equipments, crude petroleum, petroleum products, industrial machinery and road motor vehicles pushed up the import value to jointly account for more than half of the total import bill in 2005.

7.3. The overall balance of payments improved by KSh. 18,086 million to a surplus of KSh. 21,161 million in 2005 mainly due to increased short-term capital inflows. As a result of the increase in short-term financial flows, the capital and financial account recorded a surplus of KSh 57,862 million. However, the current account deteriorated to a deficit of KSh 37,400 million in 2005, representing 2.6 percent of GDP from a deficit of KSh 27,974 million in 2004 representing 2.2 per cent of GDP. The deterioration in the current account was as a result of the widening of the merchandise trade (adjusted for balance of payments purposes) deficit which stood at KSh 163,824 million during the year. Net earnings from services, which include tourism earnings and unilateral transfers increased substantially during the year. Consequently, the surplus in the invisible balance rose to KSh 126,424 million which, could not match the widening of the visible trade deficit.

Table 7.1: Balance of Trade, 2001 - 2005

KSh Million

DESCRIPTION	2001	2002	2003	2004	2005*
EXPORTS (f.o.b) :					
Domestic Exports	121,434	131,394	136,709	159,048	193,692
Re-exports	26,156	37,889	46,445	55,745	50,506
Total	**147,590**	**169,283**	**183,154**	**214,793**	**244,198**
IMPORTS (c.i.f) :					
Commercial	285,107	254,006	278,838	361,293	428,179
Government	5,001	3,704	3,005	3,264	2,561
Total	**290,108**	**257,710**	**281,844**	**364,557**	**430,740**
BALANCE OF TRADE	**(142,518)**	**(88,427)**	**(98,690)**	**(149,764)**	**(186,542)**
TOTAL TRADE	437,698	426,993	464,997	579,350	674,938
COVER RATIO **(in percentage)	50.9	65.7	65.0	58.9	56.7

*Provisional

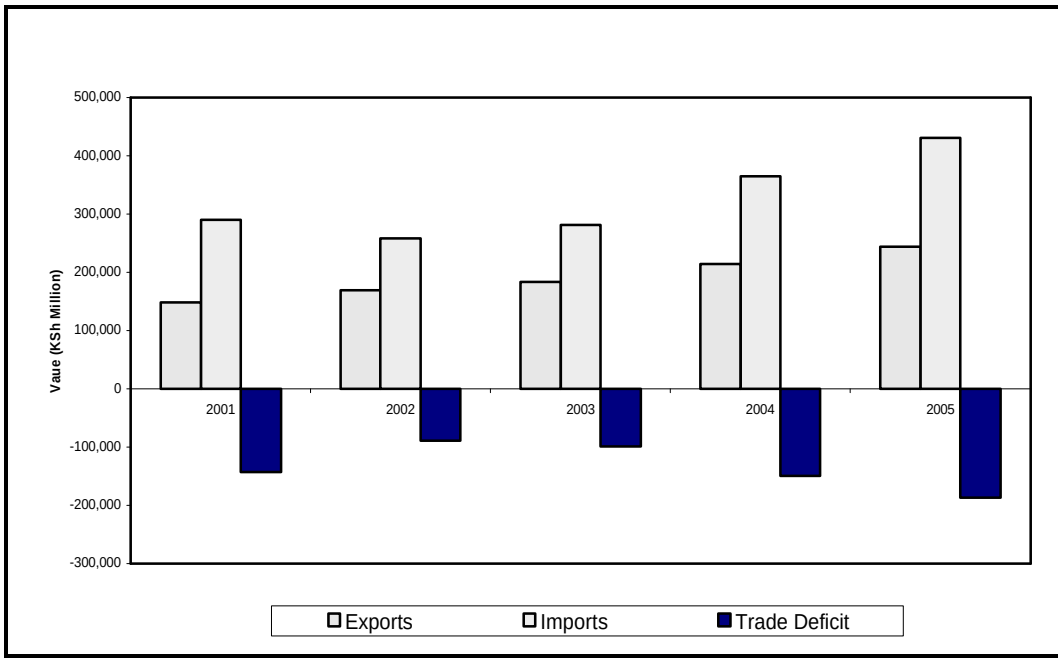
**COVER RATIO =(Total Exports/Total Imports)*100

Source : CBS/KRA

Balance of Trade

7.4. In 2005, domestic export earnings increased by 21.8 per cent compared to a 16.3 per cent growth in 2004. The value of re-exports, however declined by 9.4 per cent compared to a 20.0 per cent growth in 2004 as shown in Table 7.1. The decline could be explained by reclassification of petroleum products refined locally from re-exports to domestic exports during the year under review. Total exports rose by 13.7 per cent while the value of imports increased by 18.2 per cent in 2005. Commercial imports increased by 18.5 per cent while government imports declined by 21.5 per cent. The trade balance widened by 24.6 per cent, from a deficit of KSh 149,764 million in 2004 to KSh 186,542 million in 2005. This was largely attributed to increase in imports of aircrafts and associated equipments which amounted to over KSh 40.0 billion. The export/import cover ratio reduced from 58.9 per cent in 2004 to 56.7 per cent in 2005. The balance of trade slowed down largely due to the strengthening of the shilling against major trading currencies which favoured imports and deterred exports. The performance of the balance of trade is shown graphically in Figure 7.1.

Figure 7.1: Balance of Trade, 2001-2005



7.5. Unit price indices for exports and imports based on the Standard International Trade Classification (SITC) sections are summarized in Table 7.2. Export and import price indices for all items continued on an upward trend, increasing by 6.1 per cent and 14.3 per cent respectively in 2005. This indicated a slower growth in export prices relative to import prices. Likewise, export and import price indices for non-oil items rose by 7.3 per cent and 6.8 per cent respectively.

Table 7.2: Price Indices, 2001 - 2005

DESCRIPTION	2001	2002	2003	2004	2005*
EXPORTS:					
Food and live animals	536	545	497	562	577
Beverages and tobacco	793	787	209	233	314
Crude materials, (inedible)	854	948	891	764	853
Mineral fuels	637	589	685	719	745
Animal and vegetable oils and fats	536	702	256	225	311
Chemicals	539	531	569	448	458
Manufactured goods	1,266	1,182	1,276	896	1,276
Machinery and transport equipment	359	751	471	638	674
Miscellaneous manufactured articles	854	1,363	884	939	892
All Exports	**637**	**657**	**620**	**638**	**677**
Non-oil Exports	**637**	**680**	**603**	**614**	**659**
IMPORTS:					
Food and live animals	503	536	467	623	605
Beverages and tobacco	976	1,186	914	765	745
Crude materials, (inedible)	445	503	641	598	578
Mineral fuels	584	577	664	822	1,093
Animals and vegetable oils and fats	563	784	795	973	939
Chemicals	1,126	1,067	1,248	1,027	1,031
Manufactured goods	793	726	807	641	672
Machinery and transport equipment	1,219	1,598	1,114	977	1,040
Miscellaneous manufactured articles	791	719	514	662	823
All imports	**807**	**847**	**762**	**824**	**942**
Non-oil Imports	**808**	**860**	**718**	**730**	**780**

* provisional

7.6. Export price indices for manufactured goods which had declined in the previous year grew by 42.4 per cent in 2005. Export price indices of animal and vegetable fats and oils, and of beverages and tobacco rose by 38.2 per cent and 34.8 per cent respectively. This partly indicates that the manufacturing industry is on it's path to recovery. Export price indices of food and live animals grew by 2.7 per cent while those of miscellaneous manufactured articles declined by 5.0 per cent.

7.7. Import price indices of mineral fuels rose for the third year running recording a remarkable increase of 33.0 per cent in 2005 reflecting high world oil prices. Import price indices of miscellaneous manufactured articles which include articles of apparel and clothing accessories, also increased. There was a marginal increase in the import price index of chemicals while those of crude materials (inedible), food and live animals and beverages and tobacco recorded marginal declines of 3.3, 2.9 and 2.6 per cent respectively.

Terms of Trade

7.8. Table 7.3 shows the terms of trade, which is the ratio of export price index to import price index. The terms of trade for all items, continued on a downward trend deteriorating by 6.5 per cent while for non-oil items, remained stable at 84.0 per cent in 2005. This indicates that the import prices of all goods rose faster than those of exports suggesting that high prices of oil that prevailed in the world market weighed down the overall competitiveness of Kenyan exports.

Table 7.3: Terms of Trade, 2001 - 2005

DESCRIPTION	2001	2002	2003	2004	2005*
All Items	79	78	81	77	72
Non-oil Items	79	79	84	84	84

* provisional
Source :CBS/KRA

Volume Changes

7.9. Table 7.4 indicates the volume of international trade for various Standard International Trade Classifications (SITC) as measured by quantum indices. Export quantum index for chemicals doubled mainly due to increased exports of inorganic chemicals. The export quantum indices of (beverages and tobacco) and miscellaneous manufactured articles increased by 27.5 per cent and 27.8 per cent respectively. Export quantum indices for animal and vegetable oils and fats, manufactured goods and crude materials (inedible) worsened by 26.7, 21.6 and 19.3 per cent respectively. Overall, export quantum indices for all exports and non-oil exports rose by 9.5 and 8.8 per cent respectively.

Table 7.4: Quantum Indices, 2001 - 2005

1982= 100

DESCRIPTION	2001	2002	2003	2004	2005*
EXPORTS:					
Food and live animals	199	222	250	240	273
Beverages and tobacco	1,007	1,185	4,695	3,484	4,441
Crude materials, (inedible)	199	210	275	419	338
Mineral fuels	152	194	181	214	235
Animal and vegetable oils and fats	2,791	3,524	11,133	11,679	8,557
Chemicals	351	360	377	572	1,145
Manufactured goods	151	178	173	348	273
Machinery and transport equipment	624	249	461	435	448
Miscellaneous manufactured articles	567	507	882	760	971
All Exports	204	226	260	296	324
Non-oil Exports	222	237	290	328	357
IMPORTS:					
Food and live animals	670	343	515	476	489
Beverages and tobacco	384	327	314	874	882
Crude materials, (inedible)	539	369	316	452	451
Mineral fuels	151	124	150	167	139
Animals and vegetable oils and fats	344	349	320	158	285
Chemicals	180	192	184	295	313
Manufactured goods	290	464	667	390	417
Machinery and transport equipment	157	107	136	187	267
Miscellaneous manufactured articles	298	331	530	629	404
All imports	200	169	205	246	254
Non-oil Imports	253	216	265	330	373

* provisional

7.10. The import quantum index for animal and vegetable fats and oils recovered from a slump recorded in 2004 increasing by 80.4 per cent in 2005. Import quantum index for miscellaneous manufactured articles decreased by 35.8 per cent while for machinery and transport equipment increased by 42.8 per cent. The index for imported mineral fuels declined by 16.8 per cent. Overall, the import quantum index for all imports and non-oil imports increased by 3.3 per cent and 13.0 per cent,respectively.

7.11. Breakdown of quantities of principal domestic exports and imports are detailed in Table 7.5. The quantities of tea exports increased from 275,307 tonnes in 2004 to 338,812 tonnes in 2005 representing 23.1 per cent increase compared to a 5.0 per cent increase in 2004. This is attributed to growth in exports to the traditional tea export destinations namely, Pakistan, United Kingdom, Egypt and Sudan. The quantities of coffee exported increased by 1.8 per cent from 50,069 tonnes in 2004 to 50,951 in 2005. Quantities of petroleum products exported increased from 43.8 million litres in 2004 to 203.9 million litres in 2005 mainly due to measures that were introduced through the 2005/06 budget which required payment of duty upfront for all oil imports. The new measures have countered the dumping/off loading of transit oil into the domestic market. Exports of beer grew by less than 5 times owing to increase in exports to Uganda. Exports of cement also increased from 398,215 tonnes in 2004 to 464,635 tonnes in the year under review.

Table 7.5 : Quantities of Principal Exports and Imports, 2001 - 2005

Commodity	Unit of Quantity	2001	2002	2003	2004	2005*
DOMESTIC EXPORTS						
Fish and fish preparations	Tonne	18,536	18,252	19,462	17,779	18,352
Maize(raw)	Tonne	420	158,753	3,128	24,078	10,854
Meals and flours of wheat	Tonne	8,845	1,793	345	38	139
Horticulture **	Tonne	193,230	262,931	294,214	274,186	296,895
Sugar confectionery	Tonne	16,436	18,815	20,519	23,971	31,114
Coffee, unroasted	Tonne	63,608	49,479	58,650	50,069	50,951
Tea	Tonne	270,473	272,707	262,175	275,307	338,812
Margarine and shortening	Tonne	3,911	4,586	5,057	13,602	19,834
Beer made from malt	000 Lt.	880	535	17,269	502	2,943
Tobacco and tobacco manufactures	Tonne	13,659	15,078	12,368	24,503	15,431
Hides and Skins	Tonne	10,030	7,181	13,910	18,542	15,683
Sisal	Tonne	17,857	19,482	21,723	20,895	21,079
Stone, sand and gravel	Tonne	28,989	26,244	30,308	40,878	58,956
Fluorspar	Tonne	70,232	98,883	78,507	85,054	102,107
Soda Ash	Tonne	273,839	301,622	330,755	318,550	321,429
Metal scrap	Tonne	2,268	2,210	2,884	2,853	4,051
Pyrethrum Extract	Tonne	235	81	123	133	124
Petroleum Products	Mn. Lt.	845	338	3	44	204
Animal and Vegetable oils	Tonne	29,161	43,064	47,534	40,297	44,325
Medicinal and pharmaceutical products	Tonne	3,549	3,974	3,871	4,910	8,071
Essential oils	Tonne	17,771	23,624	78,878	36,354	48,076
Insecticides and fungicides	Tonne	2,379	1,725	1,531	1,922	2,271
Leather	Tonne	3,847	4,334	4,898	8,646	10,054
Wood manufactures n.e.s	Tonne	2,182	2,153	1,664	2,587	2,394
Paper and paperboard	Tonne	14,671	15,066	30,974	21,112	19,596
Textile yarn	Tonne	2,142	2,192	1,854	1,380	1,225
Cement	Tonne	232,924	292,316	384,849	398,215	464,635
Iron and steel	Tonne	91,900	96,663	90,326	113,800	128,109
Metal containers	Tonne	822	1,131	1,880	1,288	985
Wire products: nails screws, nuts, etc.	Tonne	2,294	2,322	2,196	5,226	6,834
Footwear	' 000' Pairs	33,570	37,614	106,845	43,908	46,288
Articles of plastic***	-	-	-	-		
IMPORTS						
Wheat, unmilled	Tonne	617,542	515,179	502,115	404,060	621,839
Rice	Tonne	172,246	148,705	213,342	223,190	228,206
Maize, unmilled	Tonne	308,606	16,326	115,905	241,757	49,621
Wheat flour	Tonne	26,886	6,988	5,295	8,441	2,727
Sugars, Mollases and Honey	Tonne	268,781	128,043	195,930	146,030	162,103
Textile fibres and their waste	Tonne	19,388	19,261	25,440	26,938	22,643
Second - hand clothing	Tonne	56,030	67,064	45,407	48,330	44,108
Crude Petroleum	Tonne	1,965,537	1,493,354	1,382,628	2,043,774	1,773,973
Petroleum products***	Mn. Lt.	2,801	1,433	2,302	1,893	1,511
Animal/vegetable fats and oils	Tonne	407,488	406,106	351,965	183,928	399,103
Organic & inorganic chemicals	Tonne	144,721	108,227	115,753	110,202	137,436
Medicinal and pharmaceutical products	Tonne	7,207	7,342	7,733	22,748	9,965
Essential oils & pefumes	Tonne	7,691	9,483	13,493	16,747	18,700
Chemical fertilizers	Tonne	392,531	348,517	384,654	522,422	435,730
Plastics in primary & non-primary forms	Tonne	188,745	172,022	175,380	175,433	170,703
Paper and Paperboard	Tonne	69,726	108,059	106,887	104,443	101,501
Iron and steel	Tonne	410,851	454,338	391,190	478,660	436,494
Non-ferrous metals	Tonne	29,225	28,574	34,437	32,371	40,933
Hand & machine tools	000' No	10,039	7,749	6,827	5,806	5,618
Industrial Machinery***	-	-	-	-	-	-
Agricultural Machinery and Tractors***	-	-	-	-	-	-
Bicycles, assembled or partly assembled	000' No	247	387	447	722	300
Road Motor Vehicles	Nos.	89,104	84,960	243,668	182,207	85,206

* Provisional.

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

*** some of the items under this heading have either different quantities or none at all, hence the blank.

7.12. Import quantities of animal/vegetable fats and oils more than doubled rising from 183,928 tonnes in 2004 to 399,103 tonnes in 2005. This attributable to a sharp increase in the imports of crude palm oil from Indonesia and Singapore. Other notable increases in import quantities were recorded in unmilled wheat, organic and inorganic chemicals and essential oils and perfumes. Imports of unmilled maize decreased from 241,757 tonnes in 2004 to 49,621 tonnes in 2005 mostly due to sufficient domestic production during the year. Import quantities of crude petroleum and iron and steel declined by 13.2 and 8.8 per cent respectively in 2005.

Values of Principal Exports and Imports

7.13 Values of principal exports and imports are shown in Table 7.6 and figure 7.2. Horticulture, tea and coffee continued to be the leading export earners accounting for 49.8 per cent of the total domestic export earnings. Tea earnings increased by 17.2 per cent from KSh 36,072 million in 2004 to KSh 42,290 million in 2005. Similarly, earnings from horticulture recorded a 12.7 per cent increase from KSh 39,541 million in 2004 to KSh 44,562 million in 2005. Revenue from coffee increased from KSh 6,944 million in 2004 to KSh 9,702 million in 2005 due to improved world prices.

7.14. The import value of maize declined by 80.1 per cent mainly due to reduced imports following a bumper harvest during the year under review. Import value for bicycles declined by 51.9 per cent due to a decline in unassembled bicycles from India and China. The import values of crude oil and petroleum products increased by 12.1 per cent and 7.0 per cent respectively and jointly accounted for 22.7 per cent of the total import expenditure.

Table 7.6: Value of Principal Exports and Imports, 2001 - 2005

KSh Million

Commodity	2001	2002	2003	2004	2005*
DOMESTIC EXPORTS					
Fish and fish preparations	3,858	4,205	4,010	4,178	4,607
Maize(raw)	18	1,693	125	246	287
Meals and flours of wheat	155	32	6	1	3
Horticulture	19,846	28,334	36,485	39,541	44,562
Sugar confectionery	1,576	1,879	1,829	2,005	2,600
Coffee, unroasted	7,460	6,541	6,286	6,944	9,702
Tea	34,485	34,376	33,005	36,072	42,291
Margarine and shortening	245	306	383	1,017	1,374
Beer made from malt	29	48	75	37	106
Tobacco and tobacco manufactures	2,887	3,454	2,982	2,951	5,137
Hides and skins (undressed)	635	445	551	956	866
Sisal	728	792	906	1,119	1,182
Stone, sand and gravel	85	65	78	117	102
Fluorspar	652	734	664	882	1,205
Soda ash	1,993	2,127	2,392	3,166	3,858
Metal scrap .	123	98	147	208	375
Pyrethrum extract	993	798	813	943	1,122
Petroleum products	12,345	3,896	69	1,104	6,463
Animal and Vegatable oils	1,298	2,277	2,410	2,505	2,533
Medicinal and pharmaceutical products	1,570	1,697	2,153	2,274	2,515
Essential oils	2,470	2,452	2,838	3,121	5,885
Insecticides and fungicides	523	353	255	425	443
Leather	576	601	1,018	1,115	1,604
Wood manufactures n.e.s	449	433	288	399	298
Paper and paperboard	784	647	777	1,026	1,036
Textile yarn	518	485	394	349	344
Cement	1,031	1,479	1,976	1,959	2,858
Iron and steel	3,673	4,122	4,047	7,532	8,852
Metal containers	121	114	204	256	200
Wire products: nails screws, nuts, etc.	117	100	154	360	381
Footwear	1,204	1,549	1,457	1,789	1,952
Articles of plastics	2,572	2,990	2,598	3,136	4,307
Articles of apparel and clothing accessories	598	711	1,056	1,276	1,269
All other Commodities	16,415	22,271	25,334	31,315	34,642
GRAND TOTAL	**121,434**	**131,394**	**136,709**	**159,048**	**193,692**
IMPORTS					
Wheat, unmilled	7,515	5,577	6,099	6,754	7,957
Rice	2,619	2,104	2,981	3,659	3,962
Maize	3,342	229	1,417	4,647	924
Wheat flour	636	237	168	200	71
Sugars, Mollases and Honey	6,648	3,074	4,334	3,545	4,049
Textile fibres and their waste	1,605	1,566	1,845	2,337	2,047
Second - hand clothing	2,937	2,359	2,242	2,440	2,137
Crude Petroleum	31,179	23,940	25,415	45,954	51,529
Petroleum Products	26,035	22,065	39,493	43,056	46,069
Animal/vegetable fats and oils	10,125	14,333	13,332	8,063	14,012
Organic & inorganic chemicals	5,865	5,280	5,598	6,618	7,624
Medicinal & Pharmaceauticals Products	7,188	8,678	9,728	11,607	12,509
Essential oils & pefumes	1,984	3,791	3,741	5,414	4,769
Chemical Fertilizers	6,307	5,497	6,524	11,079	10,653
Plastics in primary & non-primary forms	9,131	8,816	11,211	15,420	17,642
Paper and Paperboard	3,978	3,319	5,409	5,283	5,731
Iron and Steel	11,969	11,115	12,504	21,265	21,069
Non-ferrous metals	3,601	2,977	3,615	4,695	5,389
Hand & machine tools	691	747	717	773	758
Industrial Machinery	37,933	25,474	32,764	43,584	48,062
Agricultural Machinery and Tractors	1,270	1,310	1,526	2,756	2,273
Bicycles, assembled or partly assembled	479	572	528	651	313
Road Motor Vehicles	14,524	14,382	17,955	24,361	25,236
All other Commodities	92,547	90,267	72,698	90,397	135,956
GRAND TOTAL	**290,108**	**257,710**	**281,844**	**364,557**	**430,740**

* Provisional

7.16. Additional information on values of selected exports and imports in 2004 and 2005 are shown in Tables 7.7 and 7.8. Although the quantity of raw maize exported declined by 54.9 per cent, the unit export price more than doubled resulting in a 16.7 per cent rise in its export earnings. For Meals and flour of wheat, the increase in the export earnings was less than the growth in its quantities as indicated by the significant drop in the per unit price.The per unit price of beer exports declined by 51.2 per cent resulting in a less than proportionate growth in its export earnings during the period under review. Despite the drop in the quantities of tobacco exported, the large increase in the unit price explains the 74.1 per cent growth in its earnings.

Table 7.7: Domestic Exports Change in value, Quantity and Price+ 2004-2005

Table 7.8: Import Change in Value, Quantity and Price, 2004-2005

7.17. The unit price increase of 34.0 per cent of imported petroleum products, more than compensated the 20.2 per cent drop in volume, resulting into a 7.0 per cent increase in the import value. The quantities of imported animal and vegetable fats and oils more than doubled owing to lower import prices in 2005 compared to 2004. The high import prices dampened the quantity of medicinal and pharmaceutical products imported leading to a marginal increase in its import values during the year under review.

Domestic Export /Import Prices

7.18. Table 7.9 indicates the unit prices of principal exports and imports from 2001 to 2005. The export prices of raw maize more than doubled rising from KSh. 10,219 per tonne in 2004 to KSh 26,442 per tonne in 2005. The prices of essential oils, unroasted coffee, metal scrap, cement and soda ash rose by 41.9, 36.7, 27.0, 25.0, and 20.8 per cent respectively. Export prices of tobacco and tobacco manufactures almost trippled rising from KSh 120 per kilo in 2004 to KSh 333 per kilogram in 2005. Export prices of tea declined marginally by 4.6 per cent while beer prices dropped by more than half. Prices stone, sand and gravel, medicinal and pharmaceutical products declined by 39.6, and 32.7 per cent respectively. The general declines in export prices are partly attributable to the stronger Kenyan shilling against major world currencies. Import prices of medicinal and pharmaceutical products increased significantly from KSh 510 per kilogram in 2004 to KSh 1,255 per kilogram in 2005. Import prices of essential oils and perfumes declined by 4.2 per cent. Import prices of chemical fertilizers increased by 15.3 per cent, from KSh 21,208 per tonne in 2004 to KSh 24,449 per tonne in 2005.

Table 7.9: Prices of Principal Exports and Imports, 2001-2005

KSh/Unit

Commodity	Unit	2001	2002	2003	2004	2005*
DOMESTIC EXPORTS						
Fish and fish preparations	Kg	208	230	206	235	251
Maize(raw)	Tonne	42,857	10,664	39,962	10,219	26,442
Meals and flours of wheat	Tonne	17,524	17,847	17,391	34,601	21,583
Horticulture	Kg	103	108	105	144	150
Sugar confectionery	Kg	96	100	89	84	84
Coffee, unroasted	Kg	117	132	107	139	190
Tea	Kg	127	126	126	131	125
Margarine and shortening	Kg	63	67	76	75	69
Beer made from malt	Lt.	33	90	4	74	36
Tobacco and tobacco manufactures	Kg	211	229	241	120	333
Hides and Skins(undressed)	Kg	63	62	40	52	55
Sisal	Tonne	40,768	40,653	41,707	53,572	56,075
Stone, sand and gravel	Tonne	2,932	2,484	2,574	2,866	1,730
Fluorspar	Tonne	9,284	7,423	8,458	10,367	11,801
Soda Ash	Tonne	7,278	7,052	7,232	9,939	12,003
Metal scrap	Tonne	54,233	44,344	50,971	72,869	92,570
Pyrethrum Extract	Kg	4,226	9,852	6,610	7,076	9,049
Petroleum Products ..	Lt.	15	12	26	25	32
Animal and Vegetable oils	Kg	45	53	51	62	57
Medicinal and pharmaceutical products	Kg	442	427	556	463	312
Essential oils	Kg	139	104	36	86	122
Insecticides and fungicides	Kg	220	205	167	221	195
Leather	Kg	150	139	208	129	160
Wood manufactures n.e.s	Tonne	205,775	201,115	173,077	154,093	124,478
Paper and paperboard	Tonne	53,439	42,944	25,086	48,595	52,868
Textile yarn	Kg	242	221	213	253	281
Cement	Tonne	4,426	5,060	5,134	4,920	6,151
Iron and steel	Tonne	39,967	42,643	44,804	66,189	69,097
Metal containers	Tonne	147,202	100,827	108,511	199,068	203,046
Wire products: nails screws, nuts, etc.	Tonne	51,003	43,231	70,128	68,823	55,736
Footwear	Pair	36	41	14	41	42
Articles of plastics	-	-	-	-		
IMPORTS						
Wheat, unmilled	Tonne	12,169	10,825	12,147	16,717	12,796
Rice	Tonne	15,205	14,149	13,973	16,396	17,362
Maize, unmilled	Tonne	10,829	14,027	12,226	19,222	18,621
Wheat flour	Tonne	23,655	33,915	31,728	23,722	25,886
Sugars, Mollases and Honey	Tonne	24,734	24,008	22,120	24,276	24,975
Textile fibres and their waste	Tonne	82,783	81,313	72,525	86,739	90,406
Second - hand clothing	Tonne	52,418	35,175	49,376	50,482	48,449
Crude Petroleum	Tonne	15,863	16,031	18,382	22,485	29,047
Petroleum products	Lt.	9	15	17	23	30
Animal/vegetable fats and oils	Kg	25	35	38	44	35
Organic & inorganic chemicals	Kg	41	49	48	60	55
Medicinal & Pharmaceauticals Products	Kg	997	1,182	1,258	510	1,255
Essential oils & pefumes	Kg	258	400	277	323	255
Chemical fertilizers	Tonne	16,068	15,773	16,961	21,208	24,449
Plastics in primary & non-primary forms	Tonne	48,377	51,249	63,924	87,898	103,349
Paper and Paper Products	Tonne	57,052	30,715	50,605	50,582	56,462
Iron and steel	Tonne	29,132	24,464	31,964	44,426	48,269
Non-ferrous metals	Tonne	123,217	104,200	104,974	145,022	131,654
Hand & machine tools	Mn. No.	69	96	105	133	135
Industrial Machinery	-	-	-	-	-	-
Agricultural Machinery and Tractors	-	-	-	-	-	-
Bicycles, assembled or partly assembled	No.	1,941	1,480	1,181	901	1,043
Road Motor Vehicles	No.	163,001	169,280	73,226	133,700	296,175

* Provisional.

Source :CBS/KRA

Composition of Exports

7.19. Domestic exports classified by Broad Economic Category (BEC) are shown in Table 7.10. Overall, earnings from food and beverages accounted for 47.0 per cent of the country's domestic exports. Exports in this category were mainly primary food and beverages. The share of non-food industrial supplies category of domestic exports rose by 25.8 per cent in 2005 from 24.8 per cent share in 2004. The share of fuel and lubricant exports increased from 0.7 per cent in 2004 to 3.5 per cent in 2005 which is attributed to a major increase in the exports of motor spirit from KSh 31 million in 2004 to KSh 1,778 million in 2005.The unprecedented growth in exports of this product could be partly explained by reclassification of petroleum products refined locally from re-exports to domestic exports during the year under review.

7.20. Export earnings from items classified in food and beverages category increased by 21.1 per cent from KSh 75,071 million in 2004 to KSh 90,946 million in 2005. The export earnings from processed food and beverages for industry sub-sector more than doubled rising from KSh 1,172 million in 2004 to KSh 3,736 million in 2005 while earnings from household consumption recorded a growth of 28.4 per cent during the period under review. Export earnings from passenger motor vehicles declined by 49.0 per cent after recording an impressive growth in 2004. Earnings from other transport equipment for industry increased threefold from KSh 349 million in 2004 to KSh 1,071 million in 2005.

Table 7.10: Domestic Exports by Broad Economic Category, 2001 - 2005

KSh Million

DESCRIPTION	2001	2002	2003	2004	2005*
1. FOOD AND BEVERAGES	**59,717**	**68,141**	**70,070**	**75,071**	**90,946**
Primary	47,680	53,358	55,163	60,062	69,442
For Industry	7,623	8,403	7,350	7,317	9,915
For Household Consumption	40,057	44,955	47,813	52,745	59,526
Processed	12,037	14,783	14,907	15,009	21,504
For Industry	963	2,501	2,629	1,172	3,736
For Household Consumption	11,075	12,283	12,278	13,837	17,769
2. INDUSTRIAL SUPPLIES (Non-Food)	**27,541**	**32,548**	**34,743**	**39,479**	**49,978**
Primary	9,379	10,928	12,129	15,147	11,207
Processed	18,163	21,620	22,614	24,332	38,771
3. FUEL AND LUBRICANTS	**12,421**	**4,007**	**423**	**1,182**	**6,755**
Primary	3	3	3	5	7
Processed	12,418	4,004	420	1,177	6,747
Motor Spirit	3,217	418	9	31	1,778
Other	9,201	3,586	411	1,146	4,969
4. MACHINERY & OTHER CAPITAL EQUIPMENT	**691**	**911**	**890**	**1,904**	**2,154**
Machinery & Other Capital Equipment	497	649	590	1,254	1,471
Parts and Accessories	193	262	300	650	683
5. TRANSPORT EQUIPMENT	**502**	**1,049**	**1,034**	**1,716**	**2,201**
Passenger Motor Vehicles	117	57	81	147	75
Other	154	189	299	362	1,120
For Industry	142	171	191	349	1,071
Non-Industrial	12	18	108	13	49
Parts and Accessories	230	803	654	1,207	1,006
6. CONSUMER GOODS NOT ELSEWHERE SPECIFIED	**20,345**	**23,175**	**26,340**	**33,648**	**41,512**
Durable	402	327	373	381	678
Semi-Durable	4,548	5,101	5,081	6,525	7,429
Non-Durable	15,395	17,748	20,885	26,742	33,405
7. GOODS NOT ELSEWHERE SPECIFIED	**217**	**1,562**	**3,209**	**6,048**	**147**
TOTAL	**121,434**	**131,394**	**136,709**	**159,048**	**193,692**
PERCENTAGE SHARES:					
1. Food and Beverages	49.18	51.86	51.25	47.20	46.95
2. Industrial Supplies (Non-Food)	22.68	24.77	25.41	24.82	25.80
3. Fuel and Lubricants	10.23	3.05	0.31	0.74	3.49
4. Machinery and other Capital Equipment	0.57	0.69	0.65	1.20	1.11
5. Transport Equipment	0.41	0.80	0.76	1.08	1.14
6. Consumer Goods not elsewhere specified	16.75	17.64	19.27	21.16	21.43
7. Goods not elsewhere specified	0.18	1.19	2.35	3.80	0.08
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

* Provisional

Source: CBS/KRA

Table 7.11: Total Imports by Broad Economic Category, 2001 - 2005

KSh. Million

DESCRIPTION	2001	2002	2003	2004	2005*
1. FOOD AND BEVERAGES	**30,306**	**15,550**	**14,983**	**20,862**	**25,873**
Primary	12,389	4,440	2,702	8,655	11,428
For Industry	11,060	3,381	1,748	7,152	9,546
For Household Consumption	1,329	1,059	954	1,503	1,882
Processed	17,917	11,110	12,281	12,207	14,445
For Industry	7,315	4,790	4,227	3,321	3,712
For Household Consumption	10,602	6,320	8,054	8,886	10,733
2. INDUSTRIAL SUPPLIES (Non-Food)	**85,687**	**83,555**	**86,917**	**113,976**	**134,572**
Primary	6,874	6,742	7,341	6,393	8,369
Processed	78,812	76,813	79,575	107,583	126,203
3. FUEL AND LUBRICANTS	**58,314**	**47,455**	**66,297**	**91,416**	**99,944**
Primary	31,606	24,587	25,818	47,040	52,262
Processed	26,708	22,868	40,479	44,376	47,682
Motor Spirit	2,958	2,991	8,102	5,003	6,830
Other	23,751	19,877	32,378	39,373	40,852
4. MACHINERY AND OTHER CAPITAL EQUIPMENT	**37,521**	**34,704**	**38,708**	**51,555**	**55,528**
Machinery and Other Capital Equipment	27,945	26,402	29,502	39,489	43,542
Parts and Accessories	9,576	8,302	9,206	12,066	11,986
5. TRANSPORT EQUIPMENT	**56,954**	**50,479**	**36,825**	**40,425**	**83,358**
Passenger Motor Vehicles	7,974	8,015	9,688	13,018	12,288
Other	38,652	36,541	22,025	21,046	58,993
Industrial	37,786	35,626	21,148	19,095	57,917
Non-Industrial	865	916	876	1,951	1,076
Parts and Accessories	10,329	5,922	5,112	6,361	12,077
6. CONSUMER GOODS NOT ELSEWHERE SPECIFIED	**18,301**	**18,390**	**23,055**	**26,174**	**30,170**
Durable	3,285	2,906	4,787	4,561	5,554
Semi-Durable	4,237	4,390	4,760	6,165	7,678
Non-Durable	10,779	11,094	13,509	15,448	16,939
7. GOODS NOT ELSEWHERE SPECIFIED	**3,026**	**7,579**	**15,058**	**19,796**	**1,295**
TOTAL	**290,108**	**257,710**	**281,844**	**364,557**	**430,740**
PERCENTAGE SHARES:					
1. Food and Beverages	10.4	6.0	5.3	5.7	6.0
2. Industrial Supplies (Non-Food)	29.5	32.4	30.8	31.3	31.2
3. Fuel and Lubricants	20.1	18.4	23.5	25.1	23.2
4. Machinery and other Capital Equipment	12.9	13.5	13.7	14.2	12.9
5. Transport Equipment	19.6	19.6	13.1	11.1	19.4
6. Consumer Goods not elsewhere specified	6.3	7.1	8.2	7.2	7.0
7. Goods not elsewhere specified	1.0	2.9	5.3	5.4	0.3
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

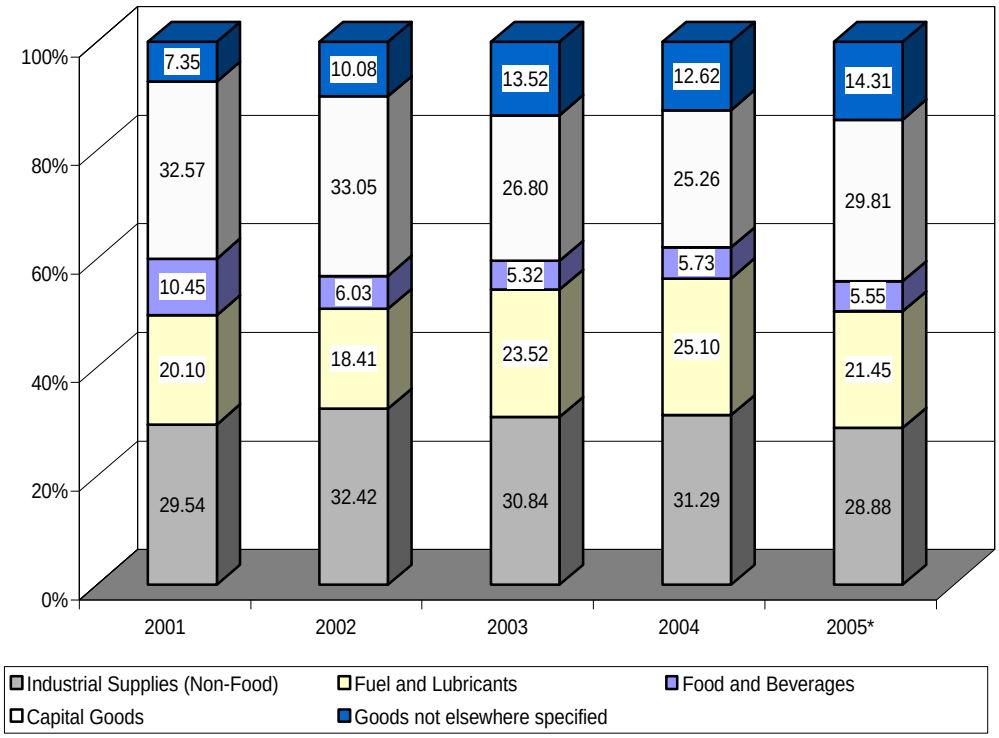
* Provisional

Source: CBS/KRA

Composition of Imports

7.21. Table 7.11 and Figure 7.3 present total imports by Broad Economic Category. Expenditure on Non-food supplies to industries contributed 31.2 per cent of the total import bill in 2005. The share of expenditure on food and beverages in the total import bill increased from 5.7 per cent in 2004 to 6.0 per cent in 2005. The share of expenditure on fuel and lubricants and machinery and other capital equipment declined slightly to 23.2 per cent and 12.9 per cent from 25.1 per cent and 14.1 per cent respectively. The proportion of expenditure on transport equipment to total expenditure stood at 19.4 per cent in 2005 up from 11.1 per cent in 2004.

Figure 7.3: Percentage Composition of imports 2001-2005



7.22. Overall, expenditure on food and beverages increased by 24.0 per cent to stand at KSh 25,873 million in 2005. Expenditure on imports of primary food and beverages for industry increased by 33.5 per cent from KSh 7,152 million in 2004 to 9,546 million in 2005. Expenditure on primary non-food industrial supplies rose from KSh 6,393 million in 2004 to KSh 8,369 million in 2005. Import expenditure in the broad transport equipment category more than doubled from KSh 40,425 million in 2004 to 83,358 million in 2005 because of the significant expansion in the value of imports of industrial transport equipments which trippled. This was mainly due to the importation of aircraft by Kenya Airways reflecting the growth in the international transport sub-sector. The import value of other non-industrial transport equipment declined from KSh 1,951 million in 2004 to KSh 1,076 million in 2005 partly due to reduced imports of bicycles.

Direction of Trade

7.23. Tables 7.12 and 7.13 summarises balance of trade by direction of trade with the rest world. African destinations continue to be the dominant market for Kenya's exports followed by the European Union (EU) Total exports to Africa expanded by 18.2 per cent to register an overall market share of 49.3 per cent in 2005 up from a share of 47.4 per cent in 2004. The value of exports to the European Union (EU) expanded by 9.3 per cent in 2005 compared to 8.8 per cent in 2004. However the share of exports destined to the EU market decreased from 26.4 per cent in 2004 to 25.4 per cent in 2005. United Kingdom and Netherlands absorbed much of Kenya's exports to the EU with a combined share of 67.2 per cent of the total exports. Exports to France went up by 41.6 per cent during the same period. Total exports to all EU destinations expanded with the exception of Spain and Sweden. The rise in value of exports to EU is mainly attributed to the growing demand for horticultural products, coffee and tea.

Table 7.12: Total Exports by Destination, 2001-2005

KSh Million

DESCRIPTION	2001	2002	2003	2004	2005*
EUROPE					
WESTERN EUROPE:					
European Union**					
Belgium	1,999	2,292	2,332	2,474	2,920
Finland	333	405	549	514	626
France	2,311	2,374	3,100	3,592	5,086
Germany,	5,137	4,377	5,330	4,574	5,221
Italy	1,111	1,759	1,671	1,764	2,170
Netherlands	9,912	11,012	14,139	17,094	18,316
Spain	669	938	1,004	1,164	1,039
Sweden	687	920	631	1,083	1,058
United Kingdom	16,382	19,607	21,525	22,404	23,371
Other	1,438	2,112	1,878	2,111	2,267
Total European Union	**39,979**	**45,795**	**52,159**	**56,773**	**62,074**
Other Western Europe	1,609	2,330	2,718	2,208	2,242
Total Western Europe	**41,588**	**48,125**	**54,877**	**58,982**	**64,316**
EASTERN EUROPE:					
Russia Federation				1,031	1,363
Romania	0	2	30	1	27
Other	910	771	1,132	920	1,470
Total	**910**	**1,352**	**1,702**	**1,951**	**2,859**
TOTAL, EUROPE	**42,499**	**49,478**	**56,579**	**60,933**	**67,175**
AMERICA					
U.S.A	3,414	3,377	2,796	4,502	4,518
Canada	359	440	435	461	451
Other	484	290	649	1,103	1,045
TOTAL AMERICA	**4,256**	**4,107**	**3,880**	**6,066**	**6,014**
AFRICA					
South Africa	423	518	1,066	1,650	2,142
Rwanda	3,516	4,313	6,012	6,190	7,273
Egypt	7,121	6,752	5,453	6,918	8,839
Tanzania	13,511	14,181	14,588	17,921	19,887
Uganda	30,040	31,280	30,668	37,059	42,545
Other***.	17,902	26,041	26,867	32,071	39,642
TOTAL AFRICA	**72,513**	**83,085**	**84,653**	**101,809**	**120,327**
ASIA					
MIDDLE EAST:					
Iran	417	143	74	126	351
Israel	1,210	1,255	1,239	885	1,481
Jordan	106	121	105	36	116
Saudi Arabia	578	451	387	1,492	1,121
United Arab Emirates	5,035	2,468	2,108	2,396	3,923
Other .	1,591	2,628	2,692	2,530	1,832
Total	**8,938**	**7,065**	**6,604**	**7,465**	**8,824**
FAR EAST					
China(Mainland)	248	375	510	903	1,265
India	2,362	2,543	2,498	4,147	4,000
Indonesia	71	191	227	475	768
Japan	1,332	1,753	1,215	1,593	1,855
Korea South	55	52	68	92	137
Pakistan	8,877	8,341	9,153	11,359	14,072
Singapore	531	264	174	192	193
Other	2,981	5,330	7,333	6,813	5,935
Total	**16,456**	**18,849**	**21,177**	**25,574**	**28,226**
TOTAL, ASIA	**25,395**	**25,914**	**27,781**	**33,038**	**37,050**
AUSTRALIA & OCEANIC					
Australia	785	471	666	526	701
Other	50	88	81	92	192
TOTAL	**835**	**559**	**747**	**618**	**893**
All Other Countries	97	3,497	2,858	5,223	6,033
Aircraft and Ships Stores	1,996	2,601	3,781	7,106	6,706
TOTAL	**2,093**	**6,099**	**6,639**	**12,329**	**12,739**
TOTAL EXPORTS	**147,590**	**169,241**	**183,154**	**214,793**	**244,198**

*Provisional

** Figures as from 2004 includes the 25 EU members

***See Table 7.14 for details

Source:CBS/KRA

Table 7.13: Imports by Country of Origin, 2001 - 2005

KSh Million

DESCRIPTION	2001	2002	2003	2004	2005*
EUROPE					
WESTERN EUROPE:					
European Union**.					
Belgium	7,673	6,944	6,757	9,689	8,000
Finland	1,085	1,442	697	1,770	1,644
France	10,699	9,712	8,957	12,209	13,883
Germany	11,711	12,942	10,962	13,183	15,761
Italy	6,998	4,146	5,840	7,154	7,857
Netherlands	5,325	5,409	6,256	7,310	9,629
Spain	2,208	2,959	2,154	1,989	2,951
Sweden	1,622	12,259	1,615	2,007	2,404
United Kingdom	21,989	21,138	19,621	27,124	26,134
Other	2,719	6,138	3,979	4,724	5,238
Total European Union	**72,028**	**83,090**	**66,840**	**87,159**	**93,500**
Other Western Europe	5,433	4,077	5,304	5,722	7,820
Total Western Europe	**77,461**	**87,167**	**72,143.38**	**92,881**	**101,321**
EASTERN EUROPE:					
Russian Federation				2,538	2,985
Romania	149	37	1,237	1,362	52
Other	1,983	1,651	4,262	1,775	2,527
Total	**2,131**	**1,688**	**5,499**	**5,675**	**5,564**
TOTAL, EUROPE	**79,592**	**88,854**	**77,642**	**98,555**	**106,884**
AMERICA					
U.S.A	38,967	14,648	14,388	14,425	42,493
Canada	1,599	1,183	2,051	2,202	2,259
Other	4,943	3,314	1,733	7,832	7,023
TOTAL AMERICA	**45,509**	**19,144**	**18,173**	**24,458**	**51,774**
AFRICA					
South Africa	7,636	17,805	23,309	34,654	42,305
Tanzania	585	803	1,368	2,009	2,869
Uganda	683	664	1,038	1,009	1,389
Other***	22,844	9,601	11,604	14,763	14,846
TOTAL AFRICA	**31,749**	**28,873**	**37,318**	**52,435**	**61,410**
ASIA					
MIDDLE EAST:					
Iran	786	242	2,501	2,073	595
Israel	1,846	1,503	1,979	1,990	2,560
Jordan	150	69	327	1,186	87
Saudi Arabia	15,773	13,446	24,305	31,368	27,580
United Arab Emirates	41,465	29,060	31,918	45,044	62,130
Other	8,857	6,996	14,411	18,566	13,852
Total	**68,878**	**51,315**	**75,440**	**100,228**	**106,804**
FAR EAST					
China	6,792	6,052	8,023	12,795	19,764
India .	12,830	13,810	14,811	22,660	24,236
Indonesia	7,680	13,080	12,497	7,691	9,749
Japan	14,436	17,242	18,611	24,151	23,021
Korea South	3,926	2,755	2,966	3,289	3,386
Pakistan	2,086	4,020	4,456	3,247	2,532
Singapore	5,655	4,188	2,352	4,452	7,574
Other	7,492	5,477	7,428	7,534	9,995
Total	**60,897**	**66,623**	**71,145**	**85,818**	**100,259**
TOTAL, ASIA	**129,775**	**117,939**	**146,584**	**186,046**	**207,063**
AUSTRALIA & OCEANIC					
Australia	3,214	1,879	1,562	1,205	1,398
Other	208	140	169	257	230
TOTAL	**3,422**	**2,018**	**1,731**	**1,462**	**1,628**
All Other Countries N.E.S.	62	882	395	1,600	1,980
TOTAL	**62**	**882**	**395**	**1,600**	**1,980**
GRAND TOTAL	**290,108**	**257,710**	**281,844**	**364,557**	**430,740**

*Provisional

** Figures as from 2004 includes the 25 EU members

*** See table 7.14 for details

Table 7.14: Trade With African Countries, 2001 - 2005 (KSh. '000)

7.24. The Middle East countries were leading sources of imports supplying 24.8 per cent of total imports, registering a growth of 6.6 per cent in 2005. Imports from United Arab Emirates increased by 37.9 per cent while those from Saudi Arabia dropped by 12.1 per cent by 19.6 per cent. Imports from USA shot up threefold in 2005 due to the imports of aircrafts.

7.25. The deficit on trade with the EU in 2005 was KSh 31,426 million. This was 3.4 per cent wider than the deficit of KSh 30,386 million in 2004. The deficit with Middle East countries widened to KSh 97,980 million from a deficit of KSh 92,763 million in 2004. A favourable trade balance is recorded only with African countries, which reflects that Kenya exports more of consumer goods than capital goods. The imported goods mainly come from Europe and Asia.

7.26. In 2005, import value of merchandise trade from South Africa increased by 22.1 per cent largely due to purchases of helicopters, constituting 68.9 per cent of total imports from Africa region. Imports from South Africa have been on an upward trend since 2001. The share of imports from the Middle East fell from 27.5 per cent in 2004 to 24.8 per cent in 2005 while that of Far East remained virtually the same.

7.27. Table 7.14 summarises trade with the Common Market for Eastern and Southern Africa (COMESA) and other selected African countries. Exports to COMESA rose by 19.7 per cent, accounting for 36.6 per cent of the overall value of exports in 2005. Uganda, Tanzania, Democratic Republic of Congo and Rwanda remained the most important trading partners in the region with favourable trade balances over the years. In 2005, 47.6 per cent of Kenya's total exports to the COMESA region were destined to Uganda. Other major destination of Kenya exports in the COMESA region includes DR Congo 11.1 per cent, Egypt 9.9 per cent, Rwanda 8.1 per cent and Sudan at 7.6 per cent. Major exports to Uganda and Tanzania include petroleum products, plastic articles, paper products, cement, medicinal products and footwear. Tea continues to be the dominant export to Egypt and Sudan. Exports to EAC accounted for more than half of the total exports to Africa region.

7.28. Value of imports from COMESA countries in 2005 increased by 4.9 per cent accounting for 24.9 per cent of the African market. The balance of trade between Kenya and Egypt registered a surplus of KSh 2,650 million in favour of Kenya up from a surplus of KSh 491 million in 2004. Major imports from COMESA region included fresh vegetables, tobacco manufactures, articles of plastics, cotton, glassware and animal feeds.

Balance of Payments

7.29. Table 7.15 contains a compendium of balance of payments accounts for the four-year series, 2002 to 2005. The current account main aggregates covers transactions in goods, services, investment income and current transfers. In 2005, the current account deteriorated to a deficit of KSh 37,400 million from a deficit of KSh 27,974 million in 2004. The widening deficit was mainly driven by a higher import bill evidenced by a wider visible trade deficit of KSh 163,824 million. All the invisible trade accounts which include services, income and unilateral current transfers recorded marked improvements. The invisible trade recorded a surplus of KSh 126,424 million in 2005 from a surplus of KSh 101,074 million in 2004.

Table 7.15: Kenya Balance of Payments, 2002 - 2005

7.30. The capital and financial account measures the flow of Kenya's inward and outward investment with the rest of the world. It covers capital transfers, transactions in financial assets and liabilities (such as direct investment, investment in shares, debt securities and loans and deposits). Capital and financial account registered a net surplus of KSh 57,862 million compared surplus of KSh 18,964 million in 2004 respectively. The growth in the capital flows was mainly due to increased inflows and reduced short term outflows of other investments. In addition, net long term other investments recorded a surplus of KSh. 555 million in 2005 from a deficit of KSh. 24,014 million in 2004. Trading in the foreign investment portfolios continued to be characterised by net capital flight in 2005. This down turn influenced the portfolio investment account, to record a net outflow of KSh 2,302 million.

Table 7.16: Changes in Kenya Balance of Payments Magnitudes*, 2001 - 2005

KSh Million

	2001	2002	2003	2004	2005*
Exports Goods	+12,831	+21,660	+13,966	+31,192	+29,368
Imports Goods	-22,379	+5,487	-22,217	-73,475	-64,145
Transportation	+6,456	+2,903	+3,420	+1,889	+4,094
Travel	+1,481	-1,170	+4,884	+13,216	+4,442
Other Services	-3,901	+4,083	+33	-4,364	+1,159
Government services n.e.s.	+2,287	-2,965	+3,035	-367	-1,637
Income	+582	-1,717	+4,546	-3,289	+1,823
Services & Income (net)	+6,905	1,134	+15,919	+7,085	+9,882
Current Transfers(net)	-4,277	-12,537	+12,765	-3,876	+15,468
Changes on current account	-6,920	+15,744	+20,434	-39,074	-9,427
Capital account	+268	+2,349	+5,988	-886	-3,688
Direct investment	-8,032	+1,174	+4,458	-2,752	-2,427
Portfolio investment	+985	-264	-2,486	-2,388	+2,948
Other investment - Long term	-2,888	-20,816	+30,884	-16,335	+24,569
Change on basic balance (net balance on lines 5-9)	-16,586	-1,812	+59,278	-61,435	+11,976
Other investment - Short term	+5,315	-12,292	+4,487	+486	+17,496
Errors and ommision (net)	+16,100	+1,288	-32,569	+32,639	-11,386
Net change on all above items (5 - 10) (Net changes on Reserves assets)	4,828	-12,815	+31,128	+28,310	-18,086

* Provisional.

1. A positive entry indicates a change that improves the balance of payments outcome; a negative enrty indicates a change worsening the BOP outcome. Thus, an increase in imports or reduction in exports are marked as negative entries.
2. Exports and imports of goods are derived from Goods Account

7.31. Further details of the Balance of Payments magnitudes are set out in Table 7.16. Adjusted exports of goods rose to KSh 29,368 million while the adjusted imports of goods' bill increased to KSh 64,145 million. Net services and income earnings increased to KSh 9,882 million in 2005 compared to an increase of KSh 7,085 million in 2004. The improvements in net earnings from tourism and transportation influenced the net increase in magnitude of the services and income accounts. The changes in current account and net long-term capital flows changes resulted into a surplus in the basic balance of KSh 11,976 million in 2005 compared to a deficit of KSh 61,435 million in 2004.

International Liquidity

7.32. Table 7.17 gives foreign assets of the Monetary Authorities which includes international reserves. A country may acquire international reserves (international liquidity) through external borrowing, selling assets to foreign investors, expanding the money supply. The international reserves of Central Monetary Authorities consist

of reserves held by the Central Bank of Kenya (CBK) and the Treasury. International reserves steadily rose in the year to stand at KSh 126,495 million in December 2005 from KSh 111,219 million as at December 2004. This was occasioned mainly by receipts of foreign aid in support of Government projects and interest earned on CBK investment of foreign exchange reserves. Net foreign assets of Central Bank increased from KSh 99,308 million as at December 2004 to KSh 107,430 million as at December 2005. The reserve position in the Fund stood at KSh 1,300 million as at December 2005 down from KSh 1,506 million as at December 2004 while the SDRs dropped from KSh 46 million as at December 2004 to KSh 30 million as at December 2005. The foreign liabilities of the Central bank consisting of External banks' deposits and Use of Fund Credit stood at a total of KSh 17,730 million from KSh 10,365 million in December 2004.

Table 7.17: Central Monetary Authorities:Foreign Exchange Reserves, 2001 - 2005

KSh million

	Official Foreign Assets and Liabilities									
	Central Bank Of Kenya						Central Government			Foreign
As at end of	S.D.R.'s	Foreign Exchange	Encumbered Reserves /2	External Banks' Deposits	Use of Fund Credit	Total Net Foreign Assets of Central Bank	Reserve Position in IMF	Other Holdings	Total Reserves of Central Government	Reserves /1 of Central Monetary Authorities
1998..	36	46,980		89	14,448	32,657	1,070	31	1,100	33,757
1999..	177	56,041		79	11,213	45,084	1,241	28	1,269	46,353
2001..	77	77,181	4,994	28	9,982	67,304	1,232	27	1,259	78,517
2002..	320	74,726	5,983	19	9,138	65,927	1,302	31	1,333	76,379
2003..	171	104,701	6,119	997	10,803	65,927	1,417	38	1,455	106,326
2004..	46	109,627	6,100	28	10,337	99,364	1,506	40	1,546	111,219
2004..										
January ..	155	102,903	6,467	747	10,902	91,409	1,430	38	1,468	104,526
February ..	139	102,275	5,877	597	10,850	90,967	1,423	38	1,461	103,876
March	141	101,275	5,766	397	10,995	90,024	1,442	38	1,481	102,897
April	139	100,481	5,749	27	10,837	89,756	1,422	38	1,460	102,079
May	62	101,324	5,965	28	10,620	90,738	1,422	38	1,460	102,846
June	41	101,924	7,577	29	10,354	91,582	1,467	39	1,506	103,472
July	41	103,079	6,136	29	10,660	92,431	1,471	39	1,511	104,631
August ..	23	99,574	6,136	29	10,626	88,941	1,467	39	1,506	101,102
September ..	23	98,994	5,479	28	10,849	88,141	1,498	40	1,538	100,555
October ..	24	99,943	6,278	28	10,056	89,882	1,526	41	1,567	101,533
November ..	8	108,444	6,131	28	10,740	97,683	1,564	42	1,606	110,057
December ..	46	109,627	6,100	28	10,337	99,308	1,506	40	1,546	111,219
2005..										
January ..	45	104,664	6,713	1,203	15,917	87,589	1,469	39	1,508	106,217
February ..	22	104,904	5,453	1,185	15,706	88,035	1,449	39	1,488	106,414
March	21	101,337	5,014	1,096	15,418	84,844	1,417	38	1,455	102,813
April	340	108,128	4,964	1,336	15,798	91,334	1,458	39	1,497	109,965
May	27	112,890	4,893	968	15,308	96,641	1,439	38	1,477	114,394
June	50	114,563	5,144	968	14,873	98,772	1,398	37	1,435	116,048
July	50	121,452	4,428	908	14,742	105,852	1,386	37	1,423	122,925
August ..	25	125,301	4,502	4,128	14,785	106,413	1,390	37	1,427	126,753
September ..	24	121,090	4,299	4,658	14,367	102,089	1,351	36	1,387	122,501
October ..	323	122,798	4,328	3,733	14,295	105,093	1,359	43	1,402	124,523
November ..	31	123,726	4,169	3,937	13,941	105,879	1,335	36	1,371	125,128
December ..	30	125,130	4,088	4,159	13,571	107,430	1,300	35	1,335	126,495

Source: Central Bank of Kenya.

\1 Reserves constitute foreign assets which are readily available for meeting external financial needs

\2 Part of foreign assets which are earmarked for specific purposes and are not readily available for meeting external financial needs

7.33. The end of period nominal exchange rates for selected world currencies as shown in Table 7.18 refers to the closing mean exchange rate for the last trading day of each year. The mean exchange rate is computed as a simple average of the mean buying and selling exchange rate prevailing any trading day. The value of the Kenya Shilling appreciated against all the major world currencies by the close of 2005 compared to the value at the end of 2004. It strengthened against the US dollar by 6.4 per cent, Sterling Pound by 16.1 per cent, Euro by 18.4 per cent and 100 Japanese Yen by 18.1 per cent. Against the currencies of the East African Community, the Kenyan shilling gained against Tanzania Shilling and Uganda Shilling by 19.5 per cent points and 11.6 per cent points respectively. Among the factors driving the movements in the Shilling exchange rate during the review period were foreign exchange flows and favourable macroeconomic conditions that prevailed. Overall, the Shilling strengthened against all the selected currencies as reflected in the trade weighted exchange rate index, which dropped by 17.2 per cent from 754.2 to 624.8 in 2005.

Table 7.18: Foreign Exchange Rates of Kenya Shilling for Selected Currencies, 2000 - 2005

	31st Dec. 2001	31st Dec. 2002	31st Dec. 2003	31st Dec. 2004	31st Dec. 2005
1 US Dollar	78.6000	77.0723	76.1389	77.3444	72.3667
1 Pound Sterling	114.0023	123.5924	135.5051	149.0018	124.9838
1 Deutsche Mark	35.5812	-	-	-	-
1 French Franc	10.6081	-	-	-	-
1 Swiss Franc	46.9909	55.6496	61.3582	68.2958	55.1833
1 Dutch Guilder	31.5707	-	-	-	-
1 Swedish Kroner	7.4665	8.8325	10.4948	11.6480	9.1222
1 Norwegian Kroner	8.7399	10.9950	11.3444	12.7889	10.6994
1 Zambian Kwacha**	0.0170	0.0159	0.0169	0.0163	0.0219
1 Austrian Schilling	5.0571	-	-	-	-
1 Belgian Franc	1.7247	-	-	-	-
1 Danish Kronor	9.3554	10.8761	12.8541	14.1628	11.5149
1 Canadian Dollar	49.4192	49.7481	58.7623	64.2344	62.2114
1 Finish Marka	11.7047	-	-	-	-
1 Australian Dollar	40.1646	43.6730	57.0928	60.2862	53.1208
100 Japanese Yen	59.8430	64.8800	71.1757	75.3835	61.6768
100 Italian Lira	3.5913	-	-	-	-
1 Indian Rupee	1.6307	1.6053	1.6699	1.7767	1.6089
1 Pakistan Rupee**	1.3248	1.3334	1.3248	1.2966	1.2240
100 Burundi Francs**	9.7831	8.8468	7.1794	7.2931	7.1250
100 Rwanda Francs**	21.0276	15.0210	13.6805	13.8971	13.1071
1 SA Rand	6.5465	8.9249	11.4513	13.6671	11.3844
TSh/KSh .	11.6539	12.2292	13.9197	13.4847	16.1194
USh/KSh	22.1371	24.0749	25.4800	22.4775	25.0808
Euro	69.5629	80.7908	95.6205	105.3307	85.9110
Overall Weighted Index*					
1982=100	**570.55**	**622.53**	**664.02**	**754.24**	**624.78**

* Trade weighted Fisher's Ideal index (The SA Rand, TSh, USh and other unavailable exchange rates are excluded from index computation)

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

.. not available.

Trade Information and Capacity Building

7.34. Export Promotion Council (EPC) continued with the mandate of co-ordinating and harmonising export development and promotion activities in the country. The Council provided comprehensive up to date trade information on existing and potential markets to exporters in addition to business counseling services at the Centre for Business Information in Kenya (CBIK). EPC also provided training to exporters to enable them respond effectively to opportunities in the export market. Training of trainers from both the public and private sector was also carried out to build a reservoir of trainers in various fields.

Export Market Development

7.35. EPC enhanced the identification of new export market opportunities for Kenyan companies. These included formulation of appropriate market entry and penetration strategies such as organization of Trade Missions, Contact Promotion Programmes, Buyer / Seller Meetings, Trade Fairs and Exhibitions and Inward Buying Missions.

Trade Policy Facilitation

7.36. The EPC reviewed both domestic and external trade facilitation policies with the main objective of enhancing market access and competitiveness of Kenyan export products. This was done with a view to promoting development and growth of the export sector. The EPC also provides a forum for dialogue and consensus building between the public and private sector on matters relating to the export trade through sectoral panels that comprise of members from both the public and private sectors.

Export Credit, Insurance and Trade Finance Services

7.37. The Council continued being the National Liaison Office for the African Trade Insurance Agency (ATI), which provides insurance coverage for political risks relating to trade and investment. Provision of these services is aimed at increasing performance of exports through facilitation of competitive trade finance and reduction of export business risks thereby creating more confidence in exporters and investors.

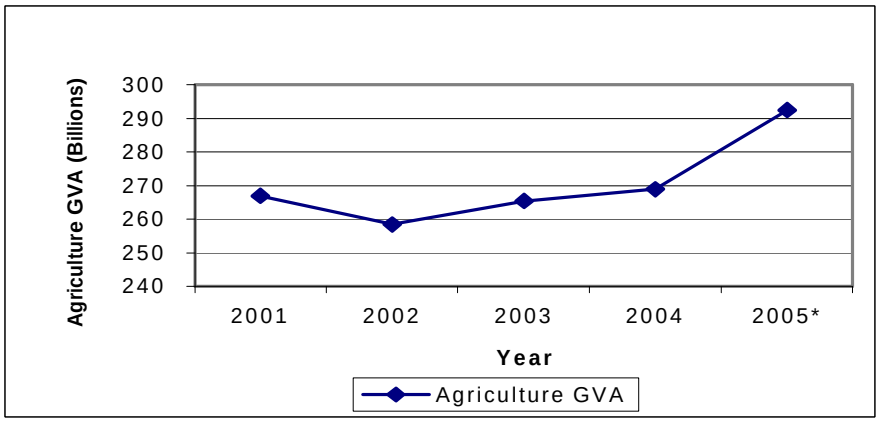
Chapter 8
Agriculture

Overview

The agriculture sector recorded a remarkably improved performance in 2005 compared to 2004. The sector Gross Value Added grew by 6.9 per cent in the year under review from a depressed growth of 1.7 per cent in 2004. This was mainly as a result of improved performance of cereals, horticulture and dairy sub-sectors. This performance was mainly driven by adequate rainfall in most parts of the country during the long rains season of 2005. Improved production early in 2005 arose out of favourable weather patterns in the central highlands and North Rift during the short rains season of 2004.

8.2. Maize production increased by 11.4 per cent from 29.0 million bags in 2004 to 32.3 million bags in 2005. Production of wheat achieved a significant increase of 45.8 per cent from 88.3 thousand tonnes in 2004 to 128.7 thousand tonnes in 2005. Production of tea increased marginally by 1.2 per cent from 324.6 thousand tonnes in 2004 to 328.5 thousand tonnes in 2005. The value of horticulture exports continued on an upward trend, growing by 19.2 per cent from KSh 32,591.0 million in 2004 to KSh 38,838.1 million in 2005. Sugar cane production went up from 4.6 million tonnes in 2004 to 4.8 million tonnes in 2005. The revival of West Kano and Bunyala irrigation schemes boosted rice production from 47.6 thousand tonnes in 2004 to 62.7 thousand tonnes in 2005. The volume of marketed milk rose by 21.2 per cent from 274 million litres in 2004 to 332 million litres over the review period. This was attributed to favourable weather conditions in the high potential areas and better marketing channels. However, the drought that was experienced in some parts of the country towards the end of 2005 adversely affected the livestock sub-sector. Coffee production declined by 6.6 per cent from 48.4 thousand tonnes in 2004 to 45.2 thousand tonnes in 2005. Pyrethrum production (pyrethrin equivalent) declined significantly from 41.9 tonnes in 2004 to 16.4 tonnes in 2005. The decline was attributed to delays in payments to farmers coupled with unfavourable weather.

Figure 8.1: Agriculture GVA, 2001-2005



8.3**.** Agriculture output at current prices went up by 11.0 per cent from KSh 379,455 million in 2004 to KSh 421,220 million in 2005 as shown in Table 8.1. Value of agricultural inputs at current prices rose by 15.2 per cent from KSh 81,677 million in 2004 to KSh 94,082 million in 2005. This resulted to a 9.8 per cent rise in value addition at current prices. At constant prices, agricultural output increased by 7.1

per cent from KSh 348,928 million in 2004 to KSh 373,854 million in the year under review while value of agricultural inputs rose by 7.9 per cent from KSh 79,052 million in 2004 to KSh 85,326 million in 2005. Figure 8.1 shows the agricultural GVA trend for the last five years.

Table 8.1: Agricultural Output and Input+, 2001– 2005

	2001	2002	2003	2004	2005
PRODUCTION AT CURRENT PRICES					
Output at basic prices	344,618.4	322,466.9	346,219.4	379,455.0	421,220.0
Intermediate consumption	77,712.6	72,785.5	72,036.2	81,677.0	94,082.0
Value added at basic prices, gross	266,905.8	249,681.3	274,183.3	297,779.0	327,138.0
PRODUCTION CONSTANT PRICES					
Output	344,618.4	333,965.7	342,778.1	348,928.0	373,855.0
Intermediate consumption	77,712.6	75,480.4	77,355.8	79,052.0	85,326.0
VALUE ADDED, GROSS	266,905.8	258,485.3	265,422.2	269,876.0	288,528.0

+ Revised Series

*Provisional

8.4. Table 8.2 presents the annual marketed production for crops and livestock at current prices for the last five years. Total value of marketed production grew by 7.9 per cent from KSh 122,482.9 million in 2004 to KSh 132,139.3 million in 2005. This was supported by the value of marketed crops that expanded to KSh 107,880.4 million in 2005 from KSh 101,716.2 million in the previous year. Similarly, the value of marketed livestock and its products grew by 16.8 per cent from KSh 20,766.7 million in 2004 to KSh 24,258.9 million in 2005, on account of high volumes of milk and meat production. Under cereals, the value of marketed maize went down by 7.8 per cent to KSh 6,342.4 million in 2005. The decline in marketed maize is mainly attributed to reduced sales to NCPB due to initial low prices offered by the board. Value of marketed wheat rose by 19.8 per cent over the same period. The value of other marketed cereals almost doubled from KSh 1,268.6 million to KSh 2,332.6 million over the review period. This was mainly attributed to substantial increase in barley and rice production.

Table 8.2: Recorded Marketed Production at Current Prices, 2001 - 2005

KSh million

	2001	2002	2003	2004	2005*
CEREALS-					
Maize	6,141.6	4,451.4	3,336.5	6,880.5	6,342.4
Wheat	1,429.4	987.5	1,375.3	1,864.0	2,232.3
Others	1,189.5	959.4	964.5	1,268.6	2,332.6
Total	8,760.5	6,398.3	5,676.3	10,013.1	10,907.3
HORTICULTURE**-					
Cut flowers	10,627.0	14,791.0	16,496.0	18,720.0	22,896.8
Vegetables	8,035.0	10,470.0	10,591.0	12,068.0	13,891.4
Fruits	1,560.0	1,461.0	1,753.0	1,803.0	2,049.9
Total	20,222.0	26,722.0	28,840.0	32,591.0	38,838.1
TEMPORARY INDUSTRIAL CROPS-					
Sugar-cane	7,154.8	9,070.2	7,567.3	8,389.8	9,169.6
Pyrethrum	769.1	1,271.5	781.9	305.7	158.1
Others	1,084.1	676.0	876.0	644.6	859.0
Total	9,008.0	11,017.8	9,225.2	9,340.1	10,186.7
PERMANENT CROPS-					
Coffee	6,424.2	5,441.1	5,956.7	7,284.5	8,999.1
Tea	38,564.5	33,414.7	34,631.1	41,212.2	37,659.9
Sisal	956.9	938.2	1,060.7	1,275.4	1,289.2
Total	45,945.6	39,794.0	41,648.6	49,772.0	47,948.2
TOTAL CROPS	83,936.1	83,932.1	85,390.1	101,716.2	107,880.4
LIVESTOCK AND PRODUCTS-					
Cattle and Calves ..	9,078.6	11,823.8	11,476.1	11,284.8	13,063.5
Dairy Produce ..	1,919.6	2,468.9	2,846.1	4,385.0	5,313.2
Chicken and eggs	2,074.6	1,624.5	1,624.5	1,705.7	1,901.5
Others	2,395.0	3,422.5	3,485.7	3,391.2	3,980.7
Total	15,467.8	19,339.7	19,432.4	20,766.7	24,258.9
GRAND TOTAL	99,403.9	103,271.9	104,822.5	122,482.9	132,139.3

* Provisional.

** Data refers to fresh Horticultural exports only

8.5. The value of horticultural exports continued to improve, growing by 19.2 per cent to stand at KSh 38,838.1 million in 2005. The value of temporary industrial crops improved substantially by 9.1 per cent during 2005 mainly due to a 9.3 per cent increase in sugar cane production. However, the value of pyrethrum (extract) declined by 48.3 per cent from KSh 305.7 million in 2004 to KSh 158.1 million in 2005 mainly due to a significant decline in production caused by unfavourable weather and delays in payments to farmers. Similarly, the marketed value of permanent crops declined by 3.7 per cent to KSh 47,948.2 million in 2005 from KSh 49,772.0 million in the previous year. This decline was largely due to low tea prices as a result of oversupply in the world market coupled with the strengthening of the Kenya shilling.

8.6. As shown in Table 8.3, the cereals quantum index rose from 97.0 in 2004 to 105.9 in 2005. This is attributed to increased production of cereals such as maize, wheat, rice, barley, millet and sorghum. The temporary industrial crops quantum index rose from 120.8 in 2004 to 123.3 in 2005 in tandem with increased sugar cane and tobacco production. The horticulture quantum index rose from 155.8 in

2004 to 179.2 in 2005 consistent with increased export volumes. On the other hand, the quantum index of permanent crops declined marginally from 107.6 in 2004 to 105.2 in 2005 due to a substantial decline in coffee production. The livestock quantum index went up from 130.8 in 2004 to 150.3 in 2005 as a result of substantial increase in meat and milk production. The cereals price index declined from 114.3 in 2004 to 109.1 in 2005 on account of lower prices paid for wheat and maize. The temporary industrial crops price index rose from 87.5 in 2004 to 94.7 in 2005 in response to better prices offered for sugar cane, pyrethrum and tobacco. The horticulture price index rose from 88.6 in 2004 to 92.8 in 2005 due to better world prices especially for cut flowers. The price index of permanent crops declined marginally from 101.2 in 2004 to 100.9 in 2005. This was attributed to a decline in the price of tea over the review period. The overall price index rose from 110.5 in 2004 to 111.3 in the period under review.

Table 8.3: Volume and Price Indices of Sales to Marketing Boards, 2001 - 2005

Base: 2001=100

		2001	2002	2003	2004	2005*
QUANTUM	Cereals	100.0	85.3	67.8	97.0	105.9
INDICES	Temporary Industrial Crops ..	100.0	133.1	119.3	120.8	123.3
	Horticulture.....	100.0	167.9	142.6	155.8	179.2
	Permanent Crops	100.0	95.4	101.2	107.6	105.2
	TOTAL CROPS	100.0	99.3	99.0	78.7	78.5
	Livestock and Products	100.0	126.1	123.6	130.8	150.3
TOTAL GROSS MARKETED PRODUCTION		100.0	121.9	117.0	123.2	131.2
PRICE	Cereals	100.0	87.8	94.1	114.3	109.1
INDICES	Temporary Industrial Crops ..	100.0	94.0	86.9	87.5	94.7
	Horticulture.....	100.0	73.9	89.4	88.6	92.8
	Permanent Crops	100.0	78.2	89.3	101.2	100.9
	TOTAL CROPS	100.0	91.0	89.6	73.6	73.7
	Livestock and Products**	100.0	103.6	109.2	123.0	128.1
TOTAL GROSS MARKETED PRODUCTION		100.0	94.8	99.1	110.5	111.3

**Data on livestock is from slaughter houses

* Provisional.

8.7. Table 8.4 shows the average prices paid to farmers for selected commodities in 2005. The price of milk remained unchanged while that of maize recorded a slight decrease over the review period. Over the same period, the prices of coffee, sisal, pyrethrum and pig meat increased by 29.4 per cent, 7.2 per cent, 32.4 per cent and 4.9 per cent respectively, in response to reduced supply. The price of tea declined by 6.9 per cent from KSh 12,696.0 per 100 Kg in 2004 to KSh 11,824.2 per 100 Kg in 2005. This was largely due to a glut in the global market. The price of wheat declined by 17.8 per cent from KSh 2,216.7 per 100 Kg in 2004 to KSh 1,821.1 per 100 Kg in 2005.

Table 8.4: Average Gross Commodity Prices+ to Farmers, 2001 - 2005

KSh per stated unit

	UNIT	2001	2002	2003	2004	2005*
Coffee	100kg	11,776.1	11,962.9	9,729.2	14,590.6	18,885.8
Tea	,,	13,089.0	11,638.7	11,792.5	12,696.0	11,824.2
Sisal	,,	4,123.2	4,241.4	4,272.3	4,821.3	5,168.3
Sugar-cane	Tonne	2,015.0	2,015.0	1,800.0	1,800.0	1,910.0
Pyrethrum (Pyrethrin equivalent)	Kg	9,835.0	7,301.8	7,316.6	7,297.2	9,658.7
Seed Cotton	100Kg	1,800.0	1,729.6	2,107.4	2,243.2	1,910.6
Maize	,,	1,330.8	1,034.0	1,189.5	1,534.2	1,523.7
Wheat	,,	1,840.8	1,724.3	1,908.8	2,216.7	1,821.1
Beef (third grade)	,,	9,375.0	12,169.2	11,861.9	10,351.2	11,038.6
Pig meat	,,	9,516.3	9,417.4	8,636.8	8,715.5	9,145.1
Milk	100 litres	1,300.0	1,387.2	1,400.0	1,600.0	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. Estimated sales of agricultural produce to marketing boards from large and small farms are shown in Table 8.5. The percentage share of small farms in overall marketed production has continued to increase over time and stood at 73.8 per cent in 2005. The value of marketed output by small farms increased by 8.9 per cent from KSh 89.6 billion in 2004 to KSh 97.6 billion in 2005. Similarly, the value of marketed output for large farms rose by 5.2 per cent to stand at KSh 34.6 billion in 2005.

Table 8.5: Sale to Marketing Boards from Large and Small Farms, 2001 -2005

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	
2001	27,921	6.34	71,511	8.17	99,404	7.65	71.94
2002	26,985	(3.35)	76,287	6.68	103,272	3.89	73.87
2003	27,211	0.84	77,612	1.74	104,823	1.50	74.04
2004	32,879	20.83	89,604	15.45	122,483	16.85	73.16
2005*	34,572	5.15	97,568	8.89	132,139	7.88	73.84

* Provisional.

8.9. Table 8.6 presents trends in quantum and price indices for agricultural inputs. The overall price index for agricultural inputs rose from 101.5 in 2004 to 119.7 in 2005, indicating a general increase in the price of agricultural inputs in 2005. The increase in fuel pump prices significantly increased the fuel and power price index from 85.5 in 2004 to 117.4 in 2005. The fertilizer price index rose from 110.1 in 2004 to 127.6 in 2005. Despite the increase in prices of agricultural inputs, the overall quantum index for material inputs rose from 115.2 in 2004 to 123.8 in 2005 as a result of increased consumption of inputs in the agricultural sector. The quantum index for fuel and power however declined from 73.1 in 2004 to 67.0 in 2005. An increase in fertilizer sales caused the fertilizer quantum index to rise from 164.8 in 2004 to 197.8 in 2005.

Table 8.6: Agricultural Input Indices, 2001 - 2005

Base: 2001=100

	2001	2002	2003	2004	2005*
QUANTUM INDICES-					
Fertilizers	100.0	129.2	156.9	164.8	197.8
Fuel and Power	100.0	86.8	75.5	73.1	67.0
Bags	100.0	88.3	90.0	71.7	67.5
Manufactured Feeds	100.0	170.0	161.5	170.8	181.0
Purchased Seeds	100.0	106.0	121.0	127.0	143.0
Other Material Inputs	100.0	102.0	96.9	102.5	108.6
Total Material Input	100.0	109.3	110.7	115.4	118.1
Service Inputs	100.0	104.0	100.9	104.4	112.3
TOTAL INPUTS	100.0	113.1	112.3	115.2	123.8
PRICE INDICES-					
Fertilizers	100.0	91.8	93.7	110.1	127.6
Fuel and Power	100.0	80.0	81.2	85.5	117.4
Bags	100.0	115.1	92.1	125.8	134.9
Manufactured Feeds	100.0	92.1	83.1	105.4	121.7
Purchased Seeds	100.0	102.8	86.8	90.9	97.9
Other Material Inputs	100.0	102.8	111.8	127.8	137.7
TOTAL MATERIAL INPUT	100.0	92.4	89.4	102.2	120.6
SERVICE INPUTS	100.0	100.5	110.6	113.7	134.1
TOTAL INPUTS	100.0	91.7	89.2	101.5	119.7

* Provisional.

8.10. The quantity, quality and pricing of agricultural inputs have a profound effect in the resultant level and competitiveness of agricultural production. High costs of production have often inhibited agricultural growth. Table 8.7 shows the value of purchased agricultural inputs. The value of total inputs rose by 6.6 per cent from KSh 16,573 million in 2004 to KSh 17,667 million in 2005. The value of fertilizer purchased increased by 12.2 per cent from KSh 3,321 million in 2004 to KSh 3,727 million in 2005. The value of fuel and power used in the agricultural sector declined marginally from KSh 4,910 million in 2004 to KSh 4,861 million in 2005. In line with increased agricultural production, the value of seed purchased increased by 6.0 per cent from KSh 2,541 million in 2004 to KSh 2,694 million over the same period.

Table 8.7: Purchased Agricultural Inputs+, 2001 - 2005

KSh million

	2001	2002	2003	2004	2005*
MATERIAL INPUTS-					
Fertilizers	2,347	2,946	3,159	3,321	3,727
Other Agricultural Chemicals	422	606	528	991	1,044
Livestock Drugs and Medicines	450	771	841	1,077	1,313
Fuel and Power	5,954	4,822	4,333	4,910	4,861
Bags	486	542	406	442	417
Manufactured Feeds	1,892	2,023	1,799	2,341	2,638
Purchased Seeds	1,687	1,490	2,310	2,541	2,694
Other Material Inputs	290	390	360	378	390
Total	13,528	13,590	13,736	16,002	17,084
SERVICE INPUTS	542	538	565	571	583
TOTAL INPUTS	14,070	14,128	14,301	16,573	17,667

\+ Except labour.

* Provisional.

8.11. Trends in price and terms of trade indices for agriculture are shown in Table 8.8. In 2005, the sector's terms of trade declined from 89.2 in 2004 to 78.8 in 2005 due to high cost of agricultural inputs coupled with relatively poor agricultural output prices of major crops. The index of purchased inputs increased from 101.5 in 2004 to 119.7 in 2005. The index of purchased consumer goods in rural areas rose from 124.1 in 2004 to 136.0 in 2005.

Table 8.8: Price and Terms of Trade Indices for Agriculture, 2001 - 2005

Base: 2001=100

	2001	2002	2003	2004	2005*
General Index of Agricultural Output Prices	100.0	95.0	93.1	100.6	100.8
PRICE PAID					
Purchased Inputs	100.0	95.5	89.2	101.5	119.7
Index of Purchased Consumer Goods-Rural Areas	100.0	102.1	112.2	124.1	136.0
INDICES OF PRICES PAID	100.0	98.8	100.7	112.8	127.9
Agricultural Sector terms of Trade	100.0	96.2	92.5	89.2	78.8

* Provisional.

8.12. Table 8.9 depicts trends in production of selected food crops. During the year under review, maize production increased by 11.4 per cent from 29.0 million bags in 2004 to 32.3 million bags in 2005. Similarly, production of beans registered a 34.4 per cent increase from 3.2 million bags in 2004 to 4.3 million bags in 2005. Production of sorghum almost doubled while that of potatoes declined from 1.1 million tonnes in 2004 to 1.0 million tonnes in 2005. Millet production declined by 11.9 per cent from 670 thousand bags in 2004 to 590 thousand bags in 2005.

Table 8.9: Estimated Production of Selected Agricultural Commodities, 2001 - 2005

CROP	Unit	2001	2002	2003	2004	2005*
Maize	million bags	30.6	26.0	28.0	29.0	32.3
Beans	"	4.1	4.0	4.0	3.2	4.3
Potatoes	million tonnes	1.5	0.9	1.0	1.1	1.0
Sorghum	million bags	1.2	0.8	0.8	0.8	1.7
Millet	"	0.5	0.6	0.6	0.7	0.6

Source: Ministry of Agriculture

* Provisional.

8.13. Comparison of retail market prices by provinces for maize, beans, potatoes, sorghum and millet is shown in Table 8.10. Average price trends for these commodities were mixed in 2005 compared to the corresponding period in 2004. Retail prices per kilogram of maize in March 2005 varied between KSh 13.8 in Eastern Province to KSh 21.5 in Coast Province while in September 2005 the retail average prices varied between KSh 14.3 in Nyanza Province and KSh 20.4 in Coast Province. The average price for beans and sorghum were generally higher in March 2005 compared to a similar period in 2004. However, retail prices for potatoes and millet registered a mixed performance in the months of March and September 2005 compared to similar periods in 2004. With the exception of millet, all the other commodities recorded a decline in average prices as observed in the month of September 2005. This was due to adequate supply of the commodities in most markets.

Table 8.10: Retail Market Prices for Selected Food Crops, 2002-2005

KSh per Kg.

CROP	Province	2002		2003		2004		2005	
		March	Sept	March	Sept	March	Sept	March	Sept
Maize	Coast	22.0	15.4	18.2	19.3	20.9	20.8	21.5	20.4
	Eastern	8.9	9.0	10.8	15.0	15.8	20.2	13.8	16.5
	Central	10.5	12.0	12.7	17.3	17.4	20.9	20.7	17.7
	Rift Valley	9.6	12.0	14.6	16.9	19.4	23.1	20.5	17.0
	Nyanza	8.1	11.1	15.2	13.0	16.7	17.6	16.2	14.3
	Western	7.7	10.5	13.8	13.1	17.9	17.7	16.0	14.4
	National	**9.7**	**11.6**	**14.0**	**16.4**	**18.0**	**20.1**	**18.1**	**16.7**
Beans	Coast	30.0	29.3	28.4	33.1	33.1	38.1	42.8	38.9
	Eastern	19.1	18.7	19.8	24.7	25.5	37.5	32.6	30.8
	Central	26.0	29.5	30.6	29.2	30.8	37.5	40.1	34.4
	Rift Valley	26.3	25.7	29.7	24.9	30.7	42.9	38.5	34.6
	Nyanza	35.3	31.2	32.8	32.4	33.2	35.9	42.5	35.2
	Western	27.3	25.2	28.1	26.5	31.3	35.4	35.9	33.9
	National	**27.8**	**26.8**	**28.6**	**29.3**	**30.8**	**37.9**	**38.7**	**34.6**
Potatoes	Coast	25.1	19.8	21.0	20.8	23.3	21.5	21.1	24.9
	Eastern	28.6	13.6	17.7	14.6	17.4	17.9	15.6	12.3
	Central	12.2	9.5	9.6	9.0	10.4	7.8	9.5	8.5
	Rift Valley	15.4	12.1	11.4	12.9	16.1	13.9	23.9	12.4
	Nyanza	11.6	13.7	10.5	10.1	13.5	11.7	12.2	9.6
	Western	11.7	6.2	10.8	10.5	10.7	9.4	11.7	8.5
	National	**14.8**	**13.4**	**14.0**	**13.7**	**15.2**	**13.7**	**15.7**	**12.7**
Sorghum	Eastern	9.1	13.0	12.0	13.4	18.7	22.3	27.8	22.0
	Nyanza	11.4	12.3	20.8	14.1	16.5	20.0	20.9	12.8
	Western	17.9	21.5	21.3	22.4	21.4	23.8	21.1	25.1
	National	**19.6**	**18.3**	**19.4**	**22.1**	**18.9**	**22.0**	**23.2**	**20.0**
Millet	Eastern	26.8	35.0	28.8	35.8	35.6	41.7	32.8	39.2
	Rift Valley	24.4	22.2	26.5	28.8	27.4	30.2	32.6	41.0
	Nyanza	31.9	26.6	28.3	27.3	30.7	32.0	35.3	31.9
	Western	26.4	24.5	25.9	25.9	28.7	29.5	28.6	29.6
	National	**25.2**	**26.5**	**27.4**	**33.7**	**30.6**	**33.4**	**32.3**	**35.4**

8.14. In 2005, National Cereals and Produce Board (NCPB) and other millers purchased 416.2 thousand tonnes of maize from farmers compared to 448.5 thousand tonnes in 2004. The country also imported 49.6 thousand tonnes of maize valued at KSh 924 million in the year under review. Pyrethrum production (pyrethrin equivalent) declined significantly from 41.9 tonnes in 2004 to 16.4 tonnes in 2005 as shown in Table 8.11. The decline was attributed to delay in growers' payments and the drought that was experienced in pyrethrum growing areas. However, volume of marketed rice paddy increased significantly by 8.3 thousand tonnes. This significant increase was mainly attributed to the increase in production in Mwea irrigation scheme and the revival of Bunyala and West Kano irrigation schemes. Sales of cotton rose from 2.2 thousand tonnes in 2004 to 2.7 thousand tonnes in 2005.

Table 8.11: Sale of Some Major Crops to Marketing Boards, 2001 - 2005

CROP	UNIT	2001	2002	2003	2004	2005*
Maize++	'000 tonnes	461.5	398.0	280.5	448.5	416.2
Wheat+	"	77.7	57.3	72.0	84.1	122.6
Coffee	"	54.6	45.5	61.2	49.9	47.7
Tea	"	294.6	287.1	293.7	324.6	328.5
Cotton+	"	0.5	1.1	1.7	2.2	2.7
Sugar-cane+	mn. tonnes	3.6	4.5	4.2	4.7	4.8
Pyrethrum (extract equivalent)	tonnes	78.0	174.9	106.9	41.9	16.4
Sisal	'000 tonnes	23.2	22.1	24.8	26.5	25.6
Rice Paddy + ...	"	19.3	18.9	19.8	26.4	34.7

+ No purchases by boards.

++ Includes purchases by NCPB and millers.

* Provisional.

8.15. Wheat: As shown in Table 8.12, wheat production achieved significant increase of 45.8 per cent from 88.3 thousand tonnes in 2004 to 128.7 thousand tonnes in 2005. This increase was attributed to adequate rainfall received in wheat growing areas in the year under review. An additional 621.8 thousand tonnes of wheat worth KSh 8.0 billion was imported in 2005 in order to meet local demand.

Table 8.12: Production and Imports of Wheat, 2001 - 2005

'000 Tonnes

YEAR	PRODUCTION**	IMPORTS	TOTAL
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
2005*	128.7	621.8	750.6

** Includes retention for seed.

* Provisional.

8.16. Coffee: For the second consecutive year, the coffee sub-sector recorded subdued performance as shown in Table 8.13. Coffee production declined by 6.6 per cent from 48.4 thousand tonnes in 2004 to 45.2 thousand tonnes in 2005. The decline in production was attributed to high cost of farm inputs and unfavourable weather in coffee growing areas.

Table 8.13: Production, Area, and Average Yield of Coffee by Type of Grower, 2000/01 - 2004/05

	2000/01	2001/02	2002/03	2003/04	2004/05*
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	**25.0**	**28.8**	34.0	30.0	25.5
Estates	26.9	23.1	21.4	18.5	19.7
TOTAL	51.9	51.9	55.4	48.4	45.2
AVERAGE YIELD (Kg/Ha.)-					
Co-operatives	193.8	198.8	265.8	234.0	199.2
Estates	640.5	537.0	509.9	439.8	469.0

Source: Coffee Board of Kenya

* Provisional.

8.17. **Tea:** The area under tea increased by 3.4 per cent from 136.7 thousand hectares in 2004 to 141.3 thousand hectares in 2005 as shown in Table 8.14. During the same period, production of tea increased by 1.2 per cent from 324.6 thousand tonnes in 2004 to 328.5 thousand tonnes in 2005. The smallholder sub-sector recorded a 2.6 per cent production increase to 197.7 thousand tonnes in 2005 from 192.6 thousand tonnes in 2004 while the estate sub-sector registered a marginal production decline from 132.1 thousand tonnes in 2004 to 130.8 thousand tonnes in 2005. During the year under review, the average yield of tea in the smallholder sub-sector increased to 2,312 Kg/Ha, up from 2,263 Kg/Ha in 2004.

Table 8.14: Production, Area and Average Yield of Tea by Type of Grower, 2001- 2005

	2001	2002	2003	2004	2005*
AREA (Ha) '000					
Smallholder*	85.5	85.9	86.4	88.0	92.7
Estates	38.8	44.4	45.1	48.8	48.6
TOTAL	124.3	130.3	131.5	136.7	141.3
PRODUCTION (Tonnes) '000					
Smallholder*	181.7	175.9	180.8	192.6	197.7
Estates	112.9	111.2	112.9	132.1	130.8
TOTAL	294.6	287.1	293.7	324.6	328.5
AVERAGE YIELD (Kg/Ha)**					
Smallholder	2,147.0	2,078.0	2,136.0	2,263.0	2,312.0
Estates	3,453.0	3,294.0	3,331.0	3,739.0	3,372.0

Source: Tea Board of Kenya

** Obtained by dividing current production by the area four years ago

* Provisional

8.18. Tea exports recorded an impressive performance with the total volume rising to 339 thousand tonnes valued at KSh 42.3 billion in 2005 from 275 thousand tonnes worth KSh 36.1 billion traded in 2004. Despite the increased export volume, the total earnings declined largely due to appreciation of the Shilling and oversupply of the commodity in the World market, leading to a drop in price.

8.19. **Sugar cane:** As presented in Table 8.15, production of sugar cane has been rising in the last three years with 2005 registering cane production of over 4.8 million tonnes from 4.7 million tonnes in 2004. The area harvested increased by 4.2 per cent from 54.2 thousand hectares in 2004 to 56.5 thousand hectares in 2005. Average yield decreased by 3.1 per cent from 73.8 tonnes per hectare in 2004 to 71.5 tonnes per hectare in 2005. This decline in yield was mainly attributed to unfavourable weather in the sugar cane growing areas.

Table 8.15: Area Under Sugar Cane, Area Harvested, Production, and Average Yield, 2001 - 2005

	2001	2002	2003	2004	2005*
Area under cane (Ha)	117,131	126,826	122,580	131,507	144,765
Area harvested (Ha)**	47,794	54,010	50,468	54,191	56,537
Production (Tonnes)	3,550,792	4,501,363	4,204,055	4,660,995	4,800,820
Average yield (Tonnes/Ha)	63.71	70.67	69.17	73.81	71.46

* Provisionsal

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

Source: Kenya Sugar Board

8.20. Details on production, imports and consumption of sugar are provided in Table 8.16. Sugar production declined by 5.6 per cent from 516.8 thousand tonnes in 2004 to 488.1 thousand tonnes in 2005. Sugar consumption went up by 3.8 per cent from 669.9 thousand tonnes in 2004 to 695.6 thousand tonnes in 2005. The quantity of imported sugar went up by 2.0 per cent from 164.0 thousand tonnes in 2004 to 167.2 thousand tonnes in 2005 to offset the deficit in the local production. The exports of sugar almost doubled from 11.6 thousand tonnes in 2004 to 21.8 thousand tonnes in 2005.

Table 8.16: Production, Imports and Consumption of Sugar, 2001 – 2005

'000 Tonnes

YEAR	PRODUCTION	IMPORTS	CONSUMPTION	EXPORTS
2001	377.4	249.3	630.1	3.6
2002	494.2	130.0	652.1	12.1
2003	448.5	182.2	663.8	11.3
2004	516.8	164.0	669.9	11.6
2005*	488.1	167.2	695.6	21.8

Source: Kenya Sugar Board

* Provisional

8.21. **Horticulture:** The volume and value of total horticultural exports continued to record improved performance in 2005. As shown in Table 8.17, the value of horticultural exports increased by 19.0 per cent from KSh 32.6 billion in 2004 to KSh 38.8 billion in 2005. Volume of total exports registered a growth of 12.1 per cent from 145.6 thousand tonnes in 2004 to 163.2 thousand tonnes in 2005. Cut flowers and Vegetables continued to exhibit impressive growth patterns both by volume and earnings. Export volumes of cut flowers rose by 14.9 per cent from 70.7 thousand tonnes in 2004 to 81.2 thousand tonnes in 2005.

Table 8.17: Exports of Fresh Horticultural Produce+ , 2001 - 2005

YEAR	VOLUME '000 Tonnes	VALUE KSh billion
2001	98.9	20.2
2002	121.1	26.7
2003	133.2	28.8
2004	145.6	32.6
2005*	163.2	38.8

Source: Horticultural Crops Development Authority (HCDA)

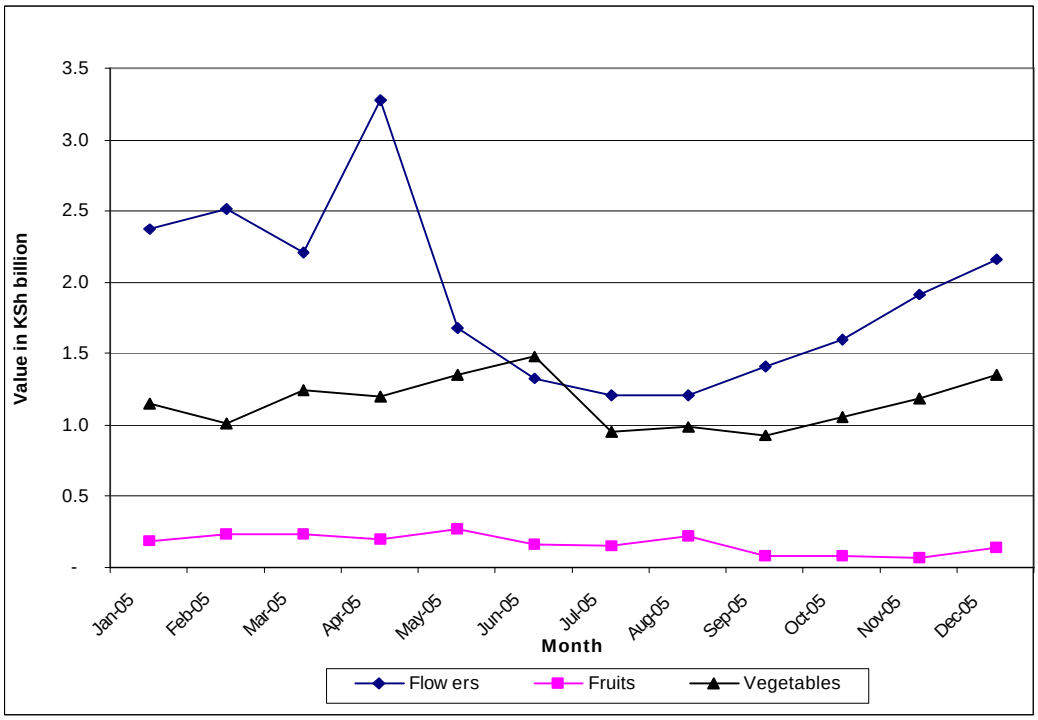
\+ Excludes exports of processed agricultural produce.

* Provisional.

8.22. A total of 61.1 thousand tonnes of roses were exported in 2005 accounting for 75.2 per cent of all cut flower exports. Exports of vegetables significantly went up by 22.2 per cent from 51.9 thousand tonnes in 2004 to 63.4 thousand tonnes in 2005. A volume decline of 19.6 per cent was recorded in the export quantities of fruits which declined to 18.5 thousand tonnes in 2005 down from 23.0 thousand tonnes the previous year. The decline in the export volume of fruits is mainly attributed to a 10.0 per cent decline in the exports of avocados which arose largely from increased competition from other producers particularly into the European Union Market. Avocados comprised the largest share of fruit exports by weight accounting for 82.3 per cent of all fruit exports during the year under review.

8.23. As shown in figure 8.2, cut flowers continued to dominate the horticulture sector, accounting for 59.0 per cent of all horticultural export earnings in 2005 compared to 57.4 per cent during the previous year. Earnings from exports of cut flowers increased by 22.5 per cent from KSh 18.7 billion in 2004 to KSh 22.9 billion in 2005. This growth was occasioned by a 6.8 per cent increase in exports of roses that earned a total of KSh 14.5 billion during the review period. Similarly, earnings from the exports of fruits and vegetables grew by 13.7 per cent and 15.1 per cent, respectively, during the year under review. Fruits earnings were mainly from passion fruit and mangoes exports. The increase in value of exported vegetables during 2005 is mainly credited to increased exports of french beans, the most important vegetable produce for exports. Other factors accounting for increased vegetable earnings include increased market distribution channels and a shift by exporters from packaging in boxes to other forms of packaging that fulfill market requirements thereby resulting in value addition. Factors that impede the sub-sector's growth include high cost of implementing the stringent Euro-gap sanitary and phytosanitary (SPS) conditions. High cost of inputs and increased competition from low cost producers in North Africa who enjoy proximity to the European market are also posing challenges to the sub-sector.

Figure 8.2: Monthly horticultural exports earnings, 2005



8.24. **Irrigation:** As shown in Table 8.18, there was an increase in the number of plot holders in Mwea irrigation scheme from 3,400 in 2003/04 to 5,400 in 2004/05. This led to an improvement of 42.9 per cent in the gross value of output from KSh 1,250 million in 2003/04 to KSh 1,786 million in 2004/05. Rice paddy production in Mwea irrigation scheme rose by 26.9 per cent from 46.9 thousand tonnes in 2003/04 to 59.5 thousand tonnes in 2004/05. Overall, total area of all the schemes increased from 10,580 hectares in 2003/04 to 10,832 hectares during 2004/05 partly due to the revival of operations at West Kano and Bunyala schemes. The revival of the two schemes boosted rice production from 47.6 thousand tonnes in 2003/04 to 62.6 thousand tonnes in 2004/05, representing a 31.5 per cent increase. The number of plot holders on all the schemes also increased significantly by 32.8 per cent from 5,014 in 2003/04 to 6,660 in 2004/05. Similarly, gross value of output expanded from KSh 1,312 million in 2003/04 to KSh 1,880 million in 2004/05 while payments to plot holders went up from KSh 881 million in 2003/04 to KSh 1,115 million in 2004/05. Currently, Perkerra is producing seed maize under contract while no production took place in Hola and Bura schemes in 2004/05. These two schemes are expected to start growing cotton and maize in the 2006/07 financial year.

Table 8.18: Progress and Production at Seven Irrigation Scheme Areas, 2000/01 - 2004/05

	2000/01	2001/02	2002/03	2003/04	2004/05*
MWEA-					
Area cropped-Hectares	10,590	6,054	15,800	10,000	10,000
Plot-holders-Number**	3,381	3,835	3,200	3,400	5,400
Gross value of output-KSh million ..	1,238	183	889	1,250	1,786
Payments to plot-holders-KSh million ..	-	-	573		1,066
ALL (7) SCHEME AREAS-					
Area cropped-Hectares	12,431	6,534	29,662	10,580	10,832
Plot-holders-Number	5,348	5,147	3,713	5,014	6,660
Gross value of output-KSh million ..	1,293	236	1,511	1,312	1,880
Payments to plot-holders-KSh million ..	27	29	954	881	1,115
CROPS PRODUCED - Tonnes					
Mwea-Paddy	45,810	14,802	35,550	46,875	59,520
Ahero-Paddy	1,222	880	225	750	741
W.Kano-Paddy	1,742	-	-	-	1,348
Bunyala-Paddy	491	-	-	-	1,068
TOTAL PADDY	49,265	15,682	35,775	47,625	62,677
Perkerra-Onions	102	-	-	-	-
-Chillies	32	-	-	-	-
-Cotton	-	-	-	-	-
-Water Melon	-	-	-	-	-
-Paw-paw	-	237	-	-	-

Source: National Irrigation Board

** Includes farmers outside Mwea Scheme

* Provisional

8.25. **Sisal:** During the year under review, a total of 25.6 thousand tonnes of sisal were produced as reflected in Table 8.11. Coast and Eastern regions contributed 42.6 per cent and 35.9 per cent of the produce, respectively. A total of 21.1 thousand tonnes of sisal were exported in 2005 earning the country KSh 1,182 million compared to 20.9 thousand tonnes worth of KSh 1,119 million exported the previous year. During the review period, 4.3 thousand tonnes worth of sisal were sold locally fetching KSh 144.2 million. Overall, earnings from the sisal industry improved marginally to KSh 1,289.2 million in 2005 from KSh 1,275.4 million the previous year.

8.26. **Dairy Produce:** Recorded marketed milk production is shown in Table 8.19. The volume of marketed milk increased by 21.2 per cent from 274 million litres in 2004 to 332 million litres during the year under review. The growth was a reflection of improved management of the dairy sector. The volume of wholemilk and cream processed went up by 7.3 per cent from 178 million litres in 2004 to 191 million litres in 2005.

8.27. The total number of cattle and calves slaughtered went up by 8.8 per cent from 1,641 thousand heads in 2004 to 1,786 thousand heads in 2005. This was partly due to the higher disposal of cattle as a result of drought in the Arid and Semi-Arid Lands (ASAL) of the country.

Table 8.19: Production and Sale of Livestock and Dairy Products, 2001 - 2005

	UNIT	2001	2002	2003	2004	2005*
RECORDED MILK PRODUCTION	Mn. Litres	148	178	203	274	332
MILK PROCESSED:						
Wholemilk and cream	Mn. Litres	97	128	131	178	191
Butter and ghee	Tonnes	130	177	215	475	576
Cheese	"	329	448	361	328	270
LIVESTOCK SLAUGHTERED						
Cattle and Calves..	'000 Head	1,952	1,854	1,669	1,641	1,786
Sheep and Goats	"	4,671	4,765	4,289	3,851	4,220
Pigs	"	214	167	175	172	180

* Provisional.

8.28. **Agriculture Training:** Table 8.20 depicts enrollment for various agricultural and livestock related courses at various levels. The number of students enrolled to study degree courses declined by 6.2 per cent from 5,302 in 2004 to 4,972 in 2005 with male students accounting for 72.2 per cent. This was mainly attributed to a decline in enrollments by 7.4 per cent and 15.1 per cent in Nairobi and Egerton Universities, respectively, during the year under review. Enrollment at diploma level at Egerton University contracted drastically by 36.0 per cent in 2005. Bukura Institute of Agriculture recorded 15 more diploma students in 2005 compared to the previous year. Enrollment for certificate level courses at both Kilifi and Naivasha institutes registered a combined improvement of 5.1 per cent during 2005. Training at the three Animal Health Training Institutes was less by 7 students in 2005 compared to 2004 while Short-Term Vocational courses increased by 22.2 per cent over the same period.

Table 8.20: Enrolment in Agricultural Training Institutions, 2001 - 2005

8.29. The number of societies and unions by type are shown in Table 8.21. In 2005, the coffee, dairy, pyrethrum and sugarcane sub-sectors witnessed the highest increase in the number of societies in the agricultural sector. Societies in the coffee sub-sector increased by 5.0 per cent from 498 in 2004 to 523 in 2005, while the dairy, pyrethrum and sugar-cane sub-sectors expanded by 2.9, 2.8 and 2.0 per cent, respectively, over the same period. Consequently, the number of agricultural societies increased by 2.1 per cent from 4,215 in 2004 compared to 4,304 in 2005 The number of savings and credit societies increased by 4.6 per cent from 4,474 in 2004 to 4,678 during the year under review while other non-agricultural societies slightly went up by 1.5 per cent. Overall, the number of societies and unions increased by 3.0 per cent to 10,966 in 2005 from 10,642 in 2004.

Table 8.21: Number of Societies and Unions by Type, 2001 - 2005

Number

TYPE OF SOCIETY	2001	2002	2003	2004	2005*
Coffee	462	474	487	498	523
Sugar-cane	112	112	149	149	152
Pyrethrum	152	152	140	142	146
Cotton	71	71	59	59	59
Dairy	332	332	239	241	248
Multi-produce	1,593	1,608	1,794	1,798	1,818
Farm Purchase	624	624	109	109	111
Fisheries	82	85	64	65	66
Other Agricultural Societies	944	956	1,125	1,154	1,181
TOTAL	4,372	4,414	4,166	4,215	4,304
Savings and Credit	3,925	4,020	4,200	4,474	4,678
Other Non-Agricultural Societies	1,382	1,494	1,838	1,857	1,885
TOTAL	5,307	5,514	6,038	6,331	6,563
Unions	89	89	93	96	99
GRAND TOTAL	9,768	10,017	10,297	10,642	10,966

Source: Ministry of Co-operatives and marketing

* Provisional

8.30. As shown in Table 8.22, total sale of agricultural produce by co-operatives improved by 42.0 per cent from KSh 4,305 million in 2004 to KSh 6,111 million during 2005. This improvement was mainly attributed to the coffee and milk sub-sectors that registered substantial growths of 36.6 per cent and 59.1 per cent respectively, during the period under review. Sugar cane and pyrethrum sub-sectors recorded minimal growth. The value of sugar cane and pyrethrum sales improved from KSh 209 million and KSh 102 million in 2004 to KSh 212 million and KSh 105 million in 2005, respectively. In terms of percentage shares, pyrethrum recorded a 66.4 per cent increase while sugar cane remained constant at 2.5 per cent over the review period. Overall, the percentage share contribution of the selected agricultural produce by co-operatives to the gross farm revenue edged upwards by 5.3 percentage points during the review period.

Table 8.22: Sale of Selected Agricultural Produce by Co-operative and their Contribution to Gross Farm Revenue, 2001 - 2005

YEAR	COFFEE	SUGAR-CANE	PYRETHRUM	COTTON	MILK	TOTAL
	Sale KSh million					
2001. ..	4,193	344	129	4	1,529	6,199
2002. ..	2,976	343	122	3	1,325	4,769
2003. ..	2,538	218	120	2	1,290	4,168
2004 ..	2,492	209	102	2	1,500	4,305
2005* .	3,405	212	105	2	2,387	6,111
	Percentage Share					
2001 ..	65.3	4.8	16.8	41.5	79.7	38.1
2002 ..	54.7	3.8	9.6	15.4	53.7	26.1
2003 ..	42.6	2.9	15.4	5.7	45.3	24.3
2004 ..	34.2	2.5	33.4	2.2	34.2	21.1
2005* ..	37.8	2.5	66.4	4.0	44.9	26.4

* Provisional.

Chapter 9
Environment and Natural Resources

Overview

The Kenyan economy relies heavily on the country's natural resources both in terms of people's livelihoods and as a contribution to national income. The exploitation and competition for the country's limited natural resources continues to jeopardize the state of our environment, mainly due to unsustainable and unplanned exploitation. This calls for improved management and protection of our biodiversity to sustain both human and wildlife. The Government has continued to address these issues through policy and legal frameworks.

9.2. Development expenditure on water increased from KSh 3.2 billion in 2004/05 to KSh 6.0 billion in 2005/06. Quantity of fish landed from freshwater bodies increased by 6.3 per cent from 127.7 thousand tonnes in 2004 to 135.7 thousand tonnes in 2005. Total forest plantation area remained unchanged in 2005. There were no excisions or opening of new areas for forest plantation development. The value of mining output increased by 28.3 per cent from KSh 5.3 billion in 2004 to KSh 6.8 billion in 2005. Soda ash and fluorspar recorded the highest export price levels in the last five years.

Water Supply

9.3. Water is an indispensable life supporting natural resource that must be well managed and conserved. This is in line with the Millennium Development Goal 7. Towards this end, the Government continued to invest more resources in its effort to reduce the population without access to sustainable source of clean water. In addition, the water sector reforms are nearly complete with the separation of the water resources management from the water provision services under the Water Act 2002.

9.4. Although the number of Water Purification Points (W.P.Ps) have remained unchanged, Government continued to increase funding for their maintenance. The number of new boreholes drilled increased sharply from 63 in 2004 to 140 in 2005. This increase was mainly occasioned by increased efforts by the Government and donors to drill boreholes in order to stem the effects of drought experienced in many parts of the country during the year under review.

Table 9.1: Water Purification Points and Boreholes Drilled, 2001/2002- 2005/2006

Province	2001/2002		2002/2003		2003/2004		2004/2005		2005/2006*	
	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	17	34	26	34	7	34	9	34	4
Coast	8	9	8	1	8	6	8	-	8	10
Eastern	28	24	28	31	28	14	28	17	28	15
N/Eastern	7	20	7	1	7	1	7	4	7	27
Nyanza	33	2	33	9	33	2	33	2	33	18
R/Valley	43	68	43	46	43	17	43	28	43	50
Western	33	11	33	4	33	-	33	3	33	16
Total	186	151	186	118	186	47	186	63	186	140

Source: Ministry of Water and Irrigation

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

B.H - Borehole(drilled by Government and private sector)

* Provisional

9.5. In the year under review, development expenditure on water increased by 87.0 per cent from KSh 3.2 billion in 2004/05 to KSh 6.0 billion in 2005/06 as shown in Table 9.2. It is worth noting that the role of development of miscellaneous and Special Water programmes was transferred to the Water Conservation and Pipe-line Corporation

Table 9.2 Development Expenditure on Water Supplies and Related Services, 2001/02 - 2005/2006

KSh 000

	2001/2002	2002/2003	2003/2004	2004/2005*	2005/2006**
Water Development	410,444	661,698	960,475	760,642	1,895,835
Training of Water Development Staff	12,442	23,084	32,515	23,250	50,000
Rural Water Supplies	175,099	261,515	534,919	373,233	789,750
County Council and Urban Water Supplies	322,258	325,500	713,100	1,247,245	1,293,296
Miscellaneous and Special Water Programmes	157,719	224,870	1,446,640	342,414	-
Water Conservation and Pipeline Corporation	265,164	822,461	481,641	463,424	1,974,300
TOTAL	**1,343,126**	**2,319,128**	**4,169,290**	**3,210,208**	**6,003,181**

Sources: Ministry of Water and Irrigation

Water Conservation and Pipeline Corporation

* Provisional

** Revised Estimates

Fisheries 9.6. The Government has embarked on wider consultations with stakeholders in the fisheries sector over the development of the National Fisheries Policy. Projects and programmes on aquaculture development namely fish safety and quality assurance, monitoring and surveillance and fisheries operations were initiated in the period under review. All these programmes were geared towards conservation, rehabilitation and promotion of fish farming.

9.7. The quantity of fish landed from freshwater bodies increased by 6.3 per cent from 127.7 thousand tonnes in 2004 to 135.7 thousand tonnes in 2005 as shown in Table 9.3. This increase was attributed to a 7.7 per cent increase in the quantity of fish landed from Lake Victoria, which accounted for 91.9 per cent of all the freshwater fish. However, the quantity of fish landed from Lake Turkana declined by 6.4 per cent. Production from fish farming declined by 3.6 per cent from 1,035 tonnes in 2004 to 998 tonnes in 2005. Total value of fish landed grew marginally from KSh 7,760.8 million in 2004 to KSh 7,794.8 million in 2005.

Table 9.3: Quantity and Value of Fish Landed, 2001 – 2005

	2001	2002	2003	2004	2005*
Quantities - Tonnes:					
Fresh water fish					
Lake Victoria	151,804	114,812	105,866	115,747	124,621
Lake Turkana	3,787	4,004	4,047	9,067	8,490
Lake Naivasha	5	95	39	62	65
Lake Baringo	117	0	0	63	65
Lake Jipe	65	78	73	40	47
Tana River Dams	232	569	474	839	613
Fish Farming	998	962	1,012	1,035	998
Other areas	802	846	1,176	843	759
TOTAL	157,810	121,366	112,687	127,696	135,658
Marine fish	5,141	5,570	5,819	6,192	6,027
Crustaceans	1,033	939	756	1,206	1,192
Other marine products ..	277	352	393	407	397
GRAND TOTAL ..	164,261	128,227	119,655	135,578	143,274
Value - KSh' 000					
Freshwater fish ..	7,453,079	7,159,158	6,468,618	7,182,213	7,207,619
Marine fish	244,607	265,805	286,116	327,592	329,786
Crustaceans	198,557	213,443	176,347	221,106	228,425
Other marine products	21,936	26,091	24,963	29,895	28,997
TOTAL ..	7,918,179	7,664,497	6,956,044	7,760,806	7,794,827

* Provisional.

Source : Fisheries Department

Forestry 9.8. Forests are critical in the conservation of water catchment areas and also as a natural habitat for wildlife as well as building materials, fuel and other forms of economic resources. As shown in Table 9.4, area under forest plantation programme remained unchanged as there were no excisions or opening of new areas for forest plantation development.

Table 9.4: Forest Plantation Area, 2001– 2005

'000 Hectares

Type of Forest	2001	2002	2003	2004	2005*
Indigenous Trees . .. … …. ..	12.3	12.3	12.3	12.3	12.3
Exotic Trees… …. … … …	89.4	89.4	92.5	98.7	98.7
Total … . .. . … .. .	101.7	101.7	104.8	111.0	111.0
Fuel Wood and Poles					
Exotic Trees… …. … … …	18.3	19.3	20.3	21.3	21.3
TOTAL AREA	120.0	121.0	125.1	132.3	132.3

*Provisional.
Source : Ministry of Environment and Natural Resources

9.9 In 2005, a total of 7.3 thousand hectares were planted with trees while 4.2 thousand hectares were clear felled, resulting in an increase in the forest plantation stocking from 114.5 thousand hectares in 2004 to 117.6 thousand hectares in 2005, as shown in Table 9.5. Of the 4,200 hectares clear felled, 1,068 hectares of forest plantation area were burnt by forest fires while the rest were harvested by private companies that were exempted from the timber harvesting moratorium of 1999.

Table 9.5: Changes In Forest Plantation Stocking, 2001– 2005

'000 Hectares

	2001	2002	2003	2004	2005*
Previous Plantation Area.. . . .	92.2	95.2	100.9	107.2	114.5
Area Planted.	4.0	6.7	7.8	9.3	7.3
Total	96.2	101.9	108.7	116.5	121.8
Area Clear felled	1.0	1.0	1.5	2.0	4.2
Total Area	95.2	100.9	107.2	114.5	117.6

* Provisional
Source: Ministry of Environment and Natural Resources.

9.10. Recorded sales of forest products increased in the category of fuelwood/ charcoal and decreased in the category of Power and Telegraph poles. The increased sale was attributed to the sale of timber salvaged from illegal settlements and timber from road reserves and power ways. The quantity of softwood sold increased considerably from 213 thousand true cubic metres in 2004 to 994 thousand true cubic metres in 2005 as shown in Table 9.6. This was due to clearing of trees in illegal settlement areas, road reserves and electrical power way-leaves.

Table 9.6: Recorded Sales of Forest Products, 2001- 2005

Forest Product	2001	2002	2003	2004	2005*
Timber - '000 true cu. metres-					
Soft wood	197.2	162.0	233.3	213.0	994.0
Hardwood	0.0	0.0	9.9	0.0	0.0
TOTAL	197.2	162.0	243.2	213.0	994.0
'000 stacked cu. metres-					
Fuelwood /Charcoal	45.5	67.0	14.6	18.1	47.2
Power &Telegraph Poles	3.3	0.0	2.0	9.6	6.3

* Provisional.
Source : Ministry of Environment and Natural Resources.

Mining 9.11. Over 200 exploration and prospecting licences were operational including that of titanium in Kwale district. Salt production decreased from 31.1 thousand

tonnes in 2004 to 26.6 thousand tonnes in 2005 while the production of fluorspar decreased by 7.1 per cent from 118.0 thousand tonnes in 2004 to 109.6 thousand tonnes in 2005. Other minerals recorded a significant rise of 42.1 per cent due to an increase in production of gemstones and carbon dioxide, respectively, as shown in Table 9.7.

Table 9.7: Quantity and Value of Mineral Production, 2001 – 2005

Mineral	2001	2002	2003	2004	2005*
Quantities - Tonnes:					
Minerals-					
Soda Ash	297,780	304,110	352,560	353,835	360,161
Fluorspar	118,850	85,015	80,201	117,986	109,594
Salt	5,664	18,848	21,199	31,139	26,595
Crushed Refined Soda	207,647	474,014	576,146	605,948	640,291
Other	6,093	7,000	4,971	6,315	8,972
Value - KSh'000:					
Soda Ash**	2,716,000	2,729,113	3,100,169	3,462,707	3,782,249
Fluorspar**	727,000	632,829	503,630	999,129	1,061,908
Salt	99,000	61,388	61,105	124,450	110,382
Crushed Refined Soda	22,906	38,252	46,494	51,473	47,796
Other	1,191,441	1,275,643	1,355,256	667,854	1,806,754
TOTAL	4,756,347	4,737,225	5,066,654	5,305,613	6,809,089

Source: Department of Mines and Geology

*Provisional

**Including Export Value.

9.12. Overall estimated value for the mining industry increased by 28.3 per cent from KSh 5.3 billion in 2004 to KSh 6.8 billion in 2005 as shown in Table 9.7. Fluorspar and Soda ash recorded notable increases while the values of salt and crushed refined soda declined. 'Other minerals' production recorded a massive increase from KSh 667.9 million in 2004 to 1,806.8 million in 2005, leading to the overall rise in the value of mineral production.

Table 9.8 Average Export Prices of Soda Ash and Fluorspar, 2001 – 2005

KSh per tonne

Mineral	2001	2002	2003	2004	2005*
Soda Ash	9,403	9,307	9,058	9,939	12,003
Fluorspar	6,116	7,444	6,280	8,468	9,689

Source: Department of Mines and Geology

* Provisional

9.13. Table 9.8 shows average export prices of Soda ash and fluorspar. The price of Soda ash increased substantially from KSh 9,939 per tonne in 2004 to KSh 12,003 in 2005 while that of fluorspar increased from KSh 8,468 per tonne in 2004 to KSh 9,689 in 2005. The high prices were mainly driven by high demand in the world market.

Refuse Management

9.14. Nairobi City Council expenditure on public health declined by 5.1 per cent as shown in Table 9.9. Expenditure on refuse removal increased by 6.5 per cent to KSh 163 million in 2005 from KSh 153 million in 2004. This was due to improvement and replacement of litter bins in Central Business District. In the year under review, personnel expenditure for general cleaning was placed under public cleaning and administration thereby giving corresponding changes on the two items.

Table 9.9: Expenditure on Public Health by Nairobi City Council, 2001/2002 - 2005/2006

KSh '000

	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006*
Cleaning and Administration	57,810	58,092	60,997	96,013	286,217
Cleaning - General	139,136	139,327	140,293	227,987	4,200
Refuse Removal	60,955	64,884	83,951	153,166	162,950
Conservancy	148	155	163	513	-
Total	**258,049**	**262,458**	**285,404**	**477,679**	**453,367**

Source : Nairobi City Council.
* Provisional

Wildlife

9.15. Table 9.10 gives wildlife population estimates. Wildlife and livestock grazing continues to be the dominant land-use activity in the Kenyan Rangelands. The rangelands are home to most wildlife species, which are major tourist attraction. Wildlife species showing stability in numbers were, Giraffe, Wildebeest, Burchell's Zebra, Impala, Warthog and Ostrich among other species. Animal species that indicated declines include Elephant, Grevy's Zebra, Eland, Thompson's Gazelle, Buffalo, Kongoni, Waterbuck, Grant's Gazelle and Hunter's Hartebeest among others. These declines may have been as a result of habitat loss due to changes in land-use, predation, poaching and unfavourable weather conditions

Table 9.10: Wildlife Population in the Kenya Rangelands, 2000- 2005**

'000 Number

SPECIES	2001	2002	2003**	2004	2005*
Elephant	16.5	18.7	18.8	18.8	17.5
Buffalo	29	24	24.6	25.1	22.5
Giraffe	36.5	32.1	33.2	34.2	34
Burchell's Zebra	124	108.6	110.3	112	120
Grevy's Zebra	5.4	5.4	5.3	5.1	4.8
Topi	28.1	30.7	31.2	31.6	31
Kongoni	9.2	11.4	11.5	11.6	10
Wildebeest	312	288	294.1	300.2	300.3
Oryx	23.5	20.3	20.5	20.6	21.5
Eland	10.6	10.6	10.2	9.8	8.6
H. Hartbeest	1.2	1.3	1.2	1.1	1
Waterbuck	5.2	4.9	4.9	4.8	4.4
Kudus	13.3	13.7	13.6	13.4	13.6
Gerenuk	29.5	27.6	27.5	27.3	27
Impala	61	73.5	71.9	70.2	72.5
Grant's Gazelle . . .	120	114.6	116	117.3	116.1
Thompson's Gazelle	46.4	58.2	55	51.7	48.7
Warthog	14.6	15.1	15	14.8	14.4
Ostrich	27.1	23.3	23.9	24.4	25

Source : Department of Resource Survey and Remote Sensing (DRSRS)
* Provisional
** Estimated

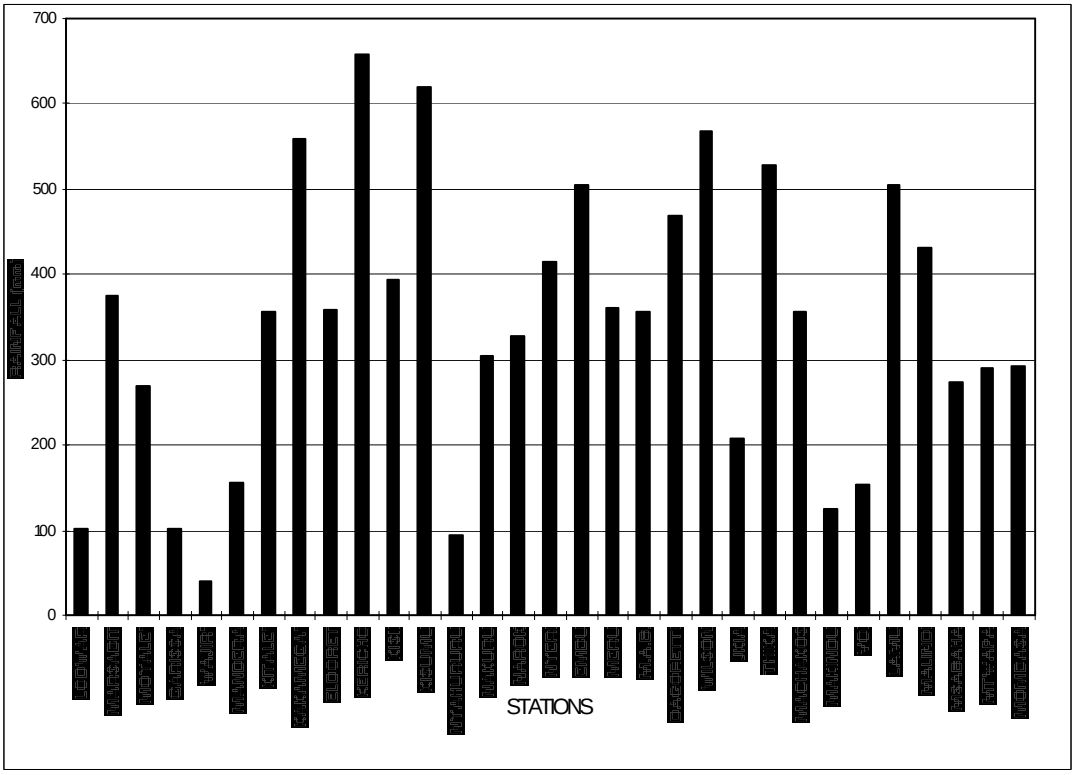
Weather Patterns

9.16. Most parts of the country exhibit two rainy seasons namely the short and long rains. The long rain season runs from March to May while short rain season runs from October to December. January to March is the hottest period of the year while June to September is the coldest season for most parts of Kenya.

Review of the March-April-May (MAM) 2005 rainfall performance

9.17. During the season, Kericho, Kisumu, Kakamega, Embu, Wilson, Lamu and Thika stations received rainfall total above 500mm while Lodwar, Garissa, Wajir and Nyahururu stations recorded rainfall at below this benchmark.

Figure 1: Rainfall Performance in March-May 2005 Season



Review of the October-November-December (OND) 2005 rainfall performance and associated impacts

9.18. Most parts of the country experienced highly depressed rainfall during the "Short Rains" (October-December) season especially in December 2005. Areas around Lodwar and Mandera did not receive any rainfall in the month of October. The only stations that recorded reasonable amounts of rainfall during October were around Kitale, Marsabit, Nakuru, Embu, Dagoretti Corner and Kisumu. In November, only the coastal stations, Thika and Kakamega received rainfall within their expected range.

9.19. The large rainfall deficits recorded during the October-December 2005 "short-rains" season contributed immensely to the drought in various parts of the country. Pasture and water for livestock were limited in Northeastern (Mandera, Wajir, Garissa) and Southeastern (Machakos, Kitui, Makueni, Kajiado) parts of the country.

Resource Monitoring

9.20. In the past two financial years, functions and roles of the National Water and Pipeline Conservation were changed into being the contracting arm of Government in the water sector which included the construction of dams and small pans as well as the drilling of boreholes. The year witnessed greater private sector participation in the provision of water and sewerage services in Nairobi, Mombasa, Kisumu, Eldoret, Nakuru and Nyeri.

9.21. The forestry sector provides opportunities for tree and wood-based development. Currently, most forestry activities are aimed at increasing forest cover to acceptable levels, reducing pressure on forest reserves and rehabilitation of degraded areas, among others. The Forest Department is pushing for more private sector involvement in production of forest goods and services and wider stakeholder participation. Key achievements realised by the department in the period under review were the enactment of the Forest Act 2005 and formulation of the forest policy.

9.22. During the year under review, the National Environmental and Management Authority (NEMA) continued to exercise its mandate of supervision, coordination and oversight of all matters relating to the environment. The major challenge it faced was natural resource depletion and environmental degradation, inadequate solid waste disposal and emerging environmental health issues. Key achievement realised over the review period was support to the District Environment Management Programme, which enhanced Biodiversity conservation in certain Bio-diverse areas for all stakeholders, among others

9.23. Nairobi City Council continued its efforts to provide a clean and healthy environment to the residents of Nairobi amid the rising challenge of managing increased solid waste generated from households and industries in the year under review. Other challenges included the plastic bags menace, noise, river/water and air pollution. Some key achievements realised over the review period were tree-planting programme whereby over 3,000 tree seedlings have been planted within the C.B.D. and along major roads radiating from the city. About 30,000 tree seedlings are targeted for planting and formulation of by-laws and policies related to environment

9.24. The Kenya Wildlife Service (KWS) has made progress in curbing poaching and enlisting support in conservation, infrastructure and human capacity development. Major challenges faced by KWS include increased livestock grazing in protected areas, loss of critical dispersal areas through changes in land use, blockage of wildlife corridors and increased human-wildlife conflicts.

Chapter 10
Energy

Overview

On the international scene, crude oil prices were volatile at the turn of 2005 with Murban crude prices rising significantly by 47.8 per cent from US dollar 38.5 per barrel in December 2004 to US dollar 56.9 per barrel in December 2005. Non-OPEC supply problems, proposed OPEC production cuts and strong global demand underpinned prices in 2005. A series of supply disruptions, geopolitical issues, robust economies of United States of America (USA) and China economies, an active hurricane season in the USA and strong refinery demand of crude oil all pushed up international oil prices.

10.2. The erratic movements of international prices during the period under review made pump prices in the domestic market to grow steadily. The high oil prices were major sources of inflationary pressures in the Kenyan economy (see chapter four for details).

10.3. Crude oil imported into the country declined by 13.2 per cent from 2,043.8 thousand tonnes in 2004 to 1,774.0 thousand tonnes in 2005. This was also reflected in the decline in crude oil intake at the refinery by 3.4 per cent in 2005. Petroleum fuels imported also declined by 24.2 per cent from 1,491.7 thousand tonnes in 2004 to 1,130.9 thousand tonnes in 2005. This was due to high international oil prices and the new regulation introduced by the government requiring importers to pay duty for petroleum products at the port of entry.

10.4. Total electricity generation grew by 6.8 per cent in 2005 compared to 7.1 per cent in 2004. The increase largely reflected improved electricity production from thermal sources which increased by 45.1 per cent. Generation from hydro sources declined further by 4.1 per cent in 2005 after dropping by 7.7 per cent in 2004. The decline in hydro generation was largely due to low rainfall experienced in the country in the last quarter of 2005. Generation from geothermal plants increased from 986.6 GWh in 2004 to 1,001.6 GWh in 2005. Hydro electric power generation accounted for 54.8 per cent of electricity supply while geothermal and thermal sources accounted for 18.1 and 27.2 per cent, respectively in 2005. Electricity consumption recorded a growth of 6.8 per cent in 2005 compared to a growth of 7.1 per cent in 2004. Per capita energy consumption in terms of kilograms of oil equivalent rose by 10.3 per cent from 86.6 kilograms of oil equivalent per person in 2004 to 95.5 kilograms of oil equivalent per person in 2005.

Petroleum

10.5. Details of quantity and value of imports, exports and re-exports of petroleum products for the period 2001 to 2005 are presented in Table 10.1. Crude oil imported into the country declined by 13.2 per cent in 2005 compared to an increase of 47.8 per cent in 2004. Petroleum fuels imported declined by 24.2 per cent from 1,491.7 thousand tonnes in 2004 to 1,130.9 thousand tonnes in 2005. The imports of lubricating oils declined significantly by 96.6 per cent while lubricating greases more than doubled. The decline in imports of petroleum products was attributed to the new regulation introduced by the government requiring importers to pay duty of petroleum products at the port of entry.

10.6. Value of crude oil imported rose by 12.1 per cent from KSh 45,953.6 million in 2004 to KSh 51,528.6 million in 2005, while value of petroleum fuels rose by 2.3 per cent compared to an increase of 9.4 per cent in 2004. The increase in value of imported petroleum products, was attributed to the high international oil prices. Value of lubricating oils declined significantly from KSh 586.5 million in 2004 to KSh 39.6 million in 2005 while value of lubricating greases more than doubled. Total import bill for petroleum products rose by 7.7 per cent from KSh 88,814.9 million in 2004 to KSh 95,669.2 million in 2005.

Table 10.1+: Quantity and Value of Imports, Exports and Re-exports of Petroleum Products++, 2001 - 2005

	Quantity ('000 Tonnes)					Value (KSh. Mn)				
Year	2001	2002	2003	2004	2005**	2001	2002	2003	2004	2005*
IMPORTS										
Crude Petroleum	1,965.5	1,493.4	1,382.6	2,043.8	1,774.0	31,179.0	23,940.0	25,415.4	45,953.6	51,528.6
Petroleum Fuels	1,216.2	1,023.5	1,819.9	1,491.7	1,130.9	24,642.9	18,512.2	37,990.4	41,552.1	42,494.0
Lubricating Oils	29.7	33.6	23.8	11.9	0.4	1,138.4	1,278.0	1,010.0	586.5	39.6
Lubricating Greases	0.7	11.7	5.6	29.7	66.8	78.8	227.2	145.5	722.7	1,607.0
TOTAL	**3,212.2**	**2,562.2**	**3,231.9**	**3,577.0**	**2,972.2**	**57,039.1**	**43,957.3**	**64,561.3**	**88,814.8**	**95,669.2**
EXPORTS										
Petroleum Fuels	469.1	190.6	2.2	35.8	146.9	12,099.3	3,544.6	56.5	832.3	5,829.4
Lubricating Oils	3.5	4.5	0.1	1.4	13.3	280.4	367.1	9.5	182.8	255.3
Lubricating Greases	0.1	0.2	0.0	0.1	14.0	11.7	28.0	1.6	11.5	362.2
Total Exports	**472.7**	**195.3**	**2.3**	**37.4**	**174.2**	**12,391.4**	**3,939.6**	**67.6**	**1,026.7**	**6,446.9**
Re-exports										
Petroleum Fuels	529.8	1,096.4	1,303.5	1,447.1	1,062.7	15,865.3	29,518.4	36,203.6	43,869.1	36,796.8
Lubricating Oils	6.4	4.9	7.3	8.0	23.9	551.6	421.5	645.9	783.3	780.0
Lubricating Greases	0.2	2.9	2.8	0.7	29.5	18.2	100.2	76.5	50.1	808.9
Total Re-exports	**536.3**	**1,104.2**	**1,313.6**	**1,455.8**	**1,116.1**	**16,435.1**	**30,040.1**	**36,926.0**	**44,702.4**	**38,385.8**
TOTAL	**1,009.0**	**1,299.5**	**1,315.9**	**1,493.1**	**1,290.3**	**28,826.5**	**33,979.7**	**36,993.6**	**45,729.1**	**44,832.7**
NET BALANCE						**28,212.6**	**9,977.6**	**27,567.7**	**43,085.7**	**50,836.5**

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

+Table has been revised

10.7. Exports of petroleum fuels increased significantly from 35.8 thousand tonnes in 2004 to 146.9 thousand tonnes in 2005 due to stringent measures introduced by the government during the 2005/2006 budget. The measures were meant to curb the dumping/off loading of transit oil into the domestic market, which would have under estimated the exports while overstating the re-exports. Re-exports of petroleum fuels declined by 26.6 per cent in 2005 compared to a rise of 11.0 per cent in 2004.

10.8. Table 10.2 shows a breakdown of crude oil intake at the Kenya Petroleum Refineries Limited (KPRL) by type for the period 2001 to 2005. Total crude oil intake declined by 3.4 per cent in 2005 to stand at 1,645.2 thousand tonnes compared to a rise of 14.1 per cent in 2004. The decline in total crude oil intake was attributed to a 5.2 per cent decline in Murban crude oil intake at the refinery. Murban and Arabian medium crude oil continued to be the only types of crude oil processed at the refinery with Murban accounting for 74.6 per cent of the total crude oil intake.

Table 10.2: Crude Oil Intake at the Refinery by Type, 2001 - 2005

'000 Tonnes

Crude intake	A.P.I. Gravity	2001	2002	2003	2004	2005*
Arabian Heavy	27.9	-	-	-	-	-
Arabian Medium	31	-	82.7	284.2	408.9	418.8
Iranian Heavy	30.4	64.3	-	84.6	-	-
Kuwait	32	-	-	-	-	-
Zakum	40.1	-	-	-	-	-
Murban	39.6	1,461.9	1,225.6	1,124.4	1,295.4	1,227.9
Khafji	-	160.5	-	-	-	-
Oman	-	-	188.8	-	-	-
Dubai	-	-	83.6	-	-	-
Slops	-	8.9	0.1	-1.1	-1.4	-1.5
TOTAL		**1,695.6**	**1,580.8**	**1,492.1**	**1,702.8**	**1,645.2**

Source: Kenya Petroleum Refineries Limited

*Provisional.

A.P.I Means American Petroleum Institute

10.9. Details of finished Petroleum products for the period 2001 to 2005 are shown in Table 10.3. Due to the decline in crude oil intake at KPRL, the output of finished petroleum products declined by 3.4 per cent from 1,702.8 thousand tonnes in 2004 to 1,645.2 thousand tonnes in 2005.

Table 10.3: Finished Petroleum Products+ 2001 - 2005

'000 Tonnes

	2001	2002	2003	2004	2005*
OUTPUT-					
Liquefied petroleum gas	28.1	24.1	24.0	26.9	28.5
Motor gasoline premium					
Leaded	154.4	150.7	149.1	205.2	171.7
Unleaded	-	-	-	-	3.5
Motor gasoline regular					
Leaded	119.0	102.1	79.8	70.3	58.1
Unleaded	-	-	-	-	3.7
Illuminating kerosene and					
Jet/turbo fuel	320.0	272.9	279.0	306.7	325.6
Light diesel oil	406.8	379.1	301.4	361.0	344.0
Heavy and Marine diesel oil	29.6	25.4	40.7	26.3	22.8
Fuel oil	534.6	533.1	543.4	619.9	589.5
Bitumen	22.3	16.4	10.7	6.5	20.4
Additives..	-0.6	-0.4	-0.4	-0.5	-3.8
Refinery usage	81.3	77.4	64.4	80.6	81.3
THROUGHPUT=TOTAL OUTPUT	**1,695.5**	**1,580.8**	**1,492.1**	**1,702.8**	**1,645.2**

Source: Kenya Petroleum Refineries Limited.

* Provisional.

\+ Excludes lubricants.

10.10. Production of Liquefied Petroleum Gas (LPG) and illuminating kerosene and jet/turbo fuel rose by 5.9 and 6.2 per cent, respectively. The refinery was able for the first time, to produce unleaded motor gasoline while phasing out the production of leaded fuels. The country geared towards phasing out the use of leaded fuels by end of December 2005 in-order to meet internationally accepted environmental standards. Production of leaded premium and regular fuel declined by 16.3 and 17.4 per cent, respectively. The refinery produced 3.5 thousand tonnes

and 3.7 thousand tonnes of unleaded premium and regular fuels, respectively. Production of light diesel oil, heavy and marine diesel and fuel oil fell by 4.7, 13.3 and 4.9 per cent, respectively.

10.11. Table 10.4 shows supply and demand balance for petroleum products for the period 2001 to 2005. Total domestic demand for petroleum products maintained an upward trend for the second year running. Total domestic demand rose by 13.9 per cent in 2005 compared to a rise of 12.0 per cent in 2004. The high domestic consumption was supported by a decline of 96.2 per cent in inventory changes and losses in production.

10.12. The increase in domestic demand for petroleum products was mainly as a result of high demand for Jet/turbo fuel, illuminating kerosene, light diesel oil and fuel oil, which rose by 7.3 per cent, 30.0 per cent, 13.0 per cent and 26.3 per cent, respectively. Total demand/supply for petroleum products rose by 18.2 per cent from 2,490.8 thousand tonnes in 2004 to 2,944.1 thousand tonnes in 2005 due to a significant rise in exports of petroleum fuels and domestic consumption.

Table 10.4: Petroleum Supply and Demand Balance, 2001 - 2005

'000 Tonnes

	2001	2002	2003	2004	2005*
DEMAND-					
Liquefied petroleum gas	35.6	40.5	40.9	41.7	49.4
Motor spirit (premium and regular)	374.3	365.8	327.9	326.4	333.7
Aviation spirit	2.4	1.8	1.5	1.8	2.0
Jet/turbo fuel	417.3	470.2	487.3	521.1	559.1
Illuminating kerosene	306.1	273.6	190.0	236.1	307.0
Light diesel oil	663.7	627.3	649.6	789.4	892.4
Heavy diesel oil	27.7	28.0	24.4	25.2	25.5
Fuel oil	558.1	498.7	407.0	432.8	546.7
TOTAL	2,385.2	2,305.9	2,128.7	2,374.5	2,715.9
Refinery usage	81.3	77.4	64.4	80.6	81.3
TOTAL DOMESTIC DEMAND	2,466.5	2,383.3	2,193.1	2,455.2	2,797.2
Exports of petroleum fuels	469.1	190.6	2.2	35.6	146.9
TOTAL DEMAND**	**2,935.6**	**2,573.9**	**2,192.3**	**2,490.8**	**2,944.1**
SUPPLY-					
Imports:					
Crude oil	1,965.6	1,493.4	1,382.6	2,043.8	1,774.0
Petroleum fuels	1,208.3	1,023.5	1,819.4	1,491.7	1,130.9
TOTAL	3,173.9	2,516.9	3,202.0	3,535.5	2,904.9
Adjustment***	-238.3	57.0	1,006.7	1,044.7	39.2
TOTAL SUPPLY**	**2,935.6**	**2,573.9**	**2,195.3**	**2,490.8**	**2,944.1**

Source: Ministry of Energy, Customs & KPRL.

* Provisional.

** Difference is due to rounding.

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

10.13. Net domestic sales of petroleum fuels by consumer category for the period 2001 to 2005 are presented in Table 10.5 and figure 10.1. Domestic sales rose by 14.4 per cent in 2005 compared to an increase of 11.6 per cent in 2004. Power generation, industrial, commercial and government sectors recorded significant increases in their consumption, which rose by 56.4, 24.5 and 44.9 per cent, respectively. Tourism category which comprises sales to tour operators more than doubled reflecting an improvement in the tourism sector. Consumption by retail pump outlets and road transport rose by 5.9 per cent from 1,269.0 thousand

tonnes in 2004 to 1,344.5 thousand tonnes in 2005. This was due to the high pump prices of petroleum products experienced during the period under review.

Table 10.5: Net Domestic Sale of Petroleum Fuels by Consumer Category, 2001 - 2005.

000 Tonnes

User	2001	2002	2003	2004	2005*
Agriculture	87.8	73.8	57.0	58.1	35.7
Retail pump outlets & road transport	1,135.9	1,208.2	1,061.1	1,269.0	1,344.5
Rail transport	10.4	21.6	24.2	20.8	17.9
Tourism**	11.0	8.0	8.4	8.5	17.1
Marine (excl. Naval Forces)	116.0	48.4	0.5	7.5	1.3
Aviation (excl. Government)	438.6	459.6	486.4	520.9	549.4
Power Generation	270.3	208.9	151.5	204.2	319.3
Industrial, Commercial and Other	382.5	310.0	280.3	291.2	362.4
Government	19.4	7.5	11.9	39.9	57.8
Balancing Item	(86.7)	(40.1)	47.4	(45.4)	10.4
TOTAL	**2,385.2**	**2,305.9**	**2,128.7**	**2,374.6**	**2,715.9**

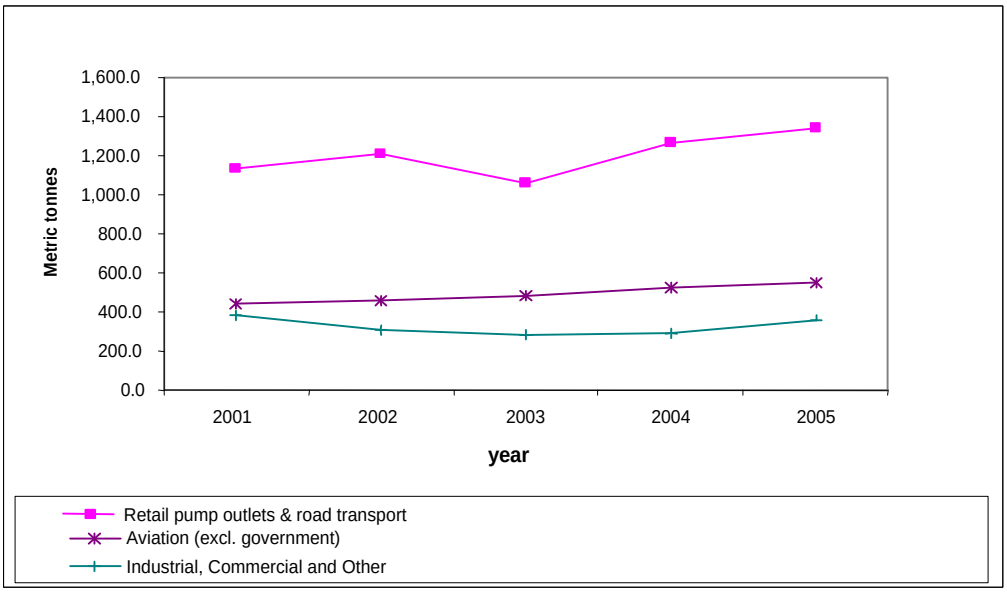
Source: Ministry of Energy

* Provisional

** Comprises sales to tour operators

10.14. Consumption by agriculture sector declined drastically by 38.6 per cent from 58.1 thousand tonnes in 2004 to 35.7 thousand tonnes in 2005. Rail transport consumption maintained a downward trend, declining by 13.9 per cent in 2005 compared to a decline of 14.0 per cent in 2004.

Figure 10.1: Sale of petroleum fuels by major consumer categories, 2001-2005



10.15. Table 10.6 presents information on wholesale prices of petroleum products at Mombasa for the period 2001 to 2005. Wholesale prices for all petroleum products except for illuminating kerosene and fuel oil were higher in 2005 compared to 2004. Illuminating kerosene recorded a 0.3 per cent decline in 2005 compared to 34.9 per cent rise in 2004. The high wholesale prices were mainly attributed to the prevailing high international crude oil prices.

Table 10.6: Wholesale Prices* of Petroleum Products at Mombasa, 2001- 2005,

Ksh. per tonne

PRODUCT	Dec,01	Dec,02	Dec,03	Dec,04	Dec,05
Liquefied petroleum gas	52,410	53,320	54,230	55,140	56,050
Premium motor gasoline	45,382	48,170	49,267	57,730	59,672
Regular motor gasoline ..	44,504	47,289	48,368	56,730	58,662
Illuminating kerosene	37,156	37,958	36,878	49,730	49,591
Light diesel oil	29,176	30,953	30,920	39,430	40,302
Industrial diesel oil	32,117	33,708	35,299	36,890	38,481
Fuel oil	22,800	16,059	18,229	20,399	18,114

Source: Ministry of Energy

* Including duties and VAT.

10.16. Average retail prices for selected petroleum products in Nairobi from January 2003 to December 2005 are shown in Table 10.7. Average retail prices of all products went up in 2005 compared to same period in 2004. The increase in pump prices was attributed to the high international fuel prices and the high demand of petroleum products in the local market.

Table 10.7: Nairobi Average Retail Prices of Selected Petroleum Products, Jan 2003-Dec 2005

KSh per litre

Year	Month	Motor Spirit		Gas Oil	Illuminating Kerosene
		Premium	Regular		
2003	January	60.19	59.16	48.69	36.04
	March	61.81	60.79	50.62	37.66
	June	58.62	57.64	46.29	35.95
	September	59.10	58.16	44.71	33.30
	December	59.73	58.71	46.65	34.49
2004	January	60.45	59.07	46.52	35.04
	March	61.99	60.91	48.20	36.29
	June	66.99	65.91	52.72	39.76
	September	71.63	69.71	57.17	44.04
	December	69.99	68.86	59.49	46.51
2005	January	68.93	67.90	58.35	46.64
	March	68.87	68.02	58.22	46.71
	June	74.03	72.99	63.98	50.25
	September	76.07	75.25	66.18	52.60
	December	74.80	73.87	64.63	53.29

Source: Ministry of Energy/ Central Bureau of Statistics

10.17. Illuminating kerosene had the highest price increment of 33.1 per cent in January, 28.7 per cent in March and 26.4 per cent in June 2005, respectively. The increases were consistent with high international crude oil prices, which recorded its maximum price of US dollar 61.05 per barrel in September 2005.

Electricity

10.18. Details of installed capacity and generation of electricity in the period 2001 to 2005 are presented in Table 10.8 and figure 10.2. Total installed capacity declined by 3.5 per cent in 2005 compared to a rise of 4.9 per cent in 2004. The decline in 2005 was as a result of decommissioning of 41.5 MW of thermal oil installation. Hydro and geothermal installed capacity remained constant at 677.3 MW and 128.0 MW, respectively in 2005.

Table 10.8 : Installed Capacity and Generation of Electricity 2001 - 2005

	INSTALLED CAPACITY MW **				GENERATION GWH ***						
	Hydro	Thermal Oil	Geo-thermal	Total	Hydro****	Thermal oil			Geo-thermal	Wind	Total
						KenGen	IPP	Total			
2001	677.2	407.0	58.0	1,142.2	2,031.0	652.6	1,312.8	1,965.4	455.6	0.1	4,452.1
2002	677.2	407.0	58.0	1,142.2	3,070.9	279.8	887.5	1,167.3	447.2	0.4	4,685.8
2003	677.2	407.0	58.0	1,142.2	3,432.8	345.3	574.7	920.0	498.4	0.4	4,851.6
2004	677.3	392.8	128.0	1,198.1	3,169.2	416.4	621.8	1,038.3	986.6	0.4	5,194.5
2005+	677.3	351.3	128.0	1,156.6	3,038.9	580.2	926.0	1,506.2	1,001.6	0.3	5,547.0

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

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

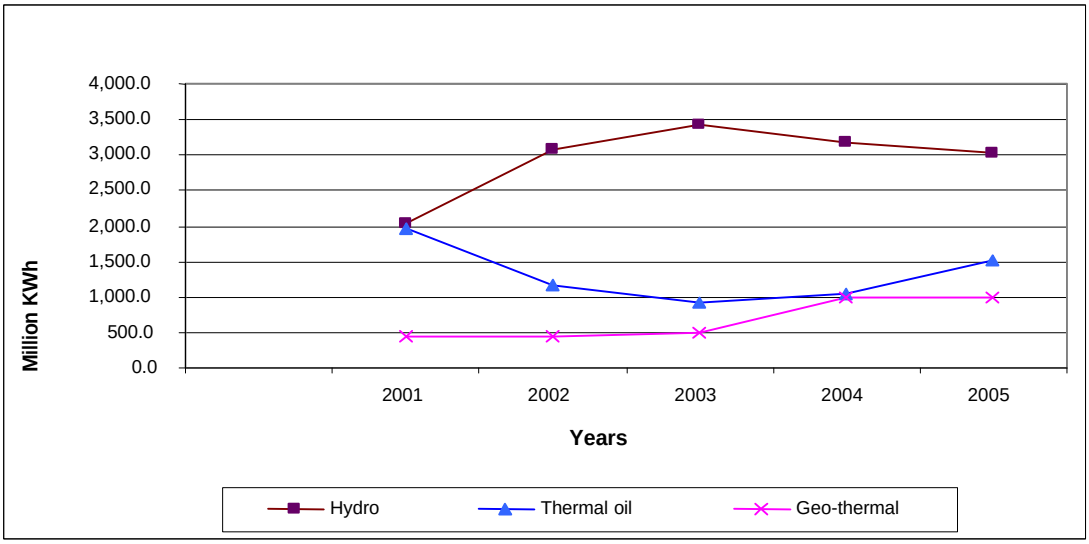
****Includes Imports from Uganda and Tanzania

IPP:means Independent Power Producers

+Provisional

10.19. Total electricity generation grew by 6.8 per cent from 5,194.5 GWh in 2004 to 5,547.0 GWh in 2005. The increase was largely due to improved electricity production from thermal oil which expanded by 45.1 per cent. Generation from hydro sources declined by 4.1 per cent in 2005 compared to a decline of 7.7 per cent in 2004. The decline in hydro generation was attributed to inadequate rainfall experienced in the country during 2005. However, generation from geothermal plants increased marginally from 986.6 GWh in 2004 to 1,001.6 GWh in 2005.

Figure 10.2: Generation of electricity by source type,2001-2005



10.20. Hydro electric power generation accounted for 54.8 per cent of electricity supply in 2005 while geothermal and thermal sources accounted for 18.1 and 27.2 per cent, respectively.

10.21. Table 10.9 and figure 10.3 give details of electricity energy supply and demand balance for the period 2001 to 2005. Electricity consumption grew by 6.8 per cent in 2005 compared to a growth of 7.1 per cent in 2004. All consumer categories recorded increased demand in electricity with domestic and small commercial at 6.4 per cent, large and medium (commercial and industrial) at 5.9 per cent and rural electrification at 12.3 per cent. Demand in electricity for street lighting rose by 18.1 per cent in 2005 compared to a decline of 1.4 per cent in 2004. The increase in electricity consumption

by street lighting can be attributed to the rehabilitation of street lighting programme by Nairobi City Council and other major towns. Transmission losses and unallocated demand rose by 6.7 per cent from 960.3 GWh in 2004 to 1,024.2 GWh in 2005.

Table 10.9: Electricity Energy Supply and Demand Balance+, 2001 - 2005

Million KWh

	2001	2002	2003	2004	2005*
DEMAND-					
Domestic and Small Commercial	1,132.8	1,262.9	1,325.5	1,416.6	1,507.7
Large & Medium(Commercial and Industrial).. ..	2,167.5	2,277.9	2,368.8	2,587.0	2,739.1
Off-peak	54.0	60.5	55.6	66.8	67.3
Street Lighting	6.5	6.4	7.3	7.2	8.5
Rural Electrification	129.0	134.3	153.2	156.5	175.8
TOTAL	**3,489.8**	**3,742.0**	**3,910.4**	**4,234.1**	**4,498.4**
Exports to Uganda	**-**	**-**	**-**	**-**	**24.4**
Transmission losses and unallocated demand	962.3	943.8	941.2	960.3	1,024.2
TOTAL DEMAND = TOTAL SUPPLY	**4,452.1**	**4,685.8**	**4,851.6**	**5,194.5**	**5,547.0**
of which imports from Uganda and TZ ..	113.7	238.4	189.4	161.9	27.9
Net generation	4,338.4	4,447.4	4,662.2	5,032.6	5,519.1

Source: Kenya Power and Lighting Company

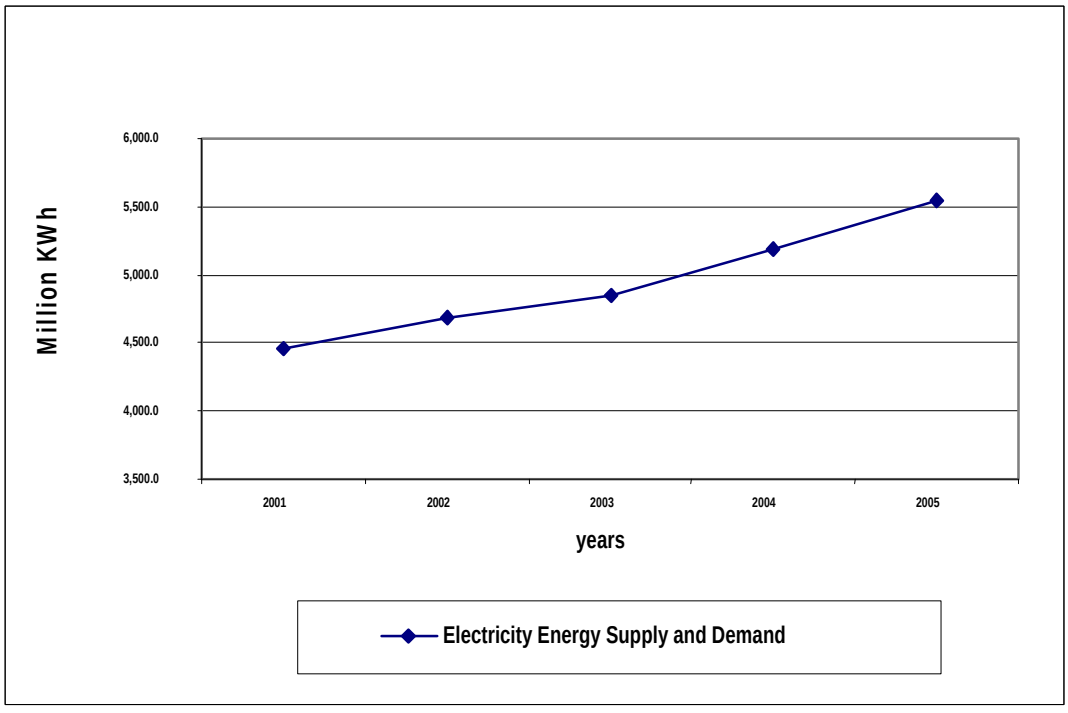
* Provisional

+ Figures are in calendar year

TZ means Tanzania

10.22. Importation of electricity from Uganda and Tanzania declined by 82.8 per cent from 161.9 GWh to 27.9 GWh in 2005 and for the first time in the period under review we recorded exports of electricity to Uganda totaling 24.4 GWh valued at KSh 187.5 million.

Figure 10.3: Electricity Energy Supply and Demand,2001 -2005



10.23. Table 10.10 gives details of total domestic demand and supply of commercial energy expressed in terms of primary source for the period 2001 to 2005. Consumption of coal and coke declined by 17.3 per cent in 2005 to stand at 89.3 thousand tonnes of oil equivalent from 108.0 thousand tonnes of oil equivalent in 2004. Total consumption of hydro and geothermal energy declined by 2.8 per cent in 2005 compared to a rise of 5.7 per cent in 2004. Total energy consumption rose by 11.0 per cent from 2,839.8 thousand tonnes of oil equivalent in 2004 to 3,152.6 thousand tonnes of oil equivalent in 2005.

10.24. Local production as a percentage of total energy consumption declined from 12.1 per cent to 10.9 per cent. This means that the country was more dependant on imported energy in 2005 compared to 2004. Per capita energy consumption in terms of kilograms of oil equivalent rose by 10.3 per cent from 86.6 kilograms of oil equivalent per person in 2004 to 95.5 kilograms of oil equivalent per person in 2005.

Table 10.10: Production, Trade and Consumption of Energy+ Expressed in Terms of Primary sources, 2001 - 2005.

'000 tonnes of Oil Equivalent

	2001	2002	2003	2004	2005*
COAL AND COKE CONSUMPTION	66.1	98.6	92.4	108.0	89.3
Imports of crude oil	1,965.6	1,493.4	1,382.6	2,043.8	1,774.0
Net exports of petroleum	657.9	755.5	1,752.8	1,375.4	902.7
Stock changes and balancing item	-238.3	57.0	-1,006.7	-1,044.7	39.2
TOTAL CONSUMPTION OF LIQUID FUELS	**2,385.2**	**2,305.9**	**2,128.7**	**2,374.5**	**2,715.9**
HYDRO AND GEOTHERMAL ENERGY:-					
Local production of hydro power	155.1	243.6	278.9	258.6	258.9
Local production of geothermal power	39.2	38.5	42.9	84.8	86.1
Imports of hydro power	9.8	20.5	16.3	13.9	2.4
TOTAL CONSUMPTION OF HYDRO AND GEOTHERMAL ENERGY	204.1	302.6	338.1	357.3	347.4
TOTAL LOCAL ENERGY PRODUCTION	194.3	282.1	321.8	343.4	345.0
TOTAL NET IMPORTS	1,383.6	857.0	-328.6	674.0	963.0
TOTAL ENERGY CONSUMPTION	2,655.4	2,707.1	2,559.2	2,839.8	3,152.6
LOCAL PRODUCTION AS PERCENTAGE OF TOTAL	7.3	10.4	12.6	12.1	10.9
PER CAPITA CONSUMPTION IN TERMS OF KILOGRAMS OF OIL EQUIVALENT ** . .	86.2	85.9	79.5	86.6	95.5

Source: Central Bureau of Statistics

* Provisional.

\+ Modern sector only; fuelwood and charcoal are excluded.

** RevisedSeries

Rural Electrification

10.25. A total of KSh 670.0 million was spent on various projects under the Rural Electrification Programme (REP) during the financial year 2004/2005. This amount included KSh 274.0 million and KSh 12.0 million spent on French and Spanish funded projects, respectively, while KSh 67.0 million was spent on *Stabex* projects. A total of KSh 1,046.0 million was collected from Rural Electrification Levy in 2004/2005 compared to KSh 1,008.0 million in the previous financial year.

10.26. The number of customers connected under REP grew by 9.4 per cent from 93,083 in July 2004 to 101,793 in July 2005. At the same time, revenue realised from REP rose by 23.5 per cent from KSh 978.0 million in 2003/2004 to KSh 1,208.0 million in 2004/2005. During the financial year 2004/2005, construction works for electricity supply to coffee factories under stages 2 and 3 of phase I of the Coffee Factories Rural Electrification Programme (COFREP) were completed.

Developments in the Energy sector

10.27. The report on a “Least Cost Power Plan” for the three East African countries prepared by a consultant engaged by the East African Community Secretariat was completed. The report recommends the use of an integrated planning approach to development of power generation projects that promotes regional power trade by member countries.

10.28. Construction of schemes identified under the Euros 9.1 million French funded electricity distribution system expansion was completed and service line connections commenced in 2004/2005 financial year.

Chapter 11

Manufacturing

Overview Key indicators of the manufacturing sector showed a good performance in 2005. Real value added grew by 5.0 per cent in 2005 from a revised figure of 4.5 per cent in 2004. The good performance can partly be attributed to a stable macro economic environment that prevailed during the year, improved access to credit and increase in export demand particularly within the EAC and COMESA markets. Consequently, consumption of electricity and fuels which are major inputs in manufacturing sector and imports of key intermediate inputs particularly machinery and chemical products grew significantly during the review period. Manufacturers also took advantage of the government policy incentives like tax exemptions for some inputs and the enforcement of anti-dumping measures to raise output. However, low-priced manufactured imports from competing countries continued to depress local demand for domestic goods. In addition, high oil prices had a negative effect on the competitiveness of the locally manufactured products destined for both the domestic and export market. Appreciation of the Kenya Shilling against major international currencies particularly the Euro/Dollar resulted in lower earnings of exported manufactured goods. Credit advanced to the sector by quasi-government institutions on the other hand, increased significantly in 2005.

11.2. The manufacturing sector, though faced by a number of challenges in 2005, registered impressive growth in output in all major industries. Tobacco sub-sector recorded the highest growth followed by the plastic products industries. The transport equipment sub-sector was the worst performing, declining by a big margin after a 129.5 per cent growth recorded in 2004. The Food sub-sector that had registered a 10.6 per cent growth in 2004, decelerated in 2005 while the textile sub-sectors expanded by 12.7 per cent. However, leather and footwear sub-sector declined by 4.3 per cent in 2005 compared to a drop of 24.0 per cent in 2004. The wood and cork sub-sector continued on a downward trend because of the logging ban by the government that is still in force.

11.3. Sales from Export Processing Zones (EPZs) accounted for 4.7 per cent of total turnover in the manufacturing sector in 2005 compared to a revised figure of 5.4 per cent in year 2004. This was mainly due to increased domestic sales. Employment in EPZs accounted for 15.7 per cent of total employment in the manufacturing sector in 2005. The aggregate cumulative private investment rose to KSh 17,637 million in 2005 from KSh 17,012 million in 2004 though the number of operational enterprises fell from 74 to 68 in the same period.

Employment 11.4 Results from the annual Labour Enumeration Survey show that there was a net increase of 5,500 new jobs in 2005 compared to 2, 200 new jobs created in 2004 in the manufacturing sector. Total wage employment in manufacturing stood at 247.5 thousand persons from 242.0 thousand persons in 2004. Employment within the EPZ increased by a paltry 0.7 per cent to 38,844 persons in 2005 from 38,560 persons in 2004. The phasing out of the textile quotas that came into effect in early January 2005 adversely affected the textile sub-sector.

Sales and Stocks 11.5. Data from Business Expectation Enquiries shows that nominal sales of manufactured goods increased by 10.1 per cent in 2005. Total value of

manufacturing sales stood at KSh 368.4 billion in 2005 compared to KSh 334.6 billion recorded in 2004.

Industrial Output

11.6. Table 11.1 details estimated output values, intermediate consumption, value added, and compensation of employees in the manufacturing sector at nominal prices. The estimated nominal value of manufacturing output rose by 12.8 per cent in 2005 slightly lower than 15.8 per cent increase registered in 2004. Value added increased by 16.2 per cent in 2005; a marginal rise from value added in 2004. Compensation of employees increased by 7.8 per cent in 2005 compared to 9.5 per cent increase in 2004.

Table 11.1: Manufacturing Sector – Output, Compensation of Employees and Value Added (at Current Prices), 2001 – 2005.

KSh million

YEAR	Value of Output	Intermediate Consumption	Value Added	Compensation of Employees
2001	344,101	244,324	99,777	37,161
2002	347,063	245,315	101,748	39,285
2003	384,446	274,487	109,959	42,727
2004	445,084	317,582	127,502	46,803
2005*	502,115	353,927	148,188	50,473

* Provisional.

Quantum Indices of Manufacturing Production

11.7. The quantum indices of manufacturing production are presented in Table 11.2. Overall manufacturing real output grew by 5.5 per cent in 2005 from a revised figure of 6.7 per cent in 2004**.** The food-processing sub-sector that accounts for 38.3 per cent of total output recorded marginal growth of 1.2 per cent compared to a 10.6 per cent growth in 2004. The slower growth was attributed to a drop in the sugar production.

11.8. The meat and dairy products industry continued on an upward trend registering a growth of 18.2 per cent in 2005. Output from the dairy sub-sector was boosted by a number of factors namely; the increasing role of the Kenya Cooperative Creameries (KCC) in processing milk coupled with favourable weather conditions in some major milk producing areas. Expansion of the regional market for Kenyan dairy products also boosted the sub-sector. Exports of dairy products more than doubled from 3,150 metric tonnes valued at KSh 195.6 million in 2004 to 6,557 metric tonnes valued at KSh 351 million in 2005. Data from milk processing firms shows that output of processed milk rose by 18.7 per cent from 192,830 thousand litres in 2004 to 228,805 thousand litres in 2005. On the other hand, production of beef increased marginally by 0.8 per cent to reach 165.1 thousand tonnes in the year under review from 163.8 thousand tonnes in 2004. Output of cheese, butter, ice cream, sausages, pork, mutton and goat meat all rose while production of baby foods with milk base declined during the year.

Table 11.2: Quantum Index of Manufacturing Production, 2001 - 2005, (1976 = 100)

INDUSTRY	2001	2002	2003	2004	2005*	Percentage Change 2005/2004
Meat and Dairy Products	86.1	85.4	89.8	104.8	123.9	18.2
Canned Vegetables, Fish, Oils and Fats	423.3	397.0	405.3	466.7	468.7	0.4
Grain Mills Products	143.1	174.4	177.7	193.3	221.6	14.6
Bakery Products	299.9	290.8	284.3	185.1	202.7	9.5
Sugar and Confectionery	195.2	238.6	218.9	250.9	237.5	-5.3
Miscellaneous Foods	262.3	240.2	250.8	269.1	272.1	1.1
Food Manufacturing	**200.8**	**210.9**	**211.1**	**233.5**	**236.3**	**1.2**
Beverages	157.9	164.9	176.0	200.6	232.4	15.9
Tobacco	155.9	123.5	126.7	142.6	195.2	36.9
Beverages and Tobacco	**158.2**	**160.2**	**170.3**	**193.8**	**229.1**	**18.2**
Textiles	114.7	120.4	106.0	89.3	100.6	12.7
Clothing	172.8	178.4	188.1	187.3	210.7	12.5
Leather and Footwear	59.5	81.6	99.0	75.2	71.9	-4.3
Wood and Cork Products	71.7	59.7	51.2	40.5	30.8	-23.9
Furniture and Fixtures	57.0	56.9	55.1	56.9	57.6	1.3
Paper and Paper Products	263.3	270.2	362.7	336.3	406.2	20.8
Printing and Publishing	424.5	436.5	428.0	422.4	419.8	-0.6
Basic Industrial Chemicals	147.1	128.7	145.8	150.1	122.1	-18.6
Petroleum and Other Chemicals	741.8	687.5	865.7	982.7	966.4	-1.7
Rubber Products	581.1	671.3	712.8	707.3	742.4	5.0
Plastic Products	837.0	896.1	969.3	972.9	1225.0	25.9
Clay and Glass Products	1,052.4	1,206.9	1142.7	1172.9	1070.5	-8.7
Non-Metallic Mineral Products	131.6	147.0	190.0	166.9	186.1	11.5
Metallic Products	237.7	241.5	238.2	246.8	256.1	3.8
Non-Electrical Machinery	85.9	86.2	87.1	87.1	87.1	0.0
Electrical Equipment	199.4	205.8	216.8	259.0	268.8	3.8
Transport Equipment	212.6	480.7	483.5	1109.6	836.6	-24.6
Miscellaneous Manufactures	1,190.9	1,170.7	1148.2	1052.0	1047.8	-0.4
TOTAL MANUFACTURING	**283.1**	**286.5**	**290.6**	**310.0**	**327.0**	**5.5**

* Provisional

11.9. Output in the canned vegetables, fish, oils and fats sub-sector rose marginally by 0.4 per cent in 2005 compared to a growth of 15.1 per cent recorded in 2004. The growth is attributable to increase in production of edible fats and Margarines, which increased by 9.6 per cent from 110,059 metric tonnes in 2004 to 120,643 metric tonnes in 2005. On the other hand, manufacture of edible oils dropped by 5.1 per cent in 2005 after registering a growth of 33.7 per cent in 2004. Production of canned fruits went down by 16.1 per cent while output of canned vegetables went up by 46.2 per cent during the period under review.

11.10. Output of grain milling products grew by 14.6 per cent in 2005. Table 11.3 gives a breakdown of production of selected grain products. The amount of maize flour produced was 284.1 thousand metric tonnes in 2005 compared to 207.5 thousand metric tonnes produced in 2004. Output of wheat flour increased to 271.6 thousand tonnes in 2005 from 262.3 thousand tonnes recorded in 2004. There is still a substantial shift in grain-milling business from modern sector to small-scale posho milling which augments production from major millers and contributes to poverty reduction. Production of maize germ went up while production of wheat offal and maize bran went down by various margins. Rice production went up by 32.4 per cent during the review period.

11.11. After declining by 34.9 per cent in 2004, the bakery products sub-sector grew by 9.5 per cent in 2005. Production of bread increased by 12.1 per cent to

90.7 thousand tonnes in the review period from 80.9 thousand tonnes in 2004. Output of scones went up by 31.0 per cent while production of biscuits decreased by 1.4 per cent in 2005.

Table 11.3: Production of Grain Milling Products, 2001 – 2005

'000 Tonnes

YEAR	COMMODITY		
	Sifted Maize meal	Wheat Flour	Rice
2001	134.7	181.1	4.6
2002	143.2	240.2	4.9
2003	192.7	248.6	7.7
2004	207.5	262.3	10.2
2005*	284.1	271.6	13.5

* Provisional

11.12. The output in sugar and confectionery sub-sector declined by 5.3 per cent. Output of processed sugar declined by 5.6 per cent from 516.8 thousand tonnes recorded in 2004 to 488.1 thousand tonnes in 2005. During the review period, production of sweets and chewing gum declined by 2.0 per cent and 4.7 per cent to 22,329 tonnes and 13,447.2 tonnes, respectively. Production of toffees increased by 27.9 per cent to 1,301.1 tonnes in 2005 from 1,017.2 tonnes produced in 2004.

11.13. Output of tea in 2005 hit a record high of 328.5 million kilogrammes. This was mainly due to better rainfall received during the long rains season. However, the export price per kilogramme of tea declined in the review period occasioned by the appreciation of the shilling against the US dollar. Production of coffee milled dropped for the second year running. The coffee industry experienced a number of problems which included high cost of farm-inputs and internal operational difficulties within the cooperative sector. Consequently, output of coffee milled, coffee roasted and instant coffee dropped by 33.0 per cent, 31.4 per cent and 7.5 per cent, respectively. Production of salt and curry powder dropped during the review period. Output of cattle feeds, poultry, dog and cat feeds and other feeds increased by 24.0, 7.1, 2.9 and 87.3 per cent, respectively, in 2005. Production of pig feeds declined by 3.5 per cent in the same period.

11.14. The beverages and tobacco sub-sector continued on a growth path registering an increase in production of 18.2 per cent in 2005 up from the 13.8 per cent registered in 2004. Boosted by the external demand, cigarette production went up by 36.9 per cent. Export value of tobacco and tobacco products grew by 70.0 per cent from KSh 3.0 billion in 2004 to KSh 5.1 billion in 2005. Production of beer and stout grew by 12.1 per cent from 237.5 million litres in 2004 to 266.3 million litres in 2005. Production of soft drinks rose by 26.3 per cent to 256,599 thousand litres in 2005 from 203,169 thousand litres in 2004. Production of spirits rose by 11.9 per cent from 14.3 million litres in 2004 to 16.0 million litres in 2005, against a background of strong competition from unlicensed spirit products.

11.15. Despite competition from second hand and cheap imported textile products, production in the textile and clothing sub-sectors was better compared to previous years. Real output from the textile industry rose significantly by 12.7 per cent in 2005 after a decline in 2003 and 2004. The growth in the sub-sector was mainly attributed to increase in the production of gunny bags, blankets, cardigans, knitted fabrics, ropes, twines, and cotton lint that recorded increases of 32.2 per cent, 3.1 per cent, 13.4 per cent, 32.1 per cent, 10.0 per cent, and 15.2 per cent, respectively. However, output of cotton woven fabrics, polyester viscose fabrics, toweling material

and canvas materials dropped by various margins over the same period. Output in the clothing sub-sector recorded a significant growth of 12.5 per cent after declining in 2004. During the review period, production of trousers rose substantially by 16.5 per cent while output of shirts and suits rose by 6.7 and 4.6 per cent, respectively. Manufacture of uniforms and dresses went down by 15.4 and 1.2 per cent during the review period.

11.16. Overall output of leather and leather products declined by 4.3 per cent in 2005. Production of finished leather, Polyvenlychloromethane (P.V.C) leather cloth, sheep and goatskin rose by 55.8 per cent, 4.4 per cent, and 0.8 per cent respectively. Unfinished leather on the other hand went down by 16.2 per cent. Production of leather shoes declined further from 761.2 thousand pairs in 2004 to 689.9 thousand pairs in 2005. Imports of new and second hand shoes continued to constrain the sub-sector.

11.17. The wood and cork products sub-sector declined further by 23.9 per cent in 2005, attributed to the Governments' continued ban on logging in the country. Production of sawn timber went down by 24.0 per cent. Output of wooden furniture and fixtures however registered a marginal increase of 1.3 per cent during the review period.

11.18. The paper and paper products industry registered an impressive growth of 20.8 per cent after declining by 7.3 per cent in 2004. Prime movers of the sub-sector were production of Kraft paper boards, wrapping papers and exercise books which increased by 53.6, 17.4 and 59.6 per cent respectively. Output of corrugated containers dropped by 7.6 per cent. This sector continues to be threatened by cheap imports of paper products.

11.19. Production for printing and publishing sub-sector declined marginally by 0.6 per cent in the review period. Production of locally made paper increased by 13.0 per cent from 13,302 metric tonnes in 2004 to 15,028 metric tonnes in 2005. Production of newsprint declined by 5.4 per cent from 92,429 thousand copies in 2004 to 87,399 thousand copies in 2005.

11.20. Output in the basic industrial chemicals sub-sector declined by 18.6 per cent in 2005. During the review period, production of oxygen, nitrogen and hydrogen increased substantially by 27.8 per cent to 4.6 million cubic metres up from an output of 3.6 million cubic metres in 2004. Production of acetylene and electrodes declined by various margins during the review period. Production of pyrethrum extract and pyrethrum powder in 2005 dropped further to 86.0 metric tonnes and 185.0 metric tonnes from 111.0 and 195.0 metric tonnes recorded in 2004, respectively. This was mainly due to the unfavourable weather conditions in pyrethrum growing areas and delays in payment to farmers.

11.21. Overall, production in the petroleum and other chemicals industry declined by 1.7 per cent in year 2005. Output of paints rose by 9.8 per cent from 12.2 million litres in 2004 to 13.4 million litres in 2005 on the background of a robust building and construction sector. Washing soap and detergent powder increased by 4.3 and 30.3 per cent, respectively. Production of laundry soap, detergent liquids, cream and lotions, cosmetics and shoe polish decreased by various margins over the review period. However, cheap imports into the COMESA free-trade

areas of fast consumer goods like toothpaste continued to threaten the sectors base. Output of petroleum related products registered mixed performance. Increases were however registered in the production of Liquefied Petroleum Gas (LPG) and Kerosene which rose by 13.4 per cent and 18.4 per cent respectively mainly as a result of the removal of import duty on LPG and zero rating of kerosene. Gas oil, residue and bitumen production increased by 5.8, 44.7 and 12.3 per cent respectively, while fuel oils dropped by 2.1 per cent in 2005.

11.22. Rubber products sector registered an output growth of 5.0 per cent. The growth was supported by increased export of rubber products to the EAC, COMESA region and other countries. Production of new motor vehicle tyres increased markedly by 12.3 per cent. Rubber shoes and rubber soles production increased by 25.9 per cent and 6.8 per cent, respectively in 2005. Import of rubber products continued to plague the local market due to liberalization and an upsurge in imports from Asia.

11.23. The plastic manufacturing industry grew by 25.9 per cent in 2005. Production of plastic bottles increased by 19.2 per cent in 2005. Increases were also recorded in the production of plastic shoes, PVC pipes, plastic crates and plastic plates which registered growths of 45.0 per cent, 17.3 per cent, 18.4 and 12.9 per cent respectively, over the same period. Production of polythene (film bags) went down by 9.2 per cent.

11.24. Production of clay and glass products sub-sector dropped by 8.7 per cent in 2005. Increased use of plastic bottles contributed to subdued output of glass bottles which declined by 17.3 per cent. Production of windscreens and floor and wall tiles dropped marginally in 2005.

11.25. Cement supply and utilisation is as shown in Table 11.4. Cement production rose by 13.3 per cent to reach 2,123.2 thousand metric tonnes in 2005. This growth is attributable to favourable prices and the recovery in the building and construction sector both locally and in the regional markets. Exports of cement to Uganda and Tanzania increased tremendously by 35.0 per cent to 337.3 thousand metric tonnes in 2005 from 249.8 thousand metric tonnes registered in 2004. Exports to all other countries however declined further by 14.3 per cent to 127.3 thousand tonnes in 2005 from 148.5 thousand tonnes in 2004.

Table 11.4: Cement Supply and Utilisation, 2001 - 2005

'000 Tonnes

YEAR	PRODUCTION	IMPORTS	CONSUMPTION AND STOCKS	EXPORT TO	
				Uganda and Tanzania	All Other Countries
2001	1,319.3	5.2	1,091.6	76.6	156.3
2002	1,537.0	6.6	1,251.3	137.5	154.8
2003	1,649.4	9.1	1,273.7	231.1	153.7
2004*	1,873.3	3.7	1,478.7	249.8	148.5
2005*	2123.2	9.8	1668.4	337.3	127.3

* Provisional.

11.26. The metallic products sub- sector grew by 3.8 per cent in the review period. Production of galvanized iron sheets rose by 6.4 per cent while that of metal cans and tins and welded mesh rose by 28.3 and 57.3 per cent respectively in 2005. Production of iron rods, sufurias, steel drums and parts and nails all dropped by various margins. Production of wheelbarrows, jembes, pangas and padlocks

remained relatively unchanged. Real output in the production of nails and barbed wire dropped by 2.9 per cent and 7.1 per cent, respectively.

11.27. The electrical machinery sub-sector grew by 3.8 per cent in 2005 although this growth was lower compared to the previous year when the sector grew by 19.5 per cent. Production of dry cells and motor vehicle batteries rose by 2.7 per cent and 12.6 per cent, respectively. Production of electrical lamps declined during the review period as a result of cheap imports of electrical appliances mainly from Asian countries.

11.28. Output of transport equipment sub-sector eased down in 2005. The sub-sector registered a marked decline after recording a remarkable growth in 2005. During the year under review, the number of assembled vehicles declined from 4,969 units to 4,296 units with coaches and buses decreasing from 1,653 units to 1,103 units.

11.29. The miscellaneous manufacturing sub-sector continued on a downward trend observed since 2001. Output in the sub-sector declined by 0.4 per cent in 2005. Production of ballpoint pens increased by 2.7 per cent, illuminated signs went up by 2.2 per cent while production of lens and spectacles went up by 4.3 per cent in the review year. Production of industrial and paintbrushes, mattresses, household brushes, sunglasses and sun falls all registered declines by various margins in 2005.

11.30. Table 11.5 shows trends in manufacturing productivity. The 5.5 per cent growth in real output and a 2.3 per cent growth in employment translated to a 3.2 per cent change in labour productivity in 2005. This compares favourably with the previous years' implicit change in labour productivity of 5.8 per cent. Compensation of employees as a percentage of gross output increased by 34.1 per cent compared to an increase of 36.7 per cent in 2004.

Table 11.5: Indicators of Labour Productivity in Manufacturing, 2001 – 2005

INDICATOR	2001	2002	2003	2004	2005*
Change in the quantum index of manufacturing	0.8	1.2	1.4	6.7	5.5
Change in numbers employed in manufacturing	-0.9	5.8	4.7	0.9	2.2
Implicit change in labour productivity	1.7	-4.6	-3.3	5.8	3.2
Compensation of employees as percentage of gross output	10.8	11.3	11.1	10.5	10.1
Compensation of employees as percentage of Value added	37.2	38.6	38.6	36.7	34.1

* Provisional.

Industrial Credit

11.31. Table 11.6 presents a breakdown of industrial financing by Government and quasi Government industrial development institutions which are the main sources of credit to the manufacturing sector. Overall, there was a general decline in investments in 2005. A number of factors affected the investment climate including high interest rates, increased operation cost and poor infrastructure among others. Total credit to the industrial sector in 2005 stood at KSh 911.8 million extended to 137 projects. Kenya Industrial Estates (KIE) financed 117 manufacturing related projects to the tune of KSh 29.8 million in 2005 compared to 80 manufacturing related projects to the tune of KSh 18 million financed in 2004. The estimated number of employment opportunities created by the projects following the injection of additional capital in the sector was 297. Out of the 117 projects, 24 were female-owned enterprises, representing 20.5 per cent.

11.32. In 2005, Industrial Development Bank (IDB) did not finance any industrial ventures. This was mainly because the bank could not access any lines of credit. The bank's divestiture from commercial banking in March 2005 also hampered its ability to provide industrial credit. Lending is likely to resume to the industrial sector These have already been approved and are awaiting Government of Kenya guarantees.

Table 11.6: Industrial Projects Approved by Selected Government or Quasi-Government, 2001-2005

	Number of Projects					Approved Expenditure(KSh Million)				
INSTITUTION	2001	2002	2003	2004	2005*	2001	2002	2003	2004	2005*
Industrial Development Bank Limited (I.D.B.)	8	2	3	4	0	165	69	45	98	0
Development Bank of Kenya (DBK)	1	6	8	13	20	19	47	588	525	892.5
Kenya Industrial Estates Limited (K.I.E.)	18	36	33	80	117	4	4	5	18	29.8
Industrial and Commercial Development Corporation (I.C.D.C.)	0	35	0	4	0	0	19	0	2	0
TOTAL	27	69	44	101	137	188	139	638	643	912.3

* Provisional.

Export Processing Zones (EPZ)

11.33. During the review period, Development Bank of Kenya (DBK) experienced a slight increase in demand for loans and advances. However, relatively high interest rates that prevailed during the review period compared to year 2004 were an impediment to investment. DBK approved long-term loans and short-term advances amounting to KSh 892.5 million and KSh 41 million, respectively in letters of credit to 20 major projects. Other approvals of loans and advances were made to small scale businesses and individuals. Among the projects that benefited from the manufacturing sector include; manufacture of textiles and clothing, printing, industrial and motor vehicle batteries and plastic products. The new projects were expected to create an estimated 570 new direct jobs.

11.34. Table 11.7 provides details of the performance of the Export Processing Zones. Year 2005 was one of the most challenging due to both internal and external events slowing down the momentum of growth of the zones since the coming into effect of African Growth and Opportunity Act (AGOA). Key among the external challenges on the program includes the coming to an end of textile quotas under WTO, which eroded preferences for Kenyan textile/apparel products. Internally, there were policy changes introduced by the government during the review period with regard to payment of all duty on petroleum products. Also the supply side constraints (mainly high cost of production) made the final export products uncompetitive. This impacted negatively on the operations of EPZ enterprises thereby reducing production and exports within the zones. EPZ program registered mixed growth over the review period. Key indicators that registered growth include the gazetted zones, local employment, private investment, and local purchase of goods and services. Gazetted zones increased from 41 to 43, though operational enterprises dropped from 74 to 68. Total private investment rose by 3.7 per cent from KSh 17,012 million to KSh 17,637 million during the review period. Local resource utilization, which includes domestic purchases, local wages, and expenditure on utilities registered a slowed growth of 12.3 per cent to KSh 8,235 million in 2005 compared to a growth of 47.5 per cent registered in 2004.

11.35. Direct employment within the enterprises rose marginally from 38,560 persons to 38,844 persons. This together with an estimated 12,682 indirect jobs in sub-contracting and supplies gave rise to 50,726 jobs attributable to EPZ over the review period. Thus the textile sub-sector remains key to employment creation and poverty reduction. Total sales declined by 1.8 per cent to KSh 23,774 million while exports from the zones declined by 13.1 per cent to KSh 20, 036 million in 2005. During the review period, 76.5 per cent of all exports comprising mainly garment products were destined for the USA market. Domestic sales continued on its upward trend and more than tripled in 2005. This resulted from sales of currency notes and security documents by a security print enterprise to the public sector constituting 83.6 per cent. In terms of local resource utilization, expenditure on local purchases increased by 26.1 per cent from KSh 1,893 million to KSh 2,388 million in 2005. Employment for Kenyans increased by 0.9 per cent though expenditure on local salaries dropped by 7.4 per cent during the review period. Expenditure on power, telecommunication and water grew by 21.2 per cent, 6.7 per cent, and 16.7 per cent, respectively, during the review period.

Table 11.7: Selected EPZ performance Indicators 2001-2005

	2001	2002	2003	2004	2005*
Gazetted Zones (Numbers)	23	31	37	41	43
Enterprises Operating (Numbers)	39	54	66	74	68
Employment - Locals	13,444	26,447	38,199	37,723	38044
(Numbers) - Expatriates	314	701	912	837	800
Total Workers	**13,758**	**27,148**	**39,111**	**38,560**	**38844**
Export Sales (Ksh Million)	5,962	9,741	13,812	23,047	20,036
Domestic Sales (Ksh Million)	538	932	619	651	3160
Total Sales (Ksh) Million	**6,500**	**11,040**	**14,817**	**24,211**	**23,774**
Foreign Imports (Ksh Million)	399	7,043	9,920	13,029	12,497
Local Purchases of Goods and Services (Ksh Million)	718	1,127	1,176	1,893	2388
Investment (Ksh Million)	8,950	12,728	16,716	17,012	17,637

Source: Export Processing Zones (EPZ)

* Provisional

11.36. During the period under review, 14.7 per cent of all EPZ enterprises were wholly Kenyan owned, 27.9 per cent were joint ventures while foreign investments constituted 57.4 per cent.

The EPZA envisages implementing the Incubator Project in conjunction with the Government in order to attract and nurture indigenous businesses to venture into the export market. The phasing out of textile quotas has brought about free trade through elimination of quantitative restrictions by the European Countries and the USA. Increased competition is also being experienced from Asian Countries particularly of China and India. This has been worsened by the high cost of production. As a result, 15 out of 25 enterprises dealing with garments exports recorded a decrease in exports.

As a mitigation measure, enterprises are now investing in value adding mechanisms to cope with competition in garments. There is also diversification to other markets away from the traditional USA market. These include Canada, Europe, and the Middle East. Sales to these new markets increased from KSh 58 million recorded in 2004 to KSh 221 million in 2005.

Chapter 12
Building and Construction

Overview

Development of infrastructure is an important prerequisite in creating and supporting business environment that facilitates private sector investment, growth and job creation. An efficient infrastructure network in both urban and rural areas has been identified as a priority towards achievement of Investment Programme for Economic Recovery Strategy (IP- ERS) and Millenium Development Goals (MDGs). The Government policy on building and construction is to encourage participation of private sector in the development of the sector through provision of conducive investment climate. Key indicators in the sector showed improved performance partly attributed to low-interest-rate on loans, revival of several stalled public projects and increased budgetary allocation for road construction and rehabilitation activities.

Cement consumption rose by 10.9 per cent from 1,418.3 thousand tonnes in 2004 to 1,572.5 thousand tonnes in 2005. Total value of building plans approved increased from KSh 34,962.4 million in 2004 to KSh 37,647.1 million in 2005. The index of Government expenditure on roads increased from 100.6 in 2004 to 114.9 in 2005. The estimated cost of reported completions of new public residential buildings went up substantially from Ksh 20.6 million in 2004 to KSh 410.8 million in 2005. Kenya Roads Board increased its disbursement to various roads agencies by 14.3 per cent from KSh 8.4 billion in 2004 to KSh 9.6 billion in 2005.

Key Economic Indicators

12.2. Trends of the selected key economic indicators in building and construction sector for the period 2001 to 2005 is presented in Table 12.1. Cement consumption, which is a key indicator in building and construction sector, increased by 10.9 per cent in 2005. The index of reported private building works completed in main towns increased to 33.0 in 2004 from 27.9 in 2003. The index of reported public building work completed in main towns increased to 1.9 in 2004 from 0.6 in 2003. The index of government expenditure on roads increased from 100.6 in 2004 to 114.9 in 2005.

Table 12.1: Trends of Selected Key Economic Indicators in Building and Construction+, 2001-2005

1982=100

	2001	2002	2003	2004	2005*
"Index" of reported private building work completed in main towns**	24.6	25.2	27.9	33.0	..
"Index" of reported public building work completed in main towns**	0.5	0.6	0.6	1.9	..
"Index" of government expenditure on roads	83.6	62.7	71.7	100.6	114.9
Cement consumption ('000 tonnes)	1,089.0	1,212.3	1,267.0	1,418.3	1,572.5
"Index" of Cement consumption	188.0	209.2	218.7	244.8	271.4
Employment ('000) ***..	76.7	76.5	76.6	77.3	78.2
"Index" of Employment	127.0	126.7	126.8	128.0	129.5

\+ 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

*** In the formal sector

12.3. Building and construction sector's wage employment increased by 1.2 per cent from 77.3 thousand people in 2004 to 78.2 thousand people in 2005. Employment in the private sector went up by 2.4 per cent from 54.4 thousand

people in 2004 to 55.7 thousand people in 2005, while it declined in the public sector by 2.2 per cent from 23.0 thousand people in 2004 to 22.5 thousand people in 2005.

12.4. Table 12.2 presents data on annual percentage change in building and construction cost indices for the period 2003 to 2005. The overall cost index of materials registered a slower growth of 2.9 per cent in 2005 as compared to a higher growth of 10.7 per cent in 2004. The overall construction cost index increased by 4.6 per cent in 2005 compared to 9.2 per cent in 2004.

Table 12.2: Annual Percentage change in Building and Construction Cost Indices+, 2003 - 2005

	Materials			Labour			Total Cost		
	2003	2004	2005*	2003	2004	2005*	2003	2004	2005*
Residential Buildings ..	8.9	8.8	2.7	7.2	6.0	8.4	8.5	8.2	3.9
Non-Residential Buildings	8.9	15.4	1.5	7.2	6.0	8.4	8.5	12.8	3.3
All Buildings ..	8.9	11.8	2.1	7.2	6.0	8.4	8.5	10.4	3.6
"Other" Construction ..	9.3	6.7	6.0	7.2	6.0	8.4	7.8	6.4	7.1
Overall Cost Index	7.6	10.7	2.9	7.2	6.0	8.4	7.1	9.2	4.6

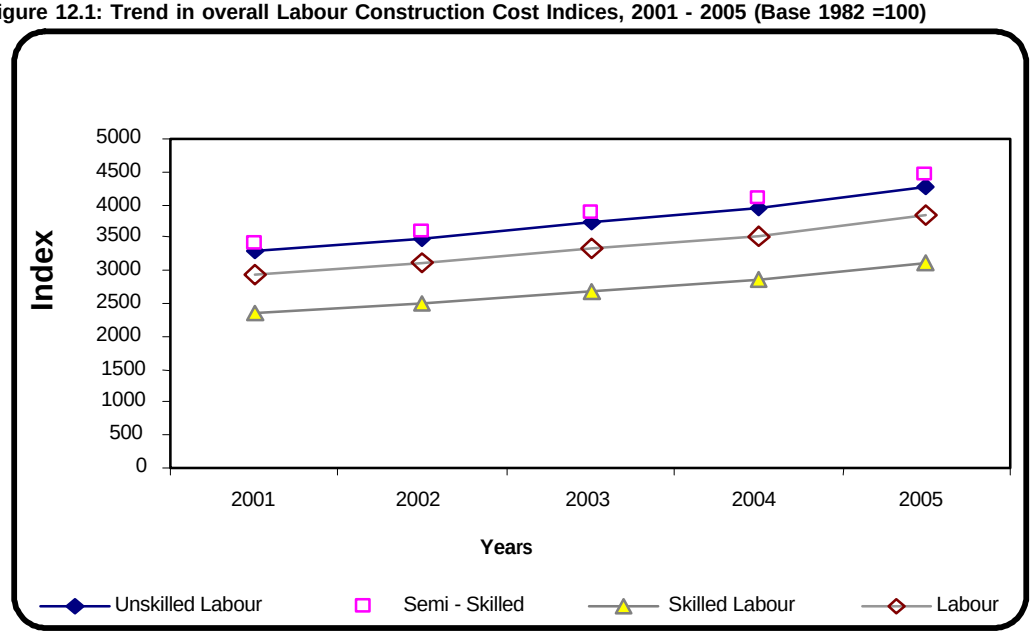
\+ From December to December.

* Provisional.

Source: Construction Input price Index Survey

12.5. Figure 12.1 presents the trends in the overall construction labour cost indices for the years 2001 to 2005. The labour costs in the sector registered 8.4 per cent growth in 2005 as compared to 6.0 per cent in 2004. This was caused by increase in wages of unskilled, semi-skilled and skilled labour by 8.6, 8.4 and 8.3 per cent respectively in 2005.

Figure 12.1: Trend in overall Labour Construction Cost Indices, 2001 - 2005 (Base 1982 =100)



12.6. Data on the value of building plans approved by Nairobi City Council and other towns for the years 2001 to 2005 is presented in Table 12.3. Value of building plans approved by Nairobi City Council more than doubled from KSh 11.9 billion in 2004 to KSh 23.8 billion in 2005. The value of building plans approved by other towns contracted significantly by 40.3 per cent from KSh 23.1 billion in 2004 to KSh 13.8 billion in 2005 reverting to the 2003 level. Overall, value of private building plans approved rose by 7.4 per cent from KSh 35.0 billion in 2004 to KSh 37.6 billion in 2005.

Table 12.3: Value of Building Plans Approved By Nairobi and Other Towns, 2001 - 2005

KSh million

Year	Nairobi	Other Towns	Total
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
2005*	23,842.19	13,804.88	37,647.07

* Provisional.

Source: Local authorities

12.7. Data on value of reported private building works completed in selected main towns for the years 2001 to 2005 is presented in Table 12.4. The value of reported private building works completed for Nairobi went up by 11.9 per cent from KSh 2,003.3 million in 2004 to KSh 2,241.7 million in 2005, while Kisumu town recorded an increase of 13.1 per cent from KSh 40.4 million in 2004 to KSh 45.7 million in 2005. The total value of reported private building works completed in selected main towns registered an increase of 10.4 per cent from KSh 2,433.0 million in 2004 to KSh 2,687.2 million in 2005. Overall, there were general increases in the values of reported private building works completed in selected main towns in the year under review.

Table 12.4: Value of Reported Private Building Works Completed in Selected Main Towns+, 2001 - 2005

KSh million

Year	Nairobi	Mombasa	Kisumu	Nakuru	Malindi	Total
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
2005*	2,241.72	165.10	45.70	125.20	109.50	2,687.22

\+ Including the value of extension.

* Provisional.

Source: Local Authorities

12.8. Data on reported completion of new private buildings in selected main towns for the period 2001 to 2005 is presented in Table 12.5. The number of residential units increased from 1,704 in 2004 to 1,810 in 2005, while the number of non-residential units increased from 21 in 2004 to 28 in 2005. The estimated cost of residential units increased by 7.4 per cent from KSh 1,988.0 million in 2004 to KSh 2,135.5 million in 2005. The estimated cost of non-residential units increased significantly by 37.8 per cent from Ksh 306.9 million in 2004 to Ksh 422.8 million in 2005. The total cost of both residential and non-residential units registered an increase of 11.5 per cent from KSh 2,294.9 million in 2004 to KSh 2,558.3 million in 2004.

Table 12.5: Reported Completions of New Private Buildings* lin Selected Main Towns+ , 2001 - 2005

Year	Number		Estimated Cost (KSh million)		
	Residential	Non-Residential	Residential	Non-Residential	Total
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
2005**	1,810	28	2,135.48	422.79	2,558.27

* Excluding the value of extensions.

** Provisional

+Nairobi,Mombasa,Kisumu,Nakuru,Malindi

Source: Buildings completed returns by Local Authorities

12.9. Reported completions of new public buildings in selected main towns for the years 2001 to 2005 is presented in Table 12.6. The number of residential units completed increased significantly from 15 units in 2004 to 360 units in 2005, while the number of non-residential units increased from 5 units in 2004 to 31 units in 2005. The value of residential units went up significantly from KSh 20.6 million in 2004 to KSh 410.8 million in 2005, while cost of non-residential units increased from Ksh 9.3 million in 2004 to Ksh 33.3 million in 2005. Total cost of reported completions of new public buildings registered a rapid increase from Ksh 29.9 million in 2004 to Ksh 444.1 million in 2005. Completion of several projects by National Housing Corporation (NHC) led to increase in the number of new public residential buildings in 2005 and their corresponding costs.

Table 12.6: Reported Completions of New Public Buildings* in Selected Main Towns*, 2001 - 2005**

Year	Number		Estimated Cost (KSh Million)		
	Residential	Non-Residential	Residential	Non-Residential	Total
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
2005**	360	31	410.80	33.26	444.10

* Including the value of extensions.

** Provisional.

***Nairobi,Mombasa,Kisumu,Nakuru,Malindi

Source: Local Authorities

Housing 12.10 Housing sector remained fairly active during the 2004/2005 financial year with the private sector playing a major role in its development. It is estimated that during that period, the private sector initiated housing developments worth Ksh 15.0 billion mainly in the urban areas. The Housing property market remained buoyant, picking from the boom of 2003/2004 although most new developments were of houses costing at least KSh 4.0 million. This trend has continued, leaving the lower middle and low income brackets un-attended, justifying the need for public sector interventions to cater for these groups.

12.11. The NHC completed 360 housing units in 2005 at a total cost of Ksh 410.8 million. Five out of six projects reported to be under construction in 2004 were completed in 2005. This consists of 72 units of rental flats in Changamwe (Mombasa), 89 units of tenant purchase flats in Bububu (Mombasa), 160 units of tenant purchase flats in Pumwani (Nairobi), 24 units of mortgage maisonettes in Kiambu and 15 units of mortgage bungalows in Elgon View (Eldoret). A total of 319 housing units were under construction as at 31st December 2005 at a cost of Ksh 592.8 million. This comprise of 226 units of mortgage flats in Kwal, Langata (Nairobi), 93 units of tenant purchase flats in Mamboleo (Kisumu). Two thousand units spread in various parts of the country are ready for implementation as soon as funds are identified. No rural housing loans were advanced in 2004/2005 financial year as the corporation is still in the process of reorganizing the programme.

12.12. Data on approved and actual Central Government expenditure on housing for the financial years 2001/2002 to 2005/2006 is presented in Table 12.7. Approved expenditure on housing decreased by 10.2 per cent from KSh 542.6 million in 2004/2005 to KSh 487.2 million in 2005/2006. Actual expenditure on housing went up significantly in 2004/2005 financial year mainly due to the establishment of the Civil Servants Housing Fund in September 2004 which finalizes the initial phase and the Slum Upgrading Project. Approved expenditure as a percentage of development expenditure went up to 0.9 per cent in 2004/2005 as compared to 0.4 per cent in 2003/2004.

Table 12.7: Approved and Actual Central Government Expenditure on Housing, 2001/2002 - 2005/2006

Year	Expenditure in KSh million		Approved Expenditure as Percentage of Development Expenditure
	Approved	Actual	
2001/2002	24.00	24.50	0.07
2002/2003	48.60	-	0.29
2003/2004	81.20	20.00	0.35
2004/2005	542.64	480.65	0.89
2005/2006*	487.19		

* Provisional
Source: Ministry of Housing

12.13 The Civil Servants Pool housing projects did not receive funding in the year under review and the only occasional expenditures on the projects arose from pending bills. However, the Ministry of Housing, in collaboration with other relevant government agencies, are currently developing houses for sale to civil servants through the Civil Servants Housing Scheme Fund. Projects at Ngara Phase I, Jogoo Road, Upper Hill, Kileleshwa and Kilimani with an estimated total value of Ksh 696.79 million commenced during the 2005/2006, financial year.

Roads

12.14 During the year under review the country had a total road network of about 63,000 kilometres of classified roads. This comprised of 8,936 kilometres of bitumen and 54,353 kilometres of earth/gravel. The Road Inventory and Condition Survey for classified roads that was undertaken by the Roads Department with support from the World Bank was completed in 2005 and digital maps were produced. The study established that only 18.0 per cent of the classified road network is in good condition, 49.0 per cent is in fair condition while 33.0 per cent is in poor or dilapidated condition. This data will be used to institute programmed maintenance on the road network.

12.15 Classification of kilometres of road as at 1st July 2001 and 1st July 2005 by type is presented in Table 12.8. Primary roads under bitumen decreased by 3.8 per cent from 2.6 thousand kilometres in 2001 to 2.5 thousand kilometres in 2005, while those under earth/gravel decreased by 5.5 per cent from 5.5 thousand kilometres in 2001 to 5.2 kilometres in 2005. National trunk roads under bitumen went up by 7.7 per cent from 1.3 thousand kilometres in 2001 to 1.4 thousand kilometres in 2005. Minor roads under earth/gravel decreased by 1.9 per cent from 26.3 thousand kilometres in 2001 to 25.8 thousand kilometres in 2005, while

special purpose earth/gravel roads increased by 0.9 per cent from 11.0 thousand kilometres in 2001 to 11.1 thousand kilometres in 2005.

Table 12.8: Kilometres of Road as at 1st July, 2001 and 1st July, 2005 By Type And Classification

'000Km

Type of Road	2001		2005**	
	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

Source: Ministry of Roads & Public Works

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

** Provisional

12.16. The Roads Department (Ministry of Roads and Public Works) is a designated Roads Agency responsible for class A, B, C roads (International, National and Primary Road network). The department is currently winding up its projects portfolio in Class D, E and other district roads which are now assigned to District Roads Committees. In addition, the Department received 57.0 per cent of Roads Maintenance Levy Fund (RMLF) used for class A,B,C roads. A total of KSh 3.0 billion was disbursed for 32 projects that were at various stages of implementation. Further, KSh 24.0 million was spent on two bridging projects during the year under review. The department also spent KSh 903.0 million for 23 projects under class D and E roads in the year under review. The major roads rehabilitated in the year under review were Meru- Maua (52 Km), Muranga- Sagana- Marua road (50.1 Km), Sagana- State Lodge access roads (47.4 km), Masii- Kitui (73 Km), Thuchi-Nkubu (52 km), Thika- Gatanga- Gatura/Gatanga- Ndakaini (76 km), Thika-Gacharage-Githumu- Kangare (42 km), Makutano- Embu (46 km) and Kisian-Bondo (54 km). Those graveled were Nanyuki- Doldol (60 km), Shelemba-Wundanyi- Mwakinyungu road (55 km), Meru- Marimba (52 km), Migori- Muhuru Bay (52 km), Kakamega- Ingotse- Nambacha- Shihanda (43 km), Butere- Musanda-Ugunja- Ukwala (43 km), Oria- Pala- Magina- Mirogi (44 km), Kormor- Barwesa-Kinyach (132.7 km), Olenguruone- Kiptagich (37 km), Mandera- Elwak road (162 km) and Awasi - Katito (21 km). Also resealed/recarpeted in the year under review is Nakuru- Marigat road with a length of 106 kilometres. The roads that were under construction in 2004/2005 were Keroka- Nyangusu road (57 km), Bondo- Usenge (33 km), Kitui- Kangonde (45 km), Processional way, Nairobi,(2 km), Ruiri- Isiolo-Muriri (52 km), Ndori- Owimbi (22.2 km), Bumala- Busonga- Port Victoria (48.2 km), Kipsigak- Serem (53 km) and Wote- Makindu (66 km). Sultan Hamud- Mtito-Andei road with a length of 131 kilometres was completed in 2004/2005 financial year. The Roads department in collaboration with 71 District Roads Committees undertook routine maintenance on 6,320 Km of paved roads and 25,823 Km of unpaved roads during the year 2004/2005. Nairobi City Council (NCC) completed rehabilitation of 10.5 km of roads and a total of Ksh 204.0 million was spent on various projects under the NCC contracted works.

12.17. Data on recurrent and development expenditure on roads for the financial years 2001/2002 to 2005/2006 is presented in Table 12.9. Development expenditure on trunk roads rose by 42.4 per cent from KSh 5.9 billion in 2004/2005 to KSh 8.4 billion in 2005/2006 respectively. Expenditure on primary roads similarly went up by 16.1 per cent from Ksh 3.1 billion in 2004/2005 to KSh 3.6 billion in 2005/2006. The total development expenditure on roads rose by 30.9 per cent from KSh 9.7 billion in 2004/2005 to KSh 12.7 billion in 2005/2006. The total expenditure on recurrent maintenance and repair increased by 6.6 per cent from Ksh 6,100.0 million to Ksh 6,500.0 million in 2004/2005 and 2005/2006 respectively. The grand total expenditure (recurrent & development) on roads increased significantly from KSh 15.8 billion in 2004/2005 to Ksh 19.2 billion in 2005/2006.

Table 12.9: Total Expenditure on Roads, 2001/2002 - 2005/2006 (KSh Million)

	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006*
Development:					
Trunk Roads	1,385.00	1,459.50	2,406.00	5,946.50	8,400.00
Primary Roads	601.40	808.34	1,260.50	3,059.00	3,600.00
Secondary Roads ..	635.80	345.80	320.68	333.00	360.40
Miscellaneous Roads..	-	-	353.51	378.00	375.10
Sub-Total	**2,622.20**	**2,613.64**	**4,340.69**	**9,716.50**	**12,735.50**
Recurrent (maint. and repair)	8,042.44	6,005.17	6,122.00	6,100.00	6,500.00
Total	**10,664.64**	**8,618.81**	**10,462.69**	**15,816.50**	**19,235.50**

* Provisional

Source: Ministry of Roads & Public Works

12.18. The *Roads 2000 Programme* which emphasizes on improvement and maintenance of the country's road network continued to get support from various development partners during the year under review. Districts earmarked for new support total thirty seven (37) in number and are spread across Rift Valley, Nyanza, Eastern and Central Provinces. Development partners have pledged a total of KSh 6.2 billion in the next five years while Government will contribute KSh 1.5 billion as counterpart funds in the same period. The Government will continue funding road maintenance through the fuel levy (16 per cent constituency funds and the 24.0 per cent equitable fuel levy funds) using the Roads 2000 maintenance strategy. This will include planning, implementation, monitoring and reporting systems, training of staff and small-scale contractors.

12.19. The Kenya Roads Board (KRB) continued to discharge its principle mandate of oversight, coordination and monitoring of the implementation of road maintenance programmes. In 2004/2005, the Board disbursed funds from RMLF as follows; Class A, B and C roads received KSh 5,583.0 million while Class D and E roads received KSh 978.6 million. Ministry of Local Government (MoLG), which is in charge of urban roads and Local Authorities received KSh 821.3 million, Kenya Wildlife Service (KWS) which is in charge of roads in game reserves and national parks received KSh 66.7 million. In addition the District Roads Agency, in charge of district roads, received KSh 400.0 million while roads within Constituencies and KRB received KSh 1,511.0 million and KSh 283.3 million respectively. In the year under review, KRB approved a total of Ksh 9.6 billion to be disbursed to all road agencies up from Ksh 8.4 billion in 2003/2004 representing an increase of 14.3 per cent.

Chapter 13
Tourism

Overview

Growth in the tourism sector continued on an upward trend in 2005 due to concerted marketing campaign by the Kenya Tourist Board (KTB) and improved security in the hotel and tourism sites. Earnings from international and domestic tourism from the sector rose by 27.0 per cent from KSh. 38.5 billion in 2004 to KSh.48.9 billion in 2005. The reported earnings for 2005, includes earnings from visa fees and domestic tourism earnings. The number of local conferences increased from 912 in 2004 to 1,553 in 2005 while the number of International conferences increased from 145 to 186 in the same period.

13.2. International visitor arrivals grew from 1.4 million to 1.5 million in 2005, with significant growth observed in the first and third quarters of the year. Visitors on holiday increased by 20.1 per cent, while those on business decreased by 16.4 per cent in 2005. The number of visitors to Parks and Game Reserves increased by 17.2 per cent in 2005, while visitors to Museums, Snake Parks and Historical Sites rose by 7.5 per cent in the same period.

13.3. Overall bed occupancy rate increased from 37.8 per cent in 2004 to 41.3 per cent in 2005. Occupancy by European residents increased from 2.1 million in 2004 to 2.5 million in 2005. Occupancy by visitors from Asian countries increased by 32.5 per cent. Bed-nights by visitors from America recorded an increase of 22.0 per cent in 2005 compared to an increase of 50.9 per cent in 2004.

13.4. The number of local delegates attending local conferences increased from 75.1 thousand in 2004 to 269.1 thousand in 2005, while international delegates increased from 18.6 thousand in 2004 to 42.2 thousand in the year under review. Occupancy for local conferences increased from 14.9 per cent in 2004 to 15.9 per cent in 2005, while international occupancy increased from 3.8 per cent in 2004 to 4.0 per cent in the year under review.

Arrivals

13.5. Table 13.1 shows the number of visitor arrivals by purpose. Overall, the number of visitor arrivals rose from about 1.4 million in 2004 to 1.5 million in 2005. In the first quarter of 2005, the visitor arrivals increased by 18.3 per cent from 317.5 thousand in 2004 to 375.6 thousand in 2005. Visitor arrivals in the second quarter increased by 9.6 percent from 277.0 thousand to 303.5 thousand, while in the third quarter visitors arrivals increased by 11.0 percent from 369.8 thousand to 410.5 thousand. In the fourth quarter, visitor arrivals decreased by 1.9 per cent from 396.4 thousand in 2004 to 388.8 thousand in 2005. Analysis by purpose shows that during the first quarter, visitors on holiday increased by 26.4 per cent from 209.4 thousand in 2004 to 264.6 thousand in 2005, while visitors on business increased from 51.1 thousand during the first quarter to 51.8 thousand over the same period. In the second quarter, visitors on holiday increased by 19.6 per cent from 178.5 thousand in 2004 to 213.4 thousand in 2005, while visitors on business and transit dropped by 15.0 and 37.8 per cent respectively over the

same period. In the third quarter, visitors on holiday increased by 20.6 per cent from 239.3 thousand in 2004 to 288.6 thousand in 2005. Visitors on business and transit declined by 20.1 per cent, and 48.4 per cent during the same period. In the fourth quarter, visitors on holiday increased by 14.7 per cent in 2005 compared to an increase of 42.8 per cent in 2004. Overall, visitors on holiday expanded by 20.1 per cent in 2005 from 885.6 thousand in 2004 to 1,063.2 thousand in 2005. Visitors on business, declined by 16.3 per cent from 246.4 thousand in 2004 to 206.1 thousand in 2005. Visitors on transit declined from 162.2 thousand in 2004 to 79.8 thousand in 2005.

Table 13.1: Quarterly Visitor Arrivals by Purpose of Visit, 2001-2005

'000

Quarter	Purpose	2001	2002	2003	2004	2005*
1st Qr.	Holiday	200.3	176.0	206.7	209.4	264.6
	Business	25.3	26.1	34.7	51.1	51.8
	Transit	39.4	47	51.9	47.3	22.2
	Other	4.9	5.8	7.7	9.7	37.6
	TOTAL	270.7	254.9	301.0	317.5	375.6
2nd Qr.	Holiday	149.6	158.5	112.5	178.5	213.4
	Business	18.9	17.1	44.7	49.3	41.9
	Transit	38.5	42.7	48.2	28.8	17.9
	Other	4.2	3.8	18.9	20.4	30.3
	TOTAL	211.1	222.1	224.3	277.0	303.5
3rd Qr.	Holiday	184.7	194.1	183.9	239.3	288.6
	Business	23.3	20.4	53.4	70.8	56.6
	Transit	37.7	37.4	62.1	46.9	24.2
	Other	5.1	4.4	11.6	12.8	41.0
	TOTAL	250.8	256.3	311.0	369.8	410.5
4th Qr.	Holiday	194.2	204.0	180.9	258.4	296.5
	Business	24.6	23.0	49.3	75.2	55.8
	Transit	37.0	36.2	56.9	39.2	15.5
	Other	5.3	4.9	22.8	23.6	21.0
	TOTAL	261.0	268.1	309.9	396.4	388.8
Year	Holiday	728.8	732.6	684.0	885.6	1063.2
	Business	92.1	86.6	182.1	246.4	206.1
	Transit	152.6	163.3	219.1	162.2	79.8
	Other	19.5	19.0	61.0	66.5	129.9
	TOTAL	993.6	1,001.3	1,146.2	1,360.7	1,479.0

* Provisional

Table 13.2: Quarterly Visitor Departures by Purpose of Visit, 2001-2005

'000

Quarter	Purpose	2001	2002	2003	2004	2005*
1st Qr.	Holiday	214.9	176.4	184.3	196.2	258.9
	Business	27.2	22.3	31.7	62.1	50.8
	Transit	32.3	37.9	46.3	30.7	18.0
	Other	6.1	5.0	6.9	13.0	40.5
	TOTAL	280.5	241.6	269.1	302.0	368.2
2nd Qr.	Holiday	165.2	166.8	117.9	176.8	221.9
	Business	20.9	21.1	46.9	49.8	43.6
	Transit	33.3	39.9	51.5	31.7	15.5
	Other	4.5	4.5	19.8	15.4	34.7
	TOTAL	223.8	232.2	236.1	273.7	315.7
3rd Qr.	Holiday	179.6	203.7	147.2	232.6	279.3
	Business	22.1	25.1	42.7	70.2	54.8
	Transit	33.5	41	49.7	46.1	19.5
	Other	5.8	6.6	9.3	13.5	43.7
	TOTAL	241.1	276.4	248.9	362.3	397.3
4th Qr.	Holiday	182.3	197.8	157.3	250.6	267.0
	Business	23.0	25.0	42.8	73.7	52.4
	Transit	35.0	34.8	50.9	39.4	18.6
	Other	5.1	5.5	17.8	18.4	41.8
	TOTAL	245.5	263.2	268.8	382.1	379.8
Year	Holiday	742.0	744.6	606.6	856.2	1027.1
	Business	93.2	93.4	164.1	255.8	201.6
	Transit	134.1	153.6	198.4	147.9	71.6
	Other	21.5	21.7	53.8	60.3	160.7
	TOTAL	990.9	1,013.4	1,022.9	1,320.1	1,461.0

* Provisional

13.6. Table 13.2 shows the number of departing visitors by purpose of visit. Overall, the number of departing visitors increased by 10.7 per cent in 2005 compared to a rise of 29.1 per cent in 2004. Departing visitors in the first quarter increased by 21.9 per cent from 302.0 thousand in 2004 to 368.2 thousand in 2005, while in the second quarter, departing visitors increased by 15.3 per cent from 273.7 thousand in 2004 to 315.7 thousand in 2005. In the fourth quarter, the number of departing visitors declined by 0.6 per cent compared to a rise of 42.2 per cent in the previous year. The total number of visitors on holiday departing increased by 20.0 per cent from 856.2 thousand in 2004 to 1027.1 thousand in 2005, while visitors on business decreased by 21.2 per cent compared to the previous year. However, the number of departing visitors on transit dropped by 51.6 per cent from 147.9 thousand in 2004 to 71.6 thousand in 2005.

13.7. Table 13.3 shows the number of departing visitors by country of residence and main purpose of visit. The total number of departing visitors increased by 3.0 per cent from 1,262.9 thousand in 2004 to 1,300.3 thousand in 2005. Departing visitors to Europe increased by 4.6 per cent from 931.2 thousand in 2004 to 974.5 thousand in 2005, with Germany and United Kingdom accounting for 28.2 and 25.7 per cent. Departing visitors to USA declined by 30.8 per cent from 109.6 thousand in 2004 to 75.8 thousand in 2005. Departing visitors to Africa increased by 30.0 per cent in 2005. Visitors destined to other Asia (including China, HongKong Thailand etc) doubled from 12.2 thousand in 2004 to 25.0 in thousand in 2005 due to the aggressive

marketing by KTB.

Table 13.3: Departing visitors by country of residence and purpose of visit, 2004-2005

'000

	Holiday		Business		Transit		Total	
Country of Residence	2004	2005*	2004	2005*	2004	2005*	2004	2005*
Germany	118.4	208.7	36.6	50.8	18.5	15.1	173.5	274.6
United Kingdom	208.5	190.1	57.1	46.3	32.5	13.8	298.1	250.1
Switzerland	37.7	50.2	13.3	12.2	10.8	3.6	61.8	66.0
Italy	96.2	105.7	18.6	25.7	14.7	7.7	129.5	139.1
France	58.2	54.9	18.0	13.4	9.4	4.0	85.5	72.2
Scandinavia	27.4	26.7	8.5	6.5	4.4	1.9	40.3	35.1
Other Europe	95.0	104.5	31.3	25.4	16.3	7.6	142.5	137.5
TOTAL EUROPE	641.3	740.7	183.3	180.3	106.6	53.6	931.2	974.5
U.S.A	76.4	57.6	23.7	14.0	9.5	4.2	109.6	75.8
Canada	19.9	10.9	6.3	2.6	3.2	0.8	29.5	14.3
TOTAL NORTH AMERICA	96.3	68.5	30.0	16.6	12.7	5.0	139.1	90.1
Uganda	8.6	10.9	7.0	2.6	2.7	0.8	18.3	14.3
Tanzania	10.4	12.8	6.4	3.1	3.0	0.9	19.8	16.9
Other Africa	25.4	62.2	13.1	15.2	10.4	4.5	48.9	81.9
TOTAL AFRICA	44.4	85.9	26.5	20.9	16.1	6.2	87.0	113.1
India	18.5	15.8	12.8	5.4	2.3	1.0	33.6	22.2
Japan	17.4	12.9	5.4	5.6	4.8	0.7	27.6	19.2
Israel	4.2	6.7	1.3	2.9	0.7	1.1	6.1	10.7
Other Asia	8.4	19.0	2.1	4.6	1.7	1.4	12.2	25.0
TOTAL ASIA	48.5	54.4	21.6	18.5	9.5	4.2	79.6	77.1
Australia and New Zealand	6.8	11.9	4.9	2.9	2.6	0.9	14.2	15.6
All Other Countries	8.1	22.7	2.2	5.5	1.6	1.6	11.9	29.9
TOTAL	845.5	984.1	268.4	244.8	149.1	71.4	1,262.9	1,300.3

* Provisional
Source: central Bureau of Statistics.

13.8. Table 13.4 shows the number of days stayed by visitors categorised by purpose of visit. The total number of days stayed increased from 12.9 million days in 2004 to 16.0 million days in 2005. The number of days stayed by visitors on holiday rose from 11.4 million in 2004 to 13.4 million in 2005. The number of days stayed by visitors on business increased by 83.7 per cent, while, the number of days stayed by visitors on transit declined by 3.0 per cent. Overall, average length of stay by all categories of visitors declined from 13.0 thousand days in 2004 to 12.3 thousand days in 2005.

Table 13.4: Number of days stayed+ by purpose of visit+, 2001-2005

'000

Purpose	2001	2002	2003	2004	2005*
Holiday	7,123.2	7,335.8	6,975.9	11,414.3	13,383.8
Business	699.0	717.1	979.8	1,336.0	2,454.4
Transit	321.8	374.8	396.8	147.1	142.8
TOTAL	8,144.0	8,427.7	8,352.5	12,897.4	15,981.0
Average length of stay in days	8.4	8.5	8.4	13.0	12.3

\+ Excludes days stayed by "Other Visitors" Category
* Provisional

Hotel Occupancy

13.9. Table 13.5 presents hotel bed-nights occupancy by visitors' country of residence. Hotel bed nights occupancy increased from 3.8 million in 2004 to 4.5 million in 2005. The total number of available hotel bed-nights increased marginally from 10.0 million in 2004 to 10.8 million in 2005.

Table 13.5: Hotel Bed - Nights Occupancy by Country of Residence, 2001-2005

'000

Country of Residence	2001	2002	2003	2004	2005*
Permanent Occupants**	21.1	12.9	9.7	32.7	44.9
Germany	541.2	721.3	420.4	465.9	689.9
Switzerland	175.1	218.3	125.9	145.6	164.3
United Kingdom	606.0	591.4	324.3	516.2	628.4
Italy	136.2	211.9	144.0	166.9	353.1
France	180.6	164.8	113.9	164.4	183.5
Scandinavia	66.7	56.3	45.6	69.4	88.8
Other Europe	229.6	244.9	213.5	606.2	346.5
EUROPE	1,935.4	2,208.9	1,387.5	2,134.5	2,454.6
Kenya Residents	740.2	656.1	738.7	1,190.3	1,129.6
Uganda	34.2	26.9	26.2	43.1	37.0
Tanzania	38.9	26.7	30.4	43.4	44.1
East and Central Africa	45.8	34.5	27.6	43.0	55.7
West Africa	24.6	25.1	15.4	27.9	30.2
North Africa	17.3	12.7	16.5	21.0	18.9
South Africa	39.0	42.7	34.4	48.2	51.1
Other Africa	50.2	24.9	39.8	65.1	52.8
AFRICA	990.2	849.6	928.9	1,482.0	1,419.5
U.S.A	169.9	149.8	109.6	165.1	206.8
Canada	25.5	22.4	17.6	28.7	35.8
Other America	20.4	22.3	17.5	24.6	23.8
AMERICA	215.8	194.5	144.7	218.3	266.4
Japan	39.5	44.2	26.2	33.5	34.6
India	29.5	25.0	29.2	38.4	44.6
Middle East	53.7	37.7	20.3	23.4	31.3
Other Asia	19.5	17.3	18.2	35.9	63.2
ASIA	142.2	124.2	93.8	131.2	173.8
Australia and New Zealand	20.6	21.9	17.0	22.5	40.6
All Other Countries	29.6	25.0	24.2	70.2	76.8
TOTAL-OCCUPIED	3,354.9	3,436.8	2,605.9	3,791.5	4,476.6
TOTAL-AVAILABLE	8,327.8	8,182.7	7,765.7	10,030.7	10,845.6
Occupancy rate %	40.3	42.0	33.6	37.8	41.3

*Provisional

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

13.10. Bed nights' occupancy by visitors from Asian countries increased by 32.5 per cent from 131.2 thousand in 2004 to 173.8 thousand in 2005 reflecting a positive response of increased frequency of the national carrier to the Far East. Bed-nights occupied by visitors from European countries grew by 15.0 per cent in 2005. Bed nights occupied by residents from African countries dropped by 4.2 per cent in 2005 compared to a rise of 59.5 per cent in 2004. Residents of Germany and United Kingdom accounted for 15.4 and 14.0 per cent of the total occupancy respectively, the largest share of bed-nights occupied by foreign residents. Bed-nights occupied by residents from Italy more than doubled increasing from 166.9 thousand in 2004 to 353.1 thousand in the review year. Bed-nights occupied by residents from USA which accounted for 77.6 per cent of all bed-nights from America increased by 25.3 per cent during the year under review. Kenyan residents' bed-nights dropped by 5.1 per cent from 1,190.3 thousand in 2004 to 1,129.6 thousand

in 2005 compared to a growth of 61.1 per cent in 2004. The overall bed-night occupancy rate, which is a measure of the total bed-nights occupied as a per cent age of total beds-available, rose from 37.8 per cent in 2004 to 41.3 per cent in 2005.

13.11. Table 13.6 displays the distribution of hotel bed-nights stayed by visitors in the various zones of the country. Total number of bed-nights occupied at the coastal beach hotels increased by from 1.9 million in 2004 to 2.3 million in 2005. Bed-nights occupancy in other coastal hotels, increased by 48.0 per cent from 29.4 thousand in 2004 to 43.5 thousand in 2005.

Table 13.6: Hotel bed-nights by Zone, 2001-2005

'000

Zone	2001	2002	2003	2004	2005*
Coastal-Beach	1,438.2	2,171.8	1,269.6	1,883.5	2,273.7
Coastal-Other	136.1	108.2	36.5	29.4	43.5
Coastal Hinterland	56.6	44.9	60.9	52.9	75.1
Nairobi-High Class	568.6	589.8	572.7	793.7	870.9
Nairobi-Other	124.9	65.7	124.0	194.5	180.5
Central	74.5	80.7	143.8	247.8	265.1
Masailand	138.3	135.2	130.4	272.3	361.9
Nyanza Basin	94.4	103.7	127.9	167.7	196.7
Western	91.3	95.9	97.2	100.8	128.0
Northern	41.2	40.9	42.9	48.8	81.2
TOTAL-OCCUPIED	3,354.9	3,436.8	2,605.9	3,791.5	4,476.6
TOTAL-AVAILABLE	8,327.8	8,182.7	7,765.7	10,030.7	10,845.6

*Provisional

13.12. Bed occupancy in Nairobi's high-class hotels recorded a slowed growth of 9.7 per cent in 2005 compared to growth of 38.6 per cent in the previous year. Bed-nights occupied by visitors to other hotels in Nairobi declined by 7.2 per cent, to 180.5 thousand in 2005. Central region bed-nights occupancy increased by 7.0 per cent while bed nights-occupancy in Masailand grew by 32.9 per cent in 2005. The Northern zone recorded a significant growth of 66.4 per cent in 2005, mainly due to the improved security in the region and the strategic tourism promotion by KTB in the northern corridor. Nyanza Basin and Western zone both recorded growths of 17.3 and 27.0 per cent respectively.

13.13. Table 13.7 shows hotel bed-nights by region and country of residence.Most of the visitors preferred to stay in Coast region hotels, which took a share of 52.3 per cent in bed-nights occupancy in 2005 followed by Nairobi hotels with 23.5 per cent. Lodges and other areas accommodated 11.9 and 12.3 per cent respectively in 2005. German visitors occupied the highest bed-nights at the Coast recording 606.4 thousand, followed by Kenyan residents with 399.3 thousand, while visitors from United Kingdom occupied 387.8 thousand. In Nairobi hotels, Kenyan residents occupied 253.8 thousand bed-nights, followed by United Kingdom and USA with 95.8 thousand. Visitors from other Asia occupied 39.1 thousand bed-nights in Nairobi. Most visitors from Europe preferred to stay in the Coastal region which accounted for over 76.0 per cent, while those from America, Asia and African countries preferred staying in Nairobi hotels.

Table 13.7: Hotel bed-nights by area and country of residence, 2005*

'000

Country of Residence	Nairobi	Coast	Lodges	Others	Total
Permanent Occupants** ..	35.2	6.9	0.0	2.8	44.9
Germany	24.0	606.4	54.1	5.4	689.9
Switzerland	10.9	137.3	14.3	1.7	164.3
United Kingdom	95.8	387.8	118.9	25.9	628.4
Italy	12.1	312.7	26.3	2.1	353.1
France	27.1	102.3	49.6	4.4	183.5
Scandinavia	31.9	24.7	26.5	5.6	88.8
Other Europe	68.5	206.3	59.6	12.1	346.5
Kenya	253.8	399.3	39.9	436.6	1129.6
Uganda	27.0	6.3	0.4	3.4	37.0
Tanzania	32.6	8.1	0.5	3.0	44.1
East & Central Africa	48.5	3.6	1.8	1.8	55.7
West Africa	27.5	1.8	0.4	0.6	30.2
North Africa	16.7	1.2	0.5	0.5	18.9
South Africa	39.8	8.5	1.9	0.9	51.1
Other Africa	41.2	8.7	1.3	1.6	52.8
U.S.A.	95.8	24.7	65.1	21.2	206.8
Canada	18.6	5.0	9.9	2.3	35.8
Other America	12.1	5.0	5.0	1.6	23.8
Japan	14.6	1.3	16.7	2.0	34.6
India	27.7	4.1	9.2	3.7	44.6
Middle East	22.7	2.7	4.3	1.6	31.3
Other Asia	39.1	4.3	13.3	6.5	63.2
Australia & New Zealand	12.3	16.4	9.8	2.2	40.6
All Other Countries..... ..	15.7	55.5	3.4	2.1	76.8
TOTAL	1,051.3	2,340.9	532.9	551.4	4,476.5
PER CENT AGE SHARE	23.5	52.3	11.9	12.3	100.0

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

13.14. Table 13.8 provides data on the number of bed-nights occupied in Game Reserves and National Parks. The number of bed-nights occupied by foreign residents increased by 66.6 per cent, from 295.4 thousand in 2004 to 492.2 thousand in 2005. Bed-nights occupancy by East African residents declined by 30.5 per cent after registering a growth of 59.8 per cent in 2004. 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, 2003 – 2005

'000

	Bed-Nights Occupied					
	Foreign Residents			E.A. Residents		
	2003	2004	2005*	2003	2004	2005*
Game Reserves	120.0	188.8	314.0	12.2	20.5	12.3
National Parks	62.9	106.6	178.2	23.6	38.7	28.4
TOTAL	182.9	295.4	492.2	35.8	58.6	40.7
Of which full Catering ..	155.5	246.9	410.5	28.6	45.7	30.6
Self Service	27.4	48.5	81.7	7.2	13.2	10.1

[+] Lodges in National Parks and Game Reserves
*Provisional

Other Tourists Attractions

13.15. As shown in Table 13.9, the number of visitors to parks and game reserves increased from 1.8 million in 2004 to 2.1 million in 2005. Majority of the visitors visited the animal orphanage, Lake Nakuru, Maasai Mara, Tsavo (East & West), Amboseli and Nairobi Safari Walk, accounting for over 66.0 per cent of the visits to parks and game reserves during the review period. Increases were observed in all other parks except Haller's Park which recorded a drop of 4.0 per cent during the year under review.

Table 13.9: Number of visitors to parks and game reserves, 2001-2005

'000

	2001	2002	2003	2004	2005*
Nairobi	101.6	90.4	71.3	92.5	99.9
Nairobi Safari Walk	113.5	114.4	66.3	88.0	127.5
Animal Orphanage	151.1	254.5	205.3	239.4	257.8
Amboseli	91.5	92.0	54.7	101.6	126.2
Tsavo (West)	78.7	76.3	62.6	92.7	105.7
Tsavo (East)	132.7	152.8	119.2	158.5	180.1
Aberdare	40.5	41.5	30.3	44.0	48.3
Lake Nakuru	209.4	229.8	216.7	257.0	344.6
Masai Mara	207.2	231.1	233.0	240.0	285.2
Haller's Park	87.2	87.0	99.9	101.2	100.8
Malindi Marine	26.5	29.8	22.8	27.5	32.8
Lake Bogoria	59.6	18.7	64.7	64.7	65.7
Meru	7.8	8.2	5.7	6.4	8.9
Shimba Hills	18.3	14.4	16.2	18.7	17.3
Mount Kenya	26.3	27.9	25.5	27.7	39.5
Samburu	6.3	6.0	6.0	6.2	7.3
Kisite/Mpunguti	45.7	47.1	35.9	51.7	59.2
Mombasa Marine	29.1	30.5	31.4	32.3	36.2
Watamu Marine	30.0	29.3	21.1	28.4	32.4
Hell's Gate	73.0	60.9	75.1	38.9	35.6
Impala Sanctuary(Kisumu)	96.9	117.7	69.6	63.3	87.9
Mt. Longonot	13.8	12.8	12.2	9.5	11.5
Other**	17.4	11.0	30.5	30.3	22.5
TOTAL	1,664.1	1,784.1	1,575.9	1,820.2	2,132.9

* Provisional
** Other includes Arabuko Sokoke, Ol-Donyo Sabuk, Marsabit, Saiwa swamp, Sibiloi, Chyulu, Ruma National Park, Mwea National Reserve, Central Island National Park, Kiunga, Mt.Elgon, Nasolot, Ndere, and Kakamega.

13.16. The total number of visitors to museums, snake parks and historical sites as shown in Table 13.10 rose marginally by 7.5 per cent, from 699.0 thousand in 2004 to 751.6 thousand in 2005. Visitors to the Nairobi National Museum increased from 223.9 thousand in 2004 to 242.4 thousand in 2005 reflecting 8.3 per cent increase. Visitors to Snake Park increased from 97.9 thousand to 105.1 thousand, while visitors to Fort Jesus increased from 126.2 thousand in 2004 to 127.5 thousand in 2005. Visitors to Karen Blixen rose from 47.4 thousand in 2004 to 59.1 thousand in 2005. Visitors to Kitale Museum rose from 40.9 thousand in 2004 to 42.4 thousand in 2005. Visitors to Kisumu, Gedi, Meru, and Kapenguria recorded marginal increases in the review period.

Table 13.10: Number of visitors to museums, Snake Park and sites, 2001-2005

000

	2001	2002	2003	2004	2005*
National Museum:(Main Gate)	251.6	202.7	275.4	223.9	242.4
National Museum:(Snake Park)	83.6	76.2	84.2	97.9	105.1
Fort Jesus	140.3	140.7	122.4	126.2	127.5
Kisumu Museum	62.3	45.1	70.2	78.1	79.2
Kitale Museum	29.6	21.5	34.0	40.9	42.4
Gedi	18.1	23.3	25.6	31.3	33.5
Meru Museum	19.2	14.9	16.9	17.0	18.9
Lamu	4.3	0.8	3.4	4.6	5.8
Jumba la Mtwana	4.6	3.1	2.7	6.0	7.0
Olorgessaile	1.8	7.3	0.0	1.1	1.2
Kariandusi	4.6	5.7	5.5	5.7	6.2
Hyrax Hill	3.4	6.1	3.7	5.8	6.6
Karen Blixen	51.3	46.4	34.0	47.4	59.1
Kilifi Mnarani	1.1	1.8	0.4	0.9	1.0
Kabarnet	0.9	1.2	1.3	3.2	3.7
Kapenguria	3.5	3.4	3.8	5.0	6.6
Pete Sites	0.1	0.1	0.0	1.0	1.3
Swahili House	0.8	0.5	0.5	0.6	0.8
German Post	0.06	0.07	0.1	0.1	0.6
Lamu Fort	1.1	0.8	0.9	0.9	1.0
Takwa Ruins	1.6	1.4	1.3	1.3	1.8
TOTAL	675.8	603.1	686.3	699.0	751.6

*Provisional

Conference Tourism

13.17. The number of local and international conferences held has been increasing over the years as shown in Table 13.11. The number of local conferences held increased by 70.3 per cent from 912 in 2004 to 1,553 in 2005, while the number of International conferences rose by 28.3 per cent in the same period. The number of local delegates increased from 75.1 thousand in 2004 to 269.1 thousand in 2005, while the number of international delegates rose from 18.6 thousand in 2004 to 42.2 thousand in 2005. The number of delegate days for locals rose from 289.4 thousand in 2004 to 648.5 thousand in 2005. Delegate days for international conferences rose from 74.6 thousand to 163.0 thousand in 2005. Local conference occupancy rate was 15.9 in 2005, compared to 14.9 per cent the previous year, while international conferences occupancy rate for the year under review increased to 4.0 per cent.

Table 13.11: Reported conferences, 2003-2005

Number

	2003		2004		2005*	
	Local	International	Local	International	Local	International
No.of conferences	805	126	912	145	1,553	186
No.of delegates	52,477	16,362	75,148	18,604	269,116	42,170
No.of delegate days	209,908	57,267	289,441	74,615	648,484	163,005
No.of delegate days available	1,648,201	1,648,201	1,945,227	1,945,227	4,073,631	4,073,631
Per cent age Occupancy	12.7	3.5	14.9	3.8	15.9	4.0

*Provisional

Tourism Promotion

13.18. Strategic marketing of Kenya as a preferred tourist destination and the understanding of the source markets resulted to the improvement in the sector. This included increased flights to the Far East by Kenya Airways and aggressive marketing campaign done by KTB.

13.19. Table 13.12 shows the number of graduates who have undergone training at the Kenya Utalii College from 2001. Over the years, the institution has continued to train those aspiring to work in the hospitality industry. Overall, persons who graduated from Utalii College increased by 20.7 per cent from 2,216 in 2004 to 2,674 in 2005.

Table 13.12 Kenya Utalii College graduates, 2001-2005

Year	Pioneer course***	In-Service	Professional Courses				Grand Total
			MDP**	Ordinary	Service Advance	Grand Total	
2001	297	880	128	317	22	467	1,644
2002	450	983	151	363	18	532	1,965
2003	941	1,169	179	391	15	585	2,695
2004	570	1,108	183	346	9	538	2,216
2005*	660	1,455	235	311	13	559	2,674

Source: Kenya Utalii College
* Provisional
**MDP Management Development Programmes
***Pioneer is 3 month course

13.20. Graduates who completed pioneer course increased from 570 in 2004 to 660 in 2005. In-service graduates rose by 31.3 per cent over the same period. Those who completed the Management Development Programme course (MDP) increased by 28.4 per cent from 183 in 2004 to 235 in 2005. Graduates of ordinary diploma course dropped by 10.1 per cent from 346 in 2004 to 311 in 2005. Graduates who completed service advanced diploma increased from 9 in 2004 to 13 in 2005.

Chapter 14
Transport, Storage and Communications

Overview

The continued recovery of the domestic economy was evident in the transport and communications sector in 2005, with key economic activities in the sector experiencing either rapid or sustained expansion. Consequently, gross receipts to the sector at current prices increased by a significant 16.5 per cent to realise KSh 329,915 million during 2005 compared to KSh 283,271 million during the previous year. In real terms, the sector's growth went up by 8.3 per cent in 2005 compared to 6.7. per cent in 2004. This remarkable expansion of the sector was spurred by a combination of factors including the robust growth in the communications sub-sector; the revamped tourism industry that had positive spill-over effects to the air transport industry; incidental services to the transport sector and considerable improvement of activities in the road and water transport sub-sectors.

14.2. During the year under review, transport and communications sub-sectors posted higher output values with exception of the railway transport sub-sector. In the communications sub-sector, subscriber base of mobile telephone service expanded further to 5.6 million in 2005 compared to 4.3 million in 2004. Newly registered road vehicles maintained a steady growth, rising from 42,482 in 2004 to 45,653 in 2005. The increase was against a backdrop of an extraordinary importation of 67,102 units through the Port of Mombasa. Cargo traffic at the port of Mombasa improved further by 3.1 per cent from 12.9 million tonnes in 2004 to 13.3 million tonnes in 2005 with imports accounting for 81 per cent of the total traffic handled. Combined passenger traffic at the two major airports of Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) went up by 6.0 per cent from 5.0 million in 2004 to 5.3 million in 2005. Higher volumes of white petroleum products were transported via the pipeline for both local and export markets, with the total pipeline throughput standing at 3.5 million cubic metres in 2005 compared to 3.2 million cubic metres in 2004. Freight traffic by rail increased slightly from 1.9 million tonnes in 2004 to 2.0 million tonnes in 2005. The number of passengers carried by rail during the same period declined by 15.8 per cent to 4.8 million in 2005 from 5.7 million in 2004.

14.3. In spite of the impressive performance witnessed in transport and communications sector during the year under review, several factors constrained further output growth. These included high operating costs due to rise in fuel prices and spare parts, inefficient and dilapidated infrastructure and significant appreciation of the local currency against major international currencies.

Table 14.1: Transport and Communications - Value of Output, 2001 - 2005

KSh million

	2001	2002	2003	2004	2005*
Road Transport	100,400	101,581	111,276	139,148	156,048
Railway Transport	4,878	4,653	4,609	4,674	4,593
Water Transport	9,589	10,490	11,296	13,187	17,204
Air Transport	32,501	34,904	36,409	46,371	62,801
Services Incidental to Transport	12,239	12,214	13,529	16,814	19,470
Pipeline Transport	6,532	6,631	6,761	7,386	7,912
Communications	41,270	50,022	51,699	55,691	61,888
Total	**207,408**	**220,495**	**235,578**	**283,271**	**329,915**

* Provisional.

Value of Output

14.4. Table 14.1 presents sub-sectoral output values of the transport and communications sector. Nominal value of output from the sector increased by 16.5 per cent to KSh 329,915 million in 2005 from KSh 283,271 million in 2004. Road transport sub-sector recorded market output valued at KSh 156,048 million in 2005 compared to an output value of KSh 139,148 million in 2004. This represented a reduced output growth of 12.1 per cent in 2005 compared to 25.0 per cent attained in 2004. Output growth in air and water transport sub-sectors increased by 35.4 per cent and 30.5 per cent respectively in 2005 while output of the railway transport industry declined by 1.7 per cent in 2005 compared to an increase of 1.4 per cent recorded in 2004. Other transport sub-sectors namely incidental services to transport, communications and pipeline transport recorded market output growths of 15.8 per cent, 11.1 per cent and 7.1 per cent respectively, in 2005.

Road Transport

Roads

14.5. Collection of fuel levy charges and transit toll fees for the roads maintenance fund are detailed in Table 14.2. During the 2004/05 financial year, the fuel levy kitty collected a total of KSh 8.98 billion compared to 9.05 billion collected during the 2003/04 financial year. The fund is projected to collect and disburse a total of KSh 9.16 billion by the close of 2005/06 financial year

Table 14.2: Roads Maintenance Funds, 2001 - 2005

KSh million

	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006*
Fuel Levy	7,836	7,739	9,045	8,980	9,160
Transit Toll	200	222	225	229	289
Total	**8,036**	**7,961**	**9,270**	**9,219**	**9,449**

Source: Kenya Roads Board
* Provisional.

14.6. In 2005, the Roads Department in the Ministry of Roads and Public Works undertook a Road Inventory and Condition Survey (RICS) with support of the World Bank. The objective of the study was to establish the conditions of the classified road network in the country that covers 63,572 km. The study revealed that only 18 per cent of the classified road network is in good condition, 49 per cent in fair condition while 33 per cent is in poor or failed condition. A similar survey will be carried out for unclassified road network that will also include classification of the entire unclassified road network.

14.7. Earnings from passenger traffic via road increased by 11.0 per cent from KSh 91.2 billion in 2004 to KSh 101.2 billion in 2005. Similarly, proceeds from freight transport by road amounted to KSh 54.9 billion in 2005 compared to KSh 48.0 billion in 2004; an increase of 14.4 per cent. Table 14.3 gives annual breakdown of the earnings from road traffic in the country.

Table 14.3: Earnings from Road Traffic, 2001 – 2005

KSh million

	2001	2002	2003	2004	2005*
Passenger Traffic	64,400	66,737	72,723	91,188	101,174
Freight Traffic	36,000	334,844	38,553	47,960	54,874
Total Road Traffic Earnings	**100,400**	**101,581**	**111,276**	**139,148**	**156,048**

*** Provisional.**

New Registration of Motor Vehicles

14.8. Table 14.4 gives highlights of newly registered vehicles in the country. The data shows that the increase in the total number of newly registered vehicles recorded in the past four years was maintained in 2005. A record of 45,653 vehicles was registered in 2005 compared to 42,482 registered in 2004; representing a 7.5 per cent growth. Saloon cars, station wagons, panel vans and pickups accounted for two-thirds of the total new registrations. The unprecedented 54.3 per cent increase in registration of Mini-buses and Matatus in 2004 slowed down by 7.5 per cent in 2005. Road passenger transport industry received unsurpassed investment in 2004 following the introduction of the new traffic rules and regulations.

Table 14.4: New Registration of Road Vehicles

Number

Type of Vehicle	2001	2002	2003	2004	2005*
Saloon Cars	8,258	10,534	9,709	12,628	14,216
Station Wagons	4,733	6,746	8,032	8,863	10,158
Panel Vans, Pick-ups, etc	4,747	5,834	6,819	7,042	6,308
Lorries/Trucks	1,283	1,919	2,069	2,461	3,113
Buses and Coaches	490	407	667	872	885
Mini Buses/Matatu	3,598	3,996	2,854	4,405	4,076
Trailers	603	503	861	1,112	1,351
Wheeled Tractors	575	678	663	829	856
Motor and Auto Cycles	1,559	1,907	2,084	4,136	3,759
Three Wheelers	2	3	10	134	735
Other vehicles	176	111	149	152	195
Total Units Registered	**26,024**	**32,527**	**33,768**	**42,482**	**45,653**

Source: Kenya Revenue Authority

* Provisional.

14.9. Use of three wheelers in transportation of passengers has gained popularity in major towns of the country as they are deemed cheaper to operate and offer door to door delivery services. Consequently, its registration recorded a five-fold rise; increasing from 134 in 2004 to 735 in 2005. Newly registered Lorries and trucks increased by a notable 26.5 per cent from 2,461 in 2004 to 3,113 in 2005. Trailers posted a growth of 21.5 per cent, rising from 1,112 in 2004 to 1,351 in 2005. This reflects increasing demand for freight transport services. However, registration of motor and auto cycles experienced a drop of 9.1 per cent from 4,136 in 2004 to 3,759 in 2005. The stock of wheeled tractors available in the country increased further after a total of 856 tractors were newly registered in the year under review.

Road Licenses

14.10. All categories of licenses issued by Transport Licensing Board (TLB) in 2005 show increased activity compared to the levels attained in 2004. Licenses

issued for freight transport vehicles during the year increased by 15.4 per cent to 23,271 from 20,158 in 2004. Passenger Service Vehicles (PSV) licenses issued for buses and tourist vehicles went up from 5,818 in 2004 to 6,703 in 2005. Likewise, PSV Matatu licences increased by 13.9 per cent to reach 33,352 in 2005 from 29,275 in 2004, as shown in Table 14.5.

Table 14.5: Road Transport Licenses Issued, 2001 – 2005

Number

	2001	2002	2003	2004	2005*
TLB Licenses					
PSV Matatus.	26,475	29,403	24,775	29,275	33,352
PSV Buses and Tourist Vehicles.	7,264	8,853	4,903	5,818	6,703
Freight Transport Vehicles.	13,509	25,845	17,653	20,158	23,271
Total	**47,248**	**64,101**	**47,331**	**93,452**	**63,325**
Driving Licenses					
Original	62,599	66,085	81,890	91,145	106,060
Duplicate..	18,088	16,790	20,300	35,967	32,998
Foreign.....	2,762	2,014	2,144	1,623	1,949
Total.	**83,449**	**84,889**	**104,334**	**128,735**	**141,007**

Source: Kenya Revenue Authority

* Provisional

14.11. On the other hand, more drivers continued to be trained resulting in issuance of 106,060 new driving licenses in 2005 compared to 91,145 issued in 2004. Foreign drivers' licences category recovered from a drop of 24.3 per cent in 2004 to post a growth of 20.1 per cent in 2005.

Road Traffic Accidents

14.12. Due to the rising demand for statistics on road traffic accidents by users and mainly researchers and stakeholders in the insurance industry, the information is now published for the first time in this report. Table 14.6 gives details of reported traffic accidents in the country for the past five years. As shown in the table, total number of reported traffic accidents increased by 15.7 per cent from 10,717 in 2004 to 12,399 in 2005. The increase depicts a resurgence of road traffic accidents when compared to a drop of 19.9 per cent recorded in 2004. Increased cases of traffic accidents occasioned a proportional rise in the number of people who perished as a result of the accidents. In 2005, a total of 2,531 persons lost their lives through road accidents in comparison to 2,264 in 2004; a rise of 11.8 per cent. Similarly, the number of persons who sustained either serious or slight injuries caused by accidents increased by 17.0 per cent and 4.1 per cent, respectively, in 2005 from respective significant declines of 32.7 per cent and 25.6 per cent in 2004. Overall, the total number of persons who were involved in traffic accidents in the country in 2005 stood at 22,771 compared to 20,873 in 2004.

Table 14.6: Road Traffic Accidents, 2001 – 2005

Number

	2001	2002	2003	2004	2005*
Total Number of reported Traffic Accidents	**13,407**	**13,418**	**13,378**	**10,717**	**12,399**
Persons Killed or Injured					
Killed	2,790	2,782	3,004	2,264	2,531
Seriously Injured	10,504	10912	10,036	6,751	7,899
Slightly Injured	16,114	15,080	15,935	11,858	12,341
Total	**29,408**	**28,774**	**28,975**	**20,873**	**22,771**

Source: Kenya Police
*** Provisional.**

Railway Transport

14.13. Performance of the railway transport sub-sector remained depressed during the period under review with tonnage of freight handled increasing slightly from 1.9 million tonnes in 2004 to 2.0 million tonnes in 2005. Details of the railway traffic performance are contained in Table 14.7. Transportation of freight earned Kenya Railway Corporation an amount of KSh 4.0 billion in 2005 compared to KSh 3.9 billion in 2004. The increase is associated with improved movement of containers and transit cargo traffic from the port of Mombasa to the Great Lakes region.

Table 14.7: Railway Traffic, 2001 - 2005

	Unit	2001	2002	2003	2004	2005*
Freight:						
Tonnes	'000'	2,330	2,227	1,999	1,890	2,000
Tonne-km	million	1,603	1,638	1,789	1,454	1,358
Revenue	KSh. mill.	4,660	4,514	3,845	3,888	4,010
Revenue per tonne-Km.	Cts	290	293	215	267	295
Passenger:						
Journeys	'000'	5,517	4,794	4,401	5,657	4,796
Passenger-Km	million	216	306	295	279	489
Revenue	KSh. mill.	202	153	160	245	233
Revenue per passenger-Km.	Cts	94	42	54	87	48

Source: Kenya Railway Corporation
* Provisional.

14.14. Rail passenger transport suffered a 15.8 per cent drop in passenger journeys from 5.7 million in 2004 to 4.8 million in 2005. The passenger revenue stream earned the Corporation KSh 232.9 million in 2005 compared to KSh 244.9 million in 2004; a revenue drop of 4.9 per cent. The on-going joint concessioning of the Kenya Railways Corporation is at an advanced stage and is aimed at rejuvenating its activities and turn it to a profit-making institution.

Water Transport

14.15. Details of traffic handled at the port of Mombasa are presented in Table 14.8. Total freight handled at the Port rose by 3.1 per cent from 12.9 million tonnes handled in 2004 to 13.3 million tonnes. Overall increase in cargo traffic is attributable to imported cargo that accounted for more than three-quarters of the total traffic handled in 2005. The 6.8 per cent increase in import cargo is wholly explained by 34.1 per cent and 7.0 per cent increase in imports of dry bulk and bulk liquids, respectively, over the previous year.

Table 14.8: Traffic handled at Mombasa Port, 2001 - 2005

	Unit	2001	2002	2003	2004	2005*
Containers Traffic	TEUs	290,500	305,427	380,353	438,597	436,671
Ships Docking	No.	1,582	1,720	1,705	1,779	1,731
Imports	000' DWT					
Dry General	"	2,837	2,820	3,363	3,834	3,654
Dry Bulk	"	1,168	1,098	1,404	1,588	2,129
Bulk Liquids	"	4,294	3,926	4,491	4,595	4,918
Total Imports	"	**8,299**	**7,844**	**9,258**	**10,017**	**10,701**
Of which Transit In	"	*1,844*	*1,875*	*2,186*	*2,590*	*3,202*
Motor Vehicles landed	No.	36,026	43,093	43,474	54,854	67,102
Exports	000' DWT					
Dry General	"	1,592	1,707	1,417	1,867	1,819
Dry Bulk	"	211	464	380	381	296
Bulk Liquids	"	196	209	271	246	173
Total Exports	"	**1,999**	**2,380**	**2,068**	**2,494**	**2,278**
Of which Transit Out	"	273	340	266	300	334
Total Imports and Exports	"	**10,298**	**10,224**	**11,326**	**12,511**	**12,979**
Transhipment	"	303	340	605	409	303
Grand Total	"	**10,601**	**10,564**	**11,931**	**12,920**	**13,282**

Source: Kenya Ports Authority
* Provisional.
DWT - Deadweight Tonnes

14.16. Container traffic, however, registered a marginal drop of 0.4 per cent in 2005 reflecting the loss of transhipment shipping services that were redirected to other ports in the neighbouring countries. The number of containers handled at the port dropped from 438,597 Twenty Foot-Equivalent Units (TEUs) in 2004 to 436,671 TEUs in 2005.

14.17. A total of 67,102 vehicles were discharged at the port of Mombasa in 2005 compared to 54,854 in 2004, representing an increase of 22.3 per cent in the number of vehicles imported.

Pipeline Transport

14.18. Table 14.9 presents details of the white petroleum products pumped for local and export markets. Total throughput of white petroleum products pumped by the Kenya Pipeline Company rose by 6.1 per cent to reach 3.5 million cubic metres in 2005 from 3.3 million cubic metres in 2004. Uplifts for export recorded an increase of 22.2 per cent from 0.9 million cubic metres in 2004 to 1.1 million cubic metres in 2005. The significant rise of uplift for the export market is attributable to the expansion of economic activities in neighbouring countries especially Uganda. In particular, export volumes of jet fuel nearly doubled while that of light diesel oil rose by 22.3 per cent.

Table 14.9: Pipeline Throughput of White Petroleum Products, 2001 - 2005

'000 Cu. Metres

	2001	2002	2003	2004	2005*
Exports					
Motor Spirit (Premium).....	307.4	306.1	324.4	327.1	362.3
Motor Spirit (Regular).....	0.2	-	0.3	-	-
Kerosene Illuminating Oil.....	75.6	79.7	87.3	98.5	106.5
Light Diesel Oil.....	314.7	332.0	388.2	416.7	509.6
Jet Fuel.....	71.5	73.2	44.0	60.4	116.7
Sub-Total	769.3	791.0	844.2	902.7	1,095.2
Domestic Consumption**					
Motor Spirit (Premium).....	317.0	319.1	350.6	387.9	386.3
Motor Spirit (Regular).....	176.8	154.5	103.8	102.9	86.6
Kerosene Illuminating Oil.....	297.2	296.0	302.3	300.1	269.7
Light Diesel Oil.....	688.6	581.5	668.9	883.4	957.2
Jet Fuel.....	568.0	619.4	695.2	745.1	732.7
Sub-Total	2,047.6	1,970.5	2,120.8	2,419.5	2,432.5
Grand Total	**2,816.9**	**2,761.4**	**2,965.0**	**3,322.1**	**3,527.7**

Source: Kenya Pipeline Company
*Provisional.
** Figures does not include volume carried through by Kenya Railways and consumption in the Coastal area

14.19. In the domestic scene, volume of white petroleum products pumped for local consumption remained fairly constant, stabilizing at about 2.4 million cubic metres between 2004 and 2005. Notable throughput declines were however registered for all categories of petroleum products in 2005, except for light diesel oil which expanded by 8.4 per cent. Combined throughput volume of motor spirit premium and regular declined by 3.6 per cent in 2005 compared to the volume pumped in 2004. Similarly, volumes of kerosene illuminating oil and jet fuel pumped for domestic consumption in 2005 dropped by 10.1 per cent and 1.7 per cent, respectively.

Air Transport

Passenger Traffic

14.20. Passenger traffic at local international airports and domestic airstrips increased by 7.3 per cent to 5.9 million in 2005 up from 5.5 million in 2004 on account of steady flow of tourists into the country. Jomo Kenyatta International Airport (JKIA) alone handled a total of 4.2 million passengers during the year under review compared to 4.0 million in 2004 and accounted for 71.2 per cent of the total air traffic passenger. Traffic through Moi International Airport (MIA) grew by 9.2 per cent in 2005 to attain a record 1.1 million passengers mark compared to 18.5 per cent increase recorded in 2004. The airport accounted for 18.6 per cent of the total air transport passenger traffic in the country.

14.21. Activity in other airports and airstrips in the country was quite vibrant with passenger traffic rising by a significant 26.3 per cent in 2005 in comparison to a modest rise of 0.5 per cent realised in 2004. Details of volumes of passenger traffic at the airports and airstrips in the country are contained in Table 14.10.

Table 14.10: Commercial Traffic at Main Airports, 2001 – 2005

'000

			2001	2002	2003	2004	2005*
Passengers (No)	JKIA **Nairobi**	Arrivals	1,383.0	1,458.0	1,680.3	1,927.2	2,144.2
		Departures	1,399.0	1,472.0	1,632.3	1,934.7	1,193.8
		In Transit	187.0	127.0	138.5	137.8	901.0
		Sub-Total	2,969.0	3,057.0	3,451.1	3,999.7	4,239.0
	MIA **Mombasa**	Arrivals	413.0	426.0	388.7	465.8	501.0
		Departures	419.0	426.0	390.7	466.6	511.2
		In Transit	19.0	39.0	43.6	43.2	53.5
		Sub-Total	851.0	891.0	823.0	975.6	1,065.7
	Other Airports	Arrivals	252.2	263.0	232.9	232.0	302.8
		Departures	243.8	253.3	227.3	229.8	287.5
		In Transit	12.8	9.6	12.3	13.1	9.5
		Sub-Total	508.8	525.9	472.5	474.9	599.8
	Total Passenger Traffic		**4,328.8**	**4,473.9**	**4,746.6**	**5,450.2**	**5,904.5**
Cargo (Kgs)	JKIA **Nairobi**	Landed	40,161.2	45,418.9	43,305.1	52,783.3	42,168.5
		Loaded	98,986.0	123,384.8	122,918.9	130,327.6	160,410.1
		Sub-Total	139,147.2	168,803.7	166,224.1	183,110.9	202,578.6
	MIA **Mombasa**	Landed	1,506.5	1,242.6	1,485.0	1,624.6	1,510.0
		Loaded	1,962.3	1,769.4	3,323.0	4,909.7	6,479.2
		Sub-Total	3,468.8	3,012.0	4,808.0	6,534.3	7,989.2
	Other Airports	Landed	9,960.4	13,763.0	7,033.5	5,092.1	8,961.8
		Loaded	6,857.7	36,723.9	39,554.4	46,614.2	52,846.9
		Sub-Total	16,818.1	50,486.9	46,587.9	51,706.3	61,808.7
	Total Cargo Traffic		**159,434.1**	**222,302.6**	**217,619.9**	**241,351.5**	**272,376.5**
Mail (Tonnes)	JKIA **Nairobi**	Landed	292.0	95.7	141.6	260.6	834.4
		Loaded	172.5	109.2	151.1	97.9	425.0
		Sub-Total	464.5	204.9	292.7	358.5	1,259.4
	MIA **Mombasa**	Landed	3.8	1.9	1.5	138.6	75.6
		Loaded	24.3	30.7	38.9	112.0	110.3
		Sub-Total	28.1	32.6	40.4	250.6	185.9
	Other Airports	Landed	0.1	-	1.4	7.3	-
		Loaded	3.0	-	0.0	0.5	-
		Sub-Total	3.1	-	1.4	7.8	-
	Total Mail Traffic		495.7	237.5	334.5	616.9	1,445.3

Source: Kenya Airports Authority
* Provisional

Cargo Traffic

14.22. Overall cargo throughput at the airports rose by 12.8 per cent to 272.3 million Kilogrammes in 2005 from 241.4 million Kilogrammes in 2004. Jomo Kenyatta International Airport handled nearly three-quarters of the total air cargo traffic. Detailed analysis of the volumes of cargo traffic at JKIA and MIA shows mixed performance. While there were substantial declines in volume of imports via the two airports, significant increases were recorded for the volume of exports. Volume of cargo imported through JKIA and MIA shrunk by 20.1 per cent and 7.1 per cent, respectively, whilst cargo export volume during the same period grew respectively by 23.1 per cent and 32.0 per cent. JKIA continued to register steady growth in cargo exports particularly export of cut flowers and farm fresh produce to the traditional markets in Europe and the emerging markets in the Middle and Far East.

Communi-cations

Postal Services

14.23. Table 14.11 presents highlights of postal services in the country. The total number of public post offices decreased from 865 available in 2004 to 834 in 2005 on account of closure of sub-post offices that had been performing poorly. The number of private courier outlets increased by 28.2 per cent from 341 in 2004 to 437 in 2005. During the year under review, an additional 16 courier companies were licensed by the Communications Commission of Kenya (CCK) to operate bringing the total number of licensed courier operators to 90 in 2005 from 74 in 2004.

Table14.11: Postal Services, 2001 – 2005

Item	Unit	2001	2002	2003	2004	2005*
Post Offices..	No.	891	869	864	865	834
Private Courier Operator Outlets..	No.	296	320	330	341	437
Licensed Courier Operators	No.	40	52	63	74	90
Total Private Letter Boxes:-						
Installed	'000	393	396	396	396	400
Rented..	'000	323	325	307	301	305
Private Bags Rented	No.	1,021	916	700	852	913
Total EMS Items Handled:	**'000**	**572**	**713**	**718**	**706**	**554**
Accepted	'000	227	301	292	301	240
Delivered	'000	345	412	427	406	314
Total Registered and Insured Items Posted.	**'000**	**3,369**	**3,336**	**3,676**	**3,586**	**3269**
Domestic	'000	1,908	1,816	2,018	2,042	1790
International	'000	1,461	1,520	1,657	1,544	1479
Unregistered correspondence handled .	**Millions**	**210**	**173**	**124**	**119**	**94**
Domestic	Millions	175	149	102	95	75
International	Millions	35	24	22	23	19
**Parcels handled .. ..

14.26. The Posta Corporation of Kenya has prepared a strategic plan that spell out measures to be undertaken in response to the challenges posed by economic liberalisation and technological advancement in the way people communicate today. As a start, the company has installed internet facilities in all major post offices in the country. This include use of satellite signals to connect some of the rural sub-post offices to internet. The company is also exploring development of new products from opportunities offered by technological advancement especially hybrid mails and distribution logistics.

Telecommunications

Fixed Land Line Telephones

14.27. The network capacity of the fixed telephone lines increased marginally from 508 thousand in 2004 to 517 thousand in 2005. In 2005, new fixed line connections stood at 7,000 pushing the total land line connections in the country by 2.5 per cent from 280 thousand in 2004 to 287 thousand in 2005. In contrast, the number of available payphones reduced further from 9,502 in 2004 to 8,207 in 2005. The decline is associated with stiff competition from community telephone services offered by mobile telephone operators. Table 14.12 gives a summary of telecommunications traffic in the country.

Table 14.12: Telecommunications Traffic, 2001 - 2005

	Unit	2001	2002	2003	2004	2005*
Telephone Exchange:-						
Capacity	'000	444	446	508	508	517
Connections	'000	304	326	328	280	287
Public Call boxes (Telephone Booths):	**'000**	**9**	**10**	**11**	**10**	**8**
Coin Phones	'000	8	8	8	8	7
Card/Prepaid Phones	'000	1	2	3	2	1
Manual Telephone Calls made	'000	3,861	5,412	1,097	447	455
Mobile Connections:						
Sold in the year	'000	198	1,068	1,097	1,558	1,315
Sold to date.	'000	374	1,640	2,737	4,295	5,610
Licensed Internet Services Providers (ISPs)	No.	66	72	76	78	72
Tele - Density %	-	1.1	1.1	1.0	0.9	0.8
Tele-Accessibility %	-	2.2	4.1	6.1	8.8	14.7

***Provisional.**

Mobile Telephones

14.28. In the year under review, mobile telephone industry witnessed substantial investment in infrastructure expansion and upgrading to adequately respond to rising demand for mobile telephone services in the country. The mobile telephone subscriber base grew rapidly by 56.9 per cent bringing the total subscription level to 5.6 million in 2005 from 4.3 million in 2004. The growth was however much slower than the 66.3 per cent observed in 2004. Unavailability of grid power at various remote and rural base stations however remained a major challenge in elevating mobile telephone accessibility in the country. Details on mobile telephone sub-sector are contained in Table 14.12. Short messaging service assumed an increasing role in communication with an estimated 400 million messages sent out from the two mobile networks in 2005. Overall tele-accessibility (mobile and fixed) improved further from 8.8 per cent in 2004 to 14.7 per cent in 2005 on account of remarkable growth in mobile subscriptions.

Information and Mass Media

Broadcasting Sub-sector

14.29. In an effort to meet the ever-increasing demand for broadcast frequencies, the Communications Commission of Kenya (CCK) modified the national plan for FM broadcasting. The exercise resulted in the introduction of an additional 23 FM frequencies in the plan, facilitating assignment of 64 FM sound and 17 television frequencies, 5 Studio Transmitter Links (STL) and 4 Outside Broadcasting (OB) frequencies. The Commission recalled 10 FM frequencies and one TV frequency due to non utilization.

Table 14.13: Radio and TV Frequencies Assigned, 2001 - 2005

Number

	Unit	2001	2002	2003	2004	2005*
Frequencies						
TV Frequencies.	No.	45	54	60	77	89
FM Frequencies.	No.	84	92	137	148	244

Source: Communication Commission of Kenya
* Provisional.

14.30. The Commission also initiated a comprehensive review of the national table of frequency allocation in line with national priorities and in conformity with international agreements. These changes enabled the country to access new spectrum in various frequency bands, especially for mobile and fixed telecommunications services. The Commission also intensified radio monitoring activities to guard against disruption of essential services. Table 14.13 presents details of the annual radio and TV frequencies assigned. The rapid growth of FM frequencies allocated is as a result of increase in the demand for frequencies by security and tour companies.

Daily and Weekly Newspapers

14.31. Local daily and weekly newspapers in circulation are presented in Table 14.14. Morning English newspapers sales picked up by 3.4 per cent to 80.9 million copies in 2005 from 78.3 million copies in 2004. Circulation of Swahili newspapers declined further by 11.6 per cent in 2005 after dropping by 11.2 per cent in 2004. Sales of weekly newspapers dropped further by 2.6 per cent in 2005, after a decrease of 12.6 per cent recorded in 2004.

Table 14.14: Local Daily/Weekly Newspapers in Circulation, 2001 – 2005

'000 Copies

	2001	2002	2003	2004	2005*
Morning Newspapers-					
English	78,335	82,067	86,508	78,309	80,938
Swahili	9,622	9,255	8,686	7,711	6,818
Other Newspapers-					
English Weeklies	1,283	1,311	1,505	1,316	1,282

* Provisional

Chapter 15
Implementation of Government Finance Statistics Manual 2001 (GFSM 2001)

Overview

The Government Finance Statistics Manual 2001 (GFSM 2001) is an update of Government Finance Statistics Manual 1986 (GFSM 1986) edition. The GFSM 2001 describes an integrated statistical system that is harmonized, to the extent possible, with 1993 System of National Accounts (1993 SNA), and Balance of payments Manual. It is intended to be a reference volume describing the Government financial Statistics (GFS) system. The methodology for the compilation and presentation of data on government operations as presented in the GFSM 2001 differs significantly from that presented in the GFSM 1986 with respect to coverage, basis of recording, valuation and analytical framework.

Background

15.2. In GFSM 1986, the main focus was placed on a single balancing item - the overall deficit/surplus - calculated by considering all non-repayable cash inflows as 'revenue and grants' and all non-repayable cash outflows as 'expenditure'. Some repayable items pertaining to policy lending were included in the balancing item as 'net lending'. In the traditional approach, financing of this balance was the primary focus of analysts, with liquidity considerations being central in policy evaluation.

15.3. GFSM 1986 approach proved to be insufficient in providing information on the long-term sustainability of fiscal policies. It did not provide information needed for a realistic assessment of the effectiveness of policy decisions, and ignored a large portion of the future obligations of the government. In addition, all future payment obligations of other units of the economy towards government were ignored. Developments in government accounting and fiscal analysis over the past decade have placed increasing emphasis on accrual accounting and balance sheets. The analytical framework of GFSM 2001 reflects these developments and presents fiscal data in form of interrelated statements that integrate flows and stocks.

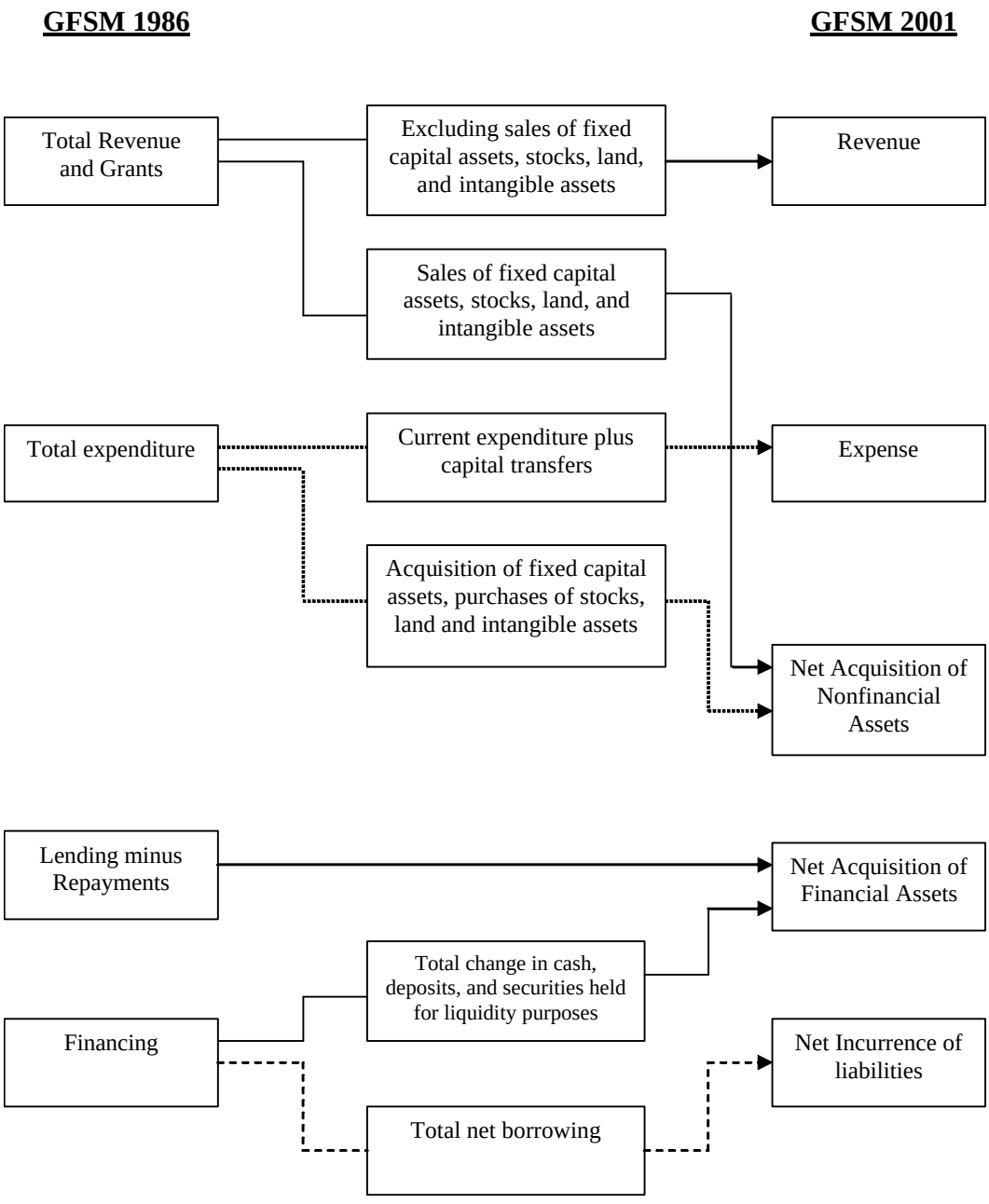
The following are some of the Major Changes that have been introduced by the GFSM 2001

- **Coverage.** The coverage of events in the revised GFS manual is broader than the GFS 1986 manual because it includes all economic events that affect assets, liabilities, revenue, or expense rather than those represented by a cash transaction
- **Basis of recording.** Government Finance Statistics are compiled on an accrual basis whereby all flows are recorded at the time when an economic value is created, transformed, exchanged or extinguished. On the other hand, GFSM 1986 recommended a basis of recording as close to the cash flow stage as possible.
- **Valuation.** It recommends market value pricing of all flows, assets, liabilities and net worth, while GFSM 1986 measured flows according to the value of cash flows and contractual liabilities the government is obliged to pay on maturity of the debt.

- **Analytical framework.** Introduces several new or revised definitions, classifications, and balancing items to enhance the analytical usefulness of the statistics and to redirect attention to various policy considerations. It also provides a comprehensive analytic framework within which the GFS can be summarized. The overall balance derived as net lending /borrowing adjusted through rearrangement of assets and liabilities is the equivalent of the overall deficit/surplus in the 1986 GFS manual, but determined using the accruals basis.

15.4. The Government has adopted GFSM 2001 classification and coding that has been used in analyzing Government Finance Statistics presented in Chapter 6.

Figure 15.1 : Broad overview of relationship between GFSM 1986 and GFSM 2001 classification system.



Classification of Revenue

15.5. In GFSM 2001, revenue is broadly classified according to four main types of revenue as shown in Table 15.1 namely: Taxes, Social Contributions, Grants and Other revenue. All GFSM 1986 total revenue and grants are classified to the GFSM 2001 aggregate revenue, except for disposal of non-financial assets (sales of fixed capital assets, sales of stocks, and sales of land and intangible assets), which are classified to the net acquisition of non-financial assets.

15.6. **Taxes:** With the exception of social security contributions and a few changes to the descriptors of some types of taxes, all GFSM 1986 tax revenue categories fits well into the GFSM 2001 tax revenue categories.

Table 15.1: Central Government Receipts on the Recurrent Account

GFSM 1986	GFSM 2001
Direct taxes	Taxes on Income, Profits and Capital gains
Income tax	Income Tax from Individuals (P.A.Y.E.)
	Income Tax from corporations (other income tax)
Not available	Taxes on Property
	Immovable property
	Financial and capital transactions
Indirect taxation	Taxes on goods and services
VAT on domestic manufactures	VAT on domestic goods and services
VAT on imports	VAT on imported goods and services
Excise duties	Excise taxes
Other taxes	Taxes on specific services
Trading licences, licences and fees under the traffic act, royalties	Taxes on use of goods and on permission to use the goods or to perform services and activities
Not available	Royalties
	Taxes on goods and services collected as Appropriation in Aid (AIA)
	Other taxes on goods and services
	Taxes on International trade transactions
Import duties	Custom duties
Not available	Other taxes on International trade transactions
	Other taxes not elsewhere classified
Not available	Social security contributions
Income from property	Property income
Sales of goods and services	Sale of goods and services
Compulsory fees, fines and penalties	Fine, penalties and forfeitures
Load repayments to government	Repayments from domestic lending and on-lending
Total	**Total**

15.7. **Social Contributions:** In GFSM 2001, social contributions comprise of the GFSM 1986 categories. social security contributions, contributions to government employee pension and welfare funds within government. Thus unlike in GFSM 1986, social contributions by government as employer are also included.

15.8. **Grants:** Are non compulsory transfers from one government unit or international organization to a second government unit or international organization. At the aggregate level, the grants category in GFSM 1986 fits into the new classification. GFSM 2001 recommends further categorization of grants into grants from: foreign governments, international organizations, and other general government units. However, the GFSM 1986 makes no distinction between grants from foreign governments and international organizations. Grants from foreign governments, international organizations and other general government units in GFSM 2001 comprise of grants from abroad supranational authorities and other levels of national governments

in GFSM 1986 respectively.

15.9**. Other Revenue. I**s defined as all revenue other than taxes, social contributions and grants and comprises primarily:

- Property income such as interest, dividends and rent;
- The sales of goods and services
- Fines, penalties and forfeits;
- Voluntary transfers other than grants; and
- Miscellaneous and unidentified revenue

Other revenue in GFSM 2001 is derived as the total non-tax revenue in GFSM 1986, less contributions to government employee pension and welfare funds within government, plus capital transfers from nongovernmental sources.

15.10**.** These GFSM 1986 categories serve as a proxy for other revenue, because they include cash surpluses from departmental enterprise sales to the public. In GFSM 1986, these receipts are classified as entrepreneurial and property income ("dividends"), on a net basis. According to the GFSM 2001 methodology, the gross revenues of market establishments are classified to the various subcategories of other revenue.

Table 15.2: Statement of Central government operations

GFSM 1986	**GFSM 2001**
Current revenue plus external grants	Revenue
Total expenditure	Expense
Current Expenditure	Current Expenditure
Capital transfers	Capital Transfers
Overall deficit/surplus	Net Operating Balance (NOB)
Capital expenditure	Net Acquisition of non-financial assets
Used as an item of expenditure	Net Lending/borrowing (used as a balancing item)
Financing	**Financing:**
Not available	Net Acquisition of financial assets
	Domestic
	Foreign
Total net short and long term borrowing	Net incurrence of liabilities
Total domestic borrowing (short term and long term)	Domestic
External loans	Foreign
	Memorandum Items
Public debt redemption	Public debt redemption
(a) External	(a) External
(b) Internal	(b) Internal

Economic Classification of Expenditure

15.11. In GFS, 2001 an expense is any transaction that results in a decrease in net worth, while expenditure is total expense plus the net acquisition of nonfinancial assets. The economic classification of Expenditure is primarily used to identify the types of expenditure incurred when a government supplies goods and services to the community or redistributes income and wealth. GFSM 2001 classifies all *current expenditure* and *capital transfer* in GFSM 1986 as expense.

Table 15.3: Central Government Economic Analysis of Expenditure

GFSM 1986	GFSM 2001
	Expense:
Consumption expenditure on goods and services	Consumption expenditure on goods and services
Labour cost	Compensation of employees
Other goods and services	Use of goods and services
Total	Total
Subsidies	Subsidies
Interest	Interest
Domestic	Domestic (other than general government)
Foreign	Foreign
Transfers to	Grants to
Not available	General government units
	International organizations
Rest of the world	Foreign governments
General government	General government
Total transfers	Total Grants
Total current expenditure	Total current expenditure
Capital transfers	Total Capital Grants
Not available	Total Expense
Capital expenditure	Acquisition of non-financial assets (net)
Public debt redemption	Public debt redemption
Total expenditure	Total expenditure

15.12. **Compensation of Employees.** Is derived as all Wages and salaries in GFSM 1986, plus employer social contributions. In the GFSM 2001, social contributions by government as employer are rerouted so that the government is seen as paying its employees, who then make payments of the same amount to the social insurance scheme. As a result, such contributions would not be eliminated in consolidation of general government accounts. This is unlike in the GFSM 1986, where social contributions by government as employer are eliminated in consolidation of government data, because these transactions are considered to be between the contributing level of government and the social security fund.

15.13**.** GFSM 2001 further breaks down wages and salaries into wages and salaries in cash and in kind. The latter consists of payments to employees in return for services rendered. Inform of meals and drinks, including those consumed when traveling on business; housing services or accommodation of a type that can be used by all members of the household to which the employee belongs; uniforms or other forms of special clothing that employees choose to wear frequently outside of the workplace as well as at work; the services of vehicles or other durables provided for the personal use of employees, sports, recreation, or holiday facilities for employees and their families; transportation to and from work and car parking. Also included is the value of interest foregone when loans are provided to employees at reduced or zero rates of interest. If goods and services are provided to employees at reduced cost, then only the net cost to the employer is recorded in this category.

15.14. **Use of Goods and Services.** Comprises of goods and services used by government for the production of other goods and services, with the exception of goods and services used in the production of assets as own-account capital formation. Also included is the value of goods purchased for resale less the net change in inventories of work in progress, finished goods, and goods held for resale. The value of goods and services acquired for in-kind transfers to households or as grants are excluded because they are not used in a production process.

*1*5.15. Other purchases of goods and services in GFSM 1986 is classified as Use of Goods and Services in the GFSM 2001. However, because of the inclusion of payments for property expenses other than interest, the GFSM 1986 category other purchases of goods and services is a proxy for the GFSM 2001 category of use of goods and services. In the GFSM 2001, property expenses other than interest are classified to a separate category other expense, subcategory property expenses other than interest. There is no equivalent of the GFSM 1986 total expenditure on goods and services in the GFSM 2001.

15.16. **Consumption of Fixed Capital.** Defined as the decline during an accounting period in the value of fixed assets, major improvements to land, and the costs of ownership transfer incurred on the acquisition of valuables and nonproduced assets as a result of physical deterioration, normal obsolescence, or normal accidental damage. It is based on the average prices of the assets for the period. Changes in the asset's value due to changes in the price of the asset are excluded.

15.17**.** The accrual concept of Consumption of Fixed Capital did not exist in the GFSM 1986 cash system and therefore classification into this category is not possible until the accrual based system of accounting is adopted.

15.18. **Interest**. The sub-categories interest payments abroad, other domestic interest payments and interest payments to other levels of national government in GFSM 1986 are classified in GFSM 2001 as interest payments to nonresidents, to residents other than general government units and to other general government units, respectively.

15.19. **Subsidies**. Are unrequited payments by a government unit to an enterprise based on the level of its production activities or the quantities or values of goods or services it produces, sells, exports, or imports. Subsidies may be designed to influence levels of production, the prices at which outputs are sold, or the remuneration of the enterprises. Included are transfers to public corporations and other enterprises that are intended to compensate for operating losses.

15.20. GFSM 2001 classifies subsidies according to whether they are extended to public corporations or private enterprises. The two are subdivided further into either nonfinancial or financial public corporations and; nonfinancial or financial private enterprises, respectively. GFSM 1986 classified subsidies directly into four categories namely, subsidies to nonfinancial public enterprises, subsidies to financial institutions, cash operating deficits of departmental enterprise sales to the public and subsidies to other enterprises. The first and third categories of subsidies are classified to nonfinancial public corporations in GFSM 2001, while the fourth category is classified to nonfinancial private enterprises. The second category in GFSM 1986 cannot be classified anywhere in GFSM 2001 due to lack of detail (whether the financial institutions in question are public or private) unless additional information is obtained.

15.21. As a result of the inclusion of cash operating deficits of departmental enterprise sales to the public, the GFSM 1986 category subsidies is a proxy for the GFSM 2001 category subsidies. In the GFSM 2001, the gross expenses of market establishments are classified to the various expense categories.

15.22. **Grants**. GFSM 2001 recommends classification of grants into six sub-categories: *current and capital grants to foreign government; current and capital grants to international organizations;* and *current and capital grants to other general government units*. The categories *current* and *capital transfers abroad to government and, international organizations; Current* and *capital and to supranational authorities; and current and capital transfers to other levels of national government* in 1986 are classified are classified into GFSM 1986 in this order. The breakdown of grants in GFSM 1986 categories does not allow for a complete classification to the GFSM 2001 subcategories of grants because no distinction is made between grants to foreign governments and grants to international organizations.

15.23. **Social Benefits**. Comprises of payments, in cash or in kind, to protect the entire or specific segments population, against certain social risks. Examples of social benefits are the provision of medical services, unemployment compensation, and social security pensions.

15.24. The GFSM 1986 category *current transfers to households* is classified as *social benefits* in the GFSM 2001 framework. *Current transfers to households* in GFSM 1986, however, include transfers (e.g. scholarships and other educational benefits) that are not regarded as social benefits in GFSM 2001. Moreover, the GFSM 2001 further recommends breaking down into *social security benefits, social assistance benefits* and *employer social benefits*- a level of detail that is not available from the GFSM 1986 expenditure category framework.

15.25. **Other Expense**. The GFSM 1986 categories of *Current transfers to nonprofit institutions, other current transfers abroad,* **plus** *domestic capital transfers to nonfinancial public enterprises,* to *financial institutions*, *to other enterprises*, and *other domestic capital transfers,* **plus** *other capital transfers abroad* are classified to *other expense* category in GFSM 2001.

Classification of Transactions in Nonfinancial Assets

15.26. Transactions in fixed assets, inventories, valuables and nonproduced assets are classified in GFSM 2001 as acquisitions, disposals, and consumption of fixed capital when purchased, sold or consumed, respectively. However, information on valuables, consumption of fixed capital and all categories of nonproduced assets (except land and intangible assets) cannot be compiled from GFSM 1986.

15.27. **Acquisition of Nonfinancial Assets.** Comprised of the GFSM 1986 transaction categories of *Acquisition of fixed capital assets*, *purchases of stocks*, and *purchases of land and intangible asset*

15.28. **Disposal of Nonfinancial Assets.** Comprised of the GFSM 1986 transaction categories *Sales of fixed capital assets*, *sales of stocks*, and *sales of land and intangible assets*.

15.29. **Net Acquisition of Nonfinancial Assets.** Derived as *Acquisitions* minus *disposal* of nonfinancial assets above.

Table 15:4 Central Government Financing of Nonfinancial Assets

GFSM 2001	GFSM 1986
Expenditure	Capital expenditure and net lending
Acquisition of Nonfinancial Assets (net)	Capital expenditure
Total	**Total**
Financing	Financing
External loans	External loans
External grants	External grants
Long-term domestic borrowing (net)	Long-term domestic borrowing (net)
Short-term borrowing:	Short-term borrowing:
Treasury bills (net)	Treasury bills (net)
Other short-term borrowing (net)	Other short-term borrowing (net)

Classification of Transactions in Financial Assets and Liabilities By Sector of Counterparty and Residence

15.30. Transactions in financial assets and liabilities are referred to as financing in GFSM 2001. They are presented as the net acquisition of for each category of financial asset and the net incurrence of each liability and in principal equals net lending/borrowing, with the opposite sign. When the same type of financial instrument is held both as a financial asset and a liability, transactions in financial assets are presented separately from transactions in liabilities, rather than netting transactions in liabilities from transactions in financial assets. The GFSM 2001 classifies the financial transactions into three broad categories namely: domestic, foreign and monetary gold and SDRs.

15.31. Similar to the GFSM 1986, this classification further breaks down the first two categories of financial assets and liabilities into sub-categories. The types of classification of domestic financial assets and liabilities are: general government, central bank, other depository corporations, financial corporations not elsewhere classified, non-financial corporations, and households and non-financial institutions serving households. The types of sectors for the classification of foreign financial assets and liabilities are: general government, international organizations, financial corporations other than international organizations, and other nonresidents.

15.32**. Net Acquisition of Financial Assets** Derived as lending minus repayments **plus** all financial assets classified as financing in GFSM 1986.

15.33. Owing to changes in cash, deposits, and securities held for liquidity purposes are financial assets and are shown with borrowing transactions (liabilities), the signs of these transactions are reversed in the GFSM 1986 (increases are shown with a negative sign, and decreases are shown with a positive sign). This is not done in the GFSM 2001, where transactions in financial assets are shown separately from liabilities. Thus, when reclassifying domestic and foreign changes in cash, deposits, and securities in GFSM 1986 to the GFSM 2001 category net acquisition of financial assets (or its subcategories) the signs of these GFSM 1986 categories have been reversed (to show increases with a positive sign and decreases with a negative sign).

15.34. **Net Incurrence of Liabilities** Derived as GFSM 1986 total financing minus the financial assets changes in cash, deposits, and securities held for liquidity purposes: domestic and abroad.

Functional Classification of Expenditure

15.35. The classification of functions of government (COFOG) is a detailed classification of the functions, or socioeconomic objectives that general government units aim to achieve through various kinds of outlays. It groups all outlays for a particular function into one category of COFOG regardless of how the outlays are implemented, thereby allowing trends in outlays on a particular fund on a purpose to be examined overtime.

15.36. There are minimal difference between the GFSM 1986 and the GFSM 2001 COFOG classifications, the notable ones being:

1. The GFSM 2001 does not have a category expenditure not classified by major group unlike in GFSM 1986. These items are classified as general public services in the GFSM 2001.
2. The GFSM 1986 category transport and communication affairs and services does not provide enough details to make a proper classification to the GFSM 2001 categories transport and communication.
3. The GFSM 2001 includes two new categories: environmental protection and social protection. The GFSM 1986 does not classify these types of expenditures separately, although some environmental type expenditures are included in housing and community amenity affairs and services.
4. The GFSM 2001 classifies outlays on research and development (R&D) as a separate group (subcategory) within each division (main category). In most GFSM 1986/COFOG divisions, expenditures on research and development are not identified separately.

Classification of Function of Government (COFOG)

GFSM 1986	GFSM 2001
General public administration	General public services
Public debt	Public debt transactions
Not available	Transfers of general character between levels of government
Defense	Defense
Public order and safety	Public order and safety
Economic services	Economic Affairs
General economic services	General economic, commercial and labour affairs
Agriculture. Forestry, fishing and hunting	Agriculture. Forestry, fishing and hunting
Electricity gas steam and water	Fuel and energy
Mining, manufacturing and construction	Mining, manufacturing and construction
Roads plus other transport and communication	Transport
Cannot be compiled from GFSM 1986	Communication
Not available	Other industries
Not available	Environmental protection
Housing and community welfare	Housing and community amenities
Health affairs and services	Health
Clinics and medical, dental, and paramedical practitioners	Outpatient services
Hospital affairs and services	Hospital services
Public health affairs and services	Public health services
Not available	R&D: Health
Not available	Health expenditure, n.e.s.
Recreational, cultural, and religious affairs and services	Recreation, culture and religion
Education affairs and services	Education
Not available	Administration
Not available	Pre-primary and primary education*
Not available	Secondary education*
Not available	Tertiary education*
Not available	Education expenditure, n.e.s.*
Social welfare	Social protection

* Previously analysed but not published

15.37. **Total expenditure**. The details of *total expenditure* in GFSM 1986 fit reasonably well into *Total expenditure* in the GFSM 2001 framework. However, no data in GFSM 1986 exists to classify transactions in fixed assets, stocks, and land and intangible fixed assets to the GFSM 2001.