Table 0: Key Economic and Social Indicators 2002 - 2006*

	DESCRIPTION		2002	2003	2004	2005	2006**	
1	Population****	(Million)	32.2	33.2	34.2	35.1	36.1	
2	Growth of GDP at constant prices:++	(Percent)	0.5	2.9	5.1	5.7	6.1	
3	GDP at market prices :	(KSh Mn)	1,035,374	1,138,061	1,286,462	1,445,477	1,642,405	
4	Total cost of petroleum products	(KSh Mn)	43,957.3	64,561.3	88,814.8	95,669.2	113,719.6	
5	Trade balance	(KSh Mn)	-88,426.7	-98,690.0	-149,764.0	-186,542.0	-270,489.0	
6	Money Supply (M3)	(KSh Mn)	404,794.0	451,172.0	511,425.0	557,750.0	653,035.0	
7	Total domestic credit	(KSh Mn)	410,232.0	443,157.0	501,160.0	529,392.0	600,017.0	
8	Balance of payments (current account balance)	(KSh Mn)	-9,266	11,100	-10,851	-19,687	-37,900	
9	Coffe-marketed production	('000 tonnes)	45.5	61.2	49.9	47.7	50.5	
10	Tea-marketed production	('000 tonnes)	287.1	293.7	324.6	328.5	310.6	
11	Fresh Horticultural Produce exports	('000 tonnes)	121.1	133.2	145.6	163.2	163.2	
12	Maize-marketed centrally	('000 tonnes)	398.0	280.5	448.5	416.2	470.7	
13	Wheat-marketed centrally	('000 tonnes)	57.3	72.0	84.1	122.6	106.1	
14	Sugar-cane production	('000 tonnes)	4,501.4	4,204.1	4,661.0	4,800.8	4,932.8	
15	Milk sold centrally	(Mn litres)	178.0	203.0	274.0	340.0	361.0	
16	Manufacturing output	(KSh Mn)	346,970	384,256	444,648	499,767	561,562	
17	Construction output	(KSh Mn)	98,326	108,645	126,102	144,487	165,905	
18	Cement Consumption	('000 tonnes)	1,212.3	1,267.0	1,418.3	1,572.5	1,765.8	
19	Petroleum Consumption	('000 tonnes)	2,305.9	2,128.7	2,374.6	2,715.9	3,038.2	
20	Electricity consumption	(GWh)	3,742.0	3,910.4	4,234.1	4,498.4	4,752.4	
21	Tourism earnings*****	(KSh Mn)	21,735	26,382	38,457	48,874	56,200	
22	New registration of vehicles	(number)	32,527	33,768	42,482	45,653	52,817	
23	Rail freight	(`000 tonnes)	2,227	1,999	1,890	2,000	1,891	
24	Air passengers handled	('000)	4,474.0	4,747.0	5,450.0	5,905.0	6,324.0	
25	Wage employment	('000)	1,699.7	1,727.3	1,763.7	1,807.7	1,868.5	
26	Education-primary enrolment	('000)	6,062.7	7,159.5	7,394.8	7,591.5	7,632.1	
27	Education-secondary enrolment	('000)	778.6	882.5	923.1	934.1	1,038.1	
28	Education-University enrolment	('000)	81.0	82.0	91.5	92.3	112.2	
29	Education-other post secondary enrolment*	('000)	71.5	77.5	87.6	90.7	98.6	
31	Registered doctors and dentists	(number)	5,501	5,585	5,857	6,317	6,787	
32	GDP Per capita (Current):	(KSh)	32,132	34,309	37,639	41,136	45,447	
33	GDP Per capita (Constant):	(Ksh)	31,828	31,825	32,457	33,376	34,435	
34	Net lending/borrowing (% of GDP) at Current Market Prices	(Percent)	-2.6	-1.6	0.4	1.2	-5.4	
35	Net lending/borrowing	(KSh Mn)	-27,114.4	-18,620.8	5,719.2	17,405.3	-89,495.0	
36	Recurrent Revenue and Grants	(KSh Mn)	228,163.4	270,920.2	303,845.0	336,826.8	401,479.9	
37	Total Expenditure	(KSh Mn)	310,371.9	376,312.0	379,830.2	392,325.2	565,897.2	
38	External Debt Service Charge as % of GDP***	(Percent)	2.9	2.8	2.1	1.1	1.0	
39	External Debt Service as % of Exports of Goods & Services	(Percent)	11.7	11.5	7.9	4.0	3.9	
	INDEX NUMBERS: (1982=100)							2002-2006 Annual % Rate of change
	Export volumes		226.0	260.0	296.1	317.7	260.6	3.6
	Import volumes		169.0	205.0	245.6	254.1	238.3	9.0
	Terms of trade		78.0	81.0	77.4	71.9	70.2	-2.6
	NSE 20 Share: (1966=100)		1363	2738	2946	3973	5646	42.7
	Consumer prices+		133.6	146.7	163.7	180.6	206.7	11.5
	Real wages		114.5	113.8	112.3	127.9	132.2	3.7
	Agriculture terms of trade: (2001 =100)		96.2	92.5	89.2	78.8	80.9	-4.2

* More precise measures are given in individual chapters.

** Provisional.

*** Year ending 30th June

+ Weighted New Kenya Index (October 1997 = 100)

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

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

***** 2005 Includes Visa fees and Domestic Tourism earnings

Chapter 1

International Scene

Introduction

The global economy remained broad-based in 2006 with a growth estimated at 5.1 per cent. Growth was particularly strong in the United States, the Euro area and Japan. Continued rapid expansion in China had a positive impact on other Asian countries due to the high demand for goods in the country. The low income countries' growths were largely boosted by the strong commodity prices though the oil importing countries were affected by the high oil prices. Africa's economic performance remained impressive, maintaining the 2005 growth of 5.4 per cent. This was particularly attributed to the rise in global demand for commodities and the rise in revenue in the oil exporting countries. World trade volumes expanded by 9.6 per cent in 2006 compared to 7.7 per cent growth in 2005 reflecting a solid growth in the world economy.

1.2. Headline inflation in many of the major advanced economies such as United States, Japan and Euro area has been above the targets, pushed up by rising oil prices, high rates of growth and large exchange rate depreciations in some emerging markets such as South Africa, Turkey and Venezuela. The headline inflation in the advanced economies was estimated to have increased to an average of 2.2 per cent in 2006.

1.3. It is assumed that the recent increase in oil and commodity prices have been substantially driven by a surge in demand, particularly in the rapid growing markets like China. The surge in demand has outpaced supply capacity which has a longer lag than agricultural commodities.

1.4. The recent depreciation of the US dollar against the Euro and Yen is likely to cause global trade imbalances as the US current account deficit has continued to widen (7.0 per cent of GDP) while surpluses in a number of Asian countries and oil exporters are increasing further.

1.5. Recent major reforms in the financial systems have transformed the opportunities for borrowing and saving across the world for example, through the use of credit cards and home equity loans. Households and firms are now increasingly diversifying their finances through stocks, bonds and mutual funds after the rise of certain types of financial intermediation such as venture capital and private equity.

Table 1.1: Key Economic Indicators and Projections for OECD Countries

		2004	2005	2006*	2007+	2008+
Real GDP	**Percentage changes from previous period**					
	United States	3.9	3.2	3.3	2.4	2.7
	Japan	2.3	2.7	2.8	2.0	2.0
	Euro area	1.7	1.5	2.6	2.2	2.3
	Total OECD	**3.2**	**2.7**	**3.2**	**2.5**	**2.7**
Real Total domestic demand	**Percentage changes from previous year.**					
	United States	4.4	3.3	3.2	2.2	2.7
	Japan	1.5	2.5	2.0	1.3	1.5
	Euro area	1.6	1.8	2.4	2.2	2.4
	Total OECD	**3.3**	**2.9**	**3.1**	**2.4**	**2.7**
Inflation (GDP Deflator)	**Percentage change from previous year**					
	United States	2.8	3.0	2.9	2.6	2.6
	Japan	-1.2	-1.4	-1.0	0.2	0.6
	Euro area	1.9	1.9	1.8	2.0	2.0
	Total OECD	**2.4**	**2.1**	**2.2**	**2.2**	**2.1**
Current Account Balances	**US $ Billion**					
	United States	-665.3	-791.5	-877.6	-909.5	-969.0
	Japan	171.6	168.3	164.9	200.5	238.7
	Euro area	80.7	2.0	-31.3	-15.3	-7.0
	Total OECD	**-382.6**	**-595.1**	**-741.2**	**-723.4**	**-730.2**
Unemployment	**Percentage change from previous year**					
	United States	5.5	5.1	4.6	4.8	5.1
	Japan	4.7	4.4	4.2	3.9	3.6
	Euro area	8.9	8.6	7.9	7.4	7.1
	Total OECD	**6.7**	**6.5**	**6.0**	**5.8**	**5.7**
	Percentage change from previous year					
World Trade**		**10.8**	**7.7**	**9.6**	**7.7**	**8.4**

Source: OECD Economic Outlook no. 80 December, 2006

**Provisional*

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

+ Projections

Assumptions underlying the projections include:

-No change in actual and announced fiscal policies;

-Unchanged exchange rates as from 13th November 2006; in particular 1USD=118.10 Yen and '0.78 Euros;

22nd

Country/ Regional Analysis

1.6. The key economic indicators for the major Organization of Economic Cooperation and Development (OECD) countries for the last three years and projections for 2007 and 2008 are shown in Table 1.1. The growth was more uniform throughout the OECD region.

1.7. **United States:** After growing rapidly for several years, the real GDP slowed registering a growth of 3.3 per cent in 2006. The slow growth was due to the dampening effects of higher interest rates, taxes and, oil prices. Compounding these were surprising large drops in residential construction and in motor vehicle production. Home-building slump reflected higher prices and mortgage rates. In autos, demand shifted away from domestic vehicles to more fuel-efficient imports. The core inflation rose to undesirable levels, as a result of high energy prices. Unemployment rate continued on a downward trend from 5.1 per cent in 2005 to 4.6 per cent in 2006. This showed that despite contraction in residential construction investment, other component of domestic demand remained robust.

1.8. **Japan:** Japan continued to experience a robust upswing, registering a real GDP growth of 2.8 per cent up from 2.7 per cent in 2005. The expansion was driven by buoyant business investment and steady gains in private consumption. The robust growth in investment was due to high profits in the corporate sector which reduced debt in the recent years. Private consumption was supported by a declining household saving rate and a reversal of the falling trend in wages.

1.9. Conditions in the labour market were tighter partly due to an accelerated decline in the working age population, which is only partially offset by increase in labour force participation rate. As a result, the unemployment rate has fallen to 4.2 per cent in 2006 the lowest level since 1998.

1.10. **Euro Area**: Economic activities in 2006 grew at a fast pace thus propelling the GDP to grow at 2.6 per cent up from 1.5 per cent in 2005. Exports and investment have been the main drivers but there were signs that households have started to boost spending as well. The labour market improved, though more patchy, driving the unemployment rate to below 8 per cent for the first time since 2001. Job growth was considerably stronger in the smaller countries, in part-time employment, and in the service sectors. The inflation rate in 2006 remained constant at 1.8 per cent.

1.11. **Germany:** The economy entered a sustainable recovery; on the back of vigorous domestic demand, with a GDP growth of 2.6 per cent up from a 1.1 per cent in 2005. The growth impetus were exports and investment. Growth of exports to the United States and oil-exporting countries slowed from the high levels early in 2006, while exports to Asian countries, Euro area and central eastern European countries remained vigorous,so that overall foreign demand continued to support the expansion. Private household consumption was more subdued, as higher oil prices weighted on real disposable income.

1.12. Strong economic performance led to an expansion in employment opportunities. This contributed to a significant decline in unemployment rate from 9.1 per cent to 8.0 per cent in 2005 and 2006 respectively. The fall in oil

prices in the year under review led to a decline in inflation to 1.7 per cent.

1.13. **United Kingdom:** Economic growth remains robust at 2.6 per cent in 2006 from 1.9 per cent in 2005. The economic growth was supported by buoyant domestic demand. The unemployment rate increased from 5.5 per cent in 2006 from 4.8 per cent in 2005. This rise was as a result of the high immigration and increasing number of older workers. Inflation increased to 2.2 per cent mainly due to high domestic gas and electricity prices.

1.14. **Canada:** The Canadian economy slowed, after almost two years of strong growth. The GDP growth in 2006 was estimated at 2.8 per cent from 3.3 per cent and 2.9 per cent in 2004 and 2005 respectively. This was as a result of appreciation of the Canadian Dollar, deterioration of the terms of trade and the fall in oil and natural gas prices in the second half of the year. The unemployment rate was estimated to have dropped from 6.8 per cent in 2005 to 6.4 per cent in 2006. Inflation rate fell to 1.9 per cent in 2006 from 3.2 per cent in 2005.

1.15. **Brazil:** Economic activity is showing signs of recovery, the GDP growth was estimated at 3.1 per cent in 2006 from a low of 2.3 per cent in 2005. Private consumption remained strong, on the back of real income gains and credit expansion. Net exports contributed negatively to the growth, in spite of robust export performance, pushed by vigorous growth in the global economy. Inflation has been contained at 3.0 per cent in 2006 from a high of 5.7 per cent in 2005. This prompted sustainable ease of monetary stance. Employment continued to grow in the formal sectors.

1.16. **France:** Economic activity peaked up in 2006 putting the GDP growth at 2.1 per cent as compared to 1.2 per cent in 2005. The growth was sustained by improved domestic demand as a result of increase in purchasing power and continuing decline in the saving rate. The rise was also attributed to the strengthening of private investments in the civil engineering sector. The growth was not as expected since public investment failed, supply-side difficulties continued, with the foreign trade damping, exports failed while imports increased. Unemployment rate reduced from 9.9 per cent in 2005 to 9.1 per cent in 2006 as a result of growth in both public and private sectors employment. Underlying inflation remained moderate, which combined with falling energy prices limiting inflation to 1.4 per cent. The government's fiscal deficit improved during year 2006, running at 2.7 per cent of GDP.

1.17. **China:** Economic activity accelerated, with investment continuing to rise as a share of real GDP, the growth of the capital stock increasing once again, boosting the growth of economy's capacity to 10.6 per cent in 2006 from 10.2 per cent in 2005. The strong economy has resulted in a further improvement in the fiscal position of the central and local government. Employment gains have been particularly strong with the non-agricultural sector gaining over 40 million jobs in the 3 years to 2006. The country experienced minimal underlying pressure on inflation in 2006 with consumer price index increasing marginally by 1.5 per cent in the first three quarters.

1.18. **Russian Federation**: The economic performance was weak during the

first quarter of 2006 but was followed by a strong rebound in the second quarter. The growth was mainly driven by the fixed investment and government consumption. The manufacturing sector also had a significant contribution to the growth in the first half of the year, chiefly due to the booming metal sector. Inflation experienced a decline in 2006 though core CPI inflation remained stable over the second quarter with a faster growth of money demand.

1.19. **Emerging Asian Economies**[1]: Economic growth continued over an extended period to run above 8 per cent in 2006 in developing Asia mainly as a result of the vibrant economic expansions in China and India. Much of the growth was driven by the rise in exports especially electronic goods to China and the strong global economy. Inflation increased in 2006 due to high oil prices but most countries succeeded in restraining core inflation.

1.20. **Africa:** Figures on real GDP growth, consumer prices and current account balances for selected African countries are presented in Table 1.2 below. The continent's GDP in the year 2006 remained impressive, maintaining the previous year's estimate of 5.4 per cent. This strong performance was largely attributed to the oil exporting countries due to the large gains in terms-of-trade. In addition, growth was also boosted by increased oil production in Southern and Central Africa. The oil importing countries recorded buoyant growths, largely due to stronger domestic policy frameworks, particularly investments, aid flows and the world growth that remained robust. Inflation remained contained at one digit level while fiscal positions did not deteriorate significantly hence creating a better business climate.

[1] Emerging Economies consist of developing Asia, Korea, Taiwan, Hong Kong, Singapore and Mongolia

Chapter 2
Domestic Economy

Overview of Economic Performance

The economy continued to record a growth of above 5.0 per cent for the third consecutive year. Real Gross Domestic Product (GDP) expanded by 6.1 per cent in 2006 compared to revised growth of 5.7 per cent in 2005. In spite of the early-year drought, economic activity continued to pick up in 2006 with Agriculture and Transport and Communication being the main sources of growth. Other sectors that spurred economic growth during the year included manufacturing and wholesale and retail trade. On the demand side, the domestic expenditure expanded by 16.3 per cent in 2006 as compared to 10.2 per cent in 2005 with the final consumption expenditure contributing 74.3 per cent of the total expenditure. However the overall inflation increased from 10.3 per cent in 2005 to 14.5 per cent in 2006. This was mainly due to the drought that prevailed in the first quarter of 2006 and the high international oil prices in the second half of the year.

2.2. The tourism sector sustained its recovery course in 2006 as evidenced by the main indicators. As a result, tourism earnings rose from KSh 48.9 billion in 2005 to KSh 56.2 billion in 2006, thus recording a remarkable 14.9 per cent growth. This growth was mainly supported by increases in tourist arrivals, and local and International conferences held which grew by 8.2, 12.4 and 36.5 per cent respectively. This was beside a period of drawbacks such as the soaring world oil prices, terrorism fears and the negative travel advisories by the US Government against her Citizens. The ongoing refurbishment and consequent reinstatement of the Kenyatta International Conference Centre (KICC) to the International Congress and Convention Association during the year yielded affirmative results in the tourism sector.

2.3. The high international oil prices experienced in 2005 persisted throughout 2006, owing mainly to the high demand for the product especially in China, uncertainties regarding the Iranian nuclear project and the standoff between Israel and Lebanon. Murban crude oil, the major oil imported by Kenya registered a price increase of 9.1 per cent in December 2006, to sell at US Dollar 62.1 per barrel.

2.4. Trade balance widened further from a deficit of KSh 182,670 million in 2005 to KSh 270,489 million in 2006 reflecting an increase of 48.1 per cent. This is attributable to the faster growth of total imports relative to exports. The value of total exports declined by 3.6 per cent to stand at KSh 251.0 billion in 2006 as compared to KSh 260.4 billion in 2005. The decline was attributed to the reduction in the re-exports. The value of imports grew by 17.7 per cent in 2006 as compared to 21.5 in 2005. The volume of trade expanded by 9.8 per cent in 2006 compared to 21.4 per cent growth in 2005. Horticulture, tea, articles of apparel and clothing

accessories and coffee were the leading export earners, collectively accounting for 53.4 per cent of the total domestic export earnings. The current account deficit widened to KSh 37.9 billion in 2006 from a deficit of KSh 19.7 billion in 2005. The visible balance deficit widened to stand at KSh 235.5 billion which mainly explains the deterioration in the current account. The overall balance of payments improved from a surplus of KSh 21.2 billion in 2005 to a surplus of KSh 44.4 billion in 2006, a reflection of the build up of international reserves.

2.5. The monetary policy pursued was aimed at realizing an inflation rate of 5.0 per cent as spelt out in the Economic Recovery for Wealth and Employment Creation Strategy (ERS) paper . The economy recorded an underlying inflation of 5.5 per cent in 2006, thus falling short of the target by 0.5 percentage points. This was blamed on the expansion in the money supply, M3, which was a creation of general public withholding. The money supply expanded from KSh 557.8 billion in December 2005 to KSh 653.0 billion in December 2006, a growth of 17.1 per cent as compared to a growth of 9.1 per cent in 2005.The Central Bank stepped up to mop up the excess liquidity through Open Market Operations (OMO) using sale of Re-Purchase agreement Order securities (REPOs) to commercial Banks. Total credit advanced locally to both private and public sectors rose from KSh 529.3 billion in 2005 to KSh 600.0 billion in 2006, hence registering a growth of 13.4 per cent as compared to a growth of 5.6 per cent in 2005. This was attributed to the general reduction in the interest rates offered by the financial institutions.

2.6. The Nairobi Stock Exchange (NSE) continued to register accelerated activity that resulted in the NSE 20 share index gaining 1,673 points between December 2005 and December 2006 to close the year at 5,646 points. This was largely on account of the increased public participation in the stock market during Initial Public Offers (IPO). The Insurance industry experienced numerous policy reforms in 2006, chief among them the amendment of the Insurance Act to transform the Insurance Department in the Ministry of Finance into an autonomous supervisory authority. Other remarkable changes were in the National Health Insurance Fund's (NHIF's) comprehensive medical cover and new products by insurance companies that cover people in the Small and Medium Enterprises (SMEs).

2.7. Total government revenue including grants is expected to go up by 19.2 per cent from KSh 336.8 billion in 2005/06 to KSh 401.5 billion in 2006/07 while the expenditure is expected to increase by 44.3 per cent from KSh 392.3 billion in 2005/06 to KSh 565.9 billion in 2006/07, part of which is expected to finance new salary awards to civil servants and teachers.

Sector Analysis

Agriculture

2.8. The overall performance of the sector grew at a slower rate of 5.6 per cent in 2006 compared to a revised growth of 7.0 per cent in 2005. The slower pace was due to the drought experienced in many parts of the country in late 2005 and early part of 2006 which affected some agricultural produce. However, the food supply situation remained satisfactory following increased harvests of maize, beans and millet following the adequate rainfall received in most parts of the country during the long rains season.

2.9. In 2006, the value of marketed cereals increased by 9.9 per cent with maize accounting for 54.8 per cent of this value. Production of maize grain continued on the upward trend observed over the last five years, growing by 11.8 per cent to reach 36.1 million bags in 2006 from 32.3 million bags harvested in 2005.

2.10. The value of marketed horticultural produce rose by KSh 4,282.7 million to stand at KSh 43,120.8 million in 2006. This growth was mainly driven by vegetable crops whose value achieved a 28.3 per cent increase.

2.11. Coffee production recorded a significant increase of 6.9 per cent to register 48.3 thousand tonnes from 45.2 thousand tonnes in the previous year. Tea production dropped from 328.5 thousand tonnes in 2005 to 310.6 thousand tonnes in the review period, mainly due to the drought experienced in the country during the first quarter of the year. The sugarcane sub-sector recorded improved performance, with cane production rising by 2.8 per cent from 4,800.2 thousand tonnes in 2005 to 4,932.8 thousand tonnes in 2006.

2.12. The value of marketed dairy produce continued on an upward trend due to increases in the price of milk and in the quantity of marketed milk. The quantity of marketed milk rose by 6.2 per cent to stand at 361 million litres in 2006. The total number of animals slaughtered grew by 4.6 per cent.However, the value of cattle slaughtered realized only minimal growth while that of chicken products grew by 15.0 per cent, resulting in a reduced growth of 8.7 per cent for the value of livestock products.

Fishing

2.13. Total freshwater and marine fish landed increased by 8.7 per cent from 145.8 thousand tonnes in 2005 to 158.5 thousand tonnes in 2006. The sector Gross Value Added (GVA) grew by 9.0 per cent in 2006 mainly as a result of an increase in fish landed from Lake Victoria, from 133,526 tonnes in 2005 to 145,112 tonnes in 2006.

Mining and Quarrying

2.14. The sector's value added grew at 4.1 per cent in 2006 compared to 2.7 per cent in 2005. The growth was mainly production of minerals from 1,145,613 metric tonnes in 2005 to 1,213,752 metric tonnes in 2006.

Manufacturing 2.15. The manufacturing sector recorded a growth of 6.9 per cent in 2006 compared to 4.7 per cent in 2005. This improved performance was attributed to the 12.1 per cent growth in manufacturing of food, beverages and tobacco sub-sector in the year under review. Favourable weather conditions led to an improved supply of raw materials to a number of the agro-based industries especially the dairy and grain milling sub-sectors. Other manufacturing sub sector also recorded an increase of 4.6 per cent in 2006 compared to 2.9 per cent in 2005. Sales from the Export Processing Zones increased by 4.5 per cent to stand at KSh 24,832 million in 2006 with the domestic sales declining in line with the EPZ objective of focusing on the export rather than the domestic market. Loans and advances to the sector rose by 12.4 per cent to KSh 70.5 billion in the review period.

Electricity and Water 2.16. The sector recorded a real value added decline of 0.9 per cent in 2006 as compared to a growth of 0.1 per cent in 2005. The decline was mainly on account of increased intermediate consumption due to the high use of thermal generated electricity as opposed to the hydroelectricity. Total installed capacity rose from 1,156.6 MW in 2005 to 1,177.1 MW in 2006 following the commissioning of an Emergency Power Producer and the establishment of cogeneration plant at Mumias Sugar Company.

Construction 2.17. The Construction sector grew by 6.3 per cent in real terms in 2006 as compared to 7.6 per cent in 2005 with all key performance indicators registering positive growths. The growth was mainly caused by increased government investments in infrastructure and the initiation of several *Constituency Development Fund* (CDF) projects. Loans and advances from commercial banks to the sector increased considerably by 41.1 per cent in 2006, reflecting the heightened level of activity. Consumption of cement continued on an upward trend increasing from 1,572.5 tonnes in 2005 to 1,765.8 tonnes in 2006, a rise of 12.3 per cent.

Hotels and Restaurants 2.18. The growth in this sector remained buoyant at 14.9 per cent in 2006 compared to 13.3 per cent in the previous year. This growth was attributed to an increase in tourist arrivals, and local and International conferences held which grew by 8.2, 36.5 and 12.4 per cent respectively.

Transport and Communications 2.19. The Transport and Communications sector continued on an upward trend for the last three years with a growth of 3.6 per cent in 2003 to 10.7 per cent in 2006. This was mainly driven by the accelerated activities in the Postal and Communications sub-sector that recorded a growth of 18.1 per cent in 2006. The mobile phone industry which was the main contributor of this sub -sector recorded a rise of 36.5 per cent in subscriber base from 5.3 million in 2005 to 7.3 million in 2006. Registration of new motor vehicles recorded a significant growth of 15.7 per cent up from 45,653 in 2005 to 52,817 in 2006 on account of increased registration of saloons and station wagon.

Financial Intermediation

2.20. The Financial Intermediation sector achieved an impressive performance by registering a growth of 5.5 per cent in 2006 as compared to a growth of 2.8 per cent in 2005. This was credited to several factors chief among them being the increase in loans and advances by financial institutions, the vast investments in the banking and insurance sub-sectors and the buoyant activity at the stock exchange during the year under review.

Gross Value Added by Activity

2.21. Tables 2.1 and 2.2 show the breakdown of Gross Domestic Product (GDP) by activity and their percentage contributions respectively. In nominal terms, the economy recorded a GDP of KSh 1,642.4 billion in 2006 compared to KSh 1,445.5 billion in 2005 which was a growth of 13.6 per cent. Agriculture and forestry continued to be the highest contributor with a share of 23.6 per cent in the year under review. Its share has been on the decline from around 25.2 per cent in 2002. Notable growths were witnessed in the service sectors like the Transport and Communication, Wholesale and retail trade and, the Hotels and restaurants. The effect of growth in tourism sector is reflected in increase in the share of Hotels and restaurants from 0.9 per cent in 2003 to 1.5 per cent in 2006. The wholesale and retail trade continued on an upward trend with its share growing from 9.0 per cent in 2002 to 11.4 per cent in 2006. The manufacturing sector maintained its share at around 10 per cent in 2005 and 2006 with the manufacture of food, beverages and tobacco sub sector maintaining at 3.0 per cent in the last four years.Other manufacturing sub sector share growing from 6.7 per cent in 2003 to 7.1 per cent in 2006.

Table 2.1: Gross Domestic Product by Activity [+]

Current Prices - KSh million

Industry	2002	2003	2004	2005	2006*
Agriculture and forestry	261,362	287,050	311,347	335,656	387,804
Growing of crops and horticulture	177,007	197,813	221,824	242,153	277,222
Farming of animals	68,222	72,275	70,999	72,399	87,400
Agricultural and animal husbandry services	4,342	3,856	4,303	5,771	6,817
Forestry and logging	11,791	13,106	14,221	15,333	16,365
Fishing	6,323	5,739	6,403	6,313	6,679
Mining and quarrying	5,106	6,217	6,491	7,173	8,075
Manufacturing	101,711	109,885	127,443	149,068	166,957
Manufacture of food, beverages and tobacco	30,011	33,613	38,180	43,204	49,606
All other manufacturing	71,701	76,272	89,263	105,864	117,350
Electricity and water supply	20,812	23,330	24,810	28,634	27,839
Electricity supply	13,822	15,417	15,896	18,633	16,160
Water supply	6,990	7,913	8,914	10,001	11,679
Construction	32,373	37,669	48,079	59,611	71,216
Wholesale and retail trade, repairs	92,838	103,848	126,768	151,877	186,691
Hotels and restaurants	12,503	10,708	16,086	19,357	24,208
Transport and communication	99,306	104,684	123,476	142,291	159,481
Transport and storage	69,713	76,177	93,308	107,370	118,963
Post and telecommunications	29,593	28,507	30,167	34,921	40,518
Financial intermediation	37,178	48,921	44,343	45,275	52,765
Real estate, renting and business services	62,165	67,316	72,702	79,015	89,979
Dwellings, owner occupied and rented	30,503	33,970	36,394	39,348	46,775
Renting and business services	31,662	33,346	36,308	39,667	43,203
Public adminstration and defence	45,730	46,433	53,672	64,103	71,607
Education	75,470	90,431	99,852	103,977	111,367
Health and social work	27,162	30,172	33,199	36,999	41,223
Other community, social and personal services	43,961	45,488	49,205	53,347	58,046
Private households with employed persons	3,984	4,561	5,224	5,787	6,770
Financial services indirectly measured	-9,070	-10,111	-9,052	-11,514	-14,315
All industries at basic prices	918,914	1,012,340	1,140,046	1,276,969	1,456,391
Taxes less subsidies on products	116,460	125,721	146,416	168,508	186,014
GDP at market prices	1,035,374	1,138,061	1,286,462	1,445,477	1,642,405
Institutional sector and industry					
Corporations, non-profit institutions and households					
Agriculture and forestry	256,792	283,008	306,985	329,907	381,052
Fishing	6,323	5,739	6,403	6,313	6,679
Mining and quarrying	5,106	6,217	6,491	7,173	8,075
Manufacturing	101,711	109,885	127,443	149,068	166,957
Electricity and water supply	19,151	21,575	23,012	26,560	25,404
Construction	29,134	34,225	42,329	51,852	62,671
Wholesale and retail trade, repairs	92,838	103,848	126,768	151,877	186,691
Hotels and restaurants	12,503	10,708	16,086	19,357	24,208
Transport, and communication	95,344	101,711	121,131	139,064	155,384
Financial intermediation	37,178	48,921	44,343	45,275	52,765
Dwellings, owner occupied and rented	30,503	33,970	36,394	39,348	46,775
Other real estate and business services	30,876	32,599	35,779	39,470	43,108
Education	6,005	8,211	8,954	9,832	11,701
Health and social work	15,280	17,039	18,424	19,989	21,681
Other community, social and personal services	41,441	42,647	46,245	50,157	54,603
Private households with employed persons	3,984	4,561	5,224	5,787	6,770
Less: Financial services indirectly measured	-9,070	-10,111	-9,052	-11,514	-14,315
Total value added at basic prices	**775,098**	**854,751**	**962,958**	**1,079,513**	**1,240,207**
General government					
Agriculture and forestry	4,570	4,043	4,362	5,749	6,752
Water supply	1,662	1,756	1,798	2,074	2,435
Construction	3,239	3,443	5,750	7,760	8,545
Transport, and communication	3,962	2,972	2,344	3,227	4,097
Research and technical services	786	748	529	197	96
Public adminstration and defence	45,730	46,433	53,672	64,103	71,607
Education	69,465	82,220	90,898	94,145	99,666
Health and social work	11,882	13,133	14,775	17,011	19,542
Other services	2,520	2,841	2,960	3,191	3,444
Total value added at basic prices	**143,816**	**157,589**	**177,088**	**197,456**	**216,184**

* Provisional

[+] Revised

Chapter 3
Social Scene

Overview

The Government, consistent with its commitment to invest in human capital development and fulfillment of the Millennium Development Goals (MDGs), increased resource allocation to the social sector particularly to education and health. The budgetary allocation to social services increased by 16.5 per cent from KSh 126.7 billion in 2005/06 to KSh 147.6 billion in 2006/07. The sector's recurrent expenditure increased by 13.2 per cent from KSh 110.2 billion in 2005/06 to KSh124.8 billion in 2006/07.

3.2. Free Primary Education (FPE) programme has improved access to primary education by 25.9 per cent from a gross enrolment of 6,062.9 thousand in 2002 to 7,632.2 thousand in 2006. Primary school enrolment increased marginally from 7,591.4 thousand in 2005 to 7,632.2 thousand in 2006. Enrolment in secondary schools increased by 11.1 per cent from 934.1 thousand in 2005 to 1,038.1 thousand in 2006. Enrolment in primary teacher training colleges increased marginally to 17.7 thousand in 2006. Universities registered a 21.6 per cent increase in student population from 92.3 thousand in 2005 to 112.2 thousand in 2006.

3.3. To ensure accessibility to good health care by the poor, the number of health facilities expanded by 5.3 per cent from 4,912 in 2005 to 5,170 in 2006. The number of medical personnel increased marginally from 65,914 registered in 2005 to 67,126 in 2006 and those in training increased by 9.2 per cent. Full immunization coverage rate of children under one year improved from 63 per cent recorded in 2005 to 70 per cent in 2006 as a result of sustained national immunization campaigns. Total morbidity cases recorded a decline of 17.8 per cent from 33.2 million in 2005 to 27.3 million in 2006.

3.4. The number of offences reported to the Police declined by 4.2 per cent from 75,400 in 2005 to 72,225 in 2006. Cases filed in courts declined by 2.6 per cent from 390,807 recorded in 2005 to 380,765 in 2006 while cases disposed of increased by 1.2 per cent from 340,593 in 2005 to 344,712 in 2006. Pending cases increased by 9.3 per cent from 581,212 in 2005 to 635,445 in 2006. The number of convicted prisoners declined by 6.2 per cent from 101,969 in 2005 to 95,350 in 2006. Registered voters increased by 8.1 per cent from 11,594,731 in 2005 to 12,529,018 in 2006.

Social Sector Expenditure

3.5. Table 3.1 provides a summary of Government expenditure on social services between 2002/03 and 2006/07. Social sector expenditure increased by 16.5 per cent from KSh 126.7 billion in 2005/06 to KSh 147.6 billion in 2006/07. Recurrent allocation rose from KSh 110.2 billion in 2005/06 to KSh 124.8 billion in 2006/07, an increase of 13.2 per cent. Development expenditure is expected

to increase by 39.0 per cent from KSh 16.4 billion to KSh 22.8 billion over the same period. Recurrent allocations to the Ministries of Health, Education, and Home Affairs and National Heritage increased by 17.5, 10.8 and 11.7 per cent respectively. Development expenditure allocation to the Ministry of Home Affairs and National Heritage increased by 4.3 per cent to KSh 2.4 billion in 2006/07. Development expenditure allocation to education more than doubled from KSh 4.0 billion in 2005/06 to KSh 10.0 billion in 2006/07. The increase is attributable to the release of "Fast Track Initiative Funds" to support free primary education by the donor community.

Table 3.1: Central Government Expenditure on Social Services, 2002/03 - 2006/07

KSh million

	2002/03	2003/04	2004/05	2005/06*	2006/07+
RECURRENT EXPENDITURE					
Ministry of Education	61,557.82	72,410.54	80,239.91	88,357.51	97,867.15
Ministry of Science and Technology	..	..	..	..	1,453.27
Ministry of Health**	14,448.49	16,004.71	17,605.18	19,000.00	22,324.00
Ministry of Labour and Human Resource Development	1,464.76	1,483.12	779.09	891	910.24
Ministry of Home Affairs, National Heritage and Sports	5,234.74	5,992.32	1,478.56	2,000.00	2,234.25
TOTAL	82,705.81	95,890.69	100,102.74	110,248.51	124,788.91
DEVELOPMENT EXPENDITURE					
Ministry of Education***	2,547.59	4,314.24	4,771.47	4,002.84	10,020.79
Ministry of Science and Technology	-	-	-	-	324.34
Ministry of Health**	4,893.66	5,115.54	7,803.91	9,943.17	9,832.24
Ministry of Labour and Human Resource Development	389.23	297.4	466.53	194	201.12
Ministry of Home Affairs, National Heritage and Sports	1,126.66	442.33	446.9	2,307.30	2,410.34
TOTAL	8,957.14	10,169.51	13,488.81	16,447.32	22,788.83
TOTAL EXPENDITURE..	91,662.95	106,060.20	113,591.55	126,695.83	147,577.74

Source: Ministry of Finance

* Provisional.

** Expenditure on the Ministry of Health includes expenditure on KETRI currently in the Ministry of Agriculture.

*** Expenditure on the Ministry of Education includes expenditure on Youth polytechnics under the Ministry of Youth, and Technical Education under Ministry of Science and Technology.

\+ Revised Estimates

3.6. Table 3.2 shows the Local Government expenditure on social services for 2002/03 to 2006/07. The expenditure is expected to increase by 3.1 per cent from KSh 3.2 billion spent in 2005/06 to KSh 3.3 billion in 2006/07 financial years. Expenditure on health and education sub-sectors is expected to account for 70.4 per cent of the total local government expenditure in 2006/07.

Table 3.2: Local Government Expenditure on Social Services, 2002/03- 2006/07

KSh million

	2002/03	2004/05	2004/05	2005/06	2006/07*
Education..	822.40	834.67	869.30	910.01	950.70
Health..	1,107.30	1,290.90	1,297.35	1,320.54	1,350.89
Other Social Services..	356.78	442.60	486.86	947.07	965.57
TOTAL EXPENDITURE..	2,286.48	2,568.17	2,653.51	3,177.62	3,267.16

Source: Ministry of Finance

* Provisional.

Education 3.7. The gross total allocation to the Ministry of Education increased by 71.3 per cent from KSh 64.1 billion in 2002/03 to KSh 109.8 billion in 2006/07 as shown in Table 3.3. Recurrent expenditure is expected to increase by 12.9 per cent from KSh 88.4 billion in 2005/06 to KSh 99.8 billion in the 2006/07. To strengthen the implementation of Free Primary Education (FPE) programme, recurrent expenditure allocation to primary education is expected to increase by 8.5 per cent from KSh 7.1 billion in 2005/06 to KSh 7.7 billion in 2006/07. Recurrent expenditure on higher education is expected to go up from KSh 11.9 billion in 2005/06 to KSh 14.2 billion in 2006/07.

3.8. Development expenditure on primary education increased almost fivefold from KSh 1.3 billion in the 2005/06 to KSh 6.4 billion in the 2006/07. Technical and Teacher E`ducation development expenditures are estimated to significantly reduce from KSh 185.0 million and KSh 143.5 million in 2005/06 to KSh 85.0 million and KSh 50.0 million in 2006/07 respectively. Higher education development expenditure is expected to increase by 35.6 per cent to KSh 661.5 million in 2006/07.

Table 3.3 Expenditure by the Ministry of Education, 2002/03 - 2006/07 KSh million

	2002/03	2004/05	2004/05	2005/06*	2006/07+
RECURRENT EXPENDITURE-					
General Administration and Planning	49,051.57	55,776.74	59,140.80	64,139.32	72,946.86
Pre-Primary Education.. ..	5.22	5.51	25.66	57	50.45
Primary Education..	3,321.65	5,966.52	6,583.42	7,148.58	7,746.53
Secondary Education	667.88	945.42	938.79	2,893.70	1,018.98
Technical Education**	889.94	1,171.40	1,546.55	1,291.09	2,819.00
Teacher Education..	144.29	192.83	210.41	177.72	144.87
Special Education..	121.39	175.13	209.77	193.14	353.12
Polytechnic Education.. ..	342.73	466.01	1538.2	571.72	567.99
Higher Education***	6,795.74	7,470.08	9,735.25	11,885.24	14,158.61
Miscellaneous..	217.4	240.9	311.06	-	-
SUB-TOTAL	61,557.81	72,410.54	80,239.91	88,357.51	99,806.41
DEVELOPMENT EXPENDITURE-					
General Administration and Planning	1,893.70	954.99	651	1,705.04	2,630.13
Pre-Primary Education.. ..	197.52	362.55	6.6	-	-
Primary Education..	26	2,214.10	3,196.90	1,311.60	6,424.16
Secondary Education.. ..	52.24	151.9	205.5	170	170
Technical Education**	-	4.19	70	185	85
Teacher Education..	6.09	155.12	80.27	143.5	50
Special Education..	-	-	-	-	-
Polytechnic Education.. ..	-	-	-	-	-
Higher Education***	372.03	471.4	560.2	487.7	661.5
Miscellaneous..	-	-	1	-	
TOTAL	2,547.58	4,314.25	4,771.47	4,002.84	10,020.79
GROSS TOTAL EXPENDITURE	64,105.39	76,724.79	85,011.38	92,360.35	109,827.20

Source: Ministry of Education

\+ Revised Estimates

* Provisional.

** Includes Expenditure on Youth Polytechnics currently under the Ministry of Youth and Directorate of Technical Education, Ministry of Science and Technology.

*** Includes expenditure of all Public Universities

3.9. Number of Educational Institutions: The total number of educational institutions increased from 56,047 in 2005 to 57,622 in 2006 representing an increase of 1,575 institutions as shown in Table 3.4. Pre-primary units increased by 1,078 units from 32,043 in 2005 to 33,121 in 2006. The number of primary schools went up by 476 units to 20,229 units in 2006. Out of the additional units, 337 were by the private sector. Secondary schools increased slightly from 4,194 in 2005 to 4,215 in 2006. The total number of Training colleges and universities remained constant at 33 and 24 units respectively.

Table 3.4: Number of Educational Institutions , 2002 - 2006

Numbers

Category	2002	2003	2004	2005	2006*
Schools:					
Pre-Primary	28,279	29,455	31,879	32,043	33,121
Primary:					
Public ..	17,683	17,697	17,804	17,807	17,946
Private ..	1,441	1,857	1,839	1,946	2,283
Total	**19,124**	**19,554**	**19,643**	**19,753**	**20,229**
Secondary:					
Public ..	3,247	3,583	3,552	3,621	3,646
Private ..	440	490	490	573	569
Total	**3,687**	**4,073**	**4,042**	**4,194**	**4,215**
Training Colleges:					
Pre primary					
Primary	29	29	30	30	30
Secondary+	3	3	3	3	3
Total	**32**	**32**	**33**	**33**	**33**
Universities					
Public	6	6	7	7	7
Private	13	17	17	17	17
Total	**19**	**23**	**24**	**24**	**24**
TOTAL	**51,141**	**53,137**	**55,621**	**56,047**	**57,622**

Source : Ministry of Education

* Provisional.

\+ Includes Kenya Technical Training College

3.10. **Pre-Primary Education:** Table 3.5 shows enrolment in Early Childhood Development (ECD) centers by sex and number of teachers for the period 2002 to 2006. Pupil enrolment increased to 1.67 million in 2006 from 1.64 million in 2005. Since 2002, enrolment for boys and girls in ECD centers increased by 14.0 and 15.9 per cent respectively reducing gender disparities in enrolment. The number of trained teachers went up from 50,973 in 2005 to 52,600 in 2006, of which 90.2 per cent were female. The number of untrained teachers also increased from 21,210 in 2005 to 21,928 in 2006.

Chapter 4

Employment, Earnings and Consumer Prices

Overview

The analysis of the labour market in 2006 indicates that the economy experienced improved performance in various sectors. Overall, the economy generated 469 thousand new jobs in the year under review, an increase of 5.7 per cent from the 2005 levels. A large number of this labour force was absorbed in the informal sector, which generated 418 thousand jobs. In the modern private sector, there was a significant expansion of 4.8 per cent in wage employment mainly attributed to the improved economic environment that prevailed in the year. On the other hand, wage employment in the public sector continued on a declining trend in spite of selected recruitment in the civil service. Over the same period, the average annual inflation rate went up from 10.3 per cent in 2005 to 14.5 per cent. This was occasioned by increased international oil prices and an increase in the prices of food items due to the drought that was experienced in the early part of the year. Underlying inflation, which excludes food commodities declined from 7.4 per cent in 2005 to 5.5 per cent in 2006. Average nominal wages rose by 14.6 per cent in 2006 compared to the increase of 14.4 per cent registered in 2005. Real average earnings rose marginally by 0.2 per cent in 2006.

Employment

4.2. Total employment outside rural small scale agriculture and pastoral activities stood at 8.7 million persons in 2006 up from 8.3 million recorded in 2005 as shown in Table 4.1. Employment in the modern sector increased from 1,874.6 thousand in 2005 to 1,925.6 thousand jobs in 2006, an increase of 2.7 per cent. The additional 51.0 thousand jobs created in this sector arose from improved economic performance mainly in the transport and communications industry. However, there was a decline in employment within the Export Processing Zones (EPZs) of about two thousand jobs due to closures. The informal sector created 418 thousand new jobs, which constituted 87.0 per cent of all new jobs created outside of small scale agriculture. Further, the total number of self employed and unpaid family workers within the modern sector was estimated to have gone up marginally from 66.8 thousand persons in 2005 to 67.2 thousand persons in 2006. Figure 4.1 presents the number of new jobs generated by the modern sector of the economy in the last five years.

Table 4.1: Total Recorded Employment[1], 2002 - 2006

'000's

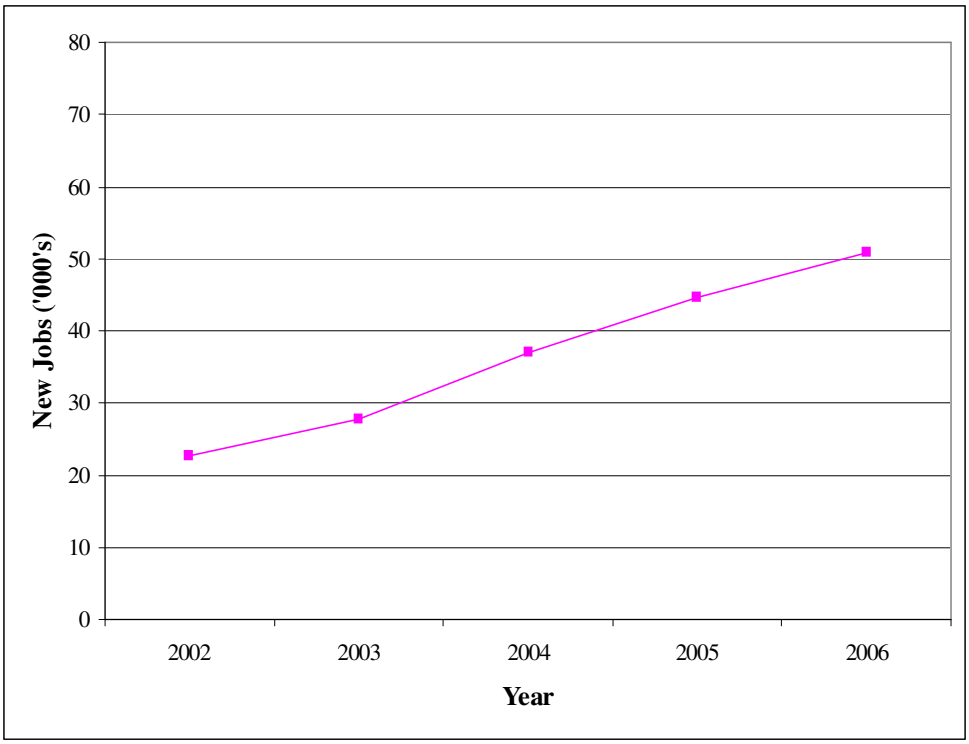
	2002	2003	2004	2005	2006*
Modern Establishments - Urban and Rural Areas:					
Wage Employees	1,699.7	1,727.3	1,763.7	1,807.8	1,858.4
Self-employed and unpaid family workers	65.5	65.7	66.3	66.8	67.2
Informal Sector**	5,108.3	5,546.4	5,992.8	6,396.9	6,814.9
TOTAL	6,873.5	7,339.4	7,822.8	8,271.5	8,740.5

* Provisional.

** Estimated

[1] Figures refer to employment stock as at 30th June.

Figure 4.1: New Wage Employment in the Modern Sector, 2002-2006



Modern Sector

4.3. Wage employment in the modern sector by industry and sector is presented in Table 4.2. The number of jobs created in the private sector went up from 48.0 thousand in 2005 to 55.0 thousand in the year under review. This was by far the largest increase in private sector job creation experienced in the last decade and was mainly attributed to favourable business environment and improved access to credit among other factors. Public sector employment, however, went down from 654.3 thousand in the previous year to 649.9 thousand in 2006. The overall growth recorded in modern sector wage employment was 50.6 thousand, an increase of 2.8 per cent.

Table 4.2: Wage Employment by Industry and Sector, 2002 - 2006

'000's

	2002	2003	2004	2005	2006*	% change
PRIVATE SECTOR:						
Agriculture and Forestry	256.3	259.6	264.8	272.3	280.3	2.9
Mining and Quarrying	4.6	4.7	4.9	5.1	5.3	3.9
Manufacturing	196.4	208.3	211.0	216.9	223.5	3.0
Electricity and Water	1.7	1.8	1.9	1.9	1.9	0.0
Building and Construction	52.5	53.1	54.4	55.7	57.9	3.9
Wholesale and Retail Trade, Restaurants and Hotels	151.4	156.7	161.7	169.2	179.6	6.1
Transport and Communications	47.7	49.2	62.4	74.8	89.8	20.1
Finance,Insurance, Real Estate and Business services	68.6	69.1	68.7	72.4	75.5	4.3
Community, Social and Personal Services	261.5	265.6	275.7	285.1	294.7	3.4
TOTAL PRIVATE SECTOR	1,040.7	1,068.2	1,105.5	1,153.5	1,208.5	4.8
PUBLIC SECTOR:						
Agriculture and Forestry	57.3	56.5	55.8	55.0	54.3	-1.3
Mining and Quarrying	0.6	0.7	0.7	0.7	0.7	0.0
Manufacturing	33.4	31.4	31.0	30.6	30.3	-1.0
Electricity and Water	19.6	19.3	18.9	18.3	17.7	-3.3
Building and Construction	24.0	23.5	23.0	22.5	22.0	-2.2
Wholesale and Retail Trade, Restaurants and Hotels	6.1	6.1	6.3	6.5	6.3	-3.1
Transport and Communications	37.8	37.6	38.4	40.1	43.1	7.5
Finance, Insurance, Real Estate and Business services	14.6	14.7	14.9	14.9	14.9	0.0
Community, Social and Personal Services	465.4	469.3	469.2	465.7	460.7	-1.1
TOTAL PUBLIC SECTOR	658.8	659.1	658.2	654.3	649.9	-0.7

* Provisional.

4.4. There have been notable increases in the share of private sector employment in the modern sector wage employment over the last five years, on account of the declining employment in the public sector. During the review period, the share of private sector employment stood at 65.0 per cent up from 63.8 per cent recorded in 2005. In the private sector, Transport and Communications industry continued to record the highest growth in employment by posting a growth of 20.1 per cent in 2006 compared to 19.9 per cent in 2005. Improved activity in the communications sub-sector, specifically the mobile telephone service provision, was the key contributor to this growth. Another sub-sector in transport and communications that had improved growth in employment was the airlines industry. Finance, Insurance, Real Estate and Business services industry in the private sector also recorded improved performance registering a growth of 4.3 per cent from 72.4 thousand persons in 2005 to 75.5 thousand persons in 2006. Overall growth in formal employment in Agriculture maintained almost the same rate as that realised in 2005. However, certain sub-sectors such as the coffee and dairy recorded notable growth. There was a slight deceleration in employment in horticulture, tea and sugar plantations sub-sectors.

4.5. The Government had limited recruitment in the civil service in the year under review. Part of this recruitment is not reflected in this chapter since employment is captured as a stock as at 30th June while most recruitments

were undertaken in the second half of 2006. The number of personnel recruited in the public sector mainly replaced those who left through natural attrition and structural changes hence the decline in the employment levels in the sector. Total employment in the public sector declined by 0.7 per cent from 654.3 thousand persons in 2005 to 649.9 thousand persons in 2006. This was partly as a result of the wider efforts to maintain a leaner work force and the privatisation of non-strategic public enterprises in an effort to contain public sector wage bill. Growth in employment was only recorded in the transport and communications sector.

4.6. Table 4.3 presents data on wage employment in the public sector by type of employer. The Teachers Service Commission (TSC) registered a marginal increase of 0.2 per cent in employment from 232.8 thousand in 2005 to 233.3 thousand in 2006. Local government, which in the past had been recording marginal growths in employment numbers, registered a decline of 2.9 per cent from 87.5 thousand in 2005 to 85.0 thousand in the year under review. This was partly attributed to privatisation of water services in the Local Authorities. Employment in Central Government went down further albeit at a lower rate of 0.9 per cent as compared to the 2.4 per cent decline registered the previous year. Wage employment in parastatals and institutions with majority control by the public sector declined by 0.4 per cent each.

Table 4.3 Wage Employment in the Public Sector[1], 2002 - 2006

'000's

	2002	2003	2004	2005	2006*	Annual Percentage Change 2006/2005
Central Government[2]	194.9	195.0	194.2	189.5	187.7	-0.9
Teachers Service Commission ..	234.3	234.8	234.5	232.8	233.3	0.2
Parastatal Bodies[3]	99.0	97.3	96.0	97.6	97.2	-0.4
Majority Control by the Public Sector[4] ..	46.7	46.4	46.1	46.9	46.8	-0.4
Local Government	83.9	85.6	87.4	87.5	85.0	-2.9
TOTAL	**658.8**	**659.1**	**658.2**	**654.3**	**649.9**	-0.7

* Provisional.

[1] Figures refer to employment stock as at 30th June.

[2] Covers all civil servants on Government payroll plus casual workers in various Ministries.

[3] Refers to Government wholly-owned corporations.

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

4.7. Table 4.4 gives the distribution of wage employment in the modern sector by province. All provinces recorded about the same levels of growth in employment with Nairobi having the largest increase in absolute terms of 12.9 thousand, followed by Rift Valley with an increase of 11.2 thousand jobs.

Table 4.4: Wage Employment by Province, 2002 - 2006

'000's

Province	2002	2003	2004	2005	2006*	Percentage Change 2006/2005
Nairobi	425.6	433.5	443.4	453.6	466.5	2.8
Coast	210.8	214.3	219.2	224.4	230.5	2.7
North Eastern	15.7	15.9	16.2	16.6	17.1	3.0
Eastern	141.9	144.1	147.0	150.8	155.1	2.9
Central	242.7	245.9	249.9	257.2	264.9	3.0
Rift Valley	381.7	388.1	396.8	406.3	417.5	2.8
Nyanza	169.1	171.3	174.3	179.2	183.9	2.6
Western	112.2	114.2	116.9	119.7	122.9	2.7
TOTAL	1,699.7	1,727.3	1,763.7	1,807.8	1,858.4	2.8

* Provisional

4.8. Table 4.5 presents wage employment in major towns categorised by six urban-based industries for the years 2001 and 2006. Over the period, 116.4 thousand extra jobs were generated representing an increase of 12.6 per cent. Among the urban centres, Mombasa registered the largest growth in wage employment of 16.7 per cent from 2001 to 2006, which may be attributed to the improved performance in the tourism industry. Nairobi, which has the highest share of wage employment, recorded an increase of 11.5 per cent above the 2001 level. Transport and Communications industry recorded the highest increase of 33.8 per cent in wage employment over the same period. Wholesale and Retail Trade, Restaurants and Hotels and Manufacturing industries followed with increases of 15.3 per cent and 13.8 per cent respectively. In the period under review, wage employment within financial services recorded the lowest growth of 1.9 per cent from 90.3 thousand persons in 2001 to 92.0 thousand persons in 2006. Community, Social and Personal Services, continued to be the most dorminant Industry, with wage employment of 342.1 thousand persons in 2001 compared to 376.7 thousand persons in 2006.

Table 4.5: Wage Employment by Urban Centres[1] and Selected Industries, 2001 and 2006

	Manufacturing		Construction		Wholesale and Retail Trade, Restaurants and Hotels		Transport and Communica-tions		Finance, Insurance, Real Estate and Business Services		Community, Social and Personal Services	
Towns	2001	2006*	2001	2006*	2001	2006*	2001	2006*	2001	2006*	2001	2006*
Nairobi	75.2	86.0	37.8	41.7	59.8	66.9	29.5	35.9	42.1	43.0	156.9	173.9
Mombasa	31.2	35.9	6.1	6.9	22.9	25.4	30.4	43.3	13.4	13.7	49.4	53.8
Kisumu	7.2	8.3	2.5	2.5	4.2	5.1	1.8	2.6	2.5	2.6	21.6	23.6
Nakuru	8.8	10.0	2.9	2.7	5.6	6.7	1.6	2.2	2.6	2.7	13.3	14.6
Thika	16.6	18.8	0.6	0.6	3.1	3.7	0.4	0.6	1.8	1.8	5.9	6.5
Eldoret	16.7	19.0	2.1	2.0	4.0	4.8	1.0	1.3	2.9	3.0	5.0	5.7
Malindi	0.5	0.5	0.3	0.3	2.9	3.4	0.3	0.4	0.4	0.4	3.0	3.2
Kericho	4.0	4.4	1.1	1.0	1.3	1.6	0.2	0.2	0.5	0.5	5.5	6.0
Others	48.4	54.4	5.8	5.5	48.9	58.5	6.9	9.5	24.1	24.3	81.5	89.5
TOTAL	208.6	237.3	59.2	63.2	152.7	176.1	72.1	96.0	90.3	92.0	342.1	376.8

* Provisional.

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

4.9. Although the share of females in wage employment remained at 30.3 per cent their number increased by 2.8 per cent from 547.0 thousand in 2005 to 562.2 thousand in 2006, as shown in Table 4.6. Education Services followed by Agriculture and Forestry sector remained the major female employer. Of all the female employees in the modern sector, about 56.4 per cent were working in the Community, Social and Personal services in 2006. Further, it is estimated that there were 405.7 thousand female regular employees in the year under review. Overall, there was an increase in females in both casual and regular employment. On the other hand, the number of male casual workers declined over the review period.

Table 4.6: Wage Employment by Industry and Sex, 2005 and 2006

'000's

INDUSTRY	MALES		FEMALES		TOTAL	
	2005	2006*	2005	2006*	2005	2006*
Agriculture and Forestry ..	246.1	248.8	81.3	85.8	327.4	334.6
Mining and Quarrying ..	4.5	4.7	1.2	1.3	5.7	6.0
Manufacturing	204.3	208.1	43.2	45.7	247.5	253.8
Electricity and Water ..	16.7	15.9	3.6	3.6	20.3	19.5
Building and Construction	73.2	74.6	5.0	5.3	78.2	79.9
Trade, Restaurants and Hotels	128.6	134.5	47.1	51.4	175.7	185.9
Transport and Communications	91.6	105.1	23.3	27.8	114.9	132.9
Finance, Insurance, Real Estate				0.0		
and Business Services ..	64.7	66.2	22.6	24.2	87.3	90.4
Community, Social and Personal				0.0		
Services-				0.0		
Public Administration ..	87.1	84.6	56.2	52.7	143.3	137.3
Education Services	185.7	188.7	152.7	152.4	338.4	341.1
Domestic Services	58.5	60.9	42.0	42.4	100.5	103.3
Other Services	99.8	104.1	68.8	69.6	168.6	173.7
TOTAL	1,260.8	1,296.2	547.0	562.2	1,807.8	1,858.4
Of which: Regular	995.8	1,033.5	394.7	405.7	1,390.5	1,439.2
Casual	265.0	262.7	152.3	156.5	417.3	419.2

* Provisional

Wage Earnings in the Modern Sector

4.10. Table 4.7 presents total wage payments by industry and sector for the period 2002 to 2006. This analysis is a key indicator of total labour cost to the economy and gives an indication of returns to labour by the workers. Overall, nominal wage bill rose from KSh 593,380.8 million in 2005 to KSh 699,294.3 million in 2006, an increase of 17.8 per cent. This was slightly higher than the increase of 17.2 per cent recorded in 2005. The private sector wage bill went up by 21.3 per cent from KSh 397,203.4 million in 2005 to KSh 481,841.8 million in 2006, while the public sector wage bill went up by 10.8 per cent, which is slightly higher than the rise of 6.8 per cent recorded in 2005.

Chapter 5
Money, Banking and Finance

Overview

In 2006 monetary policy was mainly directed towards attaining and maintaining an inflation rate of 5.0 per cent and below. Given this objective, the expansion in money supply M3, and reserve money were targeted at 11.0 per cent and 10.1 per cent respectively by the end of December 2006. The desired monetary policy was anchored on quarterly targets for reserve money and implemented mainly through Open Market Operations (OMO) using Re-Purchase Agreement Order securities (REPOs). In line with the quarterly targets, daily forecasts for reserve money comprising commercial bank deposits at the Central Bank of Kenya (CBK) and currency in circulation were generated. REPOs were then used to influence liquidity conditions in order to align reserve money to target.

5.2. The main challenge to monetary policy implementation in 2006 was the expansion of both money supply and reserve money in excess of targets coupled by an upward trend in both overall and underlying inflation. To counter this, the Government through the CBK undertook measures to manage liquidity and inflationary pressures through the sale of REPOs to commercial banks. Following the launch of the Central Bank Rate[1] (CBR) by the CBK, and in line with monetary policy operations, the Bank reviewed the CBR from 9.75 per cent to 10.00 per cent in August 2006. Withdrawal of excess liquidity through OMO was however constrained by higher than expected cash holdings by the public. Statutory cash and liquidity ratio requirements remained at their 2005 levels of 6.0 per cent and 20.0 per cent during the year. In general, there was a reduction in all interest rates except for loans, advances and overdraft. Average interest rate for the 91 day Treasury bill dropped 2.31 percentage points by December 2006 to stand at 5.83 per cent from 8.23 per cent in January 2006.

Monetary Indicators and Aggregates

5.3. Monetary indicators for the five year period 2002-2006 are presented in Table 5.1. Net Foreign Assets (NFA) of the banking system increased by 32.6 per cent in 2006 to KSh 209.5 billion compared to 10.4 per cent increase recorded in the previous year. Notably, over the five year period net foreign assets and private domestic credit have more than doubled from KSh 104.4 billion and KSh 296.8 billion in 2002 to KSh 209.5 billion and KSh 465.3 billion in 2006 respectively. Overall, domestic credit extended to public and private sectors by the banking system expanded from KSh 529.4 billion in 2005 to KSh 600.0 billion in December 2006, a growth of 13.3 per cent compared to 5.6 per cent in 2005. Broad money supply M3 grew by 17.1 per cent in 2006 against 9.1 per cent recorded in 2005. Liquidity in the banking system remained high at 46.6 per cent while advances to deposits ratio reduced from 79.6 per cent to 77.0 per cent in December 2006.

1 The CBK launched the Central Bank Rate (CBR) on 31st May 2006 which became effective on 2nd June 2006. The introduction of the CBR was done in accordance with Section 36(4) of the Central Bank of Kenya Act, which requires the CBK to publish the lowest rate at which the CBK lends to commercial banks.

Table 5.1: Monetary Indicators, 2002-2006

As at end of		Net Foreign Assets KSh mn	DOMESTIC CREDIT KSh mn			Money** Supply (M3) KSh mn	Commercial Bank Liquidity Ratio per cent	Advances/ Deposits Ratio per cent
			Private*	Central Government	Total			
2002	Dec	104,377	296,848	113,384	410,231	404,784	44.1	82.9
2003	Dec	123,561	308,880	134,278	443,157	451,172	49.2	77.2
2004	Dec	143,129	379,617	121,543	501,160	511,425	42.3	82.8
2005+	Dec	158,055	410,476	118,879	529,356	557,770	41.8	79.6
2006	Mar	175,485	427,214	124,839	552,053	578,926	42.3	79.0
	Jun	191,632	441,803	115,588	557,391	605,214	42.7	79.0
	Sep	203,067	446,847	126,832	573,679	630,379	43.7	76.0
	Dec	209,528	465,289	134,728	600,017	653,035	46.6	77.0

Source: Central Bank of Kenya

* Includes other public sectors

** See Table 5.2 for coverage on money supply aggregates

\+ Data revised

5.4. Table 5.2 illustrates various monetary aggregates for the period 2002 to 2006. Narrow money supply M1 expanded by 26.2 per cent in December 2006 to KSh 291.8 billion from KSh 231.1 billion in 2005. This growth was 16.5 percentage points higher than the previous period expansion. Contributing to this expansion was a 15.3 per cent growth in currency outside banks coupled with 30.7 per cent increase in demand deposits (See Table 5.3). Broad money supply M2 increased by 16.7 per cent in 2006 compared to 9.7 per cent in December 2005. The increase was due to an 8.4 per cent growth in quasi-monetary deposits of the commercial banks and an 8.5 per cent increase in quasi-monetary deposits of NBFIs in addition to the expansion in narrow money M1.

Table 5.2: Money Supply Aggregates*, 2002-2006

KSh million

			Quasi- Money		Broad Money		
		Narrow Money (M1)	Commercial Banks	NBFIs	M2	M3	Overall liquidity L
2002	Dec	150,082	188,162	12,490	350,733	404,784	513,863
2003	Dec	193,855	187,161	14,100	395,116	451,172	565,196
2004	Dec	210,598	209,239	12,729	432,567	511,425	641,440
2005	Dec	231,122	231,402	11,966	474,490	557,770	706,504
2006	Jan	238,354	226,825	13,194	477,592	560,061	710,950
	Feb	238,253	233,626	13,377	484,213	569,590	721,027
	Mar	242,304	238,839	13,288	492,843	578,926	729,615
	Apr	268,580	229,276	13,046	509,322	596,935	747,202
	May	253,546	246,145	13,061	511,212	595,931	749,017
	Jun	258,426	251,926	13,290	521,956	605,214	765,990
	Jul	266,824	254,490	13,303	532,360	619,259	781,978
	Aug	263,674	256,150	13,060	531,297	621,093	786,840
	Sep	267,218	258,978	13,057	537,670	630,379	796,373
	Oct	281,612	253,002	13,047	545,775	640,273	805,440
	Nov	285,246	257,557	12,691	553,429	646,844	812,128
	Dec	291,789	250,952	12,984	553,907	653,035	821,748

Source: Central Bank of Kenya.

* In line with harmonization of definitions within the East African Community (EAC), monetary aggregates have been revised and renamed to reflect these changes (see notes under Table 5.3 for the changes).

Consolidated Accounts of the Banking System

5.5. Consolidated accounts of the banking system are presented in Table 5.3. Assets and liabilities of the banking system grew by 17.8 per cent in 2006 to stand at KSh 809.5 billion compared to 6.7 per cent growth recorded in the previous period. An expansion on the assets side was due to a 32.6 per cent growth in net foreign assets compared to a 10.5 per cent growth in December 2005. This can be attributed to increased foreign exchange inflows in form of export earnings, transfers from abroad, foreign investments and increased donor funding. Similarly, a growth of 13.3 per cent was experienced in domestic credit to Central Government as it sought to meet its budgetary obligations.

5.6. Credit to other public bodies expanded significantly by 54.4 per cent as part of the restructuring efforts initiated by Government to turn around to profitability of its corporations. However, this did not have a crowding out effect on credit to the private sector, which registered an expansion of 12.1 per cent in December 2006 against 8.1 per cent in December 2005. The 12.1 per cent increase can be partly explained by the commercial banks credit to the retail investors in the equities market. Quasi-monetary deposits with commercial banks decelerated to grow by 8.4 per cent in December 2006 compared to a 10.6 per cent increase recorded in December 2005. Call and 7 days notice deposits that expanded by 65.5 per cent in 2005 due to simplified banking requirements by the indigenous banks slightly stabilized at 16.3 per cent by December 2006. Savings deposits grew from a decline of 14.3 per cent in 2005 to 15.6 per cent in 2006 while time deposits that had grown substantially by 52.6 per cent in 2005 declined by 5.9 per cent in 2006. This scenario can be attributed to diversion of savings from fixed deposit accounts to alternative investments such as equity markets that had presumably higher returns for the investing public. On the liabilities side, narrow money M1 expanded by 26.2 per cent from KSh 231.1 billion in December 2005 to KSh 291.8 billion in December 2006. Contributing to the increase were demand deposits that rose by 30.7 per cent in 2006 and currency outside banks which expanded by 15.3 per cent over the same period.

Table 5.3: Consolidated Accounts of the Banking System, 2002 - 2006

KSh million

	as at December				2006			
Liabilities	2002	2003	2004	2005	Mar	June	Sept	Dec
Narrow Money (M1):								
1.1 Demand Deposits	96,186	138,305	147,870	164,795	178,050	191,125	198,455	215,310
1.2 Currency outside banks.	53,895	55,550	62,728	66,327	64,254	67,301	68,763	76,479
Sub-Total	150,082	193,855	210,598	231,122	242,304	258,426	267,218	291,789
Quasi-Money (MS):								
2.1 Call + 7 days Notice Deposits	20,698	19,463	16,413	27,157	33,744	34,688	32,602	31,590
2.2 Savings Deposits	69,620	76,972	88,893	76,140	75,804	80,483	84,754	87,994
2.3 Time Deposits	97,844	90,726	103,934	158,558	142,298	145,549	157,723	149,183
Sub-Total (quasi-money banks)	188,162	187,161	209,239	231,402	238,839	251,926	258,977	250,952
Quasi-Money (NBFIs)	12,490	14,100	12,729	11,966	13,288	13,290	13,057	12,984
Broad Money Supply (M2)	350,733	395,116	432,567	474,490	492,843	521,956	537,670	553,907
Foreign Currency Deposits	54,051	56,056	78,858	83,280	86,083	83,258	92,709	99,129
Broad Money Supply (M3)	404,784	451,172	511,425	557,770	578,926	605,214	630,379	653,035
Treasury Bill Holdings	109,079	114,024	130,014	148,734	150,689	160,776	165,994	168,713
Overall Liquidity (L)	513,863	565,196	641,440	706,504	729,615	765,990	796,373	821,748
Other Items (Net)	109,824	115,547	132,863	129,677	148,612	143,809	146,367	156,508
Total Liabilities	514,608	566,719	644,288	687,447	727,538	749,023	776,746	809,544
ASSETS:								
Net Foreign Assets	104,377	123,561	143,129	158,055	175,485	191,632	203,067	209,528
Domestic Credit:								
8.1 Central Govt. (Net).	113,384	134,278	121,543	118,879	124,839	115,588	126,832	134,728
8.2 Other Public Bodies	8,016	5,992	10,934	11,960	11,727	12,203	15,133	18,465
8.3 Private Sector	288,831	302,888	368,683	398,517	415,487	429,600	431,714	446,824
Sub-Total	410,231	443,157	501,160	529,356	552,053	557,391	573,679	600,017
Total Assets	514,608	566,719	644,288	687,447	727,538	749,023	776,746	809,544

Notes:

In order to harmonize the definitions of money supply aggregates in the EAC region definitiions have been changed as follows:

(a) Broad Money , **M2,** is money supplied by the Central Bank, Commercial Banks and NBFIs. (previous series upto 2005 was broad money M3). '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 , **M3**, comprises M2 and foreign currency holdings by residents and was in the previous series defined as M3X upto 2005.

(c) Overall Liquidity, **L**, comprises M3 and Treasury Bill holdings by the non-bank public and was previously defined as M3XT upto 2005

(d) Other Items Net Includes SDR allocated by IMF.

(e) Net Foreign Assets includes Government reserve position in the IMF and deposits with crown agents.

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

Sources of Changes in M3 and Real Values of Selected Financial Aggregates

5.7. Changes in money supply M3 and their sources are presented in Table 5.4. Change in money supply M3 more than doubled from KSh 46.3 billion in 2005 to KSh 95.3 billion at the end of 2006. This was due to a 32.6 per cent increase in net foreign assets and 13.3 per cent overall increase in domestic credit.

Chapter 6
Public Finance

Overview

The Government has been implementing key fiscal reforms in public expenditure management and tax administration aimed at enhancing efficiency and productivity in service delivery and deepening transparency and accountability. In the medium-term Government fiscal policy has been to reduce deficits, re-orient expenditures and ensure that these results in intended outcomes; and augment resources by widening the tax base and improving the compliance while maintaining moderate rates.

To finance the execution of the budgeted activities for 2006/07, the Government intends to raise KSh 401.5 billion of which KSh 336.5 billion will be sourced from ordinary revenue and KSh 65.0 billion from Appropriation-In-Aid. The Government expenditure in 2006/07 is expected to be KSh 565.9 billion of which KSh 423.5 billion will be for recurrent and KSh 142.4 billion for development account.

Overall results

6.2. **Central Government: -** As shown in Table 6.1, total Government revenue (including grants) is expected to rise by 19.2 per cent from KSh 336.8 billion in 2005/06 to KSh 401.5 billion in 2006/07. The gross operating balance which is a summary measure of the effect of the Government's transactions on the net worth is expected to worsen from a surplus of KSh 49.7 billion in 2005/06 to a deficit of KSh 14.2 billion in 2006/07. This is due to the relatively higher expected increase in expense than the expected increase in revenue. Net lending/ borrowing which is a measure of the extent to which the government either provides financial resources/uses financial resources to/ from other sectors of the economy and the rest of the world is expected to decrease from a net lending of KSh 17.4 billion in 2005/06 to a net borrowing of KSh 89.5 billion in 2006/07. Net Domestic borrowing in 2006/07 is expected to increase by 4.2 per cent to KSh 29.5 billion up from KSh 28.3 billion in 2005/06.

Table 6.1: Statement of Central Government Operations, 2002/03-2006/07

KSh Million

	2002/03	2003/04	2004/05	2005/06*	2006/07+
Revenue**	228,163.39	270,920.22	303,845.04	336,826.83	401,479.93
Expense	231,154.08	265,759.63	266,237.17	287,084.47	415,640.69
Current Expenditure	223,164.19	258,474.85	259,847.90	272,899.13	397,711.10
Capital Transfers	7,989.89	7,284.78	6,389.27	14,185.34	17,929.59
Gross Operating Balance(G.O.B)	-2990.69	5160.59	37607.87	49742.35	-14160.76
Acquisition of Non-Financial Assets(net)	24123.70	23781.40	31888.68	32337.04	75334.23
Net lending/Borrowing	-27114.39	-18620.81	5719.19	17405.31	-89494.99
FINANCING	33999.08	5312.14	-7041.80	30800.96	39716.50
Net Acquisition of financial assets	-779.92	5312.14	256.20	1333.96	1483.50
Domestic	-779.92	5312.14	256.20	1333.96	1483.50
Foreign	-	-	-	-	-
Net Incurrence of liabilities	34779.00	0.00	-7298.00	29467.00	38233.00
Domestic	46922.00	8809.00	-6673.00	28251.00	29507.00
Foreign	-12143.00	-8809.00	-625.00	1216.00	8726.00
MEMORANDUM ITEMS:					
Public debt Redemption	55,063.23	86,635.67	81,539.76	71,472.66	70,903.25
(a) External	21,384.89	20,912.06	11,351.93	11,469.32	16,516.00
(b) Internal	33,678.34	65,723.60	70,187.83	60,003.34	54,387.25

Source: KNBS and MoF

* Provisional

+Revised estimates

** incudes grants& AIA

Expense= current expenditure +capital transfers

Gross operating Balance=Revenue-Expense

(Gross operating Balance since expense does not include consumption of fixed capital)

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

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

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

6.3. Analysis of key fiscal trends for the last five years is shown in Table 6.2. After recording a significant improvement in 2004/05, the net lending/ borrowing as a percentage of the revenue is expected to worsen from 5.2 per cent in 2005/06 to 22.3 per cent in 2006/07. Net lending as a percentage of total expenditure is expected to deteriorate from a surplus of 4.5 per cent in 2005/06 to a deficit of 15.9 per cent in 2006/07. Net short term borrowing as a percentage of acquisition of non financial assets is expected to rise substantially from 1.4 per cent in 2005/06 to 3.3 per cent in 2006/07. Net lending/borrowing as a percentage of GDP is expected to worsen from 1.2 per cent in 2005/06 to negative 5.5 per cent in 2006/07.

Table 6.2: Analysis of Key Fiscal Trends, 2002/03-2006/07

	2002/03	2003/04	2004/05	2005/06*	2006/07+
1. Gross operating balance as a % of Revenue	-1.31	1.90	12.38	14.77	-3.53
2. Gross operating balance as a % of Acquisition of Non financial assets(net)	-12.40	21.12	117.93	153.82	-18.80
3. Ratio of Acquisition of Non financial assets(net) to Current Expenditure	10.80	9.20	12.27	11.85	18.94
4. Net lending/Borrowing as % of Revenue ..	-11.88	-6.87	-2.32	5.17	-22.29
5. Net lending/Borrowing as % of Total Expenditure ..	-8.74	-4.95	1.51	4.45	-15.93
6. External Grants and Loans as % of Acquisition of Non financial assets(net)	11.60	30.41	44.78	65.83	41.28
7. Net Short-Term Borrowing as % of Acquisition of nonfinancial assets(net)	10.34	-59.82	-23.18	1.36	3.33
8. Revenue as % of GDP at Current Market Prices	22.36	23.84	23.62	23.30	24.44
9. Total Government Expenditure as % of GDP at Current Market Prices	30.42	33.12	29.51	27.04	34.21
10. Net lending/Borrowing as % of GDP at Current Market Prices	-2.50	-1.69	0.44	1.20	-5.45

* Provisional

\+ Revised Estimates

6.4. A comparative analysis of the budgeted estimates and actual out-turns of revenue and expenditure between 2003/04 and 2006/07 is shown in Table 6.3. The actual out-turn of the recurrent revenue is expected to surpass by KSh 2.5 billion while that of the recurrent expenditure is expected to be under spent by KSh 9.0 billion. Actual out-turn of development expenditure is expected to differ significantly from the budgeted estimates. In 2004/05 and 2005/06 financial years the disparity between the budget estimate and the actual out-turns for recurrent revenue decreased by 94.5 per cent while that of recurrent expenditure declined nearly fivefold.

Table 6.3: Comparison of Central Government Budget Estimates with Actual Out-turns, 2003/04 -2006/07

KSh million

	2003/04			2004/05		
	Budget	Actual	Difference	Budget	Actual	Difference
Recurrent Revenue	237,369.70	254,696.22	17,326.52	256,546.58	285,822.70	29,276.12
Recurrent Expenditure	329,927.08	321,754.04	-8,173.04	353,533.75	339,689.28	-13,844.47
Recurrent Balance	-92,557.38	-67,057.82	25,499.56	-96,987.17	-53,866.58	43,120.59
Development Expenditure	59,670.57	54,557.96	-5,112.61	88,116.10	40,140.95	-47,975.15
External Financing (Net)**	35,854.69	7,415.00	28,439.69	45,991.39	14,280.00	-31,711.39
Balance for Domestic Financing (Net)	-116,373.26	-118,816.78	-2,443.52	-139,111.88	-79,727.53	59,384.35
	2005/06*			2006/07+		
	Budget	Actual	Difference	Budget	Actual	Difference
Recurrent Revenue	311,846.84	313,447.63	1,600.79	373,521.51	376,039.99	2,518.47
Recurrent Expenditure	404,605.78	337,683.90	-66,921.88	432,423.23	423,467.77	-8,955.46
Recurrent Balance	-92,758.95	-24,236.27	68,522.68	-58,901.72	-47,427.78	11,473.93
Development Expenditure	104,112.09	54,641.34	-49,470.75	113,106.95	142,429.46	29,322.51
External Financing (Net)**	56,841.54	21,286.00	-35,555.54	63,733.25	31,096.00	-32,637.25
Balance for Domestic Financing (Net)	-140,029.49	-57,591.61	82,437.88	-108,275.42	-158,761.24	-50,485.83

Source: MoF

* Provisional.

** Includes external grants.

\+ Revised Estimates

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

6.5. Total recurrent revenue increased from KSh 214.1 billion in 2002/03 to KSh 376.0 billion in 2006/07 as shown in Table 6.4. This could be attributed to general economic growth, increased efficiency in tax collection, tax reforms and modernization. Taxes on incomes, profits and capital gains, and taxes on goods and services are expected to grow by 14.0 and 18.7 per cent respectively. Income tax from corporations has risen over the five year period, principally due to increased profitability in the corporate sector. Income tax from individuals has also followed a similar trend which could be as a result of a widened tax base.

Table 6.4: Central Government Gross Receipts on Recurrent Account, 2002/03-2006/07**

KSh Million

	2002/03	2003/04	2004/05	2005/06*	2006/07+
Taxes on income, Profits and Capital gains	70,140.28	77,409.73	99,312.48	115,806.00	131,956.00
Income Tax from individuals(P.A.Y.E)	34,400.06	41,627.10	52,928.18	62,910.00	69,312.00
Income Tax from corporations(other income tax)	35,740.22	35,782.63	46,384.29	52,896.00	62,644.00
Taxes on property	71.66	130.65	192.34	289.45	322.00
Immovable property	0.00	24.74	6.55	17.45	22.00
Financial and capital transactions	71.66	105.91	185.79	272.00	300.00
Taxes on Goods and services	101,524.94	110,102.48	133,486.12	145,936.82	173,271.10
VAT on domestic goods and services	26,698.01	31,529.08	43,128.24	42,422.00	49,838.50
VAT on imported goods and services	29,437.24	27,324.29	32,867.42	35,310.00	40,939.00
Total VAT	56,135.25	58,853.37	75,995.66	77,732.00	90,777.50
Excise taxes	44,042.89	40,085.26	44,151.22	54,077.00	62,245.00
Taxes on specific services	368.88	459.54	594.14	673.00	625.00
Taxes on use of goods and on permission to use the goods or to perform services and activities	744.95	1,617.90	1,618.82	2,228.92	1,597.60
Royalties	121.75	186.41	440.28	209.90	232.00
Taxes on goods and services collected as AIA	0.00	8,900.00	10,686.00	10,916.00	17,674.00
Other taxes on goods and services	111.22	0.00	0.00	100.00	120.00
Taxes on international Trade Transactions	24,396.09	30,264.00	30,831.72	30,738.00	40,148.00
Custom duties	24,396.09	25,214.00	23,531.72	21,732.00	28,283.00
Export levies	0.00	0.00	0.00	0.00	0.00
Exemptions on customs and other import duties	0.00	0.00	0.00	0.00	0.00
Other taxes on international trade and transactions	0.00	5,050.00	7,300.00	9,006.00	11,865.00
Other taxes not elsewhere classified	842.00	1,244.38	940.00	1,680.00	2,400.00
Social security contributions	459.90	239.12	558.00	500.00	550.00
Property income	1,354.13	5,095.46	5,741.11	5,724.76	7,144.17
Sale of goods and services	13,572.80	25,385.81	5,907.92	4,774.11	11,255.41
Fines penalties and forfeitures	100.46	199.00	200.00	110.00	114.00
Repayments from domestic lending and on-lending	806.13	719.40	1,596.58	783.00	1,102.98
Other receipts not elsewhere classified	880.86	3,906.19	7,056.45	7,105.50	7,776.34
TOTAL	**214,149.26**	**254,696.22**	**285,822.70**	**313,447.63**	**376,039.99**

Source: MoF

* Provisional

'+ Revised Estimates

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

6.6. Table 6.5 shows the revenue accruing from import duties levied on selected commodities by end use categories between 2002 and 2006. Total import duty registered a growth of 13.7 per cent from KSh 20.4 billion in 2005 to KSh 23.2 billion in 2006. Duty from food, drinks and tobacco increased by 16.7 per cent to KSh 6.3 billion in 2006. Import duty on fuel declined marginally while that from chemicals dropped by 50.3 per cent. All the other categories recorded substantial increases, with transport equipment and machinery registering 33.3 and 18.6 per cent respectively.

Chapter 7
International Trade and Balance of Payments

Overview

International trade indicators for 2006 show the widening of both the trade and current account deficits. Trade balance widened further from a deficit of KSh 182,670 million in 2005 to KSh 270,489 million in 2006 reflecting an increase of 48.1 per cent. The value of domestic exports increased by 8.7 per cent in the year under review while the value of imports grew relatively faster at the rate of 17.7 per cent in the same period. The value of re-exports declined by 54.8 per cent in 2006 resulting from prudent administration measures put in place by Kenya Revenue Authority on petroleum products' importation, exportation, re-exportation and transit rules. These developments led to a drop in the export/import ratio from 58.8 per cent in 2005 to 48.1 per cent in 2006.

7.2. The volume of trade expanded by 9.8 per cent in 2006 compared to 2005. This was partly as a result of a substantial decline of 54.8 per cent recorded in the re-exports thus pulling the total exports down. The total import bill and domestic export earnings rose by 17.7 per cent and 8.7 per cent, respectively during the year under review. Horticulture, tea, articles of apparel and clothing accessories and coffee were the leading export earners, collectively accounting for 53.4 per cent of the total domestic export earnings.

7.3. The current account deficit widened to KSh 37,900 million in 2006 from a deficit of KSh 19,687 million in 2005. The capital and financial account recorded a surplus of KSh 63,782 million in 2006 up from a surplus of KSh 57,862 million recorded in 2005. This was mainly driven by increased short term capital inflows. The visible trade deficit widened to stand at KSh 235,512 million which mainly explains the deterioration in the current account. The invisible trade registered a surplus of KSh197,612 million in 2006 up from a surplus of KSh142,539 million registered in 2005. This is attributable to the increase in unilateral private current transfers which recorded a surplus of KSh121,386 million in the period under review. The overall balance of payments improved from a surplus of KSh 21,161 million in 2005 to a surplus of KSh 44, 446 million in 2006, a reflection of the build up of international reserves.

Table 7.1: Balance of Trade[1], 2002 - 2006 KSh Million

DESCRIPTION	2002	2003	2004	2005	2006*
EXPORTS (f.o.b) :					
Domestic Exports	131,394	136,709	159,048	209,918	228,181
Re-exports	37,889	46,445	55,745	50,505	22,813
Total	**169,283**	**183,154**	**214,793**	**260,423**	**250,994**
IMPORTS (c.i.f) :					
Commercial	254,006	278,838	361,293	440,532	510,792
Government	3,704	3,005	3,264	2,561	10,691
Total	**257,710**	**281,844**	**364,557**	**443,093**	**521,483**
BALANCE OF TRADE	**(88,427)**	**(98,690)**	**(149,764)**	**(182,670)**	**(270,489)**
TOTAL TRADE	426,993	464,997	579,350	703,516	772,477
COVER RATIO [2](in percentage)	65.7	65.0	58.9	58.8	48.1

Source: Kenya National Bureau of Statistics/Kenya Revenue Authority

*Provisional

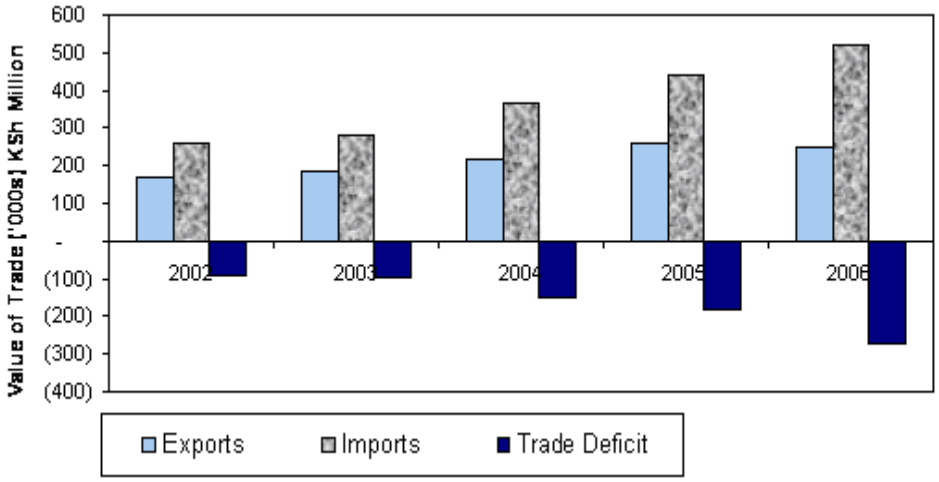
[1]Data from Export Processing Zones (EPZ) included as from 2005

[2]COVER RATIO =(Total Exports/Total Imports)x100

Balance of Trade

7.4. The value of international trade increased by 9.8 per cent from KSh 703,516 million in 2005 to KSh 772,477 million in 2006 as shown in Table 7.1. Domestic exports increased by 8.7 per cent from 209,918 in 2005 to 228,181 in 2006. The re-exports declined further for the second year in a row recording a decrease of 54.8 per cent in 2006 as compared to a decrease of 9.4 per cent in the previous year. This resulted in total exports declining marginally from KSh 260,423 million in 2005 to KSh 250,994 million in 2006 representing a decrease of 3.6 per cent. Total imports increased by 17.7 per cent in the year under review compared to a 21.5 per cent increase in 2005. Trade balance widened further from a deficit of KSh 182,670 million in 2005 to KSh 270,489 million in 2006 reflecting an increase of 48.1 per cent. This is attributable to the faster growth of total imports relative to the exports. In 2006, earnings from total exports financed 48.1 per cent of the import bill compared to 58.8 per cent in 2005. The widening trend of trade deficit between 2002 and 2006 is depicted graphically in Figure 7.1.

Figure 7.1: Balance of Trade, 2002-2006



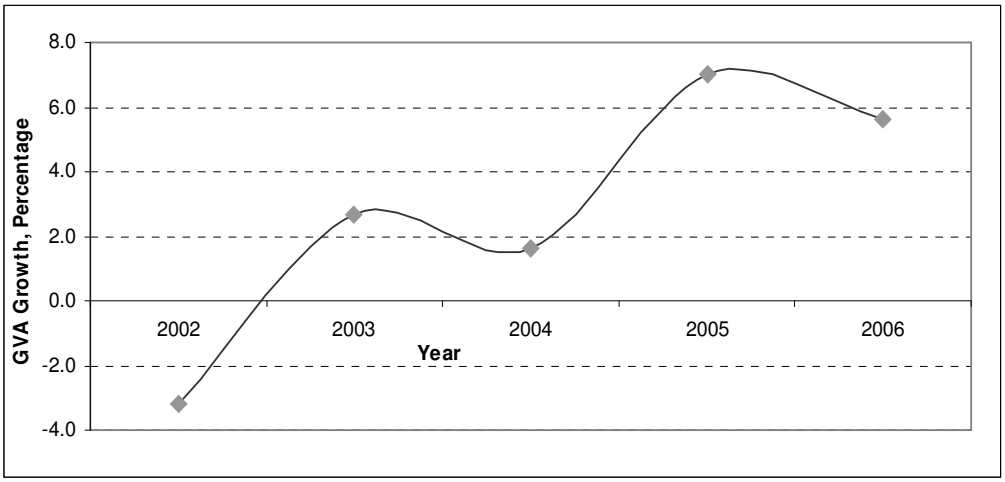
Chapter 8

Agriculture

Overview

The overall performance of agriculture sector slowed in 2006, recording a gross value added growth of 5.6 per cent from a revised growth of 7.0 per cent in 2005. This may be attributed to the drought that was experienced in the late 2005 and the first quarter of 2006 which impacted negatively on some crops such as tea. However, the food supply situation remained satisfactory following increased harvests of maize, beans and millet due to the adequate rainfall received in most parts of the country during the long rains season. The value of marketed production rose by 12.4 per cent from KSh 133.1 billion in 2005 to KSh 149.7 billion in 2006. This increase is mainly attributed to improvement in marketed quantities of maize, milk and coffee, and increases in the prices of major commodities like maize, tea, vegetables and dairy products. The value of marketed cereals moved from KSh 11.9 billion in 2005 to KSh 13.1 billion in 2006 while that of livestock products increased by KSh 2.1 billion to stand at KSh 26.4 billion in 2006 from KSh 24.3 billion in 2005.

Figure 8.1: Agriculture Gross Value Added (GVA), 2002 - 2006



8.2. Production of maize grain continued on the upward trend observed over the last five years, growing by 11.8 per cent to 36.1 million bags in 2006 from 32.3 million bags harvested in 2005. Coffee production recorded a significant increase of 6.9 per cent to record 48.3 thousand tonnes in 2005/2006 crop year up from 45.2 thousand tonnes in the previous year. Production of beans recorded a remarkable 37.4 per cent increase to 5.9 million bags in the year under review. The sugarcane sub-sector recorded improved performance in the year, with cane production rising by 2.8 per cent from 4,800.2 thousand tonnes in 2005 to 4,932.8 thousand tonnes in 2006. The Agriculture sector was further boosted by the livestock sub-sector, with the quantity of marketed milk rising by 6.2 per cent to stand at 361 million litres and the total number of animals slaughtered growing by 4.6 per cent.

Tea production dropped from 328.5 thousand tonnes in 2005 to 310.6 thousand tonnes in 2006, mainly due to the drought experienced in the country during the first quarter of the year. Wheat, Irish potatoes and sorghum registered significant production declines in 2006. The problems witnessed in the pyrethrum sub-sector in the recent past appear to have persisted in the reporting period. Pyrethrum flower production dropped by 42.2 per cent from 1,320.2 tonnes in 2005 to 762.7 tonnes in 2006. The volume of fresh horticultural exports remained constant at 163.2 thousand tonnes while the value for the same rose significantly from KSh 38.8 billion in 2005 to KSh 43.1 billion in 2006. This was the result of an increase in the export volumes of high value vegetables during the review period which pushed the value of exported vegetables from KSh 13.9 billion to KSh 17.8 billion in the year.

Agricultural Output and Input

8.3. Agriculture production at both constant and current prices is given in Table 8.1. As seen in Figure 8.1, agriculture output has been on a steady upward trend for the last four years for both current and constant prices. At current prices, agriculture output rose by 13.8 per cent from KSh 420,491 million in 2005 to KSh 478,528 million in 2006. Over the same period, agriculture output at constant prices rose by 5.6 per cent from KSh 372,526 million in 2005 to KSh 393,400 million in 2006. Using constant 2001 prices, intermediate consumption went up significantly from KSh 84,011 million in 2005 to KSh 88,710 million in the period under review. This gave rise to a significant rise in the Gross Value Added (GVA) for the sector, which rose from a revised figure of KSh 288,515 million in 2005 to KSh 304,691 million in the reporting period. However, this rate of growth in the GVA is slightly lower than the level recorded in 2005, as seen in Figure 1.

Table 8.1: Agricultural Output and Input[+], 2002- 2006

KSh million

	2002	2003	2004	2005	2006*
PRODUCTION AT CURRENT PRICES					
Output at basic prices	322,331	345,934	380,060	420,491	478,528
Intermediate consumption	72,759	71,990	82,935	100,168	107,089
Value added at basic prices, gross	249,572	273,944	297,125	320,323	371,439
PRODUCTION AT CONSTANT PRICES					
Output at basic prices	333,821	342,505	348,067	372,526	393,400
Intermediate consumption	75,454	77,306	78,492	84,011	88,710
Value added at basic prices, gross	258,367	265,199	269,575	288,515	304,691

*Provisional

[+] Revised series

Table 8.2: Recorded Marketed Production at Current Prices, 2002 - 2006

KSh million

	2002	2003	2004	2005	2006*
CEREALS-					
Maize	4,451.4	3,336.5	6,880.5	6,342.4	7,170.2
Wheat	987.5	1,375.3	1,864.0	2,232.3	2,073.4
Others	959.4	964.5	2,055.3	3,329.5	3,843.2
Total	6,398.3	5,676.3	10,799.8	11,904.2	13,086.7
HORTICULTURE**-					
Cut flowers	14,791.0	16,496.0	18,720.0	22,896.8	23,560.6
Vegetables	10,470.0	10,591.0	12,068.0	13,891.4	17,822.9
Fruits	1,461.0	1,753.0	1,803.0	2,049.9	1,737.3
Total	26,722.0	28,840.0	32,591.0	38,838.1	43,120.8
TEMPORARY INDUSTRIAL CROPS-					
Sugar-cane	9,070.2	7,567.3	8,389.8	9,169.6	9,998.9
Pyrethrum	1,271.5	781.9	305.7	158.1	74.1
Others	676.0	876.0	644.6	859.0	602.5
Total	11,017.8	9,225.2	9,340.1	10,186.7	10,675.5
PERMANENT CROPS-					
Coffee	5,441.1	5,956.7	7,284.5	8,999.1	10,023.6
Tea	33,414.7	34,631.1	41,212.2	38,829.9	45,162.0
Sisal	938.2	1,060.7	1,275.4	1,289.2	1,228.2
Total	39,794.0	41,648.6	49,772.0	47,948.2	56,413.8
TOTAL CROPS	83,932.1	85,390.1	102,502.9	108,877.2	123,296.8
LIVESTOCK AND PRODUCTS-					
Cattle and Calves ..	11,823.8	11,476.1	11,284.8	13,063.5	13,403.2
Dairy Produce ..	2,468.9	2,846.1	4,385.0	5,313.2	6,494.4
Chicken and eggs	1,624.5	1,624.5	1,705.7	1,901.5	2,186.7
Others	3,422.5	3,485.7	3,391.2	3,980.7	4,291.5
Total	19,339.7	19,432.4	20,766.7	24,258.9	26,375.8
GRAND TOTAL	103,271.9	104,822.5	123,269.6	133,136.1	149,672.6

* Provisional.

** Data refers to fresh horticultural exports only

Marketed Production

8.4. Table 8.2 presents the agriculture sector marketed production at current prices for the last five years. Overall, the value of marketed production rose by 12.4 per cent from a revised figure of KSh 133,136.1 million in 2005 to KSh 149,672.6 million in 2006. This growth is as a result of increases in the marketed quantities of a number of commodities including maize, milk and coffee. Increases in the prices of major commodities like maize, tea, vegetables and dairy products also contributed to the growth. The combined value of all crops rose by KSh 14,419.6 million to KSh 123,296.8 million in 2006 while that of livestock products increased by KSh 2,116.9 million to stand at KSh 26,375.8 million in the year. In 2006, the value of marketed cereals increased by 9.9 per cent with maize accounting for 54.8 per cent of this value. An increase in both the marketed quantity and price of maize pushed the value upwards from KSh 6,342.4 million in 2005 to KSh 7,170.2 million in 2006. Similarly, the value of other cereal crops increased substantially during the year, mainly driven by a large increase in the production of barley. The value of marketed wheat went down by 7.1 per cent due to a drop in the marketed quantity that was occasioned by reduced production of the cereal in the year.

8.5. The value of marketed horticultural produce rose by KSh 4,282.7 million to stand at KSh 43,120.8 million in 2006. This growth was mainly driven by vegetable crops whose value achieved a 28.3 per cent increase. Although the value of pyrethrum shrunk by more than half, temporary industrial crops realized a 4.8 per cent increase in marketed value, supported by significant rises in the value of sugarcane and cotton. A positive price movement for both tea and coffee and a growth in the production of coffee combined to result to a 17.7 per cent increase in the value of permanent crops, negating the effect of the unfavourable performance observed in the sisal sub-sector. The value of marketed dairy produce continued on an upward trend due to increases in the price of milk and in the quantity of marketed milk. However, the value of cattle slaughtered realized only minimal growth while that of chicken products grew by 15.0 per cent, resulting in a reduced growth of 8.7 per cent for the value of livestock products. In 2005, the total value of marketed livestock and products had recorded a remarkable growth of 16.8 per cent.

Table 8.3: Volume and Price Indices of Sales to Marketing Boards, 2002 - 2006

Base: 2001=100

		2002	2003	2004	2005	2006*
QUANTUM INDICES	Cereals	85.3	67.8	97.0	105.9	115.6
	Temporary Industrial Crops	133.1	119.3	120.8	123.3	122.6
	Horticulture	167.9	142.6	155.8	179.2	182.4
	Permanent Crops	95.4	101.2	107.6	105.2	103.7
	TOTAL CROPS	99.3	99.0	78.7	78.5	78.6
	Livestock and Products	126.1	123.6	130.8	150.3	162.3
TOTAL GROSS MARKETED PRODUCTION		121.9	117.0	123.2	131.2	136.6
PRICE INDICES	Cereals	87.8	94.1	114.3	109.1	111.7
	Temporary Industrial Crops	94.0	86.9	87.5	94.7	97.9
	Horticulture	73.9	89.4	88.6	92.8	101.9
	Permanent Crops	78.2	89.3	101.2	100.9	119.2
	TOTAL CROPS	91.0	89.6	73.6	73.7	84.0
	Livestock and Products**	103.6	109.2	123.0	128.1	135.4
TOTAL GROSS MARKETED PRODUCTION		94.8	99.1	110.5	111.3	121.0

* Provisional.

**Data on livestock is from slaughter houses

8.6. The volume and price indices of sales to marketing boards improved for a third consecutive year as reflected in Table 8.3. The overall quantum index rose from 131.2 in 2005 to 136.6 in 2006 a reflection of higher production of maize, horticulture and livestock products. The quantum index for cereal sales rose from 105.9 in 2005 to 115.6 in 2006 while the horticultural quantum index rose from 179.2 in 2005 to 182.4 in 2006. The overall price index rose from 111.3 in 2005 to 121.0 in 2006 in tandem with better prices offered for horticulture, coffee, tea, sugarcane and livestock products. The price index for horticulture rose from 92.8 in 2005 to 101.9 in 2006. The price index for permanent crops rose from 100.9 in 2005 to 119.2 in 2006 while that of livestock and products rose from 128.1 in 2005 to 135.4 in 2006 due to better prices for bacon and milk.

Table 8.4: Average Gross Commodity Prices+ to Farmers, 2002 - 2006

KSh per stated unit

	UNIT	2002	2003	2004	2005	2006
Coffee	100 kg	11,962.90	9,729.20	14,590.60	18,885.80	19,837.76
Tea	,,	11,638.70	11,792.50	12,696.00	11,824.20	14,541.27
Sisal	,,	4,241.40	4,272.30	4,821.30	5,168.30	4,812.50
Sugar-cane	Tonne	2,015.00	1,800.00	1,800.00	1,910.00	2,027.00
Pyrethrum (Pyrethrin equivalent)	Kg	7,301.80	7,316.60	7,297.20	9,658.70	7,349.84
Seed Cotton	100 Kg	1,729.60	2,107.40	2,243.20	1,910.60	2,191.70
Maize	,,	1,034.00	1,189.50	1,534.20	1,523.70	1,535.35
Wheat	,,	1,724.30	1,908.80	2,216.70	1,821.10	1,949.55
Beef (third grade)	,,	12,169.20	11,861.90	11,351.20	11,938.60	12,101.20
Pig meat	,,	9,417.40	8,636.80	8,715.50	9,145.10	9,785.44
Milk	100 litres	1,387.20	1,400.00	1,600.00	1,600.00	1,800.00

+ The prices are for calendar year and 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.

8.7. Highlights on average gross commodity prices to farmers are presented in Table 8.4. Most commodities recorded price increases during the year. Tea recorded the largest price increase, rising from KSh 11,824.2 in 2005 to KSh 14,541.3 in 2006 per 100 Kilograms. Maize registered a marginal price increase of less than 1.0 per cent while the prices of coffee, wheat, milk and pig meat increased by 5.0, 7.1, 12.5 and 7.0 per cent, respectively in 2006. For the second year running, sugarcane farmers gained from higher prices of the crop which rose to KSh 2,027 per tonne in 2006 compared to KSh 1,910 per tonne the previous year. Over the same period, the prices of pyrethrum and sisal decreased by 23.9 per cent and 6.9 per cent, respectively.

Table 8.5: Value of Sales of Agricultural Produce to Marketing Boards from Large and Small Farms, 2002 - 2006

YEAR	LARGE FARMS		SMALL FARMS		TOTAL		PERCENTAGE
	KSh mn.	Annual Percentage change	KSh mn.	Annual Percentage change	KSh mn.	Annual Percentage change	SHARE OF SMALL FARMS
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	1.5	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
2006*	38,600	11.65	110,073	12.82	148,674	12.51	74.04

* Provisional.

8.8. Table 8.5 shows the value of sales of agricultural produce to marketing boards from large and small farms. The share of small farms in sales to marketing boards rose marginally from 73.8 per cent in 2005 to 74.0 per cent in 2006, a reflection of the continued dominance of the small holder agricultural sector. The value of marketed production from small farms rose by 12.8 per cent from KSh 97,568 million in 2005 to KSh 110,073 million in 2006. The value of marketed production from large farms rose by 11.7 per cent from KSh 34,572.0 million in 2005 to KSh 38,600 million in 2006.

Table 8.6: Agricultural Input Indices, 2002 - 2006

Base: 2001=100

	2002	2003	2004	2005	2006*
QUANTUM INDICES-					
Fertilizers	129.2	156.9	164.8	173.7	181.7
Fuel and Power	86.8	75.5	73.1	67.0	60.8
Bags	88.3	90.0	71.7	67.5	82.8
Manufactured Feeds	170.0	161.5	170.8	181.0	194.8
Purchased Seeds	106.0	121.0	127.0	143.0	149.7
Other Material Inputs	102.0	96.9	102.5	108.6	112.9
Total Material Input	109.3	110.7	115.4	119.6	125.0
Service Inputs	104.0	100.9	104.4	112.3	118.7
TOTAL INPUTS	113.1	112.3	115.2	123.8	145.1
PRICE INDICES-					
Fertilizers	91.8	93.7	110.1	127.6	122.9
Fuel and Power	80.0	81.2	85.5	117.4	130.2
Bags	115.1	92.1	125.8	129.3	124.3
Manufactured Feeds	92.1	83.1	105.4	121.7	120.0
Purchased Seeds	102.8	86.8	90.9	97.9	85.9
Other Material Inputs	102.8	111.8	127.8	137.7	129.1
Total Material Input	92.4	89.4	102.2	120.4	119.7
Service Inputs	100.5	110.6	113.7	124.5	128.2
TOTAL INPUTS	91.7	89.2	101.5	119.2	118.7

* Provisional.

8.9. Quantum and price index figures for various agricultural inputs are presented in Table 8.6. These indices are an indication of agricultural input quantities and the price movements. Overall, the quantum index of agricultural inputs moved upwards by 17.2 per cent in the year under review. This positive change in the total quantum index indicates increased use of inputs triggered by an increased crop farming and livestock keeping activities. This upsurge in activities was partly spurred by favourable input prices as seen in the input price indices. The quantum index for fertilizer went up by 4.6 per cent while that of fuel and power went down by 9.3 per cent as a result of reduced consumption of electricity in the sector. Increased use of certified seeds raised the seed quantum index from 143.0 to 149.7 while the services index rose by 5.7 per cent. The prices of fuel and power, and manufactured feeds rose marginally while those of fertilizers, bags and seeds declined during the year. The price index of total inputs dropped slightly from 119.2 in 2005 to 118.7 in 2006.

Table 8.7: Value of Purchased Agricultural Inputs+, 2002 - 2006

KSh million

	2002	2003	2004	2005	2006*
MATERIAL INPUTS-					
Fertilizers	2,946	3,159	3,321	3,727	3,560
Other Agricultural Chemicals	606	528	991	1,044	1,204
Livestock Drugs and Medicines	771	841	1,077	1,313	1,439
Fuel and Power	4,822	4,333	4,910	4,861	3,497
Bags	542	406	442	427	544
Manufactured Feeds	2,023	1,799	2,341	2,638	2,242
Purchased Seeds	1,490	2,310	2,541	2,694	2,425
Other Material Inputs	390	360	378	390	405
Total	13,590	13,736	16,002	17,094	15,315
SERVICE INPUTS	538	565	571	583	608.3
TOTAL INPUTS	14,128	14,301	16,573	17,667	15,924

* Provisional.

\+ Excluding labour.

8.10. Table 8.7 gives the costs incurred in purchasing various inputs in the agricultural sector for the last five years. Overall, the value of purchased agricultural inputs went down by 9.9 per cent from KSh 17,667.0 million in 2005 to KSh 15,924.0 million in 2006. This reduction in total input value is largely explained by a huge drop observed in the quantity of fuel and power consumed in the sector particularly in the tea factories coupled with reduced prices for most input commodities. The expenditure on fertilizer, fuel and power, manufactured feeds and the purchased seeds declined by 4.5, 28.1, 15.0 and 10.0 per cent, respectively, in 2006. On the other hand, the value of service inputs excluding labour costs stood at KSh 608 million in 2006 compared to KSh 583 million in 2005.

Table 8.8: Price and Terms of Trade Indices for Agriculture, 2002 - 2006

Base: 2001=100

	2002	2003	2004	2005	2006*
General Index of Agricultural Output Prices	95.0	93.1	100.6	100.8	110.0
PRICE PAID					
Purchased Inputs	95.5	89.2	101.5	119.2	118.7
Index of Purchased Consumer Goods-Rural Areas	102.1	112.2	124.1	136.0	153.2
INDICES OF PRICES PAID	98.8	100.7	112.8	127.9	135.9
Agricultural Sector Terms of Trade	96.2	92.5	89.2	78.8	80.9

* Provisional.

8.11. Terms of trade give an indication of the state of the business environment in a country. An increase in the export price of commodities or a reduction in the import price of input commodities leads to improved terms of trade, implying a favourable business environment. In the agriculture sector, terms of trade are estimated by comparing the prices of outputs with those of input commodities. Table 8.8 presents terms of trade and price indices for the last five years. The price index of agricultural output rose by 9.1 per cent while that of purchased inputs declined by 0.4 per cent. However, the index for consumer goods rose by 12.6 per cent. This resulted in the overall index of input prices rising by 6.3 per cent, a change slightly lower than that of output prices. Consequently, agriculture sector terms of trade improved, rising from 78.8 in 2005 to 80.9 percentage points during the year under review.

Table 8.9: Estimated Production of Selected Agricultural Commodities, 2002 - 2006

CROP	Unit	2002	2003	2004	2005	2006*
Maize	million bags	26.0	28.0	29.0	32.3	36.1
Beans	"	4.0	4.0	3.2	4.3	5.9
Potatoes	million tonnes	0.9	1.0	1.1	1.0	0.8
Sorghum	million bags	0.8	0.8	0.8	1.7	1.6
Millet	"	0.6	0.6	0.7	0.6	0.8

Source: Ministry of Agriculture

* Provisional.

8.12. Production of selected food crops are shown in Table 8.9. For a fourth successive year, maize registered a significant increase in production. In 2006, maize production increased by 11.8 per cent from 32.3 million bags in 2005 to 36.1 million bags in 2006. Similarly, production of beans achieved a notable increase, rising from 4.3 million bags in 2005 to 5.9 million bags in 2006. Millet production increased from 0.6 million bags in 2005 to 0.8 million bags in 2006, while potatoes and sorghum recorded production declines of 20.0 per cent and 5.9 per cent, respectively, over the reporting period.

8.13.**Market Prices:** Market prices, among other factors, provide an indication of the levels of supply of a commodity. Table 8.10 gives details on average market prices for maize, beans, potatoes, sorghum and millet at provincial and national levels. In the period under review, retail prices were higher in March than in September for all commodities except maize in Rift Valley. This decrease in prices in September is attributable to increased supply of these commodities in the markets following the long rains harvest. At national level, retail prices of maize, beans and potatoes increased in September 2006 compared to September 2005 while the prices of sorghum and millet declined over the same period. In March 2006, the price of maize varied between KSh 16.40 per kilogram in the Rift Valley Province and KSh 21.80 per kilogram in the Coast Province while in September 2006, the price of the same commodity varied between KSh 14.80 per kilogram in Nyanza Province and KSh 21.20 per kilogram in Coast Province. In March 2006, the price of beans ranged between KSh 40.20 per kilogram in the Rift Valley Province and KSh 46.70 per kilogram in Central and Coast Provinces. In September 2006, potato prices increased in Coast, Eastern, Central and Nyanza Provinces but declined in Rift Valley and Western Provinces compared to the levels observed in the same month of the previous year. Nationally, the average price for sorghum recorded a 7.5 per cent between the month of September 2005 and September 2006.

Chapter 9
Environment and Natural Resources

Overview

In 2006, the Government continued with the process of reviewing and implementing laws and policies that govern the natural resources exploitation, management and conservation.

9.2. Overall development expenditure on water supplies and related services increased by 15.1 per cent from KSh 6,598.6 million in 2005/06 to KSh 7,592.1 million in 2006/07. Total revenue generated from the fisheries sub-sector increased by 9.5 per cent from KSh 7.4 billion in 2005 to KSh 8.1 billion in 2006. Fresh water fish contributed about 94 per cent of the total fisheries revenue. The value of mineral products increased from KSh 5.8 billion in 2005 to KSh 6.7 billion in 2006. In response to conservation policy, the sale of forest products decreased from 994.0 thousand cubic metres in 2005 to 448.2 thousand cubic metres in 2006. The wildlife population within the Kenyan rangelands registered a marginal decline in 2006.

Water Supply

9.3. The Government through the Ministry of Water and Irrigation continued with the water sector reforms to meet policy goals and enhance equitable access to water and sanitation. This involved reviewing the status and challenges facing the sector. The Sector Wide Approach to Planning (SWAP) which aims at raising required investments in the sector and improving their efficiency was also launched.

9.4. In pursuit of the policy to provide clean water to all households within a reasonable distance, the Government through the Ministry of Water and Irrigation continued to maintain modest Water Purification Points (W.P.Ps) as presented in Table 9.1. Although the number of W.P.Ps has remained unchanged, the Government continued to increase funding for their maintenance. The number of W.P.Ps in the country has remained unchanged mainly because the Ministry of Water and Irrigation has been focusing on rehabilitating, augmenting and expanding the existing water supply schemes.

Table 9.1: Water Purification Points and Boreholes Drilled, 2002/03- 2006/07

Province	2002/03		2003/04		2004/05		2005/06		2006/07*	
	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	26	34	7	34	9	34	28	34	7
Coast	8	1	8	6	8	-	8	16	8	15
Eastern	28	31	28	14	28	17	28	45	28	36
N/Eastern	7	1	7	1	7	4	7	53	7	67
Nyanza	33	9	33	2	33	2	33	34	33	4
R/Valley	43	46	43	17	43	28	43	27	43	32
Western	33	4	33	0	33	3	33	24	33	3
Total	186	118	186	47	186	63	186	227	186	164

Source: Ministry of Water and Irrigation
* Provisional
W.P.P - Water Purification Point (Water Treatment Point)
B.H - Borehole (drilled by Government and private sector)

9.5. The Ministry in collaboration with other stakeholders in the sector drilled a total of 164 boreholes during 2006/07 compared to 227 in 2005/06 as shown in Table 9.1. The decline is attributed to scaling down of an emergency drought intervention programme initiated by the Government and donor communities in 2005/06 in Arid and Semi Arid Lands (ASAL) areas. The highest number of boreholes were drilled in North Eastern and the lowest in Western provinces in 2006/07. There was a decline in the number of boreholes drilled in all the provinces except North Eastern and Rift Valley in 2006/07 as compared to 2005/06.

Table 9.2: Development Expenditure on Water Supplies and Related Services, 2002/03-2006/07

KSh '000

Item	2002/03	2003/04	2004/05	2005/06*	2006/2007+
Water Development . ..	661,698	960,475	760,642	1,895,835	3,367,953
Training of Water Development Staff	23,084	32,515	23,250	50,000	39,000
Rural Water Supplies. ..	261,515	534,919	373,233	789,750	814,000
County Council and Urban Water Supplies	325,500	713,100	1,247,245	1,293,296	300,200
Miscellaneous and Special Water Programmes	224,870	1,446,640	342,414	236,500	141,500
Water Conservation and Pipeline Corporation	822,461	481,641	463,424	1,974,300	2,031,500
Irrigation Development	12,778	1,704	4,985	112,408	442,641
National Irrigation Board	60,460	60,460	101,930	246,533	455,300
TOTAL . ..	**2,319,128**	**4,169,290**	**3,210,208**	**6,598,622**	**7,592,094**

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

* Provisional

+Revised Estimates

9.6. Development expenditure on water supplies and related services over the period 2002/03 to 2006/07 is shown in Table 9.2. Total expenditure displayed mixed performance over the review period. The expenditure is expected to rise from KSh 6,598.6 million in 2005/06 to KSh 7,592.1 million in 2006/07, an increase of 15.1 per cent. This impressive increase was mainly attributed to the water sector being accorded more priority in budget support in the ongoing water sector reforms.

9.7. The expenditure on water development item almost doubled from KSh 1,895.8 million in 2005/06 to KSh 3,368.0 million in 2006/07. The increased expenditure allocation was mainly to finance the water sector reforms. Similarly, expenditure allocation on National Water Conservation and Pipeline Corporation (NWCPC), National Irrigation Board (NIB), Rural Water Supplies and Irrigation Development increased in the year under review. The increase in these expenditure items reflects changing institutional roles initiated under the reforms and Government policy to provide water in rural areas for irrigation. However, there were substantial reductions in expenditures on training of water development personnel, urban water supplies and miscellaneous special water programmes. This reduction in expenditure was mainly due to re-allocation of resources.

Chapter 10
Energy

Overview

In 2006, the world experienced unusually high oil prices. The high oil prices were mainly as a result of unexpectedly strong global demand for oil since 2003 coupled with expectations of continuing future supply tightness. Other factors that influenced the spike in prices include North Korea's missile launches, the crisis between Israel and Lebanon, Iranian nuclear brinkmanship, and the increasing demand for oil by China and other emerging economies.

10.2. In the international market, Murban crude oil prices rose by 9.1 per cent from US dollar 56.90 per barrel in December 2005 to US dollar 62.05 per barrel in December 2006. The soaring international fuel prices were a major cause of the volatile domestic fuel prices and the high annual inflation rate witnessed in the period under review.

10.3. Total quantities of petroleum imports rose by 6.8 per cent to stand at 3,172.9 thousand tonnes in 2006. Crude oil imported into the country declined further by 7.4 per cent in 2006 compared to a drop of 13.2 per cent in 2005. Petroleum fuels imported rose by 24.0 per cent from 1,130.9 thousand tonnes in 2005 to 1,402.7 thousand tonnes in 2006. The total import bill for crude and petroleum products rose by 18.9 per cent from KSh 95,669.2 million in 2005 to KSh 113,719.6 million in 2006. Total quantities of petroleum exports declined by 2.3 per cent from 174.2 thousand tonnes in 2005 to 170.2 thousand tonnes in 2006. Total domestic demand for petroleum products rose by 12.0 per cent to stand at 3,131.5 thousand tonnes in 2006 up from 2,797.2 thousand tonnes in 2005.

10.4. Total installed capacity for electricity generation rose marginally by 1.8 per cent from 1,156.6 MW in 2005 to 1,177.1 MW in 2006. Total electricity supply grew by 6.3 per cent from 5,547.0 million KWh in 2005 to 5,894.9 million KWh in 2006. Domestic electricity consumption rose by 5.6 per cent from 4,498.4 million KWh in 2005 to 4,752.4 million KWh in 2006 while electricity exported nearly doubled in 2006.

10.5. The number of customers connected under the Rural Electrification Programme grew by 8.8 per cent to 110,724 as at July 2006 from 101,793 in July 2005.

Petroleum

10.6. Table 10.1 outlines details of quantities and values of the country's imports, exports and re-exports of petroleum products for the period 2002 to 2006. Petroleum imports rose by 6.8 per cent to stand at 3,172.9 thousand tonnes in 2006 compared to a drop of 16.9 per cent in 2005. The quantity of crude oil imported into the country declined further by 7.4 per cent in 2006 compared to a drop of 13.2 per cent in 2005. Imports of petroleum fuels rose by 24.0 per cent from 1,130.9 thousand tonnes in 2005 to 1,402.7 thousand tonnes in 2006. Imports of lubricating oils rose significantly from 0.4 thousand tonnes in 2005 to 2.6 thousand tonnes in 2006 while imports of lubricating greases nearly doubled from 66.8 thousand tonnes in 2005 to 124.4 thousand tonnes in 2006.

Table 10.1: Quantity and Value of Imports, Exports and Re-exports of Petroleum Products[1], 2002 - 2006

	Quantity ('000 Tonnes)					Value (KSh Million)				
Year	2002	2003	2004	2005	2006*	2002	2003	2004	2005	2006*
IMPORTS										
Crude Petroleum	1,493.4	1,382.6	2,043.8	1,774.0	1,643.2	23,939.9	25,415.4	45,953.6	51,528.6	55,015.6
Petroleum Fuels	1,023.5	1,819.9	1,491.7	1,130.9	1,402.7	18,012.2	37,990.4	41,522.1	42,494.0	55,807.2
Lubricating Oils	33.6	23.8	11.9	0.4	2.6	1,278.0	1,010.2	586.5	39.6	73.1
Lubricating Greases	11.7	5.6	29.7	66.8	124.4	227.2	145.5	722.7	1,607.0	2,823.6
TOTAL	**2,562.2**	**3,231.9**	**3,577.0**	**2,972.2**	**3,172.9**	**43,457.3**	**64,561.4**	**88,784.8**	**95,669.2**	**113,719.6**
EXPORTS										
Petroleum Fuels	190.6	2.2	35.8	146.9	44.7	3,544.6	56.5	832.3	5,829.4	2,220.8
Lubricating Oils	4.5	0.1	1.4	13.3	30.9	367.1	9.5	182.8	255.3	878.8
Lubricating Greases	0.2	0.0	0.1	14.0	94.7	28.0	1.6	11.5	362.2	2,459.8
Total Exports	**195.3**	**2.3**	**37.4**	**174.2**	**170.2**	**3,939.6**	**67.6**	**1,026.7**	**6,446.9**	**5,559.3**
RE-EXPORTS										
Petroleum Fuels	1,096.4	1,303.5	1,447.1	1,062.7	276.1	29,518.4	36,203.6	33,379.6	36,796.8	8,838.5
Lubricating Oils	4.9	7.3	8.0	23.9	25.9	421.5	645.9	783.3	780.0	601.4
Lubricating Greases	2.9	2.8	0.7	29.5	21.0	100.2	76.5	50.1	808.9	642.1
Total Re-exports	**1,104.2**	**1,313.6**	**1,455.8**	**1,116.1**	**323.0**	**30,040.1**	**36,926.0**	**34,213.0**	**38,385.8**	**10,082.1**
TOTAL	**1,299.5**	**1,315.9**	**1,493.1**	**1,290.3**	**493.2**	**33,979.7**	**36,993.6**	**35,239.6**	**44,832.7**	**15,641.4**
NET BALANCE						**9,477.5**	**27,567.8**	**53,545.2**	**50,836.5**	**98,078.2**

Source: Kenya Revenue Authority (KRA)

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

* Provisional

10.7. Total import bill for crude and petroleum products rose by 18.9 per cent from KSh 95,669.2 million in 2005 to KSh 113,719.6 million in 2006. This increase was mainly attributed to high international oil prices and the 6.8 per cent increase in total quantities of petroleum imported into the country. The value of crude oil imported rose by 6.8 per cent from KSh 51,528.6 million in 2005 to KSh 55,015.6 million in 2006 while the value of petroleum fuels imports rose by 31.3 per cent in 2006. The value of imports of lubricating oils increased substantially from KSh 39.6 million in 2005 to KSh 73.1 million in 2006 while that of lubricating greases rose significantly in the same period.

10.8. Total quantities of petroleum exports declined by 2.3 per cent from 174.2 thousand tonnes in 2005 to 170.2 thousand tonnes in 2006. Exports of petroleum fuels declined drastically from 146.9 thousand tonnes in 2005 to 44.7 thousand tonnes in 2006. Exports of lubricating oils more than doubled in 2006 while those of lubricating greases rose by unprecedented proportions from 14.0 thousand tonnes in 2005 to 94.7 thousand tonnes in 2006. During the period under review, volume of total re-exports of petroleum products declined by 71.1 per cent compared to a decline of 23.3 per cent in 2005. The huge decline was as a result of prudent administration measures put in place by Kenya Revenue Authority (KRA) on petroleum products' importation, exportation re-exportation and transit.

10.9. Table 10.2 shows a breakdown of crude oil intake by type at the Kenya Petroleum Refineries Limited (KPRL) for the period 2002 to 2006. The total crude oil intake rose by a marginal 0.4 per cent to stand at 1,651.1 thousand tonnes in 2006 from 1,645.2 in 2005. Murban and Arabian medium crude oil were still the only types of crude oil processed at the refinery with Murban accounting for 72.4 per cent of the total crude oil intake while Arabian medium accounted for 27.6 per cent. Murban crude oil intake declined by 2.2 per cent

Chapter 11
Manufacturing

Overview

The manufacturing sector which contributes about 10.0 per cent of the GDP annually grew by 6.9 per cent in 2006 compared to 4.7 per cent in 2005. The favourable weather conditions especially in the second quarter of the year led to an improved supply of raw materials to a number of agro-based industries especially the dairy and grain milling sub-sectors. In addition, loans and advances to the sector increased by 12.4 per cent to KSh 70.5 billion in the review period.

11.2. African Growth and Opportunity Act (AGOA), a US initiative meant to increase exports of apparels from accredited Sub-Saharan Africa (SSA) to the US market recorded mixed growth. The sub-sector is mainly labour intensive and hence suitable for Kenya. The extension of AGOA preferential scheme by five years effectively from September 2007 will give impetus to growth in the garment and apparel manufacturing industries. This will give the country time to establish a local fabric capacity, while boosting apparel exports to USA market.

11.3. Volatility of the fuel prices, exchange rate appreciation and inadequate power were some of the threats for much of the year. Appreciation of the Kenya shilling against the dollar mainly resulted in the lower earnings of the exported manufactured goods.

11.4. Total sales from the Export Processing Zone (EPZ) enterprises mainly comprising of export and domestic sales rose by 4.5 per cent to stand at KSh 24,832 million in 2006. Total EPZ exports increased by 11.6 per cent to stand at KSh 22,359 million in 2006. Domestic sales declined by 55.2 per cent to KSh 1,417 million over the same period, in line with the EPZ objective of focusing on the export rather than the domestic market.

Manufacturing Sales and Stocks

11.5. Provisional data from Business Expectation Enquiry (BEE) survey indicate higher total sales in 2006 compared to 2005. The total value of sales from the sector was KSh 392.9 billion in 2006 from a revised figure of 308.5 billion in 2005. Stocks and work in progress as at 31st December 2006 grew by 8.8 per cent.

Employment

11.6. Employment within the manufacturing sector rose by 2.5 per cent amid closure and relocation of a number of manufacturing entities in the review period due to high costs of production and competition from cheap imports. Overall employment in the sector increased from 247.5 thousand persons in 2005 to 253.8 thousand persons in 2006. Employment at the EPZ declined to 37,325 persons in 2006 from 38,851 recorded in 2005.

Manufacturing Industrial Output

11.7. Nominal estimated value of output, intermediate consumption, value added and compensation of employees in the manufacturing sector are presented in Table 11.1. Total output in the manufacturing sector amounted to KSh 561.6 billion in 2006 from KSh 499.8 billion in 2005 representing a growth of 12.4 per cent. Value added of the manufacturing sector rose by 12.0 per cent.The main contributor to value-added was in manufacturing of food, beverages and tobacco sub-sector at 10.1 per cent

Table 11.1 Manufacturing Sector - Output, Compensation of employees and Value Added, at Current Prices, 2002 - 2006

KSh Million

Year	Value of Output	Intermediate Consumption	Value Added	Compensation of Employees
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	499,767	350,699	149,069	50,734
2006*	561,562	394,605	166,957	57,803

* Provisional

Table 11.2: Quantum Indices of Manufacturing Production, 2002 - 2006

Industry	2002	2003	2004	2005	2006	Percentage Change 2006/2005
Meat and dairy products	85.4	89.8	104.8	118.7	124.5	4.9
Canned veg fruits,fish,oils&fats	397.0	405.3	466.7	469.2	559.8	19.3
Grain mill products	174.4	177.7	193.3	231.2	245.7	6.3
Bakery products	290.8	284.3	185.1	202.6	212.8	5.0
Sugar and confectionery	238.6	218.9	250.9	237.7	232.2	-2.3
Miscellaneous foods	240.2	250.8	269.1	271.1	257.0	-5.2
Food manufacturing	**210.9**	**211.1**	**233.5**	**235.6**	**238.4**	**1.2**
Beverages	164.9	176.0	200.6	232.6	265.8	14.3
Tobacco	123.5	126.7	142.6	195.2	273.5	40.1
Beverages and tobacco	**160.2**	**170.3**	**193.8**	**229.2**	**268.3**	**17.1**
Textiles	120.4	106.0	89.3	97.1	101.8	4.8
Clothing	178.4	188.1	187.3	269.4	384.2	42.6
Leather & footwear	81.6	80.4	75.2	116.6	125.4	7.5
Wood & cork products	59.7	51.2	40.5	39.2	39.8	1.3
Furniture and fixtures	56.9	55.1	56.9	57.6	58.4	1.3
Paper and paper products	270.2	362.7	336.3	427.5	433.0	1.3
Printing and publishing	436.5	428.0	422.4	419.8	532.6	26.9
Basic industrial chemicals	128.7	145.8	150.1	123.1	116.4	-5.5
Petroleum and other chemicals	687.5	865.7	982.7	947.6	1037.1	9.4
Rubber products	671.3	712.8	707.3	760.3	681.2	-10.4
Plastic products	896.1	969.3	972.9	1270.5	1400.5	10.2
Clay and other products	1206.9	1142.7	1172.9	1472.8	1827.6	24.1
Non metallic minerals	147.0	190.0	166.9	187.5	213.1	13.7
Metals products	241.5	238.2	246.8	257.9	284.3	10.2
Non electrical machinery	86.2	87.1	87.1	87.9	90.0	2.3
Electrical machinery	205.8	216.8	259.0	268.8	233.3	-13.2
Transport equipments	480.7	483.5	1109.6	975.7	1044.4	7.0
Miscellaneous manufactures	1170.7	1148.2	1052.0	1058.6	1462.8	38.2
Total manufacturing	**286.5**	**290.6**	**310.0**	**334.1**	**357.4**	**7.0**

Quantum Indices of Manufacturing Production

11.8. Overall, the manufacturing sector showed an improved performance output as presented in Table 11.2. The production in food manufacturing sub-sector expanded by 1.2 per cent in 2006 almost maintaining the 2005 level. The tobacco and beverages sub-sector registered a growth of 17.1 per cent over the period under review. Other sub-sectors that recorded growth were clothing, grain milling, printing and publishing, clay and glass products and the transport equipment. Electrical Machinery and basic industrial chemicals sub-sectors recorded drops in output at 13.2 per cent and 5.5 per cent respectively.

11.9. The meat and dairy products industry continued on an upward trend registering a growth of 4.9 per cent in 2006. Output of processed milk rose by 4.1 per cent from 216,653 thousand litres in 2005 to 225,505 thousand litres in 2006. Beef production increased by 8.8 per cent from 114.8 thousand tonnes recorded in 2005 to 124.9 thousand tonnes in the year under review. Production of processed chicken and sheep products grew by 9.6 per cent and 15.2 per cent respectively, while production of pork, sausages and ice cream declined during the year under review.

11.10. Output in the canned vegetables, fish, oils and fats sub-sector, registered a significant growth of 19.3 per cent in 2006 as compared to a marginal growth of 0.5 per cent reported in 2005 This growth is attributable to increased production of edible fats and margarines which registered a growth of 36.1 per cent from 120,643 metric tonnes in 2005 to 164,254 metric tonnes in year 2006, however production of edible oils dropped by 1.0 per cent. Output of canned vegetables rose further by 47.5 per cent while output of canned fruits rose by 7.2 per cent.

11.11. Table 11.3 gives a breakdown of production of some selected grain mill products for period 2002 to 2006. Overall, the output of grain milling products grew by 6.3 per cent in 2006, as a result of increased production of cereal crops. The production of wheat flour increased from 374.3 thousand metric tonnes recorded in 2005 to 387.0 thousand metric tonnes in 2006. The quantity of maize flour produced was 322.2 thousand metric tonnes in 2006 compared to 284.2 thousand metric tonnes produced in 2005. Output of maize bran went up by 35.2 per cent while maize germ and wheat pollard went down by 18.8 and 7.0 per cent respectively in 2006. The milling of rice is normally done at informal level. During the year under review, the milled rice went up by 0.5 per cent from 39.5 metric tonnes to 39.7 metric tonnes in 2006.

Table 11.3: Production of Grain Milling Products, 2002 - 2006

'000 Tonnes

YEAR	COMMODITY		
	Maize meal	Wheat Flour	Rice+
2002	143.2	260.5	19.9
2003	192.7	332.5	22.5
2004	207.5	338.4	30.0
2005	284.2	374.3	39.5
2006*	322.2	387.0	39.7

* Provisional

\+ Revised

11.12. The bakery products sub-sector registered a marginal growth of 5.0 per cent in 2006 compared to 9.5 per cent growth in 2005. The production of Biscuits went up by 23.8 per cent while that of bread increased by 2.3 per cent from 90.7 thousand tonnes to 92.9 thousand tonnes in the review period.

11.13. Sugar and confectioneries sub sector recorded a decline of 2.3 per cent in 2006. Sugar production dropped from 488.1 thousand tonnes in 2005 to 475.7 thousand tonnes in 2006, reflecting a 2.5 per cent decline. This decline was mainly due to disruptions of milling operations to pave way for rehabilitation thus slowing down the production. The sugar industry is also facing high cane production cost which undermines its capacity to compete with imports. During the review period total imports of sugar dropped by 5.7 per cent to 166.3 thousand tonnes while consumption of sugar rose by 3.3 per cent to stand at 718.4 thousand tonnes in 2006.

11.14. Production of sweets and chewing gum rose by 15.6 and 0.4 per cent respectively while production of toffees dropped drastically by 15.0 per cent. Production of chocolate products rose from 400.9 thousand tonnes in 2005 to 526.4 thousand tonnes in 2006.

11.15. The miscellaneous food sub-sector dropped by 5.2 per cent in 2006 after the marginal rise of 0.7 per cent recorded in 2005. The sub-sector is mainly driven by the production of processed tea which declined by 5.4 per cent from 328.5 thousand tonnes produced in 2005 to 310.6 thousand tonnes in 2006. This drop was as a result of the severe drought experienced during the fourth quarter of 2005 to the first quarter of 2006. Production of coffee rose by 5.9 per cent in 2006 to peak at 50.5 thousand tonnes from 47.7 thousand tonnes in 2005. This was mainly due to better prices and favorable weather experienced from the second quarter of the year. Roasted coffee, drinking chocolate and cocoa powder increased by 9.4, 25.4 and 15.2 per cent respectively. However, the production of milled coffee, instant coffee and salt dropped by 18.2, 11.9 and 4 .1 per cent, respectively.

11.16. The beverage and tobacco sub-sector grew by 17.1 per cent in 2006. This was as a result of a significant increase in beer production by 17.0 per cent from 266.3 million litres in 2005 to 311.6 million litres in 2006. Production of spirits increased by 26.9 per cent. Production of soft drinks continued on an upward trend growing by 6.4 per cent from 256,599 thousand litres in 2005 to 272,947 thousand litres in 2006. The output of cigarette increased by 24.4 per cent to 9,108 million sticks in 2006 from 7,324 million sticks in 2005 while production of tobacco dropped by 31.8 per cent in 2006. Increased production of cigarettes was mainly for the export market.

11.17. The textile sub-sector registered a growth for the second year running. Real output from the textile industry increased by 4.8 per cent in 2006. This was mainly attributed to the increase in production of cardigans, knitted fabrics, bed sheets, polyester, viscose and blankets. However production of pullovers and jumpers, cotton woven fabrics, canvas material, rope and twine declined.

11.18. Output in the clothing sub-sector recorded a significant growth in year 2006. This was mainly attributed to the increased production of sport shirts and T-shirts, trousers and uniforms which rose substantially by 96.7, 57.1 and 56.8 per cent respectively. Manufacture of dresses and suits went down during the review period. The effect of second hand clothes and new clothes from Asian countries entering the country continued to be heavily felt in the sub-sector.

11.19. The leather and footwear sub-sector rose by 7.5 per cent in 2006. This was as a result of the increasing demand for high-value shoes. Consequently, production of leather shoes grew by 8.5 per cent in 2006 from approximately 12.4 million pairs of shoes produced in 2005 to 13.5 million pairs of shoes produced in 2006. As a result of the government policy on imported shoes and exports of raw hides, the production of leather products more than doubled during the review period.

11.20. The wood and cork products sub-sector grew by 1.3 per cent in 2006 with the production of sawn timber growing by 1.3 per cent in 2006. Production of wooden furniture and fixtures proxied by employment figures within the industry however, registered a marginal increase of 1.3 per cent during the review period. The constrained supply of sawn timber locally was augmented by timber imports from neighbouring countries.

11.21. The printing and publishing sub-sector grew by 26.9 per cent in 2006. Production of news print increased significantly by 40.4 per cent from 87,399 thousand copies in 2005 to 122,703 thousand copies in 2006 while production of locally made paper dropped by 31.7 per cent in the period under review. Production of paper bags and sacks, and exercise books increased by 25.5 per cent and 0.1 per cent respectively.

11.22. Output in the basic industrial chemicals sub-sector dropped by 5.5 per cent in 2006 compared to a decline of 18.0 per cent in 2005. Though there was a scale-up in the production of wattle bark extract by 1.0 per cent, a further fall in production of pyrethrum extract contributed heavily to the overall contraction in output in the basic industrial chemicals industry between 2004 and 2006. Production of acetylene increased by 6.5 per cent in 2006. During the review period production of oxygen, nitrogen and hydrogen decreased by 12.1 per cent to 4.0 million cubic meters up from an output of 4.8 cubic meters in 2005, pyrethrum powder declined by 4.7 per cent in the same period.

11.23. Production in the petroleum and other chemicals sub-sector recorded marked growth. In the period under review, the sub-sector grew by 9.4 per cent. The main source of growth for the sub-sector was in the production of paints which grew by 22.1 per cent in the review period. However, output of vanishes and lacquer, thinners and distempers declined in 2006. Production of laundry soap increased by 12.2 per cent while detergent powder and washing soap decreased by 15.6 and 4.7 per cent respectively. Production of shoe polish, cream lotion and deodorants increased by 13.4, 26.0 and 19.6 per cent respectively while production of toothpaste increased by 88.7 per cent.

11.24. In the petroleum production sub-sector, output of diesel, kerosene and Liquid Petroleum Gas (LPG) increased by 41.1, 5.7, and 6.1 per cent respectively, while gas oil and bitumen declined in the review period.

11.25. The rubber products sub-sector declined by 10.4 per cent in 2006 after registering a growth of 7.5 per cent in 2005. The sub-sector has failed to compete with cheaper products from the Far East. Another factor affecting the sector was the high production cost, such as increase in the price of raw materials. Output of rubber soles increased significantly by 50.5 per cent in 2006. Production of new motor vehicle tyres, new motor vehicle tubes, and rubber shoes declined by 7.3, 18.5 and 28.4 per cent respectively in the review period.

11.26. The plastic manufacturing sub-sector registered a growth of 10.2 per cent in 2006. Increases were recorded in the production of plastic shoes and plastic bottles by 30.5 and 11.9 per cent respectively in 2006. Polythene bags production declined by 18.7 per cent in 2006.

11.27. Production in the clay and glass sub-sector grew by 24.1 per cent in 2006. This was mainly as a result of an increase in the production of glass bottles by 36.7 per cent. However, the production of windscreens, clay floor and wall tiles, declined by 0.4 per cent and 23.1 per cent respectively.

11.28. The non-metallic products sub-sector grew by 13.7 per cent. in 2006. This was supported by growth in cement production which rose by 13.3 per cent from 2,123.3 thousand tonnes in 2005 to 2,405.9 thousand tonnes in 2006 as shown in Table 11.4. Export of cement to Uganda and Tanzania increased by 27.5 per cent from 337.8 thousand tonnes in 2005 to 430.6 thousand tonnes in 2006 while export to other countries more than doubled in 2006. Domestic consumption and stocks of cement increased from 1,675.9 in 2005 to 1,837.9 thousand tonnes in 2006. Other products that grew within the sub-sector include production of clinker, growing by 17.9 per cent and limestone at 27.5 per cent in 2006. Production of roofing tiles however declined by 6.5 per cent. The sector continued to be supported by the resurgence in the building and construction sectors both locally and in the regional market.

Table 11.4: Cement Production and Utilisation, 2002 - 2006

000 Tonnes

Year	Production	Imports	Domestic Consumption and Stock	Export To	
				Uganda and Tanzania	All Other Countries
2002	1,537.00	6.6	1,251.30	137.5	154.8
2003	1,649.40	9.1	1,273.70	231.1	153.7
2004	1,873.30	3.7	1,478.70	249.8	148.5
2005	2,123.30	9.8	1,675.90	337.8	131.6
2006*	2,405.90	3.8	1837.9	430.6	141.2

* Provisional

11.29. There was a growth of 10.2 per cent in the metal products sub-sector in 2006. Output in the galvanized iron sheets grew by 5.0 per cent. Output of barbed wire, iron rods and bars, metal cans and tins went up by 35.9, 39.5 and 5.8 per cent respectively in 2006.

11.30. The electrical machinery sub-sector recorded a decline of 13.2 per cent in the year 2006. Output of dry cells dropped by 1.7 per cent in 2006. This was attributed to the industry failing to compete with imports and the fact that a significant number of people are now buying digital devices that do not rely on the traditional battery for power. Output of motor vehicle batteries went up significantly by 37.0 per cent.

11.31. The transport equipment sub-sector registered a growth of 7.0 per cent in year 2006. Implementation of stringent measures by Kenya Revenue Authority (KRA) on importation of used cars boosted the sub-sector, especially the assembly of buses and mini-buses that are used mostly as passenger commercial vehicles. Output of lorry bodies, coaches and buses went up by 2.4 per cent and 25.2 per cent respectively while the number of assembled vehicles decreased by 6.9 per cent in 2006.

Labour Productivity

11.32. Table 11.5 illustrates the various indicators of labour productivity in the manufacturing sector. Quantum index of manufacturing changed from 5.5 to 7.0 per cent and change in number of employees increased to 3.3 per cent in 2006. Compensation of employees as percentage of gross output increased to 10.3 per cent while compensation of employees as percentage of value added increased 29.7 per cent in 2006.

Table 11.5: Indicators of Labour Productivity in Manufacturing, 2002 - 2006

INDICATOR	2002	2003	2004	2005	2006*
Change in the quantum index of manufacturing	1.2	1.4	2.7	5.5	7.0
Change in numbers employed in manufacturing**	5.8	4.7	0.9	2.3	2.5
Implicit change in labour productivity	-4.6	-3.3	1.8	3.2	4.5
Compensation of employees as percentage of gross output	11.7	12.2	10.5	10.1	10.3
Compensation of employees as percentage of Value added	40.4	43.1	36.7	34.1	29.7

* Provisional.
** modern sector employment

Industrial Credit

11.33. As shown in Table 11.6, demand for loans and advances in the manufacturing sector increased in 2006. This could be attributed mainly to the economic recovery and an increase in investor confidence. The Kenya Industrial Estates only approved projects for expansion purposes. The total industrial related projects approved were 83 with 261 new employment opportunities created. The number of projects approved declined as a result of individual projects seeking higher loan amounts compared to the previous year. This could be attributed to the increase in the cost of doing business especially the cost of machinery and raw materials.

Table 11.6: Number of Industrial Projects and Credit Approved By Selected Government or Quasi-Government, 2002-2006

	Number of Projects					Approved Credit (KSh Million)				
INSTITUTION	2002	2003	2004	2005	2006*	2002	2003	2004	2005	2006*
Industrial Development Bank Limited (I.D.B Capital.)	2	3	4	0	1	69	45	98	0	37.4
Development Bank of Kenya (DBK)	6	8	13	20	32	47	588	525	892	959.6
Kenya Industrial Estates Limited (K.I.E.)	36	33	80	117	83	4	5	18	29.8	33.5
Industrial and Commercial Development Corporation (I.C.D.C.)	35	0	4	0	1	19	0	2	0	1.2
TOTAL	69	44	101	137	117	139	638	643	911.8	1031.7

* Provisional

Chapter 12
Building and Construction

Overview

Building and Construction sector enhances growth in the economy through inter-linkages that spur increased investments in both the modern and informal sectors. During the year under review, most of the sector's key economic indicators improved following the completion of several Constituency Development Fund (CDF) projects, increased budgetary allocation for road construction, maintenance and rehabilitation activities. Loans and advances from commercial banks to the sector increased by 41.1 per cent from KSh 21,421 million in 2005 to KSh 30,227 million in 2006. Cement consumption increased by 12.3 per cent from 1,572.5 thousand tonnes in 2005 to 1,765.8 thousand tonnes in 2006. The index of Government expenditure on roads went up from 62.6 in 2005 to 209.0 in 2006.

12.2. The total value of reported private building works completed in selected main towns rose by 4.9 per cent from KSh 2,687.2 million in 2005 to KSh 2,817.8 million in 2006. The total estimated cost of reported new private buildings completed went up from KSh 2,572.4 million in 2005 to KSh 2,698.7 million in 2006. Total wage employment in the sector increased by 2.2 per cent from 78,188 persons in 2005 to 79,893 persons in 2006. Disbursement of funds by Kenya Roads Board to the various roads agencies increased by 7.3 per cent from KSh 9.6 billion in 2005 to KSh 10.3 billion in 2006.

Key Economic Indicators

12.3. Selected key economic indicators in building and construction sector from 2002 to 2006 are presented in Table 12.1. Cement consumption, a major indicator for the sector, increased by 12.3 per cent to 1,765.8 thousand tonnes in 2006. There was an increase in index of reported public building works completed in main towns to 3.3 in 2005 from 1.9 in 2004. The index of reported private building works completed in main towns increased to 34.6 in 2005 from 33.0 in 2004. The index of government expenditure on roads went up from 62.6 in 2005 to 209.0 in 2006, largely driven by a sevenfold increase in government allocation on roads.

Table 12.1: Trends of Selected Key Economic Indicators in Building and Construction , 2002-2006

1982=100

	2002	2003	2004	2005	2006*
"Index" of reported private building work completed in main towns**	25.2	27.9	33.0	34.6	-
"Index" of reported public building work completed in main towns**	0.6	0.6	1.9	3.3	-
"Index" of government expenditure on roads	62.7	71.7	100.6	62.6	209.0
Cement consumption ('000 tonnes).. ..	1,212.3	1,267.3	1,418.3	1,572.5	1,765.8
"Index" of Cement consumption..	209.2	218.7	244.8	271.4	304.8
Employment ('000)	76.5	76.6	77.3	78.2	79.9
"Index" of Employment	126.7	126.8	128.0	129.5	132.3

* Provisional.

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

\+ Actual deflated by various building or construction cost indices.

12.4. Wage employment in building and construction sector went up by 2.2 per cent from 78,188 persons in 2005 to 79,893 persons in 2006. Employment in the private sector went up by 4.0 per cent from 55,669 persons in 2005 to 57,878 persons in 2006. However, employment in the public sector declined by 2.2 per cent from 22,519 persons in 2005 to 22,015 persons in 2006.

12.5. The cost index of materials for all buildings registered a growth of 8.5 per cent in 2006 compared to a growth of 2.1 per cent in 2005 as shown in Table 12.2. The cost index of materials for non-residential buildings increased from 1.5 per cent in 2005 to 8.0 per cent in 2006. This was as a result of increase in prices of floor tiles, sand and aggregate. The overall cost index of materials registered a higher growth of 8.6 per cent in 2006 compared to a growth of 2.9 per cent in 2005, partly because of fuel price increases. Total cost index for residential buildings increased by 8.9 per cent in 2006 compared to a rise of 3.9 per cent in 2005. Overall total construction cost index increased by 8.8 per cent in 2006 compared to an increase of 4.6 per cent in 2005. This was mainly associated with increased cost of materials.

Table 12.2: Annual Percentage change in Building and Construction Cost Indices+, 2004 - 2006

	Materials			Labour			Total Cost		
	2004	2005	2006*	2004	2005	2006*	2004	2005	2006*
Residential Buildings ..	8.8	2.7	8.9	6.0	8.4	9.1	8.2	3.9	8.9
Non-Residential Buildings	15.4	1.5	8.0	6.0	8.4	9.1	12.8	3.3	8.3
All Buildings ..	11.8	2.1	8.5	6.0	8.4	9.1	10.4	3.6	8.6
"Other" Construction ..	6.7	6.0	9.0	6.0	8.4	9.1	6.4	7.1	9.0
Overall Cost Index	10.7	2.9	8.6	6.0	8.4	9.1	9.2	4.6	8.8

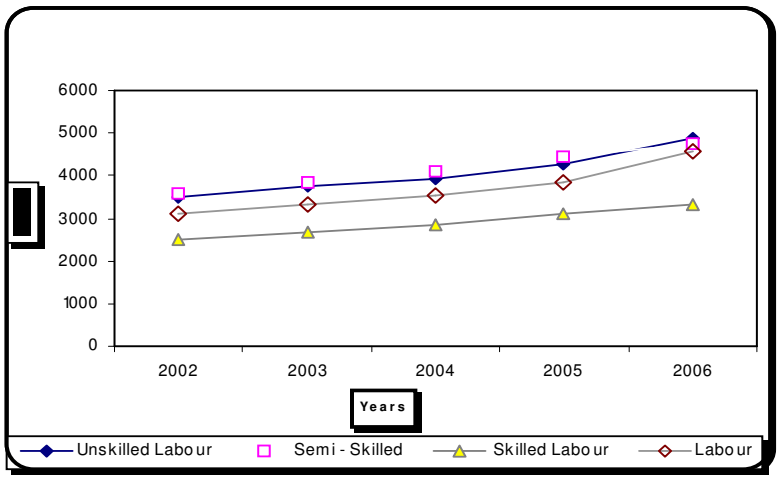
Source: Ministry of Labour/ Construction Input price Index Survey

* Provisional.

\+ From December to December.

12.6. Trends in the overall labour construction cost indices from 2002 to 2006 are presented in Figure 12.1. Labour costs in the sector registered a higher growth of 9.1 per cent in 2006 compared to a growth of 8.4 per cent in 2005. Wages of unskilled, semi-skilled and skilled labour increased by 14.0, 7.0 and 7.3 per cent respectively in 2006 compared to increases of 8.6, 8.4 and 8.3 per cent in 2005.

Figure 12.1: Trend in Overall Labour Construction Cost Indices, 2002 - 2006 (Base 1982 =100)



12.7. Table 12.3 shows the value of building plans approved by Nairobi City Council and other towns for the period 2002 to 2006. The total value of building plans approved decreased by 28.4 per cent from KSh 37,647.1 million in 2005 to KSh 26,962.7 million in 2006. Value of building plans approved by Nairobi City Council declined by 11.3 per cent from KSh 23,842.2 million in 2005 to KSh 21,143.0 million in 2006. The value of building plans approved by other towns reduced by more than half from KSh 13,804.9 million in 2005 to KSh 5,816.7 million in 2006.

Table 12.3: Value of Building Plans Approved by Main Towns+, 2002 - 2006

KSh million

Year	Nairobi	Other Towns	Total
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
2006*	21,142.98	5,816.66	26,962.66

Source: Local Authorities

* Provisional.

\+ Main Towns include Nairobi, Mombasa, Kisumu, Nakuru and Malindi

12.8. The total value of reported private building works went up by 4.9 per cent from KSh 2,687.2 million in 2005 to KSh 2,817.8 million in 2006 as shown in Table 12.4. Value of reported private building works completed in Nairobi increased by 3.4 per cent from KSh 2,241.7 million in 2005 to KSh 2,317.6 million in 2006. Malindi town recorded an increase of 12.9 per cent from KSh 109.5 million in 2005 to KSh 123.6 million in 2006.

Table 12.4: Value of Reported Private Building Works Completed+ in Selected main Towns, 2002 - 2006

KSh million

Year	Nairobi	Mombasa	Kisumu	Nakuru	Malindi	Total
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
2006*	2,317.55	170.90	60.20	145.60	123.58	2,817.83

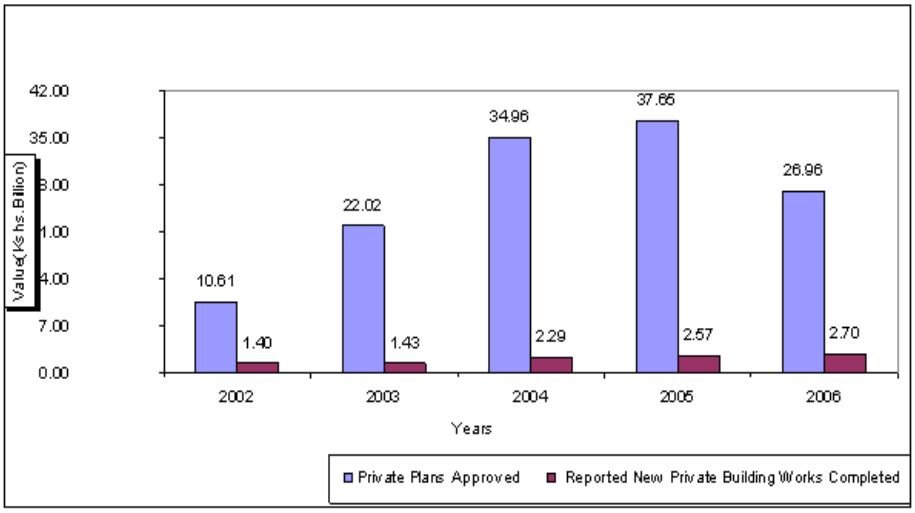
\+ Including the value of extension.

* Provisional.

Source: Local Authorities

12.9. A comparative presentation of the values of private building works completed in main urban areas over the last five years is shown in Figure 12.2. The total value of building plans approved stood at KSh 27.0 billion compared to KSh 2.7 billion for completed works in 2006. The total value of private building works completed in main urban areas increased by 3.8 per cent from KSh 2.6 billion in 2005 to KSh 2.7 billion in 2006. There was a slight increase in the value of private building works completed in main urban areas in the year under review.

Figure12.2: Comparison of Value of Private Plans Approved and Reported New Private Building Works Completed in Main Urban Areas,2002-2006



12.10. Details on reported completion of new private buildings in selected main towns are presented in Table 12.5. The number of residential units went up from 1,815 in 2005 to 1,903 in 2006, while the number of non-residential units increased by 2 units. The estimated cost of non-residential units grew by 7.2 per cent from KSh 426.9 million in 2005 to KSh 457.5 million in 2006 while that of residential units rose by 4.5 per cent from KSh 2,145.5 million to KSh 2,241.2 million over the same period. The total estimated cost of both residential and non-residential units increased by 4.9 per cent from KSh 2,572.4 million in 2005 to KSh 2,698.7 million in 2006.

Table 12.5: Reported Completions of New Private Buildings+ in Selected Main Towns, 2002 - 2006

Year	Number		Estimated Cost (KSh million)		
	Residential	Non-Residential	Residential	Non-Residential	Total
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	1,815	29	2,145.50	426.90	2,572.40
2006*	1,903	31	2,241.17	457.49	2,698.66

Source: Local Authorities

* Provisional

\+ Excluding the value of extensions

12.11. Table 12.6 shows the reported completions of new public buildings in selected main towns for the period 2002 to 2006. The number of residential units completed dropped significantly from 360 units in 2005 to 20 units in 2006. The number of non-residential units decreased from 31 units in 2005 to 13 units in 2006. The average cost of a residential unit went up from KSh 1.1 million in 2005 to KSh 1.5 million in 2006 while that of a non-residential unit increased from KSh 1.1 million in 2005 to KSh 1.6 million in 2006. The total estimated cost of reported completions of new public buildings registered a significant drop from KSh 444.1 million in 2005 to KSh 50.6 million in 2006.

Table 12.6: Reported Completions of New Public Buildings+ in Selected Main Towns, 2002 - 2006

Housing

12.12. The improved performance in the housing sector which started in 2002/2003 continued during 2005/2006 with most of the activities being undertaken by the private sector. In the year under review, the private sector commenced construction of 3,243 housing units worth KSh 7.8 billion in Nairobi. However, most new housing units constructed were costing KSh 4.0 million and above mainly in the up-market areas.

12.13. Approved and Actual Central Government expenditure on housing for the financial years 2002/03 to 2006/07 is presented in Table 12.7. Actual expenditure on housing went up significantly from KSh 480.7 million in 2004/05 to KSh 1,057.0 million in 2005/06. Approved expenditure on housing increased significantly from KSh 542.6 million in 2004/05 to KSh 1,616.0 million in 2005/06 following the revival of several stalled projects but reduced to KSh 1,426.0 million in 2006/07. Approved expenditure as a percentage of development expenditure went down to 0.65 per cent in 2005/06 compared to 0.89 per cent in 2004/05.

Table 12.7: Approved and Actual Central Government Expenditure on Housing, 2002/2003 - 2006/2007

Year	Expenditure in KSh Million		Approved Expenditure as Percentage of Development Expenditure
	Approved	Actual	
2002/2003	48.60	-	0.29
2003/04	81.20	20.00	0.25
2004/05	542.64	480.65	0.89
2005/06	1,615.96	1,056.96	0.65
2006/07*	1,426.00	-	-

Source: Ministry of Housing

* Provisional

12.14. In 2006, the National Housing Corporation (NHC) had 230 units of mortgage flats under construction in Langata (KWAL), Nairobi at a cost of KSh 462.8 million and 69 units of tenant purchase bungalows in Mamboleo, Kisumu at a cost of KSh 11.0 million. Over the same period NHC planned for construction of 2,800 units across the county at an estimated cost of KSh 5.1 billion, out of which 96 units had been tendered.

12.15. Expenditures for the Civil Servants Pool housing projects were discontinued during the year under review except for those arising from pending bills. The Ministry of Housing and 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 cost of KSh 696.8 million were started in 2005/06 financial year.

Roads

12.16. The Joint Reform Committee with representatives from Kenya Roads Board, Ministry of Roads and Public Works and key Development Partners (World Bank and European Commission) continued work on the road sector reforms. In principle, the Committee has recommended the formation of three semi-autonomous agencies to manage different categories of roads more efficiently. Currently, the extent and condition of the unclassified road network is not accurately known, making it difficult to prioritize maintenance requirements of the road network. To bridge the information gap, the Road Inventory and Condition Survey for Unclassified roads and Reclassification (RICS) study started in December 2006.

12.17. The kilometres of road by type and classification as at 1st July 2002 and 1st July 2006 is shown in Table 12.8. International trunk roads under earth/gravel decreased by 9.4 per cent from 0.96 thousand kilometres in 2002 to 0.87 thousand kilometres in 2006. International trunk roads under bitumen increased by 9.1 per cent from 2.65 thousand kilometres in 2002 to 2.89 thousand kilometres in 2006. National trunk roads under bitumen increased by 10.0 per cent from 1.30 thousand kilometres in 2002 to 1.43 thousand kilometres in 2006, while those under earth/gravel remained constant. Secondary roads under earth/gravel reduced by 1.1 per cent from 10.16 thousand kilometres in 2002 to 10.05 thousand kilometres in 2006, which implies that some roads were upgraded to bitumen standard. Special purpose roads under earth/gravel increased by 0.8 per cent from 11.00 thousand kilometres in 2002 to 11.09 thousand kilometres in 2006. Some roads were upgraded to bitumen standard as is evident from the total kilometres of earth/gravel roads which decreased by 1.6 per cent from 55.26 thousand kilometres in 2002 to 54.36 thousand kilometres in 2006.

Table 12.8: Kilometres of Road as at 1st July, 2002 and 1st July, 2006 by Type and Classification

'000 Km

Type of Road	2002		2006*	
	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

* Provisional

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

12.18. During the 2005/06 financial year, the Roads Department in Ministry of Roads and Public Works spent a total of KSh 4.8 billion for 62 projects which were at various stages of implementation. The District Roads Committees spent a total of KSh 2.3 billion for various projects in class D, E roads, urban centres and local authorities' roads, District roads and roads in game reserves. A total of KSh 1.5 billion was spent on roads within constituencies. The major roads that were rehabilitated in the year under review are Muranga-Sagana-Marua road (55 Km), Makutano-Embu (43 Km), Embu-Thuchi (35 Km), Thuchi-Nkubu (67 Km), Maai Mahiu-Narok (90 Km), Maai Mahiu -Naivasha -Lanet (96 Km), Machakos Turnoff-Masii (78 Km), Kisii-Kilgoris (74 Km), Nkubu-Lewa-Lewa (40 Km) and Masii-Kitui (73 Km). Those under construction are Kitui-Kangonde (45 Km), Keroka-Nyangusu road (57 Km), Bumala-Busonga-Port Victoria (48.2 Km), Ruiri-Isiolo-Muriri (57 Km), Kipsigak-Serem (53.5 Km) and Wote-Makindu (66 Km). The Roads Department of Ministry of Roads and Public Works (MR&PW) and 71 District Roads Committees (DRC) undertook routine maintenance on both paved and unpaved roads in the year under review. In 2005/06 financial year, Nairobi City Council (NCC) rehabilitated 15 kilometres of roads .

12.19. The Ministry of Roads and Public Work's (MOR&PW) total expenditure on roads for 2002/03 to 2006/07 is shown in Table 12.9. Development expenditure on trunk roads increased quadrupled from KSh 2,406.0 million in 2005/06 to KSh 9,564.8 million in 2006/07 mainly because of the rehabilitation of Mai-Mahiu – Naivasha - Lanet road. Similarly, development expenditure on primary roads rose from KSh 1,260.5 million in 2005/06 to KSh 11,232.7 million in 2006/07. Expenditure on secondary and miscellaneous roads went up remarkably from KSh 320.7 million and KSh 353.5 million in 2005/06 to KSh 6,179.3 million and KSh 1,012.0 million in 2006/07 respectively. The total development expenditure on roads increased significantly from KSh 4,340.7 million in 2005/06 to KSh 27,988.8 million in 2006/07. The grand total expenditure on roads (recurrent & development) increased significantly from KSh 10,462.7 million in 2005/06 to KSh 36,652.8 million in 2006/07.

Table 12.9: Total Expenditure on Roads, 2002/03 - 2006/07 (KSh Million)

Ksh million

	2002/03	2003/04	2004/05	2005/06	2006/07*
Development:					
Trunk Roads	1,459.50	2,406.00	5,946.50	2,406.00	9,564.78
Primary Roads	808.34	1,260.50	3,059.00	1,260.50	11,232.68
Secondary Roads	345.80	320.68	333.00	320.68	6,179.34
Miscellaneous Roads.. ..	-	353.51	378.00	353.51	1,012.04
Total	**2,613.64**	**4,340.69**	**9,716.50**	**4,340.69**	**27,988.84**
Recurrent (maint. and repair)	8,042.44	6,005.17	6,122.00	6,122.00	8,664.00
Total	**10,656.08**	**10,345.86**	**15,816.50**	**10,462.69**	**36,652.84**

Source: Ministry of Roads & Public Works

* Provisional

12.20. The *Roads 2000 programme* strategy aims at achieving a level of maintenance of the public roads network to the required standards of serviceability using local resources and labour based methods that are cost effective. Various Development Partners have agreed to provide support in the implementation of the Roads 2000 Programme in 37 districts spread across the country at a total cost of KSh 6.24 billion in the next five years, while the Government will provide KSh 1.47 billion as counterpart funds in the same period.

12.21. The Kenya Roads Board (KRB) is mandated to oversee, coordinate and monitor the implementation of road maintenance programmes in the country. In 2005/06 financial year, the Board disbursed funds from Roads Maintenance Levy Fund (RMLFS) to the various roads agencies as follows; Roads Department (MR&PW) received KSh 5,222.5 million, the District Roads Committees which caters for Class D and E roads, Urban centres and Local Authorities roads, District roads and roads in Game reserves received KSh 2,266.5 million while roads within Constituencies received a total of KSh 1,511.0 million. Disbursement of funds by the Board to the various road agencies increased by 7.3 per cent from KSh 9.6 billion to KSh 10.3 billion in 2004/05 and 2005/06 financial years respectively.

Chapter 13
Tourism

Overview

Key indicators show that the tourism sector continued to post impressive performance and is currently the leading foreign exchange earner in the economy. In 2006, the tourism sector maintained an upward growth momentum despite challenges facing global tourism such as terrorism, health scares and rising jet fuel price. Consolidated tourism earnings expanded from KSh 48.9 billion in 2005 to KSh 56.2 billion in 2006, reflecting a 14.9 per cent growth. This was supported by a 13.5 per cent growth in foreign earnings from KSh 43.7 billion in 2005 to KSh 49.6 billion in 2006. International arrivals grew by 8.2 per cent from 1,479.0 thousand in 2005 to 1,600.6 thousand in 2006. This can be attributed to strategic marketing by the Kenya Tourist Board (KTB) especially in the USA, France, United Kingdom, Italy and Germany.

13.2. The number of hotel bed-nights occupied recorded a remarkable growth of 32.3 per cent from 4,476.6 thousand bed-nights in 2005 to 5,922.1 thousand in 2006. Over the same period, bed-availability grew by 19.9 per cent to 13,003.5 thousand compared to 10,845.6 thousand bed-nights recorded in 2005. Visitors to Game Parks and Reserves rose by 10.8 per cent from 2,132.9 thousand in 2005 to 2,363.7 thousand in 2006. In November the sub-sector got a major boost following the recognition of the Maasai Mara Game Reserve as one of the Seven Wonders of the World. Visitors to Museums and other historical sites declined significantly by 22.4 per cent to 594.1 thousand in 2006 mainly due to the closure of the Nairobi Museum (main gate) for renovation.

13.3. The number of local and international conferences went up by 36.5 per cent and 12.4 per cent, respectively in 2006. The good performance was as a result of growth in sensitization/training seminars, meetings and conferences, and policy and strategy launches. This was further supported by the growing positive perception towards Kenya as a preferred tourist destination.

Arrivals and Departures

13.4. Promotion campaigns by the KTB and other industry stakeholders coupled with enhanced efforts to market Kenya as a preferred tourist destination continued to yield positive results in 2006 as shown in Table 13.1. Total international arrivals grew by 8.2 per cent from 1,479.0 thousand in 2005 to 1,600.6 during the review period. The good performance was attributed to the strategic marketing activities in the USA, France, United Kingdom, Italy and Germany. A resurgence in the number of return visitors also contributed to the positive out-turn. However, compared with the 8.7 per cent growth in 2005, the current performance was slightly lower on account of deliberate efforts to contain visitor volumes while focusing on high yield tourists. This involved branding Kenya as a high value market, continuous product range improvements and diversification in order to attract up-market tourists.

13.5. During the first quarter of 2006, visitor arrivals registered a remarkable

increase of 12.3 per cent to 421.7 thousand from 375.6 thousand, in the corresponding period of 2005. A similar trend was also observed during the fourth quarter, which recorded a 10.3 per cent increase. The second quarter arrivals were in tandem with the low season tourism cycle recording a 4.3 per cent growth. Analysis by purpose of visit shows that 2006 was characterized by increased visitors on business and transit. The number of business travellers recorded a growth of 9.8 per cent to 226.2 thousand in 2006 compared to a contraction of 16.4 per cent experienced in 2005. This was spurred by increased conference tourism, meetings and cross-border trading. Visitors on holiday expanded modestly by 2.3 per cent from 1,063.2 thousand in 2005 to 1,087.5 thousand in 2006. Visitors who came for "Other" purposes edged up from 129.9 thousand in 2005 to 149.8 thousand in 2006, mainly as a result of increased home tourism.

Table 13.1: Quarterly Visitor Arrivals by Purpose of Visit, 2002-2006

'000

Quarter	Purpose	2002	2003	2004	2005	2006*
1st Qr.	Holiday	176.0	206.7	209.4	264.6	275.8
	Business	26.1	34.7	51.1	51.8	61.7
	Transit	47.0	51.9	47.3	22.2	36.0
	Other	5.8	7.7	9.7	37.6	48.2
	TOTAL	**254.9**	**301.0**	**317.5**	**375.6**	**421.7**
2nd Qr.	Holiday	158.5	112.5	178.5	213.4	219.2
	Business	17.1	44.7	49.3	41.9	45.5
	Transit	42.7	48.2	28.8	17.9	28.4
	Other	3.8	18.9	20.4	30.3	23.4
	TOTAL	**222.1**	**224.3**	**277.0**	**303.5**	**316.5**
3rd Qr.	Holiday	194.1	183.9	239.3	288.6	289.2
	Business	20.4	53.4	70.8	56.6	59.4
	Transit	37.4	62.1	46.9	24.2	38.5
	Other	4.4	11.6	12.8	41.0	46.6
	TOTAL	**256.3**	**311.0**	**369.8**	**410.5**	**433.7**
4th Qr.	Holiday	204.0	180.9	258.4	296.5	303.2
	Business	23.0	49.3	75.2	55.8	59.6
	Transit	36.2	56.9	39.2	15.5	34.2
	Other	4.9	22.8	23.6	21.0	31.7
	TOTAL	**268.1**	**309.9**	**396.4**	**388.8**	**428.7**
Year	Holiday	732.6	684.0	885.6	1,063.2	1,087.5
	Business	86.6	182.1	246.4	206.1	226.2
	Transit	163.3	219.1	162.2	79.8	137.2
	Other	19.0	61.0	66.5	129.9	149.8
	TOTAL	**1,001.3**	**1,146.2**	**1,360.7**	**1,479.0**	**1,600.6**

* Provisional

13.6. Table 13.2 depicts the trend of departing visitors by purpose of visit. Total visitor departures increased from 1,461.0 thousand in 2005 to 1,578.4 thousand in 2006, reflecting a growth of 8.0 per cent. This was largely driven by increased visitor departures during the first and fourth quarters of 2006. During the first quarter of 2006, visitor departures improved substantially by 13.6 per cent, occasioned by increased arrivals over the same period. In the fourth quarter of 2006, departing visitors went up by 11.0 per cent to 421.7 thousand from 379.8

Chapter 14

Transport, Storage and Communication

Overview

The transport and communications sector sustained an upward growth momentum continuing as one of the key movers of the economy in 2006. The sector's growth improved from 8.9 per cent in 2005 to 10.8 per cent in 2006. Total Value of output at current prices expanded by 10.9 per cent from KSh 328,064 million recorded in 2005 to realise KSh 363,895 million in 2006. This was significantly propelled by growths in the road transport sub-sector, communications sub-sector, continued good performance of the tourism sector as evidenced by increased international arrivals, and improved activities in the pipeline and marine sub-sectors.

14.2. During 2006, the communications sub-sector was characterised by dynamism with both fixed and mobile services witnessing extensive rollout of new products and improvements of existing facilities. The mobile subscriber base increased substantially by 36.5 per cent to reach 7,273 thousand compared to 5,328 thousand in 2005. The volume of cargo handled at the Port of Mombasa grew by 8.4 per cent from 13.3 million tonnes in 2005 to 14.4 million tonnes in 2006 on account of a 10.6 per cent rise in imports. Throughput of white petroleum products sustained an upward trend in 2006 expanding by 8.5 per cent to 3.8 million cubic metres, largely as a result of 12.9 per cent improved uplifts for the domestic market. Despite the increase in the price of jet fuel, total passenger traffic at the main airports went up by 7.1 per cent from 5.9 million in 2005 to 6.3 million in 2006. This was spurred by an improved business environment, increased flight frequencies, opening of new routes and the deployment of three Boeing 777 aircrafts by Kenya Airways as well as the entry of other low cost carriers in the domestic market. The number of newly registered road vehicles increased from 45,653 in 2005 to 52,817 recorded in 2006, reflecting a 15.7 per cent growth. This was mainly as a result of substantial increases in acquiring station wagons and trailers. Overall, all sub-sectors in the transport and communications sector posted positive growths with the exception of Kenya Railways which recorded a contraction in passenger and freight tonnage.

14.3. Despite the impressive performance, witnessed in the transport and communications, the sector continued to experience a number of constraints that impacted negatively on the potential for better growth. Growth was particularly hampered by continued rise in fuel prices in the global market, high cost of power and the bad state of roads including some parts of major highways. In addition, the long delay in takeover and the restructuring of Kenya Railways and Telkom Kenya respectively, resulted in to anxiety and low staff morale during the review period. The appreciation of the local currency against major international currencies did not spare the situation either, especially for exporters.

Value of Output

14.4. Details of the value of output by various sub-sectors of the transport and communications are shown in Table 14.1. Continued exemplary performance in the communications sub-sector resulted in 11.0 per cent increase from KSh 63,713 million in 2005 to KSh 70,734 million realised during the review period. Expansion in road traffic supported by the increase of new registration of motor

vehicles led to the widening of the value of output in the road transport sub-sector from KSh 154,984 million to KSh 173,857 million in 2006, representing a growth of 12.2 per cent. The value of output from pipeline and marine transport sub-sectors improved by 6.2 per cent and 13.9 per cent in 2006 respectively compared to 2005. The value of air transport grew by 7.2 per cent in 2006 while services incidental to transport went up by 14.0 per cent to KSh 22,135 million, consistent with developments in the tourism sector. Overall, the transport and communications sector value of output expanded by 10.9 per cent to KSh 363,895 million in 2006.

Table 14.1: Transport and Communications - Value of Output, 2002 - 2006

KSh million

	2002	2003	2004	2005	2006*
Road Transport	101,408	110,900	138,572	154,984	173,857
Railway Transport	4,653	4,609	4,674	4,600	4,604
Water Transport	10,490	11,296	13,187	17,204	19,595
Air Transport	34,904	36,871	46,521	59,700	63,995
Services Incidental to Transport	12,214	13,521	16,805	19,425	22,146
Pipeline Transport	6,631	6,761	7,386	8,438	8,964
Communications	50,022	51,699	55,691	63,713	70,734
Total	**220,322**	**235,657**	**282,836**	**328,064**	**363,895**

* Provisional.

Road Transport

14.5. **Roads**: The year under review was characterised by continued reforms in the roads sub-sector under the auspices of the Joint Reform Committee whose representatives include Kenya Roads Board, Ministry of Roads and Public Works and key development partners. In principle, there has been an agreement to the formation of three semi-autonomous road agencies to manage the different categories of the sector more efficiently.

14.6. Details of the amount of funds collected from the fuel levy and transit toll stations for the purpose of roads maintenance are shown in Table 14.2. During the financial year 2005/06, a total of KSh 10,267 million were disbursed, an increase of 11.4 per cent compared to KSh 9,219 million in 2004/05. The fund collection is projected to improve significantly by 47.5 per cent to KSh 15,141 million in 2006/07. This is largely as a result of the removal of road licenses during the 2006/07 budget and loading it to the fuel levy. This is based on scaled up toll collections from both local and on-transit traffic. Whereas the noble objective of scraping road licenses was to minimise inconveniences in acquiring the same, it has had negative impact on monitoring motorists' compliance with road safety by the concerned authorities. Although other factors such as drainage and construction quality affect the roads, overloading is by far the dominant factor in reducing a roads lifespan. The underlying factor being that transport operators charge their services based on price per tonne.

Chapter 15
Highlights of Well-Being in Kenya

Introduction

This chapter presents summary results of the poverty situation in Kenya as contained in the Basic Report on Well-Being in Kenya. This report is based on survey findings from the Kenya Integrated Household Budget Survey (KIHBS) conducted between May 2005 and May 2006. The information presented is the latest after the Welfare Monitoring Survey (WMS III) of 1997. Current estimates on well-being in Kenya indicate that poverty levels have declined across the country. However, there are pockets of poverty in some regions where majority of the population live below the poverty line. The disparity in well-being across provinces and districts is an important pointer which could be used in formulating targeted interventions.

Poverty Concepts and Measurement

15.2. As in the previous poverty reports for Kenya, measures of welfare discussed in this chapter are based on consumption rather than income. The consumption data was adjusted for differences in needs based on household composition (adult equivalence scales) while total nominal household expenditures were adjusted for spatial and temporal price differences.

15.3. The poverty lines were derived from the KIHBS data using the Cost-of-Basic-Needs (CBN) method. The food poverty line for Kenya is estimated as the cost of consuming 2,250 kilocalories per day per adult equivalent. Using this approach, the food poverty lines in monthly adult equivalent terms were KSh 988 and KSh 1,474 for rural and urban areas, respectively. The overall poverty lines were KSh 1,562 and KSh 2,913 for rural and urban areas, respectively. Other poverty measures discussed in this chapter are the headcount index (the proportion of the population below the respective poverty line) and the poverty gap index (the depth of poverty relative to the poverty line).

15.4. Analysis of poverty included all consumption goods and services (or 'items') that are acquired or purchased for use by households, but excluded those used for business purposes or accumulation of wealth. In this chapter, household consumption expenditure refers to goods and services intended for consumption, plus the value of goods and services received as income in kind and consumed by the household or individual members thereof. Household consumption expenditure excludes income tax and other direct taxes, pension and social security contributions and assimilated insurance premiums, remittances, gifts and similar transfers by the household as a whole and its individual members.

15.5. Items on which consumption information was collected in the KIHBS 2005/06 were classified into food and non-food categories. The analysis of household expenditure excluded the "use value" of infrequently purchased goods and services such as home repair and improvements, and expenditure on social ceremonies such as marriages and funerals.

Overview of Expenditure Patterns

15.6. Food and non-food expenditure patterns by region are presented in Table 15.1. Nationally, the food share in total consumption was 51.1 per cent with 62.3 per cent in rural areas and 39.6 per cent in urban. The average monthly overall food expenditure per adult equivalent was KSh 1,453 in the rural areas, with the major share taken by cereals, followed by milk and eggs, sugar, vegetables, pulses, meat and tubers. The average rural non-food expenditure was KSh 878 where the major expenditure categories were clothing and footwear, education, household and personal goods and services, fuels and transportation. In the urban areas, the average food expenditure was KSh 2,642 per adult equivalent, with the major food categories being cereals, followed by food eaten in restaurants, meat, milk and eggs, vegetables, and bread. The average monthly urban non-food expenditure per adult equivalent was KSh 4,032 where the major categories were house rent, transportation, clothing and footwear, education, household and personal goods and services, and fuels.

Table 15.1: Average Monthly Food and Non-Food Expenditure[1] per adult equivalent

	Mean Expenditure (KSh)			Shares (%)	
Region	Food	Non-food	Total	Food	Non-food
Kenya	**1,754**	**1,678**	**3,432**	**51.1**	**48.9**
Total Rural	**1,453**	**878**	**2,331**	**62.3**	**37.7**
Central	1,696	1,263	2,959	57.3	42.7
Coast	1,179	552	1,731	68.1	31.9
Eastern	1,425	806	2,231	63.9	36.1
North Eastern	1,204	374	1,578	76.3	23.7
Nyanza	1,476	786	2,262	65.2	34.8
Rift Valley	1,474	984	2,457	60.0	40.0
Western	1,300	665	1,965	66.2	33.8
Total Urban	**2,642**	**4,032**	**6,673**	**39.6**	**60.4**
Nairobi	3,010	5,696	8,706	34.6	65.4
Mombasa	2,285	3,218	5,503	41.5	58.5
Kisumu	2,172	3,539	5,711	38.0	62.0
Nakuru	2,302	1,708	4,010	57.4	42.6

[1] Median prices

Chapter 16
Kenya National Adult Literacy Survey Highlights

Overview

This chapter presents key findings from the Kenya National Adult Literacy Survey (KNALS). The survey was conducted between June and August, 2006 in all the districts across the country. Results of the literacy and numeracy levels are provided at the National, Provincial and District levels and are based on both indirect and direct assessments of literacy and numeracy skills. Measurement of literacy levels was guided by the expanded definition of literacy which views literacy as having multiple dimensions, namely reading, writing and numeracy rather than a single dimension. The results of the survey provide baseline information and data on the status of literacy in Kenya and are critical in the development of indicators that would be useful in designing and assessing progress on the implementation of education-related programmes. The results are also useful within the context of Education For All (EFA) goal 1 - achieving universal primary education; EFA goal 3 - ensuring that learning needs of all young people and adults are met through equitable access to appropriate learning and life skills programme and; EFA goal 4 - achieving a 50 per cent improvement in levels of adult literacy by 2015, especially for women, and providing equitable access to basic and continuing education for all adults.

16.2. The Government recognizes that literacy plays a fundamental role to socio-economic development and poverty alleviation in the country and this is why adult literacy has been on the country's development agenda since independence. Some efforts have been made to improve literacy levels in the country through the development and improvement of adult literacy programmes and other Non-Formal Education (NFE) programmes. However, targeted literacy levels have not been achieved due to various challenges that include inadequate resource allocations, investment in the programmes, and shortage of adult education teachers. To address these challenges, the Government has developed a strategy to finance all sub-sectors of education through the Kenya Education Sector Support Programme (KESSP).

16.3. The adult literacy survey administered a literacy assessment test to all sampled adult respondents. This is a major deviation from previous literacy surveys where respondents who had attended school up to a particular level were assumed to be literate. The survey thus measured literacy through direct assessment of respondents aged 15 years and above which focused on three skills: reading, writing and computation (numeracy). In the construction of testitems for the assessment, the principles of adult literacy tasks were taken into account and the skills identified were based on five competency levels. The levels depended on item difficulty from the easiest in Level 1 to the most difficult in Level 5.

Chapter 17

Compilation Of Quarterly GDP In Kenya

Introduction

The International Standard for compilation of National Accounts is the *1993 System of National Accounts* (SNA 1993), which many countries have been striving to implement. Kenya National Bureau of Statistics implemented the System in 2005 and the annual estimates of Gross Domestic Product (GDP) in Kenya are now compiled to a large extent in line with these standards. Historical series of annual real and nominal GDP estimates using the Production and Expenditure Approaches are available from 1996 to-date. The revised series (based on the new system) have been extended further back to 1982, though with less details, to accommodate the demand for longer time series data.

17.2. Currently, the Annual National Accounts (ANA) estimates of a given year are made available five months after the expiry of the reference period, which by international standards is good timeliness for annual estimates However, this means that the performance of the economy is obtainable with a considerable time lag., Timely policy interventions can only be achieved if there are timely and frequent reports on recent economic developments. In response to the need for timely information, the Bureau initiated implementation of Quarterly Gross Domestic Product (QGDP) in December 2005 which, has culminated in the production of QGDP series from 2000 to 2006.

17.3. This Chapter, therefore, presents concepts, definitions, details on data sources and methods of Quarterly National Accounts (QNA)/QGDP compilation together with the provisional time series from the first quarter of 2000.

Theoretical Background

Concepts, definitions and role of QNA

17.4. Quarterly National Accounts (QNA) is an integrated and consistent system of macroeconomic accounts designed to describe the entire system of production on a quarterly basis. It provides a picture of current economic developments that is more timely and frequent than provided by ANA and more comprehensive than that provided by individual short-term indicators. Therefore, the key attributes of QNA are timeliness, coherence, comprehensiveness and of reasonable level of details in order to serve as a framework for assessing, analyzing, and monitoring current economic developments.

17.5. QNA adopts the same concepts, definitions and structure as ANA. In principle QNA covers the entire sequence of accounts and balance sheets as reflected in the *1993 SNA.* However, it is usually less complete than ANA because of constraints relating to time, resources and data availability.

Specifically, QNA provides useful information for:

- Early identification of changes in trend;
- Timely implementation of economic policies;
- Better forecasts, including early estimates of annual accounts;
- Framework for business cycle analysis.

Scope of coverage

17.6. The *basic requirement* in compilation of QNA is to publish the following on a quarterly basis with a maximum time lag of 90 days:

- QGDP by activity at current and constant prices;
- Expenditure on QGDP;
- National Income and Saving;

The next level of compilation (advance level) includes the following:

- Full sequence of accounts;
- Balance sheet;
- Output, intermediate consumption and value added by groups of industries;
- Seasonally adjusted data in addition to the original data.

The level of compilation adopted by any country is usually determined by availability of resources and data.

Conceptual links between Quarterly and Annual Accounts

17.7. Principally, the only difference between QNA and ANA is the reference period (three months for QNA and twelve months for ANA). The two are also based on the same concepts and definitions (*1993 SNA*). However, quarterly data provide explicit information about short-term movements in the series while annual data determine the overall level and long-term movements.

17.8. It is imperative that QNA are consistent with ANA, to avoid confusion about the interpretations of economic development. This means that the sum of the estimates for the four quarters should be equal to the annual estimates. In most cases, the ANA and QNA estimates are based on different data sources. Therefore, the condition above is unlikely to hold. To circumvent this problem, the QNA data is aligned with the annual data through a process known as “benchmarking”. Benchmarking process increases the accuracy of quarterly time series by incorporating the usually more accurate annual information into the quarterly estimates.

17.9. The general objective of benchmarking is to preserve as much as possible the short-term movements in the source data under the restrictions provided by the annual data and, at the same time, ensure that the sum of the four quarters of the current year is as close as possible to the unknown future annual data. Therefore, the core problem of benchmarking in a quarterly context is how to align quarterly time series to annual data while maintaining the quarterly pattern and without creating a discontinuity in the growth rate from the last quarter of one year to the first quarter of the next year.

Special Problems in Compilation of QNA

17.10. Problems associated with compilation of QNA arise from three main sources:

- The fact that QNA compilation relies on incomplete information;

- The estimation process is built on assumptions of varying validity; and
- Some production cycles are longer than three months.

17.11. *Timing errors*: The main consideration in the compilation of QNA is *timeliness* and availability of monthly or quarterly data. Normally, there are less quarterly data available and, given the need to produce quarterly accounts with the least delay possible, initial quarterly estimates tend to be affected by delays in the collection and processing of the basic data than annual estimates. This contributes to the problem of *timing errors*.

17.12. *Indicator bias:* The most usual method of compiling quarterly accounts is the indicator method, where a set of indicators are used to represent the National Accounts variables. However, the common feature of such indicators is that their coverage is less complete than for the annual data. This means that some indicators may suffer from bias in comparison to the more comprehensive data. Bias may also arise when an indicator is used as a proxy for the target variable but the relationship between the proxy and the target variable are weak.

17.13. *Long production cycles*: Construction, manufacturing (of some heavy equipment) and agricultural activities characteristically have production cycles that exceed three months and this poses a challenge to quarterly compilation. National accounting principles require that production is recorded and valued when it takes place and not simply when a finished product is sold. As a result, production taking place in each quarter must be valued even if the finished product may not be complete. The production should be recorded as work-in-progress and should form part of changes in inventories.

17.14. The methodology that has been adopted in Kenya is presented in the next section where the challenges stated above and all the theoretical aspects of QNA have been taken into consideration to the extent possible in QGDP estimations.

Methodology

Data sources

17.15. Quarterly estimations are based on administrative data (Kenya Revenue Authority KRA, Central Bank of Kenya (CBK) and line Ministries) and sample surveys. KNBS usually conduct two monthly surveys, namely the Monthly Survey of Industrial Production (MSIP) and the Survey of Hotels that provide some of the indicators used in estimations. VAT data (Domestic VAT) from KRA was extensively made use of to estimate activities of industries where regular surveys did not exist. The VAT data provide estimates of turnover by economic activity.

Compilation procedures

17.16. As reflected earlier in the Chapter, compilation of QNA includes production of QGDP both at current and constant prices, Expenditure on GDP, National Income and Saving and, the entire sequence of accounts up to balance sheet. However, due to resource constraints and scarcity of short-term indicators, only Quarterly Value Added (QVA) by activity at constant prices is compiled using the production approach.

17.17. The calculation of value added using the production approach is ideally derived as output at basic prices less intermediate consumption. But most of the indicators available are on output; therefore, the estimates of quarterly value added by industry are compiled by extrapolating value added with the relevant indicators. The underlying assumption employed is that the ratio of intermediate consumption to output is constant. QGDP at constant prices is finally derived as sum of values added at basic prices plus taxes less subsidies on products.

17.18. Indicators are used to track changes over time. These are series of numbers which are presented as index numbers in the estimation process. Index numbers are necessary when weighting indicators (in cases where two or more indicators are used for a given industry). Import values, salaries and sales data are deflated using appropriate price indexes before generating the indices.

17.19. Measurement of crop output on a quarterly basis, however, presents special difficulties. Crop harvests are largely confined to a single quarter of the year though the production process occurs on a continuous basis throughout the year. The 1993 SNA recommends that crop output should be distributed among quarters in proportion to the costs incurred in each quarter and that the value added calculated for quarters when there is no harvest should be recorded as work in progress. It was not possible to adopt this recommendation due to data issues and uncertainties associated with calculation of agricultural work-in-progress. Therefore, output of crops and horticulture are recorded at the time of harvest (Harvest Approach). Monthly data exist for industrial crops. For cereals, harvest patterns are used for quarterly allocation. Forecasts from the Ministry of Agriculture are used to estimate the quarters of the current year. Synthetic values and forecasts are used for *other food crops*, which in many cases are grown and harvested continuously over the year. List of indicators and data sources by activities are presented in Table 17.1.

Table 17.1: List of indicators and data sources by activity

ISIC[1]	Activity	Indicator	Data source
A011	Growing of crops	-Tea production -Coffee production -Sugarcane production -Cut-flower exports -Vegetable exports -Fruit exports -Population increase for Private consumption of vegetables & fruits -Maize and other cereals (based on crop forecasts)	- Tea Board of Kenya - Coffee Board of Kenya - Sugar Board - HCDA -Ministry of Agriculture
A012	Farming of animals	-Synthetic	
A014	Agricultural service activities	-Synthetic	
A02	Forestry	-Synthetic	
B	Fishing	-Quantity of Catches from L. Victoria	-Fisheries Department
C	Mining and Quarrying	-Quantity of soda ash	-Magadi soda
Da	Manufacture of food, beverages & tobacco	-Processed milk production -Maize-meal production -Wheat flour production -Domestic sugar production -Coffee production -Beer production -Soft drinks production -Cigarettes production	-Monthly Survey of Industrial Production (MSIP)
Db	Other manufacturing activities	-Crude petroleum -Laundry soap -Toilet soap -Motor vehicle tyres (number) -Cement production -Galvanized sheets -Assembled motor vehicles (number) -Value of sales for clothing and footwear -Population increase for informal manufacturing activities	-Monthly Survey of Industrial Production (MSIP) -VAT data from KRA
E40	Electricity supply	-Electricity consumed (sales) -Quantity of electricity generated hydro, thermal and geo-thermal process	-Ken-Gen -KPLC
E41	Water supply	-Synthetic	
F	Construction	-Cement consumption	-Monthly survey
G	Wholesale & retail trade; repairs	-Turn-over sales	-VAT data from KRA
H	Hotels & restaurants	-Number of bed-nights by categories (Nairobi high class, Coastal beaches and the rest)	-Monthly survey of Hotels
I60-I63	Transportation & storage	-Consumption of light diesel -Consumption of motor spirit -Tourist arrival -Population increase	-Monthly survey
I64	Communication	-Value of sales	-VAT data and air time tax from KRA
J65	Financial intermediation excl. insurance	-Total domestic credit -Total loans and deposits	-CBK
J66	Insurance & auxiliary financial activities	-Synthetic	
K70	Real estate	-Synthetic	

Table 17.1: Cont'd

K71	Renting & business services	-Value of sales	VAT data from KRA
L	Public administration	- Employment numbers	-DPM-IPPD
M	Education	-Primary school enrolment -Secondary school enrolment -University enrolment -Enrolment in Teachers Training Colleges	-Ministry of Education
N	Health & social work	-Synthetic	
OP	Other services	-Synthetic	
	FISIM	-Financial intermediation index	CBK
	Taxes on products	-Import values	-Trade data from KRA
		-Beer production	-Monthly Survey of Industrial Production (MSIP)
		-Production of soft drinks	-
		-Cigarettes production	
		-Wholesale & Retail trade Value Added	
		- Hotels & Restaurants Value Added	

Results

17.20. National Accounts compilation requires that the whole economy be covered. This means that all data gaps must be filled either explicitly or implicitly. Synthetic quarterly values have been used for economic activities where no indicators are available. Synthetic quarterization of annual values has been done using mathematical techniques (the Bench programme or the Lisman-Sandee formula). Table 17.2 gives a summary of proportions of indicator-based value added estimates by activity. Various short-term indicators cover about 75 per cent of GDP (2001) while 25 per cent are synthetically derived.

17.21. Synthetic quarterly values are used for parts of Growing of crops; Farming of animals; Forestry; Water supply; part of Communication (postal and courier services) and; the rest of service sectors as shown in the Table below.