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Economic Survey

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Foreword

The Economic Survey Report is an annual Publication produced by Kenya National Bureau of Statistics (KNBS), usually in the month of May. It presents socio-economic highlights of the economy for the last five years. The report forms an important source of input into the budgeting process, planning, monitoring and policy formulation.

Vision

The Vision of the Bureau is "to become a centre of excellence in statistical production and management for national development".

Mission

The mission of the Bureau is "to coordinate and supervise the National Statistical System; produce and disseminate comprehensive, integrated, accurate and timely statistics required mainly to inform national development initiatives and processes; and develop and maintain a socio-economic national database".

Mandate

The KNBS is a Semi Autonomous Government Agency (SAGA) mandated by law (Statistics Act,2006) to collect, compile, analyze, publish, and disseminate statistical information, and the co-ordination of National Statistical System.

The Organization

The Kenya National Bureau of Statistics comprises of six interrelated technical divisions and one unit; namely

Industrial and Labour Statistics
Agriculture and Nutrition Statistics
Population and Other Social Statistics
Data Processing, Research and Publications
Macroeconomic and National Income Accounts Statistics
National Sample Survey and Evaluation Programme and Field Administration and,
Poverty and Research Unit (PARU)

Teamwork

Together with users and producers of data, and development partners we are committed to face challenges and opportunities of the 21st Century.

Director General
Kenya National Bureau of Statistics

List of Acronyms

AAK	Automobile Association of Kenya
ADB	African Development Bank
AFC	Agricultural Finance Corporation
AFCE	Actual Final Consumption Formation
AF.DB	Africa Development Ban (AfDB)
AGOA	African Growth and Opportunities Act
AIA	Appropriation in Aid
APSEA	Association of Professional Societies In East Africa
ASAL	Arid and Semi Arid Lands
ATS	Automated Trading Systems
B.H.	Bore Hole
BADEA	Arab Bank of Economic Development in Africa
BEC	Broad Economic Category
BEE	Business Expectation Enquiries Survey
BOP	Balance of Payment
BMUs	Beach Management Units
CBIK	Centre for Business Information in Kenya
CBK	Central Bank of Kenya
CBN	Cost of Brazil Needs
CBOs	Community Based Organizations
CCK	Communications Commission of Kenya
CDF	Constituency Development Funds
CDMA	Code Division Multiple Access
CDS	Central Depository System
CDSC	Central Depository and Settlement Company
CET	Common External Tariffs
CFS	Container Freight Stations
CIF	cost, insurance, freight
CMA	Capital Market Authority
CMR	Child Mortality Rate
COFOG	Classification of Functions of Government
COFREP	Coffee Factories Rural Electrification Programme
COICOP	classification of Individual Consumption by Purpose
COMESA	Common Market for Eastern and Southern Africa
COMSEC	Commonwealth Secretarial
CPI	Consumer Price Index
CPP	Core Poverty Programs
CSO	Community Service Order
CV	Coefficient of Variation
DAP	Daily Average Population
DBK	Development Bank of Kenya
DEAPs	Districts Environment Action Plans
DWT	Dead Weight Tonnes
EA	Environmental Audit
EAC	East African Community
EAWS	East African Wildlife Society
ECD	Early Childhood Development
ECMA	Enforcement and Compliance Measures of Environmental Management and Coordination Act
EFA	Education For All
EIA	Environmental Impact Assessment
EMS	Expedite Mail Services
EPC	Export Promotion Council
EPP	Emergency Power and Lighting Company
EPS	Environmental Programme Support
EPV	Export Production Villages
EPZ	Export Processing Zones

ERS/ERSWEC	Economic Recovery Strategy for Wealth and Employment Creation
ESD	Education for Sustainable Development
ESOP	Employee Share Ownership Plans
EU	European Union
EXIM	Export Import Bank of India
FAO	Food and Agriculture Organization
FBS	Food Balance Sheet
FIC	Full Immunisation Coverage
fob	free on board
FPE	Free Primary Education
GDP	Gross Domestic Product
GER	Gross Enrolment Rate/Ratio
GFCF	Gross Fixed Capital Formation
GFS 2001	Government Finance Statistics 2001
GFS	Government Financial Statistics
GFSM 1986	Government Finance Statistics Manual 1986
GFSM 2001	Government Finance Statistics Manual 2001
GNDI	Gross National Disposable Income
GNI	Gross National Income
GNP	Gross National Product
GoK	Government of Kenya
GVA	Gross Value Added
GWH	Giga Watts per Hour
HCDA	Horticultural Crop Development Authority
IBRD	International Bank for Reconstructed Development
ICT	Information and Communication Technology
ICDC	Industrial and Commercial Development corporation
ICP	International Comparison Program
ID	Identity Card
IDA	International Development Association
IDB	Industrial Development Bank
IDR	Import Dependency Ratio
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IMR	Infant Mortality Rate
Incoterms	International Commercial Terms
IRA	Insurance Regulatory Authority
IP-ERS	Investment Programme for Economic Recovery Strategy
IPOs	Initial Public Offers
IPP	Independence Power Produces
PLI	Price Level Index
JICA	Japan International Co-operation Agency
JKIA	Jomo Kenyatta International Airport
JKUAT	Jomo Kenyatta University of Agriculture and Technology
KAA	Kenya Airports Authority
KAPU	Kenya Airports Police Unit
KACC	Kenya Airports Police Unit
KCAA	Kenya Civil Aviation Authority
KCC	Kenya Cooperative Creameries
KCPE	Kenya Certificate of Primary Education
KCSE	Kenya Certificate of Secondary Education
KEBS	Kenya Bureau of Standards
KENHA	Kenya National Highways Authority
KEPI	Kenya Expanded Programme of Immunization
KERRA	Kenya Rural Roads Authority
KESSP	Kenya Education Sector Support Programme
KenGen	Kenya Electricity Generating Company
Kg	Kilogramme
KFS	Kenya Forest Service
KICC	Kenyatta International Conference Centre
KIE	Kenya Industrial Estates
KIHBS	Kenya Integrated Household Budget Survey

KLGRP	Kenya Local Government Authority Reform Program
KNALS	Kenya National Adult Literacy Survey
KNBS	Kenya National Bureau of Statistics
KPC	Kenya Pipeline Corporation
KPLC	Kenya Power and Lighting Company
KPRL	Kenya Petroleum Refineries Limited
KRA	Kenya Revenue Authority
KRB	Kenya Roads Board
KSh	Kenya Shillings
KTB	Kenya Tourist Board
KURA	Kenya Urban Roads Authority
KUS	Kenya Utalii Collage
KW	Kilo Watts
KWS	Kenya Wildlife Service
LATF	Local Authority Transfer Fund
LAN	Local Area Network
LBDA	Lake Basin Development Authority
LLOs	Local Loop Operators
LPG	Liquefied Petroleum Gas
LTMs	Long-terms Means
M2	Narrow Money Supply
M3	Broad Money Supply (money supply be Central Bank, Commercial Banks, and Non Banking Financial Institutions)
M3X	Broad Money Supply (comprises M3 and currency holding by residents)
M3XT	Broad Money Supply (M3X, Treasury Bill Holdings by the non bank public)
MAM	March-April-May
MCS	Monitoring Control Surveillance
MDER	Minimum Dietary Energy Requirement
MDGs	Millennium Development Goals
MDP	Management Development Programme
MIA	Moi International Airport
MW	Mega Watt
MoA	Ministry of Agriculture
MoF	Ministry of Finance
MOH	Ministry of Health
MoLG	Ministry of Local Government
MOR & PW	Ministry of Roads and Public Works
MTEF	Medium Term Expenditure Framework
MPAC	Monetary Policy Advisory Committee
MSMES	Micro, Small and Medium Enterprises
NBFIs	Non-Bank Financial Institutions
NCC	Nairobi City Council
NCPB	National Cereals and Produce Board
NEMA	National Environmental and Management Authority
NER	Net Enrolment Ratio
NFA	Net Foreign Assets
NFE	Non-Formal Education
NGOs	Non Governmental Organizations
NHC	National Housing Corporation
NHIF	National Hospital Insurance Fund
NIB	National Irrigation Board
NSE	Nairobi Stock Exchange
NMK	National Museums of Kenya
NOFBI	National Optic Fiber Backbone Infrastructure
NSSF	National Social Security Fund
NWCPC	National Water Corporation and Pipeline Corporation
NYS	National Youth Service
OB	Outside Broadcasting
ODS	Ozone Depleting Substances
OECD	Organization of Economic Cooperation and Development
OMO	Open Market Operations

OND	October-November-December
OPEC	Organization of Petroleum Exporting Countries
PAYE	Pay as you Earn
PCF	Prototype Carbon Fund
PCK	Postal Corporation of Kenya
PCR	Primary School Completion Rate
PER	Public Expenditure Review
PPT	Passed Proficiency Test
PPPs	Purchasing Power Parities
PSV	Public Service Vehicles
PVC	Polyvenlychloromethane
R&D	Research and Development
REA	Rural Electrification Authority
RBA	Retirement Benefits Authority
REP	Rural Electrification Programme
REPO	Re-Purchase Agreement
RICS	Road Inventory and Condition Survey
RMGs	Risk Management Guidelines
RMLF	Road Maintenance Levy Fund
RMPS	Risk Management Programmers
RVR	Rift Valley Railways
SDR	Special Drawing Rights
SE	Standard Error
SITC	Standard International Trade Classification
SMEs	Small and Medium Enterprises
SMS	Short Messages Service
SNA1993	System of National Accounts 1993
SPS	Sanitary and Phytosanitary conditions
SPV	Special Purpose Vehicle
SSR	Self Sufficiency Ratio
SSA	Sub-Sahara Africa
STABEX	Stabilization of Export Earnings
STI	Sexually Transmitted Infections
STL	Studio Transmitter Links
SWAP	Sector Wide Approach to Planning
TCB	Transport Licensing Board
TDM	Time-Division Multiplexing
TDP	Trade Development Programme
TEUs	Twenty Foot Equivalent Units
TFR	Total Fertility Rate
TIVET	Technical, Industrial and Vocational Educational Training Institutions
TLB	Transport Licensing Board
TSC	Teachers Service Commission
UK	United Kingdom
UN-FAO	United Nations Food and Agriculture Organization
UHBS	Urban House Budget Survey
UPE	Universal Primary Education
UK	United Kingdom
US5MR	Under Five Mortality Rate
US&	United States Dollars per Barrel
US$	United States Dollar
USA	United States of America
VA	Value Added
VAT	Value Added Tax
VFR	Visit friends and Relatives
VSAT	Very Small Aperture Technology
WAN	Wide Area Network
WHO	World Health Organization
WMS	Welfare Monitoring Survey
WPP	Water Purification Points
WTO	World Trade Organization

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UNITS AND SYMBOLS USED

1. One Metric Tonnne=1000 kg
2. Hectare=2.47 Acres
3. Mn=Million
4. "-" means nil or negligible
5. ".." means figures not available
6. "*" means Provisional
7. "+" means Revised

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Summary and Outlook

International Scene

The world economy was estimated to have grown at 5.2 per cent in 2007, a slight decline from the 5.4 per cent growth registered in 2006. There were downward revisions to growth in the United States, and in countries with close financial and trade spillovers from the United States. Among the advanced economies, growth in the Euro area and Japan slowed in 2007 while major emerging markets have become leading contributors to global growth. World economic growth is expected to slow in 2008 but to remain solid, at 4.8 per cent, with recent turbulence in financial markets and high oil prices clouding the prospects. However growth in the emerging markets is expected to continue to expand strongly and will counterbalance the slow growth in the United States.

Economic growth in sub-Saharan Africa was estimated to average about 6.1 per cent in 2007, a slight expansion compared to 5.7 per cent growth in 2006. The growth was mainly driven by oil exports and is expected to accelerate further with the oil facilities coming on stream in Nigeria and Angola and a new liquefied natural gas plant in Equatorial Guinea.

Globally, inflation was contained in the advanced economies while it rose in many emerging markets and developing countries. Oil prices remained high in 2007 and with spare capacity still limited; supply shocks or heightened geopolitical concerns could lead to further oil price spikes that could quickly translate into higher inflation.

There remain huge global imbalances that have the possibility of a disorderly depreciation of the U.S. dollar, which could have severe repercussions throughout global financial markets. The U.S. current account deficit is projected to decline only slightly to negative 5.6 per cent of GDP in 2007 compared to negative 6.2 per cent in 2006. This is in sharp contrast to China where the current account surplus was 11.2 per cent of GDP in 2007.

Domestic Economy

The economy sustained its growth momentum that begun in 2003 to register a real Gross Domestic Product (GDP) growth estimated to have expanded by 7.0 per cent compared to a revised growth of 6.4 per cent in 2006. The renewed expansion has mainly been on account of the economy's resilience, improved business confidence, stable macro-economic environment and a rebound of the global economy. The stringent macroeconomic policies pursued by the government over the last five years saw the appreciation of the Kenya shilling against the major world currencies and the easing of inflationary pressure on the economy in 2007. The overall inflation decreased from 14.5 per cent in 2006 to 9.8 per cent in 2007. The Gross National Income (GNI) recorded a decelerated growth of 11.5 per cent in 2007 compared to a growth of 14.6 per cent in 2006 to stand at KSh 1,801.3 billion. On the other hand the net savings declined by 15.7 per cent in 2007 to stand at KSh 110.9 billion. However the ratio of gross savings to GDP declined to 12.7 per cent in 2007 compared to 14.8 per cent in 2006.

The major sources of growth for the year 2007 were transport and communication, taxes on products, wholesale and retail trade, and manufacturing which contributed 23.3, 23.2, 15.7 and 8.8 per cent, respectively. The contribution

of agriculture as a source of GDP growth declined further with a drop from 17.4 per cent in 2006 to 8.1 per cent in 2007. Sectors that witnessed remarkable improvements include transport and communication, mining and quarrying and electricity and water.

In the financial sector, broad money supply grew by 19.1 per cent in 2007 compared to 17.1 per cent in 2006. Liquidity in the banking system reduced to 41.0 per cent while advances to deposits ratio reduced from 77.0 per cent in 2006 to 73.0 per cent as at December 2007. Net foreign assets increased to KSh 256.7 billion in 2007, a 22.5 per cent growth.
The total Central Government revenue including grants is expected to increase by 21.4 per cent from KSh 388.8 billion in 2006/07 to KSh 472.1 billion in 2007/08 while the expenditure is expected to record a 39.0 per cent increase to stand at KSh 486.0 billion in 2007/08. The overall balance of payments continued to record a surplus that reached KSh 63,250 million in 2007 compared to KSh 44, 446 million in 2006. This expansion was mainly due to increased foreign exchange reserves. The capital and financial account recorded a surplus of KSh 159,146 million

Social Scene

The Government is expected to spend a total of KSh175.2 billion in 2007/08 on social services compared to KSh 149.5 billion in 2006/07, an increase of 17.2 per cent. Allocation to recurrent expenses is expected to rise to KSh 147.7 billion accounting for 84.3 per cent of total expenditure. Recurrent expenditure to the sector is expected to increase by 16.6 per cent mainly due to 12.7 per cent and 14.0 per cent expected increases to education and health respectively. Recurrent expenditure to secondary education is expected to increase nearly eightfold. Development expenditure in the ministry of Education is expected to increase by 28.0 per cent in 2007/08 while those of the ministries of Health and Home Affairs are expected to increase marginally. The allocation to the Ministry of Youth Affairs development expenditure in 2007/08 was KSh 1.8 billion, mainly to support the creation of a revolving Youth Enterprise Fund.

The number of both primary and secondary schools increased by 0.7 per cent and 14.6 per cent from 25,929 and 5,659 in 2006 to 26,104 and 6,485 in 2007 respectively. Early Childhood Centres also increased from 36,121 in 2006 to 37,263 in 2007. The number of primary school pupils increased by 7.8 per cent from 7,632.1 thousand pupils in 2006 to 8,229.3 thousand pupils in 2007. The total enrolment of secondary school students increased by 14.6 per cent from 1,030.1 thousand students in 2006 to 1,180.3 thousand students in 2007.

Participation levels in pre-primary schools increased from a Gross Enrolment Rate (GER) of 58.8 per cent in 2006 to 59.3 per cent in 2007. Similarly, Net Enrolment Rate (NER) increased from 33.6 per cent to 39.7 per cent in the period under review. In primary schools, gross enrolment rate for boys and girls was 110.7 per cent and 104.4 per cent in 2007, respectively. Net enrolment rate increased from 86.5 per cent in 2006 to 91.6 per cent in 2007. Gross enrolment rate in secondary schools increased from 32.2 per cent to 36.8 per cent during the period under review, with girls recording 33.3 per cent and

boys, 40.4 per cent. The total number of primary school teachers grew by 6.2 per cent from 162,993 in 2006 to 173,157 in 2007. Similarly, the number of secondary school teachers increased by 4.5 per cent from 42,403 in 2006 to 44,305 in 2007.

Health institutions increased by 13.2 per cent from 5,471 in 2006 to 6,194 in 2007 occasioned by the construction of new health facilities funded through Constituency Development Funds (CDF). The number of registered medical personnel increased by 3.9 per cent from 67,175 in 2006 to 69,805 in 2007. Similarly, the number of medical personnel in training went up by 15.3 per cent from 6,942 in 2006 to 8,005 in 2007. Full immunisation coverage for children under one year improved by 6.8 per cent, from 916,109 cases in 2006 to 978,417 cases in 2007. Reported malaria cases declined by 135,393 mainly due to free distribution of about 3.4 million long lasting treated insecticide bed nets and extensive spraying of households by the Ministry of Health. The number of Pneumonia cases recorded has continued to increase for the last 5 years.

Employment, Earnings and Consumer Prices

The overall performance of the labour market outside small scale agriculture and pastoralist activities showed positive growth in 2007. The growth was mainly registered in the informal and modern private sectors. All sectors of the economy recorded improved performance, which translated to improved employment opportunities across board. Employment in the public sector continued on the declining trend in spite of selected recruitment in the civil service. A total of 474.7 thousand new jobs were created between 2006 and 2007 with the informal sector accounting for 426.9 thousand of the additional jobs (89.9 per cent). This growth is attributable to favourable business environment, availability of credit from financial institutions and increase in investment opportunities in the country. The average annual inflation rate dropped from 14.5 per cent in the previous year to 9.8 per cent in 2007 while the underlying inflation which excludes food items from the CPI basket increased marginally from 5.5 per cent in 2006 to 5.7 per cent in 2007. Food and non-alcoholic drinks whose weight in the consumer price index accounts for more than half recorded the highest inflation rate of 12.3 per cent. However, this was a reduction from 20.9 per cent in 2006. Average nominal earnings per employee went up by 10.8 per cent in 2007 compared to an increase of 12.4 per cent recorded in 2006. Real average earnings declined by 0.3 per cent in 2007 compared to an increase of 1.3 per cent registered the previous year.

Money, Banking and Finance

The Financial sector registered a real growth of 6.5 per cent in 2007 compared to 5.5 per cent growth recorded in 2006. This growth was realised through prudent management and enhancement of governance standards within the sector. The Government through the Central Bank of Kenya (CBK) continued to pursue monetary policy aimed at price stabilisation using various monetary policy strategies. The banking sector remained stable with assets/liabilities expanding by 14.6 per cent in 2007. Broad money supply M3 expanded by 19.1 per cent as overall domestic credit increased by 11.8 per cent. All nominal interest rose during the year, while real interest rates remained negative with the exception of commercial banks' loans and advances rate.

In the capital markets, the primary equities market registered vibrant activity as two Initial Public Offers (IPOs) were processed while the market capitalization rose to KSh 851 billion by December 2007. The bonds market recorded increased activity with issues being placed by Government and private companies. During the year, the Insurance Regulatory Authority a semi autonomous regulator for the sector became operational while amendments were made to Insurance Act with the aim of improving regulation and governance in the sector.

Public Finance

Total Government revenue including grants is expected to go up by 21.4 per cent from KSh 388.8 billion in 2006/07 to KSh 472.1billion in 2007/08. Total Central Government expenditure is expected to increase by 49.1 per cent from KSh 478.8 billion in 2006/07 to KSh 714.0 billion in 2007/08.

Total public debt declined from KSh 717.7 billion in June 2006 to KSh 715.5 billion in June 2007. Domestic borrowing rose by 11.1 per cent from KSh 286.5 billion in June 2006 to KSh 318.4 billion in June 2007. The stock of external debt registered a marginal decline from KSh 431.2 billion in June 2006 to KSh. 397.1 billion in June 2007.

Under LATF, the Government transferred KSh 8.3 billion in 2007/08 financial year compared to KSh 7.5 billion in 2006/07. This represents a 10.7 per cent growth in LATF disbursement in tandem with increased revenue collection. County Councils continued to receive the largest share of LATF money accounting for 46.6 per cent of the total LATF disbursements. Nairobi City Council received a 7.1 per cent increase in LATF allocation from KSh 1.4 billion in 2006/07 to KSh 1.5 billion in 2007/08.

International Trade and Balance of Payments

Major international trade indicators for 2007 show a widening trade balance. Trade balance expanded from a deficit of KSh 270,489 million in 2006 to KSh 330,514 million in 2007 reflecting a deterioration of 22.2 per cent. The value of domestic exports increased by 14.7 per cent as compared to the value of imports which grew relatively faster at the rate of 16.0 per cent in the same period. The re-exports declined for the third year running dropping by 43.1 per cent in 2007. This was as a result of reduction of 92. 8 per cent in the re-exports of the petroleum products as a result of better administration of transit goods to avoid their inclusion in trade flows. The total import bill and total export earnings rose by 16.0 per cent and 9.4 per cent, respectively during the review period. Horticulture, tea, articles of apparel and clothing accessories, and coffee were the leading export earners, collectively accounting for 49.7 per cent of the total domestic export earnings.

The overall balance of payments improved from a surplus of KSh 44,446 million in 2006 to a surplus of KSh 63,250 million in 2007 largely due to an increase in the foreign exchange reserves. Current account balance deteriorated further to a deficit of KSh 74,169 million in 2007 from a deficit of KSh 34,523 million the previous year. The visible balance deficit widened to KSh 286,641 million whereas the invisible trade balance registered a surplus of KSh 212,472 million in 2007. The increase in the invisible balance was mainly due increased earnings from tourism and an increase in private current

transfers during the period under review. Increased long term capital flows caused the capital and financial account to post a surplus of KSh 159,146 million in 2007.

Agriculture

The agricultural sector recorded a slow real growth of 2.3 per cent in 2007 from a revised growth of 4.4 per cent recorded in 2006. The growth was largely attributed to delayed long rains and low volumes of short rains in 2007. Wheat production increased by 6.4 per cent from 106.1 thousand tonnes in 2006 to 112.9 thousand tonnes in 2007. Tea production increased from 310.6 thousand tonnes in 2006 to 369.6 thousand tonnes in 2007. Earnings from tea production declined from KSh 45.2 billion in 2006 to KSh 43.9 billion in 2007 due to glut in world market. Coffee production increased by 10.6 per cent from 48.3 thousand tonnes in 2005/06 crop year to 53.4 thousand tonnes in 2006/07 crop year. Maize production declined by 6.1 per cent to 32.5 million bags in 2007 from a revised production of 34.6 million bags recorded in 2006. The volume of marketed milk increased from 361 million litres in 2006 to 423 million litres in 2007. The quantity of horticulture exports increased by 17.8 per cent from 163.2 thousand tonnes in 2006 to 192.2 thousand tonnes in 2007 while the value of horticultural exports increased by 51.3 per cent from KSh 43.1 billion in 2006 to KSh 65.2 billion in 2007. This increase was as a result of high production of cut flowers which accounted for 65 per cent of the total export value.

Environment and Natural Resources

In the year under review, expenditure on water and related services increased to KSh 8.4 billion in 2007/08 from KSh 7.6 billion in 2006/07. This was mainly attributed to increased funding in the sub-sector from the government and the involvement of communities in the management of water affairs.

Total fish landed from the freshwater bodies increased by 5.5 per cent from 151.7 thousand tonnes in 2006 to 160.1 thousand tonnes in 2007. Total revenue generated from the fisheries sub-sector increased marginally to KSh 8.7 billion in 2007 from KSh 8.6 billion in 2006. The value of mineral production increased to KSh 7.0 billion in 2007 from KSh 6.6 billion in 2006. The sale of forest products decreased from 448.2 thousand cubic metres in 2006 to 423.4 thousand cubic metres in 2007.

On conservation of our natural resources, the Ministry of Environment and Natural resources guided the initiation of several conservation projects.

Energy

The international prices for Murban crude oil rose by 46 per cent from US$ 62.05 per barrel in December 2006 to US$ 90.60 per barrel in December 2007. Crude oil prices in the international market rose to new heights in 2007 due to a combination of factors which included; geo-political tensions especially in eastern Turkey, OPEC production cuts, civil unrest in Nigeria and the depreciating US dollar against major international currencies. During the year under review, total quantities of petroleum imports registered a growth of 16.4 per cent, to stand at 3,691.8 thousand tonnes in 2007, compared to a rise of 6.8 per cent in 2006. The total import bill of petroleum products increased by 7.1 per cent in 2007 compared to 18.9 per cent in 2006.

Total quantities of petroleum products exported increased by 27.0 per cent from 170.2 thousand tonnes in 2006 to 216.1 thousand tonnes in 2007. The total value of petroleum products exported rose by 21.6 per cent to stand at KSh 6,762.3 million in 2007 while total value of re-exports declined by 92.8 per cent during the same period.

Total domestic demand for petroleum products rose by 2.8 per cent from 3,131.5 thousand tonnes in 2006 to 3,218.3 thousand tonnes in 2007 compared to a rise of 12.0 per cent recorded in the previous year.

Total electricity generation grew by 7.3 per cent from 5,894.9 GWh in 2006 to 6,324.6 GWh in 2007. The increase was largely due to improved electricity generation from hydro which grew by 18.5 per cent in 2007 compared to a reduction of 0.5 per cent in 2006. The number of customers connected under the Rural Electrification programme rose by 20.2 per cent to stand at 133,047 as at June 2007 up from 110,724 customers as at June 2006.

Manufacturing

Kenya's manufacturing sector is mainly agro based, hence has a strong linkage with the agricultural sector. The sector contributes about 10.0 per cent of the GDP annually. Its Gross Value Added grew by 6.2 per cent in 2007 which was mainly contributed by exports of the products to the region market. Growth in business investment on the other hand led to increased output in manufacturing hence contributing to the overall economy. Total value output rose to KSh 603.7 billion in 2007 from KSh 558.3 billion in 2006 representing an 8.1 per cent growth. Value Added at current prices grew by 6.1 per cent to stand at 176.6 billion.

Sub-sectors which recorded growth were meat and dairy products, canned vegetables, fruits, fish, oils and fats; beverages and tobacco; petroleum and other chemicals among others. Decline in production was recorded in the production of basic industrial chemicals, bakery products, electrical and non electrical machinery and miscellaneous manufacturing.

The significant growth recorded in key sub-sectors was mainly due to the opening up of new processing plants, diversification of products, increased capacity utilisation and a construction boom leading to increased regional trade especially for firms exporting manufactured goods. During the review period, key measures were put in place by Kenya Bureau of Standards (KEBS) to cushion manufacturers against the influx of sub-standard products into the local market. Some manufacturers also diversified their products increasing their range of manufactured goods in the market in addition to outsourcing their production to other firms.

To increase competitiveness of manufactured goods, the Government continued the process of reducing the cost of doing business especially in areas of legislation in addition to creating an enabling environment for investment. This enabled a number of manufacturing entities to expand their production capacities and access regional and overseas markets. Approved industrial credits towards the manufacturing sector went up during the review period.

The number of new jobs created in the manufacturing sector in 2007 increased by 2.3 per cent. This brings the total number of direct formal employment to 261.3 thousand persons from 254.9 thousand persons in 2006.

Building and Construction

Building and construction sector's key economic indicators improved in the year under review. This is attributed to several on-going infrastructure projects such as expansion of Jomo Kenyatta international airport, construction of Mai-Mahiu-Lanet and Mai-mahiu- Narok roads. Also construction of several Constituency Development Fund (CDF) projects like classrooms and hospitals, among others, further boosted the sector's indicators. Disbursement of funds by Kenya Roads Board to the various roads agencies went up by 49.5 per cent to stand at KSh 15.4 billion in 2007 from KSh 10.3 billion in 2006. The index of Government expenditure on roads increased to 269.0 in 2007 from 201.1 in 2006. Loans and advances from commercial banks to the sector amounted to KSh 31,576 million in 2007, an increase of 4.5 per cent from the previous year. Cement consumption went up by 16.7 per cent to 2,061.4 thousand tonnes in 2007 from 1,765.8 thousand tonnes in 2006. The total value of reported private building works completed in selected main towns went up significantly to KSh 10,969.2 million in 2007 compared to KSh 2,817.90 million in 2006. The total estimated cost of reported new private buildings completed increased significantly to KSh 5,898.1 million in 2007 from KSh 2,698.7 million in 2006. Total wage employment in the sector stood at 81,799 persons in 2007, an increase of 2.4 per cent from the previous year.

Tourism

The tourism sector sustained an upward growth in 2007. The country earned an estimated KSh 65.4 billion in 2007, representing a 16.4 per cent increase over the KSh 56.2 billion for 2006, making tourism not only a socio-economic driver but one of the largest categories of international trade. Foreign travel earnings expanded by 23.6 per cent from Ksh. 49.6 billion in 2006 to KSh 61.3 billion in 2007. International arrivals improved by 13.5 per cent from 1,600.6 thousand recorded in 2006 to 1,816.8 thousand in 2007. This was attributed to aggressive marketing in the traditional markets and in the Far East.

The number of bed-nights occupied went up by 17.2 per cent from 5,921.7 thousand in 2006 to 6,939.2 thousand in 2007. Over the same period, bed occupancy rate went up from 45.5 per cent in 2006 to 47.2 per cent in 2007 as room occupancy rate contracted marginally from 51.3 per cent in 2006 to 50.8 per cent 2007. The number of visitors to Game Parks and Reserves increased by 4.2 per cent from 2,363.8 thousand in 2006 to 2,462.9 thousand in 2007 on account of continued branding of parks and promotions in major international tourism fairs. The number of visitors to Museums, Snake Park and other sites expanded by 6.9 per cent from 559.8 thousand in 2006 to 598.4 thousand in 2007. The number of international and local conferences held increased by 12.0 per cent and 19.2 per cent, respectively, in 2007.

Transport, Storage and Communication

The transport and communications sector expanded further in 2007 supported by several factors including the continued growth of the information and communications technologies (ICT) sub-sector; enhanced performance of the air transport and water transport sub-sectors; and increased road transport activities boosted by thriving tourism industry and freight transport activities during

the year. Total receipts to the transport and communications sector during the year increased by 10.9 per cent to KSh 441.8 billion from KSh 398.4 billion received in 2006. Road transport industry remained the single highest income earner for the transport and communications sector, posting an output growth of 9.7 per cent in 2007 and accounted for 50.4 per cent of the gross receipts to the transport and communications sector.

The number of newly registered road vehicles during the year posted an unprecedented growth of 61.5 per cent following the registration of 85,324 vehicles compared to 52,817 in 2006. However, road traffic accidents continued on an upward trend with a total of 2,715 persons loosing lives through road traffic related accidents in 2007 compared to 2,921 in 2006. Subscriber base of mobile telephone services expanded further by 55.6 per cent to 11.4 million in 2007 from 7.3 million in 2006.

Cargo traffic at the Port of Mombasa increased by 10.7 per cent from 14,402 thousand tonnes in 2006 to 15,962 thousand tonnes in 2007. Imports into the country accounted for 81.1 per cent of the total cargo traffic handled during the year under review. Commercial passenger traffic at the main airports in the country grew by 11.3 per cent from 6.324 million in 2006 to 7.039 million in 2007. Passenger traffic through Jomo Kenyatta and Moi International Airports accounted for 69.1 per cent and 19.1 per cent respectively during 2007.

Volumes of white petroleum products pumped via the pipeline for domestic and export markets rose by 3.6 per cent from 3,826.2 thousand cubic metres in 2006 to 3,962.5 thousand cubic metres in 2007. Similarly, railway freight traffic increased from 1,891 thousand tonnes in 2006 to 2,304 thousand tonnes in 2007; representing a rise of 21.8 per cent.

Governance

The Governance chapter captures information on Public Safety, Law and Order, Democracy and Human Rights. Specifically, the chapter analysis statistics related to crimes as handled by the Police, Prison and Judiciary among other Government Departments. In 2007, a total of 63,028 crimes were reported to Police compared to 72,225 crimes reported in the previous year, representing a decline of 12.7 per cent. The number of persons recorded by Police to have committed crimes reduced by 7.5 per cent from 75,143 in 2006 to 69,484 in 2007. Regionally, Western Province recorded the highest reduction of 28.2 per cent in the number of persons reported to Police to have committed offences followed by Nairobi with 25.8 per cent in 2007.

The number of cases filed and pending in courts declined by 11.2 per cent and 8.0 per cent, respectively, in 2007. The reduction in number of pending cases could be attributed to an increase of 19.4 per cent in the number of cases disposed of among others. The total number of convicted prison population increased by 2.7 per cent from 111,134 in 2006 to 114,087 in 2007. Persons serving probation service declined by 32.2 per cent from 17,425 in 2006 to 11,817 in 2007. Similarly, the number of jailed persons serving community service declined by 12.2 per cent from 39,551 in 2006 to 34,709 in 2007.

During the review period, the number of registered voters increased by 14.1 per cent to 14,296.2 thousand from 12,529.0 thousand in 2006. New identity cards issued and replaced increased from 654.3thousand in 2006 to 2,407.9 thousand in 2007. However, the number of work permits issued decreased by 37.4 per cent from 8,452 in 2006 to 5,287 in 2007. Passports issued increased by 23.5 per cent from 94,156 in 2006 to 116,253 in 2007. This in line with improved service delivery associated with introduction of performance contracts and Rapid Results Initiative (RRI) in the civil service.

Highlights of Well-Being in Kenya by Socio-economic Profiles, 2005/06

The poverty levels as indicated by the estimates on well-being in Kenya show a decline from 52.3 per cent in 1997 to 45.9 per cent in 2005/06. Analysis by social indicators for poor and non-poor households indicates the mean household size was 6.2 among the poor and 4.4 among the non poor. The total dependency ratio shows that there are 94 persons dependent on every 100 working-age people among the poor compared to 72 persons among the non-poor.

On level of education, higher proportion of the poor, 25.4 per cent compared to 18.2 per cent of the non-poor had no education ,on the other hand, higher proportion of the poor, 63.1 per cent compared to 57.0 per cent for the non-poor, reported primary level as the highest level of education reached. The non poor have higher literacy levels of 88.5 per cent compared to 71.8 per cent for the poor.

The poor experience higher mortality rates than the non-poor in Infant Mortality Rate (IMR), Child Mortality Rate (CMR) and Under-five Mortality Rate (U5MR). Mortality rates for infants, children and those below 5 years of age among the poor (37, 64, 99) are higher than the national (34, 60, 92) average rates. Overall, 47.1 per cent of children from poor households were reported to be stunted compared to 36.3 per cent from non poor households.

Disparities in drinking water sources exist between the poor and non poor. Among poor households, only 1 in 5 access piped water, compared to 2 in 5 among non poor households

Highlights of Food Insecurity Assessment in Kenya

Ten years ago, world leaders met in Rome for the World Food Summit (WFS) to discuss ways to end hunger. They pledged their commitment to an ongoing effort to eradicate hunger in all countries and set themselves the target of halving the number of undernourished people by 2015. Countries also committed themselves to the Millennium Development Goal (MDG) 1 of halving hunger and extreme poverty by the year 2015.

The Food Insecurity Assessment report presents information about the country's food insecurity situation at national and sub-national levels using Food and Agriculture Organisation (FAO) methodology based on food consumption statistics derived from data collected in the KIHBS, 2005/06. The trends presented in this report show the extent of the country's food insecurity in relation to the requirements. It gives at a glance the country's food deprivation, which is the measure of prevalence of undernourishment as measured by MDER. In 2005/06, 51 per cent of the population recorded a daily food consumption of 1261

kcal/person, which was well below the national MDER benchmark of 1,683 kcal/person/day. This implied that they required an additional 422 kcal/day to reach the national MDER and another 117 kcal/day to get to the national average dietary energy consumption of 1,800 kcal/person/day.

The dietary energy consumption level in rural and urban areas was 1,690 and 2,060 kcal/person/day respectively. Analysis by income levels indicated that DEC increased with rising income levels ranging from 1,080 kcal/person/day for people in the lowest income quintile to 3,020 kcal/person/day for those in the highest income quintile. Average daily DEC for female headed households was slightly higher than that of male headed households by 30kcal/person.

Highlights of the 2005/06 KIHBS Labour Force Analytical Report

The 2005/06 Kenya Integrated Household Budget Survey (KIHBS) incorporated a module of the Labour Force in order to update the information base of 1998/99 Integrated Labour Force Survey (ILFS). This data was necessary to furnish the planning process with information on levels of employment, unemployment, establish the size and structure and provide statistics on the rural agriculture and pastoralist activities.

The age-sex structure of the surveyed population showed a youthful population; with 52.9 per cent of the population falling within the 0-19 age bracket. The overall dependency ratio was 76.8 per cent in 2005/06 KIHBS, a decrease from 85.4 per cent registered in 1998/99 ILFS. The economically active population aged 15 – 64 constituted 12.7 million employed persons and 1.9 million unemployed persons while the inactive population totalled to 5.3 million persons. In 2005/06, unemployment rate was 12.7 per cent compared to 14.6 per cent in 1998/99 ILFS. The overall participation rate for the population aged 15-64 was 72.6 per cent, lower than 73.6 per cent in 1998/99 ILFS.

The Proposed Kenya Consumer Price Index (CPI) Based On 2005/06 KIHBS

The Consumer Price Index (CPI) is a key macro-economic indicator that measurers the aggregate change in retail prices paid by consumers for a certain basket of goods and services. In Kenya, CPI is used for the estimation of inflation rates, generation of socio-economic indicators, in wage negotiations and, as a deflator of expenditure.

The Government, through the Kenya National Bureau of Statistics (KNBS), carried out a nation-wide survey, the KIHBS, spanning a period of 12 months between May, 2005 and May, 2006. Among its key objectives was the collection of data for use in updating the current urban CPI basket and provide a basis for starting a rural one.

The proposed Kenya Consumer Index takes into account new income brackets, a new basket of goods and services with corresponding weights and, a possible expansion to produce provincial indices. This new index is

significantly different from its two predecessors in terms of the number and size of income groups; extent of coverage of urban centres and the number of commodities in the basket which has risen to 234 up from 216 in the current CPI.

International Comparison Program Highlights for Africa

The International Comparison Program ICP is a global statistical initiative to produce internationally comparable prices and expenditure levels. ICP facilitates cross country comparisons of GDP and its sub-aggregates in real terms that is free of price and exchange rate distortions.

The key highlights of the result indicate that Kenya is ranked at position 8 in the largest economies category out of 48 countries that participated in ICP Africa. In terms of richest and poorest countries, the country is ranked at position 25th richest and it is also placed in position thirteen as the least expensive country. In the category of the most expensive country to invest in, Kenya is ranked at position 22nd.

Outlook

Economic growth for 2008 is likely to slow down due to the sluggish economic activities witnessed in the first quarter of the year associated to the 2007 post election skirmishes. Loss of capital, damage on the country's image abroad, and business uncertainty that emanated from the violence are likely to impact negatively on the economy. In addition, unfavourable weather during the first quarter of 2008 coupled with disruption of agricultural activities by the post-election violence is expected to adversely affect agricultural output. Indicators in the first quarter of 2008 show escalation of inflation to levels only witnessed over a decade ago. The rise has been attributable not only to rise in oil prices but also on a general rise in food prices both domestically and globally. In addition, disruption of agricultural activities by the post-election crisis has also contributed significantly to the rise in food prices.

However, there are prospects for renewed growth in 2008 with the signing of the peace agreement among the key stakeholders in Kenyan politics and the formation of the coalition government. Increased demand for goods and services from Kenya by emerging economies coupled by sound policy frameworks are expected to support more growth.

The factors that are likely to be key in supporting growth in future, which include; harmony within the Coalition Government, the on-going rehabilitation and construction of infrastructure, and integration of the East African Community and COMESA economic blocks. Furthermore, the successful Safaricom Initial Public Offer IPO is likely to boost the investor confidence thereby spurring trading in the capital market. Easy accessibility of credit to the private sector and households is likely to be enhanced by the increased competitiveness amongst financial institutions thereby promoting growth in investment particularly in the Small and Micro Enterprises sector. The on-going tourism marketing effort is also expected to boost the country's image abroad.

The main sectors which are expected to boast the growth in the economy include; Manufacturing, Transport and Communication, Wholesale and Retail, Building and Construction and Financial Intermediation. However, the escalating international oil prices which set a record high of over US Dollar 100 per barrel from the first quarter of 2008 will be unfavourable to the expected growth. In 2008 Gross Domestic Product (GDP) is expected to record a growth of between 3.5 per cent and 4.5 per cent.

Table 0: Key Economic and Social Indicators 2003 - 2007*

	DESCRIPTION		2003	2004	2005	2006	2007**	
1	Population****	(Million)	33.2	34.2	35.1	36.1	37.2	
2	Growth of GDP at constant prices:++	(Percent)	2.9	5.1	5.8	6.4	7.0	
3	GDP at market prices :	(KSh Mn)	1,131,783	1,273,975	1,418,071	1,620,732	1,814,243	
4	Total cost of petroleum products	(KSh Mn)	64,561.4	88,784.8	95,669.2	113,719.6	121,776.0	
5	Trade balance	(KSh Mn)	-98,690.0	-149,764.0	-186,542.0	-270,489.0	330,514.0	
6	Money Supply (M3)	(KSh Mn)	451,172.0	511,425.0	557,750.0	653,035.0	777,596.0	
7	Total domestic credit	(KSh Mn)	443,157.0	501,160.0	529,392.0	600,017.0	670,771.0	
8	Balance of payments (current account balance)	(KSh Mn)	11,100	-10,433	-19,064	-34,523	-74,169	
9	Coffe-marketed production	('000 tonnes)	61.2	49.9	47.7	50.5	52.3	
10	Tea-marketed production	('000 tonnes)	293.7	324.6	328.5	310.6	369.6	
11	Fresh Horticultural Produce exports	('000 tonnes)	133.2	145.6	163.2	163.2	192.2	
12	Maize-marketed centrally	('000 tonnes)	280.5	448.5	416.2	470.7	508.8	
13	Wheat-marketed centrally	('000 tonnes)	72.0	84.1	122.6	106.1	107.5	
14	Sugar-cane production	('000 tonnes)	4,204.1	4,661.0	4,800.8	4,932.8	5,204.2	
15	Milk sold centrally	(Mn litres)	203.0	274.0	340.0	361.0	423.0	
16	Manufacturing output	(KSh Mn)	384,256	444,648	499,767	557,373	581,438	
17	Construction output	(KSh Mn)	108,645	126,102	144,497	166,188	191,296	
18	Cement Consumption	('000 tonnes)	1,267.0	1,418.3	1,572.5	1,765.8	2,061.4	
19	Petroleum Consumption	('000 tonnes)	2,128.7	2,374.6	2,715.9	3,038.2	3,121.8	
20	Electricity consumption	(GWh)	3,910.4	4,234.1	4,498.4	4,752.4	5,156.6	
21	Tourism earnings*****	(KSh Mn)	26,382	38,457	48,874	56,200	65,450	
22	New registration of vehicles	(number)	33,768	42,482	45,653	52,817	85,324	
23	Rail freight	(`000 tonnes)	1,999	1,890	2,000	1,891	2,304	
24	Air passengers handled	('000)	4,747.0	5,450.0	5,905.0	6,324.0	7,039.1	
25	Wage employment	('000)	1,727.3	1,763.7	1,808.7	1,859.7	1,907.3	
26	Education-primary enrolment	('000)	7,159.5	7,394.8	7,591.5	7,632.1	8,229.3	
27	Education-secondary enrolment	('000)	882.5	923.1	934.1	1,038.1	1,180.3	
28	Education-University enrolment	('000)	82.0	91.5	92.3	112.2	118.2	
29	Education-other post secondary enrolment*	('000)	77.5	87.6	90.7	99.3	105.4	
31	Registered doctors and dentists	(number)	5,585	5,857	6,317	6,787	7,202	
32	GDP Per capita (Current):	(KSh)	34,090	37,251	40,401	44,896	48,770	
33	GDP Per capita (Constant):	(Ksh)	31,825	32,458	33,402	34,556	35,939	
34	Net lending/borrowing (% of GDP) at Current Market Prices	(Percent)	-1.6	-0.5	-1.7	-0.9	-6.2	
35	Net lending/borrowing	(KSh Mn)	-17,765.3	5,719.2	-24,320.2	-14,983.7	-111,632.3	
36	Recurrent Revenue and Grants	(KSh Mn)	270,920.2	303,845.0	329,486.0	388,832.2	472,123.6	
37	Total Expenditure	(KSh Mn)	376,176.7	379,665.6	430,745.4	476,347.6	711,131.4	
38	External Debt Service Charge as % of GDP***	(Percent)	2.8	2.1	1.1	1.1	1.0	
39	External Debt Service as % of Exports of Goods & Services	(Percent)	11.5	7.9	3.9	4.0	3.8	
	INDEX NUMBERS: (1982=100)							2003-2007 Annual % Rate of change
	Export volumes		260.0	296.1	317.7	256.0	278.7	1.8
	Import volumes		205.4	245.6	254.1	238.3	270.1	7.1
	Terms of trade		81.3	77.4	71.8	72.0	69.6	-3.8
	NSE 20 Share: (1966=100)		2738	2946	3973	5646	5445	98.9
	Consumer prices+		146.7	163.7	180.6	206.7	226.9	11.5
	Real wages		111.4	122.4	125.4	127.0	126.6	3.2
	Agriculture terms of trade: (2001 =100)		92.5	89.2	78.8	79.5	74.4	-5.3

* 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 recorded a growth of 5.2 per cent in 2007 despite the turbulence that was experienced in the financial markets. This was however lower compared to the 5.4 per cent growth registered in 2006. The major contributors to the growth were China, emerging markets and developing countries. This was primarily due to high overall domestic demand with China, India and Russia accounting for half of the global growth. The contribution of the United States to the global economy was subdued by the difficulties in the mortgage market and higher energy prices.

1.2. Inflation during this period registered mixed performance across countries and regions. In the advanced economies, a rate of 2.3 per cent was recorded in 2007 compared to 2.2 per cent in 2006. At the same time, it rose to around 5 per cent in developing countries and emerging markets. The situation in the latter was mainly attributed to rising demand for commodities and the high energy and commodity prices in a majority of the countries.

1.3. Globalisation and technological advancement were major contributors to the overall economic growth. The latter has been thought to be responsible for the rising inequalities between income groups, having prompted a fall in income share of the lower quintile and a rise in the upper quintile.

1.4. Oil prices continued on the upward trend due to a strong demand that was not matched by increased production in the Organisation of Petroleum Exporting Countries (OPEC). This scenario, coupled with the volatile political situation in some oil producing countries further aggravated the situation.

1.5. During the year under review, the global economy experienced instability in the financial market. However the effect of the crises was marginal due to strong performance of the emerging markets. In the money markets, the major currencies recorded mixed performance with both the Euro and the Japanese Yen appreciating while the US Dollar continued to weaken. China's current account surplus widened while her international reserves went up.

Country/ Regional Analysis

1.6. Table 1.1 highlights some economic indicators for the key Organisation for Economic Co-operation and Development (OECD) countries for the last three years and projections for 2008 and 2009. The table reveals that real GDP growth in the OECD countries dropped from 3.1 per cent in 2006 to 2.7 per cent in 2007. The drop was mainly due to the financial turmoil, high oil prices and falling mortgage prices especially in the United States.

Table 1.1: Changes in key Economic Indicators and Projections for Selected OECD Countries

		2005	2006	2007*	2008[1]	2009[1]
Real GDP						Per cent
	United States	3.1	2.9	2.2	2.0	2.2
	Japan	1.9	2.2	1.9	1.6	1.8
	Euro area	1.6	2.9	2.6	1.9	2.0
	Total OECD	**2.6**	**3.1**	**2.7**	**2.3**	**2.4**
Real Total Domestic Demand						Per cent
	United States	3.5	2.9	1.9	1.4	2.1
	Japan	1.7	1.3	0.9	0.8	1.3
	Euro area	1.8	2.5	2.3	2.0	2.0
	Total OECD	**2.9**	**3.0**	**2.5**	**2.1**	**2.4**
Inflation (GDP Deflator)						Per cent
	United States	3.0	2.9	2.6	2.1	2.0
	Japan	-1.4	-1.0	-0.5	-0.3	0.3
	Euro area	1.9	1.8	2.2	2.2	2.3
	Total OECD	**2.1**	**2.2**	**2.3**	**2.1**	**2.1**
Current Account Balances			(US $ Billion)			
	United States	-755.0	-811.0	-769.0	-775.0	-794.0
	Japan	166.0	171.0	206.0	229.0	254.0
	Euro area	28.0	-2.0	18.0	-13.0	-22.0
	Total OECD	**-546.0**	**-660.0**	**-583.0**	**-613.0**	**-650.0**
Unemployment						Per cent
	United States	5.1	4.6	4.6	5.0	5.0
	Japan	4.4	4.2	3.8	3.7	3.6
	Euro area	8.6	7.9	6.8	6.4	6.4
	Total OECD	**6.5**	**6.0**	**5.4**	**5.4**	**5.3**
		Per cent				
World Trade		**7.7**	**9.6**	**7.7**	**7.0**	**8.1**	**8.1**

Source: OECD Economic Outlook no. 82 December, 2007

*Provisional

[1] Projections

Notes:

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

Assumptions underlying the projections include:

- no change in actual and announced fiscal policies
- unchanged exchange rates as from 12th November 2007; in particular 1USD=109.38 Yen and 0.69 Euros;
- The cut off date for other information used in the compilation of the projections was 20th November 2007.

1.7. United States: In 2007 real GDP was estimated to have grown by 2.2 per cent, reflecting a continued deceleration from 3.1 per cent to 2.9 per cent growth recorded in 2005 and 2006, respectively. The poor performance was largely attributed to the dismal performance in the housing sector, which contracted sharply since mid-2005 due to low prices. This had a spill-over effect in the financial market, mainly in the mortgage-backed securities as investors showed greater aversion to risk taking. Inflation levels dropped marginally from 2.9 per cent in 2006 to 2.6 per cent in 2007.

1.8. Japan: The economy experienced a slower growth, dropping slightly from 2.2 per cent in 2006 to 1.9 per cent in 2007. The contraction was mainly due to the declines in investment and weaker consumption growth. However despite this unemployment levels eased from 4.2 per cent in 2006 to 3.8 per cent in 2007, mainly as a result of a strong manufacturing sector. The country has yet to beat deflation, having only reduced it from -1.0 per cent to -0.5 per cent.

1.9. Euro Area: Real GDP growth dropped marginally from 2.9 per cent in 2006 to 2.6 per cent in 2007. This was mainly occasioned by higher interest rates, stronger Euro and acceleration in investment spending. The growth was mainly driven by exports, investments and industrial production. The labour market improved significantly where unemployment rates fell from 7.9 per cent in 2006 to 6.8 per cent in 2007. This drop was mainly attributed to structural reforms in support of older workers, reduction in labour taxation and higher net immigration. Inflation went up from 1.8 per cent in 2006 to 2.2 per cent in 2007 mainly as a result of higher energy and food prices.

1.20. Germany: The economy recorded a growth of 2.4 per cent in 2007 compared to 2.9 per cent in 2006. The slower expansion was mainly attributed to the recent financial turbulence and diminishing contribution from net exports that were not fully matched by private consumption. The growth was, however, mainly driven by exports and equipment investment. Unemployment levels declined significantly from 8.1 per cent in 2006 to 6.4 per cent in 2007 mainly due to the reforms in the employment of older workers.

1.21. United Kingdom: Real GDP growth rose from 2.8 per cent in 2006 to 3.1 per cent in 2007. The growth was particularly spurred by the services sector and strong domestic consumption. In addition, the housing sector experienced a boom and rapid price increases in residential investment. This led to a rise in inflation rates that went up from 2.6 per cent in 2006 to 3.2 per cent in 2007.

1.22. Canada: The economy grew at a slower rate of 2.5 per cent in 2007 compared to 2.8 per cent recorded in 2006. This drop was largely attributed to external developments such as rise in the exchange rates especially against the US dollar and the weaker performance of the US economy which subdued Canadian exports. The growth experienced in 2007 was supported by higher domestic private consumption and strong investments in non-residential buildings. Inflation rose from 2.4 per cent in 2006 to 3.6 per cent in 2007 mainly due to increasing energy prices though the impact was partially mitigated by the currency appreciation.

1.23. France: The economy experienced a slight slowdown from 2.0 per cent in 2006 to 1.9 per cent in 2007. The main causes of reduced growth were lowered private consumption and residential investments. Real exports and imports decelerated over the same period. The labour market remained strong as witnessed by the reduction in unemployment rates from 8.8 per cent in 2006 to 8.0 per cent in 2007.

1.24. Brazil: The economy which grew by 3.7 per cent in 2006 further accelerated to 4.4 per cent in 2007. This was occasioned by higher private consumption, expansion of investment, robust export performance, credit growth and improved labour-market conditions. Inflation rates rose from 3.1 per cent in 2006 to 3.9 per cent in 2007, largely due to temporary hikes in food prices. The currency appreciated against the dollar as a result of foreign exchange inflows and this helped to contain inflation.

1.25. China: Economic growth accelerated from 11.1 per cent in 2006 to 11.5 per cent in 2007. The growth was mainly fuelled by strong net foreign balance and the growing domestic investment in heavy industries. The country maintained a strong balance sheet by recording a current account surplus of USD 350 billion or equivalent to 11.3 per cent of GDP. This was mainly attributed to tightening of fiscal policy that resulted in revenues growing at 10 percentage points higher than expenditure over the same period. Level of inflation increased from 3.1 per cent in 2006 to 4.4 per cent in 2007 mostly on account of higher food prices and expansion in credit.

1.26. Russian Federation: Real GDP growth accelerated from 7.7 per cent in 2006 to 7.8 per cent in 2007, mainly stimulated by rapidly rising real wages and fixed investments and credit to households. Inflation rate has been on the upward trend mainly due to higher food prices, tightening of the labour market and an increased money supply.

1.27. Emerging Asian Economies: In 2007 the regional economy is estimated to have grown at the same pace of 9.8 per cent, recorded in 2006. The expansion was mainly driven by growth in larger markets like China and India where higher domestic demand and exports underpinned growth. Other countries such as Singapore, Philippines, South Korea and Indonesia also had impressive performances. The political upheavals in Thailand impacted negatively on the economy due to lowered investor confidence.

1.28. Africa: The economic growth is estimated to have increased marginally from 5.6 per cent in 2006 to 5.7 per cent in 2007 as shown in Table 1.2. This growth can be attributed to various factors notably buoyant commodity markets and strengthened domestic sources of growth. The Sub-Saharan region's economy was boosted by the new production facilities in oil-exporting

countries such as Angola and Nigeria. Other countries were estimated to have maintained relatively strong growths except Zimbabwe whose economy declined, with growth rates falling further from negative 4.8 per cent in 2006 to negative 6.2 per cent in 2007. Similarly, Zimbabwe's inflation level remained an outlier in the continent. Key to Africa growth is the implementation of macroeconomic and microeconomic reforms which resulted in a generally improved business environment and investment climate.

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

	Real GDP				Consumer Prices[2]				Current Account Balances[3]			
	2005	2006	2007*	2008[1]	2005	2006	2007*	2008[1]	2005	2006	2007*	2008[1]
Africa	5.6	5.6	5.7	6.5	6.6	6.3	6.6	6.0	2.0	3.1	-	0.6
Maghreb	4.1	5.2	4.3	5.6	1.5	3.1	3.6	3.4	11.7	14.6	10.4	9.7
Algeria	5.1	3.6	4.8	5.2	1.6	2.5	4.5	4.3	20.7	25.6	19.4	18.4
Morocco	2.4	8.0	2.5	5.9	1.0	3.3	2.5	2.0	2.4	3.4	0.7	0.2
Tunisia	4.0	5.4	6.0	6.2	2.0	4.5	3.0	3.0	-1.1	-2.3	-2.6	-2.7
Sub-Sahara	6.0	5.7	6.1	6.8	8.2	7.3	7.6	6.7	-0.9	-0.3	-3.0	-1.6
Ethiopia	10.2	9.0	10.5	9.6	6.8	12.3	17.8	15.9	-6.8	-10.4	-5.9	-3.0
Sudan	8.6	11.8	11.2	10.7	8.5	7.2	8.0	6.5	-10.7	-14.7	-10.7	-8.5
Congo	6.5	5.1	6.5	8.4	21.4	13.2	17.5	8.8	-10.6	-7.5	-8.1	-10.9
Kenya[4]	5.8	6.4	7.0	-	10.3	14.5	9.8	-	-1.3	-2.1	-4.1	-
Tanzania	6.7	6.2	7.1	7.5	4.4	7.3	5.6	5.0	-4.5	-8.6	-10.6	-10.8
Uganda	6.7	5.4	6.2	6.5	8.0	6.6	7.5	5.1	-2.1	-4.1	-2.4	-6.3
Angola	20.6	18.6	23.1	27.2	23.0	13.3	11.9	8.9	16.8	23.3	7.6	10.7
Zimbabwe[5]	-5.3	-4.8	-6.2	-4.5	237.8	1016.7	16170.2	...	-11.2	-4.0	-0.9	...
Ghana	5.9	6.2	6.3	6.9	15.1	10.9	9.4	8.8	-7.0	-9.7	-9.7	-7.7
Nigeria	7.2	5.6	4.3	8.0	17.8	8.3	5.3	7.4	9.3	12.2	1.8	6.0
Cameroon	2.0	3.8	3.8	5.3	2.0	5.1	2.0	2.7	-3.3	-0.7	-1.5	-3.1
Cote d'voire	1.8	0.9	1.7	3.8	3.9	2.5	2.5	3.0	0.2	3.0	2.6	1.3
South Africa	5.1	5.0	4.7	4.2	3.4	4.7	6.6	6.2	-4.0	-6.5	-6.7	-6.4

Source: World Economic Outlook
*Provisional
[1]Projections
[2]Movements in consumer prices indicated are for annual averages
[3]Percent of GDP
[4]Kenya figures based on SNA93
[5] It was not possible to forecast inflation rates and nominal GDP for Zimbabwe for 2008

1.29. Sub-Saharan Africa recorded a growth of 6.1 per cent in 2007 which was slightly higher than 5.7 per cent reported in 2006. The region continued to experience deteriorating terms of trade implying that economic growth in the region is largely driven by domestic demand. Angola continued to experience the highest real rates of growth in the region, projected at 27.2 per cent in 2008, largely occasioned by oil production.

1.30. The Nigerian economy registered a growth of 4.3 per cent in 2007 compared to 5.6 per cent reported in 2006. This growth was attributed to large terms-of-trade gains due to fuel price increases that were reported in 2007. The country also experienced a surplus in its current account balance due to high oil prices.

1.31. Among Maghreb countries, Tunisia continues to experience growth rate in real GDP which is estimated to have risen to 6.0 per cent in 2007 from the 5.4 per cent in 2006.

1.32. South Africa's economic growth rate continued to decline with an estimated growth rate of 4.7 per cent in 2007. The country has continued to perform well mainly due to increased investments in the corporate sector, mining and an expansion in construction occasioned by preparations for the 2010 world cup to be hosted by the country.

Commodity Prices

1.33. The IMF commodities and energy price index rose substantially from 15.0 per cent in 2006 to 21.0 per cent in 2007. The markets experienced resurgence in oil prices and rising metals and food prices. The oil prices were pushed by the solid demand growth that was outrun by the supply during the year. The recent strong increase in demand for bio-fuel production occasioned higher food prices.

1.34. The United States experienced refinery problems in the second quarter of 2007 with a spill over effect in other regions especially in the Middle East where there was high demand for imports of refined oil products. Oil consumption in Europe and Japan was subdued due to fairer weather conditions that reduced demand for heating oil. There was strong non-OECD consumption, reflecting the rapid growth of the emerging markets.

1.35. The overall non-energy commodity prices increased by 7.0 per cent during the first eight months of 2007. The metal prices rose by about 8.8 per cent over the same period mainly due to high demand especially in China that was coupled by supply problems.

1.36. Food prices rose sharply by 10.5 per cent during January –August 2007 mainly driven by wheat, whose production was adversely affected by weather especially in Australia; soya beans, meat and edible oils. Sugar prices however showed the contrast owing to the strength of supply in Brazil. The higher ethanol production in the United States accounted for a substantial increase of 60 per cent in corn consumption globally. The high food prices benefitted the net producers such as Argentina, Bolivia, South Africa and Chile while many of the poorer African countries such as Benin, Ghana, Niger were net losers.

Outlook

1.37. The global growth is expected to remain strong despite the financial turmoil experienced in 2007 and is projected to expand by 4.8 per cent in 2008, slightly lower than in 2007. The slowdown in growth is mainly on account of the United States, and other countries where the spill over effect is felt particularly in Canada, Mexico and parts of emerging Asian countries. The strong domestic demand in emerging economies coupled by sound policy frameworks in most countries is expected to support global growth.

1.38. Global imbalances and uncertainty in domestic demand prospects in the United States, Europe and Japan are seen as threats to global growth expansion. A number of countries such as emerging Europe and Commonwealth of Independent States are expected to benefit from large foreign direct investments.

1.39. In the United States the economic growth is projected to contract further to 2.0 per cent in 2008 mainly due to the ongoing slump in the mortgage market and higher oil prices. This is expected to increase unemployment rates from 4.6 per cent to 5.0 per cent and ease inflationary pressure from 2.6 per cent to 2.1 per cent in 2007 and 2008 respectively.

1.40. Growth in Japan is projected to decline to 1.6 per cent in 2008 partly attributed to the strong Yen and weaker overseas demand. Deflation is projected to persist in 2008 due to strong corporate investment, structural reforms and lowering of wages since the old are being replaced by younger and lower paid workers.

1.41. Overall, the economies of the Western Europe will continue bearing the impact of the financial turmoil in the United States if it persists in 2008. The tightening of global credit conditions is likely to lead to dampening prospects in the investment and household consumption. The Euro area growth is projected to grow by 1.9 per cent in 2008.

1.42. Unemployment rates in Germany are expected to remain low at 5.7 per cent in 2008 due to the structural reforms supporting older workers. Risks to the economic growth will be the rising food and oil prices and less demand from trading partners and appreciation of the euro currency.

1.43. GDP growth in the United Kingdom is expected to weaken substantially from 3.1 per cent in 2007 to 2.3 per cent in 2008. This is mainly on account of lowered activity in the housing market, less disposable income and the tighter credit controls. Inflation is expected to remain at around 2.5 per cent due to the higher prices of food, oil and imported goods.

1.44. Economic activity in Canada is expected to reduce from 2.5 per cent in 2007 to 2.3 per cent in 2008 mainly due to the weaker prospects in external demand (mainly US), diminished credit availability and currency appreciation. Inflation is expected to reduce from 3.6 per cent in 2008 to 2.6 per cent and further to 2.0 per cent in 2009 mainly due to the currency appreciation.

1.45. In Mexico, the economy is likely to revamp in 2008 mainly as a result of fiscal reforms that are expected to boost business confidence and accelerate private domestic demand. Real GDP is expected to grow by over 4.0 per cent in 2008. The tightening of the monetary stance is expected to moderate inflation at 3.9 per cent in 2008.

1.46. The Chinese economy is expected to remain strong at 10.0 per cent growth in 2008 mainly boosted by expected high consumption rates and investments. The Chinese government is however attempting to slow down the growth by raising bank interest rates in fear of stimulating demand and sparking more generalized inflation. Inflation rate is projected to increase from 4.4 per cent in 2007 to 4.5 per cent in 2008 on account of increase of regulated oil-product prices by 10 per cent.

1.47. Africa's economic performance is projected to grow at 6.5 per cent in 2008. However, the continent faces challenges including the appreciation of many currencies of its countries which erodes export competitiveness and inflationary pressures emerging from the rise in fuel and oil prices. The internal conflicts witnessed in the Democratic Republic of Congo, and post-election violence in Kenya took a toll in undermining investor confidence while at the same time adversely affecting tourism and agriculture sectors mainly. These conflicts also affected the neighboring countries like Uganda.

Chapter 2
Domestic Economy

Overview of the Economic Performance

Kenya's economy has been on a recovery path since 2003, after a slump in the late 1990s and early 2000s. The renewed expansion has mainly been on account of the economy's resilience, improved business confidence, stable macro-economic environment, and a rebound of the global economy. Real Gross Domestic Product (GDP) is estimated to have expanded by 7.0 per cent in 2007 compared to a revised growth of 6.4 per cent in 2006. Sectors that recorded remarkable improvements included transport and communication, mining and quarrying, electricity and water, hotels and restaurants. The overall inflation in 2007 decreased from 14.5 per cent in 2006 to 9.8 per cent in 2007. This decline in inflation was mainly attributed to reduction in food prices, appreciation of the Kenya shilling, and a sound monetary policy framework.

2.2. In the financial sector, broad money supply grew by 19.1 per cent in 2007 compared to 17.1 per cent in 2006. Liquidity in the banking system reduced to 41.0 per cent while advances to deposits ratio reduced from 77.0 per cent in 2006 to 73.0 per cent as at December 2007. Net foreign assets increased to KSh 256.7 billion in 2007, a 22.5 per cent growth. There was a notable increase in private domestic credit from KSh 465.3 billion in 2006 to KSh 533.8 billion in 2007. Interest rates edged up slightly with the 91 day treasury bills rate rising by 1.04 percentage points to 6.87 percentage points over the twelve months to December 2006. In 2007 the equities market registered vibrant activity with market capitalisation rising by 7.5 per cent from KSh 792 billion in December 2006 to KSh 851 billion in December 2007.

2.3. Total Central Government revenue including grants is expected to have increased by 21.4 per cent from KSh 388.8 billion in 2006/07 to KSh 472.1 billion in 2007/08 while the expenditure is expected to record a 39.0 per cent increase to stand at KSh 486.0 billion in 2007/08. Total expenditure by the Local Authorities is also expected to go up from KSh 20.2 billion in 2006/07 to KSh 23.1 billion in 2007/08, with Nairobi City Council (NCC) accounting for 36.6 per cent of this expenditure.

2.4. The overall balance of payments continued to record a surplus that reached KSh 63,250 million in 2007 compared to KSh 44,446 million in 2006. This expansion was mainly due to increased foreign exchange reserves. The capital and financial account increased by KSh 95,366 million to stand at a surplus of KSh 159,146 million. However, the current account balance deteriorated almost two fold to a deficit of KSh 61,042 million in 2007 from a deficit of KSh 34,523 million in 2006, mainly due to widening deficit of the visible balance in merchandise trade. The value of domestic exports increased by 14.7 per cent from KSh 228,181 million in 2006 to KSh 261,626 million in 2007, while imports grew relatively faster at the rate of 16.0 per cent in the same period. The invisible trade inflows increased by 6.2 per cent mainly due to increased earnings in tourism and a vibrant transport and communications sector.

Sectoral Analysis

Agriculture

2.5. Agriculture and forestry sector recorded a slower growth of 2.3 per cent in 2007 compared to a growth of 4.4 per cent in 2006. This was due to the delay in the long rains and low volume of short rains, which mainly affected the production of maize and beans. However, there were notable growths in the horticultural, coffee and dairy sub-sectors.

2.6. The value of marketed cereals rose by 12.2 per cent from KSh 13,086.8 million in 2006 to KSh 14,686.4 million in 2007. However, maize production is estimated to have declined to 32.5 million bags in 2007 from an output of 34.5 million bags in 2006. The value of marketed maize increased by 11.1 per cent in 2007 to stand at KSh 7,969.2 million.

2.7. The value of marketed horticultural produce increased by 51.2 per cent from KSh 43,120.8 million in 2006 to KSh 65,209.9 million in 2007. The increase in exports was due to high production and prices of cut flowers that accounted for about 65.0 per cent of the total export value of all horticultural products.

2.8. Coffee production increased by 10.6 per cent in 2006/07 crop year to record 53.4 thousand tonnes, while the volume of tea exports increased to 345 thousand tonnes in 2007 from 313 thousand tonnes in 2006. However the value of tea exports dropped from KSh 47.29 billion in 2006 to KSh 43.14 billion in 2007 due to the strengthening of the Kenya Shilling and low prices at the international markets.

2.9. The value of dairy produce recorded an increase of 30.3 per cent in 2007 to stand at KSh 8,462.2 million. This rise is attributed to increased production of dairy products during the year under review. On the other hand, the number of cattle and calves slaughtered declined by 10.0 per cent possibly as a result of the incidence of Rift Valley Fever that affected some parts of the country.

Fishing

2.10. The total freshwater and marine fish landed increased by 5.4 per cent from 158,670 tonnes in 2006 to 167,221 tonnes in 2007. The sector's gross value added recorded a growth of 5.4 per cent in 2007 mainly due to increase in fish landed from Lake Victoria.

Manufacturing

2.11. The sector contributes about a tenth of the gross domestic product and is also one of the key employers within the formal sector. The sector's real value added grew by 6.2 per cent in 2007 compared to 6.3 per cent in 2006. This expansion was primarily driven by manufacture of beverages, grain mill products, cement, coffee, and cigarette. Increased activity in the sector was mirrored in the consumption of electricity.

2.13. Since 2003, the sector has shown improved growth resulting from enhanced power supply, increased market opportunities within the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA), favourable tax reforms and other incentives. The value of total exports to EAC and COMESA markets increased by 20.8 per cent and

14.3 per cent, respectively in 2007.

Electricity and Water

2.12. The sector recorded a high value added growth of 9.2 per cent compared to a decline of 1.4 per cent the previous year. This performance was mainly buoyed by heavy rains experienced in 2007, which enabled production of higher proportion of hydroelectricity that is much cheaper compared to thermal. The total electricity generation grew by 7.3 per cent from 5,894.9 GWh in 2006 to 6,324.6 GWh in 2007. This increase was largely due to improved electricity production. Total installed capacity rose from 1,177.1 MW in 2006 to 1,196.6 MW in 2007 representing an increase of 1.7 per cent.

Building and Construction

2.13. The sector sustained the impressive performance that begun in 2004 registering value added growths of 6.3 per cent and 6.9 per cent in 2006 and 2007, respectively. The improved growth was largely occasioned by a boom in the housing sector, in response to attractive interest rates by banks during this period. Loans and advances from commercial banks to the sector amounted to KSh 31,576 million in 2007, an increase of 4.5 per cent from the previous year. In addition, on-going rehabilitation and construction of new roads made a significant contribution to sustain the growth momentum in the sector. This growth was also consistent with the upshot in cement consumption which increased from 1,765.8 thousand tonnes in 2006 to 2,061.4 thousand tonnes.

Transport and Communication

2.14. Transport and communication sector continued on an upward trend for the fourth consecutive year recording a growth of 14.9 per cent in 2007 compared to 11.4 per cent in 2006. The main driver in the sector remained the post and telecommunications sub sector which recorded the highest growth of 31.6 per cent in the year under review. The mobile phone industry which was the main contributor of this sub sector expanded further its subscriber base by 4.1 million to 11.4 million in 2007. Introduction of the revolutionary money transfer service using of cell phones further boosted the growth of the industry. Registration of new motor vehicles recorded a significant growth of 61.5 per cent following the registration of 85,324 vehicles compared to 52,817 in 2006.

Hotels and Restaurants

2.15. The sector remained vibrant growing by 16.3 per cent in 2007 compared to a revised growth of 14.9 per cent the previous year. This is attributed to continued aggressive marketing in traditional markets and the Far East which made the number of international arrivals increase by 13.5 per cent and the promotion of domestic tourism and conferencing services. Tourism earnings rose to KSh 65.4 billion in 2007, representing a 15.4 per cent increase from the previous year.

Financial Intermediation

2.16. The financial sector has been on upward trend since 2003 mainly on account of improved public access to financial services due to stiff competition within the industry and increased awareness and participation in the capital markets. In 2007 the sector recorded growth of 6.5 per cent compared to 5.5 per cent in 2006. This growth was mainly supported by increase in domestic credit, loans and deposits during the period under review.

Mining and Quarrying

2.17. The sector recorded a substantial increase in real value added growth, expanding rapidly from 4.1 per cent to 12.9 per cent in 2006 and 2007, respectively. The expansion was largely driven by good performance in the construction sector that resulted in higher demand for quarrying products. Increased activity in gold mining also prompted the rise in the sector's overall output, with mineral production increasing by 11.2 per cent from 1,213.8 thousand tonnes in 2006 to 1,349.5 thousand tonnes in 2007.

Gross Value Added by Activity

2.18. The breakdown of the nominal Gross Value Added by activity and their percentage contributions are shown in Tables 2.1 and 2.2 respectively. The economy recorded a growth of 11.9 per cent in GDP at current prices from KSh 1,620.7 billion in 2006 to KSh 1,814.2 billion in 2007. Agriculture, Transport and communication, manufacturing, Taxes on products and the distributive trade continued to be the key contributors to the economy as their total contribution account for 65.1 per cent of the GDP. Agriculture and forestry sector continued to be the highest contributor although its share declined from 23.4 per cent in 2006 to 22.7 per cent in 2007. The share of the manufacturing sector in GDP remained stable at an average of 10.0 per cent over the last three years despite a slight decline in 2007. The service sectors have been recording notable growths in their share contribution with transport and communication taking lead followed by distributive trade. The steady expansion of the telecommunication sub sector has contributed to the rise in the overall share of the transport and communication sector to the economy.

Table 2.1: Gross Domestic Product by Activity+

Current Prices -KSh million

Industry	2003	2004	2005	2006	2007*
Agriculture and forestry	286,311	311,275	336,806	378,829	410,967
Growing of crops and horticulture	197,813	221,824	242,153	274,630	297,871
Farming of animals	71,536	70,927	73,549	80,931	89,105
Agricultural and animal husbandry services	3,856	4,303	5,771	7,115	7,963
Forestry and logging	13,106	14,221	15,333	16,154	16,028
Fishing	5,739	6,403	6,313	7,068	7,193
Mining and quarrying	5,936	6,174	6,803	7,884	12,904
Manufacturing	109,885	127,443	149,067	166,404	176,610
Manufacture of food, beverages and tobacco	33,613	38,180	43,203	48,664	56,420
All other manufacturing	76,272	89,263	105,864	117,740	120,190
Electricity and water supply	23,330	24,810	28,766	29,027	28,105
Electricity supply	15,417	15,896	18,733	17,397	15,908
Water supply	7,913	8,914	10,033	11,629	12,197
Construction	37,669	48,079	56,121	63,927	69,279
Wholesale and retail trade, repairs	98,589	117,356	130,468	151,414	176,575
Hotels and restaurants	10,708	16,086	19,357	24,207	29,605
Transport and communication	104,684	125,727	147,523	182,936	207,300
Transport and storage	76,177	95,560	109,281	133,165	143,463
Post and telecommunications	28,507	30,167	38,242	49,771	63,836
Financial intermediation	48,921	44,343	48,364	62,922	84,871
Real estate, renting and business services	67,316	72,702	79,015	90,060	99,002
Dwellings, owner occupied and rented	33,970	36,394	39,348	46,775	51,779
Renting and business services	33,346	36,308	39,667	43,285	47,223
Public administration and defence	46,433	53,672	64,178	73,359	79,466
Education	90,431	99,852	103,664	111,574	125,281
Health and social work	30,172	33,199	37,059	41,151	44,708
Other community, social and personal services	45,488	49,205	53,407	58,305	63,497
Private households with employed persons	4,561	5,224	5,787	6,770	7,176
Less: Financial services indirectly measured	-10,111	-9,052	-11,514	-15,376	-19,365
All industries at basic prices	1,006,062	1,132,497	1,261,183	1,440,460	1,603,176
Taxes less subsidies on products	125,721	141,478	156,888	180,272	211,067
GDP at market prices	1,131,783	1,273,975	1,418,071	1,620,732	1,814,243

Institutional sector and industry	2003	2004	2005	2006	2007
Corporations, non-profit institutions and households					
Agriculture and forestry	282,269	306,913	331,057	372,115	403,774
Fishing	5,739	6,403	6,313	7,068	7,193
Mining and quarrying	5,936	6,174	6,803	7,884	12,904
Manufacturing	109,885	127,443	149,067	166,404	176,610
Electricity and water supply	21,575	23,012	26,660	26,641	25,533
Construction	34,225	42,329	51,794	62,624	67,933
Wholesale and retail trade, repairs	98,589	117,356	130,468	151,414	176,575
Hotels and restaurants	10,708	16,086	19,357	24,207	29,605
Transport, and communication	101,711	123,383	144,297	178,839	203,097
Financial intermediation	48,921	44,343	48,364	62,922	84,871
Dwellings, owner occupied and rented	33,970	36,394	39,348	46,775	51,779
Other real estate and business services	32,599	35,779	39,470	43,136	47,042
Education	8,211	8,954	9,804	11,745	13,698
Health and social work	17,039	18,424	19,989	21,640	23,605
Other community, social and personal services	42,647	46,245	50,157	54,603	59,265
Private households with employed persons	4,561	5,224	5,787	6,770	7,176
Less: Financial services indirectly measured	-10,111	-9,052	-11,514	-15,376	-19,365
Total value added at basic prices	848,473	955,409	1,067,220	1,229,411	1,371,297
General government					
Agriculture and forestry	4,043	4,362	5,749	6,714	7,193
Water supply	1,756	1,798	2,105	2,385	2,572
Construction	3,443	5,750	4,327	1,303	1,346
Transport, and communication	2,972	2,344	3,227	4,097	4,203
Resaearch and technical services	748	529	197	149	181
Public administartion and defence	46,433	53,672	64,178	73,359	79,466
Education	82,220	90,898	93,860	99,829	111,583
Health and social work	13,133	14,775	17,070	19,511	21,104
Other services	2,841	2,960	3,250	3,702	4,232
Total value added at basic prices	157,589	177,088	193,963	211,049	231,879

*Provisional

+Revised

Table 2.2: Percentage contributions to Gross Domestic Product by Activity+

Current Prices

Industry	2003	2004	2005	2006	2007*
Agriculture and forestry	25.3	24.4	23.8	23.4	22.7
Growing of crops and horticulture	17.5	17.4	17.1	16.9	16.4
Farming of animals	6.3	5.6	5.2	5.0	4.9
Agricultural and animal husbandry services	0.3	0.3	0.4	0.4	0.4
Forestry and logging	1.2	1.1	1.1	1.0	0.9
Fishing	0.5	0.5	0.4	0.4	0.4
Mining and quarrying	0.5	0.5	0.5	0.5	0.7
Manufacturing	9.7	10.0	10.5	10.3	9.7
Manufacture of food, beverages and tobacco	3.0	3.0	3.0	3.0	3.1
All other manufacturing	6.7	7.0	7.5	7.3	6.6
Electricity and water supply	2.1	1.9	2.0	1.8	1.5
Electricity supply	1.4	1.2	1.3	1.1	0.9
Water supply	0.7	0.7	0.7	0.7	0.7
Construction	3.3	3.8	4.0	3.9	3.8
Wholesale and retail trade, repairs	8.7	9.2	9.2	9.3	9.7
Hotels and restaurants	0.9	1.3	1.4	1.5	1.6
Transport and communication	9.2	9.9	10.4	11.3	11.4
Transport and storage	6.7	7.5	7.7	8.2	7.9
Post and telecommunications	2.5	2.4	2.7	3.1	3.5
Financial intermediation	4.3	3.5	3.4	3.9	4.7
Real estate, renting and business services	5.9	5.7	5.6	5.6	5.5
Dwellings, owner occupied and rented	3.0	2.9	2.8	2.9	2.9
Renting and business services	2.9	2.8	2.8	2.7	2.6
Public administration and defence	4.1	4.2	4.5	4.5	4.4
Education	8.0	7.8	7.3	6.9	6.9
Health and social work	2.7	2.6	2.6	2.5	2.5
Other community, social and personal services	4.0	3.9	3.8	3.6	3.5
Private households with employed persons	0.4	0.4	0.4	0.4	0.4
Less: Financial services indirectly measured	-0.9	-0.7	-0.8	-0.9	-1.1
All industries at basic prices	88.9	88.9	88.9	88.9	88.4
Taxes less subsidies on products	11.1	11.1	11.1	11.1	11.6
GDP at market prices	100.0	100.0	100.0	100.0	100.0
Corporations, non-profit institutions and household	75.0	75.0	75.3	75.9	75.6
General government	13.9	13.9	13.7	13.0	12.8

*Provisional

+Revised

2.19. Tables 2.3 and 2.4 show the breakdown of real Gross Value Added and the percentage growths respectively. The economy recorded a real growth of 7.0 per cent in 2007 compared to a revised growth of 6.4 per cent in 2006. Agriculture and forestry grew at a decelerated rate of 2.3 per cent in 2007 compared to 4.4 per cent in 2006. This is mainly attributed to the decline in the production of maize and beans during period under review. Wholesale and retail trade sector recorded a stable growth of 11.5 per cent. Transport and communication sector, which comprises of transport and storage, and post and telecommunication sub sectors, recorded a high growth of 14.9 per cent. This growth is attributed to the continued growth in the communication sub sector as it recorded a growth of 31.6 per cent in 2007. Manufacturing sector recorded a growth of 6.2 per cent in 2007 compared to a revised growth of 6.3 per cent in 2006. This growth was mainly attributed to an increase of 9.6 per cent in the manufacture of food, beverages and tobacco. Financial intermediation which mainly comprises of banks and

insurance companies continued to record strong performance as reflected by huge pre-tax profits reported by most firms. The sector grew by 6.5 per cent in 2007 compared to a growth of 5.5 per cent in 2006. Hotels and Restaurants recorded the highest growth of 16.3 per cent in 2007 due to a continued increase in the number of tourist arrivals. Electricity and water sector also recorded a growth of 9.2 per cent in 2007 compared to a decline of 1.4 per cent in 2006. This increase was largely due to improved electricity production from hydro power sources which grew by 18.7 per cent compared to a reduction of 0.5 per cent in 2006. Improved efficiency in tax administration by Kenya Revenue Authority (KRA) has enabled tax collection to increase as the taxes on products grew by 12.4 per cent in 2007.

Table 2.3: Gross Domestic Product by Activity +

Constant 2001prices KSh million

Industry	2003	2004	2005	2006	2007*
Agriculture and forestry	276,089	280,518	299,749	312,820	319,894
Growing of crops and horticulture	193,781	195,255	210,902	221,624	228,370
Farming of animals	67,406	70,342	73,694	76,231	76,828
Agricultural and animal husbandry services	4,012	3,977	3,919	3,850	3,741
Forestry and logging	10,889	10,943	11,234	11,115	10,955
Fishing	4,765	5,246	5,751	6,249	6,588
Mining and quarrying	5,213	5,195	5,334	5,554	6,272
Manufacturing	105,822	110,544	115,698	122,953	130,637
Manufacture of food, beverages and tobacco	31,363	32,235	35,112	38,317	41,996
All other manufacturing	74,458	78,309	80,586	84,636	88,641
Electricity and water supply	27,074	27,877	27,862	27,475	29,999
Electricity supply	20,454	20,954	20,462	19,856	22,208
Water supply	6,620	6,923	7,400	7,619	7,791
Construction	31,530	32,932	35,401	37,648	40,229
Wholesale and retail trade, repairs	92,604	100,486	106,091	118,363	131,948
Hotels and restaurants	9,899	13,741	15,572	17,894	20,814
Transport and communication	104,915	112,260	122,316	136,206	156,458
Transport and storage	73,695	78,372	82,429	88,608	93,814
Post and telecommunications	31,220	33,889	39,887	47,598	62,644
Financial intermediation	42,064	42,657	43,826	46,256	49,240
Real estate, renting and business services	61,864	63,740	65,882	68,421	70,902
Dwellings, owner occupied and rented	30,780	31,987	33,250	34,575	35,964
Renting and business services	31,084	31,753	32,632	33,846	34,938
Public administration and defence	46,991	47,062	46,460	45,722	44,788
Education	71,045	72,268	72,813	73,409	75,240
Health and social work	25,431	26,408	27,249	28,146	29,247
Other community, social and personal services	42,917	44,514	45,829	47,856	49,694
Private households with employed persons	3,855	3,932	4,011	4,091	4,173
Less: Financial services indirectly measured	-10,315	-10,801	-11,261	-11,835	-12,066
All industries at basic prices	**941,763**	**978,579**	**1,028,584**	**1,087,229**	**1,154,058**
All industries excl. agriculture and forestry	665,674	698,061	728,835	774,409	834,164
Taxes less subsidies on products	113,895	130,795	145,143	161,604	181,705
GDP at market prices	**1,055,658**	**1,109,373**	**1,173,727**	**1,248,833**	**1,335,763**
Corporations, non-profit institutions and households					
Agriculture and forestry	271,957	276,448	295,763	308,928	316,214
Fishing	4,765	5,246	5,751	6,249	6,588
Mining and quarrying	5,213	5,195	5,334	5,554	6,272
Manufacturing	105,822	110,544	115,698	122,953	130,637
Electricity and water supply	25,638	26,353	26,082	25,708	28,301
Construction	27,496	28,504	30,694	32,412	34,634
Wholesale and retail trade, repairs	92,604	100,486	106,091	118,363	131,948
Hotels and restaurants	9,899	13,741	15,572	17,894	20,814
Transport, and communication	100,387	107,266	117,182	130,408	149,777
Financial intermediation	42,064	42,657	43,826	46,256	49,240
Dwellings, owner occupied and rented	30,780	31,987	33,250	34,575	35,964
Other real estate and business services	30,401	31,076	31,960	33,180	34,302
Education	7,046	7,220	7,898	8,738	8,327
Health and social work	14,902	15,714	16,358	17,038	17,862
Other community, social and personal services	40,594	42,004	43,082	45,114	46,900
Private households with employed persons	3,855	3,932	4,011	4,091	4,173
Less: Financial services indirectly measured	-10,315	-10,801	-11,261	-11,835	-12,066
Total value added at basic prices	**803,109**	**837,571**	**887,293**	**945,626**	**1,009,885**
General government					
Agriculture and forestry	4,132	4,070	3,986	3,892	3,680
Water supply	1,436	1,525	1,780	1,767	1,699
Construction	4,034	4,427	4,708	5,237	5,595
Transport, and communication	4,528	4,994	5,134	5,797	6,681
Resaearch and technical services	683	678	672	666	637
Public administartion and defence	46,991	47,062	46,460	45,722	44,788
Education	63,999	65,047	64,914	64,671	66,914
Health and social work	10,529	10,693	10,890	11,109	11,385
Other services	2,323	2,510	2,747	2,742	2,795
Total value added at basic prices	**138,654**	**141,008**	**141,292**	**141,603**	**144,173**

*Provisional

+Revised

Table 2.4: Percentage changes in Gross Domestic Product+

Constant 2001 prices

Industry	2003	2004	2005	2006	2007*
Agriculture and forestry	2.6	1.6	6.9	4.4	2.3
Growing of crops and horticulture	4.0	0.8	8.0	5.1	3.0
Farming of animals	-0.8	4.4	4.8	3.4	0.8
Agricultural and animal husbandry services	-0.9	-0.9	-1.5	-1.8	-2.8
Forestry and logging	1.7	0.5	2.7	-1.1	-1.4
Fishing	-6.9	10.1	9.6	8.7	5.4
Mining and quarrying	3.5	-0.4	2.7	4.1	12.9
Manufacturing	6.0	4.5	4.7	6.3	6.2
Manufacture of food, beverages and tobacco	5.5	2.8	8.9	9.1	9.6
All other manufacturing	6.2	5.2	2.9	5.0	4.7
Electricity and water supply	14.0	3.0	-0.1	-1.4	9.2
Electricity supply	18.5	2.4	-2.4	-3.0	11.8
Water supply	2.0	4.6	6.9	3.0	2.3
Construction	1.0	4.4	7.5	6.3	6.9
Wholesale and retail trade, repairs	1.5	8.5	5.6	11.6	11.5
Hotels and restaurants	-20.3	38.8	13.3	14.9	16.3
Transport and communication	3.5	7.0	9.0	11.4	14.9
Transport and storage	3.6	6.3	5.2	7.5	5.9
Post and telecommunications	3.5	8.5	17.7	19.3	31.6
Financial intermediation	1.5	1.4	2.7	5.5	6.5
Real estate, renting and business services	2.3	3.0	3.4	3.9	3.6
Dwellings, owner occupied and rented	3.9	3.9	4.0	4.0	4.0
Renting and business services	0.8	2.2	2.8	3.7	3.2
Public administration and defence	0.6	0.2	-1.3	-1.6	-2.0
Education	9.7	1.7	0.8	0.8	2.5
Health and social work	2.8	3.8	3.2	3.3	3.9
Other community, social and personal services	0.0	3.7	3.0	4.4	3.8
Private households with employed persons	2.0	2.0	2.0	2.0	2.0
Less: Financial services indirectly measured	-3.3	4.7	4.3	5.1	2.0
All industries at basic prices	3.1	3.9	5.1	5.7	6.1
All industries excl. agriculture and forestry	3.3	4.9	4.4	6.3	7.7
Taxes less subsidies on products	1.3	14.8	11.0	11.3	12.4
GDP at market prices	2.9	5.1	5.8	6.4	7.0
Corporations, non-profit institutions and households	3.0	4.3	5.9	6.6	6.8
General government	4.1	1.7	0.2	0.2	1.8

*Provisional

+Revised

Sources of growth

2.20. Table 2.5 presents figures on sources of growth on GDP from the year 2003 to 2007. The major sources of growth for the year 2007 were transport and communication, taxes on products, wholesale and retail trade, and manufacturing which contributed 23.3, 13.2, 15.7 and 8.8 per cent, respectively. The contribution of agriculture as a source of GDP growth continued to dwindle with a drop from 17.4 per cent in 2006 to 8.1 per cent in 2007. The wholesale and retail trade contribution to growth declined slightly during the year to 15.7 per cent in 2007 from 16.3 per cent the previous year. Posts and telecommunication sub sector contribution to growth has risen steadily from 3.5 per cent in 2003 to 17.3 per cent in 2007 mainly due to the increase in mobile telephony. Despite a high growth of 16.3 per cent in the hotels and restaurants industry, the sectors' contribution to the total growth was only 3.4

per cent.

Table 2.5 Sources of Growth+

Percentages

Industry	2003	2004	2005	2006	2007*
Agriculture and forestry	23.3	8.2	29.9	17.4	8.1
Growing of crops and horticulture	24.7	2.7	24.3	14.3	7.8
Farming of animals	-1.9	5.5	5.2	3.4	0.7
Agricultural and animal husbandry services	-0.1	-0.1	-0.1	-0.1	-0.1
Forestry and logging	0.6	0.1	0.5	-0.2	-0.2
Fishing	-1.2	0.9	0.8	0.7	0.4
Mining and quarrying	0.6	0.0	0.2	0.3	0.8
Manufacturing	19.8	8.8	8.0	9.7	8.8
Manufacture of food, beverages and tobacco	5.4	1.6	4.5	4.3	4.2
All other manufacturing	14.4	7.2	3.5	5.4	4.6
Electricity and water supply	11.1	1.5	0.0	-0.5	2.9
Electricity supply	10.6	0.9	-0.8	-0.8	2.7
Water supply	0.4	0.6	0.7	0.3	0.2
Construction	1.1	2.6	3.8	3.0	3.0
Wholesale and retail trade, repairs	4.6	14.7	8.7	16.3	15.6
Hotels and restaurants	-8.4	7.2	2.8	3.1	3.4
Transport and communication	11.9	13.7	15.6	18.5	23.3
Transport and storage	8.4	8.7	6.3	8.2	6.0
Post and telecommunications	3.5	5.0	9.3	10.3	17.3
Financial intermediation	2.1	1.1	1.8	3.2	3.4
Real estate, renting and business services	4.7	3.5	3.3	3.4	2.9
Dwellings, owner occupied and rented	3.8	2.2	2.0	1.8	1.6
Renting and business services	0.9	1.2	1.4	1.6	1.3
Public administration and defence	0.9	0.1	-0.9	-1.0	-1.1
Education	20.9	2.3	0.8	0.8	2.1
Health and social work	2.3	1.8	1.3	1.2	1.3
Other community, social and personal services	0.0	3.0	2.0	2.7	2.1
Private households with employed persons	0.3	0.1	0.1	0.1	0.1
Less: Financial services indirectly measured	1.2	-0.9	-0.7	-0.8	-0.3
All industries at basic prices	95.0	68.5	77.7	78.1	76.9
All industries excl. agriculture and forestry	71.7	60.3	47.8	60.7	68.7
Taxes less subsidies on products	5.0	31.5	22.3	21.9	23.1
GDP at market prices	100.0	100.0	100.0	100.0	100.0

*Provisional

+Revised

Production Accounts by Industry.

2.21. Table 2.6 presents annual production accounts by industry. The total output from all industries at basic prices rose from KSh 2,713.5 billion in 2006 to KSh 3,041.4 billion in 2007. Taxes on products also increased from KSh 180.3 billion in 2006 to KSh 211.1 billion in 2007. The components of the production account, which comprises output, intermediate consumption and value added as well as compensation of employees and the operating surplus/mixed income went up in almost all the economic activities.

Table 2.6: Annual production accounts by industry+

Current Prices KSh million

Industry	2003	2004	2005	2006	2007*
Agriculture and forestry					
Output at basic prices	360,773	396,096	437,726	490,090	532,499
Intermediate consumption	74,461	84,821	100,920	111,261	121,531
Gross value added at basic prices	286,311	311,275	336,806	378,829	410,967
Compensation of employees	37,860	41,921	46,629	52,981	54,386
Gross operating surplus/mixed income	248,452	269,353	290,177	325,848	356,582
Fishing					
Output at basic prices	7,652	8,537	8,417	9,423	9,591
Intermediate consumption	1,913	2,134	2,104	2,356	2,398
Gross value added at basic prices	5,739	6,403	6,313	7,068	7,193
Compensation of employees	765	854	842	942	959
Gross operating surplus/mixed income	4,973	5,549	5,471	6,125	6,234
Mining and quarrying					
Output at basic prices	10,814	11,930	12,898	14,631	20,233
Intermediate consumption	4,877	5,756	6,095	6,747	7,329
Gross value added at basic prices	5,936	6,174	6,803	7,884	12,904
Compensation of employees	3,240	3,478	3,798	4,289	5,831
Gross operating surplus/mixed income	2,697	2,696	3,005	3,595	7,073
Manufacturing					
Output at basic prices	384,256	444,648	499,765	558,311	603,695
Intermediate consumption	274,371	317,206	350,697	391,908	427,085
Gross value added at basic prices	109,885	127,443	149,067	166,404	176,610
Compensation of employees	42,703	46,791	50,734	57,866	57,262
Gross operating surplus/mixed income	67,183	80,651	98,334	108,538	119,349
Electricity and water					
Output at basic prices	33,105	36,908	43,644	50,510	53,495
Intermediate consumption	9,774	12,098	14,879	21,484	25,390
Gross value added at basic prices	23,330	24,810	28,766	29,027	28,105
Compensation of employees	8,180	8,345	9,617	11,043	11,146
Gross operating surplus/mixed income	15,151	16,465	19,148	17,984	16,959
Construction					
Output at basic prices	108,645	126,102	144,491	166,188	191,296
Intermediate consumption	70,976	78,023	88,370	102,260	122,017
Gross value added at basic prices	37,669	48,079	56,121	63,927	69,279
Compensation of employees	13,461	16,846	16,253	14,776	16,175
Gross operating surplus/mixed income	24,207	31,233	39,868	49,152	53,105
Wholesale and retail trade, repairs					
Output at basic prices	215,063	256,066	284,665	330,324	385,130
Intermediate consumption	116,473	138,710	154,197	178,910	208,555
Gross value added at basic prices	98,589	117,356	130,468	151,414	176,575
Compensation of employees	64,863	74,369	83,383	98,242	102,868
Gross operating surplus/mixed income	33,727	42,987	47,086	53,172	73,706
Hotels and restaurants					
Output at basic prices	33,420	49,526	59,521	74,509	91,027
Intermediate consumption	22,712	33,441	40,164	50,301	61,422
Gross value added at basic prices	10,708	16,086	19,357	24,207	29,605
Compensation of employees	5,319	8,010	9,670	12,185	14,974
Gross operating surplus/mixed income	5,388	8,075	9,687	12,022	14,631
Transport and communication					
Output at basic prices	235,656	288,664	332,231	398,370	441,836
Intermediate consumption	130,972	162,936	184,708	215,434	234,536
Gross value added at basic prices	104,684	125,727	147,523	182,936	207,300
Compensation of employees	51,315	59,287	65,290	78,325	83,132
Gross operating surplus/mixed income	53,369	66,440	82,233	104,611	124,168

Table 2.6: Cont'd — Current Prices KSh million

Industry	2003	2004	2005	2006	2007*
Financial intermediation					
Output at basic prices	72,167	69,398	76,846	98,754	136,240
Intermediate consumption	23,246	25,055	28,482	35,832	51,369
Gross value added at basic prices	48,921	44,343	48,364	62,922	84,871
Compensation of employees	22,657	23,557	25,785	33,324	38,726
Gross operating surplus/mixed income	26,263	20,786	22,579	29,598	46,145
Finance, real estate and business services					
Output at basic prices	81,820	88,517	96,289	109,748	120,770
Intermediate consumption	14,505	15,815	17,274	19,688	21,768
Gross value added at basic prices	67,316	72,702	79,015	90,060	99,002
Compensation of employees	18,089	19,636	21,329	23,327	25,413
Gross operating surplus/mixed income	49,227	53,066	57,686	66,733	73,589
Public administration and defence					
Output at basic prices	89,877	98,075	107,106	118,320	125,990
Intermediate consumption	43,444	44,403	42,929	44,960	46,524
Gross value added at basic prices	46,433	53,672	64,178	73,359	79,466
Compensation of employees	31,422	36,717	46,157	53,677	57,883
Gross operating surplus/mixed income	15,011	16,955	18,021	19,682	21,582
Education					
Output at basic prices	111,913	124,469	130,127	140,507	159,575
Intermediate consumption	21,483	24,617	26,463	28,933	34,294
Gross value added at basic prices	90,431	99,852	103,664	111,574	125,281
Other subsidies	9,030	9,874	11,385	12,897	14,882
Compensation of employees	79,282	87,585	89,735	95,899	107,353
Gross operating surplus/mixed income	2,118	2,392	2,543	2,777	3,045
Health and social work					
Output at basic prices	40,597	45,436	51,426	57,879	65,275
Intermediate consumption	10,424	12,237	14,367	16,728	20,567
Gross value added at basic prices	30,172	33,199	37,059	41,151	44,708
Compensation of employees	19,860	22,464	25,874	29,191	31,818
Gross operating surplus/mixed income	10,313	10,735	11,184	11,960	12,891
Other community, social and personal services					
Output at basic prices	74,179	80,526	87,126	95,969	104,730
Intermediate consumption	24,130	26,097	27,932	30,894	34,056
Gross value added at basic prices	50,049	54,429	59,194	65,074	70,674
Compensation of employees	21,902	23,907	26,090	29,037	31,559
Gross operating surplus/mixed income	28,147	30,522	33,103	36,038	39,115
Less: Financial services indirectly measured					
Intermediate consumption	10,111	9,052	11,514	15,376	19,365
Gross value added at basic prices	-10,111	-9,052	-11,514	-15,376	-19,365
All industries at basic prices					
Output at basic prices	1,859,935	2,124,898	2,372,278	2,713,534	3,041,382
Intermediate consumption	853,873	992,401	1,111,095	1,273,073	1,438,206
Gross value added at basic prices	1,006,062	1,132,497	1,261,183	1,440,460	1,603,176
Other taxes on production	3,821	2,308	2,086	2,465	2,904
Less: Subsidies	-8,403	-5,252	-335	-233	-1,580
Compensation of employees	420,917	473,768	521,187	595,104	639,483
Gross operating surplus/mixed income	589,728	661,672	738,245	843,124	962,369
Total economy					
Output at basic prices	1,859,935	2,124,898	2,372,278	2,713,534	3,041,382
Taxes on products	125,721	141,478	156,888	180,272	211,067
Intermediate consumption	853,873	992,401	1,111,095	1,273,073	1,438,206
GDP at market prices	1,131,783	1,273,975	1,418,071	1,620,732	1,814,243
Taxes on production and imports	129,542	143,786	158,975	182,737	213,971
Less: Subsidies	-8,403	-5,252	-335	-233	-1,580
Compensation of employees	420,917	473,768	521,187	595,104	639,483
Gross operating surplus/mixed income	589,728	661,672	738,245	843,124	962,369

*Provisional

+Revised

Expenditure on GDP

2.22. Components on expenditure on GDP and their percentage shares in nominal terms are presented in Tables 2.7 and 2.8, respectively. The total gross domestic expenditure at current prices increased by 16.0 per cent in 2007 to stand at KSh 2,063.1 billion. The total share of consumption expenditure of both the government and private increased from 91.7 per cent in 2006 to 93.6 per cent in 2007 with that of private consumption decreasing from around 77.1 per cent in 2003 to 76.4 per cent in 2007. The share of Gross Fixed Capital Formation (GFCF) continued to increase from 15.8 per cent in 2003 to 19.5 per cent in 2007. Net exports of goods and services share to GDP continue to decline further from 10.8 per cent in 2006 to 12.2 per cent in 2007 which is attributed to the faster growth of total imports at 14.3 per cent relative to the exports which grew at 9.4 per cent.

Table 2.7: Expenditure on the Gross Domestic Product+

Current prices - KSh million

Expenditure category	2003	2004	2005	2006	2007*
Government final consumption expenditure	205,207	227,618	246,102	269,214	311,225
Private final consumption expenditure	872,821	961,974	1,066,471	1,217,635	1,385,833
Gross fixed capital formation	179,254	207,196	264,728	309,592	354,173
Changes in inventories	7,288	10,546	-25,282	-18,383	11,900
Gross domestic expenditure	1,264,570	1,407,334	1,552,020	1,778,058	2,063,131
Exports of goods and services	270,118	336,360	396,363	440,788	482,455
Imports of goods and services	339,301	435,844	523,970	615,283	703,386
Discrepancy [1]	-63,604	-33,876	-6,341	17,170	-27,958
Gross domestic product at market prices	1,131,783	1,273,975	1,418,071	1,620,732	1,814,243

[1] Difference between GDP production approach and GDP expenditure approach

*Provisional

+Revised

Table 2.8: Percentage Shares of Expenditure on the Gross Domestic Product+

Current prices - Percentage Shares

Expenditure category	2003	2004	2005	2006	2007*
Government final consumption expenditure	18.1	17.9	17.4	16.6	17.2
Private final consumption expenditure	77.1	75.5	75.2	75.1	76.4
Gross fixed capital formation	15.8	16.3	18.7	19.1	19.5
Changes in inventories	0.6	0.8	-1.8	-1.1	0.7
Gross domestic expenditure	111.7	110.5	109.4	109.7	113.7
Exports of goods and services	23.9	26.4	28.0	27.2	26.6
Imports of goods and services	30.0	34.2	36.9	38.0	38.8
Discrepancy [1]	-5.6	-2.7	-0.4	1.1	-1.5
Gross domestic product at market prices	100.0	100.0	100.0	100.0	100.0

[1] Discrepancy expressed as a percentage of GDP

*Provisional

+Revised

2.23. Tables 2.9 and 2.10 give details of expenditure on GDP in real terms and the growth rates respectively. The total gross domestic expenditure increased by 9.6 per cent from KSh 1,409.7 billion in 2006 to KSh 1,544.7 billion in 2007. The highest growth was witnessed in the additions to fixed assets (GFCF) which recorded a growth of 13.3 per cent in 2007 compared to a growth 18.5 per cent in 2006. Government final consumption expenditure recorded a high growth of 7.2 per cent in 2007 compared to a growth of 1.5 per cent in 2006.

Imports of goods and services recorded a slower growth of 12.7 per cent in 2007 compared to 18.2 per cent in 2006. This increase in imports was due to importation of machineries and equipments in various sectors of the economy. On the other hand, exports of goods and services increased by 6.0 per cent in 2007 compared to a growth of 3.4 per cent in 2006.

Table 2.9: Expenditure on the Gross Domestic Product+

Constant 2001 prices - KSh million

Expenditure category	2003	2004	2005	2006	2007*
Government final consumption expenditure	175,588	176,687	175,553	178,140	190,919
Private final consumption expenditure	836,671	856,624	911,745	980,901	1,052,408
Gross fixed capital formation	160,026	171,764	219,512	260,213	294,907
Changes in inventories including discrepancy	7,892	8,962	-14,857	-9,606	5,866
Gross domestic expenditure	1,180,177	1,214,036	1,291,954	1,409,648	1,544,100
Exports of goods and services	258,588	291,722	319,921	330,713	350,529
Imports of goods and services	306,672	344,436	396,252	468,178	527,838
Discrepancy [1]	-76,436	-51,949	-41,895	-23,350	-31,029
Gross domestic product at market prices	1,055,658	1,109,373	1,173,727	1,248,833	1,335,763

[1] Difference between GDP production approach and GDP expenditure approach

*Provisional

+Revised

Table 2.10: Percentage Change in Expenditure on the Gross Domestic Product+

Constant 2001prices - Per cent change

Expenditure category	**2003**	**2004**	**2005**	**2006**	**2007***
Government final consumption expenditure	6.0	0.6	-0.6	1.5	7.2
Private final consumption expenditure	2.2	2.4	6.4	7.6	7.3
Gross fixed capital formation	-8.0	7.3	27.8	18.5	13.3
Changes in inventories [1]	2.8	0.1	-2.1	0.4	1.2
Gross domestic expenditure	**3.8**	**2.9**	**6.4**	**9.1**	**9.5**
Exports of goods and services	7.2	12.8	9.7	3.4	6.0
Imports of goods and services	-0.1	12.3	15.0	18.2	12.7
Discrepancy					
Gross domestic product at market prices	**2.9**	**5.1**	**5.8**	**6.4**	**7.0**

*Provisional

+Revised

1Change in changes of inventories as percentage of GDP of the previous year

Private Consumption

2.24. Tables 2.11a and 2.11b present figures on final private consumption by type of consumption item and the percentage shares of each of the categories respectively. Though Food and beverages category continued its dominance in the share of expenditure, there was a notable decline in the trend for the last three years. This category's share to the private consumption stood at 46.6, 46.0 and 44.4 per cent in 2005, 2006 and 2007, respectively. All other goods and all other services categories were the major beneficiaries from these drops as they registered increasing expenditure shares over the same period. Expenditure shares on the remaining categories did not reveal apparent trends during this period.

Table 2.11a: Private Consumption+

Current prices - KSh million

Purpose	2003	2004	2005	2006	2007*
Food and beverages	409,159	443,869	496,673	560,053	615,681
Clothing and footwear	37,200	32,808	35,505	37,432	43,250
Housing	66,832	74,800	87,623	102,675	111,640
All other goods	115,264	126,394	124,359	144,428	169,910
All other services	291,240	342,265	386,450	446,188	529,758
Direct purchases abroad	3,456	4,609	5,284	8,016	11,170
Less: Direct purchases by non-res in Kenya	-50,330	-62,772	-69,423	-81,157	-95,575
Total	872,821	961,974	1,066,471	1,217,635	1,385,833

*Provisional

+Revised

Table 2.11b: Percentage Shares of Private Consumption+

Current prices

Expenditure category	2003	2004	2005	2006	2007*
Food and beverages	46.9	46.1	46.6	46.0	44.4
Clothing and footwear	4.3	3.4	3.3	3.1	3.1
Housing	7.7	7.8	8.2	8.4	8.1
All other goods	13.2	13.1	11.7	11.9	12.3
All other services	33.4	35.6	36.2	36.6	38.2
Direct purchases abroad	0.4	0.5	0.5	0.7	0.8
Less: Direct purchases by non-res in Kenya	-5.8	-6.5	-6.5	-6.7	-6.9
Total	100.0	100.0	100.0	100.0	100.0

*Provisional

+Revised

Gross Fixed Capital Formation

2.25. Expenditures on fixed assets by category of item and their expenditure shares at current prices are presented in Tables 2.12a and 2.12b. The total GFCF increased from KSh 309.6 billion in 2006 to KSh 354.2 billion in 2007. The main investments have traditionally been in the buildings and structures, transport equipment and other machinery and equipment categories with sector shares of 45.9, 23.4 and 30.3 per cent, respectively in 2007.

Table 2.12a: Gross Fixed Capital Formation+

Current prices - KSh million

Purpose	2003	2004	2005	2006	2007*
Buildings and structures	94,935	108,730	123,426	142,160	162,586
Transport equipment	37,129	37,172	75,663	85,563	82,966
Other machinery and equipment	46,016	60,055	64,336	80,546	107,270
Cultivated assets	1,142	1,169	1,229	1,245	1,273
Intangible assets	32	71	73	78	78
Total	179,254	207,196	264,728	309,592	354,173

Table 2.12b: Percentage Share of Gross Fixed Capital Formation+

Current prices - percentage shares

Expenditure category	2003	2004	2005	2006	2007*
Buildings and structures	53.0	52.5	46.6	45.9	45.9
Transport equipment	20.7	17.9	28.6	27.6	23.4
Other machinery and equipment	25.7	29.0	24.3	26.0	30.3
Cultivated assets	0.6	0.6	0.5	0.4	0.4
Intangible assets	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0

*Provisional

+Revised

2.26. Tables 2.13a and 2.13b present details of the GFCF and growth rates in real terms respectively. The total assets grew by 13.3 per cent in 2007 as compared to 18.5 per cent in 2006 to stand at KSh 295,518.4 million. There has been a decline in investment on transport equipments over the last three years from a growth of 109.4 per cent that was occasioned by purchases of aircrafts in 2005 to a decline of 2.7 per cent in 2007. The expansion of most sectors has seen investment in machinery and equipment grow by 35.4 per cent in 2007.

Table 2.13a: Gross Fixed Capital Formation+

Constant prices - KSh million

Purpose	2003	2004	2005	2006	2007*
Buildings and structures	83,663.0	86,775.5	93,604.2	98,944.8	105,871.0
Transport equipment	31,265.2	29,486.0	61,729.3	76,174.7	74,131.8
Other machinery and equipment	44,008.2	54,417.9	63,037.1	83,865.8	113,522.2
Cultivated assets	1,060.6	1,023.2	1,083.0	1,168.1	1,325.4
Intangible assets	29.3	61.2	58.9	59.4	56.4
Total	160,026.3	171,763.8	219,512.4	260,212.7	294,906.9

*Provisional

+Revised

Table 2.13b: Percentage change in Gross Fixed Capital Formation+

Constant 2001 prices - per cent

Expenditure category	2003	2004	2005	2006	2007*
Buildings and structures	0.4	3.7	7.9	5.7	7.0
Transport equipment	-33.9	-5.7	109.4	23.4	-2.7
Other machinery and equipment	4.6	23.7	15.8	33.0	35.4
Cultivated assets	-2.6	-3.5	5.8	7.9	13.5
Intangible assets	-37.0	108.7	-3.8	0.9	-5.0
Total	-8.0	7.3	27.8	18.5	13.3

*Provisional

+Revised

Disposable Income and Savings

2.27. Tables 2.14 and 2.15 show the distribution of income. The Gross National Income (GNI) recorded a decelerated growth of 11.5 per cent in 2007 compared to a growth of 14.6 per cent in 2006 to stand at KSh 1,801.3 billion. The net primary income continued to decline further from KSh 5,053 billion in 2006 to KSh 12,897 billion in 2007 indicating that the country is still paying more in terms of income to the rest of the world. The Gross National Disposable Income (GNDI) which is GNI net current transfers increased by

11.3 per cent in 2007 to record a value of KSh 1,942.66 billion. On the other hand the net savings declined by 15.7 per cent in 2007 to stand at KSh 110.9 billion. However the ratio of gross savings to GDP declined to 12.7 per cent in 2007 compared to 14.8 per cent in 2006.

Table 2.14: Gross Domestic Product and Gross National Income+

Current Prices KSh Million

	2003	2004	2005	2006	2007*
Compensation of employees	420,917	473,768	521,187	595,104	639,483
Consumption of fixed capital	109,850	121,126	123,575	128,299	136,563
Net operating surplus	479,878	540,545	614,670	714,825	825,806
Gross domestic product at factor cost	1,010,644	1,135,440	1,259,432	1,438,228	1,601,852
Taxes on production and imports	129,542	143,786	158,975	182,737	213,971
Subsidies	-8,403	-5,252	-335	-233	-1,580
Gross domestic product at market prices	1,131,783	1,273,975	1,418,071	1,620,732	1,814,243
Primary incomes					
Receivable from the rest of the world	4,526	3,564	5,536	7,168	7,593
Payable to rest of the world	-11,254	-13,581	-13,730	-12,221	-20,490
Gross national income at market prices	1,125,055	1,263,958	1,409,877	1,615,679	1,801,346
Current transfers					
Receivable from the rest of the world	68,680	84,229	100,897	133,368	145,875
Payable to rest of the world	-1,071	-3,373	-5,029	-3,452	-2,723
Gross national disposable income	1,192,664	1,344,814	1,505,745	1,745,595	1,944,497
Per capita, Kshs					
Gross domestic product at market prices	34,120	37,274	40,356	44,847	48,813
Gross national income at market prices	33,917	36,981	40,123	44,707	48,466
CONSTANT PRICES					
GDP at market prices, KShs million	1,055,658	1,109,373	1,173,727	1,248,833	1,335,763
Per capita	31,825	32,458	33,402	34,556	35,939
- Annual percentage change	0.0	2.0	2.9	3.5	4.0
Population, '000	33,171	34,179	35,139	36,139	37,167

*Provisional

+Revised

Table 2.15: National Disposable Income and Saving+

Current prices KSh million

	2003	2004	2005	2006	2007*
Disposable income and saving					
Gross national disposable income	1,192,664	1,344,814	1,505,745	1,745,595	1,944,497
Consumption of fixed capital	109,850	121,126	123,575	128,299	136,563
Net national disposable income	1,082,815	1,223,688	1,382,170	1,617,296	1,807,935
Final consumption expenditure					
Private	872,821	961,974	1,066,471	1,217,635	1,385,833
General government	205,207	227,618	246,102	269,214	311,225
Discrepancy on GDP					
Saving, net	4,787	34,095	69,597	130,446	110,876
General government					
All Other serctors					
Financing of capital formation					
Saving, net	4,787	34,095	69,597	130,446	110,876
Capital transfers, receivable from abroad	12,381	11,495	7,807	12,142	10,558
Capital transfers, payable from abroad	0	0	0	0	0
Total	17,168	45,590	77,404	142,588	121,434
Gross fixed capital formation	179,254	207,196	264,728	309,592	354,173
Consumption of fixed capital	-109,850	-121,126	-123,575	-128,299	-136,563
Changes in inventories	7,288	10,546	-25,282	-18,383	11,900
Net lending (+) / Net borrowing(-)	-59,524	-51,025	-38,467	-20,321	-108,076
Total	17,168	45,590	77,404	142,588	121,434
Gross savings	114,636	155,222	193,172	258,745	247,439
Gross savings as a ratio to GDP	10.1	12.2	13.6	16.0	13.6
Gross savings as a ratio to Disposable Income	9.6	11.5	12.8	14.8	12.7

*Provisional

+Revised

Quarterly Gross Domestic Product

2.28. The compilation of Quarterly Gross Domestic Product (QGDP) was launched in 2007 to provide reliable and frequent reports on recent economic developments for timely policy interventions. The detailed methodology was published in the Economic Survey 2007, subsequently QGDPs for the first three quarters of 2007 were released. This section therefore gives the summary of the QGDP by activity from 2001 to 2007 as presented in Tables 2.16 and 2.17.

2.29. The fourth quarter of 2007 recorded a growth of 5.4 per cent similar to that recorded in 2006. The first and second quarters registered impressive growths of 7.6 and 8.9 per cent in 2007 compared to 5.8 and 6.1 per cent in 2006 respectively. The third quarter however slowed to 6.3 per cent in 2007 compared to a growth of 8.3 per cent in 2006.

Benchmarking

2.30. The approach and data sources used in the compilation of quarterly and annual GDP are not the same hence the sum of four quarters does not add up to the annual estimates. Annual GDP estimates are considered to be more reliable as they are based on a more comprehensive data. QGDP estimates, therefore, are re-aligned to annual estimates through benchmarking using the proportional Denton method. The method involves quadratic minimization of the differences between the re-aligned and original

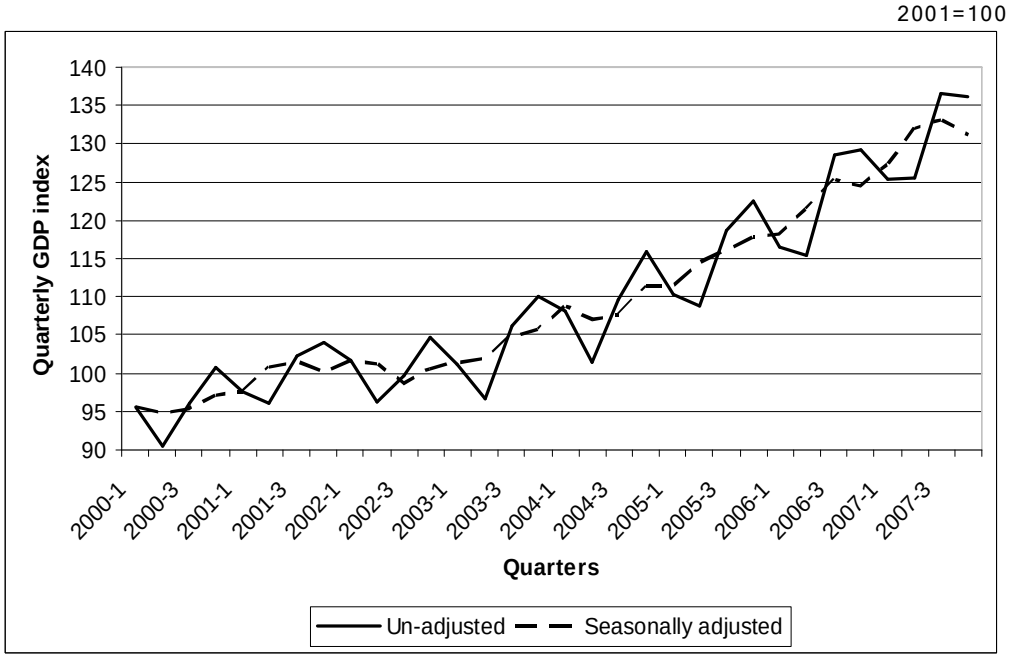
series, subject to the constraint that the yearly totals of the re-aligned estimates are equal to the annual estimates.

Seasonal adjustment

2.31. Quarterly estimates quite often show short-term variations due to factors such as weather, consumption habits and legislation, usually defined as seasonal fluctuations. Although seasonality is an integral part of quarterly data, it is often an impediment to correct identification and analysis of the business cycle and trend. Therefore, quarterly estimates are seasonally adjusted as an addition to the raw estimates and they are needed to gauge the growth from quarter to quarter. Without seasonal adjustment, changes in trend can only be judged by comparing the level of change in one quarter with the same in the previous year. The benchmarked series are seasonally adjusted using the Census X-11/X-12 method.

2.32. Figure 2.1 shows the movement of seasonally adjusted and unadjusted QGDP. Seasonal analysis of value added by activity indicates that fluctuations in Agriculture, Hotels and Restaurants and, Wholesale and Retail Trade are the main sources of seasonal variations noted in QGDP. From Table 2.17 it can be seen that the seasonaly adjusted GDP decreased by 1.4 per cent in the fourth quarter of 2007 compared to the third quarter of the same year. This implies a decline in the growth of the economy in the fourth quarter compared to the seasonally adjusted growth rates from the previous three quarters.

Figure 2.1: Movement of seasonally adjusted and unadjusted QGDP



2.33. Figure 2.2 shows the total values added excluding agriculture. Agriculture has a strong impact on the seasonal pattern of GDP. This is clear when comparing the seasonally adjusted and unadjusted GDP in Figure 2.1 with the seasonally adjusted and non-adjusted "non-agricultural GDP" as shown in Figure 2.2.

Figure 2.2: Movement of seasonally adjusted and unadjusted QGDP excluding agriculture, 2001=100

2001=100

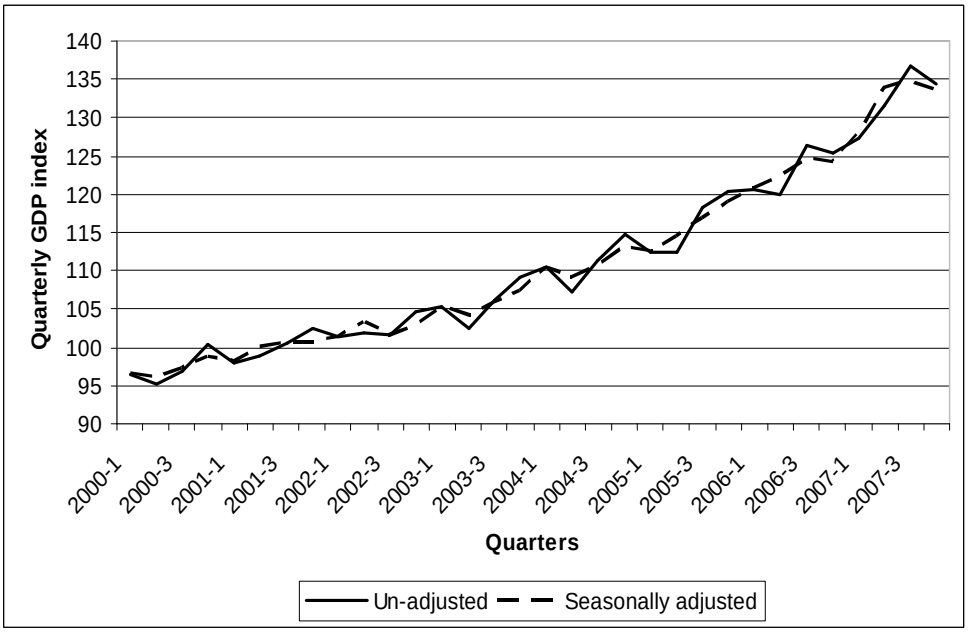


Table 2.16 Gross Domestic Product by activity

Constant 2001 prices -KSh Million

Year	Quar-ter	Agricul-ture and forestry	Fishing	Mining and quarrying	Manufac-turing	Electricty and water	Construc-tion	Whole-sale and retail trade	Hotels and restau-rants	Transport and com-munic-ation	Financial interme-diation
2000		251,171	7,995	4,536	98,202	18,683	30,653	88,479	12,280	81,649	47,114
2001		277,592	6,532	4,915	99,777	19,671	31,829	93,531	11,864	92,932	42,124
2002		269,071	5,119	5,036	99,858	23,749	31,214	91,219	12,425	101,336	41,443
2003		276,089	4,765	5,213	105,822	27,074	31,530	92,604	9,899	104,915	42,064
2004		280,518	5,246	5,195	110,544	27,877	32,932	100,486	13,741	112,260	42,657
2005		299,749	5,751	5,335	115,698	27,862	35,401	106,091	15,572	122,316	43,826
2006		312,820	6,249	5,554	122,953	27,475	37,649	118,363	17,894	136,206	46,256
2007		319,894	6,588	6,272	130,637	29,999	40,229	131,948	20,814	156,458	49,240
2000	1	63,498	2,267	1,062	25,059	5,510	7,009	22,042	3,407	18,079	12,006
	2	54,167	1,763	1,176	23,833	5,173	8,127	20,721	2,511	18,852	11,876
	3	64,038	1,688	1,188	24,607	3,918	8,126	21,219	2,826	21,530	11,777
	4	69,469	2,277	1,109	24,703	4,082	7,390	24,497	3,535	23,189	11,455
2001	1	67,652	1,440	1,158	25,680	4,712	7,390	22,719	3,264	20,775	10,947
	2	60,318	1,830	1,301	25,040	4,701	8,927	21,425	2,453	22,933	10,677
	3	73,821	1,645	1,246	25,131	5,123	8,264	23,009	2,739	24,003	10,268
	4	75,801	1,617	1,210	23,925	5,136	7,247	26,378	3,409	25,220	10,231
2002	1	67,968	1,342	1,212	25,336	5,426	7,882	22,981	3,494	24,369	10,278
	2	57,658	985	1,275	24,828	5,999	8,098	22,219	2,618	25,895	10,234
	3	69,628	1,277	1,299	25,230	6,235	7,698	21,374	3,200	24,524	10,461
	4	73,816	1,516	1,250	24,464	6,089	7,536	24,645	3,114	26,548	10,471
2003	1	65,494	1,253	1,282	26,214	6,313	7,812	23,082	2,516	26,630	10,399
	2	58,961	928	1,359	25,875	6,694	8,389	21,238	2,064	23,322	10,355
	3	73,999	1,183	1,284	26,894	6,904	7,758	23,291	2,462	26,855	10,481
	4	77,634	1,401	1,287	26,839	7,163	7,570	24,994	2,857	28,107	10,830
2004	1	70,235	1,336	1,248	27,476	7,199	7,781	25,461	3,518	27,750	10,602
	2	59,043	1,186	1,331	26,912	7,057	8,519	22,623	2,694	25,583	10,602
	3	72,067	1,265	1,373	27,000	6,615	8,945	24,749	3,714	29,337	10,693
	4	79,173	1,458	1,243	29,157	7,007	7,687	27,652	3,816	29,590	10,759
2005	1	69,650	1,613	1,284	28,098	6,952	8,281	24,047	5,113	28,638	10,820
	2	64,170	1,054	1,284	28,923	6,904	8,505	25,205	3,034	28,142	10,853
	3	80,709	1,429	1,433	28,538	6,996	9,600	27,502	3,850	32,580	10,974
	4	85,220	1,655	1,334	30,138	7,010	9,015	29,337	3,575	32,957	11,179
2006	1	69,685	1,659	1,293	29,980	6,796	9,050	27,099	5,174	33,936	11,305
	2	67,468	1,105	1,331	30,180	6,806	8,990	28,516	3,367	33,239	11,566
	3	85,931	1,515	1,441	31,026	6,852	9,741	32,708	4,803	35,523	11,577
	4	89,736	1,971	1,488	31,768	7,021	9,868	30,041	4,550	33,507	11,809
2007	1	75,882	1,675	1,372	31,445	7,170	8,706	30,616	5,699	36,898	11,999
	2	69,024	1,171	1,547	32,426	7,613	9,968	32,695	4,835	38,574	12,251
	3	85,637	1,555	1,612	33,228	7,584	11,129	35,765	5,451	40,298	12,385
	4	89,351	2,186	1,740	33,537	7,632	10,426	32,871	4,830	40,687	12,605

Table 2.16 Gross Domestic Product by Activity Cont'd

Constant 2001 prices - KSh million

Year	Quar-ter	Real estate, renting, business services	Public admi-nistration	Education	Other services	FISIM	All industries at basic prices	All industries excl. agri-culture	Taxes on products	GDP at market prices	GDP, seaso-nally adjusted
2000		57,091	48,243	62,148	67,339	-12,479	863,105	611,933	113,232	976,337	
2001		58,667	46,760	63,013	69,424	-11,772	906,859	629,267	113,148	1,020,007	
2002		60,452	46,731	64,748	71,453	-10,665	913,190	644,119	112,394	1,025,584	
2003		61,864	46,991	71,045	72,203	-10,315	941,763	665,674	113,895	1,055,658	
2004		63,740	47,062	72,268	74,854	-10,801	978,579	698,061	130,795	1,109,373	
2005		65,882	46,460	72,813	77,089	-11,261	1,028,584	728,835	145,143	1,173,727	
2006		68,421	45,722	73,409	80,094	-11,835	1,087,229	774,409	161,604	1,248,833	
2006		70,902	44,788	75,240	83,115	-12,066	1,154,058	834,164	181,705	1,335,763	
2000	1	14,018	12,105	15,593	16,738	-3,123	215,270	151,772	28,686	243,956	243,722
	2	14,338	12,120	15,560	16,777	-3,110	203,886	149,719	26,532	230,418	241,634
	3	14,293	12,068	15,521	16,854	-3,134	216,520	152,482	28,266	244,786	242,987
	4	14,442	11,949	15,474	16,970	-3,113	227,429	157,960	29,748	257,177	247,746
2001	1	14,521	11,798	15,785	17,124	-3,054	221,912	154,260	27,081	248,993	248,660
	2	14,643	11,676	15,690	17,279	-3,017	215,876	155,558	28,981	244,858	257,103
	3	14,872	11,629	15,706	17,433	-2,880	232,010	158,189	28,673	260,684	258,540
	4	14,630	11,657	15,833	17,588	-2,822	237,060	161,259	28,413	265,473	255,512
2002	1	14,493	11,679	16,048	17,742	-2,744	227,507	159,538	31,759	259,266	259,220
	2	15,025	11,672	16,085	17,853	-2,650	217,792	160,134	27,617	245,409	258,010
	3	15,462	11,679	16,205	17,918	-2,659	229,532	159,903	24,702	254,234	251,659
	4	15,472	11,701	16,410	17,940	-2,612	238,360	164,544	28,316	266,676	256,429
2003	1	15,353	11,733	17,722	17,939	-2,559	231,184	165,690	26,668	257,853	258,366
	2	15,952	11,752	17,775	17,975	-2,523	220,118	161,156	26,347	246,465	259,466
	3	14,964	11,757	17,788	18,069	-2,556	241,131	167,132	29,733	270,864	267,318
	4	15,594	11,749	17,760	18,221	-2,677	249,330	171,696	31,146	280,476	269,384
2004	1	15,693	11,744	18,101	18,465	-2,642	243,969	173,734	31,838	275,807	277,501
	2	16,403	11,767	18,028	18,650	-2,674	227,726	168,682	31,107	258,833	272,661
	3	15,566	11,777	18,031	18,806	-2,725	247,211	175,144	32,313	279,524	274,553
	4	16,078	11,774	18,107	18,933	-2,759	259,673	180,501	35,536	295,209	283,723
2005	1	16,061	11,627	18,131	19,054	-2,773	246,596	176,946	34,416	281,012	283,778
	2	16,696	11,593	18,160	19,185	-2,784	240,925	176,755	36,546	277,472	292,324
	3	16,638	11,615	18,218	19,338	-2,821	266,598	185,889	36,027	302,625	296,007
	4	16,487	11,626	18,304	19,512	-2,883	274,465	189,245	38,154	312,619	300,621
2006	1	16,850	11,626	18,147	19,708	-2,917	259,388	189,704	37,788	297,176	301,305
	2	16,847	11,547	18,273	19,913	-2,981	256,166	188,697	38,165	294,331	309,749
	3	16,734	11,391	18,415	20,126	-2,955	284,828	198,897	42,988	327,816	319,585
	4	17,990	11,158	18,574	20,347	-2,982	286,847	197,110	42,663	329,510	317,315
2007	1	17,332	11,175	18,715	20,577	-2,980	276,283	200,401	43,338	319,621	324,771
	2	18,011	11,361	18,796	20,750	-3,008	276,015	206,991	44,427	320,442	336,840
	3	18,289	11,264	18,850	20,865	-3,015	300,895	215,259	47,581	348,477	339,355
	4	17,271	10,989	18,879	20,922	-3,063	300,864	211,513	46,359	347,223	334,659

Table 2.17 Gross Domestic Product by Activity

Percentage changes at constant prices 2001

Year	Quar-ter	Agricul-ture and forestry	Fishing	Mining and quarrying	Manufac-turing	Electricty and water	Construc-tion	Whole-sale and retail trade	Hotels and restau-rants	Transport and com-munic-ation	Financial interme-diation
2000											
2001		10.5	-18.3	8.4	1.6	5.3	3.8	5.7	-3.4	13.8	-10.6
2002		-3.1	-21.6	2.5	0.1	20.7	-1.9	-2.5	4.7	9.0	-1.6
2003		2.6	-6.9	3.5	6.0	14.0	1.0	1.5	-20.3	3.5	1.5
2004		1.6	10.1	-0.4	4.5	3.0	4.4	8.5	38.8	7.0	1.4
2005		6.9	9.6	2.7	4.7	-0.1	7.5	5.6	13.3	9.0	2.7
2006		4.4	8.7	4.1	6.3	-1.4	6.3	11.6	14.9	11.4	5.5
2007		2.3	5.4	12.9	6.2	9.2	6.9	11.5	16.3	14.9	6.5
2000	1										
	2										
	3										
	4										
2001	1	6.5	-36.5	9.0	2.5	-14.5	5.4	3.1	-4.2	14.9	-8.8
	2	11.4	3.8	10.6	5.1	-9.1	9.8	3.4	-2.3	21.6	-10.1
	3	15.3	-2.5	4.9	2.1	30.8	1.7	8.4	-3.1	11.5	-12.8
	4	9.1	-29.0	9.1	-3.1	25.8	-1.9	7.7	-3.6	8.8	-10.7
2002	1	0.5	-6.8	4.6	-1.3	15.2	6.7	1.2	7.0	17.3	-6.1
	2	-4.4	-46.2	-2.0	-0.8	27.6	-9.3	3.7	6.7	12.9	-4.2
	3	-5.7	-22.4	4.2	0.4	21.7	-6.9	-7.1	16.8	2.2	1.9
	4	-2.6	-6.2	3.3	2.3	18.6	4.0	-6.6	-8.6	5.3	2.3
2003	1	-3.6	-6.6	5.8	3.5	16.4	-0.9	0.4	-28.0	9.3	1.2
	2	2.3	-5.8	6.6	4.2	11.6	3.6	-4.4	-21.1	-9.9	1.2
	3	6.3	-7.4	-1.1	6.6	10.7	0.8	9.0	-23.1	9.5	0.2
	4	5.2	-7.6	2.9	9.7	17.6	0.5	1.4	-8.3	5.9	3.4
2004	1	7.2	6.7	-2.7	4.8	14.0	-0.4	10.3	39.8	4.2	2.0
	2	0.1	27.8	-2.1	4.0	5.4	1.5	6.5	30.5	9.7	2.4
	3	-2.6	7.0	6.9	0.4	-4.2	15.3	6.3	50.9	9.2	2.0
	4	2.0	4.1	-3.5	8.6	-2.2	1.5	10.6	33.6	5.3	-0.6
2005	1	-0.8	20.7	2.9	2.3	-3.4	6.4	-5.6	45.3	3.2	2.1
	2	8.7	-11.1	-3.6	7.5	-2.2	-0.2	11.4	12.6	10.0	2.4
	3	12.0	13.0	4.4	5.7	5.8	7.3	11.1	3.7	11.1	2.6
	4	7.6	13.5	7.4	3.4	0.0	17.3	6.1	-6.3	11.4	3.9
2006	1	0.0	2.8	0.8	6.7	-2.2	9.3	12.7	1.2	18.5	4.5
	2	5.1	4.8	3.7	4.3	-1.4	5.7	13.1	11.0	18.1	6.6
	3	6.5	6.0	0.5	8.7	-2.1	1.5	18.9	24.8	9.0	5.5
	4	5.3	19.1	11.6	5.4	0.2	9.5	2.4	27.3	1.7	5.6
2007	1	8.9	1.0	6.1	4.9	5.5	-3.8	13.0	10.1	8.7	6.1
	2	2.3	6.0	16.2	7.4	11.9	10.9	14.7	43.6	16.1	5.9
	3	-0.3	2.7	11.9	7.1	10.7	14.3	9.3	13.5	13.4	7.0
	4	-0.4	10.9	16.9	5.6	8.7	5.6	9.4	6.1	21.4	6.7

Table 2.17 Gross Domestic Product by Activity Cont'd

Percentage changes at constant prices 2001

Year	Quarter	Real estate, renting, business services	Public administration	Education	Other services	FISIM	All industries at basic prices	All industries excl. agriculture	Taxes on products	GDP at market prices	GDP, seasonally adjusted
2000											
2001		2.8	-3.1	1.4	3.1	-5.7	5.1	2.8	-0.1	4.5	
2002		3.0	-0.1	2.8	2.9	-9.4	0.7	2.4	-0.7	0.5	
2003		2.3	0.6	9.7	1.0	-3.3	3.1	3.3	1.3	2.9	
2004		3.0	0.2	1.7	3.7	4.7	3.9	4.9	14.8	5.1	
2005		3.4	-1.3	0.8	3.0	4.3	5.1	4.4	11.0	5.8	
2006		3.9	-1.6	0.8	3.9	5.1	5.7	6.3	11.3	6.4	
2007		3.6	-2.0	2.5	3.8	2.0	6.1	7.7	12.4	7.0	
2000	1										
	2										-0.9
	3										0.6
	4										2.0
2001	1	3.6	-2.5	1.2	2.3	-2.2	3.1	1.6	-5.6	2.1	0.4
	2	2.1	-3.7	0.8	3.0	-3.0	5.9	3.9	9.2	6.3	3.4
	3	4.1	-3.6	1.2	3.4	-8.1	7.2	3.7	1.4	6.5	0.6
	4	1.3	-2.4	2.3	3.6	-9.4	4.2	2.1	-4.5	3.2	-1.2
2002	1	-0.2	-1.0	1.7	3.6	-10.2	2.5	3.4	17.3	4.1	1.5
	2	2.6	0.0	2.5	3.3	-12.2	0.9	2.9	-4.7	0.2	-0.5
	3	4.0	0.4	3.2	2.8	-7.7	-1.1	1.1	-13.9	-2.5	-2.5
	4	5.8	0.4	3.6	2.0	-7.4	0.5	2.0	-0.3	0.5	1.9
2003	1	5.9	0.5	10.4	1.1	-6.7	1.6	3.9	-16.0	-0.5	0.8
	2	6.2	0.7	10.5	0.7	-4.8	1.1	0.6	-4.6	0.4	0.4
	3	-3.2	0.7	9.8	0.8	-3.9	5.1	4.5	20.4	6.5	3.0
	4	0.8	0.4	8.2	1.6	2.5	4.6	4.3	10.0	5.2	0.8
2004	1	2.2	0.1	2.1	2.9	3.3	5.5	4.9	19.4	7.0	3.0
	2	2.8	0.1	1.4	3.8	6.0	3.5	4.7	18.1	5.0	-1.7
	3	4.0	0.2	1.4	4.1	6.6	2.5	4.8	8.7	3.2	0.7
	4	3.1	0.2	2.0	3.9	3.1	4.1	5.1	14.1	5.3	3.3
2005	1	2.3	-1.0	0.2	3.2	4.9	1.1	1.8	8.1	1.9	0.0
	2	1.8	-1.5	0.7	2.9	4.1	5.8	4.8	17.5	7.2	3.0
	3	6.9	-1.4	1.0	2.8	3.5	7.8	6.1	11.5	8.3	1.3
	4	2.5	-1.3	1.1	3.1	4.5	5.7	4.8	7.4	5.9	1.6
2006	1	4.9	0.0	0.1	3.4	5.2	5.2	7.2	9.8	5.8	0.2
	2	0.9	-0.4	0.6	3.8	7.1	6.3	6.8	4.4	6.1	2.8
	3	0.6	-1.9	1.1	4.1	4.7	6.8	7.0	19.3	8.3	3.2
	4	9.1	-4.0	1.5	4.3	3.4	4.5	4.2	11.8	5.4	-0.7
2007	1	2.9	-3.9	3.1	4.4	2.1	6.5	5.6	14.7	7.6	2.3
	2	6.9	-1.6	2.9	4.2	0.9	7.7	9.7	16.4	8.9	3.7
	3	9.3	-1.1	2.4	3.7	2.1	5.6	8.2	10.7	6.3	0.7
	4	-4.0	-1.5	1.6	2.8	2.7	4.9	7.3	8.7	5.4	-1.4

Chapter 3

Social Scene

Overview

The Government continues to invest in social services to improve the welfare of the people. In 2007/08 finacial year, the Government is expected to spend KSh175.2 billion on social services compared to KSh 149.5 billion in 2006/07, an increase of 17.2 per cent. Allocation to recurrent expenses accounted for 84.3 per cent of total expenditure. The number of both primary and secondary schools increased by 0.7 per cent and 14.6 per cent from 25,929 and 5,659 in 2006 to 26,104 and 6,485 in 2007 respectively. The number of primary school pupils increased by 7.8 per cent from 7,632.1 thousand in 2006 to 8,229.3 thousand pupils in 2007. The total enrolment of secondary school students increased by 14.6 per cent from 1,030.1 thousand students in 2006 to 1,180.3 thousand students in 2007. The Gross Enrolment Rate (GER) for boys and girls in 2007 was 110.7 per cent and 104.4 per cent respectively. The Net Enrolment Rate (NER) increased from 86.5 per cent in 2006 to 91.6 per cent in 2007. The total number of primary school teachers grew by 6.2 per cent from 162,993 in 2006 to 173,157 in 2007. Similarly, the number of secondary school teachers increased by 4.5 per cent from 42,403 in 2006 to 44,305 in 2007.

3.2. The number of health institutions increased by 13.2 per cent from 5,471 in 2006 to 6,194 in 2007 occasioned by the construction of new health facilities funded through the Constituency Development Funds (CDF). The number of registered medical personnel increased by 3.9 per cent from 67,175 in 2006 to 69,805 in 2007. Similarly, the number of medical personnel in training went up by 15.3 per cent from 6,942 in 2006 to 8,005 in 2007. Full Immunisation Coverage (FIC) for children under one year improved by 6.8 per cent, from 916,109 cases in 2006 to 978,417 cases in 2007.

Social Sector Expenditure

3.3. Total social sector expenditure is expected to increase by 17.2 per cent from KSh 149.5 billion in 2006/07 to 175.2 billion in 2007/08 as illustrated in Table 3.1. Recurrent expenditure to the sector is expected to increase by 16.6 per cent in 2007/08 mainly due to a 12.7 per cent and 14.0 per cent expected increases to education and health services respectively. In addition, recurrent expenditure by the Ministry of Science and Technology is expected to increase nearly three fold.

3.4. Development expenditure on the sector is expected to increase by 20.6 per cent from KSh 22.8 billion in 2006/07 to KSh 27.5 billion in 2007/08. During the same period, development expenditure in the Ministry of Education is expected to increase by 27.7 per cent while that of the Ministries of Health and Home Affairs are expected to increase marginally. The allocation to the Ministry of Youth Affairs development expenditure in 2007/08 was KSh 1.8 billion, mainly to support the creation of a revolving Youth Enterprise Fund.

Table 3.1 Central Government Expenditure on Social Services, 2003/04 - 2007/08

Ksh Million

	2003/2004	2004/2005	2005/2006	2006/2007*	2007/2008+
RECURRENT EXPENDITURE-					
Ministry of Education[1]	72,410.54	80,239.91	88,357.51	99,806.41	112,485.15
Ministry of Science and Technology				1,453.27	3,610.00
Ministry of Health[2]	16,004.71	17,605.18	19,000.00	22,324.00	25,440.00
Ministry of Labour and Human Resource Development ..	1,483.12	779.09	891.00	910.24	1,089.00
Ministry of Home Affairs	5,992.32	1,478.56	2,000.00	2,234.25	2,524.00
Minsitry of State for Youth Affairs					2,559.86
TOTAL	95,890.69	100,102.74	110,248.51	126,728.17	147,708.01
DEVELOPMENT EXPENDITURE-					
Ministry of Education[1]	4,314.24	4,771.47	4,002.84	10,020.78	12,799.01
Ministry of Science and Technology	-	-	-	324.34	316.00
Ministry of Health[2]	5,115.54	7,803.91	9,943.17	9,832.24	9,945.00
Ministry of Labour and Human Resource Development ..	297.40	466.53	194.00	201.12	254.12
Ministry of Home Affairs	442.33	446.90	2,307.30	2,410.34	2,424.34
Minsitry of State for Youth Affairs					1,751.95
TOTAL	10,169.51	13,488.81	16,447.32	22,788.82	27,490.42
TOTAL EXPENDITURE	106,060.20	113,591.55	126,695.83	149,516.99	175,198.42

Source: Ministry of Finance

* Provisional.

\+ Revised estimates including supplementaries.

1 Expenditure on the Ministry of Education includes expenditure on TIVET and Universties under Ministry of Higher Education, Science and Technology.

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

3.5. Local Government expenditure estimates on social services has increased over the years from KSh 2.6 billion in 2003/04 to KSh 4.2 billion in 2007/08 as shown in Table 3.2. Expenditure on education increased by 6.3 per cent from KSh 950.7 million in 2006/ to KSh 1,010.50 million in 2007/08. Expenditure on health and other social services increased by 14.0 per cent and 65.4 per cent, respectively.

Table 3.2: Local Government Expenditure on Social Services, 2003/04- 2007/08

KSh million

	2003/04	2004/05	2005/06	2006/07*	2007/08+
Education	834.67	869.30	910.01	950.70	1,010.50
Health	1,290.90	1,297.35	1,320.54	1,350.89	1,540.45
Other Social Services	442.60	486.86	947.07	965.57	1,597.00
TOTAL EXPENDITURE	2,568.17	2,653.51	3,177.62	3,267.16	4,147.95

Source: Ministry of Finance

* Provisional.

\+ Revised estimates

Education

3.6. Table 3.3 summarises expenditure of the Ministry of Education from 2003/04 to 2007/08. The gross total expenditure increased from KSh 109.8 billion in the 2006/07 to KSh 125.3 billion in 2007/08 reflecting Government commitment to ensuring provision of adequate grants to schools under the Free Primary Education programme (FPE). Recurrent expenditure to secondary education increased eight times from KSh 1.0 billion in 2006/07 to KSh 7.8 billion in 2007/08 to cater for the newly introduced Free Secondary Tuition. Similarly, recurrent expenditure on teacher education increased by 67.0 per cent from KSh 144.9 million in the 2006/07 to KSh 242.0 million in the 2007/08. Special education recurrent expenditure increased by 15.4 per cent from KSh 353.1 million in the 2006/07 to KSh 407.6 million in the 2007/08. However, recurrent expenditure to the Universities declined by 16.2 per cent from KSh 14.2 billion to KSh 11.9 billion during the period under review.

3.7. Total development expenditure estimate for the Ministry of Education rose by 28.0 per cent from KSh 10.0 billion in the 2006/07 to KSh 12.8 billion in the 2007/08. Primary Education development expenditure increased by 62.5 per cent from KSh 6.4 billion in the 2006/07 to KSh 10.4 billion in the 2007/08. Secondary Education development expenditure increased by 12.9 per cent from KSh 170.0 million in the 2006/07 to KSh 192.0 million in the 2007/08.

Table 3.3: Expenditure of the Ministry of Education, 2003/04 - 2007/08

KSh million

	2003/2004	2004/2005	2005/2006	2006/2007*	2007/2008+
RECURRENT EXPENDITURE-					
General Administration and Planning*	55,776.74	59,140.80	64,139.32	72,946.86	80,762.52
Pre-Primary Education	5.51	25.66	57	50.45	50.45
Primary Education	5,966.52	6,583.42	7,148.58	7,746.53	7,874.59
Secondary Education	945.42	938.79	2,893.70	1,018.98	7,758.98
Technical Education[1]	1,171.40	1,546.55	1,291.09	2,819.00	2,900.00
Teacher Education	192.83	210.41	177.72	144.87	242.04
Special Education	175.13	209.77	193.14	353.12	407.56
Polytechnic Education[1]	466.01	1538.2	571.72	567.99	584.40
University Education[1] é é é	7,470.08	9,735.25	11,885.24	14,158.61	11,904.61
Miscellaneous	240.9	311.06	-	-	-
SUB-TOTAL	72,410.54	80,239.91	88,357.51	99,806.41	112,485.15
DEVELOPMENT EXPENDITURE-					
General Administration and Planning	954.99	651	1,705.04	2,630.13	778.39
Pre-Primary Education	362.55	6.6	-	-	-
Primary Education	2,214.10	3,196.90	1,311.60	6,424.16	10,432.86
Secondary Education	151.9	205.5	170	170.00	192.00
Technical Education[1]	4.19	70	185	85.00	85.00
Teacher Education	155.12	80.27	143.5	50.00	193.26
Special Education	-	-	-	-	180.00
Polytechnic Education[1]	-	-	-	-	-
University Education[1] é é é	471.4	560.2	487.7	661.50	937.50
SUB-TOTAL	4,314.25	4,770.47	4,002.84	10,020.78	12,799.01
GROSS TOTAL EXPENDITURE	76,724.79	85,010.38	92,360.35	109,827.19	125,284.15

Source: Ministry of Education

* Provisional.

** Includes salaries for primary, Secondary and teacher training colleges

+ Revised estimates

1 Ministry of education Expenditure includes expenditure on University, Technical and Polytechnic education currently under the ministry of Higher Education, Science and Technology

3.8. Number of Educational Institutions: Table 3.4 indicates the trend in the total number of educational institutions in Kenya for the period 2003 to 2007. The total number of educational institutions grew by 3.2 per cent from 67,774 units in 2006 to 69,926 units in 2007. In 2007, the total number of primary schools was 26,104 compared to 25,929 recorded in 2006. Private primary schools increased from 7,983 in 2006 to 8,041 in 2007. The total number of secondary schools grew by 14.6 per cent from 5,659 in 2006 to 6,485 in 2007. The number of higher education institutions in 2007 stood at 46 teachers training colleges, 7 public universities and 21 private universities. The private universities constitute 9 chartered, 4 registered and 8 with letters of interim authority.

Table 3.4: Number of Educational Institutions+, 2003 - 2007

Number

Category	2003	2004	2005	2006	2007*
Schools:					
Pre-Primary	29,455	32,879	34,043	36,121	37,263
Primary:					
Public	17,697	17,804	17,807	17,946	18,063
Private	5,857	6,839	7,546	7,983	8,041
Total	23,554	24,643	25,353	25,929	26,104
Secondary:					
Public	3,583	3,552	3,621	3,646	4,245
Private	1,490	1,590	1,773	2,013	2,240
Total	5,073	5,142	5,394	5,659	6,485
Training Colleges:					
Pre primary	3	4	6	8	10
Primary	29	30	30	30	33
Secondary[1]	3	3	3	3	3
Total	35	37	39	41	46
Universities					
Public	6	6	6	7	7
Private	17	17	17	17	21
Total	23	23	23	24	28
TOTAL	58,140	62,724	64,852	67,774	69,926

Source : Ministry of Education

* Provisional

\+ Revised data

[1] Includes Kenya Technical Training College

3.9. Pre-Primary Education: Early childhood enrolment increased from 1.67 million in 2006 to 1.69 million in 2007 as shown in Table 3.5. Participation levels in pre-primary schools increased from a Gross Enrolment Rate (GER) of 58.8 per cent in 2006 to 59.3 per cent in 2007.Similarly, Net Enrolment Rate (NER) increased from 33.6 per cent to 39.7 per cent in the period under review. The number of trained Early Childhood Development (ECD) teachers went up by 3.0 per cent from 52,600 in 2006 to 54,177 in 2007 with females constituting 90.2 per cent. The number of untrained ECD teachers increased marginally from 21,928 in 2006 to 22,147 in 2007. The pupil teacher ratio improved marginally from 22.4:1 in 2006 to 22.1:1 in 2007.

Table 3.5: Pupil Enrolment and Teacher Numbers in Early Childhood Development Centres, 2003-2007

Number

	2003	2004	2005	2006	2007*
Enrolment					
Boys	816,577	823,417	830,828	866,445	876,163
Girls	785,655	804,304	812,347	805,891	814,930
TOTAL	1,602,232	1,627,721	1,643,175	1,672,336	1,691,093
Number of Teachers					
Male Trained	2,378	4,786	4,930	5,176	5,331
Female Trained	38,637	44,272	46,043	47,424	48,846
Sub Total	41,015	49,058	50,972	52,600	54,177
Male Untrained	2,456	4,068	4,109	4,314	4,357
Female Untrained	20,179	16,932	17,101	17,614	17,790
Sub Total	22,635	21,000	21,210	21,928	22,147
TOTAL	63,650	70,058	72,182	74,528	76,324

Source: Ministry of Education

* Provisional

3.10. Primary Education: Primary school enrolment grew by 7.9 per cent from 7.6 million pupils in 2006 to 8.2 million in 2007 as shown in Table 3.6. Gross enrolment rate for boys and girls in 2007 was 110.7 per cent and 104.4 per cent respectively, indicating a higher proportion of boys enrolled in schools. Net enrolment rate increased from 86.5 per cent in 2006 to 91.6 per cent in 2007. The continued rise in the NER indicates positive progress towards realizing the millennium development goal of universal primary education. The number of Kenya Certificate of Primary Education candidates grew by 9.5 per cent from 643,477 in 2006 to 704,918 in 2007.

Table 3.6: Primary School Enrolment by Standard and Sex, 2003 - 2007

'000

Class	2003		2004		2005		2006		2007*	
	Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls
Standard 1... ..	679.0	632.7	646.2	606.2	620.4	585.8	593.2	568.1	638.9	604.2
Standard 2... ..	526.4	492.0	588.3	551.1	575.8	551.6	555.1	534.8	597.9	568.8
Standard 3... ..	490.8	454.4	493.9	459.8	549.2	517.5	542.5	519.7	584.3	552.8
Standard 4... ..	475.7	446.9	477.7	445.7	493.7	469.9	531.8	508.7	572.8	541.0
Standard 5... ..	436.0	418.8	444.0	402.5	449.1	410.8	456.7	442.1	492.0	470.2
Standard 6... ..	400.9	392.3	418.8	399.9	429.3	413.6	430.8	417.9	464.0	444.4
Standard 7... ..	383.2	378.9	412.6	404.9	443.0	430.0	453.0	442.0	487.9	470.1
Standard 8... ..	282.4	269.1	334.0	309.1	342.1	309.6	333.5	302.3	379.2	360.8
TOTAL ...	3,674.4	3,485.1	3,815.5	3,579.3	3,902.7	3,688.8	3,896.6	3,735.5	4,217.1	4,012.2
GRAND TOTAL	7,159.5		7,394.8		7,591.5		7,632.1		8,229.3	

Source : Ministry of Education

* Provisional

3.11. Primary Teachers: As presented in Table 3.7, the total number of public primary school teachers grew by 6.2 per cent from 162,993 in 2006 to 173,157 in 2007 with male teachers constituting 54.3 per cent. The number of trained teachers rose by 5.9 per cent from 162,072 in 2006 to 171,643 in 2007. Teachers at the grades of Approved, S1/Diploma and P1 constituted 25.1 per cent, 8.5 per cent and 57.7 per cent respectively of the total trained primary school teachers. In 2007, trained teachers constituted 99.1 per cent of the total number of primary school teachers.

A total of 6,500 primary school teachers were recruited by the Teachers Service Commission in 2007 while 4,200 teachers left the service under natural attrition. Public schools pupil teacher ratio worsened from 43.1:1 in 2006 to 44.2:1 in 2007.

Table 3.7: Number of Primary Teachers by Qualification and Sex [illegible], 2003 - 2007

3.12 Secondary Education: Total secondary school enrolment for the last five years is shown in Table 3.8. Total enrolment increased by 14.6 per cent from 1,030,080 students in 2006 to 1,180,267 students in 2007. Enrolment for boys and girls increased by 17.0 per cent and 11.9 per cent respectively, in 2007. Gross Enrolment Rate (GER) in secondary schools increased from 32.2 per cent to 36.8 per cent during the period under review, with girls recording 33.3 per cent and boys, 40.4 per cent. Admission to form one as a percentage of total KCPE candidates increased from 60.0 per cent in 2006 to 70.0 per cent in 2007. The number of Kenya Certificate of Secondary Education candidates increased by 11.5 per cent from 243,345 in 2006 to 276,239 in 2007 with girls constituting 45.7 per cent. The student completion rate as at 2007 stood at 91.8 per cent.

Table 3.8: Enrolment in Secondary Schools by Form and Sex, 2003 - 2007

Number

Form	2003		2004		2005		2006		2007*	
	Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls	Boys	Girls
Form 1	142,887	134,935	146,645	127,057	139,469	124,384	161,588	137,873	170,650	143,045
Form 2	111,279	101,500	124,585	114,053	122,867	109,471	132,015	119,077	173,165	149,840
Form 3	106,262	98,239	117,975	105,118	120,912	107,770	120,978	115,443	157,572	134,793
Form 4	102,322	85,089	101,301	89,416	110,909	98,367	131,491	111,615	137,304	113,899
TOTAL	462,750	419,763	490,506	435,644	494,157	439,992	546,072	484,008	638,690	541,577
GRAND TOTAL	882,513		926,150		934,149		1,030,080		1,180,267	

Source: Ministry of Education

* Provisional

3.13. Secondary School Teachers: Table 3.9 shows the number of public secondary school teachers by qualification and sex for the period 2003 to 2007. The total number of teachers went up by 4.5 per cent from 42,403 in 2006 to 44,305 in 2007. Similarly, the number of trained teachers increased by 4.5 per cent from 42,183 in 2006 to 44,076 in 2007 and constituted 99.5 per cent of secondary school teachers. Graduate and Approved teachers constituted 79.0 per cent and 18.8 per cent respectively of the total number of secondary school teachers in 2007. The total number of male teachers rose by 4.0 per cent from 27,442 in 2006 to 28,544 in 2007, while the number of female teachers increased by 5.3 per cent from 14,961 in 2006 to 15,761 in 2007. The student teacher ratio in public secondary schools worsened from 19.8: 1 in 2006 to 23.3: 1 in 2007. A total of 3,500 secondary school teachers were recruited in 2007.

3.14. Teacher Training Institutions: As shown in Table 3.10, enrolment in teacher training colleges increased marginally from 22,620 in 2006 to 22,908 in 2007. This was occasioned by the intake policy which limits admission to bed space in the training institutions. Enrolment in diploma teacher training colleges increased by 5.0 per cent from 1,847 trainees in 2006 to 1,939 trainees in 2007. Female enrolment in P1 and Diploma colleges constituted 50.7 per cent and 44.2 per cent of the total number of trainees, respectively during the year under review.

Table 3.10: Teacher Trainees Enrolment by Year and Sex, 2003- 2007

Number

TYPE OF INSTITUTION/ CERTIFICATION	2003		2004		2005		2006		2007*	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Public Primary Teachers (P1)										
1st Year	4,316	4,210	3,931	4,508	4,589	4,334	4,201	4,589	4,621	4,435
2nd Year	3,963	4,305	4,449	4,730	3,951	4,530	4,589	4,334	4,201	4,589
SUB TOTAL	8,279	8,515	8,380	9,238	8,540	8,864	8,790	8,923	8,822	9,024
Private Primary Teachers (P1)	1,044	1,178	1,117	1,213	1,340	1,456	1,474	1,586	1,524	1,599
Diploma Teachers[1]										
1st Year	434	330	425	331	305	282	359	295	422	301
2nd Year	410	290	411	331	421	330	301	261	359	295
3rd Year	352	305	421	304	463	334	344	287	301	261
SUB TOTAL	1,196	925	1,257	966	1,189	946	1,004	843	1,082	857
TOTAL	10,519	10,618	10,754	11,417	11,069	11,266	11,268	11,352	11,428	11,480
GRAND TOTAL	21,137		22,171		22,335		22,620		22,908	

Source: Ministry of Education

* Provisional

[1]Kenya Science, Kagumo and Kenya Technical Teachers Training Colleges.

3.15. Technical, Industrial and Vocational Educational Training (TIVET) Institutions: Enrolment in TIVET institutions from 2003 to 2007 is shown in Table 3.11. The total enrolment in these institutions increased by 7.5 per cent from 71,167 in 2006 to 76,516 in 2007. Kenya Polytechnic with student population of 9,922 continued to have the highest enrolment among the national polytechnics, followed by Mombasa Polytechnic, while the least enrolment was recorded in Kisumu Polytechnic. The Government has embarked on plans to have the national polytechnics offer degree courses, with Kenya Polytechnic being renamed Kenya Polytechnic University College. Male student enrolment is higher in TIVET institutions except for Youth Polytechnics.

Table 3.11: Student Enrolment by Sex in Technical Institutions, 2003 - 2007

Number

INSTITUTION	2003		2004		2005		2006		2007*	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
National Polytechnics										
Kenya Polytechnic	7,738	4,863	6,386	3,499	6,410	3,549	6,405	3,329	6,521	3,401
Mombasa Polytechnic	2,647	1,390	2,778	2,436	3,111	2,631	3,265	2,710	3,285	3,012
Kisumu Polytechnic	937	421	1,124	476	1,349	619	1,410	710	1,489	824
Eldoret Polytechnic	1,523	684	1,675	752	1,759	820	1,834	832	1,894	858
Total	12,845	7,358	11,963	7,163	12,629	7,619	12,914	7,581	13,189	8,095
Other TIVET Institutions										
Technical Training Institutes	7,436	5,648	9,653	8,350	9,846	8,684	9,925	8,731	10,818	9,517
Institutes of Technology	4,799	3,927	4,715	3,755	4,904	3,943	4,961	4,104	5,407	4,473
Total	12,235	9,575	14,368	12,105	14,750	12,627	14,886	12,835	16,226	13,990
Youth Polytechnics	7,171	13,255	8,605	13,918	8,691	14,196	8,741	14,210	9,528	15,489
TOTAL	32,251	30,188	34,936	33,186	36,070	34,442	36,541	34,626	38,942	37,574
GRAND TOTAL	62,439		68,122		70,512		71,167		76,516	

Source: Ministry of Education

*Provisional

3.16. University Education: Table 3.12 summarises student enrolment by sex in both Public and Private Universities between 2003/04 and 2007/08 academic years. Total enrolment in all the universities grew by 5.4 per cent from 112,229 students in 2006/07 academic year to 118,239 students in 2007/08 academic year. Students enrolled in public universities rose by 6.3 per cent from 91,337 students in 2006/07 academic year to 97,107 students in 2007/08 academic year, with Nairobi University constituting 26.3 per cent. Male student enrolment increased by 7.1 per cent from 56,517 to 60,504 while female enrolment went up by 5.1 per cent from 34,820 to 36,603 during the same period. Public universities intake through the Joint Admissions Board increased from 11,000 in the 2006/07 academic year to 16,000 in the 2007/08 academic year. Part-time students constituted 41.9 per cent of the total student enrolment in 2007/08 academic year. During the academic year, the total part-time students in Jomo Kenyatta (JKUAT), Nairobi and Kenyatta Universities constituted 57.6 per cent, 53.1 per cent and 50.0 per cent of the total respective university student population. Students in private accredited universities accounted for 8.9 per cent of the total university students enrolled in 2007/08 academic year. The proportion of female students enrolled in the universities was 40.1 per cent of the enrolment in 2007/08 compared to 39.1 per cent in 2006/07 academic year.

Table 3.12: Student Enrolment by Sex in Universities, 2003/04 -2007/08

Number

INSTITUTION	2003/04		2004/05		2005/06		2006/07		2007/08*	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Public Universities										
Nairobi	16,992	9,720	21,268	11,706	21,940	11,765	22,513	12,426	23,513	12,826
Full time	9,603	4,406	9,987	5,250	10,800	5,425	10,858	5,536	11,340	5,714
Part Time	7,389	5,314	11,281	6,456	11,140	6,340	11,655	6,890	12,173	7,112
Kenyatta	10,753	5,023	11,252	4,803	10,896	4,787	8,845	7,891	10,172	8,425
Full time	5,221	3,495	4,313	2,887	4,356	2,947	5,066	3,285	5,826	3,507
Part Time	5,532	1,528	6,939	1,916	6,540	1,840	3,779	4,606	4,346	4,918
Moi	5,804	4,643	6,796	5,214	6,831	5,314	8,604	6,059	8,674	6,158
Full time	4,107	3,211	4,304	3,195	4,311	3,200	5,654	3,554	5,700	3,612
Part Time	1,697	1,432	2,492	2,019	2,520	2,114	2,950	2,505	2,974	2,546
Egerton	6,908	2,444	6,350	2,247	6,262	2,236	8,163	4,006	8,262	4,205
Full time	6,207	2,196	5,540	1,960	5,322	1,890	7,319	3,383	7,408	3,551
Part Time	701	248	810	287	940	346	844	623	854	654
Jomo Kenyatta(JKUAT)	3,202	1,455	4,315	1,959	4,207	1,673	4,460	1,845	5,450	2,512
Full time	1,373	624	2,201	999	2,240	1,016	2,176	524	2,659	713
Part Time	1,829	831	2,114	960	1,967	657	2,284	1,321	2,791	1,799
Maseno	3,428	2,179	3,413	2,168	2,826	1,878	2,778	1,937	3,487	2,199
Full time	2,777	1,765	2,660	1,690	2,106	1,420	1,888	1,277	2,370	1,450
Special	651	414	753	478	720	458	890	660	1,117	749
Masinde Muliro	-	-	-	-	775	287	1,154	656	946	278
Full time	-	-	-	-	420	182	620	422	508	179
Part Time	-	-	-	-	355	105	534	234	438	99
SUB-TOTAL	47,087	25,464	53,394	28,097	53,737	27,940	56,517	34,820	60,504	36,603
Private Universities										
Private Accredited	3,650	4,371	3,796	4,546	4,215	4,624	8,975	6,973	9,688	10,469
Private Unaccredited	763	757	801	907	853	947	2,853	2,091	583	392
SUB-TOTAL	4,413	5,128	4,597	5,453	5,068	5,571	11,828	9,064	10,271	10,861
TOTAL	51,500	30,592	57,991	33,550	58,805	33,511	68,345	43,884	70,775	47,464
GRAND TOTAL	82,092		91,541		92,316		112,229		118,239	

Source: Commission of Higher Education, Ministry of Education

* Provisional

Health 3.17. Table 3.13 presents the number of health institutions by province for the last five years. The number of health institutions increased by 13.2 per cent to 6,194 in 2007 mainly due to the construction of new health facilities funded through CDF. Rift Valley Province had the largest number of health institutions at 1,525, followed by Eastern Province with 1,138. North Eastern Province had the least number of facilities at 217.

Table 3.13: Number of Health Institutions[1] by Province, 2003 - 2007

Number

Province	2003	2004	2005	2006	2007*
Nairobi	361	377	389	409	409
Central	829	868	894	972	993
Coast	525	550	566	624	660
Eastern	788	824	849	952	1,138
North Eastern	127	135	139	162	217
Nyanza	472	494	509	601	738
Rift Valley	1,096	1,146	1,181	1,308	1,525
Western	357	373	385	443	514
Total	4,557	4,767	4,912	5,471	6,194

Source: Health Management Information System, Ministry of Health

*Provisional

[1] Includes Voluntary, Counseling and Testing (VCT) Sites

3.18. National Hospital Insurance Fund (NHIF) resources for the period 2002/03 to 2006/07 are presented in Table 3.14. Both total receipts and benefits accrued to members increased by 14.3 per cent and 27.9 per cent to KSh 3,954.9 million and KSh 1,414.9 million respectively in the 2006/07 financial year. Contribution Net of Benefits which declined during the previous financial year rose by 8.0 per cent to KSh 2,540.1 million in 2006/07.

Table 3.14: National Hospital Insurance Fund Resources, 2002/03 - 2006/07

KSh Million

Financial Year	Receipts	Benefits	Contributions Net of Benefits
2002/03	2,523.9	822.0	1,701.9
2003/04	2,639.5	713.3	1,926.2
2004/05	3,117.2	685.5	2,431.8
2005/06	3,458.8	1,105.9	2,352.9
2006/07*	3,954.9	1,414.9	2,540.1

Source: National Hospital Insurance Fund

* Provisional

3.19. The number of registered medical personnel per 100,000 population and those undergoing training are presented in Table 3.15. In 2007, the number of registered medical personnel increased by 3.9 per cent to 69,805. Similarly, the number of medical personnel in training increased by 15.3 per cent to 8,005. The number of registered personnel per 100,000 population declined for Enrolled Nurses and Public Health Technicians. However, the ratio increased marginally for Doctors, Dentists, BSc Nursing, Registered Nurses, Clinical Officers and Public Health Officers while it remained constant for Pharmacists and Pharmaceutical Technologists.

Table 3.15: Number of Registered Medical Personnel and in Training, 2006 - 2007

Number

Type of Personnel	Registered Medical Personnel				In Training	
	2006		2007*			
	Number	No. Per 100,000 Population	Number	No. Per 100,000 Population	2006/07	2007/08*
Doctors	5,889	16	6,271	17	2,098	2,349
Dentists	898	2	931	3	144	172
Pharmacists	2,697	7	2,775	7	284	403
Pharmaceutical Technologists	1,680	5	1,680	5	137	199
BSc. Nursing	478	1	585	2	411	427
Registered Nurses	10,905	30	12,198	33	2,095	2,450
Enrolled Nurses	31,917	88	31,917	86	107	–
Clinical Officers	5,285	15	5,797	16	1,038	1,403
Public Health officers	1,457	4	1,682	5	628	602
Public Health Technicians	5,969	17	5,969	16	–	–
Total	67,175	186	69,805	188	6,942	8,005

Source: Health Management Information System, Ministry of Health

*Provisional

3.20. Information on the number of undergraduate and postgraduate medical students by course and sex registered in Nairobi, Moi, Kenya Methodist and Baraton Universities, between 2003/04 and 2007/08 academic years is presented in Table 3.16. Overall, the number of students enrolled decreased by 8.1 per cent from 5,050 in 2006/07 to 4,640 in 2007/08 academic year. About 51 per cent of the total registered medical students were enrolled in Bachelor of Science in Medicine and Surgery. With the exception of Bachelor of Science in Nursing, all the other courses registered more male than female students. About eleven per cent of the students were enrolled for postgraduate courses.

Table 3.16: Number of Undergraduate and Post Graduate Medical Students by Course and Sex, 2003/04-2007/08

Number

Undergraduate Medical Degree	2003/04		2004/05		2005/06		2006/07		2007/08*	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Medicine & Surgery	1,075	743	1,388	789	1,384	830	1,762	993	1,466	883
Bsc (Nursing)	309	311	240	321	258	340	315	425	360	470
Dental Surgery	80	61	82	65	71	66	129	55	108	64
Environmental Health	69	53	68	52	87	50	64	55	93	84
Pharmacy	168	127	181	123	174	127	371	188	265	138
Bsc (Biochemistry)	28	27	61	57	65	56	142	78	135	77
Sub-Total	1,729	1,322	2,020	1,407	2,039	1,469	2,783	1,794	2,427	1,716
Postgraduate students	168	68	239	80	297	105	332	141	330	167
Total	1,897	1,390	2,259	1,487	2,336	1,574	3,115	1,935	2,757	1,883
Grand Total	3,287		3,746		3,910		5,050		4,640	

Source: University of Nairobi, Moi University, Kenya Methodist University and University of Eastern Africa, Baraton

* Provisional

3.21. The number of middle level medical trainees in public medical training colleges over the last five years is presented in Table 3.17. The number of enrolled trainees rose by 6.6 per cent to 5,933 trainees in 2007 with trainees for Diploma courses accounting for 86.8 per cent. Enrolment in Diploma in Nursing constituted 40.1 per cent of the trainees followed by Diploma in Clinical Medicine at 16.4 per cent. New courses introduced in 2007 include Higher Diploma in Community Health and HIV/AIDS Care, Higher Diploma in Sensory Integration and Post Graduate Certificate in Medical Education.

Table 3.17: Middle Level Medical Trainees in Public Medical Training Colleges, 2003 - 2007

Number

Level of Training	2003	2004	2005	2006	2007*
Certificate in Community Health Sciences & education	236	119	155	107	131
Certificate in Medical Laboratories	135	145	-	-	-
Certificate in Medical Engineering	176	96	161	109	109
Certificate in Health Records & Information	28	69	102	96	116
Sub-Total	575	429	418	312	356
Diploma in Nursing	951	1,142	1,402	2,035	2,380
Diploma in Community Nutrition	62	96	61	37	75
Diploma in Environmental Health Sciences	282	254	157	350	349
Diploma in Medical Laboratory Sciences	135	311	184	311	348
Diploma in Clinical Medicine	406	633	1,128	972	1,290
Diploma Bridging Course in Medical Laboratory	50	54	-	-	-
Diploma in Medical Engineering	45	55	50	42	80
Diploma in Community Oral Health	-	-	39	42	49
Diploma in Dental Technology	28	33	20	27	34
Diploma in Health Records and Information	47	56	13	113	57
Diploma in Occupational Therapy	41	71	40	45	50
Diploma in Orthopaedic Technology	29	27	26	31	38
Diploma in Pharmacy	132	155	147	137	199
Diploma in Physiotherapy	44	33	52	55	102
Diploma in Medical Imaging Sciences	34	36	38	53	41
Diploma in Optical Technology	-	-	-	18	25
Diploma in Nuerophysiology	-	-	-	-	32
Sub Total	2,286	2,956	3,318	4,892	5,149
Higher Diploma in Pharmacy	3	8	12	7	-
Higher Diploma in Environmental Department[1`]	213	223	105	138	91
Higher Diploma in Medical Laboratory Sciences[2]	52	62	67	40	44
Higher Diploma in Nursing[3]	78	80	43	60	70
Higher Diploma in Clinical Medicine and Surgery[4]	57	60	143	66	93
Higher Diploma in Medical Engineering	-	-	-	25	-
Higher Diploma in Ultra Sound Image Pattern Analysis	-	-	7	5	12
Higher Diploma in Community Health & HIV/AIDS CARE	-	-	-	-	23
Higher Diploma in Sensory Integration	-	-	-	-	9
Higher Diploma in Health Education & Promotion	-	-	-	-	30
Post Graduate Diploma in Medical Education	-	-	28	20	26
Post Graduate Certificate in Medical Education	-	-	-	-	30
Sub-Total	403	433	370	361	428
Total	3,264	3,818	4,106	5,565	5,933

Source: Kenya Medical Training College, Ministry of Health

* Provisional

1. Includes food science and inspection, epidemiology, health education, solid waste and occupational health

2. Includes clinical chemistry, haematology, histology, parasitology, virology, microbiology, and blood transfusion service management

3. Includes Psychiatry Nursing, Community Health Nursing, intensive care and ophthalmic nursing

4. Includes paediatrics, orthopaedics, anesthesia, lungs & skin, ent & audiology, reproductive health and opthalmology & cataract surgery

3.22. Full Immunisation Coverage (FIC) of under one year-old children by province between 2003 and 2007 is shown in Table 3.18. Coverage improved by 6.8 per cent, from 916,109 cases in 2006 to 978,417 cases in 2007. This was attributed to improved coverage in Rift Valley and Western provinces coupled with the national immunisation campaigns carried out in 2007 following reported cases of measles outbreak. Overall, there was an increase of 2.0 percentage points to 73.0 per cent in the national FIC. Despite a decline of 3.0 percentage points, Central Province registered the highest coverage rate of 85.0 per cent in 2007. Both North Eastern and Western Provinces recorded improvements in coverage by 9.0 percentage points to 81.0 per cent and 68.0 per cent respectively, in 2007.

Table: 3.18: Full Immunisation Coverage(FIC) Rate of Under One Year Old Children by Province, 2003 - 2007

	2003		2004		2005		2006		2007*	
Provinces	No.	%	No.	%	No.	%	No.	%	No.	%
Nairobi	77,859	90	67,192	70	74,570	75	77,497	76	82,176	78
Central	99,933	78	100,181	83	112,931	93	106,226	88	104,878	85
Coast	72,232	66	61,716	55	68,727	61	86,471	74	94,340	78
Eastern	115,520	62	121,537	83	127,155	67	145,084	78	151,324	78
N/Eastern	19,077	66	18,051	55	16,228	48	25,556	72	29,593	81
Nyanza	94,808	47	96,249	48	107,842	53	136,720	66	135,194	66
R/Valley	156,041	49	160,199	49	189,860	57	228,021	67	251,319	70
Western	95,690	57	96,200	53	103,006	57	110,534	59	129,593	68
National Coverage	731,160	60	721,325	59	800,319	63	916,109	71	978,417	73

Source: Kenya Expanded Programme on Immunisation

* Provisional

3.23. The prevalence of top ten diseases causing morbidity in the country from 2003 to 2007 is shown in Table 3.19. There was a significant decline in the number of cases recorded from 31.2 million in 2006 to 28.4 million in 2007. Malaria and diseases of respiratory system constituted 55.6 per cent of the reported cases. Reported Malaria cases declined by 135,393 mainly due to free distribution of about 3.4 million long lasting treated insecticide bed nets and extensive spraying of households by the Ministry of Health. The number of Pneumonia cases recorded has continued to increase for the last 5 years.

Table 3.19: Prevalence of Diseases Causing Morbidity in Kenya, 2003 - 2007

DISEASE	2003		2004		2005		2006		2007*	
	Number	%	Number	%	Number	%	Number	%	Number	%
Malaria	4,770,301	36.5	5,338,008	34.5	9,147,412	27.6	8,926,058	28.6	8,790,665	31
Disease of the Respiratory System	2,897,779	22.2	3,489,589	22.5	7,972,443	24	7,001,349	22.4	6,962,355	24.6
Disease. of the Skin (Incl. Ulcers)	839,616	6.4	996,227	6.4	1,960,723	5.9	1,796,796	5.8	1,682,377	5.9
Diarrhoea Diseases	579,547	4.4	700,013	4.5	1,378,620	4.2	1,373,073	4.4	1,297,454	4.6
Intestinal Worms	535,635	4.1	622,685	4	1,559,272	4.7	1,266,439	4.1	1,276,920	4.5
Pneumonia	358,169	2.8	439,511	2.8	765,157	2.3	875,459	2.8	954,824	3.4
Accidents (incl. fractures, burns etc)	367,753	2.8	411,121	2.7	796,724	2.4	696,906	2.2	687,347	2.4
Rheumatism, Joint pains etc	227,454	1.7	280,047	1.8	569,411	1.7	538,550	1.7	541,988	1.9
Urinary Tract Infections	235,738	1.8	258,497	1.7	489,980	1.5	483,904	1.6	497,966	1.8
Eye Infection	218,306	1.7	254,996	1.6	488,584	1.5	479,405	1.5	453,975	1.6
All Other Diseases	2,039,020	15.6	2,699,714	17.5	8,055,440	24.3	7,789,262	24.9	5,215,090	18.4
TOTAL	13,069,318	100	15,490,408	100	33,183,766	100	31,227,201	100	28,360,961	100

Source: Health Management Information System, Ministry of Health

* Provisional

Other Social Services

3.24. National Youth Services (NYS): Details of the National Youth Service recruitment and income earned between 2003 and 2007 are presented in Table 3.20. The number of service men and women recruited increased by 65.2 per cent from 2,423 in 2006 to 4,003 in 2007 with service women accounting for 21.9 per cent. The number of service men recruited went up by 70.2 per cent while that of service women rose by 49.6 per cent. Allowances to both service men and women more than doubled between 2006 and 2007.

Table 3.20: National Youth Services Recruitment and Allowances, 2003- 2007

Year	Recruitment (Numbers)			Allowances KSh Million
	Service Men	Service Women	Total	
2003	277	23	300	2.52
2004	2,768	783	3,551	29.82
2005	1,508	523	2,031	7.81
2006+	1,838	585	2,423	13.57
2007*	3,128	875	4,003	30.62

Source: National Youth Service

* Provisional

+ Allowance revised

3.25. National Social Security Fund (NSSF): The National Social Security Fund provides social security to workers during old age. Details of registered employers and employees, annual contributions and benefits paid to members between 2003 and 2007 are shown in Table 3.21. The number of registered employers and employees increased by 1.6 per cent and 2.3 per cent in 2007, respectively. Annual contributions increased by 15.1 per cent from KSh 4,655.1 million in 2006 to KSh 5,358.4 million in 2007. Annual benefits paid rose marginally from KSh 2,540.2 million to KSh 2,566.8 million over the same period.

Table 3.21: National Social Security Fund, 2003- 2007

Details	2003	2004	2005	2006	2007*
Registered Employers '000	54.8	55.7	61.3	57.9	58.8
Registered Employees '000	3,030.4	3,026.2	3,045.4	3,101.3	3,171.8
Annual contribution KSh (million)	3,535.3	3,773.3	4,421.6	4,655.1	5,358.4
Annual benefits paid KSh (million)	2,451.5	2,513.5	2,548.8	2,540.2	2,566.8

Source: National Social Security Fund

*Provisional

3.26. Adult Education: Table 3.22 shows a decline of 2.0 per cent in adult learner enrolment from 129,311 in 2006 to 126,724 in 2007. Female learners constituted 69.0 per cent of the total enrolment. Nairobi enrolled the least number of females compared to males. All the provinces recorded a decline in the number of female learners in 2007. The number of females enrolled decreased from 91,973 in 2006 to 87,454 in 2007, a drop of 4.9 per cent. According to Kenya National Adult Literacy Survey of 2006, there are 7.8 million youths and adults in need of literacy programmes.

Table 3.22: Enrolment of Adult Education Learners by Province and Sex, 2005 - 2007

Province	2005			2006			2007*		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Nairobi	389	586	975	2,502	2,388	4,890	2,627	2,165	4,792
Central	3,349	6,624	9,973	2,782	7,154	9,936	2,921	6,816	9,737
Coast	4,796	13,048	17,844	4,290	11,032	15,322	4,505	10,510	15,015
Eastern	5,642	19403	25,045	7,490	19,261	26,751	7,865	18,351	26,216
North Eastern	3,365	6,515	9,880	1,824	4,691	6,515	1,976	4,409	6,385
Nyanza	6,520	13,305	19,825	5,071	13,041	18,112	5,325	12,425	17,750
Rift Valley	9,868	17,458	27,326	9,545	24,546	34,091	10,025	23,384	33,409
Western	4,973	10,483	15,456	3,834	9,860	13,694	4,026	9,394	13,420
Grand Total	38,902	87,422	126,324	37,338	91973	129,311	39,270	87,454	126,724

Source: Department of Adult Education

*Provisional

3.27. Table 3.23 shows the number of private candidates who registered for KCPE by province and sex from 2005 to 2007. The number of private candidates who registered for KCPE went up by 26.4 per cent from 11,801 in 2006 to 14,922 in 2007. More males than females registered for KCPE in all the provinces. Nairobi recorded the highest number of candidates registered for KCPE at 45.4 per cent followed by Rift Valley and North Eastern Provinces with 15.1 per cent and 13.0 per cent in 2007, respectively. Coast and Western Provinces had the least number of registered candidates.

Table 3.23: Private Candidates KCPE registration by Province and Sex, 2005-2007

Number

Province	2005			2006			2007*		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Nairobi	1,671	1,697	3,368	2,106	2,364	4,470	4,420	2,080	6,500
Central	131	72	203	1,507	97	1,604	1,233	580	1,813
Coast	156	56	212	134	34	168	182	86	268
Eastern	66	61	127	309	226	535	418	197	615
North Eastern	1,146	878	2,024	1,301	403	1,704	1,333	628	1,961
Nyanza	184	69	253	256	138	394	310	146	456
Rift Valley	1,885	700	2,585	2,131	551	2,682	2,062	970	3,032
Western	14	41	55	159	85	244	188	89	277
Grand total	5,253	3,574	8,827	7,903	3,898	11,801	10,146	4,776	14,922

Source: Department of Adult Education

* Provisional

3.28. Gender and Development: Table 3.24 shows the number of registered women groups, their Membership, Contributions, Government of Kenya Grants and Women Enterprise Funds for the period 2003 to 2007. The number of registered women groups increased from 136,972 in 2006 to 138,753 in 2007. Group membership increased marginally from 5,353,607 in 2006 to 5,417,850 in 2007. Women groups' contributions went up from KSh 540.3 million in 2006 to KSh 544.6 million in 2007. However, Government grants decreased by 9.7 per cent from KSh 44.4 million in 2006 to KSh 40.1 million in 2007. This decline may be attributed to the transfer of the Youth Division from the Department of Gender and Social Services to the Ministry of Youth, and the establishment of Social Protection Fund for individual poor women.

Table 3.24: Registered Women Groups by membership and contribution, 2003 - 2007

Year	No of registered Women Groups	Membership	Group contribution (KSh Million)	Grants by GOK	
				Women Groups (KSh Million)	Women Enterprise (KSh Billion)
2003	127,951	4,928,690	509.7	40.0	-
2004	133,135	5,115,980	531.6	46.0	-
2005	135,294	5,279,691	538.4	48.1	-
2006	136,972	5,353,607	540.3	44.4	-
2007*	138,753	5,417,850	544.6	40.1	1.0

Source: Department of Gender

* Provisional

3.29. The Government established the Women Enterprise Fund in December 2006 as a strategic move towards addressing poverty through socio-economic empowerment of women. Consequently, the government set aside KSh 1.0 billion in the 2007/08 financial year for the Fund as shown in Table 3.24. The purpose of the fund was to provide loans through existing micro-finance institutions (MFIs), registered non-government organizations (NGOs) involved in micro financing, and savings and credit co-operative societies (SACCOs).This was for on-lending to women enterprises, to attract and facilitate investment in micro, small and medium enterprises.

Chapter 4

Employment, Earnings and Consumer Prices

Overview

The overall performance of the labour market outside small scale agriculture and pastoralist activities showed positive growth in 2007. The growth was mainly registered in the informal and modern private sectors. All sectors of the economy recorded improved performance, which translated to improved employment opportunities across board. A total of 474.7 thousand new jobs were created in 2007. This growth was attributable to favourable business environment, availability of credit from financial institutions and increase in investment opportunities in the country. The average annual inflation rate dropped from 14.5 per cent in the previous year to 9.8 per cent in 2007. Food and non-alcoholic drinks whose weight in the consumer price index accounts for more than half recorded the highest inflation rate of 12.3 per cent. However, this was a reduction from 20.9 per cent in 2006. Average nominal earnings per employee went up by 10.8 per cent in 2007 compared to an increase of 12.4 per cent recorded in 2006. Real average earnings declined by 0.3 per cent in 2007 compared to an increase of 1.3 per cent registered the previous year.

Employment

4.2. As shown in Table 4.1, the number of persons engaged outside small scale farming and pastoralist activities went up by 5.3 per cent from 8,975.6 thousand in 2006 to 9,450.3 thousand registered in 2007. There were 47.8 thousand new jobs created in the modern sector in the year under review, attributed to expanded networks of financial services countrywide and recovery of the tourism industry that saw many hinterland hotels begin operation. The wage employment in the modern sector increased by 2.6 per cent, a slower growth compared to 2.8 per cent recorded in 2006. The informal sector created 426.9 thousand new jobs in 2007 compared to 420.4 thousand jobs in 2006. This constituted 89.9 per cent of all the new jobs created outside small scale agriculture sector and pastoralist activities. There was no significant change in the number of self employed and unpaid family workers within the modern sector, which accounted for 0.7 per cent of all jobs in 2007.

Table 4.1: Total Recorded Employment[1], 2003 - 2007

'000

	2003	2004	2005+	2006+	2007*
Modern Establishments - Urban and Rural Areas:					
Wage Employees	1,727.3	1,763.7	1,808.7	1,859.7	1,907.3
Self-employed and unpaid family workers	65.7	1,763.7	66.8	67.2	67.4
Informal Sector+	5,717.4	1,763.7	6,628.3	7,048.7	7,475.6
TOTAL	7,510.4	1,763.7	8,503.8	8,975.6	9,450.3

* Provisional.

+ Revised

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

Modern Sector

4.3. Figure 4.1 shows the new jobs created in the private sector while Table 4.2 presents wage employment by industry and sector. As shown there was a marked increase in the number of jobs created in all economic activities for the second year running within the private sector. During the review period, a total of 72.0 thousand new jobs were created compared to a revised figure of 55.4 thousand jobs in the previous year. This was attributed to favourable business environment in the country in the period under review. Wage employment in the public sector declined by 3.8 per cent from a revised figure of 649.9 thousand jobs in 2006 to 625.3 thousand jobs in 2007. Recruitment in the Central Government and Teachers Service Commission (TSC) did not have an overall positive effect in the levels of employment within the public sector, mainly due to the concessioning of Kenya Railways and the restructuring of Telkom Kenya among others. The growth in the private sector employment more than offset the negative effect of the declining public sector employment to give rise to an entire positive growth in 2007.

4.4. The private sector accounted for 67.2 per cent of the total employment in 2007 compared to a share of 65.1 per cent in 2006. The highest growth in percentage terms of employment in the private sector was registered in the transport and communication industry at 24.3 per cent, followed by the electricity and water at 15.8 per cent in 2007. In absolute terms, transport and communication industry was leading in employment creation recording over 22 thousand jobs in the review period. This was followed by manufacturing and distributive trade, restaurants and hotels with increases of more than 10 thousand jobs each. Improved tourism performance in the period under review witnessed the re-opening of hinterland hotels that created employment opportunities in the distributive trade, restaurants and hotels.

4.5. In the year under review, public sector employment declined in all economic activities except in mining and quarrying which remained at the same level as shown in Table 4.2. Community, social and personal services sub-sector which accounted for 72.3 per cent of the total wage employment in the public sector in 2007, declined by 2.0 per cent. This indicated that the effect of recruitments undertaken in the public sector towards the end of 2006 and early 2007 only replaced personnel that had been lost due to natural attrition.

Figure 4.1: New Wage Employment in the Modern Private Sector, 2003 - 2007

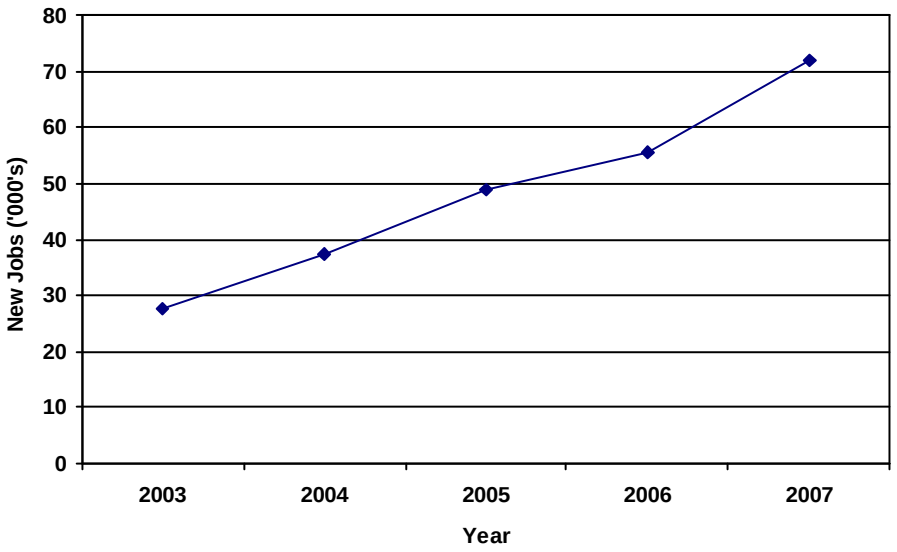


Table 4.2: Wage Employment by Industry and Sector, 2003 - 2007

'000

	2003	2004	2005+	2006+	2007*	% change
PRIVATE SECTOR:						
Agriculture and Forestry	259.6	264.8	272.3	280.3	289.0	3.1
Mining and Quarrying	4.7	4.9	5.1	5.3	5.6	5.7
Manufacturing	208.3	211.0	217.3	224.1	234.7	4.7
Electricity and Water	1.8	1.9	1.9	1.9	2.2	15.8
Building and Construction	53.1	54.4	55.7	57.9	61.2	5.7
Wholesale and Retail Trade, Restaurants and Hotels	156.7	161.7	169.2	179.6	189.8	5.7
Transport and Communications	49.2	62.4	75.1	90.9	113.0	24.3
Finance,Insurance, Real Estate and Business services	69.1	68.7	72.4	75.5	79.0	4.6
Community, Social and Personal Services	265.6	275.7	285.5	294.4	307.4	4.4
TOTAL PRIVATE SECTOR	1,068.2	1,105.5	1,154.5	1,209.9	1,281.9	6.0
PUBLIC SECTOR:						
Agriculture and Forestry	56.5	55.8	54.8	54.3	50.9	-6.4
Mining and Quarrying	0.7	0.7	0.7	0.7	0.7	0.0
Manufacturing	31.4	31.0	31.1	30.8	26.6	-13.6
Electricity and Water	19.3	18.9	18.3	17.7	16.8	-5.1
Building and Construction	23.5	23.0	22.5	22.0	20.1	-8.6
Wholesale and Retail Trade, Restaurants and Hotels	6.1	6.3	6.2	6.3	6.0	-4.8
Transport and Communications	37.6	38.4	38.6	39.9	36.0	-9.8
Finance, Insurance, Real Estate and Business services	14.7	14.9	16.5	16.8	16.0	-4.8
Community, Social and Personal Services	469.3	469.2	465.5	461.4	452.2	-2.0
TOTAL PUBLIC SECTOR	659.1	658.2	654.2	649.9	625.3	-3.8

* Provisional.

\+ Revised

4.6. Details of the wage employment in the public sector by employer are presented in Table 4.3. Employment in the Central Government went up by 2.4 per cent, reversing the trend that had been registered over the past decade when the Government either frooze employment or recruited personnel to replace those exiting through natural attrition. The TSC registered a 0.6 per cent growth in employment. Parastatal bodies registered a significant decline

in wage employment from 97.1 thousand in 2006 to 78.7 thousand in the year under review. This decline, together with that of institutions with majority control by the public sector was on account of Government's efforts to restructure and privatise non-strategic enterprises.

Table 4.3 Wage Employment in the Public Sector[1], 2003 - 2007

'000

	2003	2004	2005+	2006+	2007*	Annual Percentage Change 2007/2006
Central Government[2]	195.0	194.2	189.5	187.7	192.2	2.4
Teachers Service Commission ..	234.8	234.5	232.8	233.3	234.6	0.6
Parastatal Bodies[3]	97.3	96.0	97.5	97.1	78.7	-18.9
Majority Control by the Public Sector[4] ..	46.4	46.1	46.9	46.8	37.9	-19.0
Local Government	85.6	87.4	87.5	85.0	81.9	-3.6
TOTAL	659.1	658.2	654.2	649.9	625.3	-3.8

* Provisional.

+ Revised.

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. Distribution of wage employment in the modern sector by province is presented in Table 4.4. Nairobi Province, which commands the largest share of modern sector wage employment, engaged 11.8 thousand more persons during the review period. This was followed by Rift Valley Province whose wage employment grew by 2.6 per cent from 417.8 thousand persons in 2006 to 428.6 thousand persons in 2007. All the other Provinces recorded modest growths in employment with North Eastern Province registering the lowest employment growth in absolute terms though the highest growth rate.

Table 4.4: Wage Employment by Province, 2003 - 2007

'000

Province	2003	2004	2005+	2006+	2007*	Percentage Change 2007/2006
Nairobi	433.5	443.4	453.9	466.8	478.6	2.5
Coast	214.3	219.2	224.5	230.7	236.7	2.6
North Eastern	15.9	16.2	16.6	17.1	17.6	2.9
Eastern	144.1	147.0	150.8	155.2	159.1	2.5
Central	245.9	249.9	257.3	265.1	271.5	2.4
Rift Valley	388.1	396.8	406.6	417.8	428.6	2.6
Nyanza	171.3	174.3	179.3	184.0	189.0	2.7
Western	114.2	116.9	119.7	123.0	126.2	2.6
TOTAL	1,727.3	1,763.7	1,808.7	1,859.7	1,907.3	2.6

* Provisional

+ Revised

4.8. The analysis of the urban wage employment workforce in major towns and by six urban-based industries for the years 2002 and 2007 is presented in Table 4.5. Over the last five years the urban workforce rose by 135.2 thousand jobs reflecting an overall increase of 14.5 per cent. While Nairobi had the highest wage employment among other towns, its share in urban wage employment remained almost at the same levels over the two periods. Among the main activities represented in the major towns, high growths in wage employment during the period 2002 to 2007 were recorded in manufacturing, transport and communications and, wholesale and retail trade and hotels and restaurants sectors. Over the same period, community, social and personal services remained the industry with the highest wage employment of 386.4 thousand followed by manufacturing with 243.4 thousand.

Table 4.5: Wage Employment by Urban Centres[1] and Selected Industries, 2002 and 2007

'000

	Manufacturing		Construction		Wholesale and Retail Trade, Restaurants and Hotels		Transport and Communica-tions		Finance, Insurance, Real Estate and Business Services		Community, Social and Personal Services		Total Six Industries	
Towns	2002	2007*	2002	2007*	2002	2007*	2002	2007*	2002	2007*	2002	2007*	2002	2007*
Nairobi	76.5	88.2	39.2	42.8	59.2	68.6	29.4	36.8	40.0	44.1	160.4	178.3	404.7	458.8
Mombasa	31.9	36.8	6.5	7.1	22.1	26.1	31.1	44.4	12.7	14.1	50.4	55.2	154.7	183.7
Kisumu	7.3	8.5	2.3	2.6	4.4	5.2	1.8	2.7	2.3	2.7	22.1	24.2	40.2	45.9
Nakuru	8.9	10.3	2.6	2.8	5.8	6.9	1.6	2.3	2.4	2.8	13.7	15.0	35.0	40.1
Thika	16.6	19.3	0.6	0.6	3.2	3.8	0.4	0.6	1.7	1.8	6.1	6.7	28.6	32.8
Eldoret	16.8	19.5	1.9	2.1	4.2	4.9	1.0	1.3	2.8	3.1	5.3	5.8	32.0	36.7
Malindi	0.5	0.5	0.3	0.3	3.0	3.5	0.3	0.4	0.4	0.4	3.1	3.3	7.6	8.4
Kericho	4.0	4.5	1.0	1.0	1.4	1.6	0.2	0.2	0.5	0.5	5.6	6.1	12.7	13.9
Others	48.3	55.8	5.2	5.6	50.6	60.0	6.9	9.7	22.6	24.9	83.8	91.8	217.4	247.8
TOTAL	210.8	243.4	59.6	64.9	153.9	180.6	72.7	98.4	85.4	94.4	350.5	386.4	932.9	1,068.1

* Provisional.

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

4.9. The analysis of wage employment by industry and gender is presented in Table 4.6. The number of paid female employees increased by 2.1 per cent to 574.7 thousand compared to the overall 2.6 per cent expansion in the modern sector wage employment in 2007. However, the share of female employment in the modern sector remained at about 30 per cent over the same period. Majority of the female employees were working in community, social and personal services with the industry accounting for 55.6 per cent of the total female employment in 2007. Female employment in building and construction was lowest at 6.6 per cent of total employment in the sector in 2007. Out of a total 1,907.3 thousand persons in wage employment in 2007, casual employment had a share of 32.8 per cent, of whom females accounted for 36.6 per cent.

Table 4.6: Wage Employment by Industry and Gender, 2006 and 2007

'000

INDUSTRY	MALES		FEMALES		TOTAL	
	2006+	2007*	2006+	2007*	2006+	2007*
Agriculture and Forestry ..	248.8	252.7	85.8	87.2	334.6	339.9
Mining and Quarrying ..	4.7	4.9	1.3	1.4	6.0	6.3
Manufacturing	209.0	214.2	45.9	47.1	254.9	261.3
Electricity and Water ..	15.9	15.5	3.6	3.5	19.5	19.0
Building and Construction	74.6	75.9	5.3	5.4	79.9	81.3
Trade, Restaurants and Hotels	134.5	141.7	51.4	54.1	185.9	195.8
Transport and Communications	103.4	117.8	27.4	31.2	130.8	149.0
Finance, Insurance, Real Estate and Business Services ..	67.6	69.6	24.7	25.4	92.3	95.0
Community, Social and Personal Services-						
Public Administration ..	84.8	78.8	52.9	49.1	137.7	127.9
Education Services	188.8	193.4	152.4	156.2	341.2	349.6
Domestic Services	60.9	61.9	42.4	43.1	103.3	105.0
Other Services	104.0	106.2	69.6	71.0	173.6	177.2
TOTAL	1,297.0	1,332.6	562.7	574.7	1,859.7	1,907.3
Of whom: Regular	942.4	936.0	365.0	345.7	1,307.4	1,281.7
Casual	354.6	396.6	197.7	229.0	552.3	625.6

* Provisional

\+ Revised

Wage Earning in the Modern Sector

4.10. The analysis of wage payments by sector and economic activity for the period 2003 to 2007 is presented in Table 4.7. The total cost of labour in the modern sector of the economy is useful in guiding employers on the overall expected labour costs. The nominal wage bill increased at a lower rate of 13.6 per cent in 2007 compared to a growth of 15.5 per cent in 2006. Private sector wage bill went up from KSh 468,455.7 million in 2006 to KSh 548,309.9 million in 2007, translating to a lower rate of 17.0 per cent compared to 19.1 per cent recorded the previous year. The rise in wage payments in the private sector was mainly attributed to the rise in wage employment and increases in average nominal wages.

4.11. The public sector wage bill went up by 5.1 per cent in 2007 compared to a rise of 7.7 per cent recorded in 2006. Public sector wage bill accounted for 26.9 per cent of the total wage payments in 2007, a decrease from a share of 29.0 per cent in 2006. This indicates that the public sector wage bill is growing at a slower rate than that of the private sector, which is as a result of the Government's commitment to reduce the public sector wage bill over the recent years. The restructuring and privatisation of non-strategic public sector enterprises, has also contributed to the public sector wage bill being consistently lower than the private sector over the review period.

Table 4.7: Estimated Total Wage Payments by Industry and Sector, 2003 - 2007

KSh Mn Per Annum

	2003	2004	2005+	2006+	2007*
PRIVATE SECTOR:					
Agriculture and Forestry	24,588.6	28,175.4	32,516.9	36,449.2	39,914.5
Mining and Quarrying	625.0	742.6	893.5	1,053.3	1,210.2
Manufacturing	26,826.5	31,075.6	35,894.4	40,520.7	45,391.6
Electricity and Water	776.7	965.6	1,107.1	1,150.2	1,483.8
Building and Construction	12,271.8	14,915.2	17,991.9	21,657.1	25,653.2
Wholesale and Retail Trade, Restaurants and Hotels	61,800.8	74,257.0	90,451.3	108,075.3	122,802.9
Transport and Communications ..	22,008.1	32,454.2	47,915.6	63,431.1	83,274.1
Finance, Insurance ,Real Estate and Business Services	35,097.5	42,026.8	51,070.7	61,219.7	72,500.2
Community, Social and Personal Services	78,775.9	96,145.3	115,521.9	134,899.1	156,079.4
TOTAL PRIVATE SECTOR	262,770.9	320,757.7	393,363.3	468,455.7	548,309.9
PUBLIC SECTOR+:					
Agriculture and Forestry	7,936.3	8,994.9	9,415.1	10,068.6	10,323.1
Mining and Quarrying	115.0	125.8	130.0	137.6	136.7
Manufacturing	4,743.3	5,281.6	5,491.3	5,997.8	5,519.1
Electricity and Water	5,530.3	6,215.4	6,408.7	6,661.7	6,886.9
Building and Construction	4,767.9	5,338.0	5,577.7	5,903.1	5,866.9
Wholesale and Retail Trade, Restaurants and Hotels	1,937.3	2,334.4	2,666.2	3,085.3	3,377.2
Transport and Communications ..	11,772.4	13,809.4	15,744.8	17,802.4	18,893.5
Finance, Insurance ,Real Estate and Business Services	8,083.2	9,847.4	10,831.9	12,190.7	13,084.9
Community, Social and Personal Services	101,681.1	114,027.1	121,766.0	129,846.4	137,421.3
TOTAL PUBLIC SECTOR	146,566.8	165,974.0	178,031.7	191,693.6	201,509.6
TOTAL PUBLIC AND PRIVATE ..	409,337.7	486,731.7	571,395.0	660,149.3	749,819.5

* Provisional

+ Revised

4.12. Wage payments in the public sector by type of employer are summarised in Table 4.8. The Local Government wage bill registered the highest increase of 21.7 per cent from KSh 14,983.2 million in 2006 to KSh 18,237.3 million in 2007. This was in spite of the fact that total wage employment in Local government went down. This was attributed to an upward revision of allowances paid to councillors in the period under review and the normal annual salary increases. The Teachers Service Commission wage bill rose by 9.7 per cent to KSh 68,180.2 million, and still accounted for the largest share of public sector wage bill in 2007. The Central Government wage bill also increased by 8.7 per cent to KSh 46,370.3 million in 2007. This was mainly as a result of salary review for lower cadre civil servants, normal annual increments and partly due to new recruitments in the civil service during that period. The share of the Central Government wage bill in the total public sector wage bill increased from 22.3 per cent recorded in 2006 to 23.0 per cent in 2007.

Table 4.8: Total Wage Payments in the Public Sector[1], 2003 - 2007

KSh Mn Per Annum

	2003	2004	2005	2006	2007*
Central Government	28,732.9	36,158.9	39,635.4	42,678.2	46,370.3
Teachers Service Commission ..	46,866.5	51,510.0	57,008.1	62,132.3	68,180.2
Parastatal Bodies[2]..	37,561.5	41,566.7	43,306.6	43,964.1	42,020.9
Majority Control by the Public Sector[3].. ..	23,521.6	26,414.0	27,518.8	27,935.7	26,700.9
Local Government[4, +]	9,884.4	10,324.4	10,562.9	14,983.2	18,237.3
TOTAL	146,566.8	165,974.0	178,031.7	191,693.6	201,509.6

* Provisional.

\+ Revised

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

2 Refers to Government wholly-owned corporations.

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

4 Average earnings for casuals are taken to be the same as those of regular employees

4.13. As shown in Table 4.9, annual average earnings in the private sector increased from KSh 387,193.0 in 2006 to KSh 427,716.1 in 2007, an increase of 10.5 per cent. Overall average earnings per employee rose by 10.8 per cent from KSh 354,968.6 in 2006 to KSh 393,141.7 per annum in 2007. Average earnings per person were still higher in the private sector than in the public sector. In the private sector, average earnings in the Finance, Insurance, Real Estate and Business Services industry were highest, followed by Transport and Communication industry. Annual average earnings for employees in Manufacturing and primary activities of Agriculture, Mining and Quarrying, and Building and Construction remained below the national average for the private sector.

4.14. Annual average earnings in the public sector rose by 9.2 per cent from KSh 294,975.2 in 2006 to KSh 322,259.6 in 2007. Annual average earnings for employees in Central Government rose by 6.1 per cent while those of the TSC increased by 9.1 per cent. Annual average earnings for employees in both parastatals and institutions under Government's majority control grew by 18.0 per cent.

Table 4.9: Average Wage Earnings per Employee[1], 2003 - 2007

KSh Mn Per Annum

	2003	2004	2005+	2006+	2007*
PRIVATE SECTOR:					
Agriculture and Forestry	94,702.2	106,387.0	119,409.7	130,022.8	138,118.3
Mining and Quarrying	132,774.2	152,861.4	176,401.8	197,386.1	216,681.2
Manufacturing	128,591.9	147,054.7	165,182.0	180,826.5	193,373.9
Electricity and Water	429,833.3	496,452.4	570,074.4	607,585.8	686,616.5
Building and Construction	231,029.9	274,322.7	323,193.7	374,186.0	418,930.4
Trade, Restaurants and Hotels	394,329.0	459,278.0	534,458.8	601,809.0	646,978.0
Transport and Communications	447,574.1	534,551.5	637,922.2	697,888.8	736,684.5
Finance, Insurance ,Real Estate and Business Services	508,261.0	598,306.5	705,220.5	810,535.3	918,048.8
Community, Social & Personal Services	296,552.4	347,581.8	404,710.9	458,294.8	507,702.5
TOTAL PRIVATE SECTOR	245,929.8	289,863.3	340,720.5	387,193.0	427,716.1
PUBLIC SECTOR+:					
Agriculture and Forestry	140,574.4	161,224.8	171,660.9	185,565.7	202,955.9
Mining and Quarrying	176,873.5	192,112.3	194,344.3	199,740.7	206,511.6
Manufacturing	150,879.4	170,325.5	176,491.2	194,954.9	207,407.5
Electricity and Water	286,738.1	328,058.7	349,302.3	377,345.4	409,936.7
Building and Construction	202,709.7	232,309.9	247,686.4	268,139.6	292,352.9
Trade, Restaurants and Hotels	318,171.9	368,834.4	432,189.9	489,114.9	561,281.4
Transport and Communications	312,878.1	367,087.0	407,959.5	445,684.8	524,670.4
Finance, Insurance ,Real Estate and Business Services	501,221.1	596,993.2	655,921.6	725,854.4	818,011.8
Community, Social & Personal Services	216,657.1	243,037.3	261,615.7	281,397.1	303,844.4
TOTAL PUBLIC SECTOR	221,898.8	251,858.5	272,131.6	294,975.2	322,259.6
TOTAL PRIVATE AND PUBLIC SECTOR	236,744.7	275,678.1	315,911.9	354,968.6	393,141.7
MEMORANDUM ITEMS IN PUBLIC SECTOR:					
Central Government	147,348.0	186,194.0	209,158.0	227,374.7	241,260.4
Teachers Service Commission	199,601.8	219,658.8	244,880.0	266,319.3	290,623.1
Parastatal Bodies[2]	386,037.7	435,710.0	443,958.9	452,363.9	533,789.4
Majority Control by the Public Sector[3]	507,477.4	575,468.0	586,344.3	597,426.3	704,963.0
Local Government+	115,472.0	118,128.0	120,784.0	176,372.0	222,694.0
TOTAL PUBLIC SECTOR	221,898.8	251,858.5	272,131.6	294,975.2	322,259.6

* Provisional.

+ Revised

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

[2] Refers to Government wholly-owned corporations.

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

4.15. Table 4.10 presents percentage changes in wage employment and average earnings for the period 2002/2007 and 2006/2007. During the five year period, total employment has risen by 12.2 per cent with wage employment in the private sector rising by 23.1 per cent and that of public sector declining by 5.1 per cent. Except for the TSC which posted a 0.1 per cent growth in wage employment for the period 2002/2007, all the sectors in the public sector registered declines in 2007. Employment in parastatal bodies and organisations with majority control by the public sector declined by 20.5 per cent and 18.9 per cent, respectively. Central Government employment dropped by 1.4 per cent while that of Local Government declined by 2.4 per cent over the same period.

4.16. Annual average earnings in the economy have risen by 86.8 per cent over the five-year period with private sector average earnings rising by 100.0

per cent. Average earnings in the public sector have gone up by 57.0 per cent in the period of review. In the private sector, employees in the manufacturing industry had the lowest rise in average earnings over the period 2002/2007, followed by those in Agriculture and Forestry. Workers in Finance, Insurance, Real Estate and Business services; Building and Construction and Transport and Communications had the highest increases over the same period. The increase in transport and communication could be attributed to the rapid growth in the Internet and Communication Technology (ICT) sector over the same period. Average earnings for employees in Local Government almost doubled in the review period.

Table 4.10: Percentage Changes in Wage Employment and Average Earnings[1], 2007/2002 and 2007/2006

	EMPLOYMENT		AVERAGE EARNINGS	
	2007/2002	2007/2006*	2007/2002	2007/2006*
PRIVATE SECTOR:				
Agriculture and Forestry	12.8	3.1	65.7	6.2
Mining and Quarrying	21.7	5.7	84.5	9.8
Manufacturing	19.5	4.7	63.8	6.9
Electricity and Water	29.4	15.8	86.8	13.0
Building and Construction	16.6	5.7	108.7	12.0
Trade, Restaurants and Hotels	25.4	5.7	90.4	7.5
Transport and Communications	136.9	24.3	92.2	5.6
Finance, Insurance ,Real Estate and Business Services	15.2	4.6	111.9	13.3
Community, Social & Personal Services	17.6	4.4	99.0	10.8
TOTAL PRIVATE SECTOR	23.1	6.0	100.0	10.5
PUBLIC SECTOR:				
Agriculture and Forestry	-11.3	-6.4	57.3	9.4
Mining and Quarrying	16.7	0.0	20.5	3.4
Manufacturing	-20.4	-13.6	40.5	6.4
Electricity and Water	-14.3	-5.1	55.4	8.6
Building and Construction	-16.3	-8.6	56.9	9.0
Trade, Restaurants and Hotels	-1.6	-4.8	96.7	14.8
Transport and Communications	-4.8	-9.8	86.1	17.7
Finance, Insurance ,Real Estate and Business Services	9.6	-4.8	76.3	12.7
Community, Social and Personal Services	-2.8	-2.0	51.1	8.0
TOTAL PUBLIC SECTOR	-5.1	-3.8	57.0	9.2
TOTAL PUBLIC AND PRIVATE	12.2	2.6	86.8	10.8
MEMORANDUM ITEMS IN PUBLIC SECTOR:				
Central Government	-1.4	2.4	69.0	6.1
Teacher's Service Commission	0.1	0.6	52.4	9.1
Parastatal Bodies[2]	-20.5	-19.0	59.6	18.0
Majority Control by the Public Sector[3]	-18.9	-19.0	60.6	18.0
Local government	-2.4	-3.6	97.4	26.3
TOTAL PUBLIC SECTOR	-5.1	-3.8	57.0	9.2

* Provisional

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

[2] Refers to Government wholly-owned corporations.

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

4.17. Real average earnings are analysed to present the effects of inflationary pressures on workers' earnings over a period of time. This gives the real value of their earnings given the prevailing inflation rates. Table 4.11 and 4.12 present the estimated real average earnings per employee over the period 2003 to 2007 and their respective inflation rates. As shown in Table 4.11, overall real average earnings declined by 0.3 per cent between 2006 and 2007, while those for workers in the public sector declined by a higher rate of 1.7 per cent over the same period.

Table 4.11: Estimated Real Average Wage Earnings per Employee[1], 2003 - 2007

KSh Mn Per Annum

	2003	2004	2005+	2006+	2007*
PRIVATE SECTOR:					
Agriculture and Forestry	61,522.9	65,236.1	65,426.4	64,224.6	61,405.0
Mining and Quarrying	86,256.2	93,734.0	96,653.2	97,498.7	96,332.7
Manufacturing	83,539.2	90,173.4	90,505.7	89,319.1	85,970.7
Electricity and Water	279,239.5	304,422.6	312,352.4	300,116.5	305,257.9
Building and Construction	150,087.6	168,213.6	177,082.7	184,828.8	186,249.2
Trade, Restaurants and Hotels	256,174.2	281,627.4	292,838.1	297,263.0	287,635.3
Transport and Communications	290,764.7	327,784.8	349,527.3	344,721.6	327,517.2
Finance, Insurance ,Real Estate and Business Services	330,189.7	366,879.1	386,401.0	400,363.2	408,148.7
Community, Social & Personal Services	192,654.1	213,135.8	221,747.2	226,374.3	225,715.8
TOTAL PRIVATE SECTOR	159,767.3	177,743.0	186,685.9	191,253.6	190,155.2
PUBLIC SECTOR:					
Agriculture and Forestry	91,323.6	98,862.4	94,055.6	91,660.0	90,230.7
Mining and Quarrying	114,905.2	117,802.5	106,484.2	98,661.7	91,811.5
Manufacturing	98,018.2	104,442.9	96,702.2	96,297.8	92,209.8
Electricity and Water	186,278.2	201,164.3	191,388.0	186,389.4	182,250.8
Building and Construction	131,689.5	142,451.5	135,711.1	132,447.3	129,975.1
Trade, Restaurants and Hotels	206,699.1	226,167.8	236,803.4	241,597.9	249,536.0
Transport and Communications	203,260.0	225,096.3	223,527.2	220,145.6	233,259.4
Finance, Insurance ,Real Estate and Business Services	325,616.3	366,073.8	359,389.4	358,535.1	363,673.9
Community, Social & Personal Services	140,750.4	149,029.5	143,343.2	138,995.9	135,084.0
TOTAL PUBLIC SECTOR	144,155.7	154,438.6	149,105.0	145,702.7	143,271.1
TOTAL PRIVATE AND PUBLIC SECTOR	153,800.2	169,044.7	173,092.9	175,336.4	174,784.0
MEMORANDUM ITEMS IN PUBLIC SECTOR:					
Central Government	95,724.0	114,173.4	114,600.8	112,311.5	107,260.2
Teachers Service Commission	129,670.5	134,693.9	134,173.5	131,548.2	129,206.0
Parastatal Bodies[2]	250,787.9	267,175.6	243,251.8	223,444.7	237,313.6
Majority Control by the Public Sector[3]	329,680.7	352,874.7	321,267.0	295,098.2	313,414.4
Local Government +	75,015.9	72,435.6	66,179.4	87,118.8	99,005.9
TOTAL PUBLIC SECTOR	144,155.7	154,438.6	149,105.0	145,702.7	143,271.1

* Provisional.

\+ Revised.

[1] Average current earnings adjusted for the rise in consumer prices. Real Earnings and the consumer price indices, refer to the position as at 30th June , but the figures are annualised by multiplying by 12 for earnings.

[2] Refers to Government wholly-owned corporations.

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

Table 4.12: Changes in Wage Employment, Prices and Real Earnings, 2003 - 2007

Percentage

	2003	2004	2005+	2006+	2007*
Wage employment	1.6	2.1	2.5	2.8	2.6
Average earnings at current prices	12.5	16.4	14.6	12.4	10.8
Consumer prices (Inflation rates)[1]	13.7	5.9	11.9	10.9	11.1
Real average earnings[2]	-2.7	9.9	2.4	1.3	-0.3

* Provisional.

\+ Revised.

[1] Inflation rates as at June of each year

[2] Revised after deflating with the June CPI

Employment in the Informal Sector

4.18. The concept of the informal sector was introduced in Kenya in 1972 by the International Labour Organization (ILO) in its Kenyan Mission Report. The sector commonly referred to as the 'jua kali' continues to play an important role in the labour market. It reduces unemployment by creating jobs for persons in the labour force that are not able to get into the modern sector. Nevertheless, there is an increasing number who are in the sector by preference irrespective of whether they are able to join the formal sector or not. It is characterised by ease of entry, reliance on indigenous resources, family ownership and small scale operations. It is also labour intensive, exploits adaptive technology, acquires skills outside formal sector, and operates in unregulated and competitive markets. However, in most cases the jobs are lowly paid and lack security. The majority of the small businesses such as retailers and hawkers fall in this sector.

4.19. As shown in Table 4.13, employment in the informal sector grew by 6.1 per cent in 2007 compared to 6.3 per cent in 2006. Employment in the sector reached 7,475.6 thousand in 2007 from 7,048.7 thousand in 2006. This indicates that a total of 426.9 jobs were created in the informal sector in 2007 compared to 420.2 thousand in 2006. The slow growth in this sector may be attributed to expansion of the formal sector.

Table 4.13: Number of Persons Engaged in the Informal Sector by Province, 2003 - 2007

'000

Province	2003	2004	2005+	2006+	2007*
Nairobi	1,384.6	1,487.3	1,601.4	1,702.3	1,806.0
Central	905.3	976.5	1,049.4	1,116.0	1,183.5
Nyanza	673.2	731.4	783.5	833.6	883.7
Western	415.9	445.4	480.4	510.4	541.7
Rift Valley	1,081.8	1,167.5	1,254.4	1,334.4	1,414.9
Eastern	522.6	570.4	609.7	648.9	687.7
Coast	707.1	760.4	818.3	869.8	922.8
North Eastern	25.9	29.3	31.3	33.3	35.3
TOTAL	5,716.4	6,168.2	6,628.4	7,048.7	7,475.6
Of which					
Urban	1,889.1	2,030.9	2,585.1	2,749.0	2,915.5
Rural	3,827.3	4,137.3	4,043.3	4,299.7	4,560.1

* Provisional

\+ Revised

4.20. Table 4.13 further shows that the highest level of employment in this sector was in Nairobi with 1,806.0 thousand employees representing almost one quarter of the total informal sector jobs in 2007. Rift Valley Province and Central Province followed with employment levels of 1,414.9 thousand and 1,183.5 thousand, respectively. The distribution of employment in the sector by rural/urban residence showed that 4,560.1 thousand persons in the informal sector were employed in the rural areas in 2007.

4.21. The distribution of employment in the informal sector by activity is presented in Table 4.14. The largest share of persons employed in the sector was in Wholesale and Retail Trade, Hotels and Restaurants industry with 4,386.8 thousand persons accounting for 58.7 per cent of total informal sector employment. This was followed by Manufacturing with a share of 21.7 per cent. The two sectors also contributed to the highest number of jobs created in the informal sector in 2007.

Table 4.14: Number of Persons Engaged in the Informal Sector by Activity 2003 - 2007

'000

Activity	2003	2004	2005+	2006+	2007*
Manufacturing	1,236.1	1,318.5	1,434.0	1,532.4	1,619.0
Building & Construction	163.8	173.7	190.2	204.2	215.0
Wholesale and Retail Trade, Hotels and Restaurants	3,356.3	3,632.4	3,890.8	4,131.6	4,386.8
Transport and Communications	170.1	186.5	197.9	209.8	223.0
Community, Social and Personal Services	530.3	576.9	614.2	650.6	692.2
Others	259.8	280.2	301.2	320.1	339.6
TOTAL	5,716.4	6,168.2	6,628.3	7,048.7	7,475.6

* Provisional

\+ Revised

Developments in the Labour Market

Revised Labour Laws

4.22. An important factor in the operations of the labour markets is the industrial relations system which regulates employment in the modern sector through the implementation of labour laws. The labour laws cover many aspects of labour administration including employment and working conditions. In 2007, the Government enacted revised labour laws resulting from the working of a Task Force formed in 2001. The task force was mandated to review all labour laws and make them consistent with the International Labour Organization's Conventions and Recommendations. The revised laws are consistent with changes that have taken place in the Kenyan labour market since the colonial era and the challenges emerging in the 21st Century. The laws are as discussed below.

4.23. The Employment Act No. 11 of 2007 declares and defines the fundamental rights of employees; provides basic conditions of employment of employees and regulates employment of children. This act also provides for freedom from discrimination, sexual harassment as well as freedom from forced labour. It protects workers against unfair dismissals for reasons other than disciplinary and available remedies from the Industrial Court.

4.24. The Labour Institutions Act No. 12 of 2007 regulates the establishment of labour institutions to provide for their functions, powers and duties. This Act also provides for the establishment of a National Labour Court and Subordinate Labour Courts as well as a National Labour Board to advice the Minister on labour legislation and matters.

4.25. Work Injury Benefits No. 13 of 2007 Act deals with compensation to employees for injuries suffered and occupational diseases contracted in the course of employment, insurance of employees and related matters. The new law introduces compulsory insurance cover on account of workmen compensation and removed the limitations of earning levels thereby widening the coverage of employees.

4.26. The Labour Relations Act No. 14 of 2007 deals with the registration, regulation, management and democratisation of trade unions, to promote sound labour relations through protection and promotion of freedom of association, the encouragement of orderly and expeditious dispute settlement, conducive social justice and economic development and related matters.

4.27. The Occupational Safety and Health Act No. 15 of 2007 provides for the safety, health and welfare of persons employed, all persons lawfully present at work places and related matters. It also provides for shop floor committee of Occupational Safety and Health to report any non-compliance of the law without any reprisals by the employer. The period under which the employees could have acquired occupational disease is broadened to capture diseases that incubate for a longer period after the exposure.

Wage Awards

4.28. The objectives of the national wage policy is to among others; assure wage earners a reasonable share of the national product, promote a harmonious and just relationship between employers and workers in different sectors of the economy, and be responsive to the demands of the economy. The wage guidelines, revised in November 2005 have continued to be an important factor in the Government's employment policy and crucial in the promotion of harmonious industrial relations. These guidelines have also provided a basis for negotiations of terms and conditions of employment as well as arbitration and settlement of trade disputes. The Government mainly pursues the policy by issuance of statutory minimum wages and negotiated wages. The current wage guidelines issued to the Industrial Court give consideration to realized productivity gains, the ability of the economy to sustain increased labour costs and the cost of living compensation factor in the determination of wage awards.

4.29. In its commitment to improve the terms and condition of service for Civil Servants, the Government increased the salaries for officers in Job Group "A" to "N" effective from July, 2007. Salaries for officers in Job Group "A" to "L" was increased on average by 15.8 per cent while those for cadres in Job Group "M" and "N" were raised by 23.6 per cent. The minimum monthly salary in Job Group "A" rose to KSh 7,466 from the previous KSh 6,450

while that of Job Group "N" was increased to KSh 40,835 from KSh 30,708.

4.30. In 2007, the Government departed from the tradition of raising the Minimum Statutory wages. The prevailing minimum wages therefore are the Regulation of Wages (Agricultural Industry) Order, 2006 and the Regulation of Wages (General Amendment) Order, 2006. Details are provided in Table 4.15 and Table 4.16.

Table 4.15: Gazetted Monthly Basic Minimum Wages for Agricultural Industry, 2003 - 2007[1]

KSh

Type of Employee	2003	2004	2005	2006	2007
UNSKILLED EMPLOYEES	1,888	2,096	2,285	2,536	2,536
Stockman, Herdsman and Watchman	2,180	2,420	2,638	2,928	2,928
SKILLED AND SEMI-SKILLED EMPLOYEES					
House servant or cook	2,155	2,392	2,607	2,894	2,894
Farm foreman	3,405	3,780	4,120	4,573	4,573
Farm clerk	3,405	3,780	4,120	4,573	4,573
Section foreman	2,205	2,448	2,668	2,961	2,961
Farm artisan	2,257	2,505	3,730	3,030	3,030
Tractor driver	2,393	2,656	2,895	3,213	3,213
Combined harvester driver	2,636	2,926	3,189	3,540	3,540
Lorry driver or car driver	2,767	3,701	3,347	3,715	3,715
AVERAGE	2,529	2,870	3,060	3,396	3,396

Source: Ministry of Labour & Human Resource Development

[1] No new minimum wages were gazetted in 2007

Table 4.16: Gazetted Monthly Basic Minimum Wages in Urban Areas (Excluding Housing Allowance), 2005 - 2007[1]

KSh

Occupation	Nairobi Area , Mombasa & Kisumu			Other Municipalities			All other towns		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
General labourer	4,638	5,195	5,195	4,279	4,792	4,792	2,474	2,771	2,771
Miner, stone cutter, turnboy, waiter, cook	5,010	5,611	5,611	4,445	4,978	4,978	2,860	3,203	3,203
Night watchman	5,175	5,796	5,796	4,797	5,373	5,373	2,952	3,306	3,306
Machine attendant	5,257	5,888	5,888	4,892	5,479	5,479	3,965	4,441	4,441
Machinist	6,001	6,721	6,721	5,614	6,288	6,288	4,590	5,141	5,141
Plywood machine operator	6,261	7,012	7,012	5,778	6,471	6,471	4,776	5,349	5,349
Pattern designer	7,145	8,002	8,002	6,531	7,315	7,315	5,569	6,237	6,237
Tailor, Driver (medium vehicle)	7,873	8,818	8,818	7,237	8,105	8,105	6,452	7,226	7,226
Dyer, Crawler, Tractor driver, Salesman	8,692	9,735	9,735	8,110	9,083	9,083	7,320	8,198	8,198
Saw doctor, Caretaker (building)	9,620	10,774	10,774	8,982	10,060	10,060	8,367	9,371	9,371
Cashier, Driver (heavy commercial)	10,467	11,723	11,723	9,849	11,031	11,031	9,235	10,343	10,343
Artisan (Ungraded)	6,261	7,012	7,012	5,778	6,471	6,471	4,776	5,349	5,349
Artisan Grade III	7,873	8,818	8,818	7,237	8,105	8,105	6,452	7,226	7,226
Artisan Grade II	8,692	9,735	9,735	8,110	9,083	9,083	7,320	8,198	8,198
Artisan Grade I	10,467	11,723	11,723	9,849	11,031	11,031	9,235	10,343	10,343
AVERAGE	7,295	8,171	8,171	6,766	7,578	7,578	5,756	6,447	6,447

Source: Ministry of Labour and Human Resource Development

[1] No new minimum wages were gazetted in 2007

Registered Collective Bargaining Agreements

4.31. The collective bargaining agreements are used by employers and workers to negotiate for better terms and conditions of employment. Table 4.17 presents the number of collective bargaining agreements registered by the Industrial Court in 2006 and 2007. The number of agreements registered were 317 in 2007 compared to 344 in 2006. The number of unionisable employees who benefited from these agreements were 61,251. The average monthly basic wage awarded by the Industrial Court was KSh 16,781.80 in 2007 while the average housing allowance awarded was KSh 2,807.30 in 2007.

Table 4.17: Collective Agreements Registered by the Industrial Court, 2006 and 2007*

Consumer Price Index

4.32. Annual inflation rate is the change in the average Consumer Price Index (CPI) between two consecutive calendar years. The overall annual inflation rate as estimated by the CPI decreased from 14.5 per cent in 2006 to 9.8 per cent in 2007. Table 4.18 shows annual inflation rates for the different income groups for the last five years. The annual inflationary pressures eased up most in the Nairobi lower income group which recorded a drop in inflation rate from 19.6 per cent in 2006 to 9.4 per cent in 2007. Similarly, there was a drop in inflation rate for the rest of urban areas. However, the inflation rate for Nairobi Middle/Upper income groups increased from 6.5 to 7.1 per cent in 2006 and 2007, respectively. The underlying inflation which excludes food items from the CPI basket increased marginally from 5.5 per cent in 2006 to 5.7 per cent in 2007.

4.33. The decline in inflation rate can mainly be attributed to favourable weather conditions in the first half of 2007 compared to 2006, the appreciation of the Kenya Shilling from an average exchange rate of KSh 72.10 per US Dollar in 2006 to KSh 67.32 in 2007 and prudent management in the monetary policy.

Table 4.18: Annual Inflation Rates 2003-2007

Income Group	2003	2004	2005	2006	2007
Nairobi Lower Income Inflation[1].....	10.8	14.4	11.7	19.6	9.4
Nairobi Middle/Upper Income Inflation[2]	4.8	8.0	10.1	6.5	7.1
Nairobi Inflation.....	9.6	13.2	11.4	17.3	9.1
Rest of Urban Towns Inflation...	9.9	10.6	9.6	12.6	10.2
Overall Inflation Rate.....	9.8	11.6	10.3	14.5	9.8

[1] The lower income group comprises households with monthly earnings below Kshs. 10,000 in October 1997

[2] The Middle/Upper income group comprises households with monthly earnings above Kshs.10,000 in October 1997

4.34. Tables 4.19, 4.20, 4.21, 4.22 and 4.23 show a five year series of the CPI for the Nairobi lower, Nairobi middle/upper, Nairobi combined, rest of urban areas and the whole Kenya combined respectively. Despite the drop in the overall inflation rate, the monthly CPIs were generally rising in all the income groups.

4.35. The annual average CPI for Nairobi lower income group increased from 220.08 in 2006 to 240.85 in 2007 giving a rise of 9.4 per cent in annual inflation rate as shown in Table 4.19. In 2007, the lowest CPI was recorded in May while the highest was observed in December for the same income group. Table 4.20 shows an average annual CPI of 167.20 in 2006 and 179.13 in 2007 for the Nairobi middle/upper income groups. This translates to an annual inflation rate of 7.1 per cent. The monthly CPI for this income group ranged from a low of 174.48 recorded in January to a high of 186.32 in November 2007.

Table 4.19: Consumer Price Indices for the Nairobi Lower Income Group, 2003-2007

(October 1997=100)

Months	2003	2004	2005	2006	2007
January	135.40	149.80	176.87	220.63	237.69
February	137.22	153.41	180.15	232.47	241.18
March	143.23	156.08	184.38	232.81	241.85
April	147.87	157.91	189.36	226.30	235.04
May	154.49	160.08	189.43	219.93	233.01
June	153.92	161.71	184.63	209.83	236.97
July	145.05	161.54	183.01	206.44	238.74
August	140.32	173.48	182.68	209.63	239.69
September	139.70	177.75	179.99	215.39	241.81
October	143.69	178.35	181.90	221.38	242.36
November	143.24	173.26	186.10	219.33	245.81
December	144.29	173.62	190.29	226.83	256.09
Annual average	144.04	164.75	184.07	220.08	240.85

Table 4.20: Consumer Price Indices, Nairobi Middle/Upper income Group, 2003-2007

(October 1997=100)

Months	2003	2004	2005	2006	2007
January	128.43	136.11	152.76	165.64	174.48
February	129.28	137.24	153.63	168.19	176.19
March	130.59	137.90	154.46	168.75	174.53
April	131.84	138.50	157.48	169.19	174.51
May	135.39	139.71	157.55	167.39	174.94
June	135.36	142.64	158.22	164.42	176.66
July	132.56	142.10	157.13	162.95	177.68
August	131.66	145.35	157.64	165.74	179.45
September	131.80	147.93	158.25	167.24	184.21
October	132.99	149.43	158.81	168.12	185.19
November	132.69	147.99	158.80	168.85	185.39
December	132.92	146.79	159.70	169.99	186.32
Annual average	132.13	142.64	157.04	167.20	179.13

Table 4.21: Consumer Price Indices, Overall Nairobi, 2003-2007

(October 1997=100)

Months	2003	2004	2005	2006	2007
January	134.00	147.06	172.05	209.64	225.05
February	135.63	150.18	174.84	219.61	228.18
March	140.71	152.45	178.40	220.00	228.38
April	144.67	154.03	182.99	214.88	222.93
May	150.67	156.01	183.05	209.42	221.39
June	150.21	157.90	179.35	200.74	224.91
July	142.55	157.65	177.83	197.74	226.53
August	138.59	167.85	177.67	200.85	227.64
September	138.12	171.79	175.64	205.76	230.29
October	141.55	172.57	177.28	210.73	230.93
November	141.13	168.21	180.64	209.23	233.73
December	142.02	168.25	184.17	215.46	242.14
Annual average	141.65	160.33	178.66	209.51	228.51

Table 4.22: Consumer Price Indices, Rest of Urban areas, 2003-2007

(October 1997=100)

Months	2003	2004	2005	2006	2007
January	142.50	154.99	175.97	195.69	217.85
February	144.06	157.47	176.94	202.50	220.53
March	146.93	159.14	178.75	208.03	223.26
April	148.52	160.83	183.75	207.91	222.39
May	155.52	163.86	185.43	208.08	222.12
June	156.40	166.52	184.61	203.57	224.95
July	153.82	165.01	183.33	200.70	226.60
August	150.27	169.13	181.89	201.00	224.56
September	148.93	172.21	181.86	203.19	226.74
October	149.90	173.92	181.53	206.24	229.37
November	151.07	173.83	182.83	208.18	232.99
December	152.12	174.75	185.85	213.12	238.26
Annual average	150.00	165.97	181.90	204.85	225.80

Table 4.23: Consumer Price Indices, Kenya, 2003-2007

(October 1997=100)

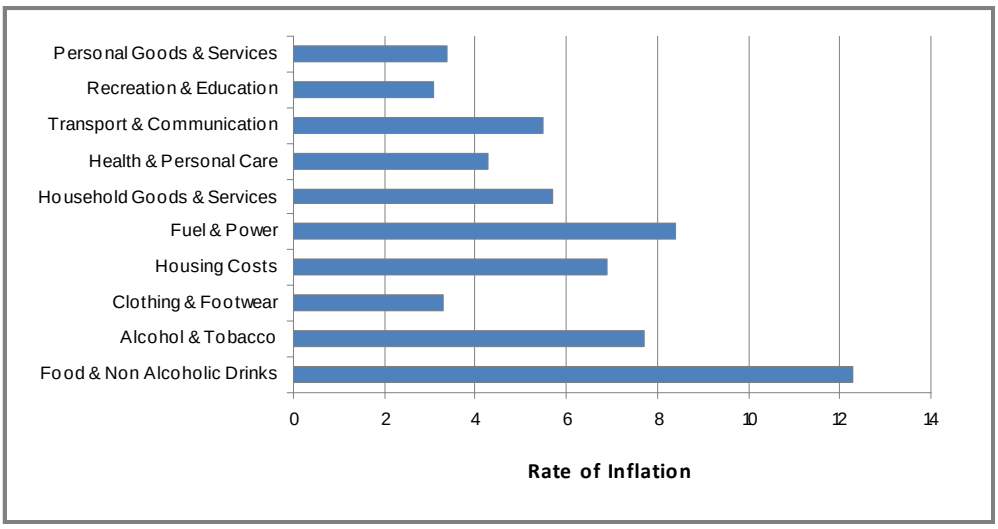
Months	2003	2004	2005	2006	2007
January	139.11	151.83	174.41	201.25	220.72
February	140.70	154.56	176.10	209.33	223.59
March	144.45	156.47	178.61	212.80	225.30
April	146.98	158.12	183.45	210.69	222.61
May	153.58	160.73	184.48	208.62	221.83
June	153.93	163.08	182.51	202.45	224.93
July	149.32	162.07	181.14	199.52	226.57
August	145.61	168.62	180.21	200.94	225.79
September	144.62	172.04	179.38	204.22	228.16
October	146.57	173.38	179.83	208.04	229.99
November	147.10	171.59	181.96	208.60	233.28
December	148.09	172.16	185.18	214.05	239.81
Annual average	146.67	163.72	180.61	206.71	226.88

Table 4.24: CPI and Inflation by Commodities 2006 and 2007

Broad Item Group	Weights (Percentage)	Annual Average Index	Annual Average Index	% Change
		2006	2007	
Food & Non-Alcoholic Drinks	50.50	250.89	281.84	12.3
Alcohol & Tobacco	2.97	172.03	185.24	7.7
Clothing & Footwear	9.00	122.96	126.98	3.3
Housing Costs	11.74	153.46	164.10	6.9
Fuel & Power	4.18	270.84	293.63	8.4
Household Goods & Services	5.82	139.94	147.90	5.7
Health & Personal Care	1.59	188.76	196.81	4.3
Transport & Communication	5.75	190.08	200.48	5.5
Recreation & Education	6.02	151.91	156.65	3.1
Personal Goods & Services	2.45	135.21	139.83	3.4
Average of all Items	100.00	206.71	226.88	9.80

4.36. The annual average CPI for food and non-alcoholic drinks changed from 250.89 in 2006 to 281.84 in 2007 as depicted in Table 4.24. This represents an annual inflation rate of 12.3 per cent for food and non-alcoholic drinks which was the highest among the broad item groups. Fuel and power which was ranked second recorded an inflation rate of 8.4 per cent while alcohol and tobacco recorded 7.7 per cent as shown in Figure 4.2. The rise in food inflation was mainly due to increases in the prices of wheat flour, tomatoes and cooking fats. The average cost of a 2 Kg packet of wheat flour rose by 24.9 per cent from KSh 74.03 in 2006 to KSh 94.29 in 2007. Similarly the price of tomatoes went up by 19.4 per cent from an annual average of KSh 39.57/Kg in 2006 to KSh 47.26/Kg in 2007. The price of cooking fat increased by 19.1 per cent from an average of KSh 63.07/Kg to KSh 75.05/Kg in 2006 and 2007, respectively.

Figure 4.2: Inflation Rate by Commodity Group - 2007



Chapter 5
Money, Banking and Finance

Overview

In 2007, the Government through the Central Bank of Kenya (CBK) continued to pursue monetary policy aimed at price stabilisation. Various monetary policy tools including Open Market Operations (OMO) and the Bank Rate which was set at 8.75 per cent were used. The bank further set targets for various monetary aggregates with the policy benchmark, broad money supply aggregate M3, being targeted to expand by 14.0 per cent. However this target was not met as M3 expanded by 19.1 per cent owing to more than anticipated inflows of foreign exchange and a significant credit creation by commercial banks particularly to the private sector. All interest rates edged up slightly with the 91 day treasury bills rate rising by 1.04 percentage points to 6.87 per cent over the twelve months to December 2007. However this rise was more than offset by the overall inflation rate at 9.8 per cent that resulted in negative real interest rates with the exception of the commercial banks lending interest rate which remained positive. Average liquidity for the banking sector lowered by 4.0 percentage points but remained high above the statutory requirement of 20 per cent at 41 per cent.

Monetary Indicators and Aggregates

5.2. Table 5.1 presents monetary indicators for the period 2003-2007. Net foreign assets in the period under review increased to KSh 256.7 billion in 2007, a 22.5 per cent growth. There was a notable increase in private domestic credit (including credit to other public bodies) from KSh 465.3 billion in 2006 to KSh 533.8 billion in 2007. Broad money supply, M3 grew by 19.1 per cent in 2007 compared to 17.1 per cent in 2006. Liquidity in the banking system reduced to 41. per cent, while advances to deposits ratio reduced from 77.0 per cent in 2006 to 73.0 per cent as at December 2007.

Table 5.1: Monetary Indicators, 2003-2007

As at end of	Net Foreign Assets KSh mn	DOMESTIC CREDIT KSh mn			Money Supply[2](M3) KSh mn	Commercial Bank Liquidity Ratio per cent	Advances / Deposits Ratio per cent
		Private[1]	Government	Total			
2003 Dec	123,561	308,880	134,278	443,157	451,172	49.2	77
2004 Dec	143,129	379,617	121,543	501,160	511,425	42.3	83
2005 Dec	158,055	410,476	118,915	529,392	557,770	42.3	80
2006 Dec	209,528	465,289	134,728	600,017	653,036	45.3	77
2007 Mar	221,733	484,386	131,649	616,035	677,349	45.7	77
Jun	224,095	464,091	154,942	619,033	708,392	44.5	69
Sep	226,842	486,997	157,330	644,327	733,329	42.9	70
Dec	256,690	533,804	136,968	670,771	777,596	41.4	73

Source: Central Bank of Kenya

[1] -Includes other public sectors

[2] -See Table 5.2 for coverage

Consolidated Accounts of the Banking System

5.3. Table 5.2 presents various monetary aggregates for the period 2003 to 2007. Narrow money supply, M1 expanded by 27.9 per cent in December 2007 to KSh 373.3 billion from KSh 291.8 billion in 2006. Broad money supply M2 expanded by 20.4 per cent in 2007 compared to 16.7 per cent in 2006 while overall liquidity increased by 18.2 per cent.

Table 5.2: Money Supply Aggregates[1],2003-2007

KSh Million

			Quasi-Money		Broad Money Supply		Overall liquidity
		Money (M1)	Banks	NBFIs	M2	M3	L
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	Dec	291,789	250,952	12,984	553,907	653,036	821,748
2007	Jan	293,041	253,252	12,768	556,910	657,262	830,696
	Feb	289,727	259,830	12,586	560,627	659,949	836,414
	Mar	293,928	270,903	13,072	576,281	677,349	855,686
	Apr	299,033	271,383	13,136	581,901	682,168	861,658
	May	325,512	249,610	13,061	586,137	690,543	884,354
	Jun	338,825	255,833	13,253	605,550	708,392	884,354
	Jul	339,831	263,415	13,340	612,677	713,613	892,613
	Aug	352,317	265,706	13,340	629,048	730,333	903,303
	Sep	349,774	270,440	13,658	631,142	733,329	909,545
	Oct	350,741	275,024	13,751	637,641	739,663	923,576
	Nov	360,486	274,171	10,719	643,052	745,268	935,925
	Dec	373,310	281,635	14,321	666,875	777,596	971,222

Source: Central Bank of Kenya

[1] -Series revised In line with harmonization of definitions within the East African Community(EAC), see notes Table 5.3

5.4. Table 5.3 presents the consolidated accounts of the banking system for the period 2003-2007. Assets and liabilities of the banking system grew by 14.6 per cent in 2007 to KSh 927.5 billion compared to a 17.8 per cent growth recorded in 2006. Net foreign assets expanded by 22.5 per cent compared to a 32.5 per cent growth in December 2006. Domestic credit directed to the Central Government increased by 1.7 per cent from KSh 134.7 billion in 2006 to KSh 137.0 billion in 2007 while credit to other public bodies reduced by 22.3 per cent over the same period.

5.5. Narrow money supply, M1 increased by 27.9 per cent from KSh 291.8 billion in December 2006 to KSh 373.3 billion in December 2007. The increase in M1 was mainly due to increases of 28.7 per cent in demand deposits and 25.7 per cent in currency outside banks to KSh 277.2 billion and KSh 96.1 billion respectively.

Table 5.3: Consolidated Accounts of the Banking System, 2003 - 2007

As at the end of — Ksh. Million

	2003	2004	2005	2006	2007			
	Dec.	Dec.	Dec.	Dec.	March	June	September	December
LIABILITIES-								
1 Money (M1):								
1.1 Demand Deposits	138,305	147,870	164,795	215,310	217,298	260,544	269,590	277,186
1.2 Currency outside banks ..	55,550	62,728	66,327	76,479	76,630	78,281	80,184	96,124
Sub-Total	193,855	210,598	231,122	291,789	293,928	338,825	349,774	373,310
2 Quasi-Money(MS):								
2.1Call + 7 days Notice Deposits..	19,463	16,413	27,157	31,590	34,993	38,204	37,943	43,276
2.2 Savings Deposits	76,972	88,893	76,140	87,994	94,349	69,063	76,920	83,617
2.3 Time Deposits	90,726	103,934	158,558	149,183	160,263	171,339	182,945	177,979
Sub-Total (quasi-money ban	187,161	209,239	231,402	250,952	270,903	255,833	270,440	281,635
Money(M1) & MS(Banks)	432,567	419,837	462,524	542,741	564,831	594,658	620,214	654,945
3 Quasi-Money (NBFIs)	14,100	12,729	11,966	12,984	13,072	13,253	13,658	14,321
Broad Money Supply(M2)	395,116	432,567	474,490	553,907	576,281	605,550	631,142	666,875
4 Foreign Currency Deposits	56,056	78,858	83,280	99,129	101,068	102,843	102,188	110,721
Broad Money Supply(M3)	451,172	511,425	557,770	653,036	677,349	708,392	733,329	777,596
5 Treasury Bill Holdings	114,024	130,014	148,734	168,713	178,337	175,961	176,216	193,626
Broad Money Supply(L)	565,196	641,440	706,504	821,749	855,686	884,354	909,545	971,222
6 Other Items (Net)	115,547	132,863	129,677	156,508	160,418	134,736	137,839	149,866
TOTAL	566,719	644,288	687,447	809,544	837,767	843,128	871,168	927,462
ASSETS-								
7 Net Foreign Assets	123,561	143,129	158,091	209,528	221,733	224,095	226,842	256,690
8 Domestic Credit:								
8.1 Central Govt. (Net).. ..	134,278	121,543	118,879	134,728	131,649	154,942	157,330	136,968
8.2 Other Public Bodies ..	5,992	10,934	11,960	18,465	18,228	12,478	12,623	14,347
8.3 Private Sector	302,888	368,683	398,517	446,824	466,158	451,614	474,374	519,457
Sub-Total	443,157	501,160	529,356	600,017	616,035	619,033	644,327	670,771
TOTAL	566,719	644,288	687,447	809,544	837,767	843,128	871,168	927,462

Notes:

(a) Broad Money , M2, is money supplied by the Central Bank, Commercial Banks and NBFIs.
The items include currency outside banking institutions, deposits held by non-banking institutions with Central Bank, all deposits as well as certificates of deposits held by the private and other public sectors with banking institutions.
Excluded are Central Government, Local Government and Non-residents deposits with banking institutions.

(b) Broad Money , M3, comprises M2 and foreign currency holdings by residents.

(c) Broad Money , L, comprises M3 and Treasury Bill holdings by the non-bank public.

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

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

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

5.6. Quasi monetary deposits with commercial banks grew from KSh 251.0 billion in 2006 to KSh 281.6 billion in 2007, registering an expansion of 12.2 per cent. Similarly, call and 7 days notice deposits expanded by 37.0 per cent in 2007 from KSh 31.6 billion in 2006 to KSh 43.3 billion in 2007. There was a decline in savings deposits by 5.0 per cent in 2007 while time deposits increased by 19.3 per cent in the same period.

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

5.7. Table 5.4 presents changes in money supply M3 and the sources of the changes. Money supply, M3 increased by KSh 124.6 billion as at December 2007 compared to a change of KSh 95.3 billion in 2006. This outcome is mainly attributed to an increase in domestic credit extended to the private sector and a significant growth in net foreign assets mainly realised from export earnings and remittances from abroad.

Table 5.4: Changes in Money Supply and Sources of Changes[1], 2003 - 2007

KSh million

		2003	2004	2005	2006	2007
	MONEY SUPPLY					
1	Currency plus demand deposits	43,774	16,743	20,524	60,667	81,520
2	Quasi-money(MS)	-1,001	22,078	22,163	19,550	30,683
3	Quasi-money(NBFIs)	1,610	-1,370	-764	-800	1,337
4	Foreign Currency Deposits	2,005	22,802	4,422	15,849	11,592
5	Money supply (M3)	46,388	60,253	46,345	95,266	124,560
	SOURCES OF CHANGES					
6	Net foreign assets	19,185	19,567	14,926	51,437	47,163
7	All Domestic credit	32,925	58,003	28,232	70,661	70,755
	(a) to Central Government(net)	20,893	-12,735	-2,628	15,849	2,240
	(b) to other public sector	-2,024	4,942	1,026	6,505	-4,118
	(c) to private sector	14,056	65,796	29,834	48,307	72,633
8	Other Items (Net)	-5,722	-17,317	3,188	-26,831	6,643
9	Total sources of changes	46,388	60,253	46,345	95,266	124,560

[1]-Compare year-end values

5.8. Table 5.5 presents trends in the real value of selected financial aggregates for the period 2003 to 2007. In real terms, broad money supply M3 and overall liquidity L increased by 28.5 per cent and 8.1 per cent respectively over the 12 months to December 2007. Liabilities of non-bank financial institutions (NBFIs) also increased by 13.0 per cent in 2007 compared to a reduction of 11.3 per cent in 2006. However, this formed a small proportion of the total liabilities of the banking system during the period under review.

Table 5.5: Trends in the Real Value of Selected Financial Aggregates[1],2003 - 2007 at Constant (1997) Prices

KSh Million

	2003	2004	2005	2006	2007
1 Money Supply(M3)....	268,059	289,818	262,730	266,673	342,553
2 Money Supply(L)....	382,907	391,791	391,198	395,623	427,851
3 Commercial bank credit to private sector	147,270	169,248	163,728	162,549	168,905
4 Total commercial bank credit	197,448	239,032	216,984	211,463	225,013
5 Commercial Banks' Deposit Liabilities	258,083	268,371	273,112	285,811	302,769
6 Total liabilities of banking system .. .	383,280	393,530	380,646	389,747	408,573
7 NBFIs credit to private sector	9,907	8,613	7,634	6,951	7,270
8 Total NBFIs Credit	9,907	8,613	7,634	6,951	7,270
9 Total liabilities of non-bank financial institutions(NBFIs)	16,398	13,651	12,014	10,661	12,052
Memorandum Item:					
10 Line 5 as per cent of line 6 ..	67	68	72	73	74
11 Line 9 as per cent of line 6 ..	4	3	3	3	3

1 - Deflated by average Consumer Price Indices.

Nominal and Real Principal Interest Rates

5.9. Table 5.6. shows the nominal principal interest rates for the period 2003-2007. The average interest rate for the 91-day treasury bills rose by 1.04 percentage points to stand at 6.87 per cent in December 2007 compared to a drop of 2.31 percentage points in the previous period. The Central Bank rate was lowered by 1.25 percentage points to 8.75 per cent comparing year end periods. Inter-bank rates rose marginally by 0.71 percentage points indicating improved stability in liquidity of commercial banks during the year under review. Repurchase Agreement Order Securities (REPOs) interest rates however increased by 0.30 percentage points to settle at 6.64 per cent by December 2007. Commercial banks' average interest rates rose slightly , increasing from 4.11 per cent in December 2006 to 4.32 per cent in December 2007. Savings deposits rates also rose marginally from 1.36 per

December 2006 to 1.54 per cent in June 2007 and closing the year at 1.67 per cent. Interest rates on loan and advances and overdrafts declined by 0.42 and 0.95 percentage points respectively. The spread between loans and average deposit rates narrowed slightly from 9.63 percentage points in December 2006 to 9.0 percentage points in December 2007.The spread between maximum lending interest rate and the average deposit rate improved from 9.8 percentage points in December 2006 to 9.00 percentage points in December 2007.

Table 5.6: Principal Interest Rates, 2003-2007

Percentage

					2007	
	2003	2004	2005	2006	June	December
CENTRAL BANK OF KENYA						
Average Interest Rate for 91 day Treasury Bills ..	1.41	8.29	8.14	5.83	6.53	6.87
Central Bank Rate[1]	..	..	..	10.00	8.50	8.75
REPO rate	0.78	8.97	7.74	6.34	7.07	6.64
Inter-bank rate..	0.81	9.41	7.79	6.34	6.98	7.05
COMMERCIAL BANKS[2]						
Average deposits	3.29	2.77	4.38	4.11	4.18	4.32
Savings deposits	1.38	0.98	1.38	1.36	1.54	1.67
Loan and Advances	13.47	12.3	13.16	13.74	13.14	13.32
Overdraft	13.74	12.7	13.67	13.91	13.26	12.96

Source: Central Bank of Kenya.

[1]-Bank Rate Introduced in 2006

[2]-Weighted average commercial bank interest rates

5.10. Trends in selected real interest rates are presented in Table 5.7. All interest rates except that of commercial banks' loans and advances were negative, reflecting the inflationary effects experienced during the period under review. Average real interest rate for the 91-day treasury bills however, negative improved from negative 8.67 per cent in 2006 to negative 2.93 per cent in 2007. The average real interest rates on commercial banks' average savings deposits rose from negative 13.14 per cent in 2006 to close at negative 8.13 per cent in 2007. The maximum real interest rates on commercial bank loans and advances registered a notable rise from negative 0.80 per cent in 2006 to 3.52 per cent in 2007. In real terms, the inter-bank interest rates rose from negative 8.16 per cent in 2006 to negative 2.75 per cent in 2007.

Table 5.7: TRENDS IN SELECTED REAL INTEREST RATES, 2003 - 2007

Percentage

		Year	Nominal Interest	Inflation Rate[1]	Real Interest[2]
1	Average Interest Rate for 91-dayTreasury Bills	2003	1.40	9.8	-8.40
		2004	8.30	11.6	-3.30
		2005	8.14	10.3	-2.16
		2006	5.83	14.5	-8.67
		2007	6.87	9.8	-2.93
2	Commercial bank savings deposits (ave) .. .	2003	1.40	9.8	-8.40
		2004	0.98	11.6	-10.62
		2005	1.38	10.3	-8.92
		2006	1.36	14.5	-13.14
		2007	1.67	9.8	-8.13
3	Commercial bank loans and advances (max)	2003	13.50	9.8	3.70
		2004	12.25	11.6	0.65
		2005	13.16	10.3	2.86
		2006	13.70	14.5	-0.80
		2007	13.32	9.8	3.52
4	Inter-Bank Rate	2003	0.80	9.8	-9.00
		2004	9.41	11.6	-2.19
		2005	7.79	10.3	-2.51
		2006	6.34	14.5	-8.16
		2007	7.05	9.8	-2.75

[1]-Series revised to New CPI

[2]- Nominal interest rate minus inflation rate, gives the appropriate measure.

Central Bank's Balance Sheet

5.11 Table 5.8 presents Central Bank of Kenya Assets and Liabilities for the period 2003-2007. Assets/liabilities of the CBK grew by 25.6 per cent from KSh 221.6 billion in 2006 to KSh 278.4 billion in 2007. The growth in the assets could be partially attributed to the increase in the balances with external banks which went up by 34.4 per cent to close at KSh 223.0 billion in 2007. While there were no advances and discounts to banks in 2006, this asset stood at KSh 7.2 billion at the end of the period under review.

Table 5.8: Central Bank Assets and Liabilities 2003 - 2007

KSh Million

ASSETS	2003 31st Dec.	2004 31st Dec.	2005 31st Dec.	2006 31st Dec.	2007 March	2007 June	2007 September	2007 December
1. Foreign Exchange:-								
1.1 Balances with External Banks	110,822	115,712	128,568	165,907	176,510	179,726	187,166	223,046
1.2 Treasury Bills ..	-	-	-	-	-	-	-	-
1.3 Other Investments ..	308	397	650	1,078	1,116	1,152	1,311	1,003
1.4 Special Drawing Rights	171	46	30	61	21	5	84	47
Sub Total	111,301	116,155	129,248	167,046	177,647	180,883	188,561	224,096
2. Advances & Disc. to Banks ..	674	67	-	-	-	-	2,490	7,247
3. Direct Advances & Overdraft to Kenya Government	44,630	48,008	47,010	48,795	37,542	37,588	50,474	41,877
4. Other Assets including Kenya Treasury Bills & Bonds	19,835	12,387	4,288	5,725	5,603	5,017	5,151	5,148
TOTAL ASSETS ..	176,440	176,617	180,546	221,566	220,792	223,488	246,676	278,368
LIABILITIES :								
1. Capital and General Reserve Fund	10,400	11,033	6,898	9,645	9,645	9,259	9,259	9,259
2. Currency in Circulation-								
2.1 Notes	60,628	68,090	73,752	85,948	83,358	86,305	89,084	112,308
2.2 Coins	2,551	2,877	3,040	3,740	3,396	3,524	3,563	3,622
TOTAL CURRENCY	63,179	70,967	76,792	89,688	86,754	89,829	92,647	115,930
3 REPO SECURITIES[1]								
3.1 OMO-REPO sales	3,125	7,019	5,251	4,913	14,555	15,626	18,352	10,119
3.2 REPO-tap sales	-	-	-	-	-	-	-	-
Sub Total	3,125	7,019	5,251	4,913	14,555	15,626	18,352	10,119
Deposits								
4.1 Kenya Government	42,237	28,868	43,281	55,904	46,377	41,067	53,487	76,246
4.2 Kenya Banks[2]	24,221	29,978	30,305	35,234	36,497	39,441	40,547	40,881
4.3 External Banks	11,800	10,365	13,592	12,752	12,584	15,767	16,137	19,052
4.4 Other	9,809	12,056	8,375	10,003	11,787	10,813	10,023	5,806
Sub Total	88,067	81,267	95,553	113,893	107,245	107,088	120,194	141,985
5. Other Liabilities	11,669	6,331	-3,948	3,427	2,593	1,686	6,224	1,075
TOTAL LIABILITIES	176,440	176,617	180,546	221,566	220,792	223,488	246,676	278,368

Source: Central Bank of Kenya

[1] - REPOs securities included in the breakdown from January 2001.

[2] - deposits from commercial banks excluding non-bank financial institutions (NBFIs)

5.12. The expansion of liabilities of the CBK more than doubled rising to KSh 278.4 billion in 2007. This could be partly explained by the 30.7 per cent increase in currency notes in circulation; increase in deposits with external banks, the Government and domestic banks which increased by 49.4, 36.4 and 16.0 per cent respectively. The increase in Liabilities can further be explained by OMO-REPO sales that more than doubled from KSh 4.9 billion in 2006 to KSh 10.1 billion in 2007.

Commercial Banks' credit and liquidity

5.13. Table 5.9a summarises the Commercial Bank's bills, loans and advances for the period 2003-2007. Total bills, loans and advances increased by 16.3 per cent in December 2007 compared to 12.3 per cent in December 2006. Bills, loans and advances to the public sector reduced by 29.6 per cent to stand at KSh 14.5 billion in December 2007 compared to KSh 20.5 billion in December 2006. Bills, loans and advances to the Central Government reduced by 56.7 per cent, those to Other Public entities reduced by 26.9 per cent while those to Local Authorities reduced by 10.7 per cent. There has been a general decline in the bills, loans and advances to the Central Government since 2004 as the Government avoided the "crowding out effect" to private sector borrowing.

Table 5.9a: Commercial Banks - Bills, Loans and Advances[1], 2003 - 2007

KSh Million

	2003 Dec.	2004 Dec.	2005 Dec.	2006 Dec	2007 Dec
PUBLIC SECTOR:					
Central Government	2,805	3,007	2,068	2,502	1,083
Local Government	658	338	630	1,089	973
Enterprises, Parastatal bodies and other Public entities	6,282	11,168	10,830	16,951	12,398
TOTAL PUBLIC SECTOR	9,745	14,513	13,529	20,542	14,454
PRIVATE ENTERPRISES:					
Agriculture	28,117	30,807	33,685	33,038	28,128
Mining and Quarrying	1,493	1,934	2,399	3,034	5,971
Manufacturing	52,476	63,004	62,701	70,462	65,103
Building and Construction	16,995	17,615	21,421	30,227	31,576
Transport, Storage and Communication	16,750	20,194	27,093	39,051	47,125
Trade	46,619	47,498	51,275	53,053	63,703
Financial Institutions	6,372	7,641	13,292	15,185	23,649
Other Business	50,482	60,184	83,827	93,579	118,160
TOTAL PRIVATE ENTERPRISES	219,303	248,877	295,693	337,630	383,415
COMMUNITY AND PERSONAL SERVICES (including non-profit making institutions)	22,938	36,148	44,188	48,707	82,957
Other Activities (Nes)	41,625	63,589	38,463	32,351	29,955
TOTAL BILLS, LOANS AND ADVANCE	293,612	363,127	391,172	439,230	510,780

Source: Central Bank of Kenya.

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

5.14 Commercial banks' bills, loans and advances to the private sector rose by 13.6 per cent from KSh 337.6 billion in December 2006 to KSh 383.4 billion in December 2007. Notable increases in percentage terms were experienced in bills, loans and advances to Mining and Quarrying, Financial Institutions and other business sectors at 96.8, 55.7 and 26.3 per cent respectively. Credit to Transport, Storage and Communication; and Trade sectors increased by 20.7 per cent and 20.1 per cent respectively. Bills, loans and advances to agriculture and manufacturing sectors recorded declines of 14.9 per cent and 7.6 per cent respectively.

Table 5.9b: Sectotral Shares in Commercial Banks - Bills, Loans and Advances, 2003 - 2007

percentages

	2003 Dec.	2004 Dec.	2005 Dec.	2006 Dec.	2007 Dec.
PUBLIC SECTOR:					
Central Government	1.0	0.8	0.5	0.6	0.2
Local Government	0.2	0.1	0.2	0.2	0.2
Enterprises, Parastatal bodies and other	0.0	0.0	0.0	0.0	0.0
Public entities	2.1	3.1	2.8	3.9	2.4
TOTAL PUBLIC SECTOR	3.3	4.0	3.5	4.7	2.8
PRIVATE ENTERPRISES:					
Agriculture	9.6	8.5	8.6	7.5	5.5
Mining and Quarrying	0.5	0.5	0.6	0.7	1.2
Manufacturing	17.9	17.4	16.0	16.0	12.7
Building and Construction	5.8	4.9	5.5	6.9	6.2
Transport, Storage and Communication	5.7	5.6	6.9	8.9	9.2
Trade	15.9	13.1	13.1	12.1	12.5
Financial Institutions	2.2	2.1	3.4	3.5	4.6
Other Business	17.2	16.6	21.4	21.3	23.1
TOTAL PRIVATE ENTERPRISES	74.7	68.5	75.6	76.9	75.1
COMMUNITY AND PERSONAL SERVICES (including non-profit making institutions)	7.8	10.0	11.3	11.1	16.2
Other Activities (Nes)	14.2	17.5	9.8	7.4	5.9
TOTAL BILLS, LOANS AND ADVANCE	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya.

5.15 Sectoral shares of Commercial Banks' bills, loans and advances are indicated in Table 5.9b.The share of bills, loans and advances to both public and private sector declined from 4.7 per cent and 76.9 per cent in 2006 to 2.8 per cent and 75.1 per cent in 2007 respectively. Public entities share of commercial banks' bills, loans and advances shrank by 1.5 percentage points while that of the Central Government reduced by 0.4 percentage points. In the private sector, the share to Other Business and Financial Institutions increased by 1.8 and 1.1 percentage points respectively while that to mining and quarrying sector increased by 0.5 percentage points. There has been a steady rise in the share of credit to Transport, Storage and Communication and Financial institutions since 2004. Shares of Bills, loans and advances to Agriculture and Manufacturing sectors have been on a general decline in the last five years.

5.16 Commercial Banks' deposit liabilities and liquid assets for the period 2003-2007 are summarised in Table 5.10. The deposit liabilities increased by 15.8 per cent from KSh 593.7 billion in December 2006 to KSh 687.3 billion in December 2007. Similarly, liquid assets expanded from KSh 269.1 billion in December 2006 to KSh 284.3 billion in December 2007.

Table 5.10: Commercial Banks - Deposit Liabilities and Liquid Assets[1], 2003 - 2007

	Deposit Liabilities KSh mn	Liquid Assets[2] KSh mn	Current Liquidity Ratio per cent
2003 December	378,391	186,224	49.2
2004 December	423,826	179,425	42.3
2005 December	482,877	204,320	42.3
2006 December	593,658	269,057	45.3
2007 January	595,455	262,867	44.1
February	556,805	250,348	45.0
March	596,974	273,039	45.7
April	601,611	276,196	45.9
May	611,524	274,349	44.9
June	641,984	285,992	44.5
July	635,832	281,381	44.3
August	649,770	283,977	43.7
September	658,219	282,374	42.9
October	659,304	274,858	41.7
November	668,290	271,403	40.6
December	687,286	284,281	41.4

Source: Central Bank of Kenya.

[1] - Deposits and Liquid Assets are calculated as an average of three days balances.

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

Consolidated Balance Sheet for Non-Bank Financial Institutions

5.17. Table 5.11 outlines the assets and liabilities of NBFIs for the period 2003-2007. Both assets and liabilities increased by 23.6 per cent. The assets/ liabilities grew from KSh 22.1 billion in December 2006 to KSh 27.4 billion in December 2007. The increase in liabilities is attributed to a 43.9 per cent increase in other liabilities and a 12.2 per cent increase in the deposits by other public sector. The increase in the assets can be explained by increases of 32.6 per cent in the cash and banks and other assets which more than doubled.

Table 5.11: Assets and Liabilities of Non-Bank Financial Institutions, 2003 - 2007

KShs.Mn.

	2003	2004	2005	2006	2007			
	31st DEC	31st DEC	31st DEC	31st DEC	March	June	Sept.	Dec.
LIABILITIES:								
Deposits-								
Central & Local Government..	3	15	1	1	1	1	1	1
Other Public Sector ..	2,927	2,725	2,821	2,756	2,852	3,054	3,044	3,091
Other Depositors ..	11,484	10,207	10,592	10,328	10,456	10,319	10,754	11,230
Other Liabilities	9,870	9,403	8,283	9,058	9,735	10,404	11,667	13,036
TOTAL LIABILITIES	24,283	22,350	21,698	22,143	23,045	23,778	25,466	27,358
ASSETS:								
Cash and Banks	2,607	1,598	2,785	2,438	2,640	2,602	2,210	3,234
Other Financial Institutions ..	-	-	-	-	-	-	-	-
Associated Companies ..	4,029	4,153	3,532	3,057	3,094	2,930	3,261	2,472
Investments, Bills,								
Loans & Advances:-								
Public Sector	-	-	-	-	-	-	-	-
Private Sector	14,671	14,101	13,787	14,438	13,881	14,612	15,425	16,503
Other Assets	2,976	2,497	1,594	2,210	3,429	3,634	4,569	5,149
TOTAL ASSETS ..	24,283	22,350	21,698	22,143	23,045	23,778	25,466	27,358

Source: Central Bank of Kenya

Capital Markets Indicators

5.18. In 2007, the primary equities market registered vibrant activity as two Initial Public Offerings (IPOs) were processed while three other companies raised additional capital through rights issues. As a result, slightly over KSh 6.0 billion was raised and introduction of 390 million shares for trading at the securities exchange respectively. Table 5.12 presents the Nairobi Stock Exchange (NSE) indicators for the period 2003-2007. Between December 2006 and December 2007, the NSE 20-share index recorded a significant drop of 201 points from 5,646 to 5,445 points at the end of the review period. Market capitalisation rose by 7.4 per cent from KSh 792 billion in December 2006 to KSh 851 billion in December 2007.

Treasury and Corporate Bonds

5.19. In 2007, the Government raised KSh 86.5 billion through the issuance of 16 treasury bonds of tenures ranging from 1 to 15 years, compared to 21 issues amounting to KSh 86.0 billion in 2006. Proceeds from the Treasury bond auctions were mainly used to roll over maturing Treasury bonds and provide additional borrowing to the Government. In 2007, three private companies issued bonds worth KSh 2.6 billion compared to one company that raised KSh 0.3 billion in 2006. During the year two issues worth KSh 5.5 billion were redeemed and as a result, the outstanding (unredeemed) corporate bonds as at end of December 2007 were worth KSh 5.6 billion. In fixed income securities market, the total bond turnover increased from KSh 48.6 billion in December 2006 to KSh 84.9 billion at the close of 2007. The

bond turnover plummeted to KSh 15.6 billion in the first quarter of 2007 before rising to KSh 28.6 billion by the third quarter and subsequently dropped to the first quarter levels by end of period. Since 2001, the Government has been pursuing the goal of extending the maturity of locally held securitised public debt. Towards this end, it has been marketing a monthly issue of Treasury bonds which have ranged in tenor from 1 year to 15 years. These bonds have become attractive largely because there has been a convenient secondary market through the Nairobi Stock Exchange. In the 12 months to December 2006 the average bond turnover in the NSE secondary market was KSh 4.0 billion. This rose steadily throughout 2007 to stand at KSh 7.1 billion as the monthly average in 2007.

Table 5.12: Capital Markets: Nairobi Stock Exchange (NSE), 2003 - 2007

	2003	2004	2005	2006	2007				
					1st Qr	2nd Qr	3rd Qr	4th Qr	Total
Equities Market									
Total No. of Shares ('000)	381,230	625,329	874,200	1,454,666	359,613	362,310	706,008	510,271	1,938,202
Total No. of Deals	91,889	124,793	176,483	598,301	262,965	186,306	310,969	213,308	973,548
Total Value of Shares (KSh mn)	15,251	22,324	36,524	94,953	25,232	16,647	25,595	21,147	88,620
NSE 20 Share Index- [1]	2,738	2,946	3,973	5,646	5,134	5,147	5,146	5,445	
(Base Jan 1966=100)									
Market Capitalization[1] (KSh bn)	318	306	462	792	697	714	790	851	
Fixed Income Securities Market									
Total bond Turnover (KSh bn)	42.0	34.1	13.6	48.6	15.6	24.8	28.6	15.9	84.9
Total No. of Deals	1,266	890	890	435	..	..	..	..	..

Source: Nairobi Stock Exchange

[1]- as at end of period

Developments in the Financial Sector

Banking Sector

5.20. During 2007 the Kenya banking sector comprised of 143 institutions consisting of; 43 commercial banks, 1 NBFI, 2 mortgage finance companies and 97 foreign exchange bureaus. During the year the remaining building society converted into a commercial bank while the only remaining NBFI merged with the sister bank to be effective from January 2008. Over the same period, 2 commercial banks that will operate on Islamic banking principle were approved. The number of bank branches rose by 44.5 per cent from 512 in 2003 to 740 at the end of 2007.

5.21. In 2007, the Finance Act, 2006 and the Banking (Amendment) Act, 2006 became operational. Key changes in the Finance Act included making it mandatory for all banks to share information on non-performing loans (NPLs). The Act also empowered the CBK to assess the integrity and propriety of persons controlling the institutions. The Banking (Amendment) Act, 2006 ceded supervisory powers from the Minister of Finance to the CBK, and provided for vetting of shareholders owning more than five per cent of the share capital. The amendments further included removal of charges on savings, seven days call and time deposit accounts. In addition, the Act provided for payment of interest on savings accounts so long as the minimum balance is maintained.

5.22. The Finance Act 2007 amended the Central Bank Act replacing the Monetary Policy Advisory Committee (MPAC) by a Monetary Policy Committee with more powers and responsibilities starting January 2008. The use of REPO bills for an overnight facility had been removed in August 2006 by making the tenor range from 7-40 days. Beginning June 2007 the range was revised to 3-90 days thereby making these bills more competitive with the Treasury bills. The banks were given the option to off-load excess funds through a late day window as an alternative to lending in the inter-bank market. These and other measures have enhanced the sophistication of the financial sector.

5.23. During the review period, the sector recorded impressive growth, with high profitability and rapid expansion in asset portfolio. Overall profitability rose by 30.0 per cent while the asset portfolio expanded by 26.1 per cent. The sector recorded a major decline in the stock of NPLs following resolution of the NPLs in the banks that had Government shareholding. The Capital adequacy ratios were enhanced mainly due to fresh capital injections and retention of profits. This will lead to a significant growth in access to banking services. The increase in the access indicators was influenced by the increased branch network mainly in 2006 and 2007 on the backdrop of an aggressive banking sector expansion targeting the retail market across the country. The ratio of NPLs (net) to total loans decreased from 15.0 per cent in December 2006 to 8.0 per cent in December 2007.

Developments in the Capital Markets

5.24. The Capital Markets Authority (CMA) in collaboration with industry stakeholders initiated a number of policy and legal measures towards the development of the capital markets. Some of these initiatives include policy proposals for the fiscal year 2007/08 submitted by the Authority of which most were adopted by the Government. The Authority also undertook other reforms including putting in place regulations on asset backed securities and venture capital companies. The year 2007 was also characterised by increased activity both in primary and secondary market, including issuance of corporate bonds.

Policy and Legal Measures instituted in 2007

5.25. During 2007, various changes were made with regard to the capital markets. On regional integration, the citizens of the East African Community are to be treated as domestic/local investors and to pay withholding tax at the rate of 5 per cent. In addition to this the Capital Markets (Foreign Investors) Regulations, 2002 were amended to increase the proportion of ordinary shares to be reserved by the issuer or listed company for investment by local investors from 25 per cent to 40 per cent.

5.26 Several amendments were introduced to the Capital Markets Act Cap 485A during the fiscal year 2007/08. The Act was amended to recognize unclaimed dividends outstanding in listed companies for more than seven years as income to investor compensation fund. The amendment also provided for establishment of a Board to be known as the Investor Compensation Fund Board. The main function of the board shall be to administer investor compensation fund which includes tracing and paying beneficiaries from collected unclaimed dividends when they resurface. This amendment has also been undertaken to address the huge unclaimed

dividends outstanding in listed companies. These measures are aimed at strengthening investor protection and streamlining the management operations of the investor compensation fund thus allowing the CMA to focus on its core mandate of market regulations and development. Other amendments to the Capital Markets Act and the licensing regulations were effected to strengthen the regulatory role of the Authority.

Market Infrastructure, Investor Education and Awareness Programmes

5.27. Apart from IPOs and rights issues, there were share splits in two companies. This initiative was undertaken in order to make their shares which were trading at very high prices more affordable to the general public and to improve liquidity. CMA remained committed to modernizing the capital markets infrastructure in order to minimize systemic risks and facilitate creation of a framework conducive for both issuers and investors. The Automated Trading System (ATS) which was implemented in September 2006 under a Local Area Network (LAN) was reviewed. As a result, the ATS platform migrated from LAN to Wide Area Network (WAN) from December 2007. This change now allows stock brokers and investment banks to conduct their business their respective offices. In addition, this has enabled the market trading to be increased by an additional three hours (day's trading runs from 9am – 3pm).

5.28. The number of licensees and approved institutions by the CMA increased from 70 in December 2006 to 81 by December 2007. The change was occasioned by the increase in investment banks from 10 to 12, investment advisors from 16 to 19, fund managers from 14 to 15, collective investment schemes from 6 to 10 and authorized depositories from 9 to 10. The other approved institutions remained the same at 1 Securities Exchange (NSE), 1 Central Depository and Settlement Company (CDSC), 11 Stockbrokers, 1 Credit Rating Agency, and One Venture Capital Company. The market is expected to bounce back and move forward strongly. The impending sale of 25per cent shareholding in Safaricom by the Government is expected to rekindle the market activity.

Insurance Sector

5.29. The Insurance sub-sector comprised of 2 reinsurance companies, 44 insurance companies, 201 Insurance brokers, 21 Medical Insurance providers, 213 Loss assessors, 30 Insurance surveyors, 23 Loss Adjusters, 1 Claim Settling Agents, 8 Risk Managers and 2,665 Insurance Agents. During the year the Insurance Regulatory Authority (IRA) a semi autonomous regulator for the sector became operational. Various amendments were made to Insurance Act during the period aimed at improving regulation and governance in the sector. Key among them was the raising of minimum paid up capital for both life and general business insurers to at least KSh 150 million and KSh 300 million respectively.

Pensions sector

5.30. In 2007, the Kenya Retirement Benefits sector comprised of the Retirement Benefits Authority (RBA) as the regulator, the National Social Security Fund (NSSF), 1076 registered schemes, 12 Individual Schemes, the Civil service pension scheme and 12 registered fund managers. Of the total working population only 15 per cent are covered by these schemes. The NSSF covers around 67 per cent of thispopulation, with the Civil Service Scheme covering 22.0 per cent while Private pension schemes cover 11.0 per cent with the 12 individual schemes covering only 1 per cent.

5.33. During the review period the retirement benefits (administrators) regulations, 2007 were issued. In the regulations guidelines on registration of administrators and the required qualifications have been outlined. The regulations include guidelines on agreement in respect of administration, the role of the administrator and termination of the agreement among others.

Chapter 6

Public Finance

Overview

In 2007/08 financial year, the Government continued implementing a fiscal framework focusing on maintenance of a strong revenue base underpinned by deepening tax administration reforms and modernisation of the tax system, containment of growth of total expenditures; and rationalisation to shift resources from lower to higher priority areas partly towards the realisation of Vision 2030. Focus was also geared towards containing the growth of domestic debt to a sustainable level in order to encourage expansion of credit to the private sector for faster development.

6.2. To finance the execution of the budgeted activities in 2007/08, the Government is expected to raise KSh 472.1 billion of which KSh 389.2 billion is to be sourced from ordinary revenue and KSh 82.9 billion from Appropriation-In-Aid. The targeted revenue is estimated based on the on-going reforms in tax modernisation, customs administration and simplification of taxation for small enterprises. The Government expenditure in 2007/08 is expected to be KSh 714.0 billion of which KSh 512.3 billion will be on the recurrent account, while KSh 201.7 billion is on the development account.

Overall results

6.3. Central Government: The statement of Central Government operations for the period between 2003/04 and 2007/08 is presented in Table 6.1. Total Government revenue, including grants for 2007/08 is expected to increase by 21.4 per cent from KSh 388.8 billion in 2006/07 to KSh 472.1 billion in 2007/08 while the expense is expected to record a 39.1 per cent increase to stand at KSh 486.0 billion in 2007/08. The gross operating balance is expected to worsen from a surplus of KSh 39.3 billion in 2006/07 to a deficit of KSh 13.9 billion in 2007/08. Net borrowing is expected to increase from KSh 15.0 billion in 2006/07 to KSh 111.6 billion in 2007/08 owing to an increase in domestic borrowing to finance the budget's growth in acquisition of non-financial assets. Debt redemption in 2007/08 is expected to increase by 16.7 per cent to stand at KSh 82.4 billion of which KSh 65.6 billion is for repayment of domestic debts.

Table 6.1: Statement of Central Government Operations 2003/04-2007/08

KSh Million

	2003/04	2004/05	2005/06	2006/07*	2007/08+
1. Revenue**	270,920.22	303,845.04	329,486.00	388,832.17	472,123.55
2. Expense (2.1+2.2)..	264,904.09	266,237.17	320,404.93	349,546.11	485,981.16
2.1 Current Expenditure	257,619.31	259,847.90	303,180.42	347,058.45	447,594.03
2.2 Capital Transfers	7,284.78	6,389.27	17,224.51	2,487.66	38,387.12
3. Gross Operating Balance(G.O.B) (1-2)	6,016.13	37,607.87	9,081.07	39,286.06	- 13,857.61
4. Acquisition of Non-Financial Assets(net)	23,781.40	31,888.68	33,401.26	54,269.76	97,774.65
5. Net lending/Borrowing (3-4)	- 17,765.27	5,719.19	- 24,320.19	- 14,983.70	- 111,632.26
FINANCING (6+7)	5,312.14	- 7,041.80	30,859.38	34,140.09	107,591.90
6. Net Acquisition of financial assets (6.1+6.2)	5,312.14	256.20	1,392.38	1,871.09	44,618.90
6.1. Domestic	5,312.14	256.20	1,392.38	1,871.09	44,618.90
6.2. Foreign	-	-	-	-	
7. Net Incurrence of liabilities (7.1+7.2)	-	- 7,298.00	29,467.00	32,269.00	62,973.00
7.1. Domestic	8,809.00	- 6,673.00	28,251.00	34,661.00	33,958.00
7.2. Foreign	- 8,809.00	- 625.00	1,216.00	- 2,392.00	29,015.00
MEMORANDUM ITEMS:					
9. Public debt Redemption	86,635.67	81,539.76	75,546.78	70,611.25	82,355.50
9.1. External	20,912.06	11,351.93	12,543.44	13,146.92	16,763.18
9.2. Internal	65,723.60	70,187.83	63,003.34	57,464.34	65,592.31

Source: KNBS and MoF

* Provisional

+Revised estimates

** incudes grants & AIA

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

6.4. Table 6.2 analyses key fiscal ratios for the fiscal years 2003/04 to 2007/08. Net lending/borrowing as a percentage of revenue is expected to increase from 3.9 per cent in 2006/07 to 23.6 per cent in 2007/08. Net lending/borrowing as a percentage of total expenditure is expected to deteriorate from a deficit of 3.2 per cent in 2006/07 to a deficit of 15.7 per cent in 2007/08. The ratio of external grants and loans to acquisition of non-financial assets (net) is expected to rise from 24.1 per cent in 2006/07 to 28.9 per cent in 2007/08. Net lending/borrowing as a percentage of GDP is expected to worsen from 0.9 per cent in 2006/07 to 6.2 per cent in 2007/08. The ratios of revenue and expenditure to GDP are expected to be 26.1 and 39.2 per cent in 2007/08 compared to 24.0 and 29.4 per cent respectively, in 2006/07.

Table 6.2: Analysis of Key Fiscal Ratios, 2003/04-2007/08

	2003/04	2004/05	2005/06	2006/07*	2007/08+
1. Gross operating balance as a % of Revenue	1.90	12.38	2.76	10.10	-2.94
2. Gross operating balance as a % of Acquisition of Non financial assets(net)	21.12	117.93	27.19	72.39	-14.17
3. Ratio of Acquisition of Non financial assets(net) to Current Expenditure	9.20	12.27	11.02	15.64	21.84
4. Net lending/Borrowing as % of Revenue ..	-6.87	-2.32	-7.38	-3.85	-23.64
5. Net lending/Borrowing as % of Total Expenditure ..	-4.95	1.51	-5.65	-3.15	-15.70
6. External Grants and Loans as % of Acquisition of Non financial assets(net)	30.41	44.78	63.73	24.14	28.91
7. Net Short-Term Borrowing as % of Acquisition of nonfinancial assets(net)	-59.82	-23.18	1.32	2.31	-18.35
8. Revenue as % of GDP at Current Market Prices[1]	23.94	23.85	23.24	24.00	26.05
9. Total Government Expenditure as % of GDP at Current Market Prices[1]	33.24	29.80	30.38	29.41	39.24
10. Net lending/Borrowing as % of GDP at Current Market Prices[1]	-1.57	0.45	-1.72	-0.93	-6.16

* Provisional

\+ Revised Estimates

[1] Data series revised

6.5. Table 6.3 shows a comparative analysis between the budgeted estimates and actual out-turns of revenue and expenditure for the period 2003/04 to 2007/08. In 2007/08, revised estimates for recurrent revenue is expected to fall from the printed estimates by KSh 2.8 billion, while recurrent expenditure is expected to surpass the budget by KSh 20.4 billion. The revised out-turn for development expenditure is expected to increase marginally by KSh 25.2 million over the same period. Overall, the disparity between the budget estimate and the actual out-turns of recurrent revenue and total expenditure was 5.0 and 13.0 percentage points respectively. This could be due to emphasis placed towards improved financial management and adherence to the budget.

Table 6.3: Comparison of Central Government Budget Estimates with Actual Out-turns, 2004/05 -2007/08

KSh million

	2004/05			2005/06		
	Budget	Actual	Difference	Budget	Actual	Difference
Recurrent Revenue	256,546.58	285,822.70	29,276.12	311,846.84	309,416.00	-2,430.84
Recurrent Expenditure++	353,533.75	339,689.28	-13,844.47	404,605.78	370,209.35	-34,396.43
Recurrent Balance	-96,987.17	-53,866.58	43,120.59	-92,758.95	-60,793.35	31,965.60
Development Expenditure	88,116.10	40,140.95	-47,975.15	104,112.09	62,381.93	-41,730.16
External Financing (Net)**	45,991.39	14,280.00	-31,711.39	56,841.54	21,286.00	-35,555.54
Balance for Domestic Financing (Net)	-139,111.88	-79,727.53	59,384.35	-140,029.49	-101,889.28	38,140.22
	2006/07*			2007/08+		
	Budget	Actual	Difference	Budget	Actual	Difference
Recurrent Revenue	373,521.51	373,338.17	-183.34	444,231.74	441,466.55	-2,765.19
Recurrent Expenditure++	432,423.23	392,957.73	-39,465.50	491,919.62	512,322.37	20,402.75
Recurrent Balance	-58,901.72	-19,619.56	39,282.16	-47,687.88	-70,855.82	-23,167.94
Development Expenditure	113,106.95	83,910.65	-29,196.30	201,650.84	201,676.06	25.22
External Financing (Net)**	63,733.25	13,102.00	-50,631.25	59,672.00	59,672.00	0.00
Balance for Domestic Financing (Net)	-108,275.42	-90,428.21	17,847.21	-189,666.72	-212,859.87	-23,193.15

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

6.6. As shown in Table 6.4, total revenue has been on an upward trend from KSh 254.7 billion in 2003/04 to KSh 441.5 billion in 2007/08. Total revenue is expected to increase by 18.2 per cent in 2007/08 compared to an increase of 20.7 per cent in 2006/07. The increase in revenue collection may be attributed to continued reforms in tax administration. Taxes on incomes, profits and capital gains are expected to grow by 16.1 per cent from KSh 130.7 billion in 2006/07 to 151.8 billion in 2007/08. The increase in income tax over the five year period may be attributed to widening of the tax base, increased wages and increased profitability within the corporate sector among other factors. Taxes on goods and services are expected to grow by 15.5 per cent from KSh 174.4 billion in 2006/07 to KSh 201.4 billion in 2007/08. Collections from Value Added Tax (VAT) and excise duty are expected to register 15.9 and 16.8 per cent increases respectively during the year under review. Taxes on international trade (including VAT on imports) is expected to record a slowed growth of 12.4 per cent in 2007/08 compared to 34.1 per cent in the previous year.

Table 6.4: Central Government Gross Receipts on Reccurent Account**, 2003/04-2007/08

KSh Million

	2003/04	2004/05	2005/06	2006/07*	2007/08+
Taxes on income, Profits and Capital gains	77,409.73	99,312.48	114,629.06	130,719.00	151,767.00
Income Tax from individuals(P.A.Y.E)	41,627.10	52,928.18	60,484.93	69,575.00	79,427.00
Income Tax from corporations(other income tax)	35,782.63	46,384.29	54,144.13	61,144.00	72,340.00
Taxes on property	130.65	192.34	189.59	253.06	331.34
Immovable property	24.74	6.55	10.59	27.06	46.00
Financial and capital transactions	105.91	185.79	179.00	226.00	285.34
Taxes on goods and services	110,102.48	133,486.12	141,635.56	174,442.49	201,401.03
VAT on domestic goods and services	31,529.08	43,128.24	46,093.32	51,341.01	59,830.50
VAT on imported goods and services	27,324.29	32,867.42	33,832.59	45,156.00	51,992.00
Total VAT	58,853.37	75,995.66	79,925.91	96,497.01	111,822.50
Excise taxes	40,085.26	44,151.22	46,645.62	56,123.00	65,551.00
Taxes on specific services	459.54	594.14	6.38	12.54	15.26
Taxes on use of goods and on permission to use the goods or to perform services and activities	1,617.90	1,618.82	2,122.30	1,099.35	1,351.23
Royalties	186.41	440.28	354.35	352.00	569.03
Taxes on goods and services collected as AIA	8,900.00	10,686.00	12,161.00	19,900.00	21,695.00
Other taxes on goods and services	0.00	0.00	420.01	458.59	397.00
Taxes on international Trade Transactions	30,264.00	30,831.72	29,861.43	40,235.00	44,024.00
Custom duties	25,214.00	23,531.72	20,511.43	27,927.00	32,337.00
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	5,050.00	7,300.00	9,350.00	12,308.00	11,687.00
Other taxes not elsewhere classified	1,244.38	940.00	2,353.23	2,747.87	3,337.63
Social security contributions	239.12	558.00	0.00	0.00	0.00
Property income	5,095.46	5,741.11	4,423.60	7,352.35	7,230.34
Sale of goods and services	25,385.81	5,907.92	6,868.70	9,505.10	9,063.65
Fines penalties and forfeitures	199.00	200.00	140.00	360.00	409.00
Repayments from domestic lending and on-lending	719.40	1,596.58	915.99	650.00	700.00
Other receipts not elsewhere classified	3,906.19	7,056.45	8,398.84	7,073.30	23,202.57
TOTAL	254,696.22	285,822.70	309,416.00	373,338.17	441,466.55

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.

6.7. Table 6.5 shows the collections of import duties on selected commodities by end use for the period 2003 to 2007. Total import duty from the commodities registered a 19.0 per cent increase from KSh 23.2 billion in 2006 to KSh 27.6 billion in 2007. Import duty from food, drinks and tobacco recorded an 11.9 per cent decline while duty on transport equipment increased by 40.0 per cent from KSh 5.0 billion in 2006 to KSh 7.0 billion in 2007.

Table 6.5: Central Government Import Duty Collections for Selected Items[1], 2003- 2007**

KSh million

END-USE CATEGORY	2003	2004	2005	2006	2007*
Food, drinks and tobacco	5,354.73	4,735.76	5,429.06	6,293.43	5,544.30
Basic materials	1,729.92	942.29	889.92	1,346.53	1,552.55
Fuels	705.37	508.31	551.58	548.86	523.65
Chemicals	753.87	1,012.91	2,183.40	1,084.09	1,062.84
Textiles	694.14	619.12	512.92	664.21	874.87
Semi-manufactures	1,003.54	1,551.77	1,384.42	1,499.40	1,783.89
Metals	1,225.06	1,240.82	1,177.85	1,317.05	2,105.84
Transport Equipment	4,015.48	5,621.52	3,787.79	5,049.44	7,009.68
Machinery	2,668.50	2,865.89	2,567.76	3,044.90	3,984.28
Miscellaneous commodities	1,642.44	2,082.83	1,907.19	2,328.25	3,172.18
**TOTAL .. ..

Table 6.7: Central Government Financing of Non Financial Assets , 2003/04- 2007/08

KSh Million

	2003/04	2004/05	2005/06	2006/07*	2007/08+
EXPENDITURE:					
Acquisition of Non financial Assets(net)	23,781.40	31,888.68	33,401.26	54,269.76	97,774.65
TOTAL	23,781.40	31,888.68	33,401.26	54,269.76	97,774.65
FINANCING:	16,224.00	7,608.00	49,537.28	67,763.00	61,573.00
External Loans (Net)	-8,809.00	-625.00	1,216.00	-2,392.00	29,015.00
External Grants	16,224.00	14,905.00	20,070.00	15,494.00	30,657.00
Long-Term Domestic Borrowing (Net)	28,033.00	719.00	27,810.51	53,408.00	19,847.00
SHORT TERM BORROWING:	-19,224.00	-7,391.00	440.77	1,253.00	-17,946.00
Treasury Bills (Net)	-4,999.00	6,497.00	21,754.41	-625.00	-10,566.00
Other Short-Term Borrowing (Net) ..	-14,225.00	-13,888.00	-21,313.64	1,878.00	-7,380.00
CHANGE IN CASH BALANCES^: Increase=(-)	7,557.40	24,280.68	-16,136.02	-13,493.24	36,201.65
TOTAL	23,781.40	31,888.68	33,401.26	54,269.76	97,774.65

Source: CBK and MoF

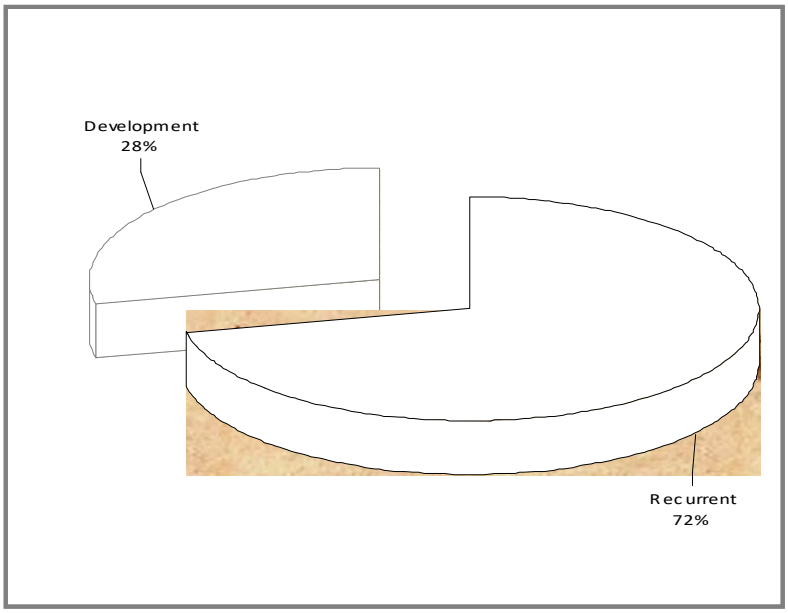
* Provisional.

\+ Estimates

^ Balancing Item

6.10. Central Government outlays by functions of Government for the period 2004/05 to 2007/08 are detailed in Table 6.8, Figure 6.1 and Figure 6.2. In line with Government policy to increase allocation of resources to development expenditure and core poverty programmes, planned development expenditure is expected to account for 28.2 per cent of the total expenditure in 2007/08 compared to 17.6 per cent in the previous year. Total Government expenditure is expected to increase by 49.1 per cent from KSh 478.8 billion in 2006/07 to KSh 714.0 billion in 2007/08. Expenditure to general public services is expected to more than double from KSh 51.0 billion in 2006/07 to KSh 126.5 billion in 2007/08. This expenditure consistituted of KSh 54.4 billion and KSh 72.0 billion from the recurrent and development account, respectively. The high increase under the development account was partly on the basis of expenditure on equity participation and transfers to parastatals in the period under review. Allocation to education is expected to go up by 19.4 per cent from KSh 108.5 billion in 2006/07 to KSh 129.6 billion in 2007/08, partly due to introduction of free secondary tuition. Similarly, expenditure on health amounting to KSh 32.7 billion in 2007/08 is expected to account for 4.6 per cent of the total expenditure. In period under review, expenditure on environmental protection is estimated to double from KSh 3.9 billion 2006/07 to KSh 7.5 billion in 2007/08 showing commitment to finance conserving the environment.

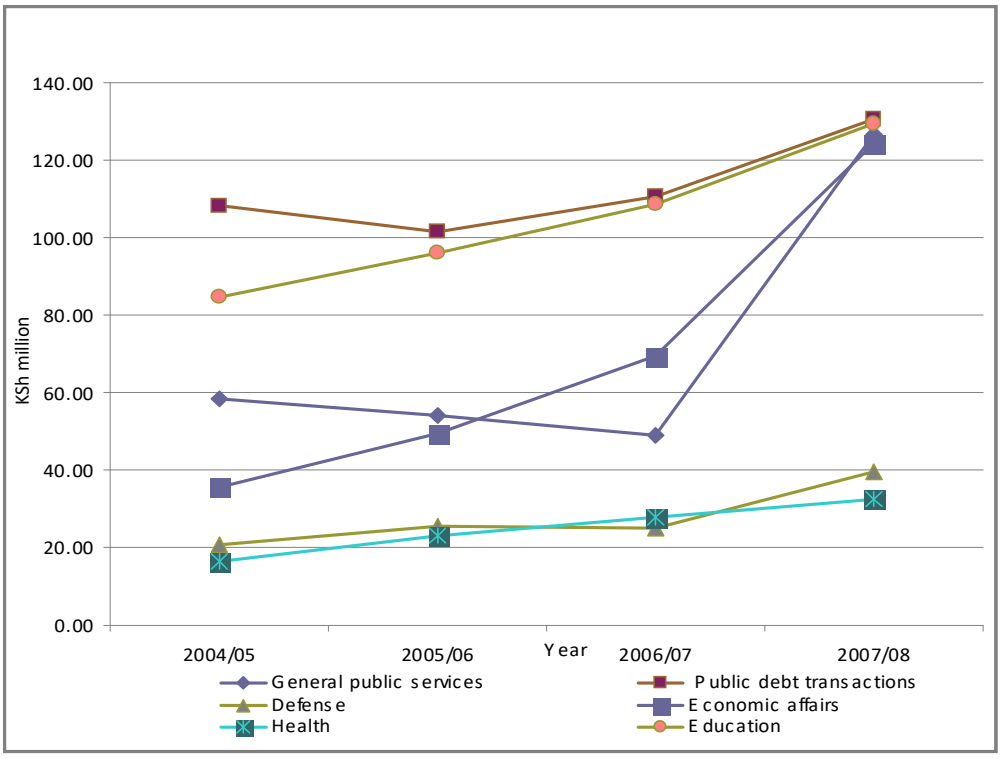
Figure 6.1: Government Expenditure 2007/08



6.11. In response to the increasing demand for electricity and other sources of energy, the Government has committed KSh 22.0 billion towards the generation of more electricity and petroleum exploration to expand the national grid and ease the burden on petroleum imports respectively. Development expenditure on fuel and energy rose from KSh 9.0 billion in 2006/07 to KSh 21.4 billion in 2007/08. Allocation to roads and infrastructure improvement increased to KSh 60.6 billion in 2007/08, accounting for 8.5 per cent of the total budget. Expenditure on debt servicing charges during the review period amounted to KSh 130.5 billion, accounting for 18.3 per cent of the total expenditure.

Table 6.8: Classification of Government Expenditures by Functions of Government (COFOG), 2004/05-2007/08

Figure 6.2: Classification of Government Expenditures by Functions of Government (COFOG), 2004/05 - 2007/08



6.12. Economic classification of expenditure for the period between 2003/04 and 2007/08 is presented in Table 6.9. Total Central Government expenditure is expected to increase by 49.3 per cent from KSh 476.3 billion in 2006/07 to KSh 711.1 billion in 2007/08. Consumption expenditure on goods and services is expected to increase with expenditure on compensation of employees and use of goods and services growing by 18.6 and 61.7 per cent, respectively. As a result of increased borrowing, interest payment is expected to rise by 28.5 per cent from KSh 38.3 billion in 2006/07 to KSh 49.2 billion in 2007/08 of which KSh 43.1 billion is interest on domestic debt. Public debt redemption in 2007/08 amounted to KSh 82.4 billion compared to KSh 70.6 billion the previous year. The government allocated KSh 97.8 billion towards acquisition of non financial assets in 2007/08, with over 68 per cent of this being on acquisition and construction of buildings, roads and structures. Expenditure on both non-produced assets and building and structures is expected to increase substantially in the year under review. During this period, the Government allocated over KSh 45.0 billion on acquisition of financial assets which included participation on equities in several state corporations and lending to state corporations.

Table 6.9: Central Government Economic Analysis of Expenditure, 2003/04-2007/08

KSh Million

	2003/04	2004/05	2005/06	2006/07*	2007/08+
EXPENSE					
CONSUMPTION EXPENDITURE ON GOODS AND SERVICES:					
Compensation of employees	131,672.87	116,541.60	135,924.33	145,308.37	172,363.77
Use of Goods and Services	76,055.34	56,229.73	66,864.41	64,551.56	104,347.66
TOTAL	207,728.22	172,771.33	202,788.75	209,859.92	276,711.43
SUBSIDIES	10,253.06	250.00	420.52	45.48	2,988.60
INTEREST:	27,743.46	26,767.17	31,453.19	38,347.30	49,244.52
Domestic	21,920.92	22,196.82	26,988.10	33,601.56	43,127.83
Foreign	5,822.54	4,570.35	4,465.09	4,745.74	6,116.69
GRANTS TO:					
International organisations	729.36	68.32	1,319.17	1,249.40	1,413.01
General Government units	5,842.14	46,027.18	51,148.25	68,725.66	84,068.43
Other Grants	40.82	97.67	0.00	4,885.90	6,600.00
TOTAL GRANTS	6,612.33	46,193.17	52,467.42	74,860.96	92,081.44
Social benefits	865.20	13,866.24	14,420.61	22,984.79	25,012.25
Other expense	4,417.04	0.00	1,629.94	960.00	1,555.80
Total current expenditure	257,619.31	259,847.90	303,180.42	347,058.45	447,594.03
Capital Grants(TRANSFERS)	7,284.78	6,389.27	17,224.51	2,487.66	38,387.12
1. Total Expense	264,904.09	266,237.17	320,404.93	349,546.11	485,981.16
2. Acquisition of Non Financial Assets(net)	23,781.40	31,888.68	33,401.26	54,269.76	97,774.65
Building and structures	15,043.87	22,181.22	19,271.09	42,560.35	67,048.58
Machinery and equipment	8,077.51	8,701.93	10,492.96	11,742.85	21,845.77
Inventories	0.00	0.00	1,710.04	1,943.78	2,358.37
Valuables	0.00	0.00	0.00	0.00	0.00
Non- produced assets	795.34	1,170.14	3,773.08	464.04	9,388.99
Less Disposal of Non financial assets	-135.32	-164.62	-1,845.92	-2,441.26	-2,867.06
Equity Participation and on-lending	855.54	..	1,392.38	1,920.46	45,020.07
3 PUBLIC DEBT REDEMPTION	86,635.67	81,539.76	75,546.78	70,611.25	82,355.50
4 Total Expenditure (1+2+3)	376,176.69	379,665.61	430,745.35	476,347.58	711,131.38

Source: MoF

* Provisional.

\+ Revised Estimates

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

6.13. Table 6.10 and Figure 6.3 shows the breakdown and a graphical presentation respectively, of the outstanding public debt as at 30th June 2003-2007. Total public debt decreased marginally from KSh 717.7 billion as at 30th June 2006 to KSh 715.5 billion as at 30th June 2007. The volume of Government stocks at book value, that had remained unchanged for four consecutive years dropped by 27.3 per cent from KSh 1.1 billion in 2006 to KSh 0.8 billion in 2007. The total outstanding external debt registered a 7.9 per cent decline from KSh 431.2 billion as at 30th June 2006 to KSh 397.1 billion as at 30th June 2007.

Table 6.10: Central Government Public Debt, 2003- 2007

KSh million

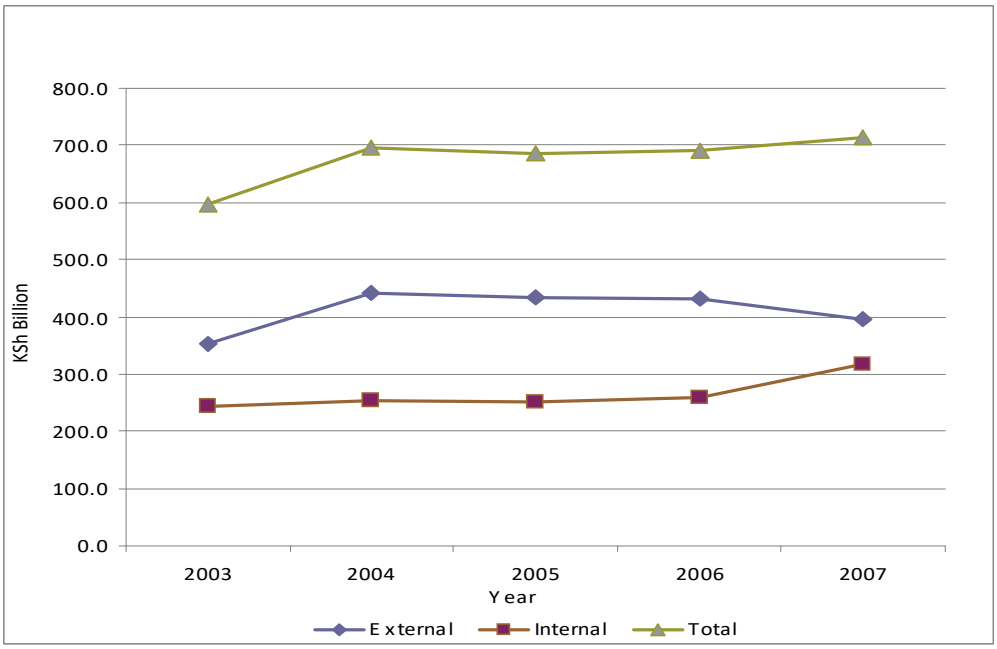
As at 30th June	Public Debt**								
	Stocks			Other debt			Total		
	External	Internal	Total	External	Internal	Total	External	Internal	Total
2003	..	1,057.98	1,057.98	353,264.13	244,572.42	597,836.55	353,264.13	245,630.40	598,894.53
2004	..	1,057.98	1,057.98	443,157.00	253,589.02	696,746.01	443,157.00	254,647.00	697,804.00
2005	..	1,057.98	1,057.98	434,453.00	252,443.02	686,896.01	434,453.00	253,501.00	687,954.00
2006*	..	1,057.98	1,057.98	431,236.74	285,393.02	716,629.76	431,236.74	286,451.00	717,687.74
2007+	..	754.68	754.68	397,138.75	317,647.44	714,786.19	397,138.75	318,402.12	715,540.87

Source: MoF/ Debt Management Dept and CBK

* Provisional

** Includes Short Term Borrowing.

Figure 6.3: Public Debt by Source



6.14. Details of Central Government outstanding debt by source as at 30th June 2007 are shown in Table 6.11. Loans from multilateral agencies constituted 58.2 per cent of the external debt due to low interest rates and long term repayment period. Bilateral lenders accounted for 34.7 per cent of the total external debt while commercial banks and export credit constituted the remaining 7.1 per cent. The stock of domestic debt including Government deposits to Central Bank and Commercial Banks increased by 11.1 per cent from KSh 286.5 billion as at 30th June 2006 to KSh 318.4 billion as at 30th June 2007. This is partly attributed to an increase in domestic borrowing through the fixed rate and floating rates Treasury bonds which increased by 24.6 per cent from KSh 218.4 billion as at 30th June 2006 to KSh 272.2 billion as at 30th June 2007. The stock of Treasury bills held by commercial banks, non-financial institutions and non-residents declined marginally from KSh 94.8 billion as at 30th June 2006 to KSh 94.4 billion as at 30th June 2007.

Table 6.11: Central Government Outstanding Debt by Source, 2003 - 2007

KSh million

	As at 30th June				
	2003	2004	2005	2006	2007
EXTERNAL DEBT:					
Lending Countries:					
Germany	8,823.00	11,482.58	12,926.76	13,910.02	13,186.22
Japan	50,514.00	88,652.17	84,550.11	79,463.94	66,963.44
France	9,604.00	16,831.19	18,085.88	18,642.98	18,487.06
U.S.A.	6,651.70	6,241.99	6,050.72	5,842.30	4,719.11
Netherlands	3,738.00	4,420.05	2,205.39	2,752.03	2,369.54
Denmark	1,935.75	2,195.37	2,362.37	2,392.28	2,146.56
Finland	267.00	257.89	134.12	160.17	117.81
Other	23,765.17	36,791.95	31,353.27	31,713.48	29,900.79
Total	105,298.62	166,873.18	157,668.62	154,877.20	137,890.53
International Organisations:					
I.D.A / I.F.A.D	186,648.00	212,607.38	210,098.84	204,306.43	190,873.70
I.B.R.D	8,566.25	33.26	38.10	-	-
O.P.E.C.	295.50	82.24	76.27	411.51	589.06
E.E.C/ E.I.B.	8,566.25	9,199.34	8,458.82	13,334.94	10,011.30
I.M.F.	5,989.23	7,913.11	13,107.36	11,407.81	7,408.14
Badea	0.78	371.00	9.22	251.93	372.74
A.D.F/ A.D.B.	23,844.00	24,692.00	23,623.74	25,836.80	21,858.33
Total	233,910.01	254,898.33	255,412.35	255,549.42	231,113.27
Others	14,055.50	21,385.49	21,372.03	20,810.12	28,134.95
Total External	353,264.13	443,157.00	434,453.00	431,236.74	397,138.75
INTERNAL DEBT:					
Treasury Bills	78,744.00	62,937.00	71,938.00	94,776.00	94,422.26
Treasury Bonds	161,549.10	188,626.00	193,367.00	218,357.33	272,199.74
Non Interest bearing debt	36,917.00	36,917.00	35,917.00	35,548.76	35,548.76
Others(includes stocks)	12,167.30	20,086.00	16,580.00	9,156.67	2,519.36
Less govt deposits & on-lending	-43,747.00	-53,919.00	-64,301.00	-71,388.00	-86,288.00
TOTAL INTERNAL(net)[1]	245,630.40	254,647.00	253,501.00	286,450.76	318,402.12
TOTAL UNFUNDED DEBT	598,894.53	697,804.00	687,954.00	717,687.50	715,540.87

Source: MoF/ Debt Management Dept. and CBK

[1] Excludes Government deposits to Central Bank and Commercial Banks

6.15. As shown in Table 6.12, over 96 per cent of the total Government stocks were held by public bodies as at 30th June 2007. Government stocks at book value by holders declined by 28.7 per cent from KSh 1,058.0 million as at 30th June 2006 to KSh 754.7 million as at 30th June 2007. Stocks held by Central Government declined by 48.7 per cent from KSh 615.6 million as at 30th June 2006 to KSh 316.1 million as at 30th June 2007. During the period under review, NSSF became the main holder of government stocks with 54.2 per cent of total stocks.

Table 6.12: Government Stocks at Book Value by Holders on Local Register, 2003-2007

KSh million

	As at 30th June				
	2003	2004	2005	2006	2007
PUBLIC BODIES:					
National Social Security Fund	408.80	408.80	408.80	408.80	408.80
Central Government	615.58	615.58	615.58	615.58	316.10
Local Government	1.00	1.00	1.00	1.00	1.00
Other Public Sector	2.20	2.20	2.20	2.20	2.00
OTHER INTERNAL:					
Commercial Banks	28.68	28.68	28.68	28.68	25.78
Insurance Companies	1.70	1.70	1.70	1.70	1.00
Private Individuals	0.03	0.03	0.03	0.03	0.00
TOTAL	1,057.98	1,057.98	1,057.98	1,057.98	754.68

Source: CBK

6.16. Table 6.13 depicts the Central Government debt servicing charges for the years 2003 to 2007. Annual debt servicing charges increased by 1.9 per cent from KSh 107.0 billion as at 30th June 2006 to KSh 109.0 billion as at 30th June 2007. Receipts from loan repayments and interest registered a substantial decline from KSh 0.9 billion as at 30th June 2006 to KSh 0.7 billion as at 30th June 2007. Total net servicing charges increased by 2.1 per cent from KSh 106.1 billion as at 30th June 2006 to KSh 108.3 billion as at 30th June 2007.

Table 6.13: Central Government Debt Servicing Charges, 2003 - 2007

KSh Million

Year ending	Annual Debt Servicing Charges**			Interest and Loan Repayment Receipts			Net Servicing Charges		
30th June	External	Internal	Total	External	Internal	Total	External	Internal	Total
2003	31,234.09	59,507.01	90,741.10	..	801.61	801.61	31,234.09	58,705.39	89,939.49
2004.. ..	26,734.61	87,644.52	114,379.13	..	719.40	719.40	26,734.61	86,925.12	113,659.73
2005	15,922.28	92,384.65	108,306.93	..	1,596.58	1,596.58	15,922.28	90,788.07	106,710.35
2006	17,008.53	89,991.44	106,999.97	..	915.99	915.99	17,008.53	89,075.45	106,083.98
2007*	17,892.65	91,065.90	108,958.55	..	650.00	650.00	17,892.65	90,415.90	108,308.55

Source: MoF

* Provisional

**Annual debt servicing Charges =Public debt redemption (Table 6.1)+Interest (Table 6.9)

6.17. A comparative analysis between the Central Government debt service charges and export of goods and services is presented in Table 6.14. Exports of goods and services have risen in the last five years, from KSh 271.8 billion in 2003 to KSh 474.0 billion in 2007. Debt servicing charges took an upward trend in 2006 after a drop for two consecutive years. Consequently, debt service charges on external debt as a percentage of the export of goods and services improved from 4.0 per cent in 2006 to 3.8 per cent in 2007.

Table 6.14: Central Government Debt Service Charges on External Debt Related to Exports of Goods and Services, 2003-2007

	Debt Service Charges on External Debt** (Financial Year)	Exports of Goods and Services (Calender Year)	External Debt Service Charges as a Percentage of Exports of Goods and Services
	KSh Million	KSh Million	
2003	31,234.09	271,785	11.49
2004	26,734.61	339,061	7.88
2005	15,922.28	403,628	3.94
2006	17,008.53	430,975	3.95
2007*	17,892.65	474,019	3.77

Source: MoF and KNBS

* Provisional.

** Including debt redemption, how ever, interest payments on draw ing on IMF are excluded.

6.18. Local Authorities: The Local Authority Transfer Fund (LATF) is a primary fiscal transfer vehicle from Central Government to Local Authorities in support of improved service delivery, better financial management, and resolution of outstanding debts. As shown in Table 6.15, the Government transferred KSh 8,250 million in 2007/08 financial year compared to KSh 7,500 million in 2006/07, a 10.0 per cent growth which was in tandem with the growth in income tax collections. County councils and municipal councils continued to receive the largest share, accounting for 46.6 and 24.8 per cent of the total LATF disbursements respectively. Transfers to town councils accounted for 10.0 per cent of the total LATF disbursements during the year under review. LATF disbursements to Nairobi City Council rose by 10.7 per cent to KSh 1,532 million in 2007/08.

Table 6.15: Central Government Transfer Through LATF to Local Authorities, 2003/04 - 2007/08

KSh million

	2003/04	2004/05	2005/06	2006/07	2007/08*
Nairobi City Council	642.39	691.80	889.45	1,383.56	1,531.80
Municipal Council	906.46	969.83	1,211.62	1,857.00	2,047.11
County Council	1,774.13	1,900.28	2,356.68	3,503.13	3,846.60
Town Councils	427.02	438.09	527.95	756.30	824.49
TOTAL	3,750.00	4,000.00	4,985.69	7,500.00	8,250.00

Source: Ministry of Local Government /Kenya Local Government Reform Programme (KLGRP)

* Provisional

6.19. Aggregate expenditures by local authorities by category for the period between 2003/04 and 2007/08 are shown in Table 6.16. Total expenditure by the local authorities is expected to go up by 14.4 per cent from KSh 20.2 billion in 2006/07 to KSh 23.1 billion in 2007/08. Expenditure by Nairobi City Council is expected to increase by 26.9 per cent from KSh 6.7 billion in 2006/07 to KSh 8.5 billion in 2007/08, accounting for 36.6 per cent of the total local government expenditure. Expenditure by other cities and municipal councils is expected to grow by 15.2 per cent, while that of county and town councils is expected to register 2.8 per cent growth in the year under review.

Table 6.16: Expenditure by Local Authorities, 2003/04- 2007/08

KSh Million

	Local Authorities				
	Nairobi City Council	Other Cities & Municipal Councils	Sub-Total	Town and County Councils	Total
2003/04	5,977.53	4,343.53	10,321.06	4,592.44	14,913.50
2004/05	4,259.24	4,176.69	8,435.93	4,910.77	13,346.70
2005/06	4,981.81	4,699.58	9,681.39	5,841.19	15,522.58
2006/07*	6,674.74	5,984.81	12,659.55	7,520.39	20,179.94
2007/08+ .. .	8,456.67	6,891.61	15,348.29	7,731.46	23,079.74

Source: Local Authorities

* Provisional

\+ Estimates

6.20. Classification of city and municipal councils' expenditures by functions of government is shown in Table 6.17. In 2007/08 financial year, expenditure on administration is expected to go up by 12.9 per cent from KSh 3.1 billion in 2006/07 to KSh 3.5 billion. According to LATF regulations, each local authority should allocate at least 50 per cent of the service delivery account to capital projects. Consequently, commitment to provide the local communities with basic services and improvement of infrastructure has been the main priority of most local authorities. Funding for provision of community, social and economic services has been remarkable over the years, accounting for over three quarters of the total expenditure during the reference period.

Table 6.17: City and Municipal Councils-Current and Capital Expenditure on Main Services, 2003/04- 2007/08

KSh Million

		2003/04	2004/05	2005/06	2006/07*	2007/08+
ADMINISTRATION		2,847.36	2,466.10	2,447.79	3,100.77	3,480.58
COMMUNITY SERVICES:	Roads	718.25	826.16	866.81	1,114.22	1,582.72
	Sanitation	723.24	569.70	646.41	845.26	1,074.78
	Other	357.21	197.20	245.93	386.96	469.15
	Total	1,798.70	1,593.06	1,759.15	2,346.44	3,126.65
SOCIAL SERVICES	Education	728.05	569.30	685.66	981.20	1,057.74
	Health	964.00	917.80	1,105.64	1,314.98	1,544.28
	Other	452.92	247.80	362.63	474.18	674.89
	Total	2,144.97	1,734.90	2,153.93	2,770.36	3,276.91
ECONOMIC SERVICES:	General Administration ..	887.29	583.70	704.79	1,021.60	1,267.33
	Water Undertaking	1,405.41	1,143.90	1,592.14	2,081.91	2,524.08
	Housing Estates(including staff housing)..	721.56	492.32	513.84	671.91	814.61
	Other	515.77	421.95	509.75	666.56	858.13
	Total	3,530.03	2,641.87	3,320.52	4,441.98	5,464.15
TOTAL EXPENDITURE		10,321.06	8,435.93	9,681.39	12,659.55	15,348.29

Source: Local Authorities

* Provisional

\+ Estimates

6.21. Economic classification of city and municipal councils' expenditure is presented in Table 6.18. In 2007/08, current expenditure of city and municipal councils' accounted for 70.8 per cent of the total expenditure compared to 68.2 per cent in 2006/07. Total expenditure is expected to maintain the upward trend witnessed since 2004/05. Current and capital expenditures are expected to increase by 25.8 and 11.4 per cent, respectively in 2007/08. The rise in capital expenditure may be attributed to continued efforts to rehabilitate basic infrastructure under the jurisdiction of the local authorities.

Table 6.18: City and Municipal Councils-Economic Analysis of Expenditure, 2003/04 - 2007/08

KSh Million

	2003/04	2004/05	2005/06	2006/07*	2007/08+
CURRENT EXPENDITURE:					
Labour Cost	5,394.51	4,517.67	5,356.53	5,403.24	6,810.56
Other Goods and Services	4,067.51	2,651.85	3,029.01	3,034.23	3,802.01
Transfer to Households & Enterprises	62.30	65.40	70.40	83.39	111.61
Transfer to Funds (Current)	75.43	53.50	59.93	78.26	95.01
Interest	47.00	31.70	30.48	39.86	48.32
Total	9,646.75	7,320.12	8,546.35	8,638.98	10,867.51
CAPITAL EXPENDITURE:					
Gross Fixed Capital Formation	389.95	912.24	1,162.69	3,999.73	4,476.53
Loan Repayment**	284.36	203.57	172.35	20.84	4.25
Transfer to Funds (capital)	..	..	..	..	..
Total	674.31	1,115.81	1,335.04	4,020.57	4,480.78
TOTAL EXPENDITURE	10,321.06	8,435.93	9,881.39	12,659.55	15,348.29

Source: Local Authorities

* Provisional

\+ Estimates

** Includes interest.

6.22. Table 6.19 depicts the economic analysis of city and municipal councils' revenue for the period 2003/04 to 2007/08. Total revenue is expected to increase by 25.6 per cent from KSh 8.6 billion in 2006/07 to 10.8 billion in 2007/08. Sale of goods and services is expected to be the leading source of revenue accounting for 34.3 per cent of the total revenue in 2007/08.

Table 6.19: City and Municipal Councils-Economic Analysis of Revenue, 2003/04-2007/08

KSh Million

	2003/04	2004/05	2005/06	2006/07*	2007/08+
CURRENT REVENUE:	6,878.74	6,224.70	7,208.66	8,303.03	10,523.82
Direct Taxes (Rates**)	1,666.12	1,674.27	1,696.26	2,050.21	2,668.32
Indirect Taxes (Licences and cesses)	642.12	411.97	769.12	853.48	1,071.40
Income from property	552.80	531.93	726.35	805.65	1,084.36
Current Transfers^	1,046.70	1,236.84	1,294.58	1,468.37	1,986.91
Sale of goods and services***	2,971.00	2,369.69	2,722.35	3,125.32	3,712.83
CAPITAL REVENUE:	290.08	294.62	311.77	312.95	290.99
Loans Raised	287.09	291.52	308.58	309.39	287.39
Loan Repayment	2.99	3.10	3.19	3.56	3.60
TOTAL REVENUE	7,168.82	6,519.32	7,520.43	8,615.98	10,814.81

Source: Local Authorities

* Provisional

** Paid by households and enterprises

*** Includes services charge

\+ Estimates

^ Excludes LATF

6.23. Economic analysis of expenditure and revenue for the town and county councils is shown in Table 6.20. Total expenditure is expected to increase by 2.7 per cent in 2007/08 compared to a 28.7 per cent increase recorded in the previous year. Current and capital expenditure are expected to increase by 3.4 and 1.4 per cent respectively. Labour cost, expenditure on other goods and services and gross fixed capital formation are expected to continue taking the major share of the total expenditure jointly accounting for over 93 per cent of the total expenditure. After increasing for two consecutive years, total revenue is expected to decline by 8.1 per cent from KSh 3.7 billion in 2006/07 to KSh 3.4 billion in 2007/08.

Table 6.20: Town and County Councils-Economic Analysis of Expenditure and Revenue, 2003/04-2007/08

KSh Million

	2003/04	2004/05	2005/06	2006/07*	2007/08+
CURRENT EXPENDITURE:					
Labour Cost	1,858.99	1,790.07	1,956.87	2,381.53	2,341.77
Other Goods and Services	1,347.33	1,352.25	1,569.62	2,340.55	2,499.85
Transfer to households & Enterprises	415.55	392.54	305.68	336.12	391.06
Transfer to Funds (Current)	22.37	82.09	67.40	70.01	72.08
Interest	..	..	..	..	..
Total	3,644.24	3,616.95	3,899.57	5,128.21	5,304.76
CAPITAL EXPENDITURE:					
Gross Fixed Capital Formation	936.66	1,278.49	1,937.80	2,390.12	2,419.58
Loan Repayments**	11.54	15.33	3.82	2.06	7.13
Transfer to Funds (capital)	..	..	..	..	..
Total	948.20	1,293.82	1,941.62	2,392.18	2,426.70
TOTAL EXPENDITURE	4,592.44	4,910.77	5,841.19	7,520.39	7,731.46
CURRENT REVENUE:					
Direct Taxes (Rates***)	211.35	224.11	285.69	502.22	568.52
Indirect Taxes (Licences and cesses)	567.24	305.38	498.17	789.31	747.57
Income from Property	8.70	25.83	39.89	43.58	45.24
Current Transfers^	827.20	658.02	798.34	994.78	845.48
Sale of Goods and Services++	828.80	761.59	862.78	1,235.45	1,093.71
Total	2,443.29	1,974.93	2,484.87	3,565.34	3,300.52
CAPITAL REVENUE:					
Loans Raised	0.68	0.92	106.70	108.01	107.15
Loans Repayments	0.00	0.00	0.00	0.00	0.00
Total	0.68	0.92	106.70	108.01	107.15
TOTAL REVENUE	2,443.97	1,975.85	2,591.57	3,673.35	3,407.67

Source: Local Authorities

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

Chapter 7

International Trade and Balance of Payments

Overview

Major indicators of international trade show that the trade deficit widened while the overall balance of the external account recorded a larger surplus in 2007. Trade balance expanded from a deficit of KSh 270,489 million in 2006 to KSh 330,514 million in 2007 reflecting a deterioration of 22.2 per cent. The value of domestic exports increased by 14.7 per cent as compared to the value of imports which grew relatively faster at the rate of 16.0 per cent in the same period. The re-exports recorded a decline of 43.1 per cent in 2007 due to a reduction of 92.8 per cent in the re-exports of the petroleum products as a result of proper administration of transit goods to avoid their inclusion in trade flows. These developments led to the fall of export/import ratio from 48.1 per cent in 2006 to 45.4 percent in 2007.

7.2. The volume of trade increased by 13.9 per cent in 2007 compared to 9.8 per cent growth in 2006. The total import bill and total export earnings rose by 16.0 per cent and 9.4 per cent, respectively. Horticulture, tea, articles of apparel and clothing accessories, and coffee continued to be the leading export earners, collectively accounting for 49.7 per cent of the total domestic export earnings in 2007; a decline from 53.4 per cent in 2006. This marginal decline was attributed to 2.4 per cent and 1.3 per cent reduction in export earnings from articles of apparel and clothing accessories, and tea, respectively.

7.3. The overall balance of payments improved from a surplus of KSh 44,446 million in 2006 to a surplus of KSh 63,250 million in 2007 largely due to an increase in the foreign exchange reserves. The current account balance deteriorated further to a deficit of KSh 74,169 million in 2007 from a deficit of KSh 34,523 million the previous year. This was mainly due to the visible balance deficit which widened to KSh 286,641 million. The capital and financial account recorded a surplus of KSh 159,146 million up from a surplus of KSh 63, 780 million recorded in 2006. This could be explained by increased direct investments and long term capital investment flows. The invisible trade registered a surplus of KSh 212,472 million in 2007 up from a surplus of KSh 200,038 million registered in 2006. This is attributable to the increase in private current transfers which recorded a surplus of KSh128,731 million and increase in earnings from tourism during the period under review.

Balance of Trade

7.4. Details of the balance of trade are shown in Table 7.1 and Figure 7.1. Domestic exports increased by 14.7 per cent compared to 8.7 per cent increase in 2006. The re-exports declined further for the third year in a row recording a decrease of 43.1 per cent as compared to a decrease of 54.8 per cent in the previous year. This could be attributed to a reduction of 92.8 per cent in the re-exports of the petroleum products following the reclassification of oil products by Kenya Revenue Authority (KRA). Total exports improved from KSh 250,994 million in 2006 to KSh 274,603 million in 2006 representing an increase of 9.4 per cent. Total imports increased by 16.0 per cent in the year under review compared to 17.7 per cent increase in 2006. These developments caused the

trade balance to widen further from a deficit of KSh 270,489 million in 2006 to KSh 330,514 million in 2007 reflecting an increase of 22.2 per cent. This indicates that the total imports grew relatively faster than the exports. In 2007, earnings from total exports could finance 45.4 per cent of the import bill compared to 48.1 per cent in 2006. The widening trend of trade deficit between 2003 and 2007 is depicted graphically in Figure 7.1.

Table 7.1: Balance of Trade[1], 2003 - 2007

KSh Million

DESCRIPTION	2003	2004	2005	2006	2007*
EXPORTS (f.o.b) :					
Domestic Exports ..	136,709	159,048	209,918	228,181	261,626
Re-exports	46,445	55,745	50,505	22,813	12,977
Total	183,154	214,793	260,423	250,994	274,603
IMPORTS (c.i.f) :					
Commercial	278,838	361,293	440,532	510,792	597,882
Government	3,005	3,264	2,561	10,691	7,235
Total	281,844	364,557	443,093	521,483	605,117
BALANCE OF TRADE ..	-98,690	-149,764	-182,670	-270,489	-330,514
TOTAL TRADE	464,997	579,350	703,516	772,477	879,720
COVER RATIO [2](in percentage) ..	65.0	58.9	58.8	48.1	45.4

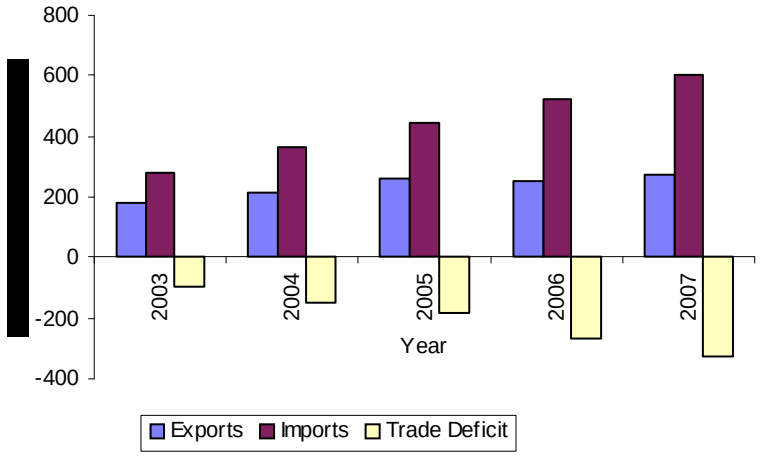
Source: Kenya National Bureau of Statistics/Kenya Revenue Authority

* Provisional

[1]Data from EPZ included as from 2005

[2]COVER RATIO =(Total Exports/Total Imports)*100

Figure 7.1: Balance of Trade, 2003-2007



Price Changes

7.5. Unit price indices for exports and imports are presented in Table 7.2. Export price indices for non-oil items and all items declined marginally by 1.6 per cent and 0.3 per cent, respectively. The reduction was partly attributed to the decline in the prices of manufactured goods and food and live animals. On the other hand, import price indices for all items and non-oil items continued on an upward trend, increasing marginally by 2.4 per cent and 1.1 per cent, respectively. The slower growth in export prices relative to import prices further explains the widening trade deficit by dampening export proceeds and at the same time encouraging imports. In addition, the

appreciation of the Kenya Shilling against most of the selected world currencies had an impact on the unit prices of both the exports and imports.

Table 7.2: Price Indices, 2003-2007

1982=100

	2003	2004	2005	2006	2007*
EXPORTS:					
Food and live animals	497	562	577	692	664
Beverages and tobacco	209	233	314	539	814
Crude materials, (inedible)	891	764	853	1,208	1,308
Mineral fuels	685	719	745	797	831
Animal and vegetable oils and fats	256	225	311	317	433
Chemicals	569	448	458	697	690
Manufactured goods	1,276	896	1,276	1,972	1,589
Machinery and transport equipment	471	638	674	739	734
Miscellaneous manufactured articles	884	939	892	1,576	2,087
All Exports	620	638	676	869	866
Non-oil Exports	603	614	658	886	872
IMPORTS:					
Food and live animals	467	623	605	684	467
Beverages and tobacco	914	765	745	668	880
Crude materials, (inedible)	641	598	578	687	684
Mineral fuels	664	822	1,093	1,514	1,640
Animals and vegetable oils and fats	795	973	939	791	1,115
Chemicals	1,248	1,027	1,031	1,281	1,375
Manufactured goods	807	641	672	1,079	1,210
Machinery and transport equipment	1,114	977	1,040	1,400	1,368
Miscellaneous manufactured articles	514	662	823	642	843
All imports	762	824	942	1,215	1,244
Non-oil Imports	718	730	780	980	991

Source: Kenya National Bureau of Statistics/ Kenya Revenue Authority

* Provisional

7.6. In 2007, increases of 51.0, 36.6 and 32.4 per cent, were recorded in the export price indices for beverages and tobacco, animal and vegetable oils and fats, and miscellaneous manufactured articles, respectively. On the other hand, export price indices for manufactured goods, food and live animals, chemicals, machinery and transport equipments, declined during the review period.

7.7. The import price indices for all the categories increased except for food and live animals, machinery and transport equipment and inedible crude materials. The import price indices for animals and vegetable oils rose by 41.0 per cent in 2007, while import price index for beverages and tobacco which has been on a downward trend since 2003 increased by 31.7 per cent in 2007. The import price indices for mineral fuels increased by 8.3 per cent in the period under review reflecting the increase in the world oil prices in 2007.

Terms of Trade

7.8. The ratio of export price index to import price index for all items declined by 2.0 percentage points to stand at 70 per cent in 2007 compared to the stability at 72 per cent attained in 2005 and 2006. Terms of trade for non-oil items declined by 20 percentage points in 2007 to stand at 88 per cent compared to 90 per cent recorded in 2006. These developments underscore the need to improve the competitiveness of the country's export.

Table 7.3: Terms of Trade[1], 2003 - 2007

1982=100

DESCRIPTION	2003	2004	2005	2006	2007*
All Items	81	77	72	72	70
Non-oil Items	84	84	84	90	88

Source: Kenya National Bureau Statistics/ Kenya Revenue Authority

* Provisional

[1]Terms of Trade is the ratio of Import Price Index to Export Price Index

Volume Changes

7.9. Quantum indices which measure changes in volume of trade are shown in Table 7.4. Overall, the export quantum indices for non-oil items and all items increased by 13.9 per cent and 9.0 per cent, respectively in 2007. This was mainly due to the marked volume increases witnessed in virtually all the categories except in mineral fuels, miscellaneous manufactured articles and beverages and tobacco which declined by 38.2, 22.7 and 22.2 per cent, respectively.

Table 7.4: Quantum Indices, 2003 - 2007

1982 =100

	2003	2004	2005	2006	2007*
EXPORTS:					
Food and live animals	250	240	271	242	275
Beverages and tobacco	4,695	3,484	4,536	4,418	3,435
Crude materials, (inedible)	275	419	340	282	290
Mineral fuels	181	214	211	76	47
Animal and vegetable oils and fats	11,133	11,679	8,543	8,325	8,588
Chemicals	377	572	1,189	662	882
Manufactured goods	173	348	272	200	277
Machinery and transport equipment ..	461	435	453	572	740
Miscellaneous manufactured articles ..	882	760	926	1,324	1,024
All Exports	260	296	318	256	279
Non-oil Exports	290	328	358	317	361
IMPORTS:					
Food and live animals	515	476	489	501	987
Beverages and tobacco	314	874	882	868	933
Crude materials, (inedible)	316	452	451	493	657
Mineral fuels	150	167	139	124	118
Animals and vegetable oils and fats ..	320	158	285	409	399
Chemicals	184	295	313	289	290
Manufactured goods	667	390	417	345	379
Machinery and transport equipment ..	136	187	267	238	284
Miscellaneous manufactured articles ..	530	629	404	551	597
All imports	205	246	254	238	270
Non-oil Imports	265	330	373	357	425

Source: Kenya National Bureau of Statistics/Kenya Revenue Authority

*Provisional

7.10. The overall import quantum indices for non-oil items and all items increased by 19.0 per cent and 13.4 per cent, respectively, during the review period. This was mainly occasioned by substantial increases in import volume for all the groups except mineral fuels and, animals and vegetable oils and fats. The import quantum indices of food and live animals nearly doubled.

Quantities of Principal Exports and Imports

7.11. Quantities of traditional export commodities of tea and coffee recorded increases as depicted in Table 7.5. Exports of Petroleum products, metal scrap and beer made from malt more than doubled in 2007 with the value of petroleum products exceeding the highest value recorded in 2005. Export quantities of wire products, unroasted coffee and tea recorded growths of 35.2, 20.6 and 16.1 per cent, respectively, in 2007. Other notable increases in export quantities were in metal containers, stone, sand and gravel and raw maize. On the other hand, quantities of fish and fish preparations exports continued on the downward trend recording a decline of 29.3 per cent in 2007. Similar trends were witnessed in the export quantities of pyrethrum extract, hides and skins which decreased by 85.2 per cent and 79.7 per cent, respectively.

Table 7.5 : Quantities of Principal Exports and Imports, 2003 - 2007

Commodity	Unit of Quantity	2003	2004	2005	2006	2007*
DOMESTIC EXPORTS						
Fish and fish preparations	Tonne	19,462	17,779	18,352	15,296	10,821
Maize(raw)	Tonne	3,128	24,078	10,854	22,344	27,750
Meals and flours of wheat	Tonne	345	38	139	622	688
Horticulture [1]	Tonne	294,214	274,186	298,464	301,007	389,247
Sugar confectionery	Tonne	20,519	23,971	31,114	29,130	30,873
Coffee, unroasted	Tonne	58,650	50,069	46,962	45,739	55,151
Tea	Tonne	262,175	275,307	341,171	318,896	370,245
Margarine and shortening	Tonne	5,057	13,602	19,834	29,045	33,241
Beer made from malt	000 Lt.	17,269	502	2,943	16,438	44,549
Tobacco and tobacco manufactures	Tonne	12,368	24,503	15,153	19,634	24,555
Hides and Skins	Tonne	13,910	18,542	15,683	11,875	2,416
Sisal	Tonne	21,723	20,895	21,079	22,095	22,031
Stone, sand and gravel	Tonne	30,308	40,878	58,956	97,231	151,172
Fluorspar	Tonne	78,507	85,054	102,719	98,126	71,736
Soda Ash	Tonne	330,755	318,550	321,429	317,258	437,035
Metal scrap	Tonne	2,884	2,853	4,035	4,344	9,155
Pyrethrum Extract	Tonne	123	133	124	122	18
Petroleum Products	Mn. Lt.	3	44	204	98	210
Animal and Vegetable oils	Tonne	47,534	40,297	44,362	44,152	50,297
Medicinal and pharmaceutical products	Tonne	3,871	4,910	8,370	7,943	10,244
Essential oils	Tonne	78,878	36,354	48,077	43,300	53,373
Insecticides and fungicides	Tonne	1,531	1,922	2,281	3,408	1,549
Leather	Tonne	4,898	8,646	10,083	16,062	20,049
Wood manufactures n.e.s	Tonne	1,664	2,587	2,394	1,488	1,447
Paper and paperboard	Tonne	30,974	21,112	19,699	16,092	20,611
Textile yarn	Tonne	1,854	1,380	3,027	3,560	2,769
Cement	Tonne	384,849	398,215	464,635	551,447	598,178
Iron and steel	Tonne	90,326	113,800	128,109	125,591	106,377
Metal containers	Tonne	1,880	1,288	1,482	2,348	3,761
Wire products: nails screws, nuts, etc.	Tonne	2,196	5,226	6,833	4,180	5,651
Footwear	'000' Pairs	106,845	43,908	46,288	47,054	47,239
Articles of plastic [2]	-	-	-	-	-	-
IMPORTS						
Wheat, unmilled	Tonne	502,115	404,060	621,838	650,445	564,300
Rice	Tonne	213,342	223,190	228,206	259,154	259,428
Maize, unmilled	Tonne	115,905	241,757	49,621	73,017	100,405
Wheat flour	Tonne	5,295	8,441	2,727	2,015	37,288
Sugars, Mollases and Honey	Tonne	195,930	146,030	162,146	183,325	252,964
Textile fibres and their waste	Tonne	25,440	26,938	23,967	23,961	22,545
Second - hand clothing	Tonne	45,407	48,330	44,857	50,268	53,871
Crude Petroleum	Tonne	1,382,628	2,043,774	1,773,973	1,643,189	1,598,703
Petroleum products	Mn. Lt.	2,302	1,893	1,512	1,991	2,047
Animal/ vegetable fats and oils	Tonne	351,965	183,928	399,201	475,004	448,821
Organic & inorganic chemicals	Tonne	115,753	110,202	139,605	141,053	183,789
Medicinal and pharmaceutical products	Tonne	7,733	22,748	10,019	9,948	11,243
Essential oils & pefumes	Tonne	13,493	16,747	18,795	21,646	20,394
Chemical fertilizers	Tonne	384,654	522,422	435,737	479,413	344,986
Plastics in primary & non-primary forms	Tonne	175,380	175,433	174,329	194,864	219,818
Paper and Paperboard	Tonne	106,887	104,443	104,928	134,021	152,982
Iron and steel	Tonne	391,190	478,660	436,593	472,558	534,440
Non-ferrous metals	Tonne	34,437	32,371	41,076	36,917	39,138
Hand & machine tools	"000"No	6,827	5,806	5,625	6,357	7,993
Industrial Machinery [2]	-	-	-	-	-	-
Agricultural Machinery and Tractors [2]	-	-	-	-	-	-
Bicycles, assembled or partly assembled	"000"No	447	722	300	240	241
Road Motor Vehicles	Nos.	243,668	182,207	85,212	46,769	65,128

Source: Kenya National Bureau of Statistics/ Kenya Revenue Authority

* Provisional

[1] Horticulture includes cut flowers, fruits and vegetables, both fresh and processed.

[2] some of the items under this heading have either varying unit of quantity or none at all, hence the blank.

7.12. Import quantities of wheat flour increased substantially following the implementation of the East African Community (EAC) Common External Tariff (CET) which led to waiver of import duty. In addition, the increase was also meant to complement the local production. In contrast, the imports of unmilled wheat reduced by 13.2 per cent in 2007. The number of road motor vehicles, quantities of sugars, molasses and honey, and unmilled maize imports increased by 39.3, 38.0, and 37.5 per cent, respectively in 2007. Import quantities of chemical fertilizers reduced by 28.0 per cent from 479,413 tonnes to 344,986 tonnes during the review period.

Values of Principal Exports and Imports

7.13. Values of principal exports and imports are shown in Table 7.6. Export earnings from horticulture increased by 16.2 per cent from KSh 48,813 million in 2006 to KSh 56,724 million in 2007. Although the value of tea exports accounted for 17.9 per cent of the total export earnings, its value reduced by 1.3 per cent in 2007 to stand at KSh 46,754 million . Collectively, both horticulture and tea accounted for 39.6 per cent of the total export earnings in 2007. Export earnings from metal scrap increased sharply from KSh 691 million in 2006 to KSh 1,814 million during the review period. Other notable increases in export earnings were in beer made from malt, petroleum products and raw maize which increased by 81.8, 79. 6 and 56.4 per cent, respectively in 2007. Export earnings from pyrethrum extract, hides and skins and insecticides and fungicides reduced by 88.3, 77.0 and 45.0 per cent, respectively during the year under review.

7.14. Import value of wheat flour increased from KSh 35 million in 2006 to KSh 1,451 million in 2007. The import bill for sugar, molasses and honey grew by 46.6 per cent whereas that for animal and vegetable fats and oils, and agricultural machinery and tractors grew at the same level of 37.3 per cent in 2007. Import value of petroleum products went up by 13.2 per cent as the value of crude petroleum imports declined by 10.5 per cent. Import value of chemical fertilizers decreased by 22.8 per cent in the review period on account of reduced quantities.

Table 7.6: Value of Principal Exports and Imports, 2003 - 2007

KSh Million

Commodity	2003	2004	2005	2006	2007*
DOMESTIC EXPORTS					
Fish and fish preparations	4,010	4,178	4,607	3,971	4,117
Maize(raw)	125	246	289	360	563
Meals and flours of wheat	6	1	3	17	19
Horticulture	36,485	39,541	44,707	48,813	56,724
Sugar confectionery	1,829	2,005	2,600	2,689	3,050
Coffee, unroasted	6,286	6,944	9,061	9,138	10,425
Tea	33,005	36,072	42,372	47,349	46,754
Margarine and shortening	383	1,017	1,374	2,014	2,714
Beer made from malt	75	37	106	980	1,782
Tobacco and tobacco manufactures	2,982	2,951	5,137	7,869	8,532
Hides and skins (undressed)	551	956	866	622	143
Sisal	906	1,119	1,182	1,248	1,389
Stone, sand and gravel	78	117	102	155	209
Fluorspar	664	882	1,210	1,139	963
Soda ash	2,392	3,166	3,858	3,976	5,419
Metal scrap	147	208	374	691	1,814
Pyrethrum extract	813	943	1,122	1,086	127
Petroleum products	69	1,104	6,465	4,299	7,720
Animal and Vegatable oils	2,410	2,505	2,559	2,453	3,453
Medicinal and pharmaceutical products	2,153	2,274	2,648	2,997	4,436
Essential oils	2,838	3,121	5,887	3,779	4,420
Insecticides and fungicides	255	425	445	707	389
Leather	1,018	1,115	1,611	1,971	3,036
Wood manufactures n.e.s	288	399	298	484	310
Paper and paperboard	777	1,026	1,052	911	1,039
Textile yarn	394	349	606	712	594
Cement	1,976	1,959	2,858	3,849	4,612
Iron and steel	4,047	7,532	8,852	9,025	8,224
Metal containers	204	256	200	335	348
Wire products: nails screws, nuts, etc.	154	360	381	325	411
Footwear	1,457	1,789	1,952	2,279	3,029
Articles of plastics	2,598	3,136	4,386	4,941	4,440
Articles of apparel and clothing accessories	1,056	1,276	14,869	16,561	16,165
All other Commodities	25,334	31,315	50,748	56,998	70,421
GRAND TOTAL	136,709	159,048	209,918	228,181	261,626
IMPORTS					
Wheat, unmilled	6,099	6,754	7,957	8,019	9,706
Rice	2,981	3,659	3,962	4,540	4,716
Maize	1,417	4,647	924	1,550	1,095
Wheat flour	168	200	71	35	1,451
Sugars, Mollases and Honey	4,334	3,545	4,050	5,248	7,694
Textile fibres and their waste	1,845	2,337	2,169	2,453	2,578
Second - hand clothing	2,242	2,440	2,173	2,827	3,232
Crude Petroleum	25,415	45,954	51,529	55,016	49,241
Petroleum Products	39,493	43,056	46,113	64,540	73,088
Animal/ vegetable fats and oils	13,332	8,063	14,019	16,974	23,311
Organic & inorganic chemicals	5,598	6,618	7,827	8,803	11,166
Medicinal & Pharmaceauticals Products	9,728	11,607	12,436	15,443	15,948
Essential oils & perfumes	3,741	5,414	4,789	5,465	5,937
Chemical Fertilizers	6,524	11,079	10,653	10,434	8,057
Plastics in primary & non-primary forms	11,211	15,420	18,037	20,399	23,535
Paper and Paperboard	5,409	5,283	6,870	8,088	9,558
Iron and Steel	12,504	21,265	21,084	21,340	26,335
Non-ferrous metals	3,615	4,695	5,397	8,945	10,702
Hand & machine tools	717	773	764	1,247	1,383
Industrial Machinery	32,764	43,516	48,856	62,079	78,014
Agricultural Machinery and Tractors	1,526	2,756	2,273	2,261	3,105
Bicycles, assembled or partly assembled	528	651	313	456	441
Road Motor Vehicles	17,955	24,361	25,251	36,936	42,678
All other Commodities	72,698	30,465	145,576	158,385	192,149
GRAND TOTAL	281,844	364,557	443,093	521,483	605,117

Source: Kenya Revenue Authority

7.15. Values, quantities and prices of selected exports and imports in 2006 and 2007 together with their percentage changes are indicated in Tables 7.7 and 7.8. The improved export unit price for fish and fish preparations of 46.6 per cent offset the 29.3 per cent decline in the export quantities resulting into 3.7 per cent increase in export earnings registered in 2007. Export prices of horticulture and unroasted coffee declined by 10.1 per cent and 5.4 per cent in 2007. However, their export quantities increased by the 29.3 per cent and 20.6 per cent leading to 16.2 per cent and 14.1 per cent increases in their export earnings, respectively. The effect of a 24.6 per cent increase in the unit price of metal scrap coupled with a significant rise in the quantity exported culminated into a more than doubling of its export earnings. In spite of a 15.9 per cent decline in the export unit price of petroleum products, increased export volumes resulted in an overall increase of 79.6 per cent in export earnings in 2007.

Table 7.7:Domestic Exports Change in value, Quantity and Price [1] 2006-2007

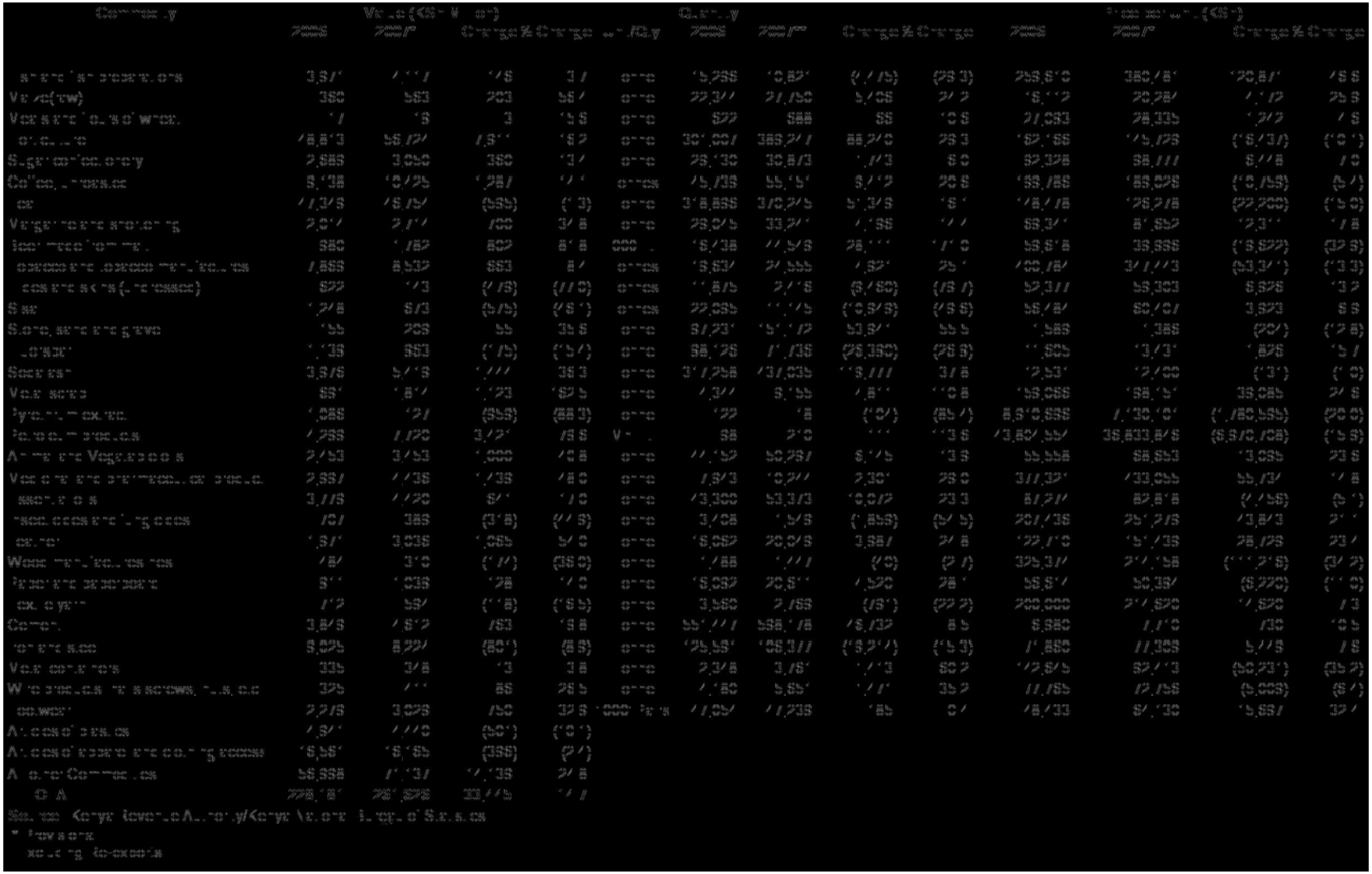


Table 7.8: Import Change in Value, Quantity and Price, 2006-2007

7.16. Increased quantities of maize imports was not sufficient to counter the 48.6 per cent decline in its unit price causing a decrease of 29.4 per cent in its import bill. The 45.4 per cent increase in the unit price of animal and vegetable fats and oils import was enough to offset the 5.5 per cent decline in its import quantity posting a 37.3 per cent growth in its import value. The 2.7 per cent decline in the quantity of crude petroleum imported combined with an 8.0 per cent decline in its import price resulted to a 10.5 per cent decline in its import value. The unit price of road motor vehicles recorded a 17.0 per cent drop in 2007 while import quantity rose by 39.3 per cent. This translated to a 15.6 per cent increase in its value. Likewise the 11.8 per cent decline in the import unit price of hand and machine tools dampened the 25.7 per cent increase in the import quantity resulting in a 10.9 per cent increase in import value.

Prices of Principal Imports and Domestic Exports

7.17. Table 7.9 presents the trends of unit prices of principal exports and imports. Export prices of raw maize which had declined in 2006 increased by 25.9 per cent in 2007. Export prices of metal containers, wood manufactures, beer made from malt, petroleum products, tea and horticulture recorded increases in 2007. Export prices of pyrethrum extract, stone, sand and gravel, and essential oils continued on the downward trend, reducing by 20.0, 12.8 and 5.1 per cent, respectively, during the review period. This may partly be attributed to the strengthening of the Kenyan shilling against major world currencies.

7.18. Most of the commodities recorded higher import unit prices in the review period. The import price of unmilled wheat and wheat flour which had declined in 2006, increased significantly in 2007. Import price of unmilled maize dropped by 48.6 per cent in 2007 compared to 14.0 per cent increase registered in 2006. Similarly, import price of road motor vehicles, and hand and machine tools which posted significant growths in the previous year, reduced by 17.0 per cent and 11.8 per cent, respectively in 2007. Unit prices of rice imports continued to record marginal growths, increasing by a paltry 3.8 per cent during the review period.

Table 7.9: Prices of Principal Exports and Imports, 2003 - 2007

KSh/Unit

Commodity	Unit	2003	2004	2005	2006	2007*
DOMESTIC EXPORTS						
Fish and fish preparations	Kg	206	235	251	260	380
Maize(raw)	Tonne	39,962	10,219	26,626	16,112	20,284
Meals and flours of wheat	Tonne	17,391	34,601	21,583	27,093	28,335
Horticulture	Kg	105	144	140	155	137
Sugar confectionery	Kg	89	84	84	92	99
Coffee, unroasted	Kg	107	139	193	200	189
Tea	Kg	126	131	124	148	126
Margarine and shortening	Kg	76	75	69	69	82
Beer made from malt	Lt.	4	74	36	60	40
Tobacco and tobacco manufactures	Kg	241	120	339	401	347
Hides and Skins(undressed)	Kg	40	52	55	52	59
Sisal	Tonne	41,707	53,572	56,075	56,484	60,407
Stone, sand and gravel	Tonne	2,574	2,866	1,730	1,589	1,386
Fluorspar	Tonne	8,458	10,367	11,780	11,605	13,431
Soda Ash	Tonne	7,232	9,939	12,003	12,531	12,400
Metal scrap	Tonne	50,971	72,869	92,689	159,066	198,151
Pyrethrum Extract	Kg	6,610	7,076	9,048	8,911	7,130
Petroleum Products	Lt.	26	25	32	44	37
Animal and Vegetable oils	Kg	51	62	58	56	69
Medicinal and pharmaceutical products	Kg	556	463	316	377	433
Essential oils	Kg	36	86	122	87	83
Insecticides and fungicides	Kg	167	221	195	207	251
Leather	Kg	208	129	160	123	151
Wood manufactures n.e.s	Tonne	173,077	154,093	124,494	325,374	214,158
Paper and paperboard	Tonne	25,086	48,595	53,403	56,614	50,394
Textile yarn	Kg	213	253	200	200	215
Cement	Tonne	5,134	4,920	6,151	6,980	7,710
Iron and steel	Tonne	44,804	66,189	69,098	71,860	77,309
Metal containers	Tonne	108,511	199,068	134,934	142,645	92,413
Wire products: nails screws, nuts, etc.	Tonne	70,128	68,823	55,759	77,765	72,756
Footwear	Pair	14	41	42	48	64
Articles of plastics[1]	-	-	-	-	-	-
IMPORTS						
Wheat, unmilled	Tonne	12,147	16,717	12,796	12,329	17,200
Rice	Tonne	13,973	16,396	17,362	17,518	18,177
Maize, unmilled	Tonne	12,226	19,222	18,621	21,231	10,904
Wheat flour	Tonne	31,728	23,722	26,036	17,428	38,904
Sugars, Mollases and Honey	Tonne	22,120	24,276	24,977	28,625	30,415
Textile fibres and their waste	Tonne	72,525	86,739	90,501	102,374	114,332
Second - hand clothing	Tonne	49,376	50,482	48,442	56,239	59,999
Crude Petroleum	Tonne	18,382	22,485	29,047	33,481	30,800
Petroleum products	Lt.	17	23	30	32	36
Animal/ vegetable fats and oils	Kg	38	44	35	36	52
Organic & inorganic chemicals	Kg	48	60	56	62	61
Medicinal & Pharmaceauticals Products	Kg	1,258	510	1,241	1,552	1,419
Essential oils & pefumes	Kg	277	323	255	252	291
Chemical fertilizers	Tonne	16,961	21,208	24,448	21,764	23,356
Plastics in primary & non-primary forms	Tonne	63,924	87,898	103,466	104,683	107,065
Paper and Paper Products	Tonne	50,605	50,582	65,474	60,350	62,477
Iron and steel	Tonne	31,964	44,426	48,292	45,158	49,275
Non-ferrous metals	Tonne	104,974	145,022	131,390	242,298	273,427
Hand & machine tools	Mn. No.	105	133	136	196	173
Industrial Machinery[1]	-	-	-	-	-	-
Agricultural Machinery and Tractors[1]	-	-	-	-	-	-
Bicycles, assembled or partly assembled	No.	1,181	901	1,044	1,901	1,829
Road Motor Vehicles	No.	73,226	133,700	296,332	789,754	655,298

Source: Kenya Revenue Authority/Kenya National Bureau of Statistics
* Provisional.
[1] some of the items under this heading have either varying unit of quantity or none at all, hence the blank.

Composition of Exports

7.19. Classification of domestic exports by Broad Economic Category (BEC) is summarised in Table 7.10. Earnings accrued from the exports of food and beverages accounted for 39.9 per cent of the total domestic export earnings in 2007 compared to 42.9 per cent recorded in 2006. The earnings from non-food industrial supplies, and fuel and lubricants accounted for 25.9 per cent and 4.0 per cent of the total earnings from domestic exports, respectively. The share of export earnings from machinery and other capital equipment, and transport equipment expanded slightly from 1.6 per cent and 1.2 per cent recorded in 2006 to 1.7 per cent and 1.3 per cent in 2007, respectively.

7.20. Export earnings from commodities in the food and beverages category increased from KSh 97,801 million in 2006 to KSh 104,454 million in 2007. This resulted from increased earnings, from processed food and beverages for household consumption which increased from KSh 18,295 million in 2006 to KSh 23,448 million in 2007. The export earnings from machinery and other capital equipment increased by 25.5 per cent from KSh 3,529 million in 2006 to KSh 4,430 million in 2007. The export earnings from fuel and lubricants category increased substantially from KSh 6,882 million in 2006 to KSh 10,558 million in 2007 representing a 53.4 per cent increase. This is attributable to an increase in earnings from other fuel and lubricants which rose from KSh 6,668 million in 2006 to KSh 10,129 million in 2007. Earnings from exports of transport equipment rose by 25.8 per cent mainly due to marked increases in the export earnings from industrial transport equipment, and parts and accessories which rose by 32.7 per cent and 17.6 per cent, respectively, in the year under review.

Table 7.10: Domestic Exports by Broad Economic Category, 2003 - 2007

KSh Million

DESCRIPTION	2003	2004	2005	2006	2007*
1 FOOD AND BEVERAGES	70,070	75,071	91,127	97,801	104,454
Primary	55,163	60,062	70,049	76,330	78,555
For Industry	7,350	7,317	10,506	11,151	11,689
For Household Consumption	47,813	52,745	59,543	65,179	66,866
Processed	14,907	15,009	21,078	21,471	25,899
For Industry	2,629	1,172	3,670	3,176	2,450
For Household Consumption	12,278	13,837	17,408	18,295	23,448
2. INDUSTRIAL SUPPLIES (Non-Food) ..	34,743	39,479	51,219	53,715	67,749
Primary	12,129	15,147	11,237	11,999	13,545
Processed	22,614	24,332	39,982	41,716	54,205
3. FUEL AND LUBRICANTS	423	1,182	6,894	6,882	10,558
Primary	3	5	7	15	12
Processed	420	1,177	6,887	6,867	10,546
Motor Spirit	9	31	2	199	417
Other	411	1,146	6,885	6,668	10,129
4. MACHINERY & OTHER CAPITAL EQUIPMENT ..	890	1,904	2,252	3,529	4,430
Machinery & Other Capital Equipment ..	590	1,254	1,551	2,932	3,521
Parts and Accessories	300	650	701	597	909
5. TRANSPORT EQUIPMENT	1,034	1,716	2,206	2,762	3,475
Passenger Motor Vehicles	81	147	75	68	115
Other	299	362	1,109	1,441	1,888
For Industry	191	349	1,060	1,368	1,815
Non-Industrial	108	13	49	73	73
Parts and Accessories	654	1,207	1,022	1,253	1,473
6. CONSUMER GOODS NOT ELSEWHERE SPECIFIED .	26,340	33,648	56,072	63,436	70,959
Durable	373	381	540	629	580
Semi-Durable	5,081	6,525	20,512	22,939	22,267
Non-Durable	20,885	26,742	35,020	39,868	48,113
7. GOODS NOT ELSEWHERE SPECIFIED ..	3,209	6,048	148	56	0
TOTAL	136,709	159,048	209,918	228,181	261,626
PERCENTAGE SHARES:					
1. Food and Beverages	51.25	47.20	43.41	42.86	39.92
2. Industrial Supplies (Non-Food)	25.41	24.82	24.40	23.54	25.90
3. Fuel and Lubricants	0.31	0.74	3.28	3.02	4.04
4. Machinery and other Capital Equipment ..	0.65	1.20	1.07	1.55	1.69
5. Transport Equipment	0.76	1.08	1.05	1.21	1.33
6. Consumer Goods not elsewhere specified	19.27	21.16	26.71	27.80	27.12
7. Goods not elsewhere specified	2.35	3.80	0.07	0.02	0.00
TOTAL	100.00	100.00	100.00	100.00	100.00

Source: Annual Trade Report - Customs & Excise Dept.

Source: Kenya National Bureau of Statistics / Kenya Revenue Authority

* Provisional

Table 7.11: Total Imports by Broad Economic Category, 2003 - 2007

KSh Million

DESCRIPTION	2003	2004	2005	2006	2007*
1. FOOD AND BEVERAGES	**14,983**	**20,862**	**26,421**	**31,985**	**40,766**
Primary	2,702	8,655	11,433	12,910	18,506
For Industry	1,748	7,152	9,518	10,269	14,157
For Household Consumption	954	1,503	1,915	2,641	4,349
Processed	12,281	12,207	14,988	19,075	22,261
For Industry	4,227	3,321	4,259	5,561	4,399
For Household Consumption	8,054	8,886	10,729	13,514	17,862
2. INDUSTRIAL SUPPLIES (Non-Food)	**86,917**	**113,976**	**144,781**	**160,883**	**195,508**
Primary	7,341	6,393	8,538	10,318	13,877
Processed	79,575	107,583	136,243	150,565	181,631
3. FUEL AND LUBRICANTS	**66,297**	**91,416**	**100,581**	**124,647**	**127,463**
Primary	25,818	47,040	52,262	55,842	50,183
Processed	40,479	44,376	48,319	68,805	77,279
Motor Spirit	8,102	5,003	122	14,552	9,212
Other	32,378	39,373	48,197	54,253	68,067
4. MACHINERY AND OTHER CAPITAL EQUIPME	**38,708**	**51,555**	**56,317**	**71,677**	**97,290**
Machinery and Other Capital Equipment	29,502	39,489	43,919	56,333	76,466
Parts and Accessories	9,206	12,066	12,398	15,344	20,824
5. TRANSPORT EQUIPMENT	**36,825**	**40,425**	**83,635**	**95,718**	**97,385**
Passenger Motor Vehicles	9,688	13,018	12,297	15,890	20,630
Other	22,025	21,046	58,961	64,056	58,556
Industrial	21,148	19,095	57,873	62,203	54,771
Non-Industrial	876	1,951	1,088	1,853	3,785
Parts and Accessories	5,112	6,361	12,377	15,772	18,199
6. CONSUMER GOODS NOT ELSEWHERE SPECI	**23,055**	**26,174**	**30,071**	**36,137**	**44,445**
Durable	4,787	4,561	4,727	5,239	7,216
Semi-Durable	4,760	6,165	7,797	9,595	12,977
Non-Durable	13,509	15,448	17,547	21,303	24,253
7. GOODS NOT ELSEWHERE SPECIFIED	**15,058**	**20,148**	**1,287**	**436**	**2,259**
TOTAL	**281,844**	**364,557**	**443,093**	**521,483**	**605,117**
PERCENTAGE SHARES:					
1. Food and Beverages	5.32	5.72	5.96	6.13	6.74
2. Industrial Supplies (Non-Food)	30.84	31.26	32.68	30.85	32.31
3. Fuel and Lubricants	23.52	25.08	22.70	23.90	21.06
4. Machinery and other Capital Equipment	13.73	14.14	12.71	13.74	16.08
5. Transport Equipment	13.07	11.09	18.88	18.35	16.09
6. Consumer Goods not elsewhere specified	8.18	7.18	6.79	6.93	7.34
7. Goods not elsewhere specified	5.34	5.53	0.29	0.08	0.37
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: Kenya National Bureau of Statistics / Kenya Revenue Authority

* Provisional

Composition of Imports

7.21. Classification by Broad Economic Category (BEC) of imports is presented in Table 7.11. During the review period, expenditure on non-food industrial supplies, fuel and lubricants consumed the biggest share of the import bill accounting for 32.3 per cent and 21.1 per cent respectively. The proportion of transport equipment in total expenditure shrank from 18.4 per cent in 2006 to 16.1 per cent in 2007. This can be partly explained by a reduction of 11.9 per cent recorded in the other industrial transport equipment.

7.22. The expenditure on non-food industrial supplies rose by 21.5 per cent to stand at KSh 195,508 million in 2007 mainly due to a significant increase of 34.5 per cent in the expenditure on primary non-food industrial supplies. Expenditure on fuel and lubricants increased marginally by 2.3 per cent from KSh 124,647 million in 2006 to KSh 127,463 million in 2007. The expenditure on transport equipment rose from KSh 95,718 million in 2006 to KSh 97,385 million in 2007.

Direction of Trade

7.23. Kenya's trade with its trading partners is summarised in Tables 7.12, 7.13 and 7.14. The African region continued to be the dominant export market followed by the European Union. The share of exports to the African region and the European Union was 45.2 per cent and 26.4 per cent of the total exports respectively. The total value of exports to the African region recovered from the decline of 10.3 per cent in 2006 to grow by 14.5 per cent in 2007. Total exports to the European Union rose by 4.7 per cent in 2006 compared to 10.9 per cent in 2007. Exports to Italy, Germany and Belgium which had registered declines in 2006 increased substantially by 29.9, 28.5 and 22.1 per cent, respectively in 2007. The increase in exports to Germany was occasioned by increased exports of coffee from KSh 1,800 million in 2006 to KSh 2,005 million in 2007. The increase in export earnings from Italy was partly due to exports of leather valued at KSh1,012 million in 2007 compared to a value of KSh 487 million exported the previous year. In addition, the value of exports to Spain and Sweden increased by 38.2 per cent and 43.8 per cent respectively during the review period. The increase in exports to Sweden was partly due to exports of coffee valued at KSh 1,350 million compared to a value of KSh 977 million exported in 2006. The value of exports to Uganda increased from KSh 27,812 million to KSh 33,560 million during the review period mainly due to exports of beer made from malt valued at KSh 1,331 million up from KSh 704 million exported the previous year.

7.24. With the exception of Iran, exports to all other Middle East countries increased in 2007. The value of exports to Jordan and United Arab Emirates grew by 66.9 per cent and 73.7 per cent, respectively. The increase in export earnings from United Arab Emirates is partly attributable to exports of gold valued at KSh 3,602 million.

7.25. In 2007, Asia continued to be the leading source of Kenya's imports accounting for 55.2 per cent of the total value of imports. The total imports from Iran rose substantially from KSh 574 million in 2006 to KSh 3,360 million in 2007. The sharp rise in imports is mainly due to importation of aircrafts. Imports from Israel and China increased by 53.3 per cent and 53.7 per cent whereas imports from Saudi Arabia and Singapore plummeted during the review period .The decline in imports from Saudi Arabia was due to a reduction in importation of crude petroleum oils and oils obtained from bituminous minerals from KSh 13,915 million in 2006 to KSh 7,716 million in 2007.

7.26 Imports from Finland increased remarkably from KSh 1,848 million in 2006 to KSh 5,027 million in 2007 partly due to imports of telecommunications equipment valued at KSh. 1,434 million. Imports from France and Spain increased by 55.5 per cent and 57.7 per cent, respectively, reversing the decline recorded in 2006. The increase in imports from France was partly caused by importation of aircraft worth KSh 2,245 million. On the other hand, imports from Belgium continued on the downward trend since 2005.

7.27 Total value of imports from the African region increased by 13.2 per cent in 2007 compared to the marginal growth of 1.5 per cent recorded in 2006. Imports from Uganda increased from KSh 1,002 million in 2006 to KSh 5,979 million in 2007 partly occasioned by imports of tobacco. Imports from United

States of America increased by 80.0 per cent to stand at KSh 44,523 million during the review period.

Table 7.12: Total Exports by Destination, 2003-2007

KSh Million

DESCRIPTION	2003	2004	2005	2006	2007*
EUROPE					
WESTERN EUROPE:					
European Union[1]					
Belgium	2,332	2,474	2,945	2,126	2,596
Finland	549	514	626	879	894
France	3,100	3,592	5,086	3,837	3,952
Germany	5,330	4,574	5,254	4,633	5,952
Italy	1,671	1,764	2,233	1,986	2,580
Netherlands	14,139	17,094	18,343	19,656	21,919
Spain	1,004	1,164	1,070	1,181	1,633
Sweden	631	1,083	1,058	1,106	1,591
United Kingdom	21,525	22,404	23,673	27,237	28,789
Other	1,878	2,111	2,276	2,839	2,706
Total	52,159	56,773	62,564	65,480	72,612
Other Western Europe	2,718	2,208	2,287	3,897	4,234
Total Western Europe	54,877	58,982	64,851	69,377	76,846
EASTERN EUROPE:					
Russia Federation		1,031	1,362	1,580	1,923
Romania	30	1	27	62	50
Other	1,132	920	211	396	457
Total	1,702	1,951	1,600	2,038	2,431
TOTAL, EUROPE	56,579	60,933	66,451	71,415	79,277
AMERICA					
U.S.A	2,796	4,502	12,053	20,326	19,218
Canada	435	461	492	606	659
Other	649	1,103	714	555	643
TOTAL AMERICA	3,880	6,066	13,259	21,487	20,520
AFRICA					
South Africa	1,066	1,650	2,144	2,258	2,347
Rwanda	6,012	6,190	7,282	4,765	5,801
Egypt	5,453	6,918	8,848	9,871	9,111
Tanzania	14,588	17,921	19,954	18,288	22,319
Uganda	30,668	37,059	42,679	27,812	33,560
Other[2]	26,867	32,115	39,883	45,312	50,873
TOTAL AFRICA	84,653	101,853	120,790	108,306	124,010
ASIA					
MIDDLE EAST:					
Iran	74	126	351	468	246
Israel	1,239	885	1,481	907	1,094
Jordan	105	36	116	121	202
Saudi Arabia	387	1,492	1,121	657	735
United Arab Emirates	2,108	2,396	4,063	4,968	8,627
Other .	2,692	2,530	1,884	2,593	2,829
Total	6,604	7,465	9,016	9,714	13,732
FAR EAST					
China(Mainland)	510	903	1,278	1,555	1,471
India	2,498	4,147	4,006	3,749	5,824
Indonesia	227	475	768	318	420
Japan	1,215	1,593	1,860	1,255	1,302
Korea South	68	92	217	399	318
Pakistan	9,153	11,359	14,073	14,547	13,531
Singapore	174	192	203	168	1,723
Other	7,333	6,813	7,271	6,210	7,905
Total	21,177	25,574	29,676	28,201	32,493
TOTAL, ASIA	27,781	33,038	38,692	37,915	46,224
AUSTRALIA & OCEANIC					
Australia	666	526	701	550	1,100
Other	81	92	193	173	132
TOTAL	747	618	894	723	1,232
All Other Countries	2,858	5,223	13,271	1,860	89
Aircraft and Ships Stores	3,781	7,106	7,065	9,287	3,251
TOTAL	6,639	12,329	20,336	11,147	3,340
TOTAL EXPORTS	183,154	214,793	260,422	250,993	274,603

Source: Kenya National Bureau of Statistics / Kenya Revenue Authority

*Provisional

[1] Figures as from for 2004 includes the 25 EU members

[2]See Table 7.14 for details

Table 7.13: Imports by Country of Origin, 2003- 2007

KSh Million

DESCRIPTION	2001	2002	2003	2004	2005	2006	2007*
EUROPE							
WESTERN EUROPE:							
European Union[1]							
Belgium	7,673	6,944	6,757	9,689	8,063	6,799	6,230
Finland	1,085	1,442	697	1,770	1,645	1,848	5,027
France	10,699	9,712	8,957	12,209	13,948	10,608	16,491
Germany	11,711	12,942	10,962	13,183	15,834	18,924	22,166
Italy	6,998	4,146	5,840	7,154	7,878	12,111	13,223
Netherlands	5,325	5,409	6,256	7,310	9,687	9,099	9,301
Spain	2,208	2,959	2,154	1,989	2,985	2,707	4,270
Sweden	1,622	12,259	1,615	2,007	2,437	3,988	3,980
United Kingdom	21,989	21,138	19,621	27,124	25,372	27,042	29,414
Other	2,719	6,138	3,979	4,724	5,327	21,611	10,991
Total	72,028	83,090	66,840	87,159	93,176	114,737	121,094
Other Western Europe	5,433	4,077	5,304	5,722	7,801	10,392	9,309
Total Western Europe	77,461	87,167	72,143.38	92,881	100,977	125,129	130,403
EASTERN EUROPE:							
Russian Federation				2,538	2,985	3,001	6,561
Romania	149	37	1,237	1,362	52	1,614	665
Other	1,983	1,651	4,262	1,775	2,056	5,790	3,466
Total	2,131	1,688	5,499	5,675	5,093	10,405	10,692
TOTAL, EUROPE	79,592	88,854	77,642	98,555	106,070	135,534	141,095
AMERICA							
U.S.A	38,967	14,648	14,388	14,425	42,558	24,731	44,523
Canada	1,599	1,183	2,051	2,202	2,298	3,107	2,901
Other	4,943	3,314	1,733	7,832	6,972	4,489	8,024
TOTAL AMERICA	45,509	19,144	18,173	24,458	51,828	32,327	55,448
AFRICA							
South Africa	7,636	17,805	23,309	34,654	42,648	33,933	35,355
Tanzania	585	803	1,368	2,009	3,099	4,514	6,678
Uganda	683	664	1,038	1,009	1,396	1,002	5,979
Other[2]	22,844	9,601	11,604	14,763	15,555	24,164	24,026
TOTAL AFRICA	31,749	28,873	37,318	52,435	62,698	63,613	72,038
ASIA							
MIDDLE EAST:							
Iran	786	242	2,501	2,073	645	574	3,360
Israel	1,846	1,503	1,979	1,990	2,560	2,861	4,385
Jordan	150	69	327	1,186	93	655	812
Saudi Arabia	15,773	13,446	24,305	31,368	27,710	26,455	17,595
United Arab Emirates	41,465	29,060	31,918	45,044	62,791	77,529	89,464
Other	8,857	6,996	14,411	18,566	13,943	11,703	14,234
Total	68,878	51,315	75,440	100,228	107,742	119,777	129,850
FAR EAST							
China	6,792	6,052	8,023	12,795	22,967	29,721	45,668
India .	12,830	13,810	14,811	22,660	24,621	37,781	56,815
Indonesia	7,680	13,080	12,497	7,691	9,922	13,757	18,764
Japan	14,436	17,242	18,611	24,151	23,067	29,407	41,128
Korea South	3,926	2,755	2,966	3,289	3,672	9,146	8,598
Pakistan	2,086	4,020	4,456	3,247	3,316	4,436	5,006
Singapore	5,655	4,188	2,352	4,452	7,673	25,526	9,352
Other	7,492	5,477	7,428	7,534	15,921	16,741	18,915
Total	60,897	66,623	71,145	85,818	111,159	166,515	204,246
TOTAL, ASIA	129,775	117,939	146,584	186,046	218,901	286,292	334,096
AUSTRALIA & OCEANIC							
Australia	3,214	1,879	1,562	1,205	1,416	2,826	1,527
Other	208	140	169	257	231	266	344
TOTAL	3,422	2,018	1,731	1,462	1,647	3,092	1,871
All Other Countries N.E.S.	62	882	395	1,600	1,948	626	569
TOTAL	62	882	395	1,600	1,948	626	569
GRAND TOTAL	290,108	257,710	281,844	364,557	443,092	521,484	605,117

Source: Kenya National Bureau of Statistics/ Kenya Revenue Authority

*Provisional

[1] Figures as from for 2004 includes the 25 EU members

[2] See table 7.14 for details

Table 7.14: Trade With African Countries, 2003- 2007

7.28 The Common Market for Eastern and Southern Africa (COMESA) was the leading destination of Kenya's exports within the African region. Exports to the COMESA region increased by 14.3 per cent accounting for 69.5 per cent share of the total exports to Africa. The value of Exports to Djibouti rose from KSh 851,451 thousand to KSh 2,264,322 thousand in 2007 while exports to Namibia increased from KSh 11, 293 thousand to KSh 31, 186 thousand during the same period. The increase in exports to Djibouti was partly due to exports of carbonates and peroxocarbonates worth KSh 27,459 thousand where none was exported the previous year. However, exports to Comoros declined by 41.7 per cent to stand at KSh 224, 138 thousand in 2007 due to non-exportation of Portland cement. Exports to the East African Community (EAC) increased by 20.8 per cent in 2007. Exports to all the EAC countries increased during the review period with Tanzania and Uganda registering 22.0 per cent and 20.7 per cent growths, respectively. The increase in exports to Tanzania could partly be explained by increases in exports of lubricating petroleum oils and oils from bituminous minerals during the review period.

7.29 Exports to Lesotho continued to grow significantly. In 2007, exports to Lesotho stood at KSh 51,921 thousand up from KSh 11,911 thousand recorded in 2006. This increase was mainly caused by exports of other printed matter, including printed pictures and photographs valued at KSh 51,158 thousand, as none was exported in 2006. Increased exports to Algeria and Libya grew from KSh 7,203 thousand to KSh 618,442 due to increased exports of jute and other textile bast fibres. Exports to Reunion declined by 58.9 per cent mainly due to decrease in exports of Portland cement in 2007.

7.30 Imports from COMESA went up by 62.8 per cent while those from EAC more than doubled in 2007. The major sources of imports from these regional blocks were from Egypt, Uganda, Tanzania, Swaziland and Mauritius. The increase in imports from Uganda was occasioned by imports of tobacco which rose from KSh 1,001,829 thousand in 2006 to KSh 5,978,919 thousand in 2007. South Africa continued to be the dominant source of Kenya's imports within the African region. Imports from South Africa increased by 4.2 per cent in 2007 compared to a decline of 20.4 per cent registered in 2006.

Balance of Payments

7.31. Table 7.15 which provides details of the Balance of Payments (BOP) indicates the BOP remained in surplus as the external sector experienced improvements in 2007. The favourable BOP out-turn was on account of increased net Capital inflows and private transfers that offset the widening merchandise trade deficit. Net reserves increased from KSh 44,446 million in 2006 to KSh 63,250 million in 2007.

7.32. The current account balance deteriorated almost two fold to a deficit of KSh 61,042 million from a deficit of KSh 34,523 million recorded the previous year. This was mainly due to a widening visible trade deficit which worsened further to stand at KSh 286,641 million. The visible trade deficit expanded as a result of strong growth in the value of imports on BOP basis, compared to the value of exports. The invisible trade however registered a surplus of KSh 225,599 million in 2007 up from a surplus of KSh 200,038 million registered in 2006. This is attributable to the increase in private current transfers and tourism earnings.

Table 7.15: Kenya Balance of Payments, 2004-2007

7.33. Capital and Financial account more than doubled recording a surplus of KSh 159,146 million in 2007 compared to a surplus of KSh 63,780 million posted in the previous period. This increase was occasioned by increased long term capital investments. Foreign direct investments inflows increased from KSh 3,654 million in 2006 to KSh 48,989 million in 2007 following capital injection by foreign strategic partnerships and privatization. The net deficit in portfolio investment account widened marginally from KSh 1,487 million in 2006 to KSh 1,584 million in 2007.

Table 7.16: Changes in Kenya Balance of Payments, 2003-2007

KSh Million

	2000**	2001	2002	2003	2004	2005	2006+	2007*
1. Exports Goods	+12,217	+12,831	+21,660	+13,966	+31,606	+45,753	-8,054	+24,022
2 Imports Goods	-39,758	-22,379	+5,487	-22,217	-73,475	-78,772	-64,857	-76,102
Transportation	-4,534	+6,456	+2,903	+3,420	+1,889	+3,468	+1,882	-4,118
Travel	-1,773	+1,481	-1,170	+4,884	+13,216	+4,452	+2,351	+6,875
Other Services	-4,123	-3,901	+4,083	+33	-4,360	+1,421	+8,804	+15,612
Government services n.e.s.	+5,416	+2,287	-2,965	+3,035	-367	-2,085	+7,226	+1,799
Income	+1,056	+582	-1,717	+4,546	-3,289	+1,823	+3,141	-7,844
3. Services & Income (net)	-3,958	+6,905	1,134	+15,919	+7,089	+9,078	+23,404	+12,324
4. Current Transfers(net)	+22,392	-4,277	-12,537	+12,765	+13,246	+15,309	+34,047	+13,236
5. Changes on current account	-9,107	-6,920	+15,744	+20,434	-21,533	-8,631	-15,460	-26,519
6. Capital account	-119	+268	+2,349	+5,988	-886	-3,688	+4,335	-1,584
7. Direct investment	+7,476	-8,032	+1,174	+4,458	-2,752	-2,427	+1,056	+814
8. Portfolio investment	-536	+985	-264	-2,494	-2,380	+2,948	+3,789	+3,071
9. Other investment - Long term	+11,234	-2,888	-20,816	+30,884	-16,335	+24,569	+480	+41,052
10. Change on basic balance (net balance on lines 5-9)	+8,947	-16,586	-1,812	+59,270	-43,886	+12,772	-5,801	+16,834
11. Other investment - Short term	-5,344	+5,315	-12,292	+4,487	+486	+17,496	-767	+11,357
12. Errors and omission (net)	+4,230	+16,100	+1,288	-32,561	+15,090	-12,182	+32,827	-6,220
13. Net change on all above items (5 - 10) (Net changes on Reserves assets)	7,833	4,828	-12,815	+31,128	+28,310	-18,086	-23,285	-18,804

Source: Kenya National Bureau of Statistics/ Kenya Revenue Authority

* Provisional.

+Revised

Notes:

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

7.34. Table 7.16 presents BOP magnitudes for the period 2003 to 2007. Adjusted imports of goods bill rose by KSh 76,102 million while adjusted exports of goods rose by KSh 24,022 million. The change in magnitude of net services and income rose to KSh 12,324 million in 2007 from KSh 23,404 million in 2006. This drop was caused by the decline in the net earnings from income which deteriorated from a gain of KSh 3,141 million in 2006 to a loss of KSh 7,844 million. The current account deteriorated from a deficit of KSh 15,460 million in 2006 to a deficit of KSh 26,519 million in 2007. The net long term capital flows increased markedly by KSh 41,052 million in 2007 compared to an increase of KSh 480 in the previous period. These developments caused the basic balance to register an increase of KSh 16,834 million in 2007 from a loss of KSh 5,801 million in 2006.

International Liquidity

7.35. Table 7.17 gives foreign assets of the Monetary Authorities which includes international reserves. The international reserve assets consist of external assets available to and controlled by the monetary authorities for financing external obligations and regulating the BOP imbalances. The increase in the official foreign reserves in 2007 can be attributed to the purchases of foreign exchange reserves from the domestic foreign exchange market by the Central Bank of Kenya, inflows related to budgetary support of Government projects from the donors, interest earned on foreign exchange reserves and proceeds from privatization of Telkom Kenya. International reserves steadily rose by 34.1 per cent to stand at KSh 225,845 million in December 2007 up from KSh 168,439 million as at December 2006. Net foreign assets of Central Bank increased to KSh 204,680 million as at December 2007 from KSh 154,317 million as at December 2006. The reserve position in the Fund decreased gradually during the year to stand at KSh 1,267 million as at December 2007 from KSh 1,357 million as at December 2006. Similarly, the Special Drawing Rights (SDRs) decreased by 23.0 per cent to stand at KSh 47 million as at December 2007 from KSh 61 million as at December 2006. The foreign liabilities of the Central Bank consisting of External banks' deposits and Use of Fund Credit rose substantially by 71.3 per cent to stand at KSh 23,398 million as at December 2007 compared to a total of KSh 13,663 million as at December 2006. The foreign exchange holdings of the Central Bank rose steadily by 34.4 per cent to stand at KSh 224,467 million in 2007 from KSh 166,985 million as at the end of 2006.

Table 7.17: Central Monetary Authorities - Foreign Exchange Reserves, 2003 - 2007

KSh Million

As at end of	Official Foreign Assets and Liabilities								
	Central Bank Of Kenya					Central Government			Foreign Reserves [1] of Central Monetary Authorities
	S.D.R.'s	Foreign Exchange (cash +gold)	External Banks' Deposits	Use of Fund Credit	Total Net Foreign Assets of Central Bank	Reserve Position in IMF	Other Holdings	Total Reserves of Central Government	
2003..	171	104,701	997	10,803	65,927	1,417	38	1,455	106,326
2004..	46	109,627	28	10,337	99,364	1,506	40	1,546	111,219
2005..	30	125,130	4,159	13,571	107,430	1,300	35	1,335	126,495
2006..									
January ..	188	133,207	868	13,642	118,643	1,307	35	1,342	134,737
February ..	18	135,669	1,110	13,631	121,195	1,320	35	1,355	137,042
March	18	137,637	861	13,444	123,049	1,302	35	1,337	138,992
April	330	145,651	1,162	13,315	131,664	1,309	35	1,344	147,325
May	42	157,792	1,002	13,533	142,829	1,357	36	1,393	159,227
June	13	167,897	1,472	13,588	153,006	1,357	36	1,393	169,303
July	334	177,733	1,316	13,643	163,142	1,357	36	1,393	179,460
August ..	47	175,845	1,282	13,394	161,445	1,357	36	1,393	177,285
September ..	47	173,993	1,053	13,341	159,221	1,357	36	1,393	175,433
October ..	100	172,166	1,478	13,031	157,752	1,357	36	1,393	173,659
November ..	62	169,842	1,483	12,845	156,125	1,357	36	1,393	171,297
December ..	61	166,985	934	12,729	154,317	1,357	36	1,393	168,439
2007..									
January ..	203	167,821	1,325	12,841	154,209	1,323	35	1,358	169,382
February ..	21	168,930	974	12,670	154,828	1,320	35	1,355	170,306
March	21	172,972	1,453	12,562	158,932	1,309	35	1,344	174,337
April	73	178,277	1,499	16,275	160,606	1,311	35	1,346	179,696
May	34	172,877	1,469	15,800	155,636	1,292	63	1,355	174,266
June	5	176,393	1,475	15,742	159,411	1,290	59	1,349	177,747
July	263	183,803	1,245	16,128	167,121	1,321	76	1,397	185,463
August ..	83	181,368	817	15,867	163,933	1,312	70	1,382	182,833
September ..	84	183,398	1,651	16,113	165,480	1,332	67	1,399	184,881
October ..	85	186,764	1,889	16,077	169,365	1,348	62	1,410	188,259
November ..	47	185,607	1,407	19,482	162,293	1,310	75	1,385	187,039
December ..	47	224,467	3,879	19,519	204,680	1,267	64	1,331	225,845

Source: Central Bank of Kenya.

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

7.36. Table 7.18 indicates the performance of the Kenya Shilling against selected world currencies. Overall, the Kenya Shilling appreciated against most of the selected currencies as reflected in the trade weighted exchange rate index, which declined by 5.6 per cent from 639.6 in 2006 to 604.0 in 2007. However, it depreciated against the 100 Burundi Francs, Zambian Kwacha, Canadian dollar, Norwegian Kroner and Indian rupee as at the end of review period. Compared to other East African Community currencies, the Kenya Shilling gained against the Uganda Shilling by 3.3 per cent but lost against Tanzania Shilling by 5.0 per cent. The strengthening of the Kenya Shilling during the period under review may be attributed to the strong growths in remittances over the past five years, increased earnings from horticultural produce and tourism , and weakening of the US dollar in the world market.

Table 7.18: Foreign Exchange Rates of Kenya Shilling for Selected Currencies, 2003-2007

	31st Dec. 2003	31st Dec. 2004	31st Dec. 2005	31st Dec. 2006	31st Dec. 2007
1 US Dollar	76.1389	77.3444	72.3667	69.3967	62.6750
1 Pound Sterling	135.5051	149.0018	124.9838	136.3157	124.3218
1 Deutsche Mark	48.8900	53.8547	43.9256	46.7256	45.9410
1 French Franc	14.5773	16.0576	13.0970	13.9319	13.6980
1 Swiss Franc	61.3582	68.2958	55.1833	57.0448	54.2287
1 Dutch Guilder	43.3907	47.7970	38.9847	41.4697	40.7734
1 Swedish Kroner	10.4948	11.6480	9.1222	10.1074	9.4719
1 Norwegian Kroner	11.3444	12.7889	10.6994	11.0768	11.2411
1 Zambian Kwacha[2]	0.0169	0.0163	0.0163	0.0163	0.0174
1 Austrian Schilling	6.9490	7.6547	6.2434	6.6414	6.5299
1 Belgian Franc	2.3704	2.6111	2.1297	2.2654	2.2274
1 Danish Kroner	12.8541	14.1628	11.5100	12.2609	12.0852
1 Canadian Dollar	58.7623	64.2344	62.2114	59.8229	63.1648
1 Finish Marka	16.0822	17.7154	14.4492	15.3702	15.1122
1 Australian Dollar	57.0928	60.2862	53.1208	53.7581	54.4865
100 Japanese Yen	71.1757	75.3835	61.6768	58.3452	54.9412
100 Italian Lira	4.9384	5.4399	4.4369	4.7198	4.6405
1 Indian Rupee	1.6699	1.7767	1.6089	1.5695	1.5880
1 Pakistan Rupee[2]	1.3248	1.2966	1.2240	1.2240	0.9973
100 Burundi Francs[2]	7.1794	7.2931	7.1239	7.1239	7.7566
100 Rwanda Francs[2]	13.6805	13.8971	13.5821	13.5821	8.6983
1 SA Rand	11.4513	13.6671	11.3844	9.9432	8.9502
TSh/ KSh	13.9197	13.4847	16.1194	18.8945	17.9977
USh/ KSh	25.4800	22.4775	25.0808	26.1541	27.0604
Euro	95.6205	105.3307	85.9110	91.3873	90.1673
Overall Weighted Index[1] 1982=100	664.02	754.24	623.71	639.61	604.01

Source: Central Bank of Kenya

[1] Trade weighted Fisher's Ideal index (SA Rand, TSh, USh and other unavailable exchange rates are excluded from index computation) .

[2] Via US $ Exchange Rates (Austrialian, Pakistan, Zambia, Rwanda and Burundi).

Trade Developments

Trade Information and Capacity Building

7.37. The Export Promotion Council (EPC) continued with its mandate of co-coordinating exports of goods and services and harmonizing export related activities in the country. The Council through the Centre for Business Information in Kenya (CBIK) continued to empower the Kenyan exporters by sourcing, collating, and disseminating of trade information and also carrying out business counseling services. New trade information sources were identified and subscribed to in order to improve on quality and comprehensiveness. The CBIK services were decentralized from Nairobi to Eldoret and Mombasa regions with a view to moving closer to the business community. EPC in collaboration with donor agencies like Japan International Corporation Agency (JICA) and United States Agency for International Development (USAID) provided training to exporters to enable them respond effectively to opportunities in the export market. Over 2,000 exporters were trained in various areas including export

marketing, costing and pricing, International Commercial Terms (Incoterms), and export market entry strategy, among others. Training of trainers from both the public and private sector was carried out to build a reservoir of trainers in various fields.

Trade Policy Facilitation

7.38. Trade in services is emerging as an important component in export trade. In this regard, the Council facilitated the participation of nine Kenyan companies in "Bridges across Borders" from 7th to 9th September 2007 in Accra Ghana as a springboard to increased service exports. The event, sponsored by the Geneva based International Trade Centre was intended to promote networking for service industry associations and companies exporting services in order to boost partnership and exchange of market information in the financial and IT services. Twenty four (24) African countries including Kenya, Ghana, Nigeria and South Africa participated in the event. The Council is also collaborating with the Commonwealth Secretariat and the Association of Professional Societies in East Africa (APSEA), in the development of a strategy the promotion of professional services.

Product Development and Adaptation

7.39. EPC forwarded a proposal to Commonwealth Secretariat (COMSEC) for technical assistance in product design and development for the commercial crafts sector. The proposal was endorsed and its implementation commenced in July 2007. Out of this technical assistance, local designers and producers/exporters were trained by the COMSEC designers, new market products developed, and also show-cased in Nairobi to the expatriate community from the West with a view to testing their acceptability. The new products will also be marketed in the Ambient Fair, Germany in 2008. The overall objective of this technical assistance is to increase exports in the commercial sector thereby increasing disposable income, creating employment and eventually contributing to the country's economic growth.

Supply Chain Development

7.40. The EPC provides assistance aimed at strengthening export supply base and mainstreaming Micro Small and Medium Enterprises (MSME's) in export process. To achieve this objective, diagnostic studies and supply surveys on identified sectors were undertaken. The output of the surveys are crucial in the design of relevant intervention programmes aimed at increasing the participation of producers/exporters in these sectors in export business and also identifying companies and groups producing these products. During the 2007, the Council carried out supply surveys on pyrethrum, edible oils, textiles and garments and commercial crafts for disadvantaged/marginalised groups. The Council also initiated preparations towards carrying out a detailed survey and profiling of target groups in Turkana in order to establish the feasibility of developing Export Production Villages (EPV's). The objective of the detailed survey was to identify viable beneficiary producer groups by collecting the necessary data and carrying out export readiness assessment of the target producer groups in Turkana. The EPV's are targeted for producer groups in the commercial crafts and textiles (hand-woven and hand loomed products) sectors and any other products with high potential for the export market.

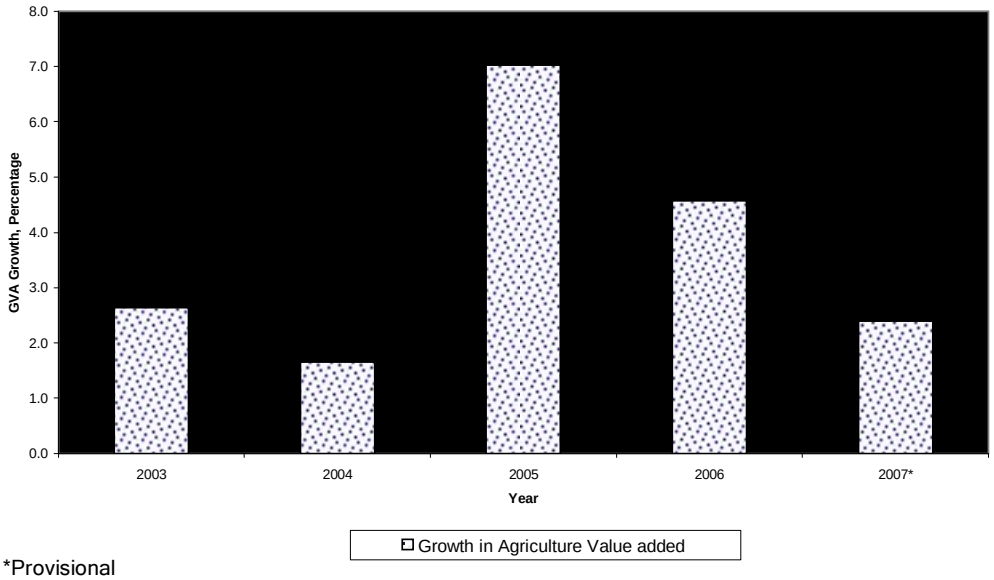
Chapter 8

Agriculture

Overview

The agricultural sector continued to perform well on average for the fifth year running despite delayed long rains and low volume of short rains in 2007. As shown in Figure 8.1, the sector recorded a slower growth of 2.3 per cent in 2007 compared to a revised growth of 4.4 per cent in 2006. Prices of agricultural commodities recorded mixed performance, with prices of tea and coffee declining while those of maize, wheat, sugarcane and milk among others rising. The value of marketed production at current prices increased by 17.6 per cent from KSh 149,672.7 million in 2006 to KSh 175,965.2 million in 2007. The total value of marketed crops rose by 19.2 per cent from KSh 123,296.9 million in 2006 to KSh 146,977.5 million in 2007. Similarly, the value of livestock and livestock products increased by 9.9 per cent to KSh 28,987.7 million in 2007. The value of marketed cereals rose by 12.2 per cent from KSh 13,086.8 million in 2006 to KSh 14,686.4 million in 2007. The quantity of horticulture exports increased by 17.8 per cent from 163.2 thousand tonnes in 2006 to 192.2 thousand tonnes in 2007 while the value of horticultural exports increased by 51.3 per cent from KSh 43.1 billion in 2006 to KSh 65.2 billion in 2007. This increase was as a result of high production of cut flowers which accounted for 65.0 per cent of the total export value.

Figure 8.1: Agriculture Gross Value Added (GVA), 2003-2007



*Provisional

8.2. Maize production declined by 6.1 per cent to 32.5 million bags in 2007 from a production of 34.6 million bags recorded in 2006. This decline is associated with delay of long rains and low volume of short rains received in the maize growing zones. The value of marketed maize increased by 11.1 per cent from KSh 7,170.2 million in 2006 to KSh 7,969.2 million in 2007. Wheat production increased by 6.4 per cent from 106.1 thousand tonnes in 2006 to 112.9 thousand tonnes in 2007. Coffee production increased by 10.6 per cent

from 48.3 thousand tonnes in 2005/06 crop year to 53.4 thousand tonnes in 2006/07 crop year. Volume of tea export increased from 318.9 thousand tonnes in 2006 to 370.2 thousand tonnes in 2007 while its export value dropped from KSh 47.3 billion to KSh 46.8 billion over the same period. The decrease in export value was attributed to strengthening of the Kenya shilling against the US Dollar and low prices of tea in the international market. The volume of marketed milk increased from 361 million litres in 2006 to 423 million litres in 2007. The value of marketed dairy produce increased by 30.3 per cent from KSh 6,494.4 million in 2006 to KSh 8,462.2 million in 2007. This increase was attributed to higher volumes and prices of dairy produce during the year under review.

Agricultural Output and Input

8.3. Agriculture value added at both constant and current prices is given in Table 8.1. Agriculture output at current prices increased by 9.0 per cent from KSh 472,061 million in 2006 to KSh 514,525 million in 2007. Similarly, input use in agriculture at current prices increased by 9.3 per cent in the year under review. As a result, agriculture value added at current prices increased by 8.9 per cent from KSh 362,675 million in 2006 to KSh 394,939 million in 2007. Agriculture output at constant prices increased by 2.5 per cent to KSh 399,565 million in 2007. Input use at constant prices increased by 2.8 per cent in 2007. Agriculture value added at constant prices increased by 2.4 per cent from KSh 301,705 million in 2006 to KSh 308,939 million in 2007.

Table 8.1: Agricultural Output and Input+, 2003- 2007

KSh Million

	2003	2004	2005	2006	2007*
PRODUCTION AT CURRENT PRICES					
Output at basic prices	345,934	380,060	420,491	472,061	514,525
Intermediate consumption	72,729	83,006	99,018	109,386	119,586
Value added at basic prices, gross	273,206	297,054	321,473	362,675	394,939
PRODUCTION AT CONSTANT PRICES					
Output at basic prices	342,505	348,067	372,526	389,828	399,565
Intermediate consumption	77,306	78,492	84,011	88,123	90,625
Value added at basic prices, gross	265,199	269,575	288,515	301,705	308,939

* Provisional

\+ revised

Marketed Production

8.4. The value of marketed production in the agricultural sector is shown in Table 8.2. The aggregate value of marketed production at current prices increased by 17.6 per cent from KSh 149,672.7 million in 2006 to KSh 175,965.2 million in 2007. This was mainly attributed to increases in marketed maize, wheat, horticulture, sugarcane, pyrethrum and dairy products. The total value of marketed crops rose by 19.2 per cent from KSh 123,296.9 million in 2006 to KSh 146,977.5 million in 2007. Similarly, the value of livestock and products increased by 9.9 per cent from KSh 26,375.8 million in 2006 to KSh 28,987.7 million in 2007. while that of cereals rose from KSh 13,086.8 million to KSh 14,686.4 million over the same period. The value of marketed wheat increased substantially in line with increased global demand for the commodity. The value of marketed maize increased by 11.1 per cent from KSh 7,170.2 million in 2006 to KSh 7,969.2 million in 2007, partly as a result

of increased volumes of marketed production as well as improvements in market prices. The value of marketed horticultural produce increased by 51.2 per cent from KSh 43,120.8 million in 2006 to KSh 65,209.9 million in 2007. This expansion was largely contributed by the increase in the value of cut flowers which almost doubled in 2007 owing to better international prices and increased production volumes. The value of marketed tea decreased from KSh 45,162.0 million in 2006 to KSh 43,887.0 million in 2007 due to lower prices paid for the crop. The value of dairy produce increased by 30.3 per cent from KSh 6,494.4 million in 2006 to KSh 8,462.2 million in 2007 in response to better prices offered to farmers.

Table 8.2: Recorded Marketed Production at Current Prices, 2003 - 2007

KSh million

	2003	2004	2005	2006	2007*
CEREALS-					
Maize	3,336.5	6,880.5	6,342.4	7,170.2	7,969.2
Wheat	1,375.3	1,864.0	2,232.3	2,073.4	3,074.1
Others	964.5	2,055.3	3,329.5	3,843.2	3,643.1
Total	5,676.3	10,799.8	11,904.2	13,086.8	14,686.4
HORTICULTURE**-					
Cut flowers	16,496.0	18,720.0	22,896.8	23,560.6	42,374.6
Vegetables	10,591.0	12,068.0	13,891.4	17,822.9	21,037.6
Fruits	1,753.0	1,803.0	2,049.9	1,737.3	1,797.7
Total	28,840.0	32,591.0	38,838.1	43,120.8	65,209.9
TEMPORARY INDUSTRIAL CROPS-					
Sugar-cane	7,567.3	8,389.8	9,169.6	9,998.9	11,704.3
Pyrethrum	781.9	305.7	158.1	74.1	98.6
Others	876.0	644.6	859.0	602.5	808.5
Total	9,225.2	9,340.1	10,186.7	10,675.5	12,611.4
PERMANENT CROPS-					
Coffee	5,956.7	7,284.5	8,999.1	10,023.6	9,089.9
Tea	34,631.1	41,212.2	38,829.9	45,162.0	43,887.0
Sisal	1,060.7	1,275.4	1,289.2	1,228.2	1,492.9
Total	41,648.6	49,772.0	47,948.2	56,413.8	54,469.8
TOTAL CROPS	85,390.1	102,502.9	108,877.2	123,296.9	146,977.5
LIVESTOCK AND PRODUCTS-					
Cattle and Calves ..	11,476.1	11,284.8	13,063.5	13,403.2	13,451.6
Dairy Produce ..	2,846.1	4,385.0	5,313.2	6,494.4	8,462.2
Chicken and eggs	1,624.5	1,705.7	1,901.5	2,186.7	1,871.8
Others	3,485.7	3,391.2	3,980.7	4,291.5	5,202.1
Total	19,432.4	20,766.7	24,258.9	26,375.8	28,987.7
GRAND TOTAL	104,822.5	123,269.6	133,136.1	149,672.7	175,965.2

* Provisional.

** Data refers to fresh Horticultural exports only

8.5. Table 8.3 shows the volume and price indices of various agricultural outputs by broad category. The overall quantum and price indices rose from 136.7 and 121.3 in 2006 to 148.7 and 123.8 in 2007 respectively. The quantum index for cereals rose marginally from 115.6 in 2006 to 117.8 in 2007. This was attributed to the decline in rice and barley production that dampened the expected increase in the cereals quantum index. The price index for cereals increased from 108.9 in 2006 to 126.6 in 2007, due to better prices offered. The quantum index for permanent crops increased from 103.7 in 2006 to 120.9 in 2007. This was due

to an increase in marketed tea and coffee in 2007. The price index for permanent crops declined from 119.2 in 2006 to 99.9 in 2007 in response to lower prices offered for tea and coffee. The quantum index for horticulture increased substantially from 182.4 in 2006 to 213.2 in 2007 mainly due to increased volumes of horticultural exports. Similarly, horticultural exports earned higher prices in 2007 resulting in an increase in the price index of horticulture from 101.9 in 2006 to 129.4 in 2007. Overall, the quantum index for all crops increased from 78.9 in 2006 to 87.9 in 2007. The price index declined from 83.6 in 2006 to 76.2 in 2007. The quantum index for livestock and products increased from 162.3 in 2006 to 169.7 in 2007. This was mainly due to higher volumes of marketed dairy produce. The price index for livestock and products increased from 135.4 in 2006 to 144.8 in 2007 due to better prices for beef, pork and dairy produce.

Table 8.3: Volume and Price Indices of Sales to Marketing Boards, 2003 -2007

Base: 2001=100

		2003	2004	2005	2006	2007*
QUANTUM	Cereals	67.8	97	105.9	115.6	117.8
INDICES	Temporary Industrial Crops ..	119.3	120.8	123.3	125.6	122.2
	Horticulture.....	142.6	155.8	179.2	182.4	213.2
	Permanent Crops	101.2	107.6	105.2	103.7	120.9
	TOTAL CROPS	99	78.7	78.5	78.9	87.9
	Livestock and Products	123.6	130.8	150.3	162.3	169.7
TOTAL GROSS MARKETED PRODUCTION		117	123.2	131.2	136.7	148.7
PRICE	Cereals	94.1	114.3	109.1	108.9	126.6
INDICES	Temporary Industrial Crops ..	86.9	87.5	94.7	97.4	108.2
	Horticulture.....	89.4	88.6	92.8	101.9	129.4
	Permanent Crops	89.3	101.2	100.9	119.2	99.9
	TOTAL CROPS	89.6	73.6	73.7	83.6	76.2
	Livestock and Products**	109.2	123	128.1	135.4	144.8
TOTAL GROSS MARKETED PRODUCTION		99.1	110.5	111.3	121.3	123.8

* Provisional.

**Data on livestock is from slaughter houses

8.6. Average gross commodity prices to farmers on some selected outputs are shown in Table 8.4. A glut in the international market resulted in prices of coffee and tea falling by 12.3 and 18.3 per cent respectively in 2007 compared to 2006. On the other hand, high demand for sisal, wheat, beef, pig meat and milk in both the domestic and international markets led to price increases of the commodities during the review period. However, sugar-cane, pyrethrum and maize registered marginal price changes in 2007 compared to 2006.

Table 8.4: Average Gross Commodity Prices+ to Farmers, 2003 -2007

KSh per stated unit

	UNIT	2003	2004	2005	2006	2007*
Coffee	100 Kg	9,729.2	14,590.6	18,885.8	19,837.8	17,391.0
Tea	,,	11,792.5	12,696.0	11,824.2	14,541.3	11,874.0
Sisal	,,	4,272.3	4,821.3	5,168.3	4,812.5	6,068.1
Sugar-cane	Tonne	1,800.0	1,800.0	1,910.0	2,027.0	2,249.0
Pyrethrum (Pyrethrin equivalent)	Kg	7,316.6	7,297.2	9,658.7	7,349.8	7,373.3
Seed Cotton	100 Kg	2,107.4	2,243.2	1,910.6	2,191.7	2,045.2
Maize	,,	1,189.5	1,534.2	1,523.7	1,535.3	1,566.4
Wheat	,,	1,908.8	2,216.7	1,821.1	1,949.6	2,858.9
Beef (third grade)	,,	11,861.9	11,351.2	11,938.6	12,101.2	14,546.3
Pig meat	,,	8,636.8	8,715.5	9,145.1	9,785.4	11,317.8
Milk	100 litres	1,400.0	1,600.0	1,600.0	1,800.0	2,000.0

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

* Provisional.

8.7. The share of sales to marketing boards from large and small farms for the period 2003 to 2007 is shown in Table 8.5. Total sales to marketing boards increased by 3.7 and 22.4 per cent to KSh 40,296 million and KSh 135,669 million for large and small farms respectively in 2007. Share of sales by small farms has maintained an upward trend since 2004. This reflects increased production by farmers.

Table 8.5: Sale to Marketing Boards from Large and Small Farms, 2003 -2007

YEAR	LARGE FARMS		SMALL FARMS		TOTAL		PERCENTAGE SHARE OF SMALL FARMS
	KSh mn.	Annual Percentage change	KSh mn.	Annual Percentage change	KSh mn.	Annual Percentage change	
2003	27,211	0.8	77,612	1.7	104,823	1.5	74.0
2004	33,086	21.6	90,184	16.2	123,270	17.6	73.2
2005	34,828	5.3	98,308	9.0	133,136	8.0	73.8
2006	38,860	11.6	110,813	12.7	149,673	12.4	74.0
2007*	40,296	3.7	135,669	22.4	175,965	17.6	77.1

* Provisional.

Table 8.6: Agricultural Input Indices, 2003 - 2007

Base: 2001=100

	2,003	2,004	2005	2006	2007*
QUANTUM INDICES-					
Fertilizers	156.9	164.8	173.7	181.7	216.6
Fuel and Power	75.5	73.1	67.0	60.8	70.7
Bags	90.0	71.7	67.5	82.8	67.5
Manufactured Feeds	161.5	170.8	181.0	194.8	196.3
Purchased Seeds	121.0	127.0	143.0	149.7	171.6
Other Material Inputs	96.9	102.5	108.6	112.9	129.5
Total Material Input	110.7	115.4	119.6	125.0	134.0
Service Inputs	100.9	104.4	112.3	118.7	147.6
TOTAL INPUTS	112.3	115.2	123.8	145.1	170.2
PRICE INDICES-					
Fertilizers	93.7	110.1	127.6	122.9	120.3
Fuel and Power	81.2	85.5	117.4	130.2	131.4
Bags	92.1	125.8	129.3	124.3	155.1
Manufactured Feeds	83.1	105.4	121.7	120.0	142.9
Purchased Seeds	86.8	90.9	97.9	85.9	96.5
Other Material Inputs	111.8	127.8	137.7	129.1	145.0
TOTAL MATERIAL INPUT ..	89.4	102.2	120.4	119.7	129.4
SERVICE INPUTS	110.6	113.7	124.5	128.2	145.2
TOTAL INPUTS	89.2	101.5	119.2	118.7	128.3

* Provisional.

8.8. Table 8.6 presents quantum and price indices for various agricultural inputs for the last five years. The quantum index of total inputs increased by 25.1 percentage points, with the rise being contributed by fertilizers, purchased seeds, other material and service inputs with 34.9, 21.9, 16.6 and 28.9 percentage points respectively in 2007. The price index of total agricultural inputs rose by 9.6 percentage points in the year under review. Fertilizer price index declined by 2.6 percentage points while all other input price indices increased significantly. Higher utilization of fertilizers and purchased seeds can partly be associated with agricultural extension services on high yield cultivation methodologies and decline in prices.

8.9. The value of purchased agricultural inputs for the last five years is shown in Table 8.7. The aggregate value of agricultural inputs purchased in the agricultural sector (excluding labour) increased by 10.1 per cent from KSh 16,027 million in 2006 to KSh 17,649 million in 2007. Fuel and power value increased significantly by 54.4 per cent from KSh 3,497 million in 2006 to KSh 5,400 million in 2007. This is attributed to increases in electricity consumption and tariffs; and consumption and cost of fuels. The high cost of fuel and power may be attributed to the high cost of crude oil in the world market. The value of purchased seeds increased by 0.8 per cent from KSh 2,528 million in 2006 to KSh 2,548 million in 2007.

Table 8.7: Value of Purchased Agricultural Inputs+, 2003 - 2007

KSh Million

	2003	2004	2005	2006	2007*
MATERIAL INPUTS-					
Fertilizers	3,159	3,321	3,727	3,560	3,595
Other Agricultural Chemicals	528	991	1,044	1,204	1,389
Livestock Drugs and Medicines	841	1,077	1,313	1,439	942
Fuel and Power	4,333	4,910	4,861	3,497	5,400
Bags	406	442	427	544	604
Manufactured Feeds	1,799	2,341	2,638	2,242	2,038
Purchased Seeds	2,310	2,541	2,694	2,528	2,548
Other Material Inputs	360	378	390	405	453
Total	13,736	16,002	17,094	15,418	16,968
SERVICE INPUTS	565	571	583	608.3	681
TOTAL INPUTS	14,301	16,573	17,667	16,027	17,649

+ Except labour.

* Provisional.

8.10. Table 8.8 shows the price and terms of trade for agricultural input and output in 2003 to 2007. The general index of agricultural output prices and indices of prices paid increased by 2.1 and 12.1 percentage points respectively in 2007. The increase in the price of consumer goods as well as agricultural inputs alongside a modest increase in agricultural output prices resulted in overall worsening of agricultural terms of trade. The agricultural sector terms of trade declined by 5.1 percentage points from 79.5 in 2006 to 74.3 in 2007. The continued increase in agricultural input prices coupled with declining output prices resulted in the observed worsening of agriculture terms of trade in 2007.

Table 8.8: Price and Terms of Trade Indices for Agriculture, 2003 - 2007

Base: 2001=100

	2003	2004	2005	2006	2007*
General Index of Agricultural Output Prices	93.1	100.6	100.8	105.9	108.0
PRICE PAID					
Purchased Inputs	89.2	101.5	119.2	118.7	128.3
Index of Purchased Consumer Goods-Rural Areas	112.2	124.1	136	147.8	162.2
INDICES OF PRICES PAID	100.7	112.8	127.9	133.2	145.3
Agricultural Sector terms of Trade	92.5	89.2	78.8	79.5	74.3

*Provisional.

8.11. Estimates of production of maize, beans, potatoes, sorghum and millet are shown in Table 8.9. Estimated maize production declined by 6.1 per cent to 32.5 million bags in 2007 from a revised production of 34.6 million bags recorded in 2006. Similarly, production of beans declined by 40.7 per cent to 3.5 million bags compared to 5.9 million bags in 2006. The declines could be associated with delay of long rains and low volume of short rains received in the growing zones. Potatoes and sorghum production increased from 0.8 million bags and 1.6 million bags in 2006 to 1.0 million bags and 1.8 million bags in 2007 respectively. Millet production increased marginally to 0.9 million bags in 2007.

Table 8.9: Estimated Production of Selected Agricultural Commodities, 2003 - 2007

CROP	Unit	2003	2004	2005	2006	2007*
Maize	million bags	28.0	29.0	32.3	34.6	32.5
Beans	"	4.0	3.2	4.3	5.9	3.5
Potatoes ..	million tonnes	1.0	1.1	1.0	0.8	1.0
Sorghum ..	million bags	0.8	0.8	1.7	1.6	1.8
Millet	"	0.6	0.7	0.6	0.8	0.9

Source: Ministry of Agriculture

* Provisional.

8.12. Average market prices for maize, beans, potatoes, sorghum and millet at provincial and national levels are shown in Table 8.10. In general, during the period under review, retail prices of the selected food crops registered lower prices in March 2007 compared with a corresponding period in 2006. Coast province remained a food deficit region as depicted by the highest food commodity prices across all regions in 2006 and 2007. For example, in March 2007, the price of maize varied between KSh 12.20 per kilogram in Eastern Province and KSh 21.40 per kilogram in Coast Province while in September 2006, the price of the same commodity varied between KSh 12.00 per kilogram in Nyanza Province and KSh 20.00 per kilogram in Coast Province. In March 2007, the price of beans ranged between KSh 32.30 per kilogram in Eastern Province and KSh 43.00 per kilogram in Coast Province. Average potato prices per kilogram ranged between KSh 11.00 in Western province and KSh 28.70 in Coast province in March 2007. Nationally, the average prices for sorghum declined from KSh 18.50 per kilogram in September 2006 to KSh 13.40 per kilogram in September 2007. Average price of millet declined in March 2007 to KSh 34.60 per kilogram from KSh 36.95 per kilogram in March 2006. However, the price went up to KSh 35.60 per kilogram in September 2007 from KSh 32.75 per kilogram recorded in September 2006.

Table 8.10: Retail Market Prices for Selected Food Crops, 2003-2007

KSh per Kg.

CROP	Province	2003		2004		2005		2006		2007	
		March	Sept	March	Sept	March	Sept	March	Sept	March	Sept
Maize	Coast	18.20	19.30	20.90	20.80	21.50	20.40	21.78	21.18	21.40	20.00
	Eastern	10.80	15.00	15.80	20.20	13.80	16.50	18.23	16.30	12.20	12.10
	Central	12.70	17.30	17.40	20.90	20.70	17.70	19.34	18.43	17.40	15.40
	Rift Valley	14.60	16.90	19.40	23.10	20.50	17.00	16.40	17.10	16.00	18.10
	Nyanza	15.20	13.00	16.70	17.60	16.20	14.30	17.40	14.80	13.00	12.00
	Western	13.80	13.10	17.90	17.70	16.00	14.40	16.82	16.50	13.90	14.60
	National	14.00	16.40	18.00	20.10	18.10	16.70	18.33	17.39	15.60	15.40
Beans	Coast	28.40	33.10	33.10	38.10	42.80	38.90	46.70	40.50	43.00	41.00
	Eastern	19.80	24.70	25.50	37.50	32.60	30.80	44.90	35.50	32.30	35.80
	Central	30.60	29.20	30.80	37.50	40.10	34.40	46.66	37.87	39.70	41.00
	Rift Valley	29.70	24.90	30.70	42.90	38.50	34.60	40.20	34.10	37.00	36.40
	Nyanza	32.80	32.40	33.20	35.90	42.50	35.20	42.85	34.70	33.00	37.00
	Western	28.10	26.50	31.30	35.40	35.90	33.90	43.97	29.00	36.20	39.40
	National	28.60	29.30	30.80	37.90	38.70	34.60	44.21	35.28	36.90	38.40
Potatoes	Coast	21.00	20.80	23.30	21.50	21.10	24.90	36.67	25.46	28.70	30.00
	Eastern	17.70	14.60	17.40	17.90	15.60	12.30	23.55	15.60	18.40	17.30
	Central	9.60	9.00	10.40	7.80	9.50	8.50	15.90	10.20	11.10	11.70
	Rift Valley	11.40	12.90	16.10	13.90	23.90	12.40	18.50	12.00	18.80	18.10
	Nyanza	10.50	10.10	13.50	11.70	12.20	9.60	14.09	11.00	13.00	14.00
	Western	10.80	10.50	10.70	9.40	11.70	8.50	14.40	7.30	11.00	9.00
	National	14.00	13.70	15.20	13.70	15.70	12.70	20.52	13.59	16.80	16.70
Sorghum	Eastern	12.00	13.40	18.70	22.30	27.80	22.00	30.50	21.70	21.00	14.00
	Nyanza	20.80	14.10	16.50	20.00	20.90	12.80	20.50	15.60	15.00	17.00
	Western	21.30	22.40	21.40	23.80	21.10	25.10	20.90	18.20	22.90	23.50
	National	19.40	22.10	18.90	22.00	23.20	20.00	23.97	18.50	14.40	13.40
Millet	Eastern	28.8	35.8	35.6	41.7	32.8	39.2	44.4	42.1	37.00	39.6
	Rift Valley	26.50	28.80	27.40	30.20	32.60	41.00	35.20	33.60	35.30	35.00
	Nyanza	28.30	27.30	30.70	32.00	35.30	31.90	33.30	31.70	32.00	32.00
	Western	25.90	25.90	28.70	29.50	28.60	29.60	34.90	23.60	34.10	35.80
	National	27.40	33.70	30.60	33.40	32.30	35.40	36.95	32.75	34.60	35.60

8.13. Deliveries to Marketing Boards and millers are shown in Table 8.11. National Cereals and Produce Board (NCPB) continued to play its role of purchasing sufficient maize quantities to boost the national strategic grain reserves as well as stablising of prices. In 2007, maize deliveries to the NCPB and other millers were estimated at 508.8 thousand tonnes compared to 470.7 thousand tonnes in 2006. Wheat purchases by millers went up by 9.0 per cent to stand at 107.5 thousand tonnes in 2007 from 98.6 thousand tonnes in 2006. The volume of cane deliveries to sugar millers went up by 6.1 per cent to stand at 5.2 million tonnes in 2007 from 4.9 million tonnes in 2006. This was occasioned by favourable weather in the cane growing areas that ensured early cane maturity. Similarly, pyrethrum (extract equivalent) recorded a remarkable increase of 32.7 per cent in 2007 compared with a decline that was registered in 2006. Sale of rice paddy registered a decline of 15.7 per cent in 2007 to stand at 32.3 thousand tonnes compared with 38.3 thousand tonnes recorded the previous year. This was attributed to the rice blast disease that affected rice production in Mwea Irrigation Scheme.

Table 8.11: Sale of Selected Crops to Marketing Boards, 2003 - 2007

CROP	UNIT	2003	2004	2005	2006	2007*
Maize++	'000 tonnes	280.5	448.5	416.2	470.7	508.8
Wheat+	"	72.0	84.1	122.6	98.6	107.5
Coffee	"	61.2	49.9	47.7	50.5	52.3
Tea	"	293.7	324.6	328.5	310.6	369.6
Cotton+	"	1.7	2.2	2.7	3.2	3.3
Sugar-cane+	mn. tonnes	4.2	4.7	4.8	4.9	5.2
Pyrethrum (extract equivalent)	tonnes	106.9	41.9	16.4	10.1	13.4
Sisal	'000 tonnes	24.8	26.5	25.6	25.5	24.6
Rice Paddy + ...	"	19.8	26.4	34.7	38.3	32.3

* Provisional.

\+ No purchases by boards.

++ Includes purchases by NCPB and millers.

8.14. Wheat: Table 8.12 presents wheat production and imports during 2002/03 to 2006/07. The production was 112.9 thousand tonnes in 2007, an increase of 6.4 per cent, from a production of 106.1 thousand tonnes in 2006. The increase in production was attributed to favourable weather in the wheat growing areas and absence of wheat diseases. The volume of imported wheat went down by 13.2 per cent to stand at 564.3 thousand tonnes in 2007 from 650.4 thousand tonnes recorded in previous year. This could be attributed to the good harvest that was recorded in the year under review.

Table 8.12: Production and Imports of Wheat, 2003 - 2007

'000 Tonnes

YEAR	PRODUCTION**	IMPORTS	TOTAL
2003	75.6	502.1	577.7
2004	88.3	404.1	492.4
2005	128.7	621.8	750.6
2006	106.1	650.4	756.5
2007*	112.9	564.3	677.2

* Provisional.

** Includes retention for seed.

8.15. Table 8.13 shows Production, Area and Average Yield of Coffee by Type of Grower, from crop year 2002/03 to 2006/07. Coffee production in 2006/07 was 53.4 thousand tonnes as compared to 48.3 thousand tonnes in 2005/06. Both cooperatives and estates recorded higher production quantities. The area under coffee went down from 170 thousand hectares in 2005/06 to 163 thousand hectares in 2006/07. Production of coffee per hectare cultivated in both cooperatives and estates showed significant increase in 2006/07 as compared to 2005/06. This improved performance is as a result of favourable weather conditions in the coffee growing areas, improved crop husbandry and realization of high market prices. The Government also continued to boost productivity through intervention measures such as introduction of a second marketing window and enhanced credit for the industry through the Coffee Development Fund under the supervisory role of the Ministry of Co-operatives.

Table 8.13: Production, Area, and Average Yield of Coffee by Type of Grower, 2002/03 - 2006/07

	2002/03	2003/04	2004/05	2005/06	2006/07*
AREA (Ha) '000-					
Co-operatives	128	128	128	128	121
Estates	42	42	42	42	42
TOTAL	170	170	170	170	163
PRODUCTION (Tonnes) '000-					
Co-operatives	34.0	30.0	25.5	27.0	28.4
Estates	21.4	18.5	19.7	21.3	25.0
TOTAL	55.4	48.4	45.2	48.3	53.4
AVERAGE YIELD (Kg/Ha.)-					
Co-operatives	265.8	234.0	199.2	211.3	235.0
Estates	509.9	439.8	469.0	506.0	595.0

Source: Coffee Board of Kenya

* Provisional.

8.16. Tea: Table 8.14 presents annual tea production, area and yield statistics for the period 2003 to 2007. The area planted with tea increased marginally by 1.4 per cent from 147.1 thousand hectares in 2006 to 149.2 thousand hectares in 2007. During the same period, tea production increased by 19.0 per cent from 310.6 thousand tonnes in 2006 to 369.6 thousand tonnes in 2007. Production by smallholder category recorded a 20.1 per cent increase while the estates category registered a growth of 17.3 per cent in 2007. Over the same period, the average yield of tea increased from 2,225 kg/ha in 2006 to 2,658 kg/ha in 2007 for the small holder sub-sector. This increase was due to well distributed rainfall in the tea growing regions particularly during the first quarter of the year under review.

8.17. Tea exports recorded an increase in volume from 318.9 thousand tonnes in 2006 to 370.2 thousand tonnes in 2007 while the value of tea exports dropped from KSh 47.3 billion to KSh 46.8 billion over the same period. This drop in earnings was largely attributed to strengthening of the Kenya shilling and low prices in the international market. Due to increased supply of tea in the international market, the average auction price of tea dropped from KSh 146.42 in 2006 to KSh 118.46 per Kilogram, in 2007.

Table 8.14: Production, Area and Average Yield of Tea by Type of Grower, 2003- 2007

	2003	2004	2005	2006	2007*
AREA (Ha) '000					
Smallholder	86.4	88	92.7	95.8	98.2
Estates	45.1	48.8	48.6	51.3	51.0
TOTAL	131.5	136.7	141.3	147.1	149.2
PRODUCTION (Tonnes) '000					
Smallholder	180.8	192.6	197.7	191.2	229.6
Estates	112.9	132.1	130.8	119.4	140.0
TOTAL	293.7	324.6	328.5	310.6	369.6
AVERAGE YIELD (Kg/Ha)**					
Smallholder	2,136	2,263	2,312	2225.0	2658.0
Estates	3,331	3,739	3,372	2689.0	3105.0

Source: Tea Board of Kenya

* Provisional

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

8.18. Sugarcane: Table 8.15 presents sugarcane statistics for the last five years. The area under sugarcane increased by 7.4 per cent from 147.7 thousand hectares in 2006 to 158.6 thousand hectares in 2007. The area harvested increased from 54,621 hectares in 2006 to 59,201 hectares in 2007 while production increased by 5.5 per cent over the same period. Average yield has maintained a downward trend since 2004 though it declined marginally in 2007.

Table 8.15: Area Under Sugar Cane, Area Harvested, Production, and Average Yield, 2003 - 2007

	2003	2004	2005	2006	2007*
Area under cane (Ha)	122,580	131,507	144,765	147,730	158,568
Area harvested (Ha)**	50,468	54,191	56,537	54,621	59,201
Production (Tonnes)	4,204,055	4,660,995	4,800,820	4,932,839	5,204,214
Average yield (Tonnes/Ha)	69.17	73.81	71.46	70.89	70.87

Source: Kenya Sugar Board

* Provisionsal

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

8.19. Table 8.16 provides details on production, imports, consumption and exports of sugar. Sugar production increased by 9.4 per cent from 475.7 thousand tonnes in 2006 to 520.4 thousand tonnes in 2007 while consumption went up by 3.2 per cent from 718.4 thousand tonnes to 741.2 thousand tonnes over the same period. Sugar imports rose by 38.3 per cent from 166.3 thousand tonnes to 230 thousand tonnes over the review period.

Table 8.16: Production, Imports and Consumption of Sugar, 2003 - 2007

'000 Tonnes

YEAR	PRODUCTION	IMPORTS	CONSUMPTION	EXPORTS
2003	448.5	182.2	663.8	11.3
2004	516.8	164.0	669.9	11.6
2005	488.1	167.2	695.6	21.8
2006	475.7	166.3	718.4	13.5
2007*	520.4	230.0	741.2	20.8

Source: Kenya Sugar Board

* Provisional

8.20. Horticulture: Table 8.17 shows exports of fresh horticultural produce for the period 2003 to 2007. In 2007, the volume of horticultural exports increased by 17.8 per cent to 192.2 thousand tonnes from 163.2 thousand tonnes exported in 2006. During the same period, the value of horticultural exports increased by 51.3 per cent from KSh 43.1 billion in 2006 to KSh 65.2 billion in 2007. The increase in export values was largely attributed to higher prices of cut flower during the year.

Table 8.17: Exports of Fresh Horticultural Produce[1],2003 - 2007

YEAR	VOLUME '000 Tonnes	VALUE KSh billion
2003	133.2	28.8
2004	145.6	32.6
2005	163.2	38.8
2006	163.2	43.1
2007*	192.2	65.2

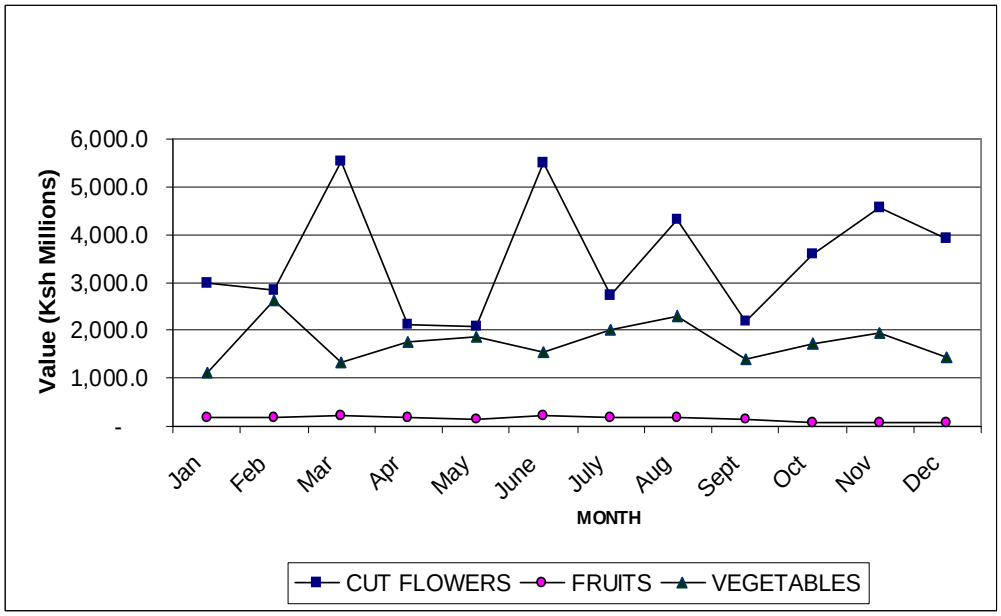
Source: Horticultural Crops Development Authority (HCDA)

* Provisional.

[1] Excludes exports of processed horticultural produce.

8.21. The volume of fruits exported increased by 1.7 per cent from 15,405 metric tonnes in 2006 to 15,671 metric tonnes in 2007. Over the same period, the volume of flowers exported increased by 5.4 per cent from 86,480 metric tonnes to 91,192 metric tonnes. The volume of vegetables exported increased by 39.1 per cent from 61,347 metric tonnes to 85,323 metric tonnes.In 2007, earnings from exports of flowers increased by 79.7 per cent from KSh 23.6 billion in 2006 to KSh 42.4 billion. During the same period, earnings from export of vegetables recorded an increase of 18.0 per cent from KSh 17.8 billion to KSh 21.0 billion while earnings from export of fruits slightly increased by 5.9 per cent from KSh 1.7 billion to KSh 1.8 billion.

Figure 8.2: Monthly horticultural exports earnings, 2007



8.22. Figure 8.2 shows monthly earnings from fresh horticultural exports for the year 2007. Earnings from cut flowers though erratic, ranged from two billion to six billion per month in the year under review. The country earned around two billion from monthly exports of fresh vegetables. Earnings from fruits were below one billion per month during this period.

8.23. Irrigation: The area under cultivation in Mwea Irrigation scheme reduced by 19.4 per cent to 8,325 hectares in 2006/07 from 10,332 hectares in 2005/06, as shown in Table 8.18. This led to a drop of 13.0 per cent in the gross value of output from KSh 1,775 million in 2005/06 to KSh 1,544 million in 2006/07. The number of plot holders in the scheme increased from 5,400 in 2005/06 to 7,267 in 2006/07. Payments to plot holders declined by 8.9 per cent from KSh 1,009 million in 2005/06 to KSh 919 million in 2006/07. Total irrigated area in all the schemes dropped by 23.0 per cent from 12,501 hectares in 2005/06 to 9,626 hectares during 2006/07 crop year. Gross value of output from the seven irrigation schemes dropped to KSh 1,604 million in 2006/07 from KSh 2,037 million in 2005/06. Plot holders payments reduced to KSh 941 million in 2006/07 from KSh 1,131 million in 2005/06. Total rice paddy production decreased by 15.7 per cent to 53,115 tonnes in 2006/2007 from 62,986 tonnes in 2005/06. The drop in production was mainly attributed to reduced water levels and blast disease that affected the crop during the year under review.

Table 8.18: Progress and Production at Seven Irrigation Scheme Areas[+], 2002/03 - 2006/07

	2002/03	2003/04	2004/05	2005/06	2006/07*
MWEA-					
Area cropped-Hectares	15,800	10,000	10,000	10,332	8,325
Plot-holders-Number[2]	3,200	3,400	5,400	5,400	7,267
Gross value of output-KSh million ..	889	1,250	1,786	1,775	1,544
Payments to plot-holders-KSh million ..	573	..	1,066	1,009	919
ALL (7) SCHEME AREAS-					
Area cropped-Hectares	29,662	10,580	10,832	12,501	9,626
Plot-holders-Number	3,713	5,014	6,660	7,329	8,766
Gross value of output-KSh million ..	1,511	1,312	1,880	2,037	1,604
Payments to plot-holders-KSh million ..	954	881	1,115	1,131	941
CROPS PRODUCED - Tonnes					
Mwea-Paddy	35,550	46,875	59,520	57,422	51,458
Ahero-Paddy	225	750	741	3,779	851
W.Kano-Paddy	-	-	1,348	774	124
Bunyala-Paddy	-	-	1,068	1,010	682
TOTAL PADDY	35,775	47,625	62,677	62,986	53,115

Source: National Irrigation Board

* Provisional

1 These comprises Mwea, Ahero, West Kano, Bunyara, Perkerra, Hola and Bura. The last three to be included in the table once they resume operations

2 Includes farmers outside Mwea Scheme

8.24. Sisal: The volume of marketed sisal declined by 3.5 per cent from 25.5 thousand tonnes in 2006 to 24.6 thousand tonnes in 2007 as shown in Table in 8.11. The reduction is attributed to reduced productivity in some estates resulting in lower yields. The value of marketed sisal fibre increased by 21.6 per cent from KSh 1,228.2 million in 2006 to KSh 1,492.9 million in 2007. This was due to better prices for the commodity in the international market. During the year under review, 21.8 thousand tonnes of sisal fibre were exported, earning the country KSh 1,333.9 million compared to 19.4

thousand tonnes whose earnings were KSh 1,071.6 million in 2006. Local sales of sisal fibre reduced from 6.1 thousand tonnes in 2006 to 4.4 thousand tonnes in 2007 in line with reduced production coupled with increased global demand for the commodity.

8.25. Dairy Produce: Table 8.19 shows Production and sales of livestock and dairy produce. In 2007, the volume of marketed milk increased by 17.2 per cent from 361 million litres in 2006 to 423 million litres, reflecting improved management of the dairy sector. The volume of whole milk and cream processed went up by 28.9 per cent from 225 million litres in 2006 to 290 million litres in 2007. Similarly, production of Butter and Ghee increased to 1,752 tonnes in 2007 from 1,549 tonnes in 2006. Production of cheese continued on the declining trend in 2007.

8.26. Livestock products: The total number of cattle and calves slaughtered declined by 10.0 per cent from 1,911 thousand heads in 2006 to 1,720 thousand heads in 2007 possibly as a result of the incidence of Rift Valley Fever which affected various parts of the country. Over the same period, the number of pigs slaughtered decreased from 176 thousand heads to 167 thousand heads while the number of sheep and goats slaughtered rose by 5.0 per cent from 4,775 thousand heads in 2006 to 5,014 thousand heads.

Table 8.19: Production and Sale of Livestock and Dairy Products, 2003 - 2007

	UNIT	2003	2004	2005	2006	2007*
RECORDED MILK PRODUCTION	Mn. Litres	203	274	340	361	423
MILK PROCESSED:						
Wholemilk and cream	Mn. Litres	131	178	191	225	290
Butter and ghee	Tonnes	215	563	1,261	1,549	1,752
Cheese	"	361	328	270	243	215
LIVESTOCK SLAUGHTERED						
Cattle and Calves..	'000 Head	1,669	1,641	1,786	1,911	1,720
Sheep and Goats	"	4,289	3,851	4,220	4,775	5,014
Pigs	"	175	172	180	176	167

* Provisional

8.27. Agriculture Training: Table 8.20 depicts the enrolment for agricultural and livestock related courses at various levels. The number of students for degree courses increased by 18.8 per cent from 5,050 in 2006 to 6,001 in 2007, with male students accounting for 70.9 per cent of the total. The growth in male population was mainly attributed to an increase in enrolments which more than doubled at Moi University. Enrolment for diploma in Egerton University expanded by 7.1 per cent while enrolment at Bukura Institute of Agriculture almost tripled in 2007. At the certificate level, enrolment expanded at both Pwani University College (formerly Kilifi institute) and Naivasha institute during the year under review. Enrolment for Short-Term Vocational courses expanded by 60.6 per cent over the same period.

Table 8.20: Enrolment in Agricultural Training Institutions, 2003 - 2007

8.28. Table 8.21 shows the number of Societies and Unions by type of activity for the last five years. The number of registered societies increased by 3.3 per cent from 11,269 to 11,635 while number of agricultural societies increased by 1.4 per cent from 4,353 to 4,414 in 2006 and 2007 respectively. The increase was attributed to break up of old and large societies and unions to lean and improved organizations. The non-agricultural societies increased by 4.5 per cent from 6,817 in 2006 to 7,122 in 2007 due to the relatively high rates of interest charged and commissions by lending institutions. Through societies and unions, members are realizing benefits of forming co-operatives to mobilize savings and spur socio-economic growth and development.

Table 8.21: Number of Societies and Unions by Type, 2003 - 2007

TYPE OF SOCIETY	2003	2004	2005	2006	2007*
Coffee	487	498	523	542	546
Sugar-cane	149	149	152	152	152
Pyrethrum	140	142	146	146	146
Cotton	59	59	59	59	59
Dairy	239	241	248	252	258
Multi-produce	1,794	1,798	1,818	1,835	1,876
Farm Purchase	109	109	111	113	114
Fisheries	64	65	66	66	67
Other Agricultural Societies	1,125	1,154	1,181	1,188	1,196
TOTAL	4,166	4,215	4,304	4,353	4,414
Savings and Credit	4,200	4,474	4,678	4,876	5,122
Other Non-Agricultural Societies	1,838	1,857	1,885	1,941	2,000
TOTAL	6,038	6,331	6,563	6,817	7,122
Unions	93	96	99	99	99
GRAND TOTAL	10,297	10,642	10,966	11,269	11,635

Source: Ministry of Co-operatives and Marketing

* Provisional

8.29. As shown in Table 8.22, total sale of agricultural produce by co-operatives improved by 18.9 per cent from KSh 6,369 million in 2006 to KSh 7,572 million in 2007. This improvement was mainly contributed by coffee and milk sub-sectors. The sub-sectors registered growths of 28.8 per cent and 6.6 per cent respectively. Co-operatives in the sugar cane and pyrethrum sub-sectors recorded a decline from KSh 215 million and KSh 112 million in 2006 to KSh 213 million and KSh 75 million in 2007, respectively. In terms of percentage shares, contribution of coffee and pyrethrum rose by 16.0 and 10 percentage points while that of sugarcane, cotton and milk declined by 0.2, 0.4 and 6.3 percentage points in 2007.

Table 8.22: Sale of Selected Agricultural Produce by Co-operatives and their Contribution to Gross Farm Revenue, 2003 - 2007

YEAR	COFFEE	SUGAR-CANE	PYRETHRUM	COTTON	MILK	TOTAL
	Sale KSh million					
2003 ..	2,538	218	120	2	1,290	4,168
2004 ..	2,492	209	102	2	1,500	4,305
2005 ..	3,405	212	105	2	1,933	5,657
2006 ..	3,793	215	112	2	2,247	6,369
2007*..	4,887	213	75	2	2,395	7,572
	Percentage Share					
2003 ..	43	3	15	6	45	24
2004 ..	34	3	33	2	34	21
2005 ..	38	2	66	4	36	26
2006 ..	38	2	66	3	35	24
2007*..	54	2	76	3	28	27

* Provisional.

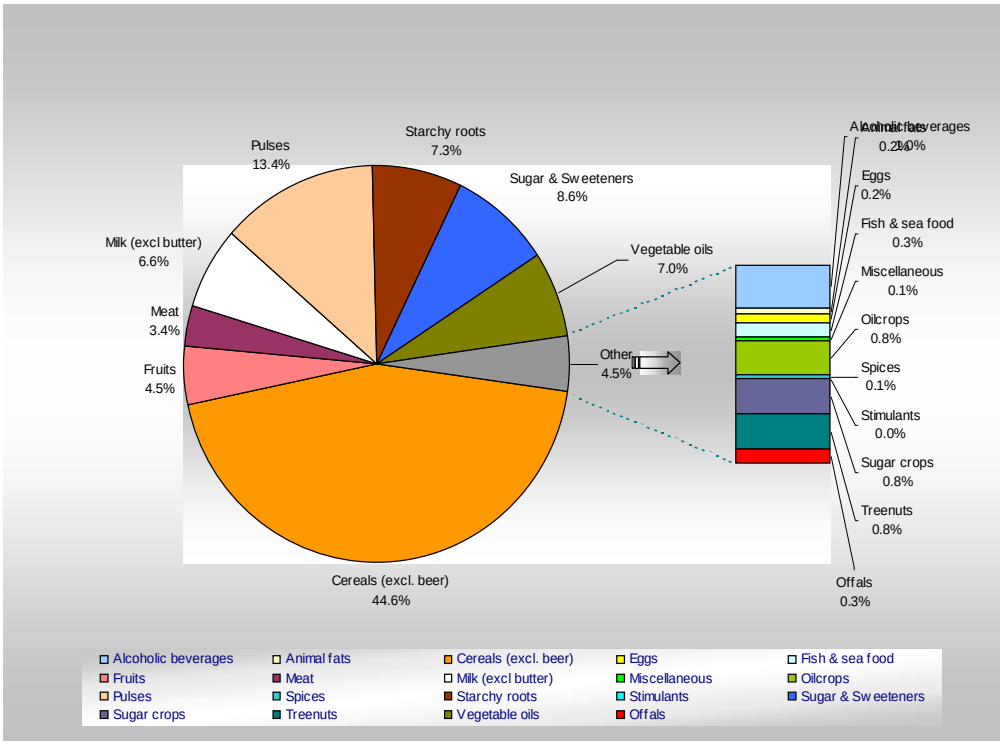
Analysis of Food Balance Sheet (FBS) 2006

8.30. The FBS system is updated annually to provide an indication of the level of food security in the country. The current FBS highlights the food supply and utilization situation in 2006.

8.31. Daily Per Caput Supply: In 2006, the national calorie supply per day declined by 5.5 per cent to 2,132 calories. However, the supply level is consistent with past trend since 2,000 at above 2,100 calories. The decline in calorie supply was as a result of reduced production of food commodities in 2006. The average daily per caput supply of both proteins and fats at the national level stood at 62 and 40 grams respectively. The bulk of protein requirements are obtained from vegetable products at almost three times the protein quantity sourced from animal products.

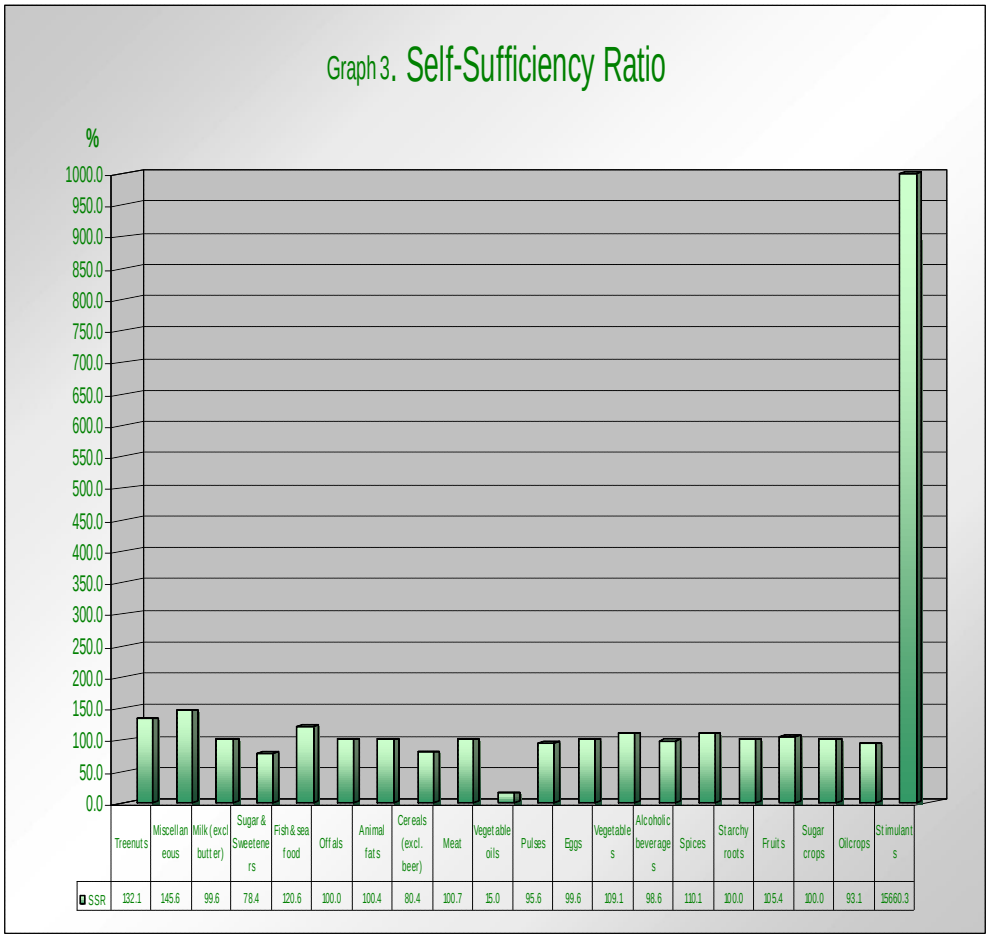
8.32. Caloric supply by main food groups: Cereals provided the highest share of calories in 2006 at 44.6 per cent. This shows a decline of 2.5 percentage points from 47.1 per cent share recorded in 2005. The FBS report indicates that 89.0 per cent of the national calorie supply comes from vegetable products while the balance of 11.0 per cent is obtained from animal products, a trend that is in consonance with the past. Pulses contributed 13.4 per cent of total calories supply while starchy roots, milk (excluding butter), sugars and sweeteners and vegetable oils contributed a share of between 5 and 10 per cent. Meat and fruits had a share contribution of less than 5 per cent. Protein supply is largely from cereals (excluding beer) 38.1 per cent, pulses (29.9 per cent), milk (12.1 per cent) and meat (9.2 per cent). The rest of the products had a share of less than 3 per cent.

Figure 8.3. Composition (%) of caloric supply by main food groups



8.33. Self Sufficiency Ratio: In 2006, the self sufficiency ratio for vegetable products stood at 81.8 per cent, a slight improvement from 79.6 per cent in 2005. This is an indication that a higher proportion of the food supply emanated from own production and less from imports. Similarly, the self sufficiency ratio for animal products stood at 100.5 per cent. This is a huge improvement from 81.8 per cent in 2005. This indicates that the country was self sufficient in animal products.

Figure 8.4. Self-Sufficiency Ratioigure 8.4. Self-Sufficiency Ratio



8.34. Import Dependency Ratio: In 2006, the import dependency ratio for vegetable and animal products stood at 21.3 and 0.9 per cent respectively.

Figure 8.5. Imports Dependency Ratio

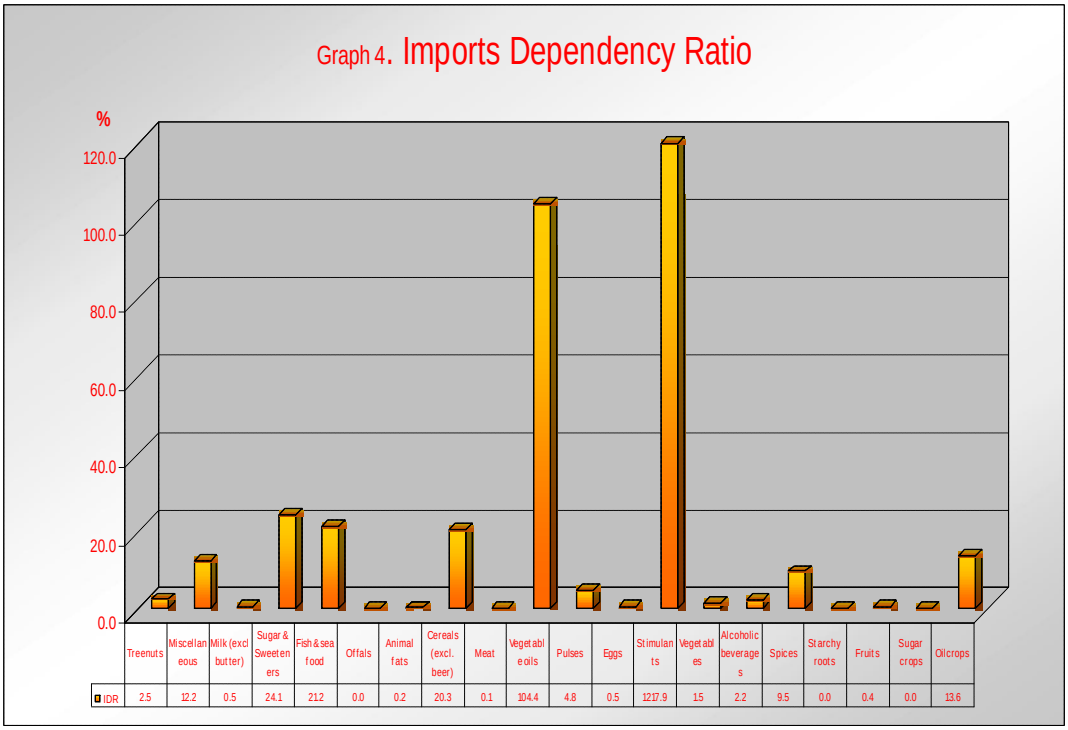


Table 8.23: Detailed FBS Results, 2006

FOOD BALANCE SHEET 2006 — Population ('000) 36,100

Products	DOMESTIC SUPPLY (1000 MT)					DOMESTIC UTILIZATION (1000 MT)						PER CAPUT SUPPLY			
	Prod.	Imports	Stock changes	Exports	Total D.S.	Feed	Seed	Processed	Waste	Oth.Util.	Food	PER YEAR FOOD	PER DAY Calories	Proteins	Fats
	1000 Metric Tons											Kg.	units	grams	grams
Grand total													1,934	52	30
Vegetable prod.													1,873	47	25
Animal prod.													61	5	5
	bg	bi	bk	bm		bo	bq	bs	bu	bw	by	ce	cg	ci	ck
Cereals (excl. beer)	3,942	1,003	545	37	5,453	102	72	144	1,117	-	4,017	111	947	23	4
Wheat	358	667	-	6	1,019	-	13	15	20	-	972	27	199	6	1
Maize	3,247	100	545	17	3,875	80	53	12	1,066	-	2,664	74	642	15	2
Rice (Milled Eq.)	43	213	0	0	256	-	0	1	5	-	250	7	75	1	0
Barley	81	0	-	13	68	-	1	64	2	-	2	0	0	0	-
Rye	-	0	-	-	0	0	-	-	-	-	-	-	-	-	-
Oats	4	0	-	0	4	1	0	0	0	-	2	0	0	0	0
Millet	69	2	-	0	71	6	2	14	8	-	41	1	10	0	0
Sorghum	140	17	-	0	157	16	3	37	17	-	84	2	20	1	0
Cereals, other	-	3	0	0	3	0	-	-	-	-	3	0	1	0	0
Starchy roots	2,463	1	-	0	2,463	-	104	1	187	-	2,171	60	155	2	0
Cassava	841	0	-	0	841	-	-	0	25	-	816	23	67	1	0
Potatoes	784	0	-	0	784	-	104	1	78	-	601	17	32	1	0
Sweet Potatoes	809	-	-	-	809	-	-	-	81	-	727	20	54	0	0
Yams	8	-	-	-	8	-	-	-	0	-	8	0	1	0	0
Roots, other	21	0	-	0	22	-	-	-	2	-	20	1	1	0	0
Sugar crops	4,933	-	-	0	4,933	-	-	4,150	-	-	783	22	17	0	-
Sugar cane	4,933	-	-	0	4,933	-	-	4,150	-	-	783	22	17	0	-
Sugar beet	-	-	-	0	(0)	-	-	-	-	-	-	-	-	-	-
Sugar & Sweeteners	575	179	(20)	19	716	-	-	34	-	-	682	19	183	0	-
Sugar non-centrifugal	23	-	-	-	23	-	-	20	-	-	3	0	1	0	-
Sugar (raw equivalent)	527	167	(20)	15	660	-	-	7	-	-	652	18	176	-	-
Sweeteners, other	0	12	-	4	8	-	-	7	-	-	1	0	0	0	-
Honey	25	0	-	0	25	-	-	-	-	-	25	1	6	0	-
Pulses	760	20	433	3	1,210	-	7	-	121	-	1,099	30	285	18	1
Beans	532	14	35	1	580	-	-	-	87	-	493	14	128	8	1
Peas	-	5	-	0	5	-	-	-	-	-	5	0	1	0	0
Pulses, other	228	1	398	1	626	-	7	-	34	-	602	17	157	10	1
Treenuts	22	0	-	6	16	-	-	-	0	-	13	0	3	0	0
Oilcrops	152	16	-	7	161	10	3	93	7	0	50	1	16	1	1
Soybeans	-	8	-	1	7	-	-	-	-	-	9	0	3	0	0
Groundnuts	21	1	-	0	22	-	1	-	1	-	20	1	8	0	1
Sunflowerseed	12	0	-	0	12	-	0	11	1	-	-	-	-	-	-
Rape & Mustard seed	-	0	-	-	0	-	-	-	-	0	0	0	0	0	0
Cottonseed	13	3	-	1	15	-	2	13	1	-	-	-	-	-	-
Coconuts (incl. copra)	60	0	-	0	60	10	-	34	4	-	12	0	1	0	0
Sesame seed	10	4	-	5	10	-	0	-	0	-	9	0	4	0	0
Palm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Olive	-	0	-	-	0	-	-	-	-	-	0	0	0	0	0
Oilcrops, other	36	0	-	0	35	-	0	35	-	0	-	-	-	-	-
Vegetable oils	38	253	0	47	245	-	-	0	-	20	224	6	149	0	17
Soybean oil	-	5	0	5	0	-	-	-	-	-	0	0	0	-	0
Groundnut oil	-	0	0	0	0	-	-	-	-	-	0	0	0	-	0
Sunflower seed oil	3	0	-	0	3	-	-	-	-	-	3	0	2	-	0
Rape and mustard oil	-	0	-	-	0	-	-	-	-	-	0	0	0	-	0
Cottonseed oil	2	0	-	0	1	-	-	-	-	-	1	0	1	-	0
Palm kernel oil	-	2	-	-	2	-	-	-	-	-	2	0	1	-	0
Palm oil	-	244	-	40	204	-	-	-	-	18	186	5	124	0	14
Copra oil	6	0	-	0	6	-	-	-	-	-	6	0	4	-	0
Sesame seed oil	-	0	-	0	0	-	-	-	-	-	0	0	0	-	0
Olive oil	-	0	-	-	0	-	-	-	-	-	0	0	0	-	0
Rice bran oil	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maize germ oil	14	1	-	0	14	-	-	-	-	-	14	0	9	-	1
Oilcrops oil, other	14	1	-	0	15	-	-	0	-	3	12	0	8	-	1
Vegetables	1,397	10	-	83	1,324	-	-	0	104	-	1,220	34	21	1	0
Tomatoes	330	5	-	0	335	-	-	0	33	-	302	8	4	0	0
Onions	68	0	-	0	68	-	-	-	7	-	61	2	2	0	0
Vegetables, other	999	5	-	83	921	-	-	-	64	-	857	24	15	1	0
Fruits	2,441	11	-	161	2,292	-	-	6	257	-	2,030	56	96	1	1
Oranges & mandarins	26	2	-	0	28	-	-	-	3	-	25	1	1	0	0
Lemons & limes	0	0	-	0	0	-	-	-	-	-	0	0	0	0	0
Grapefruit	13	0	-	0	13	-	-	-	1	-	12	0	0	0	0

Table 8.23: Cont'd

FOOD BALANCE SHEET 2006 — Population ('000) 36,100

Products	DOMESTIC SUPPLY (1000 MT)					DOMESTIC UTILIZATION (1000 MT)						PER CAPUT SUPPLY			
	Prod.	Imports	Stock changes	Exports	Total D.S.	Feed	Seed	Processed	Waste	Oth.Util.	Food	PER YEAR FOOD	PER DAY Calories	Proteins	Fats
	1000 Metric Tons											Kg.	units	grams	grams
Citrus, other	135	0	-	0	135	-	-	-	14	-	121	3	2	0	0
Bananas	600	0	-	0	600	-	-	-	90	-	510	14	23	0	0
Plantains	600	-	-	-	600	-	-	6	60	-	534	15	36	0	0
Apples (excl. cider)	2	4	-	0	6	-	-	-	-	-	6	0	0	0	0
Pineapples	600	0	-	132	468	-	-	(0)	60	-	408	11	17	0	0
Dates	1	1	-	0	2	-	-	-	-	-	2	0	0	0	0
Grapes (excl. wine)	1	2	-	0	3	-	-	-	-	-	3	0	0	0	0
Fruit, other	463	2	-	28	438	-	-	0	31	-	408	11	16	0	1
Stimulants	359	15	5	376	3	-	-	0	-	-	8	0	0	0	0
Coffee	48	1	5	48	6	-	-	-	-	-	6	0	0	0	-
Cocoa Beans	-	2	0	1	2	-	-	0	-	-	2	0	0	0	0
Tea	311	13	-	328	(5)	-	-	-	-	-	0	0	0	0	-
Spices	7	1	-	1	7	-	-	-	0	-	6	0	2	0	0
Pepper	0	0	-	-	0	-	-	-	-	-	0	0	0	0	0
Pimento	5	0	-	0	5	-	-	-	0	-	5	0	1	0	0
Cloves	1	-	-	0	0	-	-	-	-	-	0	0	0	0	0
Spices, other	1	1	-	1	1	-	-	-	-	-	1	0	0	0	0
Alcoholic beverages	492	7	-	2	497	-	-	-	0	0	497	14	21	0	-
Wine	-	4	-	1	3	-	-	-	-	-	3	0	0	-	-
Beer	210	2	-	1	211	-	-	-	-	-	211	6	7	0	-
Beverages, fermented	256	0	-	0	256	-	-	-	0	-	256	7	8	0	-
Beverages, alcoholic	26	1	-	1	27	-	-	-	-	0	27	1	6	0	-
Meat	428	0	-	2	427	-	-	(0)	-	-	512	14	73	6	6
Bovine meat	376	0	-	0	376	-	-	-	-	-	376	10	54	4	5
Mutton & goat meat	-	0	-	0	0	-	-	-	-	-	74	2	10	1	1
Pig meat	-	0	-	2	(2)	-	-	(0)	-	-	9	0	3	0	0
Poultry meat	16	0	-	0	16	-	-	-	-	-	16	0	1	0	0
Other meat	36	0	-	-	36	-	-	-	-	-	36	1	4	0	0
Offals	83	0	-	0	83	-	-	-	-	-	83	2	7	1	0
Animal fats	19	4	-	1	22	0	-	13	-	3	5	0	3	0	0
Butter, ghee	2	0	-	0	2	-	-	-	-	-	2	0	1	0	0
Cream	0	0	-	0	0	-	-	-	-	-	0	0	0	0	0
Fats, animal, raw	16	4	-	0	19	-	-	13	-	3	3	0	2	0	0
Fish, body oil	-	0	-	-	0	0	-	-	-	-	-	-	-	-	-
Fish, liver oil	-	0	-	-	0	-	-	-	-	0	-	-	-	-	-
Milk (excl butter)	2,681	17	-	3	2,695	17	-	2	183	-	2,904	80	141	7	8
Eggs	61	0	-	0	61	-	5	-	9	-	47	1	4	0	0
Fish & sea food	159	24	-	80	103	-	-	(1)	-	-	118	3	7	1	0
Freshwater fish	152	0	-	72	80	-	-	(1)	-	-	95	3	5	1	0
Demersal fish	3	-	-	3	0	-	-	-	-	-	0	0	0	0	0
Pelagic fish	2	22	-	3	21	-	-	0	-	-	21	1	1	0	0
Marine fish, other	1	1	-	1	2	-	-	0	-	-	2	0	0	0	0
Crustaceans	0	0	-	0	0	-	-	-	-	-	0	0	0	0	0
Molluscs other	1	0	-	1	(1)	-	-	-	-	-	0	0	0	0	0
Cephalopods	0	-	-	0	0	-	-	-	-	-	0	0	0	0	0
Aquatic products, other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Aquatic mammals meat	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Aquatic animals, other	0	-	-	-	0	-	-	-	-	-	0	0	0	0	0
Aquatic plants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	18	7	2	14	13	-	-	7	-	3	3	0	2	0	0
Infant food	-	0	1	1	0	-	-	-	-	-	0	0	0	0	0
Miscellaneous, other	18	7	2	14	13	-	-	7	-	3	3	0	2	0	0

Chapter 9
Environment and Natural Resources

Overview

The country's level of development and its prospects for sustainable economic prosperity are influenced by diverse natural resource endowment. In 2007, the Government through the Ministry of Environment and Natural Resources continued to review various sectoral policies and legal frameworks. These were aimed at reducing the degradation of the environment and the depletion of the country's natural resources.

9.2. Overall development expenditure on water and related services increased by 10.5 per cent from KSh 7.6 billion in 2006/07 to KSh 8.4 billion in 2007/08. Total fish landed from the freshwater bodies in Kenya increased by 5.5 per cent to 160.1 thousand tonnes in 2007. Total revenue generated from the fisheries sub-sector increased marginally to KSh 8.7 billion in 2007 from KSh 8.6 billion in 2006. The value of mineral production increased by 6.1 per cent from KSh 6.6 billion in 2006 to KSh 7.0 billion in 2007. The continued implementation of the Forest Act 2005 and a ban on the sale of hard wood saw the volume of forest products sold decrease from 448.2 thousand cubic metres in 2006 to 423.4 thousand cubic metres in 2007.

Water Supply

9.3. In 2007, the Ministry of Water and Irrigation continued with its fundamental goal and purpose of conserving, managing and protecting water resources with a view to ensuring proper access to available water resources. This was realized through the strengthening of decentralized water sector institutions and increasing involvement of communities in the management of water affairs. During the year, the National Water Resources Management Strategy was launched and the Water Appeal Board operationalised. This was aimed at streamlining the management of water resources in the country. The role of drilling of boreholes was shifted to National Water Conservation and Pipeline Corporation from the Ministry.

9.4. Table 9.1 shows the number and distribution of Water Purification Points (W.P.P) and boreholes drilled in the country over the last five financial years. The number of boreholes drilled declined from 207 in 2006/07 to 170 in 2007/08 mainly due to reduced funding by donor agencies. However, there was an increase in the number of boreholes drilled in Coast and North Eastern provinces.

Table 9.1: Water Purification Points and Boreholes Drilled 2003/04 - 2007/08

Number

Province	2003/04		2004/05		2005/06		2006/07		2007/08*	
	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	7	34	9	34	28	34	26	34	7
Coast	8	6	8	0	8	16	8	13	8	15
Eastern	28	14	28	17	28	45	28	79	28	36
N/Eastern	7	1	7	4	7	53	7	10	7	67
Nyanza	33	2	33	2	33	34	33	11	33	4
Rift Valley	43	17	43	28	43	27	43	56	43	32
Western	33	0	33	3	33	24	33	6	33	3
Nairobi	-	-	-	-	-	4	-	6	-	6
TOTAL	186	47	186	63	186	231	186	207	186	170

Source: Ministry of Water and Irrigation

* Provisional

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

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

9.5. Overall government development expenditure on water supplies and related services is expected to increase from KSh 7,592.1 million in 2006/07 to KSh 8,414.3 million in 2007/08 as shown in Table 9.2. This is mainly due to a 32.1 per cent increase in the allocation to water development expenditure on newly created water sector institutions. Expenditure on miscellaneous and special water programmes is expected to increase seven fold from KSh 141.5 million in 2006/07 to KSh 1,218.0 million in 2007/08. All rural supplies previously owned by the Ministry were transferred to communities. As a result, the allocation for rural water supplies declined significantly due to ongoing water sector reforms. Funding for new rural water schemes is now sourced through the Water Services Trust Fund and the Government's contribution is in form of counter-part funds.

Table 9.2: Development Expenditure on Water Supplies and Related Services, 2003/04 - 2007/08

KSh 000's

Item	2003/04	2004/05	2005/06	2006/07*	2007/08+
Water Development	960,475	760,642	1,895,935	3,367,953	4,448,481
Training of Water Development Staff	32,515	23,250	50,000	39,000	40,000
Rural Water Supplies	534,919	373,233	789,750	814,000	80,000
County Council and Urban Water Supplies	713,100	1,247,245	1,293,296	300,200	-
Miscellaneous and Special Water Programmes	1,446,640	342,414	236,500	141,500	1,218,000
Water Conservation and Pipeline Corporation	481,641	463.424	1,974,300	2,031,500	1,733,500
Irrigation Development	1,704	4.985	112,408	442,641	474,354
National Irrigation Board	60,460	101,930	246,533	455,300	420,000
TOTAL	4,231,454	3,317,123	6,598,722	7,592,094	8,414,335

Source: Ministry of Water and Irrigation/ Water Conservation and Pipeline Corporation

* Provisional

+ Revised Estimates

Fisheries

9.6. In 2007, the fisheries department finalized the fisheries policy draft that will guide the sub-sector towards conservation and sustainable exploitation of fish resources in the country. A number of projects were initiated during the year under review among them the Monitoring Control Surveillance (MCS) project to monitor and control the activities of fishing vessels. To enhance

MCS, thirty five outboard engines were purchased and issued to Beach Management Units (BMU's) across the country. The department jointly with the BMU's established and enforced closed fishing season and fishing grounds in various water bodies as a conservation measure.

9.7. Table 9.3 shows the total fresh water fish and marine landing in the country. The quantity of freshwater fish landed increased by 5.5 per cent to 160.1 thousand tonnes in 2007 from 151.7 thousand tonnes in 2006. This was mainly due a 5.6 per cent increase in fish landing from Lake Victoria. Similarly, the tonnage of marine fish increased marginally to 6,123 tonnes in 2007 from 6,023 tonnes in 2006.

9.8. The total value of fish landed increased to KSh 8,719.2 million in 2007 from KSh 8,566.8 million in 2006. The value of fish landed from fresh water sources increased to KSh 8,197.3 million in 2007 from KSh 8,070.6 million in 2006. Fresh water fish accounted for 94.0 per cent of the total revenue generated from the fisheries sub-sector.

Table 9.3: Quantity and Value of Fish Landed, 2003- 2007

Quantities - Tonnes:	2003	2004	2005	2006	2007*
Freshwater fish					
Lake Victoria. ..	105,866	115,747	133,526	143,908	151,934
Lake Turkana . ..	4,047	4,180	2,493	4,559	4,660
Lake Naivasha	39	62	108	189	190
Lake Baringo	0	63	43	68	72
Lake Jipe	73	40	74	109	112
Tana River Dams	474	839	950	1,024	1,118
Fish Farming	1,012	1,035	1,047	1,012	1,120
Other areas . ..	1,176	843	785	842	904
TOTAL . ..	112,687	122,809	139,026	151,711	160,110
Marine fish . ..	5,819	6,192	5,862	6,023	6,123
Crustaceans	756	1,206	441	436	476
Other marine products.	393	407	520	500	512
GRAND TOTAL .	119,655	130,614	145,849	158,670	167,221
Value - KSh' 000					
Freshwater fish .	6,468,618	7,182,213	7,207,619	8,070,557	8,197,334
Marine fish . ..	286,116	327,592	305,871	334,624	345,768
Crustaceans . ..	176,347	221,106	99,278	123,105	135,106
Other marine products	24,963	29,895	39,098	38,485	40,957
TOTAL	6,956,044	7,760,806	7,651,866	8,566,771	8,719,165

Source: Fisheries Departmen

* Provisional

9.9. In 2007, the Government continued to implement the Forest Act 2005 which was geared towards increased efficiency and effectiveness in the implementation of various programmes and activities. These are to be overseen by the Kenya Forest Service (KFS) a quasi government body. The Act recognises the community and private sector as key partners in the management of forest resources.

Forestry

9.10. KFS main challenge remains increasing the forest cover to acceptable level and rehabilitation of degraded forest areas in the country. Forest reserves are faced with the threats of encroachment and poaching.

9.11. In 2007, the Government through KFS continued to play the role of providing forest products for domestic and industrial use. Over the last four years, the area under forest plantation programme has remained unchanged at 132.3 thousand hectares. There were no excisions or opening of new areas for forest plantation development during the year under review. The area under indigenous and exotic forests remained unchanged since 2004 as shown in Table 9.4.

Table 9.4: Forest Plantation Area, 2003- 2007

'000 Hectares

Type of Forest	2003	2004	2005	2006	2007*
Indigenous Trees.	12.3	12.3	12.3	12.3	12.3
Exotic Trees...	92.5	98.7	98.7	98.7	98.7
Total	104.8	111	111	111.0	111.0
Fuel Wood and Poles					
Exotic Trees...	20.3	21.3	21.3	21.3	21.3
TOTAL AREA.	125.1	132.3	132.3	132.3	132.3

Source: Kenya Forest Service

*Provisional

9.12. Table 9.5 shows the changes in forest plantation area for the period 2003-2007. In 2007, 5.5 thousand hectares were planted with trees while 2.0 thousand hectares were clear felled. In 2006 and 2007, there were planting failures and fire damages of 11.1 thousand hectares and 1.7 thousand hectares respectively. The forest plantation stocking increased from 110.5 thousand hectares in 2006 to 112.3 thousand hectares in 2007.

Table 9.5: Changes in Forest Plantation Stocking, 2003- 2007

'000 Hectares

Type of Forest	2003	2004	2005	2006	2007*
Previous Plantation Area..	100.9	107.2	114.5	117.6	110.5
Area Planted.	7.8	9.3	7.3	6.0	5.5
Total	108.7	116.5	121.8	123.6	116.0
Area Clear felled	1.5	2	4.2	2.0	2.0
Planting failures/fire damages	-	-	-	11.1	1.7
Total Area	107.2	114.5	117.6	110.5	112.3

Source: Kenya Forest Service

* Provisional

9.13. As indicated in Table 9.6, the recorded sales of soft woods category of forest products decreased to 423.4 thousand true cubic metres in 2007 from 448.2 thousand true cubic metres in 2006. There were no sales on the hard wood category of forest products due to the ban on these products by the government since 2003. The recorded sales of power and telegraph poles almost doubled from 9.5 thousand stacked cubic metres in 2006 to 18.5 thousand stacked cubic metres in 2007. Similarly, fuel wood and charcoal doubled from 44.0 thousand stacked cubic metres to 88.2 thousand stacked cubic metres over the same period. This increase was due to additional

licensees and high demand for these products.

Table 9.6: Recorded Sales of Forest Products, 2003- 2007

Forest Product	2003	2004	2005	2006	2007*
Timber - '000 true cu. Metres					
Soft wood.	233.3	213.0	994.0	448.2	423.4
Hard wood .	9.9	0.0	0.0	0.0	0.0
TOTAL . ..	243.2	213.0	994.0	448.2	423.4
'000 stacked cu. metres-					
Fuel wood /Charcoal	14.6	18.1	47.2	44.0	88.2
Power &Telegraph Poles	2.0	9.6	6.3	9.5	18.5

Source: Kenya Forest Service

* Provisional.

Mining

9.14. Mineral resources exploration and exploitation continued to be undertaken in 2007. New exploration interests by the private sector increased substantially for carbon dioxide, iron ore, uranium, rare earth minerals, base metals and gold. Tiomin Resources Company which has a mining lease and investment agreement for titanium minerals in Kwale district undertook exploration activities on their other concessions in Kilifi district. The Magadi Soda Company completed its investment on plant expansion and improvement aimed at doubling soda ash production, raising employment capacity and technology transfer. Kenya Fluorspar Company undertook an investment to improve on its mine extraction, ore processing, mineral production and overall environmental management of its operations. Quarrying of ballast and building stone was also undertaken in various parts of the country especially in the outskirts of major urban centres.

9.15. There was an overall increase in mineral production by 11.2 per cent from 1,213.8 thousand tonnes in 2006 to 1,349.5 thousand tonnes in 2007 as shown in Table 9.7. This mainly resulted from increased production in soda ash and crushed refined soda. The production of soda ash and crushed refined soda grew by 3.3 per cent and 27.2 per cent in 2007 respectively. Production of minerals in 'other' category also increased from 9,549 tonnes in 2006 to 23,179 tonnes in 2007.

9.16. The value of mineral production increased by 5.1 per cent from KSh 6,649.6 million in 2006 to KSh 6,991.2 million in 2007. The increase was attributed to improved export earnings from soda ash and crushed refined soda. The value of crushed refined soda's increased from 44.6 million in 2006 to 430.4 million in 2007.

Table 9.7: Quantity and Value of Mineral Production, 2003 - 2007

Mineral	2003	2004	2005	2006	2007*
Quantities - Tonnes:					
Minerals-					
Soda Ash	352,560	353,835	360,161	374,210	386,578
Fluorspar	80,201	117,986	109,594	132,030	85,115
Salt	21,199	31,139	26,595	35,024	11,596
Crushed Refined Soda	576,146	605,948	640,291	662,939	843,043
Other	4,971	6,315	8,972	9,549	23,179
TOTAL	1,035,077	1,115,223	1,145,613	1,213,752	1,349,511
Value - KSh'000:					
Soda Ash	3,100,169	3,462,707	3,782,249	4,532,391	4,769,457
Fluorspar	503,630	999,129	1,061,908	1,155,794	995,867
Salt	61,105	124,450	110,382	164,438	58,068
Crushed Refined Soda	46,494	51,473	47,796	44,551	430,391
Other	1,355,256	667,854	1,806,754	752,376	737,387
TOTAL	5,066,654	5,305,613	6,809,089	6,649,550	6,991,170

Source: Department of Mines and Geology

*Provisional

9.17. The average export prices of the soda ash and fluorspar are as shown in Table 9.8. The average price per tonne for soda ash increased to KSh 12.8 thousand in 2007 from KSh 12.7 thousand in 2006. Similarly, average price per tonne of fluorspar increased to KSh 11.7 thousand in 2007 from KSh 8.8 thousand in 2006.

Table 9.8: Average Export Prices of Soda Ash and Fluorspar, 2003 - 2007

KSh per tonne

Mineral	2003	2004	2005	2006	2007*
Soda Ash	9,058	9,939	12,003	12,740	12,812
Fluorspar	6,280	8,468	9,689	8,754	11,700

Source: Department of Mines and Geology

* Provisional

Refuse Management

9.18. Nairobi City Council in its efforts to provide a clean and healthy environment, faces the challenge of managing increased solid and liquid waste generated from households and industries. A key achievement realised in 2007 was planting of over 3,000 tree seedlings within the Central Business District and along major roads radiating from the city.

Table 9.9: Expenditure on Public Health by Nairobi City Council, 2003/04 - 2007/08

KSh '000

	2003/04	2004/05	2005/06	2006/07	2007/08*
Cleaning and Administration	60,997	96,013	286,217	272,930	300,223
Cleaning - General	140,293	227,987	4,200	1,550	1,705
Refuse Removal	83,951	153,166	162,650	153,220	144,000
Conservancy	163	513	0	0	0
Total	285,404	477,679	453,067	427,700	445,928

Source: Nairobi City Council

* Provisional

9.19. During 2007, the expenditure on public health by Nairobi City Council increased to KSh 446 million from KSh 428 million in 2006 as shown in Table 9.9. The bulk of this expenditure was in cleaning and administration which was allocated KSh 300 million, followed by refuse removal with KSh 144 million. Expenditure on refuse removal was on management of Dandora dump site, waste collection, transportation and disposal of solid waste within the city.

Wildlife

9.20. Wildlife population estimates derived from aerial sample survey data are shown in Table 9.10. Wildlife and livestock grazing remained the dominant land-use activity in the Kenyan rangelands. These rangelands are home to wildlife species which are major tourist attraction. Over the period under review, various wildlife herbivores indicated a decline. Species that showed a decline include Topi, Greater Kudu, Lesser Kudu, Waterbuck, Eland, Burchell's Zebra, Kongoni, Gerenuk, Giraffe, Grant's gazelle and Oryx. These declines could be explained by predation, poaching and migration due to changes in land-use and unfavourable weather conditions. Species that showed an increase include Elephant, Warthog and Ostrich.

Table 9.10: Wildlife Population Estimates in the Kenya Rangelands, 2003 - 2007.

000's

SPECIES	2003	2004	2005	2006	2007*
Elephant	18.8	18.8	16.8	17.5	19.7
Buffalo	24.6	25.1	22.3	22.1	20.1
Giraffe	33.2	34.2	34.4	31.7	29.3
Burchell's Zebra	110.3	112.0	123.1	115.4	110.5
Grevy's Zebra	5.3	5.1	4.4	4.1	4.0
Topi	31.2	31.6	31.0	27.3	26.5
Kongoni	11.5	11.6	10.0	9.1	8.3
Wildebeest	294.1	300.2	300.3	291.3	291.5
Oryx	20.5	20.6	21.5	22.4	19.8
Eland	10.2	9.8	8.2	8.0	7.5
H. Hartebeest	1.2	1.1	1.0	0.9	0.9
Waterbuck	4.9	4.8	4.1	4.1	3.8
Kudus	13.6	13.4	13.6	12.1	11.4
Gerenuk	27.5	27.3	27.0	26.5	23.1
Impala	71.9	70.2	68.7	62.5	63.4
Grant's Gazelle	116.0	117.3	116.0	117.5	114.2
Thompson's Gazelle	55.0	51.7	48.1	45.1	45.0
Warthog	15.0	14.8	14.5	15.8	17.0
Ostrich	23.9	24.4	26.0	25.4	27.3

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

* Provisional

Weather Outlook

9.21. In 2007, the "Long Rains" which last from March to May contributed more rainfall to the annual total than the short rains season over most places. However, in some areas like the southeastern lowlands of Makueni, Makindu, Voi, Kibwezi, parts of the Central highlands and neighboring areas of Isiolo, the "Short Rains" which last from October to December were more abundant and less variable than the "Long Rains".

9.22. The March-April-May (MAM) 2007 seasonal rainfall performance was generally poor in terms of amounts and distribution over most parts of the country. The initial indicator of the poor season was notable from the beginning of the season when most areas recorded very late onset of the rains. The highest amount of rainfall deficits were recorded in North Eastern and South Eastern districts where all meteorological stations recorded less than 65 per cent of their long-term means (LTMs). Despite the huge rainfall deficits and poor distribution over most parts of the country, the coastal strip recorded high daily rainfall amounts during the month of May that resulted to loss of life and property. The western and central parts of the country also recorded significant rainfall though the amounts were below normal at most locations while the distribution in time and space was equally poor within the season.

9.23. The October-November-December (OND) 2007 rainfall season coincided with La- Niña, an abnormally cool sea surface temperatures, prevailed over the equatorial eastern Pacific Ocean. As a result, most parts of the country experienced depressed rainfall. In general, the eastern portion of the country experienced substantial rainfall that was within the normal range while the western portion experienced depressed rainfall though there were some pockets that experienced near normal rainfall.

Resource Monitoring

9.24. The National Environment and Management Authority (NEMA) is mandated to supervise and coordinate all matters relating to the environment. The major challenges faced by the Authority has been to deal with natural resource depletion, environmental degradation, inadequate solid waste disposal in urban areas and emerging environmental health issues. To address these challenges and ensure proper management and rational utilisation of environmental resources, the Authority, initiated a number of programmes in 2007. These include the Community Development for Environments management project and the Kenya Environmental Programme Support (EPS).

9.25. The other key achievement realised during the review period was the development of Education for Sustainable Development (ESD) programme. It was aimed at capacity building of the local communities on community-based natural resources management and training of Provincial and District Environment Committees. The programme entails educating and mobilising the public on conservation and sustainable utilisation of the natural resources and preparation of Districts Environment Action Plans (DEAPs).

9.26. Under the guidance of the Ministry of Environment and Natural Resources, a road map for preparation of a pro-poor Environment Policy was developed, endorsed and launched in August 2007. The policy reflects current environment and development priorities in the country. It also guides the mainstreaming of environment into development planning and budgetary processes.

9.27. The Government continued to ensure that all public and private projects across the country undergo a thorough Environment Impact Assessment (EIA) before being implemented. It is now mandatory that all ongoing projects

prepare and submit Environment Audit reports (EA) to NEMA. In the year under review, 1,026 new projects submitted EIA reports while 1,376 on-going projects prepared EA reports.

Chapter 10

Energy

Overview

The world continued to experience high oil prices in 2007 as prices prevailing during that period more than tripled since 2003. This was attributed to strong demand from fast-growing economies of China and India coupled with instability in oil-producing nations in the Middle East and Africa. Crude oil prices in the international market rose to new heights in 2007 due to a combination of factors. The factors included geo-political tensions especially in Eastern Turkey, OPEC production cuts, civil unrest in Nigeria, and the depreciating of the US dollar against major international currencies among others. International prices for Murban crude oil, which is the main crude oil imported into Kenya, continued on the rising trend during the period under review. The international prices for Murban crude oil rose by 46.0 per cent from US$ 62.05 per barrel in December 2006 to US$ 90.60 per barrel in December 2007. In the domestic market, significant increases in pump prices were recorded in tandem with prices in the international market.

10.2. During the year under review, total quantities of petroleum imports registered a growth of 16.4 per cent to stand at 3,691.8 thousand tonnes in 2007. Imports of petroleum fuels registered a substantial increase of 42.6 per cent while lubricating greases and crude petroleum imports declined by 25.1 per cent and 2.7 per cent, respectively during the same period. The total import bill of petroleum products increased by 7.1 per cent in 2007 compared to 18.9 per cent in 2006.

10.3. Total quantities of petroleum products exported increased by 27.0 per cent from 170.2 thousand tonnes in 2006 to 216.1 thousand tonnes in 2007. The total value of petroleum products exported rose by 21.6 per cent to KSh 6,762.3 million in 2007 while total value of re-exports declined by 92.8 per cent during the same period. The decline in re-exports was due to the reclassification done by Kenya Revenue Authority (KRA) clearly distinguishing oil products into imports, exports, re-exports and transit. Total domestic demand for petroleum products rose by 2.8 per cent from 3,131.5 thousand tonnes in 2006 to 3,218.3 thousand tonnes in 2007 compared to a rise of 12.0 per cent recorded in the previous year.

10.4. Total electricity generation grew by 7.3 per cent from 5,894.9 GWh in 2006 to 6,324.6 GWh in 2007. The increase was largely due to improved electricity generation from hydro power which grew by 18.7 per cent in 2007 compared to a reduction of 0.5 per cent in 2006. The number of customers connected under the Rural Electrification programme rose by 20.0 per cent to stand at 133,047 customers as at June 2007 up from 110,724 customers as at June 2006.

Petroleum

10.5. Details of quantity and value of imports, exports and re-exports of petroleum products, for the period 2003 to 2007 are depicted in Table 10.1. During the year under review, total quantities of petroleum imports registered a growth of 16.4 per cent to stand at 3,691.8 thousand tonnes up from 3,172.9 thousand

tonnes in 2006. Import quantities of petroleum fuels registered a substantial increase of 42.6 per cent in 2007. Volume of lubricating greases and crude petroleum imports declined by 25.1 and 2.7 per cent, respectively, during the period. The total import bill of petroleum products increased by 7.1 per cent from KSh 113.7 billion in 2006 to KSh 121.8 billion in 2007. The increase in the import bill could partly be explained by the robust economic activities in the country and the weakening of the US dollar against international currencies. The value of imports for petroleum fuels rose by 25.8 per cent in 2007 compared to an increase of 31.3 per cent in the previous year. Import value of crude petroleum oil and lubricating greases declined by 10.5 per cent and 17.8 per cent, respectively.

Table 10.1: Quantity and Value of Imports, Exports and Re-exports of Petroleum Products[1], 2003 - 2007

	Quantity ('000 Tonnes)					Value (KSh. Mn)				
Year	2003	2004	2005	2006	2007*	2003	2004	2005	2006	2007*
IMPORTS										
Crude Petroleum	1,382.6	2,043.8	1,774.0	1,643.2	1,598.7	25,415.4	45,953.6	51,528.6	55,015.6	49,240.8
Petroleum Fuels	1,819.9	1,491.7	1,130.9	1,402.7	1,999.9	37,990.4	41,522.1	42,494.0	55,807.2	70,204.8
Lubricating Oils	23.8	11.9	0.4	2.6	-	1,010.2	586.5	39.6	73.1	10.8
Lubricating Greases	5.6	29.7	66.8	124.4	93.2	145.5	722.7	1,607.0	2,823.6	2,319.6
TOTAL	3,231.9	3,577.0	2,972.2	3,172.9	3,691.8	64,561.4	88,784.8	95,669.2	113,719.6	121,776.0
EXPORTS										
Petroleum Fuels	2.2	35.8	146.9	44.7	67.4	56.5	832.3	5,829.4	2,220.8	3,098.4
Lubricating Oils	0.1	1.4	13.3	30.9	37.4	9.5	182.8	255.3	878.8	1,036.6
Lubricating Greases	0.0	0.1	14.0	94.7	111.3	1.6	11.5	362.2	2,459.8	2,627.3
Total Exports	2.3	37.4	174.2	170.2	216.1	67.6	1,026.7	6,446.9	5,559.3	6,762.3
Re-exports										
Petroleum Fuels	1,303.5	1,447.1	1,062.7	276.1	6.6	36,203.6	33,379.6	36,796.8	8,838.5	373.9
Lubricating Oils	7.3	8.0	23.9	25.9	1.1	645.9	783.3	780.0	601.4	29.1
Lubricating Greases	2.8	0.7	29.5	21.0	10.6	76.5	50.1	808.9	642.1	320.6
Total Re-exports	1,313.6	1,455.8	1,116.1	323.0	18.3	36,926.0	34,213.0	38,385.8	10,082.1	723.6
TOTAL	1,315.9	1,493.1	1,290.3	493.2	234.4	36,993.6	35,239.6	44,832.7	15,641.4	7,485.9
NET BALANCE						27,567.8	53,545.2	50,836.5	98,078.2	114,290.1

Source: Kenya Revenue Authority (KRA)

* Provisional

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

- Negligible

10.6. Total quantities of petroleum products exported increased by 27.0 per cent from 170.2 thousand tonnes in 2006 to 216.1 thousand tonnes in 2007. The quantity of petroleum fuels exported increased significantly by 50.8 per cent from 44.7 thousand tonnes to 67.4 thousand tonnes during the same period. Exports of lubricating oils, which more than doubled in 2006 increased by 21.0 per cent in 2007 to stand at 37.4 thousand tonnes up from 30.9 thousand tonnes in 2006. Exports of lubricating greases increased by 17.5 per cent from 94.7 thousand tonnes in 2006 to 111.3 thousand tonnes in 2007. During the period under review, volume of total re-exports of petroleum products declined by 94.3 per cent compared to a decline of 71.1 per cent, in 2006.

10.7. Total value of petroleum products exported rose by 21.6 per cent to stand at KSh 6,762.3 million in 2007 while total value of re-exports declined by 92.8 per cent during the same period. The net balance of petroleum products rose by 16.5 per cent to attain a value of KSh 114.3 billion in 2007 compared to an increase of 92.9 per cent in 2006. Although the net balance has been on an upward trend since 2005, the value of re-exports have been declining on account of reclassification of oil products.

10.8. Table 10.2 shows volumes of crude oil intake at the Kenya Petroleum Refineries Limited (KPRL) by type for the period 2003 to 2007. The volume of total crude oil intake increased marginally from 1,651.1 thousand tonnes in 2006 to 1,662.8 thousand tonnes in 2007. Murban crude oil intake continued to be the main crude oil at KPRL accounting for 84.4 per cent of the total oil crude intake in 2007 while Arabian medium accounted for most of the rest. Murban crude oil intake at KPRL increased by 16.9 per cent while Arabian medium declined by 45.4 per cent in 2007.

Table 10.2: Crude Oil Intake at the Refinery by Type, 2003 - 2007

('000 Tonnes)

Crude intake	A.P.I. Gravity	2003	2004	2005	2006	2007*
Arabian Medium	31	284.2	408.9	418.8	457.4	249.8
Iranian Heavy	30.4	84.6	-	-	-	-
Murban	39.6	1,124.4	1,295.4	1,227.9	1,201.0	1,403.4
Slops[1]	-	-1.10	-1.40	-1.52	-7.27	9.64
TOTAL		1,492.1	1,702.8	1,645.2	1,651.1	1,662.8

Source: Kenya Petroleum Refineries Limited

*Provisional.

A.P.I Means American Petroleum Institute

[1] Slops is a mixture of crude and pure products which are realised during processing which are recycled back

10.9. Table 10.3 shows details of finished Petroleum Products processed by KPRL for the period 2003 to 2007. Fuel oil, light diesel oil, illuminating kerosene and jet /turbo fuel were the main products processed at KPRL accounting for 32.1, 21.9 and 20.4 per cent, respectively of the total output. Production of unleaded motor gasoline premium, Liquefied Petroleum Gas (LPG) and light diesel oil rose by 22.7, 10.3 and 8.9 per cent, respectively. On the other hand, bitumen, heavy and marine diesel oil, and unleaded motor gasoline regular declined by 4.6, 2.4 and 1.4 per cent, respectively. Illuminating kerosene and jet /turbo fuel and fuel oil recorded reductions of 1.5 per cent and 10.4 per cent, respectively during the review period.

Table 10.3: Finished Petroleum Products, [1] 2003 - 2007

('000 Tonne)

	2003	2004	2005	2006	2007*
OUTPUT-					
Liquefied petroleum gas	24.0	26.9	28.5	30.1	33.2
Motor gasoline premium					
Leaded	149.1	205.2	171.7	-	-
Unleaded	-	-	3.5	127.1	156.0
Motor gasoline regular					
Leaded	79.8	70.3	58.1	-	-
Unleaded	-	-	3.7	51.4	50.7
Illuminating kerosene and					
Jet/turbo fuel	279.0	306.7	325.6	343.7	338.5
Light diesel oil	301.4	361.0	344.0	334.2	364.0
Heavy and Marine diesel oil	40.7	26.3	22.8	33.3	32.5
Fuel oil	543.4	619.9	589.5	596.2	534.2
Bitumen	10.7	6.5	20.4	17.4	16.6
Additives..	-0.4	-0.5	-3.8	24.3	40.5
Refinery usage	64.4	80.6	81.3	93.3	96.5
THROUGHPUT=TOTAL OUTPUT	1,492.1	1,702.8	1,645.2	1,651.1	1,662.8

Source: Kenya Petroleum Refineries Limited.

* Provisional.

[1] Excludes lubricants.

10.10. Table 10.4 depicts the supply and demand balance for petroleum products for the period 2003 to 2007. Total demand for petroleum products increased by 3.4 per cent from 3,176.2 thousand tonnes in 2006 to 3,285.7 thousand tonnes in 2007. Total domestic demand for petroleum products rose by 2.8 per cent from 3,131.5 thousand tonnes in 2006 to 3,218.3 thousand tonnes in 2007 compared to a rise of 12.0 per cent recorded in the previous year. All the petroleum products recorded increases in sales except illuminating kerosene, heavy diesel oil and fuel oil which recorded declines in the period under review. The increase in domestic demand was mainly supported by the consumption of jet/turbo fuel, light diesel and liquefied petroleum gas, which rose by 7.6, 7.8, and 19.8 per cent, respectively. Light diesel oil accounted for more than a third of the fuel sold in the country.

Table 10.4: Petroleum Supply and Demand Balance, 2003 - 2007

('000 Tonnes)

	2003	2004	2005	2006	2007*
DEMAND					
Liquefied petroleum gas	40.9	41.7	49.4	64.6	77.4
Motor spirit (premium and regular)	327.9	326.4	333.7	358.2	367.1
Aviation spirit	1.5	1.8	2.0	2.0	2.2
Jet/turbo fuel	487.3	521.1	559.1	593.3	638.5
Illuminating kerosene	190.0	236.1	307.0	279.2	265.2
Light diesel oil	649.6	789.4	892.4	1,035.6	1,116.5
Heavy diesel oil	24.4	25.2	25.5	40.7	40.1
Fuel oil	407.0	432.8	546.7	664.6	614.8
TOTAL	2,128.6	2,374.5	2,715.9	3,038.2	3,121.8
Refinery usage	64.4	80.6	81.3	93.3	96.5
TOTAL DOMESTIC DEMAND	2,193.0	2,455.1	2,797.2	3,131.5	3,218.3
Exports of petroleum fuels	2.2	35.6	146.9	44.7	67.4
TOTAL DEMAND	2,195.2	2,490.7	2,944.1	3,176.2	3,285.7
SUPPLY					
Imports:					
Crude oil	1,382.6	2,043.8	1,774.0	1,643.2	1,598.7
Petroleum fuels	1,819.4	1,491.7	1,130.9	1,402.7	1,999.9
TOTAL	3,202.0	3,535.5	2,904.9	3,045.9	3,598.6
Adjustment[1]	-1,006.8	-1,044.8	39.2	130.3	-312.9
TOTAL SUPPLY	2,195.2	2,490.7	2,944.1	3,176.2	3,285.7

Source: Ministry of Energy, Kenya Revenue Authority & Kenya Petroleum Refineries Limited.

* Provisional.

[1]Adjustment for inventory changes and losses in production.

10.11. Net domestic sales of petroleum fuels by consumer category for the period 2003 to 2007 are presented in Table 10.5 and Figure 10.1. During the year under review, net domestic sales recorded a decelerated increase of 2.8 per cent compared to 11.9 per cent recorded in 2006. All sectors of the economy recorded increased fuel consumption during the period under review except rail transport, marine and Government sectors. Fuel consumption by agricultural sector has been on a decline since 2005. However, this trend was reversed in 2007 when its consumption increased tremendously by 62.4 per cent from 34.8 thousand tonnes in 2006 to 56.5 thousand tonnes. Aviation excluding Government recorded an increase of 8.1 per cent in fuel consumption during the period under review compared to an increase of 7.0 per cent recorded in 2006. The increase in aviation consumption was attributed to a booming tourism sector and increased domestic flights. Fuel consumption by government continued with its downward trend as a result of the Government policy of phasing out of vehicles with high engine capacities.

Table 10.5: Net Domestic Sale of Petroleum Fuels by Consumer Category, 2003 - 2007

('000 Tonnes)

User	2003	2004	2005	2006	2007*
Agriculture	57.0	58.1	35.7	34.8	56.5
Retail pump outlets & road transport	1,061.1	1,269.0	1,344.5	1,542.4	1,570.4
Rail transport	24.2	20.8	17.9	20.5	16.4
Tourism[1]	8.4	8.5	17.1	8.9	11.6
Marine (excl. Naval Forces)	0.5	7.5	1.3	0.9	0.7
Aviation (excl. Government)	486.4	520.9	549.4	588.0	635.7
Power Generation	151.5	204.2	319.3	386.6	399.9
Industrial, Commercial and Other	280.3	291.2	362.4	405.9	408.8
Government	11.9	39.9	57.8	31.2	8.3
Balancing Item	47.4	(45.4)	10.4	19.0	13.3
TOTAL	2,128.7	2,374.6	2,715.9	3,038.2	3,121.8

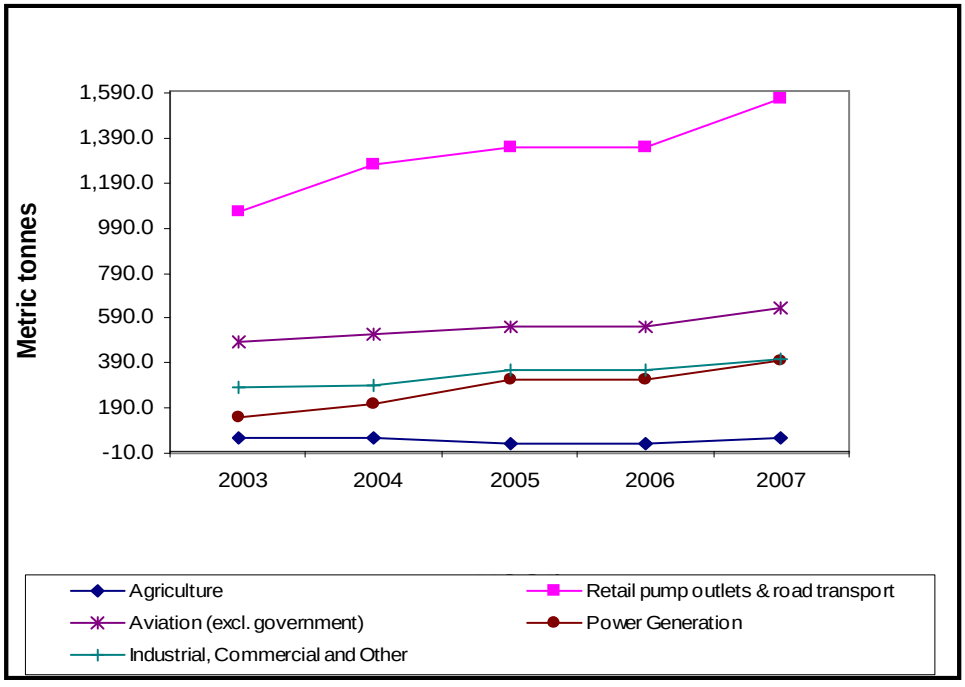
Source: Ministry of Energy

* Provisional

[1] Comprises sales to tour operator

10.12. The transport sector (rail, road and aviation excluding government), power generation, industrial, commercial and other categories continued to be the major consumer accounting for about 96.0 per cent of total sales. Retail pump outlets and road transport accounted for slightly more than half of the total domestic sales.

Figure 10.1: Sale Of Petroleum Fuels By Major Consumer Categories, 2003-2007



10.13. Wholesale prices of petroleum products at Mombasa as at December 2003 to 2007 are presented in Table 10.6. The prices for all petroleum products increased with varying margins ranging between 1.9 and 12.2 per cent during the period under review. Premium motor gasoline, regular motor gasoline, light diesel oil and illuminating kerosene recorded notable increases

of 6.9, 7.0, 7.2 and 12.2 per cent respectively. Wholesale prices for liquefied petroleum gas (LPG), industrial diesel oil and fuel oil also rose by 1.9, 2.0 and 3.9 per cent, respectively.

Table 10.6: Wholesale Prices[1] of Petroleum Products at Mombasa, 2003- 2007

KSh per tonne

PRODUCT	Dec,03	Dec,04	Dec,05	Dec,06	Dec,07
Liquefied petroleum gas (LPG)	54,230	55,140	57,018	71,794	73,187
Premium motor gasoline	49,267	57,730	59,672	75,399	80,602
Regular motor gasoline	48,368	56,730	58,662	73,864	79,011
Illuminating kerosene	36,878	49,730	49,591	52,100	58,457
Light diesel oil	30,920	39,430	40,302	65,007	69,698
Industrial diesel oil	35,299	36,890	37,705	60,819	62,022
Fuel oil	18,229	20,399	20,850	33,631	34,941

Source: Ministry of Energy

[1] Including duties and VAT.

10.14. Details of Murban crude oil prices in US$/BBL at the international market are presented in Table 10.7. International prices for Murban crude oil, which is the main crude oil imported to the country, continued with the upward trend for the fifth year running. The international prices for Murban crude oil rose by 46 per cent from US$ 62.05 per barrel in December 2006 to US$ 90.60 per barrel in December 2007. This trend in prices was partly due to the slide of the dollar against international currencies, geo-political tensions especially in eastern Turkey, OPEC production cuts and civil unrest in Nigeria.

Table 10.7: Murban Adnoc Prices, 2003 - 2007

US$/BBL

Month/Year	2003	2004	2005	2006	2007
January	29.60	31.05	42.10	62.15	54.85
February	31.70	30.90	44.00	60.95	58.75
March	29.10	33.15	50.95	60.85	62.10
April	25.00	33.80	52.55	67.50	67.60
May	25.85	37.05	49.80	68.50	68.40
June	26.80	35.95	55.45	68.85	69.70
July	27.75	37.35	57.10	73.00	73.70
August	28.85	41.55	60.95	72.70	71.75
September	26.95	41.39	61.05	63.25	78.55
October	29.10	42.80	58.00	59.35	81.80
November	29.60	39.65	54.95	59.70	91.75
December	30.05	38.50	56.90	62.05	90.60

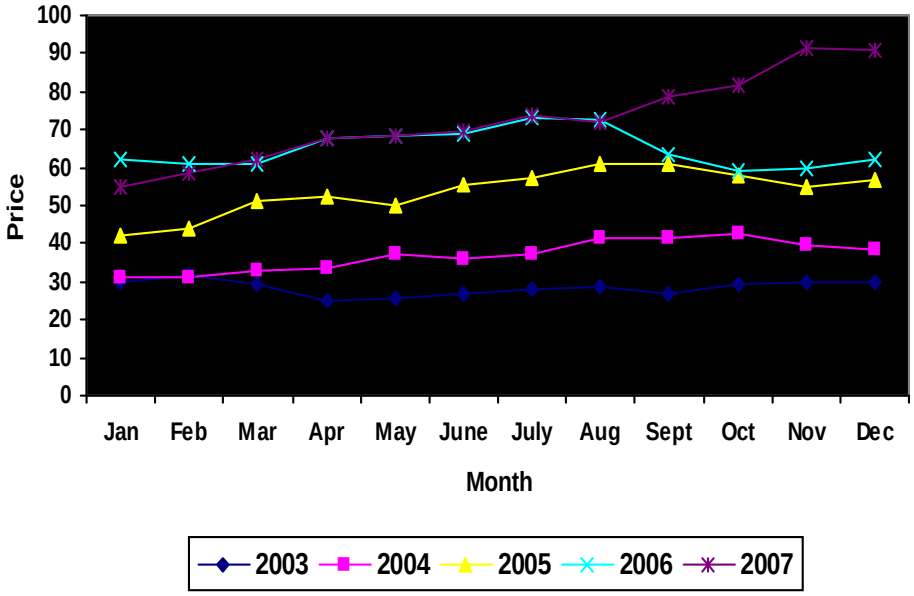
Source : Ministry of Energy

ADNOC : Abu Dhabi National Oil Corporation

PRICE : Abu Dhabi Free On Board (FOB)

US$/ BBL: US Dollar per Barrel

Figure 10.2: Murban Adnoc Prices, 2003 - 2007



10.15. Table 10.8 presents details of average retail prices of selected petroleum products in Nairobi from January 2004 to December 2007. Significant increases in pump prices were recorded during the year under review compared to 2006. This was partly because of the events occurring in oil producing regions and speculation in the international market. However, the weakening of the dollar against the Kenya shilling did not have much effect on domestic fuel prices as this was offset by a weak dollar in the international market during the period under review. Motor spirit premium rose by 10.0 per cent from KSh 76.40 per litre in December 2006 to KSh 84.50 per litre in December 2007, while that of motor spirit regular, gas oil, and illuminating kerosene reached a high of KSh 82.05, KSh 72.74 and KSh 59.66 per litre, respectively in the same period. The retail prices of motor spirit regular, gas oil and illuminating kerosene recorded increases of 7.6, 9.0 and 5.3 per cent, respectively between December 2006 and December 2007.

Table 10.8: Nairobi Average Retail Prices of Selected Petroleum Products, 2004-2007

KSh per litre

Year	Month	Motor Spirit		Light Diesel (Gas Oil)	Illuminating Kerosene
		Premium	Regular		
2004	January	60.45	59.07	46.52	35.04
	March	61.99	60.91	48.20	36.29
	June	66.99	65.91	52.72	39.76
	September	71.63	69.71	57.17	44.04
	December	69.99	68.86	59.49	46.51
2005	January	68.93	67.90	58.35	46.64
	March	68.87	68.02	58.22	46.71
	June	74.03	72.99	63.98	50.25
	September	76.07	75.25	66.18	52.60
	December	74.80	73.87	64.63	53.29
2006	January	74.82	74.05	64.82	53.63
	March	74.70	74.26	64.77	53.87
	June	80.43	79.97	70.29	57.09
	September	84.17	83.00	73.56	58.87
	December	76.84	76.26	66.76	56.67
2007	January	78.49	78.56	67.68	57.04
	February	77.83	78.15	67.00	56.75
	March	77.71	77.62	66.42	56.14
	April	78.40	77.52	66.01	55.99
	May	79.18	77.84	67.09	56.13
	June	79.45	78.57	67.72	56.97
	July	79.74	78.97	68.21	57.21
	August	80.00	79.16	68.15	57.32
	September	80.10	79.48	68.17	57.58
	October	82.11	79.02	68.43	57.58
	November	83.43	80.75	71.14	58.60
	December	84.50	82.05	72.74	59.66

Source: Ministry of Energy/ Kenya National Bureau of Statistics

Electricity

10.16. Details of installed capacity and generation of electricity in the period 2003 to 2007 are shown in Table 10.9 and Figure 10.2. Total installed capacity rose by 19.5MW in 2007 to stand at 1,196.6 MW up from 1,177.1 MW in 2006. The rise in installed capacity was as a result of an increase in thermal oil installation by Emergency Power Producer (EPP) from 80 MW in 2006 to 100 MW in 2007. Hydro and geothermal installed capacity remained constant at 677.3 MW and 128.0 MW, respectively in 2007.

10.17. Total electricity generation grew by 7.3 per cent from 5,894.9 GWh in 2006 to 6,324.6 GWh in 2007. The increase was largely due to improved electricity production from hydro power generation which grew by 18.7 per cent in 2007 compared to a reduction of 0.5 per cent in 2006. The rise in hydro power generation was attributed to adequate rainfall experienced in areas hosting hydro electricity generation plants. However, total generation from thermal oil and geothermal plants declined by 4.5 and 5.4 per cent, respectively, during the period under review.

Table 10.9: Installed Capacity and Generation of Electricity 2003 - 2007

	INSTALLED CAPACITY MW [1]					GENERATION GWh [2]								
	Hydro	Thermal Oil	Geo-thermal	Cogen-eration	Total	Hydro [3]	Thermal oil				Geo-thermal	Cogen-eration	Wind	Total
							KenGen	IPP	EPP	Total				
2003	677.2	407.0	58.0	0.0	1,142.2	3,432.8	345.3	574.7	0.0	920.0	498.4	0.0	0.4	4,851.6
2004	677.3	392.8	128.0	0.0	1,198.1	3,169.2	416.4	621.8	0.0	1,038.3	986.6	0.0	0.4	5,194.5
2005	677.3	351.3	128.0	0.0	1,156.6	3,038.9	580.2	926.0	0.0	1,506.2	1,001.6	0.0	0.3	5,547.0
2006	677.3	369.8	128.0	2.0	1,177.1	3,024.8	544.6	942.4	331.6	1,818.5	1,045.7	5.6	0.3	5,894.9
2007*	677.3	389.3	128.0	2.0	1,196.6	3,591.5	365.0	847.5	523.3	1,735.8	988.9	8.3	0.1	6,324.6

Source: Kenya Power and Lighting Company

* Provisional

[1] 1 megawatt = million watts = 1,000 kilowatts.

[2] Gigawatt hour = 1,000,000 kilowatt hours

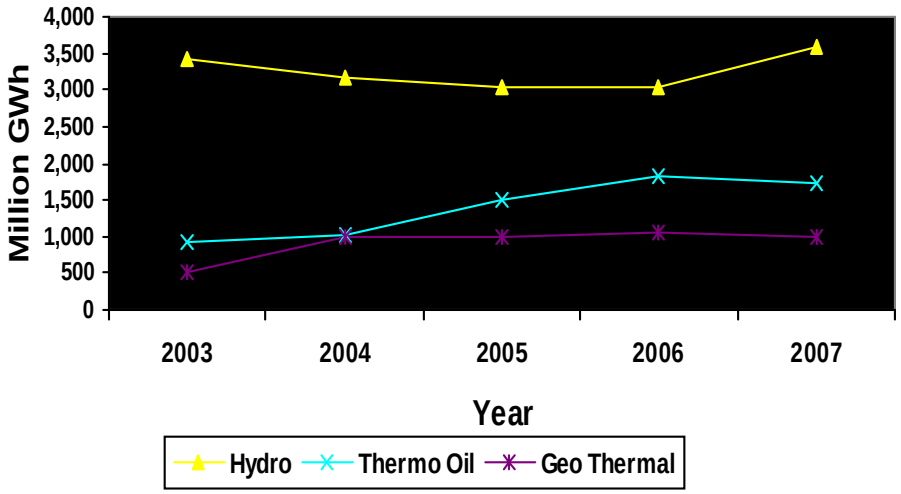
[3] Includes Imports from Uganda and Tanzania

IPP: Independent Power Producers

EPP: Emergency Power Producers

10.18. Hydro electricity power generation accounted for 56.8 per cent of electricity supply while geothermal and thermal sources accounted for 15.6 and 27.4 per cent, respectively during the period under review.

Figure. 10.3: Generation of Electricity by Source Type, 2003 - 2007



10.19. Table 10.10 and Figure 10.3 give details of electricity energy supply and demand balance for the period 2003 to 2007. Total domestic consumption of electricity grew by 8.5 per cent in 2007 compared to a growth of 5.6 per cent in 2006. All consumer categories recorded increased demand in electricity with domestic and small commercial, large and medium (commercial and industrial), and rural electrification increasing by 10.8, 7.6 and 3.5 per cent, respectively. Electricity demand for street lighting rose by 22.0 per cent in 2007 compared to an increase of 17.6 per cent in 2006. The increase in electricity consumption by street lighting can be attributed to the rehabilitation of street lighting programme in the major urban centres in the country. Transmission losses and unallocated demand decelerated by 1.3 per cent from 1,095.8 GWh in 2006 to 1,109.7 GWh in 2007.

Table 10.10: Electricity Energy Supply and Demand Balance[1], 2003 - 2007

Million KWh

	2003	2004	2005	2006	2007*
DEMAND-					
Domestic and Small Commercial	1,325.5	1,416.6	1,507.7	1,572.4	1,741.8
Large & Medium(Commercial and Industrial).. ..	2,368.8	2,587.0	2,753.5	2,919.8	3,140.6
Off-peak	55.6	66.8	52.9	44.6	49.2
Street Lighting	7.3	7.2	8.5	10.0	12.2
Rural Electrification	153.2	156.5	175.8	205.6	212.8
TOTAL DOMESTIC DEMAND	3,910.4	4,234.1	4,498.4	4,752.4	5,156.6
Exports to Uganda	-	-	24.4	46.7	58.3
Transmission losses and unallocated demand	941.2	960.3	1,024.2	1,095.8	1,109.7
TOTAL DEMAND = TOTAL SUPPLY	4,851.6	5,194.5	5,547.0	5,894.9	6,324.6
of which imports from Uganda and Tanzania ..	189.4	161.9	27.9	10.8	22.6
Net generation	4,662.2	5,032.6	5,519.1	5,884.1	6,302.0

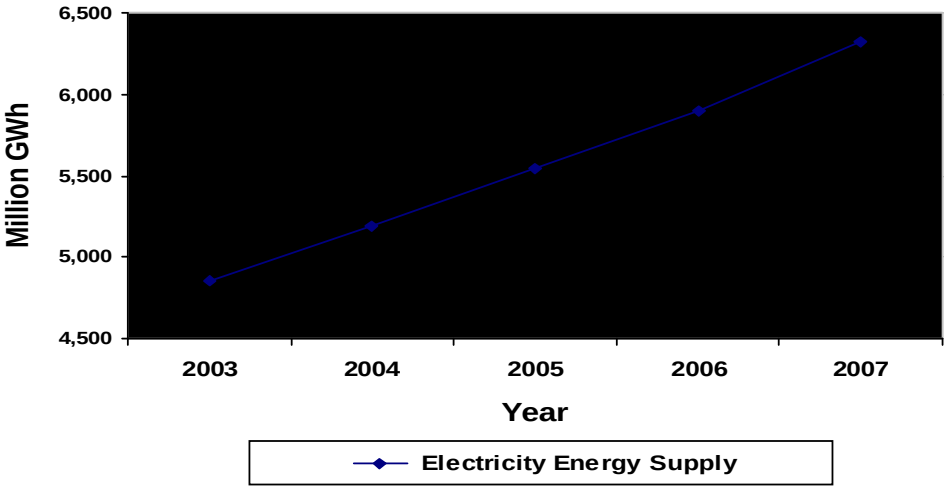
Source: Kenya Power and Lighting Company

* Provisional

[1] Figures are in calendar year

10.20. Importation of electricity from Uganda and Tanzania more than doubled from 10.8 GWh in 2006 to 22.6 GWh in 2007 while exports of electricity to Uganda rose by 24.8 per cent to stand at 58.3 GWh in the period under review.

Figure 10.4: Electricity Energy Supply, 2003 - 2007



10.21. Table 10.11 gives details of total domestic demand and supply of commercial energy expressed in terms of primary source for the period 2003 to 2007. Consumption of coal and coke declined by 8.5 per cent in 2007 to 109.5 thousand tonnes of oil equivalent compared to an increase of 34.0 per cent in 2006. Total consumption of hydro and geothermal energy rose by 12.8 per cent in 2007 compared to a marginal rise of 0.3 per cent in 2006 to 395.8 thousand tonnes of oil equivalent. Total energy consumption rose by 3.4 per cent to 3,627.1 thousand tonnes of oil equivalent in 2007 up from 3,508.8 thousand tonnes of oil equivalent in 2006.

Table 10.11: Production, Trade and Consumption of Energy[1] Expressed in Terms of Primary sources, 2003 - 2007.

'000 tonnes of Oil Equivalent

	2003	2004	2005	2006	2007*
COAL AND COKE CONSUMPTION	92.4	108.0	89.3	119.7	109.5
Imports of crude oil	1,382.6	2,043.8	1,774.0	1,643.2	1,598.7
Net exports of petroleum	1,752.8	1,375.4	902.7	1,264.7	1,836.0
Stock changes and balancing item	-1,006.7	-1,044.7	39.2	130.3	-312.9
TOTAL CONSUMPTION OF LIQUID FUELS	2,128.7	2,374.5	2,715.9	3,038.2	3,121.8
HYDRO AND GEOTHERMAL ENERGY:-					
Local production of hydro power	295.2	272.5	261.5	260.1	308.8
Local production of geothermal power	42.9	84.8	86.1	89.9	85.0
Imports of hydro power	16.3	13.9	2.4	0.9	1.9
TOTAL CONSUMPTION OF HYDRO AND GEOTHERMAL ENERGY	354.4	371.2	350.0	350.9	395.8
TOTAL LOCAL ENERGY PRODUCTION	321.8	343.4	345.0	350.0	393.8
TOTAL NET IMPORTS	-261.5	790.3	963.0	499.1	-125.8
TOTAL ENERGY CONSUMPTION	2,575.5	2,853.7	3,155.2	3,508.8	3,627.1
LOCAL PRODUCTION AS PERCENTAGE OF TOTAL	12.5	12.0	10.9	10.0	10.9
PER CAPITA CONSUMPTION IN TERMS OF KILOGRAMS OF OIL EQUIVALENT[+]	77.6	83.4	89.9	97.2	97.5

Source: Kenya National Bureau of Statistics

* Provisional.

[1] Modern sector only; fuelwood and charcoal are excluded.

[+] Revised series

10.22. Local energy production as a percentage of total energy consumption rose from 10.0 per cent in 2006 to 10.9 per cent in 2007. This means that the country was less dependent on imported energy in 2007 compared to 2006. Per capita energy consumption in terms of kilograms of oil equivalent rose marginally from 97.2 in 2006 to 97.5 in 2007.

Development in the Energy Sector

Rural Electrification

10.23. Rural Electrification Authority (REA) became operational from 31st September 2007. The REA will coordinate the implementation of rural electrification projects while KPLC will implement the rural electrification as a contractor on behalf of REA. During the financial year 2006/07, 444 out of 940 targeted rural electrification projects covering trading centres, secondary schools, health facilities and community water project were completed throughout the country.

10.24. A total of KSh 1,163 million was collected from the Rural Electrification Levy during the financial year 2006/07 compared to KSh 1,085 million collected in the previous financial year. The number of customers connected under the Rural Electrification programme rose by 20.2 per cent to 133,047 as at June 2007 up from 110,724 customers as at June 2006.

Chapter 11

Manufacturing

Overview

Kenya's manufacturing sector is mainly agro-based, hence has a strong linkage with the agricultural sector. Over the last five years, the sector's Gross Domestic Product (GDP) has been estimated at about 10 per cent. The sector's Gross Value Added (GVA) grew at a slower pace of 6.2 per cent in 2007 compared to 6.3 per cent in 2006. Exports of manufactured products continued to rise during the review period. Growth in business investment on the other hand led to increased output in manufacturing hence contributing to the overall economy. The growth in manufacturing sub sectors like cement production, metal products and paints manufacture can be attributed partly to upturn in building and construction sector. Other predominant activities were manufacture of other food products, beer, vegetable and animal oil products.

11.2. A number of sub-sectors showed tremendous growth mainly due to the establishment of new processing plants, diversification of products, increased capacity utilisation and a construction boom leading to increased regional trade especially for firms exporting manufactured goods. During the review period, key measures were put in place by Kenya Bureau of Standards (KEBS) to cushion manufacturers against the influx of sub-standard products into the local market. Some manufacturing firms also diversified their products thus increasing their range of manufactured goods in addition to outsourcing their production to other firms. To increase competitiveness of manufactured goods, the Government continued the process of reducing the cost of doing business especially in areas of legislation in addition to creating an enabling environment for investment. This enabled a number of manufacturing entities to expand their production capacities and access regional and overseas markets.

11.3. Approved industrial credit towards the manufacturing sector went up during the review period. However, a number of the investments were mainly affected by foreign exchange losses on the dollar dominated transactions as a result of a stronger shilling compared to the US dollar. Volatility in the international markets led to increases in crude oil prices which impacted negatively on firms with production machines reliant on oil fuel.

11.4. Total sales from the EPZ enterprises in 2007 rose by 15.7 per cent to stand at KSh 29, 320 million. In line with the EPZ objective of focusing on the export market, exports accounted for 93.1 per cent of the total sales. Domestic sales rose by 2.0 per cent from KSh 1, 403 million to KSh 1,431 million in 2007. Imports increased by 36.2 per cent to KSh 17,263 million in 2007 while expenditure on local purchases also increased by 6.1 per cent. Capital investments contracted by 6.0 per cent from KSh 20,320 million in 2006 to KSh19, 103 million in 2007.

Manufacturing Sales and Stocks

11.6. Provisional data from the Business Expectation Enquiries Survey (BEE) indicate that manufacturing sales rose by 10.2 per cent from KSh 394 billion in 2006 to KSh 434.1 billion in 2007. Work in progress and stocks rose by 4.1 per cent from KSh273 billion in 2006 to KSh 284.3 billion in 2007.

Employment

11.7. In the labour market, the number of new jobs created in the manufacturing sector in 2007 increased by 2.3 per cent. This brings the total number of direct formal employment to the sector to 261.3 thousand persons in 2007 from 254.9 thousand persons registered in 2006. However, direct employment of Kenyans in the EPZ went down marginally by 6.3 per cent to stand at 34,452 in 2007. Indirect jobs created outside EPZ were about 11,484 bringing the total employment attributed to EPZ to almost 46,000.The bulk of the employment, 81.3 per cent was generated by the garment/apparel enterprises.

Manufacturing Industrial Output

11.8. Table 11.1 shows details of estimated value of output, intermediate consumption, value added and the compensation of employees in the manufacturing sector. Value of output rose by 8.1 per cent from 558.3 billion in 2006 to KSh 603.7 billion in 2007. Similarly, the value added rose by 6.1 per cent from KSh166.4 billion in 2006 to KSh 176.6 billion in 2007.

Table 11.1 Manufacturing Sector - Output, Compensation of employees and Value Added, at Current Prices, 2003 - 2007

KSh Million

YEAR	Value of Output	Intermediate Consumption	Value Added	Compensation of Employees
2003	384,256	274,371	109,885	42,703
2004	444,648	317,206	127,443	46,791
2005+	499,765	350,697	149,067	50,734
2006+	558,311	391,908	166,404	57,866
2007*	603,695	427,085	176,610	57,262

+ Revised

* Provisional.

Quantum Indices of Manufacturing Production

11.9. Table 11.2 presents the quantum index of manufacturing production for the period 2003 to 2007. The data indicates that the production of certain agricultural commodities had positive spillover effects on a number of agro-processing activities. This is reflected in the beverages and tobacco; and food processing industries which grew by 20.9 per cent and12.5 per cent respectively in 2007. Other sub-sectors recording growths were clothing, petroleum and other chemicals, production of rubber products, plastics, metal products, non-metallic minerals and transport equipments. Key declines on the other hand were registered in basic industrial chemicals, bakery products, electrical and non electrical machinery and miscellaneous manufacturing.

Table 11.2: Quantum Index of Manufacturing Production, 2003 - 2007, 1976 = 100

Industry	2003	2004	2005	2006	2007	Percentage Change 2007/2006
Meat &Dairy Products	89.8	104.8	118.7	125.3	153.4	22.4
Canned Veg Fruits,Fish,Oils&Fats	405.3	466.7	469.2	556.0	680.5	22.4
Grain Mill Products	177.7	193.3	231.2	253.6	246.9	-2.6
Bakery Products	284.3	185.1	202.6	212.8	204.6	-3.8
Sugar & Confectionery	218.9	250.9	237.7	232.4	251.3	8.1
Miscellaneous Foods	250.8	269.1	271.1	257.6	295.4	14.7
Food Manufacturing	211.1	233.5	235.6	239.0	268.9	12.5
Beverages	176.0	200.6	232.6	259.5	314.7	21.2
Tobacco	126.7	142.6	195.2	273.5	324.8	18.8
Beverages & Tobacco	170.3	193.8	229.2	263.8	319.0	20.9
Textiles	106.0	89.3	97.1	102.3	104.1	1.8
Clothing	188.1	187.3	269.4	379.1	396.6	4.6
Leather & Footwear	80.4	75.2	116.6	124.4	124.1	-0.2
Wood & Cork Products	51.2	40.5	39.2	39.2	39.5	1.0
Furniture and Fixtures	55.1	56.9	57.6	58.1	58.7	1.0
Paper and Paper Products	362.7	336.3	427.5	414.2	403.4	-2.6
Printing and Publishing	428.0	422.4	419.8	286.8	295.1	2.9
Basic Industrial Chemicals	145.8	150.1	123.1	108.8	78.2	-28.1
Petroleum and Other Chemicals	865.7	982.7	947.6	1027.0	1237.3	20.5
Rubber Products	712.8	707.3	760.3	682.3	895.3	31.2
Plastic Products	969.3	972.9	1270.5	1656.3	1674.8	1.1
Clay and Glass Products	1142.7	1172.9	1472.8	1836.1	1791.9	-2.4
Non Metallic Minerals	190.0	166.9	187.5	222.2	237.0	6.7
Metals Products	238.2	246.8	257.9	282.1	314.5	11.5
Non Electrical Machinery	87.1	87.1	87.9	90.0	83.0	-7.8
Electrical Machinery	216.8	259.0	268.8	245.5	180.2	-26.6
Transport Equipments	483.5	1109.6	975.7	1281.7	1309.9	2.2
Miscellaneous Manufactures	1148.2	1052.0	1058.6	1442.6	1412.7	-2.1
Total Manufacturing	290.6	310.0	334.1	353.5	381.5	7.9

11.10. The index for meat and dairy products industry grew by 22.4 per cent. The meat products sub-sector dropped by 10.0 per cent. Output of beef sausages and chicken went up by 21.3 and 12.5 per cent respectively. However, production of pork dropped by 11.2 per cent. Beef production dropped from 286.7 thousand tonnes in 2006 to 258.0 thousand tonnes in 2007. The dairy products sub-sector registered significant growth of 24.4 per cent. The dairy sub-sector boom experienced during the period posed output challenges with producer prices of raw milk going up by over 16.0 per cent during the review period. Output of milk processed grew significantly by 27.0 per cent from 228.3 million litres to 289.9 million litres in 2007. However, this was not enough to meet the local and export demand. Other products that registered increase were the production of baby foods and butter by 42.9 and 8.3 per cent respectively. However, production of cheese and ice cream dropped by 23.3 and 2.2 per cent respectively in 2007.

11.11. The canned vegetables, fruits, fish and oils and fats sector recorded substantial growth of 22.4 per cent with canned vegetables, fats and margarines and edible oils rising by 4.1, 24.5 and 32.3 per cent respectively. Production of

canned fruits and processed fish however, dropped by 2.1 and 22.6 per cent, respectively. Edible fats and margarines rose from 164,254 tonnes to 204,487 tonnes while edible oils rose from 91,512 thousand litres to 121,092 thousand litres during the review period. Canned fruits dropped from 239, 084 tonnes to 234, 047 tonnes while fish dropped from 11,425 tonnes in 2006 to 8,847 tonnes in 2007.

11.12. During the review period, the production in grain milling industry declined by 2.6 per cent. This is as a result of the drop in production of wheat flour, maize flour and rice as depicted in Table 11.3. Maize meal dropped by 10.9 per cent from 322.8 thousand tonnes in 2006 to 287.5 thousand tonnes in 2007 while wheat flour dropped by 4.6 per cent from 392.8 thousand tonnes in 2006 to 374.5 thousand tonnes in 2007. Rice produced dropped from 39.7 thousand tonnes in 2006 to 33.5 thousand tonnes in 2007.

Table 11.3: Production of Grain Milling Products, 2003 - 2007, ('000 Tonnes)

	COMMODITY		
YEAR	Sifted Maize meal	Wheat Flour	Rice
2003	192.7	332.5	22.5
2004	207.5	338.4	30.0
2005	283.1	363.3	39.5
2006	322.8	392.8	39.7
2007*	287.5	374.5	33.5

* Provisional

+ Revised

11.13. During the review period, production of bakery products dropped by 3.8 per cent. However, biscuits production rose by 26.2 per cent to 8,080.2 tonnes in 2007. Further,bread manufacture dropped by 8.5 per cent to 84,852.6 tonnes in 2007 while scones dropped from 40 tonnes to 36 tonnes. Cakes dropped from 1,172.0 tonnes in 2006 to 1,004.5 tonnes in 2007 reflecting a 14.3 per cent decline.

11.14. The sugar and confectionery industry recovered from a decline of 2.2 per cent in 2006 to register an 8.1 per cent growth in 2007. Sugar production increased to 520.0 thousand tonnes, a 9.3 per cent growth from the 475.7 thousand tonnes recorded in 2006. During the review period, the Government imposed a 110 per cent duty on imported sugar to cushion the local industry the competition from low-cost produced sugar. Production of chewing gum rose by 20.6 per cent while production of sweets and toffees dropped by 29.0 and 2.6 per cent, respectively in 2007.

11.15. The Miscellaneous foods industry registered a growth of 14.7 per cent in 2007. Tea production rose from 310.6 thousand tonnes in 2006 to 369.6 thousand tonnes in 2007. The sector experienced enhanced processing capacity in addition to commissioning of 3 new factories during the period. However, high cost of production made Kenyan tea less competitive. This mainly emanated from the high expenditures incurred on wage bills and energy costs. Other factors highlighted as affecting local tea production was the oversupply of tea in the global market, pushing prices of tea down. Roasted coffee on the other hand rose by 19.3 per cent while production of instant

coffee rose significantly by 51.8 per cent. Production of milled coffee on the other hand dropped by 25.7 per cent in 2007. Other products under miscellaneous foods category that registered growth include cocoa, Milo and salt production which rose by 2.9, 7.2 and 13.8 per cent, respectively.

11.16. Prepared animal feeds production rose by 25.6 per cent. Cattle feeds production went up from 61,098 tonnes in 2006 to 77,171 tonnes in 2007 while pig feeds rose by 32.5 per cent to 3,221 tonnes. Poultry feeds production increased by 26.1 per cent to 93,393 tonnes in 2007 from 74,076 tonnes registered in 2006.

11.17. The Beverages industry registered a marked growth of 21.2 per cent. This follows the tremendous increase in beer and soft drinks production and an increase in uptake of the same during the review period. Beer production increased significantly by 26.3 per cent while the soft drinks sector grew by 10.6 per cent rising from 304 million litres in 2006 to 336.3 million litres in 2007. Increased production in the soft drinks sub-sector can be partly attributed to expansion of plants and increased demand during the review period. Production of spirits dropped by 3.5 per cent in 2007. Provisional data indicate an upsurge in production of tobacco products. Manufacture of cigarettes rose by 18.9 per cent in 2007. Exports of tobacco products rose significantly by 25.1 per cent from 19,634 tonnes in 2006 to 24,555 tonnes in 2007.

11.18. Manufacture textile sub-sector went up by 1.8 per cent in 2007. Manufacture of cotton woven fabrics rose by 10.1 per cent from 8.4 million square metres to 9.3 million square metres. Made up textiles on the other hand rose by 11.2 per cent. Production of blankets went up by 4.2 per cent. During 2007, Rivatex Company reopened its doors after more than a decade of closure bringing hope for the revitalization of cotton industry. The key sector players are now focused towards more production of cotton which is a labour intensive industry and hence expected to create more jobs. Key challenges facing the sector that need to be overcome include poor economies of scale, obsolete technology, influx of cheap clothing from the Far East and lack of enough locally grown cotton lint and the AGOA (Africa Growth and Opportunity Act) continuity (though there has been an extension). Production of gunny bags and cardigans went up by 40.6 and 13.1 per cent, respectively, in 2007. The rope and twines manufacture dropped by 43 per cent.

11.19. Clothing industry went up by 4.6 per cent during the review period. Production of shirts went up by 45.5 per cent while uniforms and overalls declined by 14.4 per cent. Trousers on the other hand declined by 3.8 per cent over the same period.

11.20. Analysis of the leather and footwear products sub-sector indicated a decline of 0.2 per cent. Finished leather production grew by 10.8 per cent while unfinished leather increased by 2.0 per cent in 2007. The Government decision to raise tax on exports of raw leather has led to improved performance of tanneries. Leather shoes manufacture dropped by 3.0 per cent in 2007 after registering a growth of 8.5 per cent in year 2006. The sub-sector continued to experience competition from the second hand shoes and infiltration of cheap low quality imports.

11.21. Paper and paper products industry declined by 2.6 per cent in 2007. Paper manufacture alone dropped by 10.5 per cent while the paper products rose by 5.5 per cent over the same period. Production of wrapping papers, paper bags and sacks and corrugated paper containers increased by 7.0, 34.2 and 23.6 per cent respectively. Production of Kraft paperboard declined further in 2007 by 31.1 per cent from a decline of 43.9 per cent in 2006. Production of toilet papers also declined by 22.2 per cent.

11.22. Printing and publishing industry grew further by 2.9 per cent in 2007. Locally made paper went up by 13.4 per cent after registering a decline of 31.7 per cent in 2006. Newsprint went up by 2.9 per cent from 10,265 tonnes in 2006 to 10,563 tonnes in 2007 while Newsprint copies went up by 1.3 per cent from 122,703 thousand copies to 124,316 thousand copies.

11.23. Basic industrial chemicals industry dropped by over 28.1 per cent, an all time low in the last five years. Production of oxygen, nitrogen and hydrogen rose by 12.1 per cent, acetylene went up by 0.5 per cent while electrodes, and wattle extracts, dropped by 8.7 and 43.3 per cent respectively.

11.24. Increased construction activities have resulted in an upsurge in the paints segment which registered a marked growth in the review period. This was as a result of a growing demand for paint and paint products within the country and for export market. Paints manufacture increased to 19,367.9 thousand litres in 2007 from 16,334 thousand litres in 2006. Production of thinners increased significantly by 37.3 per cent to 973,034 litres in 2007. Production of varnishes and lacquers dropped by 12.3 per cent to 1,103.1 thousand litres from 1,253.3 thousand litres in 2006. Manufacture of drug tablets went up by 10.6 per cent. Production of pharmaceuticals more than doubled during the review period while drug liquids drastically dropped by 32.1 per cent.

11.25. The perfumes and toiletries sub-sector has been on the rising trend. During the review period, this sub-sector registered a marked growth of 34.1 per cent. Laundry soap rose to 124,628 tonnes from 111,726 tonnes produced in 2006. Washing soap production increased from 12,162 tonnes in 2006 to 15,421 tonnes in 2007 while detergent powder manufacture went up by 21.5 per cent to 52,116 tonnes in 2007. Production of cosmetics rose significantly by 52.6 per cent. Production of toothpaste declined by 18.9 per cent in 2007.

11.26. The miscellaneous chemicals sub-sector registered a further growth of 5.6 per cent in 2006 after growing significantly by 18.7 per cent in 2006. The production of shoe polish, a key product within this category registered a growth of 8.4 per cent from 1,620 tonnes in 2006 to 1,756.8 tonnes in 2007. Production of safety matches rose from 79,846 thousand boxes to 88,685 thousand boxes while resin emulsion production declined by 10.7 per cent. In the petroleum products sub-sector, growth was registered in the production of LPG , motor spirits , gas oil and bitumen by 9.0, 15.8, 23.9 and 33.3 per cent respectively.

11.27. Production of rubber products registered a significant growth of 31.2 per cent during the review period. Output of new motor vehicle tyres rose by

1.5 per cent while tubes went up by 22.4 per cent. Production of rubber shoes more than doubled during the review period. A significant drop of 31.9 per cent was however noted in the production of rubber soles.

11.28. Plastic products went up by a paltry 1.1 per cent. During the 2007/2008 budget speech, the Government imposed a 120 per cent increase in excise duty to curb the use of the plastic paper bags. Manufacturers were also expected to increase the bag thickness which increased the costs of production of the bags. Plastic shoes manufacture on the other hand rose by 74.7 per cent while polythene film bags went up by 47.7 per cent in 2007. Production of plastic bottles declined marginally by 0.7 per cent from 5,186 tonnes produced in 2006 to 5,150 tonnes in 2007.

11.29. The clay and glass products industry dropped by 2.4 per cent. Glass bottles manufacture went up from 46,723 tonnes in 2006 to 53,583 tonnes in 2007. Floor and wall tiles also increased from 2,312.2 thousand pieces to 2,510.6 thousand pieces over the same period.

11.30. Increased activities in the building and construction sector resulted in increased output of the non-metallic industry. The sector grew by 6.7 per cent during the year under review. Production of roofing tiles went up by 2,295 thousand tiles to 10,056 tiles in 2007 while production of steel wool dropped significantly by 32.7 per cent in the review period.

11.31. Production of cement as depicted in Table 11.4 increased by 8.7 per cent from 2,405.9 thousand tonnes in 2006 to 2,615.1 thousand tonnes in 2007 boosted by a growing demand for cement locally and regionally. The local demand increased faster than expected mainly due to expansion of building and construction sub sector, rehabilitation and construction of roads and the prevailing strong export market demand. Exports to East African region grew substantially by 26.6 per cent in 2007. However higher electricity tarriffs and higher use of purchased clinker, the raw material for making cement were some of the key challenges facing the cement manufacturing activity.

Table 11.4: Cement Production and Utilisation, 2003 - 2007 ('000) Tonnes

YEAR	PRODUCTION	IMPORTS	CONSUMPTION AND STOCKS	EXPORT TO	
				Uganda and Tanzania	All Other Countries
2003	1,649.4	9.1	1,273.7	231.1	153.7
2004	1,873.3	3.7	1,478.7	249.8	148.5
2005	2,123.3	9.8	1,675.9	337.4	119.8
2006+	2,405.9	3.8	1,765.8	406.1	237.8
2007*	2,615.1	42.5	2,059.5	514.0	84.1

* Provisional.

+ Revised

11.32. Metal products industry registered a growth of 11.5 per cent on account of its forward linkage to the construction sector and also the engineering activities. During the review period, production of galvanized sheets, iron bars and rods and nails went up by 6.7, 17.6 and 20.3 per cent, respectively. Production of galvanized sheets reached 188,584 tonnes in 2007 from 176,795 tonnes in 2006. On the other hand, production of gas cylinders dropped from 13,614 in 2006 to 8,715 in 2007.

11.33. Electrical machinery industry dropped by 26.6 per cent in 2007. Output of dry cell batteries dropped by 15.6 per cent from 129,500 thousand numbers to 109,311 thousand. This reduction was occasioned by increased cost of production, increased competition from cheap imports and dumping of transit batteries. However, there was a reduction in the prices of the main raw materials for making the dry cells as well as a number of restructuring processes undertaken by the firms to cut costs. Production of motor vehicle batteries (accumulators) dropped by 2.2 per cent from 396,413 units to 387,702 units during the review period. Imports of lead acid accumulators rose by over 40 per cent in 2007 from 231,622 units in 2006 to 325,866 units in 2007.

11.34. The output in transport equipments industry rose by 2.2 per cent. Assembling of motor vehicles rose substantially by 24.7 per cent from 5,380 units in 2006 to 6,710 units in 2007. Production of coach and bus bodies increased by 12.2 per cent. Lorry bodies and trailers manufacture dropped significantly in the same period.

11.35. Miscellaneous manufacture industry went down by 2.1 per cent after registering substantial growth in 2006. Production of ball point pens and mattresses increased by 2.6 and 19.5 per cent respectively. Production of household brushes, industrial and paint brushes and illuminated signs dropped by various margins.

Labour Productivity

11.36. Indicators of labour productivity are as shown in Table 11.5. Quantum index moved from 6.7 in 2006 to 7.9 per cent in 2007. Employment continued on an upward trend but a slower growth for the third year running as depicted by change in employment of 2.3 per cent. Compensation of employees as a percentage of gross output rose by 9.5 per cent while compensation of employees as a percentage of value added increased by 32.4 per cent.

Table 11.5: Indicators of Labour Productivity in Manufacturing, 2003 - 2007

INDICATOR	2003	2004	2005	2006	2007*
Change in the quantum index of manufacturing	4.9	4.1	5.5	6.7	7.9
Change in numbers employed in manufacturing**	4.7	0.9	2.3	3.3	2.3
Implicit change in labour productivity	0.2	3.2	3.2	3.4	2.9
Compensation of employees as percentage of gross output	11.1	10.5	10.2	10.4	9.5
Compensation of employees as percentage of Value added	38.9	36.7	34.0	34.8	32.4

* Provisional.

** Modern sector employment

Industrial Credit

11.37. Despite high competition from low-priced manufactured imports and the high costs of doing business, credit for manufacturing activities has been on an upward trend as depicted in Table 11.6. This is partly attributed to the high investor confidence and easing of legislation bottlenecks in the sector. Local capital costs on manufacturing projects approved by Kenya Investment Authority indicate an increase of KSh3.5 billion in 2006 to KSh 5.1 billion in 2007. The projects span from manufacture of motor vehicle bodies, garments, cement, furniture, sugar and the food products. Industrial credit is being diversified to cater for other economic activities like the services sector such as floriculture, hotels, transport, energy and real estate development. From Table 11.6, a total of 111 projects worth KSh 2,120.7 million were approved during the review period.

Table 11.6: Industrial Projects Approved By Selected Government or Quasi-Government, 2003-2007

	Number of Projects					Approved Expenditure(KSh Million)				
INSTITUTION	2003	2004	2005	2006	2007*	2003	2004	2005	2006	2007*
Industrial Development Bank Limited (I.D.B Capital.)	3	4	0	1	1	45.0	98.0	0.0	37.4	20.0
Development Bank of Kenya (DBK)**	8	13	20	32	39	588.0	525.0	892.0	959.6	1,800.0
Kenya Industrial Estates Limited (K.I.E.)	33	80	117	83	69	5.0	18.0	29.8	33.5	20.7
Industrial and Commercial Development Corporation (I.C.D.C.)	0	4	0	1	2	0.0	2.0	0.0	1.2	280.0
TOTAL	44	101	137	117	111	638.0	643.0	921.8	1031.7	2,120.7

* Provisional

**Expenditure includes energy, real estate, hotel, education, health, cut flowers, tea, road transport, vehicle dealership & manufacture of textiles

11.38. Industrial Development Bank (IDB). During the review period, IDB approved only one project involved in manufacturing, costing KSh 20 Million. The loan was mainly for expansion purposes with an expected additional employment of 12 people. Funds for short term to medium term lending were from own internally generated funds. There were no lines of credit for long-term lending.

11.39. Development Bank of Kenya (DBK). During the year 2007, DBK experienced increase in demand for loans and advances attributable to the recovery of the economy coupled with increase in investor confidence. The bank approved term loans and short term advances of KSh1.8 billion and KSh 406 million in letters of credit respectively. This covered 39 major projects cutting

across manufacture of textile accessories among others. The demand was relatively higher compared to 2006 when approved term loans and short term advances totalled to KSh 959.6 million.

11.40. Kenya Industrial Estates (KIE). In the year 2006/7, 69 projects worth 20.7 million out of a total of 170 projects worth KSh 55.8 million were approved and disbursed for industrial activities. The amount approved was lower compared to the approvals in the previous period which were worth KSh 33.5 million for 83 projects. Employment opportunities created dropped from 261 to 199 in 2006/7. Over the review period, the Youth Enterprise Development Fund became operational. These funds are loaned to the youth to create income generating activities and employment. Disbursements for the period totalled KSh 94.9 million benefiting 450 projects and creating a total of 957 employment opportunities (35.6 per cent females and 64.4 per cent males). Out of these, projects geared towards manufacturing activities totalled 83 with a funding of KSh19.98 million and employing 187 youths.

11.41. Industrial & Commercial Development Corporation (ICDC). The Corporation's investment and lending activities to manufacturing industry during the period 2007/8 reporting period went up to KSh 280 million. This was largely because of the favourable investment climate prevailing in the review period. The funds were mainly for expansion of the production lines by one of the soft drinks manufacturers.

11.42. The EPZ program showed mixed performance in year 2007 as shown in Table 11.7. The program faced a myriad of challenges ranging from market competition, high costs of production, change of policy (upfront payments of duties on petroleum products), reduced investment promotion and increased cost of work permit fees among others. These challenges continue to act as disincentives to growth of the program.

11.43. The number of gazetted zones rose from 39 in 2006 to 41 in 2007, 2 public and 39 privately owned. Cumulative capital investment stood at KSh 19,103 million from KSh 20,320 million in 2006, representing a marginal decline of 6.0 per cent. In terms of employment, direct local employment contracted by 6.3 per cent to 34,452 in 2007. The bulk of employment was generated by the garment/apparel enterprises at 28,006 persons accounting for 81.3 per cent of the total employment.

11.44. Expenditures on local employees, settlement of bills for utilities consumed among other domestic expenditure and which constitute a net benefit to the national economy declined by 1.1 per cent to KSh 9,069 million in 2007. This marginal decline is attributed to the high cost of local goods and services attributed partly to the strengthening of the Kenya shilling against the dollar during the review period. In terms of ownership, 16.7 per cent of the total enterprises were wholly Kenya, joint ventures accounted for 29.2 per cent while foreign owned investments constituted 54.2 per cent in 2007.

Table 11.7: Selected EPZ performance Indicators 2003-2007

	2003	2004	2005	2006	2007*
Gazetted Zones (Numbers)	37	41	43	39	41
Enterprises Operating (Numbers)	66	74	68	71	72
Employment - Locals	38,199	37,723	38,051	36,767	34,452
(Numbers) - Expatriates	912	837	800	649	511
Total Workers	39,111	38,560	38,851	37,416	34,963
Export Sales (KSh Million)	13,812	23,047	20,036	22,893	27,308
Domestic Sales (KSh Million)	619	651	3,160	1,403	1,431
Total Sales (KSh) Million	14,817	24,211	23,774	25,352	29,320
Foreign Imports (KSh Million)	9,920	13,029	12,497	12,674	17,263
Local Purchases of Goods and Services (KSh Million)	1,176	1,893	2,388	3,253	3,450
Investment (KSh Million)	16,716	17,012	18,682	20,320	19,103

Source: Export Processing Zones (EPZ)

* Provisional

11.45 AGOA initiative has been to increase exports, especially manufactured apparels, from accredited Sub-Saharan Africa (SSA) by accessing the USA market, while enjoying duty and quota free access but meeting certain eligibility conditions. Apart from the quantity of apparel exports (in million pieces) that recorded increases from 46.3 million pieces to 59.6 million pieces, all the other indicators as shown in Table 11.8 registered varying declines in 2007. Direct employment contracted by 12.0 per cent emanating from some firms scaling down their operations and others closing down. Exports to USA decreased by 6.8 per cent. This is partly explained by some garment enterprises diversifying to other markets like Europe, Middle East and Canada. The new markets were a destination of KSh 32.8 million worth of apparel compared to KSh 10.7 million in year 2006.

Table 11.8: Impact of AGOA on EPZ Garment / Apparel sector: 2003-2007

	2003	2004	2005	2006	2007*	% Growth
Number of Enterprises	35	30	25	25	22	-12.0
Employment	36,348	34,614	34,234	31,813	28,006	-12.0
Capital Investment (KSh Million)	9,710	8,595	9,983	10,317	8,314	-19.4
Exports (KSh Million)	11,083	17,575	14,688	14,774	13,768	-6.8

Source: EPZ

*Provisional

Chapter 12
Building and Construction

Overview

Infrastructure development is essential for sustainable economic and social development. In 2007, the building and construction sector's key economic indicators improved as evidenced from several on-going infrastructure projects. The sector grew by 6.9 per cent in 2007 from 6.3 per cent in the previous year. Disbursement of funds by Kenya Roads Board to various roads agencies went up by 49.5 per cent to KSh 15.4 billion in 2007. As a result, the index of Government expenditure on roads increased by 67.9 percentage points to 269.0 in 2007. Loans and advances from commercial banks to the sector increased by 4.6 per cent from KSh 30.2 billion in 2006 to KSh 31.6 billion in 2007. Cement consumption went up by 16.7 per cent to 2,061.4 thousand tonnes in 2007 from 1,765.8 thousand tonnes in 2006. The total value of reported private building works completed in selected main towns went up significantly to KSh 11.0 billion in 2007 compared to KSh 2.8 billion in 2006. The total estimated cost of reported new private buildings completed increased significantly to KSh 5.9 billion in 2007 from KSh 2.7 billion in 2006. Total wage employment in the sector stood at 81,799 persons in 2007, an increase of 2.4 per cent from the previous year.

Key Economic Indicators

12.2. Trends of selected key economic indicators in building and construction are presented in Table 12.1. Cement consumption, a major indicator in the sector, went up by 16.7 per cent in 2007 to 2,061.4 thousand tonnes. The index of reported private building works completed in main towns increased significantly to 111.8 in 2006 from 36.0 in 2005. The index of reported public building works completed in main towns increased to 3.4 in 2006 and that of Government expenditure on roads increased to 269.0 in 2007.

Table 12.1: Trends of the Selected Key Economic Indicators in Building and Construction[1], 2003-2007

1982=100

	2003	2004	2005	2006	2007*
"Index" of reported private building Work completed in main towns**	27.9	33.0	36.0	111.8	-
"Index" of reported public building work completed in main towns**	0.6	1.9	3.3	3.4	-
"Index" of government expenditure on roads	71.7	100.6	62.6	201.1	269.0
Cement consumption ('000 tonnes)	1,267.3	1,418.3	1,572.5	1,765.8	2,061.4
"Index" of Cement consumption	218.7	244.8	271.4	304.8	355.8
Employment ('000)	76.6	77.3	78.2	79.9	81.8
"Index" of Employment	126.8	128.0	129.5	132.3	135.4

* Provisional

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

[1] Actual deflated by various building or construction costs indices.

12.3. Total wage employment in building and construction sector increased by 2.4 per cent from 79,893 persons in 2006 to 81,799 persons in 2007. This was on account of a 5.8 per cent increase in private sector employment that rose to 61,235 persons in 2007. However, employment in the public sector contracted by 6.6 per cent from 22,015 persons in 2006 to 20,564 persons in 2007.

12.4. Annual percentage change in building and construction cost indices for the period 2005 to 2007 is shown in Table 12.2. The overall cost index of all materials increased by 6.6 per cent in 2007 compared to 8.6 per cent in 2006. The total cost indices of materials for residential and non-residential buildings registered decelerated growths of 8.0 and 6.9 per cent respectively in 2007 compared with growths of 8.9 and 8.0 per cent respectively in 2006. The cost indices of materials for all buildings and other construction registered growths of 7.5 and 4.4 per cent respectively in 2007. The total cost indices for residential and non- residential buildings registered growths of 7.8 and 6.9 per cent respectively in 2007 compared to growths of 8.9 and 8.3 per cent in 2006. The total cost index for other construction increased at a decelerated rate of 5.5 per cent in 2007 compared to 9.0 in 2006.

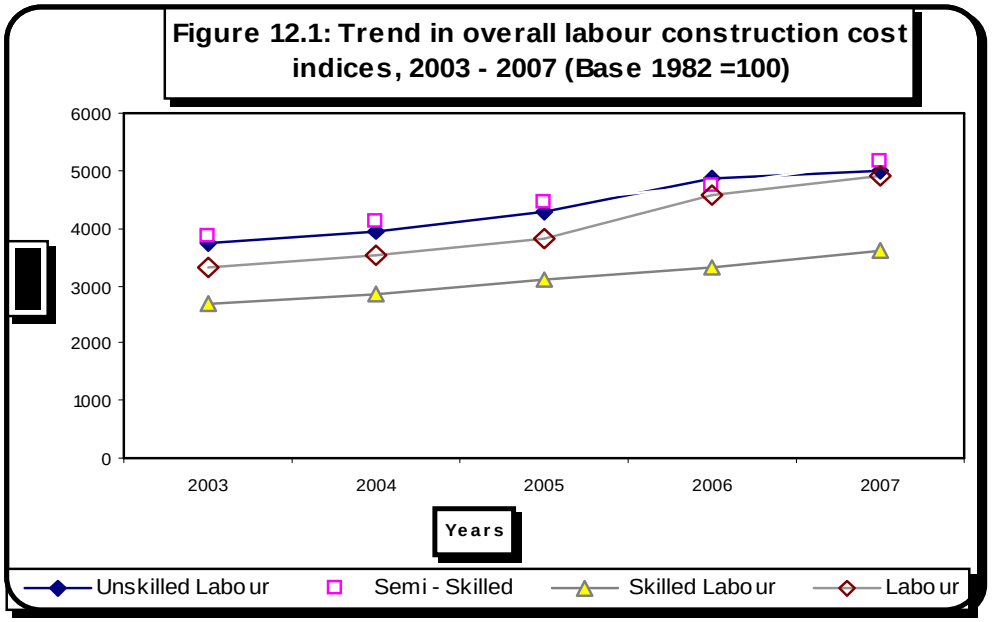
Table 12.2: Annual Percentage Change in Building and Construction Cost Indices[1], 2005 - 2007

	Materials			Labour			Total Cost		
	2005	2006	2007*	2005	2006	2007*	2005	2006	2007*
Residential Buildings..	2.7	8.9	8.0	8.4	9.1	6.8	3.9	8.9	7.8
Non-Residential Buildings	1.5	8.0	6.9	8.4	9.1	6.8	3.3	8.3	6.9
All Buildings ...	2.1	8.5	7.5	8.4	9.1	6.8	3.6	8.6	5.3
"Other" Construction..	6.0	9.0	4.4	8.4	9.1	6.8	7.1	9.0	5.5
Overall Cost Index	2.9	8.6	6.6	8.4	9.1	6.8	4.6	8.8	6.7

* Provisional

[1] From December to December.

12.5. Overall labour construction cost indices for the last five years have been on an upward trend as depicted in Figure 12.1. Total labour costs in the sector registered a slower growth of 6.8 per cent in 2007 compared to 9.1 per cent in the previous year. Wages of unskilled, semi-skilled and skilled labour went up by 2.1, 8.9 and 8.6 per cent respectively in 2007 compared to increases of 14.0, 7.0 and 7.3 per cent respectively in 2006.



12.6. The overall value of building plans approved rose significantly to KSh 67,087.8 million in 2007 as shown in Table 12.3. This was occasioned by a three fold increase in the value of buildings approved by Nairobi City Council (NCC). The value of building plans approved by other towns grew by 25.9 per cent to KSh 7,322.7 million in 2007 from KSh 5,816.7 million in 2006.

Table 12.3: Value of Building Plans Approved by Nairobi and Other Towns, 2003-2007

KSh million

Year	Nairobi	Other Towns	Total
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
2007*	59,765.12	7,322.66	67,087.78

Source: Local Authorities

* Provisional

12.7. The total value of reported private building works completed in selected main towns went up by almost four times to KSh 10,969.2 million in 2007 from KSh 2,817.8 million in 2006 as shown in Table 12.4. Nairobi and Mombasa towns registered significant increases in the values of reported private building works completed in the year under review. However, the value of reported private building works completed in Kisumu town declined by 12.8 per cent.

Table 12.4: Value of Reported Private Building[1] Works Completed in Selected Main Towns, 2003 - 2007

KSh million

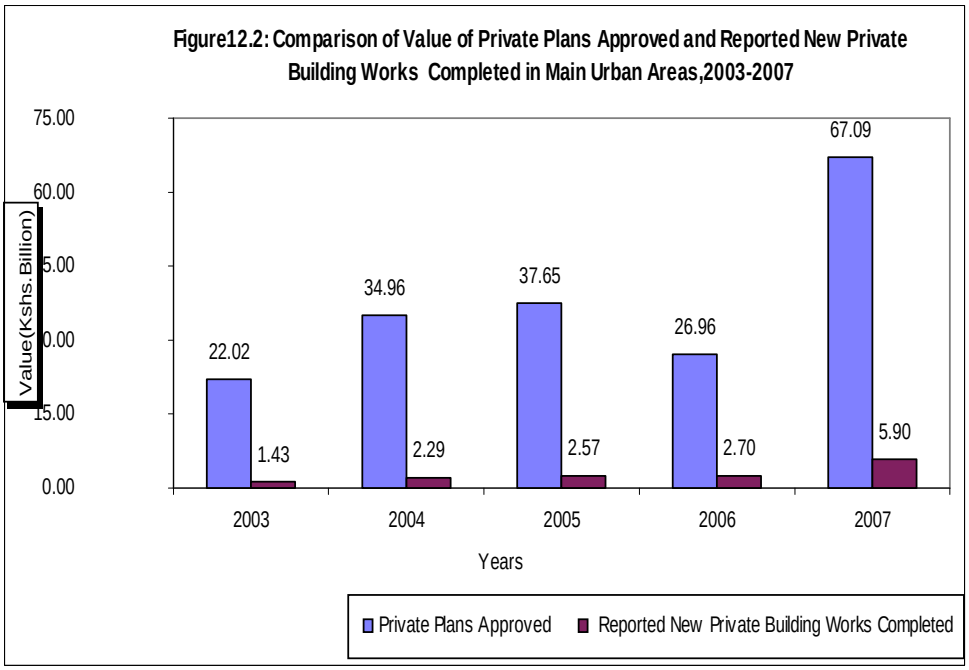
Year	Nairobi	Mombasa	Kisumu	Nakuru	Malindi	Total
2003	1,126.47	159.16	37.79	117.20	108.48	1,549.10
2004	2,003.32	162.70	40.36	120.16	106.45	2,432.99
2005	2,241.72	165.10	45.70	125.20	109.50	2,687.22
2006	2,317.55	170.90	60.20	145.60	123.58	2,817.83
2007*	9,786.69	831.00	52.50	166.32	132.64	10,969.15

Source: Local Authorities

* Provisional

[1] Including the value of extension.

12.8. Figure 12.2 shows comparison of values of private plans approved and private building works completed in main urban areas from 2003 to 2007. The total value of private plans approved increased significantly to KSh 67.1 billion in 2007 from KSh 27.0 billion in 2006. The total value of private building works completed in main urban areas increased significantly to KSh 5.9 billion in 2007 compared to the previous year.



12.9. Reported completion of new private buildings in selected main towns from 2003 to 2007 is shown in Table 12.5. The number of residential units increased to 2,350 in 2007 from 1,903 in 2006. The number of non-residential units increased to 52 in 2007 from 31 in 2006. The estimated cost of non-residential units more than doubled to KSh 1,124.8 million in 2007 from KSh 457.5 million in 2006. The estimated cost of residential units also went up significantly to KSh 4,773.3 million in 2007 from KSh 2,241.2 million in 2006. Overall total estimated cost increased to KSh 5,898.1 million in 2007 from KSh 2,698.7 million in 2006.

Table 12.5: Reported Completions of New Private Buildings[1] in Selected Main Towns, 2003 - 2007

Year	Number		Estimated Cost (KSh million)		
	Residential	Non-Residential	Residential	Non-Residential	Total
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
2007*	2,350	52	4,773.27	1,124.84	5,898.11

Source: Local Authorities

* Provisional

[1] Excluding the value of extensions.

12.10. Table 12.6 presents reported new public buildings completed in selected main towns from 2003 to 2007. The number of new residential buildings completed increased significantly to 309 in 2007 from 20 recorded in 2006. The number of non-residential buildings dropped to 5 in 2007 from 13 registered in 2006. The estimated cost of residential buildings increased significantly to KSh 507.7 million in 2007 from KSh 30.0 million in 2006. The total estimated cost of reported completions of new public buildings registered a ten fold increase to KSh 509.7 million in 2007 compared to KSh 50.6 million in 2006.

Table 12.6: Reported Completions of New Public Buildings[1] in Selected Main Towns, 2003 - 2007

Year	Number		Estimated Cost (KSh Million)		
	Residential	Non-Residential	Residential	Non-Residential	Total
2003	30	0	49.94	-	49.94
2004	15	5	20.60	9.32	29.92
2005	360	31	410.80	33.26	444.10
2006	20	13	30.00	20.55	50.55
2007*	309	5	507.72	1.99	509.71

Source: Local Authorities

* Provisional

[1] Including the value of extensions.

Housing

12.11. The housing sector performed well in the year under review with the public sector constructing several houses worth more than KSh 1.6 billion through the Civil Servants Housing Scheme Fund and National Housing Corporation.

12.12. The National Housing Corporation (NHC) continues to endeavour to achieve its mandate of providing and facilitating access to decent and affordable shelter to Kenyans. The NHC completed two housing projects in 2007 at a total cost of KSh 473.8 million. These consisted of 230 units of tenant purchase flats in Langata phase I, Nairobi at a cost of KSh 462.8 million and tenant purchase bungalows in Mamboleo, Kisumu at a cost of KSh 11.0 million. A total of 394 units estimated to cost KSh 1,059.9 million were under construction as at 31st December 2007 and are spread across the country. These consist of 310 units of mortgage flats in Langata phase II, 16 units of rental flats in Woodley infill, 24 units of rental flats in Sadi Road infill and 6 units of mortgage

mansionettes in Dam infill all in Nairobi. In addition, 38 units of mortgage mansionettes were under construction in Kiambu, Kiambu phase III. Other housing schemes at an advanced planning stage consist of 11 projects estimated to have 1,865 units and are approximated to cost KSh 3.9 billion. Fourteen beneficiaries in both urban and peri-urban areas were advanced Rural Housing Loans worth KSh 54.0 million in the financial year 2006/07.

12.13. In 2006/07 actual expenditure on housing went up significantly to KSh 1,969.9 million as presented in Table 12.7. Approved expenditure on housing increased by 8.2 per cent to KSh 2,154.9 million in 2007/08. Approved expenditure as a percentage of development expenditure increased to 0.99 per cent in 2006/07.

Table 12.7: Approved and Actual[1] Central Government Expenditure on Housing, 2003/04 - 2007/08

Year	Expenditure in KSh Million		Approved Expenditure as Percentage of Development Expenditure
	Approved	Actual	
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	1,992.10	1,969.89	0.99
2007/08*	2,154.87		

Source: Ministry of Housing

* Provisional

[1] Actual has a lag of one year.

12.14. Development of houses for sale to civil servants through the Civil Servants Housing Scheme Fund are under various stages of construction. These include projects at Ngara Phase I, Jogoo Road, Upper Hill, Kileleshwa and Kilimani with an estimated total cost of KSh 696.8 million.

Roads

12.15. The roads sector is being reformed so as to enhance efficiency and productivity as evidenced by the Roads Act 2007. As a result three autonomous bodies that will oversee implementation of road works in the country were to be established. These bodies are; the Kenya National Highways Authority (KENHA) responsible for class A, B and C roads, the Kenya Rural Roads Authority (KERRA) responsible for maintenance of rural roads and roads in class D, E and non-classified roads, and the Kenya Urban Roads Authority (KURA) will be responsible for development and maintenance of urban roads. The Road Inventory and Condition survey for Classified Road network completed in 2004 generated, among others, digital maps, inventory and condition data for classified roads.

12.16. Kilometres of road as at 1st July 2003 and 1st July 2007 by type and classification are depicted in Table 12.8. International trunk roads under earth/ gravel decreased by 15.6 per cent to 0.81 thousand kilometres in 2007 from 0.96 thousand kilometres in 2003 as those under bitumen increased by 6.0

per cent to 2.81 thousand kilometres in 2007. National trunk roads under earth/ gravel went down by 14.6 per cent to 1.17 thousand kilometres in 2007 from 1.37 thousand kilometres in 2003. National trunk roads under bitumen increased by 16.9 per cent to 1.52 thousand kilometres in 2007 from 1.30 thousand kilometres in 2003. Primary roads under bitumen increased by 8.2 per cent to register 2.77 thousand kilometres in 2007. Earth/gravel primary roads registered a decrease of 4.4 per cent to 5.23 thousand kilometres in 2007 from 5.47 thousand kilometres in 2003. Minor roads under bitumen and earth/gravel went down by 14.7 and 0.2 per cent respectively.

Table 12.8: Kilometres of Road as at 1st July, 2003 and 1st July, 2007 by Type and Classification.

'000Km

Type of Road		2003		2007*	
		Bitumen	Earth/Gravel	Bitumen	Earth/ Gravel
A-	International Trunk..	2.65	0.96	2.81	0.81
B-	National Trunk.. ..	1.30	1.37	1.52	1.17
C-	Primary	2.56	5.47	2.77	5.23
D-	Secondary	1.18	10.16	1.26	9.79
E-	Minor	0.75	26.30	0.64	26.26
F-	Special Purpose[1]	0.22	11.00	0.14	11.18
	TOTAL	8.66	55.26	9.14	54.44

Source: Ministry of Roads & Public Works

* Provisional

[1] Special purpose roads include Government access, settlement, rural access, sugar, tea and wheat roads

12.17. In 2006/07, the Roads Department spent a total of KSh 6.95 billion on 65 projects which were at various stages of implementation. A total of 361 km of roads were graveled at a cost of KSh 1.04 billion. In addition, 290.6 km of bitumen roads were rehabilitated and pavements reconstructed at a cost of KSh 4.26 billion. Another 113.2 km of bitumen roads were resealed or recarpeted at a cost of KSh1.43 billion. The scope of the resealing works mainly covered pothole repair and the application of a bituminous seal. The major roads that were rehabilitated in 2006/07 were Muranga-Sagana-Marua road (55 Km), Makutano-Embu (46 km), Embu-Thuchi (32 km), Ena-Ishiara-Meru (30km), Maji ya Chumvi- Miritini (35 km), Wote-Makindu (66 km), Mai Mahiu- Naivasha-lanet (94 km), Mai Mahiu-Narok (90 km), Thuci-Nkubu (36 km), Machakos Turnoff-Masii (78 km), Thika-Gatanga-Gatura/Gatanga-Ndakaini (53 km) and Embu-Mutunduri-Kianjakoma (17.5 km). Major roads that were constructed are Kitui-Kangonde (45 km), Keroka-Nyangusu road (57 km), Bumala-Ruambwa/Nabengele-Port Victoria (48.2 km), Ruiri-Isiolo-Muriri (52 km), Kipsigak-Serem-Shamakhokho (53.5 km), Kisii-Kilgoris (74 km), Iten-Kapsowar-Chesoi (71 km), Ndundori-Olkalou-Njabini (100.3 km), Garissa-Modogashe-Wajir (20 km), Farm-Kawiro-Mutwate-Kachilu (31 km), Ndori-Owimbi (23 km), Owimbi-Luanda Kotieno (24 km), Thogoto-Gikambura-Mutarakwa (32 km), Rukenya-Forest Rangers Post (20.5 km), St. Mary-Nyakahura-Kiamara-Muringato-Irima (30 km), Kabati-Kagunduini-Kariua-Mareira (47 km) and Thika-Gacharage-Githumu-Kangare (40 km).

12.18. Analysis of total expenditure on roads under the Ministry of Roads and Public Works (MOR&PW) for the financial years 2003/04 to 2007/08 is shown in Table 12.9. Trunk roads development expenditure is expected to rise significantly to KSh 21,849.1 million in 2007/08 mainly because of the rehabilitation and construction of several class A and B roads spread across the country. Similarly, development expenditure on primary roads is expected to double to KSh 10,510.9 million. Recurrent expenditure on maintenance and repair is expected to increase by 7.6 per cent from KSh 10,905.5 million in 2006/07 to KSh 11,730.0 million in 2007/08. The grand total expenditure on roads is expected to rise to KSh 51,815.7 million in 2007/08.

Table 12.9: Total Expenditure on Roads, 2003/04 - 2007/08

KSh Million

	2003/04	2004/05	2005/06	2006/07	2007/08*
Development:					
Trunk Roads	2,406.00	5,946.50	2,406.00	14,472.91	21,849.08
Primary Roads	1,260.50	3,059.00	1,260.50	5,377.68	10,510.93
Secondary Roads	320.68	333.00	320.68	1,546.85	3,813.70
Miscellaneous Roads.. ..	353.51	378.00	353.51	2,958.32	3,912.00
Total	4,340.69	9,716.50	4,340.69	24,355.77	40,085.72
Recurrent (maintenance and repair)	6,005.17	6,122.00	6,122.00	10,905.46	11,730.00
Total	10,345.86	15,816.50	10,462.69	35,261.23	51,815.72

Source: Ministry of Roads & Public Works

* Provisional

12.19. Various Development Partner support for road improvements and capacity building for 43 districts in Kenya has been secured under the Roads 2000 programme. Support to districts in Western Kenya is under negotiation. In 2007/08 atotal of KSh 2.5 billion was set aside for utilization over a period of three years.

12.20. Disbursement of funds by Kenya Roads Board (KRB) from Roads Maintenance Levy Funds (RMLF) to various road agencies increased by 49.5 per cent to KSh 15.4 billion in 2006/07. The funds were disbursed as follows; Roads Department (MR&PW) received KSh 8,922.1 million, the District Roads Committees which cater for Class D and E roads, urban centres and local authorities roads, district roads and roads in game reserves received KSh 3,770.2 million. Roads within constituencies received a total of KSh 2,413.0 million.

Chapter 13

Tourism

Overview

The tourism sector continued to perform impressively on account of increased air travel capacity combined with diversification and improvement of Kenya's range of marketable products in 2007. The country earned an estimated KSh 65.4 billion in 2007, representing a 16.4 per cent increase over the KSh 56.2 billion earned in 2006. This made tourism not only a socio-economic driver but one of the largest categories of international trade. This was in part as a result of 23.6 per cent expansion in foreign travel earnings from KSh 49.6 billion in 2006 to KSh 61.3 billion in 2007. The volume of international arrivals grew by 13.5 per cent from 1,600.6 thousand recorded in 2006 to 1,816.8 thousand in 2007. This was attributed to continued aggressive marketing in the traditional markets and in the Far East. The improvement was also supported by the growing conference tourism and the launch of new tourism circuits as value addition to compliment the traditional products of beach and wildlife. According to the country's new policy blue print 'Vision 2030', tourism was identified as a leading sector in moving the economy forward at an accelerated rate. This is to be realised by turning the country into one of the leading long haul tourist destinations, creating new high value niche products and investing in new conference facilities.

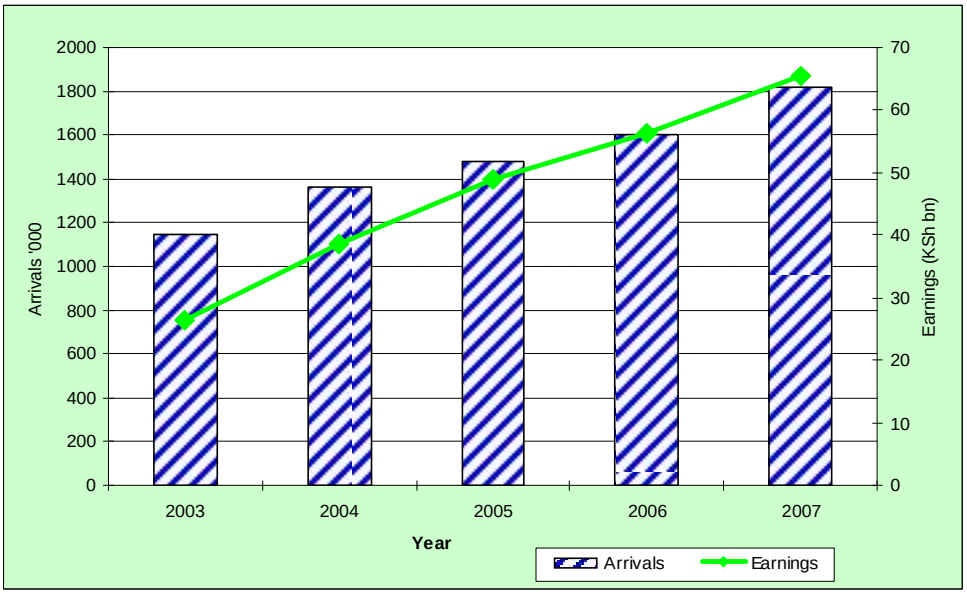
13.2. The number of bed-nights occupied went up by 17.2 per cent from 5,921.7 thousand in 2006 to 6,939.2 thousand in 2007. Visitors to Game Parks and Reserves increased by 4.2 per cent from 2,363.8 thousand in 2006 to 2,462.9 thousand in 2007. This was on account of continued branding of parks and promotions in major international tourism fairs. The number of visitors to Museums, Snake Park and other sites expanded considerably by 6.9 per cent from 559.8 thousand in 2006 to 598.4 thousand in 2007.

13.3. The steady rise in economic growth that the country has witnessed in the recent past continued to boost activities in the conference industry in 2007. The number of international conferences held increased by 12.0 per cent from 209 in 2006 to 234 during the review period. Similarly, local conferences witnessed a remarkable expansion of 19.2 per cent in 2007.

Arrivals and Departures

13.4. The number of international arrivals to the country grew by 13.5 per cent from 1,600.6 thousand recorded in 2006 to 1,816.8 thousand in 2007 as shown in Table 13.1. This was as a result of continued product development and diversification of tourism coupled with a growth in the number of conferences held. This was achieved through aggressive marketing, opening up of new tourism circuits and the introduction of long haul carriers. The growth was also supported by conference and sports tourism that are emerging as major contributors to the performance of the sector. Over the last five years the country witnessed a gradual rise in both the number of international arrivals and tourism earnings. Figure 13.1 depicts the trend in international arrivals and tourism earnings for the last five years.

Figure 13.1: Trends in Visitor Arrivals and Tourism Earnings, 2003 - 2007



13.5. Analysis of visitor arrivals in Table 13.1 reveals that the first three quarters of 2007 registered impressive growths compared to similar periods in 2006. Visitor arrivals during the first quarter of 2007 increased by 12.5 per cent to 474.6 thousand from 421.7 thousand in 2006. This was mainly attributed to substantial increases of visitors on holiday, business and those classified as "Other" mainly comprising of persons coming to Visit Friends and Relatives (VFR). Visitor arrivals in the second and third quarter improved by 21.3 per cent and 17.9 per cent respectively on account of holiday makers. During the third quarter, visitors on holiday grew significantly by 31.6 per cent mainly supported by inspiring arrivals from UK, Scandinavia, India, China and USA. Arrivals from Tanzania and Uganda also grew significantly during the third quarter. The fourth quarter witnessed a moderate growth of 4.3 per cent, mainly on account of negative growths registered on all categories of arrivals except holiday. This could be attributed to uncertainty associated with the December 2007 general elections. Overall, visitors on holiday and business went up by 17.6 and 7.1 per cent respectively in 2007. However, the number of transit visitors declined by 4.6 per cent in 2007, on account of reduced growth in the third and fourth quarters. Analysis by mode of travel reveals that 60 per cent of total visitor arrivals were by air in 2007 while cross-border arrivals accounted for 39 per cent over the same period.

Table 13.1: Quarterly Visitor Arrivals by Purpose of Visit, 2003-2007

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Quarter	Purpose	2003	2004	2005	2006	2007*
1st Qtr.	Holiday	206.7	209.4	264.6	275.8	298.4
	Business	34.7	51.1	51.8	61.7	75.8
	Transit	51.9	47.3	22.2	36.0	41.2
	Other	7.7	9.7	37.6	48.2	59.2
	TOTAL	301.0	317.5	375.6	421.7	474.6
2nd Qtr.	Holiday	112.5	178.5	213.4	219.2	263.0
	Business	44.7	49.3	41.9	45.5	51.6
	Transit	48.2	28.8	17.9	28.4	31.3
	Other	18.9	20.4	30.3	23.4	37.9
	TOTAL	224.3	277.0	303.5	316.5	383.8
3rd Qtr.	Holiday	183.9	239.3	288.6	289.2	380.6
	Business	53.4	70.8	56.6	59.4	64.7
	Transit	62.1	46.9	24.2	38.5	28.2
	Other	11.6	12.8	41.0	46.6	37.8
	TOTAL	311.0	369.8	410.5	433.7	511.3
4th Qtr.	Holiday	180.9	258.4	296.5	303.2	336.5
	Business	49.3	75.2	55.8	59.6	50.1
	Transit	56.9	39.2	15.5	34.2	30.2
	Other	22.8	23.6	21.0	31.7	30.3
	TOTAL	309.9	396.4	388.8	428.7	447.1
Year	Holiday	684.0	885.6	1,063.1	1,087.4	1,278.5
	Business	182.1	246.4	206.1	226.2	242.2
	Transit	219.1	162.2	79.8	137.1	130.9
	Other	61.0	66.5	129.9	149.9	165.2
	TOTAL	1,146.2	1,360.7	1,478.9	1,600.6	1,816.8

*Provisional

13.6. The number of departing visitors grew in tandem with the number of international arrivals in 2007 as shown in Table 13.2. Total visitor departures went up by 12.3 per cent from 1,578.4 thousand in 2006 to 1,772.2 thousand in 2007. The increase was mainly on account of increased holiday and “Other” visitors departing from the country. During the first quarter 2007, all categories of visitor departures expanded significantly compared to a corresponding period the previous year. The second quarter registered a 12.8 per cent increase on account of improved visitor departures on holiday and transit. Visitor departures during the third quarter expanded significantly by 21.9 per cent from 408.1 thousand in 2006 to 497.5 thousand in 2007. This was largely driven by substantial increases in visitor departures on holiday and transit categories. The fourth quarter registered a slight growth of 1.5 per cent as a result of a decline in departures for business and transit categories. Overall, departing visitors on holiday and “Other” grew by 14.3 per cent and 11.8 per cent, respectively. Over the same period, business and transit visitor registered modest growths of 5.8 per cent and 6.6 per cent, respectively.

Table 13.2: Quarterly Visitor Departures by Purpose of Visit, 2003-2007

'000

Quarter	Purpose	2003	2004	2005	2006	2007*
1st Qtr.	Holiday	184.3	196.2	258.9	285.3	314.2
	Business	31.7	62.1	50.8	56.7	65.5
	Transit	46.3	30.7	18.0	29.9	35.4
	Other	6.9	13.0	40.5	46.2	58.9
	TOTAL	269.2	302	368.2	418.1	474.0
2nd Qtr.	Holiday	117.9	176.8	221.9	232.9	270.2
	Business	46.9	49.8	43.6	47.9	49.1
	Transit	51.5	31.7	15.5	18.3	20.8
	Other	19.8	15.4	34.7	31.4	32.6
	TOTAL	236.1	273.7	315.7	330.5	372.7
3rd Qtr.	Holiday	147.2	232.6	279.3	274.9	352.6
	Business	42.7	70.2	54.8	59.9	63.8
	Transit	49.7	46.1	19.5	27.5	33.0
	Other	9.3	13.5	43.7	45.8	48.1
	TOTAL	248.9	362.3	397.3	408.1	497.5
4th Qtr.	Holiday	157.3	250.6	267	284.9	295.0
	Business	42.8	73.7	52.4	55.0	53.9
	Transit	50.9	39.4	18.6	41.2	35.4
	Other	17.8	18.4	41.8	40.6	43.7
	TOTAL	268.8	382.1	379.8	421.7	428.0
Year	Holiday	606.7	856.2	1,027.1	1,078.0	1,232.0
	Business	164.1	255.8	201.6	219.5	232.3
	Transit	198.4	147.9	71.6	116.9	124.6
	Other	53.8	60.3	160.7	164.0	183.3
	TOTAL	1,023.0	1,320.2	1,461.0	1,578.4	1,772.2

*Provisional

13.7. The number of departing visitors analysed by country of residence and purpose of visit went up by 11.5 per cent in 2007 as shown in Table 13.3. This was largely driven by growths observed in the source markets, mainly Europe which accounted for 67.2 per cent of total departures in 2007. The number of departing visitors to Europe went up by 10.6 per cent from 964.5 thousand in 2006 to 1,067.2 thousand in 2007. The growth was mainly supported by a 15.3 and 12.9 per cent increase in returning residents of United Kingdom and Italy, respectively. Regions that registered high visitor departures in 2007 were North America and Africa with 26.5 per cent and 15.3 per cent increases, respectively. The expansion in visitor departures to North America was mainly driven by a 27.1 per cent increase of residents of USA who accounted for 81.0 per cent of total departures to the region. Visitors departing to the emerging markets in Other Asia grew at a combined rate of 7.5 per cent in 2007, propelled by increased departures to China.

Table 13.3: Departing Visitors by Country of Residence and Purpose of Visit, 2006-2007

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Country of Residence	Holiday		Business		Transit		Total	
	2006	2007*	2006	2007*	2006	2007*	2006	2007*
Germany	196.3	210.7	34.3	38.1	18.3	14.4	248.9	263.2
United Kingdom	212.2	258.1	41.8	39.8	18.0	15.7	272.0	313.6
Switzerland	46.5	49.0	8.7	7.0	5.1	4.6	60.3	60.5
Italy	99.8	115.6	22.1	24.8	8.0	6.1	129.9	146.6
France	58.8	66.9	13.0	14.3	4.4	3.5	76.2	84.7
Scandinavia	29.7	31.4	6.4	7.7	3.4	4.2	39.5	43.3
Other Europe	106.4	122.4	22.4	23.2	8.9	9.7	137.7	155.3
TOTAL EUROPE	749.7	854.1	148.7	154.9	66.1	58.2	964.5	1,067.2
U.S.A	69.3	88.8	16.5	19.6	6.1	8.4	91.9	116.8
Canada	15.8	19.3	3.9	4.4	2.4	3.8	22.1	27.4
TOTAL NORTH AMERICA	85.1	108.1	20.4	24.0	8.5	12.2	114.0	144.2
Uganda	15.6	14.6	2.9	4.2	1.3	2.1	19.8	20.9
Tanzania	18.5	17.9	3.7	5.1	3.6	4.7	25.8	27.6
Other Africa	78.9	91.4	12.9	14.1	16.5	23.4	108.3	128.9
TOTAL AFRICA	113.0	123.9	19.5	23.4	21.4	30.2	153.9	177.4
India	23.5	24.5	6.3	6.6	5.9	6.1	35.7	37.1
Japan	14.3	15.5	5.8	5.3	1.4	1.2	21.5	22.0
Israel	10.3	12.0	3.6	3.1	1.9	2.4	15.8	17.5
Other Asia	38.1	44.5	10.1	7.9	6.4	6.3	54.6	58.7
TOTAL ASIA	86.2	96.5	25.8	22.9	15.6	16.0	127.6	135.3
Australia and New Zealand	19.1	22.8	3.3	4.1	1.6	1.8	24.0	28.7
All Other Countries	30.8	26.7	4.8	3.1	5.6	6.3	41.2	36.0
TOTAL	1,083.9	1,232.1	222.5	232.4	118.8	124.7	1,425.2	1,588.8

* Provisional

13.8. Trend on the number of days stayed analysed by purpose of visit for the last five years is shown in Table 13.4. Visitors on holiday increased their length of stay by 11.3 per cent from 14.2 million days in 2006 to 15.8 million days in 2007. During 2007, transit visitors increased their length of stay in the country by 9.4 per cent while business visitors registered a paltry 2.9 per cent extended stay. Overall, visitors' length of stay increased by 9.3 per cent from 17.2 million days in 2006 to 18.8 million days in 2007. In contrast, the average length of stay contracted marginally by 1.7 per cent from 12.1 days in 2006 to 11.9 days over the review period. This could be attributed to increased economic costs in major source markets and the rising demand of visiting more than one destination. This is also consistent with current efforts aimed at moving from mass to high end tourists.

Table 13.4: Number of Days Stayed[1] by Purpose of Visit, 2003-2007

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Purpose	2003	2004	2005	2006	2007*
Holiday	6,975.9	11,414.3	13,383.8	14,186.8	15,754.4
Business	979.8	1,336.0	2,454.4	2,724.4	2,803.6
Transit	396.8	147.1	142.8	257.0	281.1
TOTAL	8,352.5	12,897.4	15,981.0	17,168.2	18,839.1
Average length of stay in days	8.4	13.0	12.3	12.1	11.9

* Provisional

[1] Excludes days stayed by "Other Visitors" Category

Hotel Occupancy

13.9. Increased international arrivals coupled with improved air transportation within the domestic market resulted in a vibrant business in the hotels sector in 2007. As shown in Table 13.5, bed-nights occupancy in hotels, lodges and other rooming houses went up from 5,921.7 thousand in 2006 to 6,939.2 thousand in 2007, reflecting an impressive 17.2 per cent growth. The growth is consistent with increases in visitor arrivals recorded during the first three quarters of the year. However, the slow performance in international arrivals during the fourth quarter was also reflected in hotel bed-nights occupancy. This can be explained by uncertainties prior to the December 2007 general elections. As a result, hotel bed-nights occupancy rate for the month of December registered a decline of 9.2 percentage points from 54.4 per cent in 2006 to 45.2 per cent in 2007.

13.10. Beds available expanded by 13.1 per cent from 13,003.5 thousand in 2006 to 14,711.6 thousand in 2007. Over the same period, bed occupancy rate went up from 45.5 per cent in 2006 to 47.2 per cent in 2007. Room occupancy rate contracted marginally from 51.3 per cent in 2006 to 50.8 per cent 2007. Monthly bed and room occupancy rates for 2007 are shown in Figure 13.2. The months of April and May recorded a higher bed occupancy rate when compared to room occupancy despite falling under the low season of the tourism cycles. This could be explained by partial or complete closure of hotels for renovation in readiness for the high season, thereby minimising the number of rooms available. This is also supported by recent efforts aimed at promoting domestic tourism that have resulted in local residents increasingly taking advantage of special tariffs offered, especially during the low season.

Table 13.5: Hotel Bed - Nights Occupancy by Country of Residence, 2003-2007

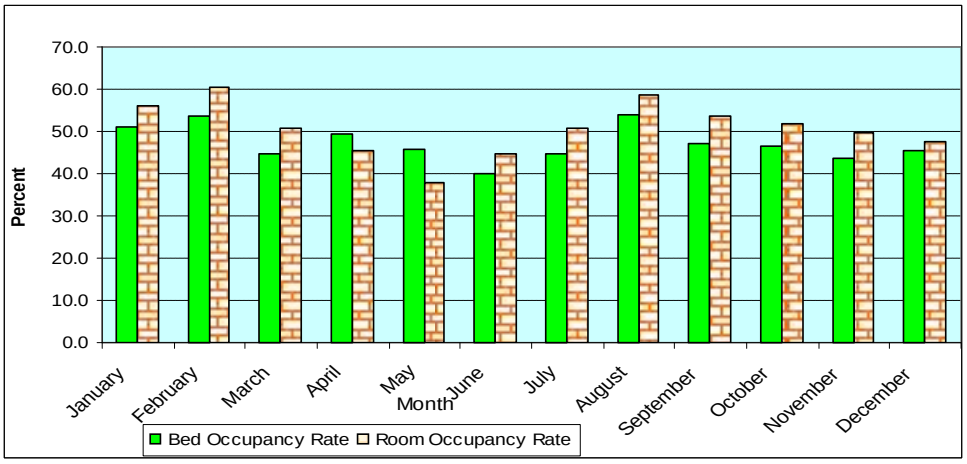
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Country of Residence	2003	2004	2005	2006	2007*
Permanent Occupants**	9.7	32.7	44.9	23.5	25.0
Germany	420.4	465.9	689.9	917.2	926.1
Switzerland	125.9	145.6	164.3	191.8	174.2
United Kingdom	324.3	516.2	628.4	1,029.4	1,223.1
Italy	144.0	166.9	353.1	479.3	536.5
France	113.9	164.4	183.5	320.4	304.3
Scandinavia	45.6	69.4	88.8	114.8	129.8
Other Europe	213.5	606.2	346.5	487.1	543.7
EUROPE	1,387.5	2,134.5	2,454.5	3,540.0	3,837.7
Kenya Residents	738.7	1,190.3	1,129.6	1,374.8	1,869.8
Uganda	26.2	43.1	37	49.2	52.2
Tanzania	30.4	43.4	44.1	55.9	54.7
East and Central Africa	27.6	43.0	55.7	71.6	67.3
West Africa	15.4	27.9	30.2	36.0	35.6
North Africa	16.5	21.0	18.9	25.5	43.9
South Africa	34.4	48.2	51.1	67.8	73.6
Other Africa	39.8	65.1	52.8	56.5	71.8
AFRICA	928.9	1,482.0	1,419.4	1,737.3	2,268.9
U.S.A	109.6	165.1	206.8	242.2	270.9
Canada	17.6	28.7	35.8	48.5	64.0
Other America	17.5	24.6	23.8	24.3	34.2
AMERICA	144.7	218.3	266.4	315.0	369.1
Japan	26.2	33.5	34.6	37.0	45.7
India	29.2	38.4	44.6	50.8	60.5
Middle East	20.3	23.4	31.3	33.5	38.0
China	...	...	0	25.0	43.2
Other Asia	18.2	35.9	63.2	35.3	41.7
ASIA	93.8	131.2	173.7	181.6	229.1
Australia and New Zealand	17.0	22.5	40.6	45.5	56.9
All Other Countries	24.2	70.2	76.8	78.8	152.5
TOTAL-OCCUPIED	2,605.9	3,791.5	4,476.3	5,921.7	6,939.2
TOTAL-AVAILABLE	7,765.7	10,030.7	10,845.6	13,003.5	14,711.6
Occupancy rate %	33.6	37.8	41.3	45.5	47.2

*Provisional

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

Figure 13.2: Monthly Bed and Room Occupancy Rates, 2007



13.11. The share of bed-nights occupied by residents from Europe declined from 59.8 per cent in 2006 to 55.3 per cent in 2007. However, total bed-nights occupied by residents from this region grew by 8.4 per cent from 3,540.0 thousand in 2006 to 3,837.7 thousand in 2007. The slower performance was mainly as a result of reduced occupancy by residents from France and Switzerland. Over the review period, improvements in bed-nights occupancy were registered by residents from United Kingdom, Scandinavia, Italy, and other European countries, on account of increased air travel flight frequencies from those areas.

13.12. Consistent with arrivals from Africa, the number of bed-nights occupied by residents from the continent improved remarkably by 30.6 per cent from 1,737.3 thousand in 2006 to 2,268.9 thousand in 2007. This performance was mainly propelled by continued increase in occupancy by local and North African residents. Domestic tourists constituted 26.9 per cent of all the bed-nights occupied in 2007 up from 23.2 per cent the previous year. The continued increase in bed-nights occupied by local residents is mainly as a result of increased incomes combined with promotion of domestic tourism by the industry players. Bed-nights occupied by residents from America and Asia grew by 17.2 per cent and 26.2 per cent, respectively during the review period. Bed occupancy by residents from America was driven by a 32.0 per cent and 40.7 per cent increase by residents from Canada and "Other America". Bed occupancy by residents from USA grew by 11.8 per cent in 2007, with a share of 73.4 per cent of total bed-nights by residents of the region. Within Asia, growth was mainly spurred by a remarkable 72.8 per cent increase in bed-nights occupied by residents from China during the review period.

13.13. Table 13.6 presents details of bed-nights occupancy by zone. Coastal beaches continued to be the most popular tourism circuit in 2007. Bed-nights occupied in this zone grew by 16.7 per cent from 3,228.8 thousand in 2006 to 3,768.1 thousand in 2007. Significant improvement of 41.3 per cent was recorded in Mombasa Island while occupancy across the Coastal Hinterland more than doubled. This inspiring performance across the Coastal Hinterland is consistent with the growth in the number of visitors to Tsavo National parks during 2007 as reflected in Table 13.6. Occupancy within the Nairobi zone was moderate with High-class and "Other" growing by 8.6 per cent and 17.7 per cent respectively, mainly spurred by increased conference tourism. In the Western zone occupancy improved significantly by 39.8 per cent from 167.6 thousand in 2006 to 234.4 thousand in 2007, on account of the concerted efforts to market the circuit. Other moderate growths were from Maasailand and Central zones. The Nyanza basin posted a depressed occupancy during the review period.

Table 13.6: Hotel bed-nights by Zone, 2003-2007

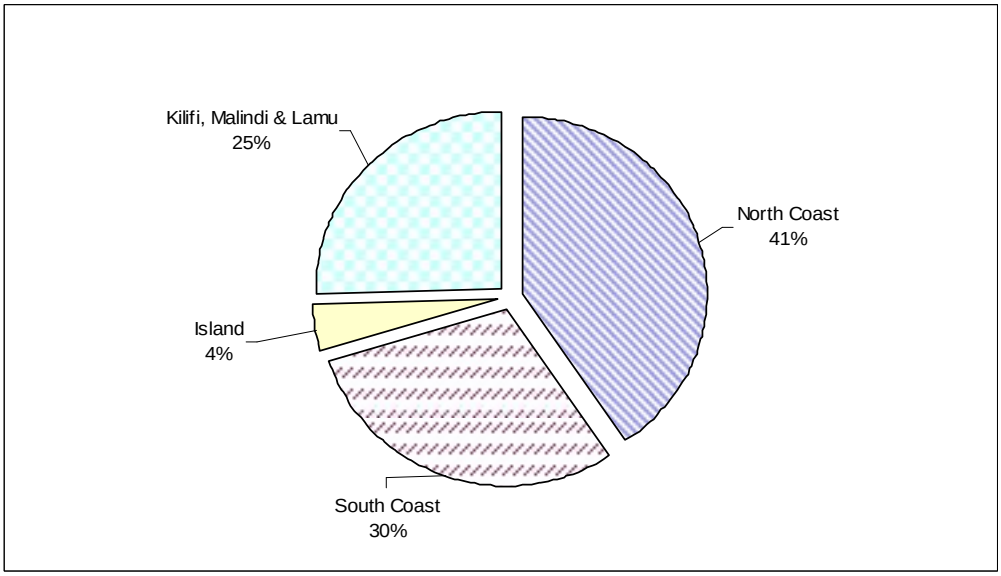
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Zone	2003	2004	2005	2006	2007*
Coastal-Beach	1,269.6	1,883.5	2,273.7	3,228.8	3,768.1
Coastal-Other	36.5	29.4	43.5	108.6	153.5
Coastal Hinterland	60.9	52.9	75.1	83.7	210.5
Nairobi-High Class	572.7	793.7	870.9	946.8	1,028.4
Nairobi-Other	124.0	194.5	180.5	257.2	302.7
Central	143.8	247.8	265.1	300.3	388.9
Masailand	130.4	272.3	361.9	460.9	519.8
Nyanza Basin	127.9	167.7	196.7	284.1	246.6
Western	97.2	100.8	128.0	167.6	234.4
Northern	42.9	48.8	81.2	83.7	86.3
TOTAL-OCCUPIED	2,605.9	3,791.5	4,476.6	5,921.7	6,939.2
TOTAL-AVAILABLE	7,765.7	10,030.7	10,845.6	13,003.5	14,711.6

*Provisional

13.14. Figure 13.3 depicts bed-nights occupancy along the coastal strip in 2007. Analysis shows that the most preferred coastal area was North Coast accounting for 41 per cent of all the bed-nights in the region. Most bed-nights in North and South coast were occupied by residents of UK and Germany. Occupancy in Kilifi, Malindi and Lamu was dominated by local and Italian residents.

Figure 13.3: Occupancy at the Coast, 2007



13.15. Table 13.7 presents details of bed-occupancy by area and country of residence in 2006 and 2007. The coastal area continued to attract most visitors during 2007, accounting for 56.5 per cent compared to 56.4 per cent in 2006. Bed-nights occupancy in this area went up by 17.5 per cent from 3,337.4 thousand in 2006 to 3,921.6 thousand in 2007. Occupancy within the Nairobi area expanded by 10.6 per cent, mainly sustained by residents from Africa, America and Asia. Occupancy in the lodges went up 20.1 per cent from 725.8 thousand in 2006 to 871.4 thousand in 2007.

Table 13.7: Hotel Bed-nights by Area and Country of Residence, 2006 - 2007*

'000

Country of Residence	Nairobi		Coast		Lodges		Others		Total	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Permanent Occupants[1] ..	5.7	1.4	14.3	11.2	0.4	0.2	3.1	12.2	23.5	25.0
Germany	25.0	31.0	799.8	799.9	84.4	88.6	8.0	6.6	917.2	926.1
Switzerland	10.0	9.6	160.8	150.5	19.7	13.2	1.3	0.9	191.8	174.2
United Kingdom	104.1	101.8	732.8	912.9	174.0	194.0	18.4	14.4	1,029.3	1,223.1
Italy	14.7	13.5	414.4	488.5	48.3	32.4	1.8	2.1	479.2	536.5
France	31.5	26.7	209.8	186.8	70.8	85.6	8.3	5.2	320.4	304.3
Scandinavia	36.9	22.9	38.2	61.1	31.0	43.0	8.7	2.8	114.8	129.8
Other Europe	74.7	104.2	319.3	316.2	81.1	112.1	11.9	11.2	487.0	543.7
Kenya	310.7	356.3	480.2	753.2	53.8	87.4	530.0	672.9	1,374.7	1,869.8
Uganda	33.7	28.5	9.8	15.7	0.4	0.6	5.4	7.4	49.3	52.2
Tanzania	41.7	36.1	10.2	14.1	0.8	0.7	3.2	3.8	55.9	54.7
East & Central Africa	65.3	51.3	3.7	13.4	0.8	0.8	1.8	1.8	71.6	67.3
West Africa	33.0	30.8	1.6	3.0	0.5	0.7	0.9	1.1	36.0	35.6
North Africa	21.2	40.9	1.1	1.7	2.7	0.5	0.6	0.8	25.6	43.9
South Africa	45.5	44.2	18.0	24.4	2.8	3.5	1.5	1.5	67.8	73.6
Other Africa	32.9	40.5	20.1	27.4	1.9	1.6	1.8	2.3	56.7	71.8
U.S.A.	117.1	115.4	23.6	31.9	75.5	97.0	25.9	26.6	242.1	270.9
Canada	25.1	26.4	7.3	14.7	12.2	15.3	3.9	7.6	48.5	64.0
Other America	11.7	16.9	4.3	5.3	6.8	9.5	1.6	2.5	24.4	34.2
Japan	16.4	14.4	2.1	2.6	15.5	23.6	3.0	5.1	37.0	45.7
India	29.3	32.9	8.9	9.6	8.2	13.5	4.4	4.5	50.8	60.5
Middle East	26.7	26.6	2.6	5.2	3.4	5.0	0.9	1.2	33.6	38.0
China	19.5	25.7	1.2	2.2	2.2	12.2	2.1	3.1	25.0	43.2
Other Asia	20.2	22.9	3.2	7.2	10.6	10.1	1.2	1.5	35.2	41.7
Australia & New Zealand	18.8	20.7	11.6	20.1	11.9	13.5	3.2	2.6	45.5	56.9
All Other Countries..... ..	32.6	89.5	38.5	42.8	6.1	6.8	1.6	13.4	78.8	152.5
TOTAL	**1,204.0**	**1,331.1**	**3,337.4**	**3,921.6**	**725.8**	**871.4**	**654.5**	**815.1**	**5,921.7**	**6,939.2**
PERCENTAGE SHARE	**20.3**	**19.2**	**56.4**	**56.5**	**12.3**	**12.6**	**11.1**	**11.7**	**100.0**	**100.0**

* Provisional

[1] Persons staying one month or more in one hotel-includes some block bookings for air crew

13.16. Table 13.8 presents bed-nights occupancy in Game Lodges for the last three years. Occupancy in Game Lodges by foreign residents grew by 16.7 per cent from 670.8 thousand in 2006 to 782.8 thousand in 2007. This was spurred by increased number of visitors to the Game Parks and Reserves during the review period. Out of all the visitors who spent their nights in Game Lodges, 83.8 per cent and 81.2 per cent were foreign and East African residents respectively, who opted for full catering.

Table 13.8 Game lodges[1] occupancy, 2005 - 2007

'000

Category	Bed-Nights Occupied					
	Foreign Residents			E.A. Residents		
	2005	2006	2007*	2005	2006	2007*
Game Reserves	314.0	427.9	512.9	12.3	16.6	36.8
National Parks	178.2	242.9	269.9	28.4	38.4	51.9
TOTAL	492.2	670.8	782.8	40.7	55.0	88.7
Of whom full Catering ..	410.5	559.5	656.3	30.6	41.4	72.0
Self Service	81.7	111.3	126.4	10.1	13.6	16.7

*Provisional

[1] Lodges in National Parks and Game Reserves

Game Parks and Reserves

13.17. The number of visitors to the country's protected areas of biodiversity conservation grew in tandem with the trend observed for international arrivals during 2007. This is in recognition of the country's Game Parks and Reserves as one of the key tourism brands locally and abroad. Locally, improved performance was attributed to extensive marketing through print, electronic and outdoor media aimed at promoting domestic tourism. Other key activities that led to this outcome included the continued branding of parks by the Kenya Wildlife Services (KWS) and participation in major international tourism fairs. The improved security and facilities in the Parks and Reserves in terms of infrastructure and accommodation also supported the sub-sector.

13.18. The number of visitors to Game Parks and Reserves for the last five years is shown in Table 13.9. Visitors to these sites increased from 2,363.7 thousand in 2006 to 2,463.0 thousand in 2007 reflecting a 4.2 per cent improvement. This was attributed to substantial increases on the number of visitors to Nairobi Mini Orphanage, Nairobi Safari Walk and Hell's Gate Park which recorded growths of 16.2, 20.5 and 47.8 per cent, respectively. Enhanced performance was also recorded in Amboseli, Tsavo (East and West), Lake Nakuru and Haller's Park. However, during the year under review, the number of visitors to some major Parks and Reserves declined. These included Nairobi National Park, Maasai Mara, Aberdare, Impala Sanctuary and Shimba hills. The total number of visitors to the four marine parks contracted by 4.1 per cent from 178.7 thousand in 2006 to 171.4 thousand over the review period. The declines were on account of 10.1 per cent and 21.1 per cent reduction on the number of visitors to Kisite/Mpunguti and Watamu marine parks, respectively. Figure 13.4 presents analysis by the nature of visitor and residency. The combined number of adult-citizens and residents went up by 8.5 per cent and accounted for 27.9 per cent of all the reported visitors in 2007. However, the number of adult non-residents and children declined over the review period. In 2007, the proportion of adults contracted to 61.5 per cent from 62.4 per cent in 2006. However, the proportion of children improved by 1.1 percentage points to 22.2 per cent.

Table 13.9: Number of Visitors to Parks and Game Reserves, 2003-2007

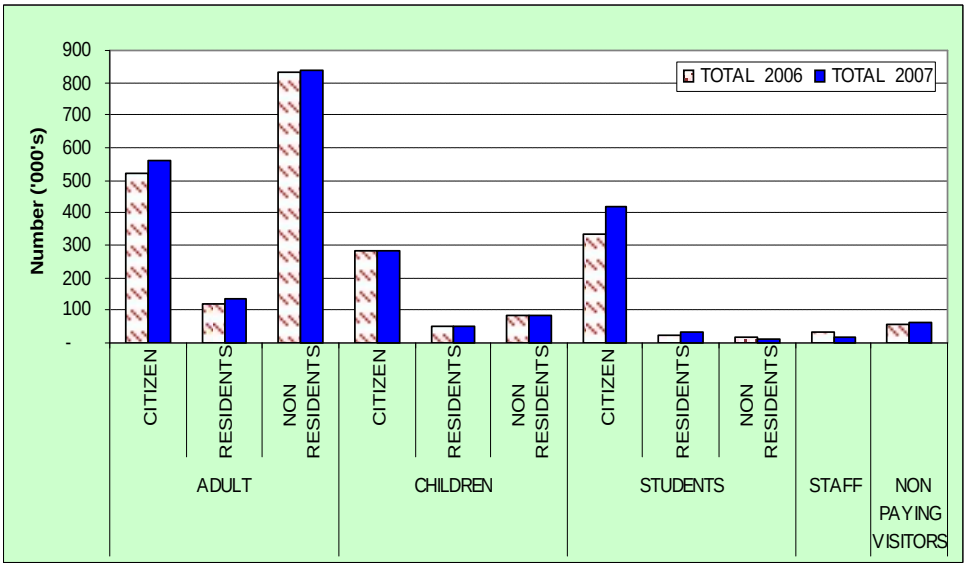
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Park/Reserve	2003	2004	2005	2006	2007*
Nairobi	71.3	92.5	99.9	101.8	93.0
Nairobi Safari Walk	66.3	88.0	127.5	170.8	205.8
Nairobi Mini Orphanage	205.3	239.4	257.8	227.9	264.8
Amboseli	54.7	101.6	126.2	153.2	156.4
Tsavo (West)	62.6	92.7	105.7	130.9	134.8
Tsavo (East)	119.2	158.5	180.1	223.3	237.1
Aberdare	30.3	44.0	48.3	54.5	50.4
Lake Nakuru	216.7	257.0	344.6	327.0	346.8
Maasai Mara	233.0	240.0	285.2	316.5	279.7
Haller's Park	99.9	101.2	100.8	128.4	140.9
Malindi Marine	22.8	27.5	32.8	38.3	40.3
Lake Bogoria	64.7	64.7	65.7	68.7	64.9
Meru	5.7	6.4	8.9	12.6	12.8
Shimba Hills	16.2	18.7	17.3	23.7	22.5
Mount Kenya	25.5	27.7	39.5	43.8	39.6
Samburu	6.0	6.2	7.3	8.2	24.9
Kisite/Mpunguti	35.9	51.7	59.2	66.4	59.7
Mombasa Marine	31.4	32.3	36.2	33.2	39.2
Watamu Marine	21.1	28.4	32.4	40.8	32.2
Hell's Gate	75.1	38.9	35.6	61.7	91.2
Impala Sanctuary(Kisumu)	69.6	63.3	87.9	84.3	72.2
Mt. Longonot	12.2	9.5	11.5	22.6	24.7
Other**	30.5	30.3	22.5	25.2	29.0
TOTAL	1,575.9	1,820.2	2,132.9	2,363.8	2,462.9

* Provisional

** Other include Arabuko Sokoke, Ol-Donyo Sabuk, Marsabit, Saiwa swamp, Sibiloi, Chyulu, Ruma National Park, Mwea National Reserve, Central Island National Park, Kiunga, Mt.Elgon, Nasolot, Ndere, and Kakamega.

Figure 13.4: Visitors to Game Parks and Reserves, 2006 - 2007



13.19. Despite being home to some of the rare wildlife, Game Parks and Reserves in the country's frontier districts of Northern Kenya continue to attract low levels of visitors. The twin problems of infrastructural links and lack of accommodation continued to pose marketing challenge for the sub-sector in this region. Whereas high visitor volumes are important for the sub-sector, the carrying capacities of the main Parks and Reserves needs to be enhanced. This will ensure that animals are subjected to less stressing environments. However, climatic change and desertification which are global concerns could impact negatively on biodiversity and hence the wildlife population.

Museums

13.20. In 2005, the National Museums of Kenya (NMK) embarked on a change programme with emphasis on improving facilities in various museums. This was initiated in order to increase their appeal and accommodate more visitors. Towards this goal, Nairobi Museum (main gate) was closed for renovation and is set for re-opening in early 2008. This branding and expansion exercise is set to be replicated in other regional museums. The NMK in 2007, made a number of notable developments in their endeavour to collect, study, preserve and document Kenya's past and present cultural and natural heritage. Key among these was the discovery of a fossil believed to be the missing link in the evolution theory.

13.21. As shown in Table 13.10, the number of visitors to museums, Snake Park and other sites expanded by 7.1 per cent from 559.8 thousand in 2006 to 598.4 thousand in 2007. This performance was spurred by publicity and sensitisation by NMK. This lead to an increased understanding and appreciation of the museums and the accompanying activities such as research, exhibition among others. Most museums registered increased volume of visitors in 2007 with the exception of Fort Jesus, Kitale and Kabarnet that witnessed a reduction. The number of visitors to Fort Jesus declined marginally by 1.4 per cent to 145.3 thousand in 2007. The number of visitors to Snake Park expanded by 14.7 per cent from 127.1 thousand in 2006 to 145.8 thousand in 2007. As seen in Figure 13.5, most of the visitors to these attraction sites were from Educational Groups which accounted for 48.0 per cent while Non-resident children were the least.

Table 13.10: Number of Visitors to Museums, Snake Park and Sites, 2003-2007

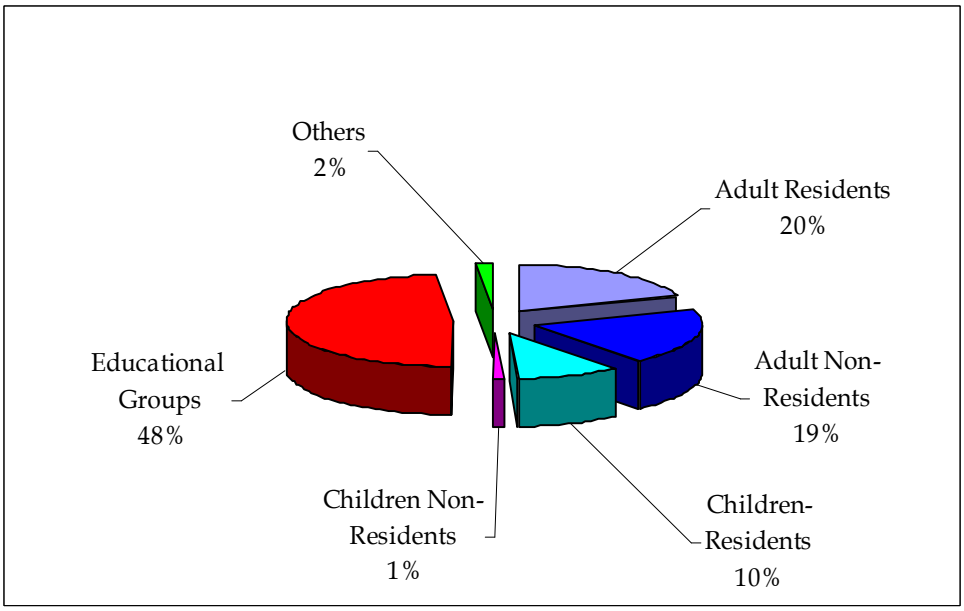
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Museum	2003	2004	2005	2006	2007*
National Museum:(Main Gate) … … …	275.4	223.9	242.4	…	…
National Museum:(Snake Park) … … …	84.2	97.9	105.1	127.1	145.8
Fort Jesus … … … … … … … … … … …	122.4	126.2	127.5	147.3	145.3
Kisumu Museum … … .. … … … …… …	70.2	78.1	79.2	83.0	90.0
Kitale Museum .. … … … …… …	34.0	40.9	42.4	36.9	36.2
Gedi .. … … … …… …	25.6	31.3	33.5	35.5	38.7
Meru Museum .. … … … …… …	16.9	17.0	18.9	16.6	18.2
Lamu .. … … … …… …	3.4	4.6	5.8	4.5	4.6
Jumba la Mtwana .. … … … …..	2.7	6.0	7	4.9	7.1
Olorgessaile .. … … … …… …	0.0	1.1	1.2	1.3	1.7
Kariandusi .. … … … …… …	5.5	5.7	6.2	7.6	10.9
Hyrax Hill .. … … … …… …	3.7	5.8	6.6	5.9	7.5
Karen Blixen .. … … … …… …	34.0	47.4	59.1	55.9	56.2
Malindi Museum .. … … … …… …	…	…	14.2	19.7	24.1
Kilifi Mnarani .. … … … …… …	0.4	0.9	1	0.7	0.5
Kabarnet .. … … … …… …	1.3	3.2	3.7	2.7	2.2
Kapenguria .. … … … …… …	3.8	5.0	6.6	3.9	4.4
Pete Sites .. … … … …… …	0.0	1.0	1.3	0.0	0.0
Swahili House .. … … … …… …	0.5	0.6	0.8	4.1	0.7
Narok Museum .. … … … …… …	…	0.4	0.4	0.5	2.3
German Post .. … … … …… …	0.1	0.1	0.1	0.1	0.2
Lamu Fort .. … … … …… …	0.9	0.9	0.9	…	…
Takwa Ruins .. … … … …… …	1.3	1.3	1.3	1.6	1.8
TOTAL	686.3	699.0	765.2	559.8	598.4

* Provisional

… not available/closed

Figure 13.5: Characteristics of Visitors to Museums, 2007



Conference Tourism

13.22. The conference industry is an auxiliary service sector that is a matrix of the level of the country's economic growth. As a result, the steady rise in economic performance has seen a surge in the number of conference tourism. This was partly buoyed by political stability and the continued rehabilitation of the Kenyatta International Conference Centre (KICC). During 2007, the country hosted a growing number of high profile conferences that took more space and days as shown in Table 13.11. The number of international conferences increased significantly from 209 in 2006 to 234 in 2007, representing a 12.0 per cent growth. Over the same period, notable improvements of 16.1 per cent and 29.8 per cent were observed on the number of international delegates and delegate days, respectively.

13.23. The number of local conferences increased by 19.2 per cent from 2,120 in 2006 to 2,528 in 2007. The number of delegates and delegate days expanded by 30.3 per cent and 12.4 per cent, respectively. This outcome is attributed to continued good performance of the domestic economy and strategy meetings throughout 2007. Physical improvements on the conference facilities also contributed to this performance by attracting larger conferences that took more space and days

Table 13.11: Reported Conferences, 2004 - 2007

Number

	2004		2005		2006		2007*	
	Local	International	Local	International	Local	International	Local	International
No.of conferences	912	145	1,553	186	2,120	209	2,528	234
No.of delegates	75,148	18,604	269,116	42,170	285,991	45,063	372,569	52,318
No.of delegate days	289,441	74,615	648,484	163,005	690,969	175,345	776,729	227,633
No.of delegate days available	1,945,227	1,945,227	4,073,631	4,073,631	4,073,631	4,073,631	4,204,395	4,204,395
Percentage Occupancy	14.9	3.8	15.9	4.0	17.0	4.3	18.5	5.4

*Provisional

Training

13.24. The Kenya Utalii College (KUC) serves as a hotel and tourism training institution. As a training institution, it seeks to develop a highly qualified human resource base for the hospitality industry through training, research and consultancy. This is done at various levels of training, in recognition of the challenges and opportunities that are manifest in the country's hotel and tourism industry and the need to maintain high standards. In an effort to cope with the increasing demand for training opportunities, the college is planning for the establishment of a KUC Coast Branch besides seeking accreditation to offer degree programmes. This will enable the college increase its training capability in order to enhance its contribution to the socio-economic development of the country.

13.25. Consistent with the developments witnessed in the tourism sector during the year, the college recorded a considerable improvement in the number of graduates in all levels except in Management Development Programmes as shown in Table 13.12. The number of graduates increased by 38.7 per cent from 2,710 recorded in 2006 to 3,759 in 2007. This was attributed to significant increases in the number of graduates for Pioneer and In-Service courses which

comprised 82.6 per cent of total graduates. During 2007 graduates for Pioneer courses increased by 68.3 per cent while those for In-Service rose to 1,808 from 1,611 recorded in 2006. Under the Professional category, the numbers of graduates for Service Advance almost doubled while those for Management Development Programmes contracted by 14.5 during the year in review.

Table 13.12 Kenya Utalii College Graduates, 2003-2007

Year	Pioneer course[1]	In-Service	MDP[2]	Professional Courses			Grand Total
				Ordinary	Service Advance	Sub-Total	
2003	941	1,169	179	376	15	391	2,501
2004	570	1,108	183	341	9	350	2,028
2005	660	1,455	235	298	13	311	2,426
2006	770	1,611	276	311	18	329	2,710
2007*	1,296	1,808	236	384	35	419	3,759

Source: Kenya Utalii College

* Provisional

[1] Pioneer is a 3 month course

[2] MDP Management Development Programmes

Table 13.8 Game lodges[1] occupancy, 2005 - 2007

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Category	Bed-Nights Occupied					
	Foreign Residents			E.A. Residents		
	2005	2006	2007*	2005	2006	2007*
Game Reserves	314.0	427.9	512.9	12.3	16.6	36.8
National Parks	178.2	242.9	269.9	28.4	38.4	51.9
TOTAL	492.2	670.8	782.8	40.7	55.0	88.7
Of whom full Catering ..	410.5	559.5	656.3	30.6	41.4	72.0
Self Service	81.7	111.3	126.4	10.1	13.6	16.7

*Provisional

[1] Lodges in National Parks and Game Reserves

Chapter 14
Transport, Storage and Communications

Overview

Total receipts to the transport and communications sector during 2007 increased by 10.9 per cent to KSh 441.8 billion from KSh 398.4 billion received in 2006. The expansion of the sector was supported by several factors including the continued growth of the Information Communications Technology (ICT) sub-sector; enhanced performance of the air and water transport sub-sectors; and increased road transport activities supported by thriving tourism activities during the year.

14.2. Road transport remained the single highest income earner for the transport and communications sector, posting an output growth of 9.7 per cent in 2007. The Communications sub-sector was the second highest income earner for the sector and posted an output growth of 25.3 per cent during the year, with subscriber base of mobile telephone services expanding further by 4.1 million to 11.4 million in 2007. The number of newly registered vehicles during the year posted an unprecedented growth of 61.5 per cent following the registration of 85,324 vehicles compared to 52,817 in 2006. The higher registration occurred against a backdrop of a directive by the Minister for Finance during the 2007/08 Budget speech requiring that all newly imported vehicles be registered before leaving the point of entry into the country. The requirement also affected the existing stock of unregistered vehicles in the country that were also supposed to be registered immediately.

14.3. Cargo traffic at the Port of Mombasa increased further by 10.7 per cent from 14,402 thousand tonnes in 2006 to 15,962 thousand tonnes in 2007; with the economy remaining import oriented as the imports accounted for 81.8 per cent of the total cargo traffic handled during the year under review. Commercial passenger traffic at the main airports in the country grew by 11.1 per cent from 6.3 million in 2006 to 7.0 million in 2007. Traffic through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) which handle most of the international visitors accounted for 69.1 per cent and 19.1 per cent respectively of the total traffic in 2007. Other domestic airports and airstrips only accounted for 12.0 per cent of the total traffic during the year. Volumes of white petroleum products pumped via the pipeline for domestic and export markets rose by 3.6 per cent from 3,826.2 thousand cubic metres in 2006 to 3,962.5 thousand cubic metres in 2007. Railway freight traffic increased from 1,891 thousand tonnes in 2006 to 2,304 thousand tonnes during the period under review, representing a rise of 21.8 per cent.

14.4. Some key initiatives undertaken by the Government to consolidate and deepen sector-wide reforms in the transport sector includes the Cabinet approval of introduction of smart card driving licenses to monitor and better manage drivers' behaviour; removal of road licenses for vehicles with a view to reducing the cost of entry into business; modernisation of ferry services in the country through financing the purchase of two new ferries, with the Government of Netherlands offering to provide another two ferries and rehabilitate aging ones; construction of a new container terminal at the port of Mombasa and provision

of new handling facilities and; the modernisation and expansion programme of the JKIA as well as other airports in the country.

Value of Output

14.5. Table 14.1 present details of the estimated output to the various sub-sectors of the transport and communications sector. As shown, road transport sub-sector continued dominating in terms of the output generated by the transport and communications sector. In absolute terms, the sub-sector posted an output valued at KSh 221.2 billion or 50.4 per cent of the gross receipts to the transport and communications sector.

14.6 The communications and air transport sub-sectors followed in the magnitude of output that was generated in 2007 valued at KSh 86.1 billion and KSh 65.4 billion, respectively. Other sub-sectors including water transport, pipeline transport and incidental services to transport recorded improved growths in output values during 2007. Railway transport sub-sector just maintained output level that was attained in 2006.

Table 14.1: Transport and Communications - Value of Output, 2003-2007

KSh Million

	2003	2004	2005	2006	2007*
Road Transport	110,899	143,267	159,321	201,672	221,225
Railway Transport	4,609	4,674	4,600	4,553	4,550
Water Transport	11,296	13,187	17,204	21,475	23,355
Air Transport	36,871	46,512	59,670	63,996	65,425
Services Incidental to Transport	13,521	17,947	20,480	29,204	32,276
Pipeline Transport	6,761	7,386	8,270	8,750	8,919
Communications	51,699	55,691	62,687	68,721	86,087
Total	235,656	288,664	332,231	398,370	441,836

* Provisional.

Road Transport

Roads

14.7. Table 14.2 displays the allocations provided by Government to the roads maintenance kitty. Collections accruing from the fuel levy charge increased from KSh 14,814 million in 2006 to KSh 17,999 million in 2007; representing an increase of 21.5 per cent. This compensated for the 17.4 per cent decline in transit.

Table 14.2: Roads Maintenance Funds, 2003-2007

KSh Million

	2003/04	2004/05	2005/06	2006/07	2007/08*
Fuel Levy	9,045	8,980	9,978	14,814	17,999
Transit Toll	225	229	289	327	270
Total	9,270	9,209	10,267	15,141	18,269

Source: Kenya Roads Board

* Provisional.

14.8. Details of the estimated value of earnings from road transport activities are presented in Table 14.3. Total earnings from road traffic that include passenger and freight traffic activities increased from KSh 201.7 billion in 2006 to KSh 221.2 billion in 2007. Recorded growths in earnings were mainly supported by increases accruing to passenger transport activities.

Table 14.3: Earnings from Road Traffic, 2003-2007

KSh million

	2003	2004	2005	2006	2007*
Passenger Traffic	72,378	90,654	100,296	111,248	121,861
Freight Traffic	38,521	52,613	59,025	90,424	99,364
Total Road Traffic Earnin	110,899	143,267	159,321	201,672	221,225

* Provisional.

New Registration of Motor Vehicles

14.9. Table 14.4 displays the number of newly registered motor vehicles in the country. The total number of units registered in 2007 was 85,324 compared to 52,817 recorded in 2006, representing a rise of 61.5 per cent. The increase is attributable to higher registrations of motor and auto cycles; buses and coaches, station wagons, saloon cars, and; lorries and trucks during the period under review. In particular, registration of motor and auto cycles and buses and coaches more than doubled in 2007. The former have become more popular for running urban errands and in supplementing passenger transport service in the country. At the same time, a directive by the Minister for Finance in the 2007/08 budget presentation that all imported vehicles be registered before leaving the point of entry into the country occasioned further rise in the registration as motor vehicle dealers rushed to comply and registered previously imported but unregistered stock of vehicles.

Table 14.4: New Registration of Motor Vehicles, 2003-2007

Number

Type of Vehicle	2003	2004	2005	2006	2007*
Saloon Cars	9,709	12,628	14,216	14,829	17,893
Station Wagons	8,032	8,863	10,158	12,631	24,115
Panel Vans, Pick-ups, etc	6,819	7,042	6,308	6,721	9,470
Lorries/Trucks	2,069	2,461	3,113	3,610	6,329
Buses and Coaches	667	872	885	856	2,006
Mini Buses/Matatu	2,854	4,405	4,076	3,714	4,252
Trailers	861	1,112	1,351	1,706	2,193
Wheeled Tractors	663	829	856	920	1,213
Motor and Auto Cycles	2,084	4,136	3,759	6,250	16,293
Three Wheelers	10	134	735	1,075	1,072
Other vehicles	149	152	195	505	488
Total Units Registered	33,768	42,482	45,653	52,817	85,324

Source: Kenya Revenue Authority

* Provisional.

Road Licenses

14.10. Table 14.5 shows the number of various categories of the Transport Licensing Board (TLB) and driving licenses issued. Total TLB licenses issued increased by 11.7 per cent to 79,892 in 2007, largely on account of license issuance to freight transport vehicles and PSV Matatus which grew by 12.1 per cent and 11.2 per cent respectively. Issuance of driving licenses increased by 13.3 per cent in 2007 to 185,183 compared to 163,440 licenses issued in 2006. Original licenses issued accounted for 80.2 per cent of the total driving licenses issued in 2007.

Table 14.5: Road Transport Licenses Issued, 2003-2007

Number

	2003	2004	2005	2006	2007*
TLB Licenses					
PSV Matatus.	24,775	29,275	33,352	37,065	41,219
PSV Buses and Tourist Vehicles.	4,903	5,818	6,703	7,559	8,545
Freight Transport Vehicles.	17,653	20,158	23,271	26,881	30,128
Total	47,331	55,251	63,326	71,505	79,892
Driving Licenses					
Original	81,890	91,145	106,060	126,555	148,485
Duplicate..	20,300	35,967	32,998	35,267	34,960
Foreign.....	2,144	1,623	1,949	1,618	1,738
Total.	104,334	128,735	141,007	163,440	185,183

Source: Kenya Revenue Authority

* Provisional

Road Traffic Accidents

14.11. Figures on road traffic accidents recorded in the country are presented in Table 14.6. The total number of reported traffic accidents in 2007 increased to 12,470 from 12,201 reported in 2006. Overall, a total of 25,588 persons were injured or killed in road traffic accidents in 2007 compared to 23,264 in 2006; representing a 9.9 per cent increased fatality. A major reason attributable to the strong re-emergence of road traffic accidents in the country are the rampant flouting of the 2004 road transport safety rules and regulations by operators of passenger service vehicles.

Table 14.6: Road Traffic Accidents, 2003-2007

Number

	2003	2004	2005	2006	2007*
Traffic Accidents - Reported	13,378	10,717	12,399	12,201	12,470
Persons Killed or Injured					
Killed	3,004	2,264	2,531	2,714	2,921
Seriously Injured	10,036	6,751	7,899	8,722	8,932
Slightly Injured	15,935	11,858	12,341	11,828	13,735
Total	28,975	20,873	22,771	23,264	25,588

Source: Kenya Police

* Provisional.

Railway Transport

14.12. Performance of the railway transport sub-sector is yet to make a major turn around despite concessioning of the rail transport services to a private investor. Table 14.7 presents traffic performance for the railway transport in the country. Freight tonnage transported increased from 1.9 million tonnes in 2006 to 2.3 million tonnes in 2007; an increase of 21.8 per cent.

Table 14.7: Railway Traffic, 2003-2007

	Unit	2002	2003	2004	2005	2006	2007*
Freight:							
Tonnes	000	2,227	1,999	1,890	2,000	1,891	2,304
Tonne-km	million	1,638	1,789	1,454	1,358	1,313	1,606
Revenue	Million	4,514	3,845	3,888	4,010	4,177	4,448
Revenue per tonne-Km.	Cents	293	215	267	295	318	277
Passenger:							
Journeys	000	4,794	4,401	5,657	4,796	4,348	4,500
Passenger-Km	million	306	295	279	489	369	148
Revenue	Million	153	160	245	233	160	103
Revenue per passenger-Km.	Cents	42	54	87	48	43	70

Source: Kenya Railways Corporation

* Provisional.

14.13. Revenue from transportation of cargo earned the organisation KSh 4.4 billion in 2007 compared to KSh. 4.2 billion earned in 2006, an increase of 6.5 per cent. However, earnings from passenger transportation decreased by KSh 57 million from KSh 160 million in 2006 to KSh 103 million in 2007.

Water Transport

14.14. Table 14.8 presents port traffic at the Port of Mombasa. The port surpassed its forecast of cargo traffic growth of 6.7 per cent to realise a 10.7 per cent increase in 2007. The projected traffic throughput was 15,400 thousand tonnes while the actual volume handled in 2007 was 15,962 thousand tonnes. The recorded increase in cargo traffic was mainly attributed to imports that accounted for about 81.8 per cent of the total cargo handled. Imports rose from 11,846 thousand tonnes to 13,062 thousand tonnes in 2007, while exports expanded from 2,255 thousand tonnes in 2006 to 2,474 thousand tonnes in 2007.

14.15. Container traffic also exceeded the 10.3 per cent projected growth after the port handled 585,367 twenty foot equivalent units (TEUs) in 2007 compared to 479,335 TEUs handled in 2006; representing a growth of 22.1 per cent. Transit traffic continued to grow, rising from 3,808 thousand tonnes to 4,423 thousand tonnes in 2007; an increase of 16.2 per cent. The total number of motor vehicles landed at the Port of Mombasa in 2007 increased by 13.0 per cent to 73,818 from 65,348 in 2006.

14.16. Annual cargo traffic volumes have grown beyond the projected figures and more than doubled over the last 10 years. A number of initiatives to address congestion problem and meet growing shipping requirements at the Port of Mombasa are on-going. These include commencement of round the clock operations through out the week from June 2007 and licensing of Container Freight Stations (CFS) to handle vehicles. The robust performance of the Port of Mombasa is a clear indication of the rising economic activities in Kenya and the hinterland economies served by the Port.

Table 14.8: Traffic handled at Mombasa Port, 2003-2007

	Unit	2003	2004	2005	2006	2007*
Containers Traffic	TEUs	380,353	438,597	436,671	479,355	585,367
Ships Docking	No.	1,705	1,779	1,731	1,857	1,811
Imports	000' DWT					
Dry General	"	3,363	3,834	3,654	4,099	4,866
Dry Bulk	"	1,404	1,588	2,128	2,344	2,722
Bulk Liquids	"	4,491	4,595	4,918	5,403	5,474
Total Imports	"	9,258	10,017	10,700	11,846	13,062
Of which Transit In	"	2,186	2,590	3,202	3,473	4,042
Motor Vehicles landed	No.	43,474	54,854	67,102	65,348	73,818
Exports	000' DWT					
Dry General	"	1,417	1,867	1,819	1,810	2,102
Dry Bulk	"	380	381	286	313	205
Bulk Liquids	"	271	246	173	132	167
Total Exports	"	2,068	2,494	2,278	2,255	2,474
Of which Transit Out	"	266	300	334	335	381
Total Imports and Exports	"	11,326	12,511	12,978	14,101	15,536
Transhipment	"	605	409	303	318	426
Grand Total	"	11,931	12,920	13,281	14,419	15,962

Source: Kenya Ports Authority

* Provisional.

DWT - DeadWeight Tonnes

Pipeline Transport

14.17. As indicated in Table 14.9, Kenya Pipeline Company (KPC) recorded a 3.6 per cent increase in pipeline throughput volume to realise 3,962.5 thousand cubic metres in 2007 compared to 3,826.1 thousand cubic metres recorded in the previous year. The increase in throughput was occasioned by increasing demand for white petroleum products in Kenya and in the Great Lakes Region. Most of the white petroleum products handled by the Corporation were destined for domestic market and accounted for 71.4 per cent in 2007. Throughput for White Petroleum Products to export market declined by 8.5 per cent in the review period, occasioned by declining demand for Motor Spirit and Light Diesel oil.

14.18. Despite the performance, the Pipeline system continued experiencing pumping capacity constraints leading to oil marketers being allowed to load products from Nakuru and Nairobi Terminals. In order to avert such challenges in future, KPC has invested in several projects including; installation of new pumping stations at Konza, Makindu, Manyani and Samburu; increasing storage capacity and; extension of the pipeline from Eldoret to Uganda. The Company has also embarked on a project to ease frequent cooking gas shortages in the country through handling, storage and distribution of Liquefied Petroleum Gas (LPG). The Company is also in the process of installing fibre optic cables in a bid to improve communication.

Table 14.9: Pipeline Throughput of White Petroleum Products, 2003 - 2007

'000 Cu. Metres

	2003	2004	2005	2006	2007*
Exports					
Motor Spirit (Premium)..	324.4	327.1	362.3	424.2	381.8
Motor Spirit (Regular)..	0.3	-	-	.	-
Kerosene Illuminating Oil..	87.3	98.5	106.5	112.8	116
Light Diesel Oil..	388.2	416.7	509.6	555.7	488.9
Jet Fuel..	44.0	60.4	116.7	143.9	144.9
Sub-Total	844.2	902.7	1,095.2	1,236.6	1,131.6
Domestic Consumption**					
Motor Spirit (Premium)..	350.6	387.9	386.3	375.1	487.3
Motor Spirit (Regular)..	103.8	102.9	86.6	71.4	66.4
Kerosene Illuminating Oil..	302.3	300.1	269.7	245.1	247.1
Light Diesel Oil..	668.9	883.4	957.2	1,164.5	1,220.2
Jet Fuel..	695.2	745.1	732.7	733.4	809.9
Sub-Total	2,120.8	2,419.5	2,432.5	2,589.5	2,830.9
Grand Total	2,965.0	3,322.1	3,527.7	3,826.1	3,962.5

Source: Kenya Pipeline Company

* Provisional.

** Figures do not include volume carried by Kenya Railways and consumption in the Coastal area

Air Transport

14.19. Passenger Traffic: Information on commercial traffic handled at main airports is presented in Table 14.10. There has been significant growth in passenger traffic levels mainly as a result of a buoyant domestic economy and sustained tourism activities during 2007. Commercial passenger traffic at the airports increased by 11.3 per cent from 6,324.0 thousand in 2006 to 7,039.1 thousand in 2007. The recorded traffic growth was supported by route expansion and increased frequencies to established destinations by the local flag carrier Kenya Airways and other airlines. In addition, there was an increase in international operations as a result of entry into the local service market by new international carriers including Singapore Cargo Airlines, Air Mozambique, Virgin Atlantic, Marsland Aviation and Air Italy.

14.20. Cargo and Mail Traffic: Cargo traffic has been on the rise in the recent past with cargo throughput rising from 278.5 million tonnes in 2006 to 306.3 million tonnes in 2007; representing a 10.0 per cent rise. Mail traffic on the other hand declined substantially by 21.7 per cent in 2007 after recording a marginal rise of 3.3 per cent in 2006. Mail traffic at JKIA recorded mixed performance with the landed mail declining by 37.4 per cent while loaded mail increased by 27.7 per cent. Performance of mail traffic at MIA declined for both landed and loaded mail categories during 2007.

14.21. Some notable developments in 2007 with regard to air transport sub-sector include: the on-going construction works to provide additional aircraft movement and parking area at JKIA; and, repairs of critical aircraft pavements and other facilities at Kisumu and other airports.

Table 14.10: Commercial Traffic at Main Airports, 2003-2007

'000

			2003	2004	2005	2006	2007*
Passengers (No)	JKIA Nairobi	Arrivals	1,680.3	1,927.2	2,144.2	2,244.2	2,471.6
		Departures	1,632.3	1,934.7	1,193.8	1,262.2	1,438.9
		In Transit	138.5	137.8	901.0	942.6	951.2
		Sub-Total	3,451.1	3,999.7	4,239.0	4,449.0	4,861.7
	MIA Mombasa	Arrivals	388.7	465.8	501.0	558.7	620.9
		Departures	390.7	466.6	511.2	568.8	633.4
		In Transit	43.6	43.2	53.5	76.9	91.5
		Sub-Total	823.0	975.6	1,065.7	1,204.4	1,345.8
	Other Airports	Arrivals	232.9	232.0	302.8	337.6	397.6
		Departures	227.3	229.8	287.5	311.4	399.3
		In Transit	12.3	13.1	9.5	21.6	34.7
		Sub-Total	472.5	474.9	599.8	670.6	831.6
	Total Passenger Traffic		4,746.6	5,450.2	5,904.5	6,324.0	7,039.1
Cargo (Tonnes)	JKIA Nairobi	Landed	43,305.1	52,783.3	42,168.5	54,223.2	59,496.1
		Loaded	122,918.9	130,327.6	160,410.1	186,897.6	216,286.8
		Sub-Total	166,224.0	183,110.9	202,578.6	241,120.8	275,782.9
	MIA Mombasa	Landed	1,485.0	1,624.6	1,510.0	1,552.2	1,393.9
		Loaded	3,323.0	4,909.7	6,479.2	7,924.8	7,832.1
		Sub-Total	4,808.0	6,534.3	7,989.2	9,477.0	9,226.0
	Other Airports	Landed	7,033.5	5,092.1	8,961.8	10,112.6	12,247.4
		Loaded	39,554.4	46,614.2	52,846.9	17,746.0	9,005.6
		Sub-Total	46,587.9	51,706.3	61,808.7	27,858.6	21,253.0
	Total Cargo Traffic		217,619.9	241,351.5	272,376.5	278,456.4	306,261.9
Mail (Tonnes)	JKIA Nairobi	Landed	141.6	260.6	834.4	1005.2	629.0
		Loaded	151.1	97.9	425.0	367.6	469.4
		Sub-Total	292.7	358.5	1,259.4	1,372.8	1,098.4
	MIA Mombasa	Landed	1.5	138.6	75.6	58.3	28.9
		Loaded	38.9	112.0	110.3	62.1	41.3
		Sub-Total	40.4	250.6	185.9	120.4	70.2
	Other Airports	Landed	1.4	7.3	-	.	-
		Loaded	0.0	0.5	-	.	-
		Sub-Total	1.4	7.8	-	.	-
	Total Mail Traffic		334.5	616.9	1,445.3	1,493.2	1,168.6

Source: Kenya Airports Authority

* Provisional

Communications

14.22. Postal Services: The number of private courier outlets continued with steady increase during the period under review, while that of postal offices has witnessed systematic decline since 2004. This is attributed to Postal Corporation of Kenya (PCK) ongoing rationalisation programme in order to respond to the emerging and changing business practices both in urban and rural centres. Further, licensing of more private service providers in the market have increased the level of competition and enabled wider access to services especially in the areas where PCK closed down sub post offices. As indicated in Table 14.11, the number of private courier operator outlets increased from 521 in 2006 to 554 in 2007 thereby posting a 6.3 per cent growth. The number of licensed courier operators also rose to 134 in 2007, registering a 27.6 per cent increase. The increase is attributed to the widening of the potential market as a result of opportunities presented by the initiatives to integrate East African Communities.

14.11: Postal Services, 2003-2007

Item	Unit	2003	2004	2005	2006	2007*
Post Offices..	No.	864	865	834	761	769
Private Courier Operator Outlets..	No.	330	341	437	521	554
Licensed Courier Operators..	No.	63	74	90	105	134
Total Private Letter Boxes:						
Installed	'000	396	396	400	410	412
Rented..	'000	307	301	306	323	338
Private Bags Rented..	No.	700	852	913	909	843
Total EMS Items Handled:	'000	719	707	554	628	887
Accepted	'000	292	301	240	325	462
Delivered	'000	427	406	314	303	425
Total Registered and Insured Items Posted:	'000	3,675	3,586	3,126	1,680	1,552
Domestic	'000	2,018	2,042	1,791	1,569	1,458
International	'000	1,657	1,544	1,335	111	94
Unregistered correspondence handled :	Millions	124	118	94	84	98
Domestic	Millions	102	95	75	69	79
International	Millions	22	23	19	15	19
Parcels handled :	'000	196	166	149	162	151
Domestic	'000	125	104	79	78	71
International	'000	71	62	70	84	80
Money Orders Issued:	'000	1,808	1,676	1,518	2,323	2,645
Ordinary	'000	1,011	806	608	937	820
Express	'000	794	867	908	1,384	1,823
Interstate (E.A.)	'000	3	3	2	2	2
Postal Orders Issued:	'000	16	7	2	0.5	0.25

*Provisional.

14.23. The number of installed private letter boxes increased from 410 thousand in 2006 to 412 thousand in 2007. The number of rented private letter boxes also increased by 15 thousand in 2007 representing a 4.6 per cent growth while private bags rented out decreased from 909 in 2006 to 843 in 2007. The total number of items handled under the Expedited Mail Services (EMS) grew from 628 thousand in 2006 to 887 thousand in 2007.

14.24. The number of registered and insured items posted for both local and international destinations recorded a decline of 7.6 per cent from 1,680 thousand items posted in 2006 to 1,552 items posted in 2007. Similarly the number of parcels handled went down from 162 thousand in 2006 to 151 thousand in 2007. Conversely, unregistered correspondences handled for domestic and international destinations posted a growth of 16.7 per cent.

14.25. Money orders issued also posted a positive growth of 13.9 per cent from 2,323 thousand in 2006 to 2,645 thousand in 2007. This was mainly due to an upsurge in the use of Express money orders which increased from 1,384 thousand in 2006 to 1,823 thousand in 2007.

Telecommunications

14.26. Table 14.12 presents indicators for the telecommunication traffic in the country. As shown, the telecommunications sub-sector has continued witnessing tremendous subscriber growth supported by heavy investment. The performance of the sub-sector was further boosted by introduction of wireless technology for providing telephone services by Telkom Kenya and Local Loop Operators. Growth in subscriber base and exchange capacity for fixed, wireless and mobile network led to an improved total tele-accessibility that now stands at 35.0 in 2007 compared to 9.9 in 2006. Consequently, tele-density rose from 0.9 to 1.4 during 2007.

Fixed Line and Wireless Telephones

14.27. In 2007, the fixed telecommunications industry registered some modest growth owing to the introduction of Code Division Multiple Access (CDMA) technology. Since the CDMA technology was introduced, the wireless connections have increased significantly from about 6 thousand connections in 2006 to about 200 thousand connections in 2007. The tremendous growth recorded is mainly supported by widening coverage of the wireless network in the country.

14.28. Wireless network service was introduced in October 2006 as part of the initiative to cover potential markets and manage rampant vandalism of telephone cable/wires. The total fixed telephone capacity including the wireless capacity stood at 837 thousand by the end of 2007, up from 533 thousand in 2006. Consequently, the total number of connections increased to 468.4 thousand by December 2007 up from 291.2 thousand in December 2006; representing a 60.9 per cent increase.

Mobile Telephones

14.29. In line with the global trends, the mobile network has continued to experience notable growth rate during the period under review with the number of mobile subscribers base rising from 7,340 thousand in 2006 to 11,440 thousand in 2007; representing an increase of 55.9 per cent. Short messaging service (sms) continued proving to be popular with messages sent rising to 412.5 million by December 2007 from 255.8 million in December 2006. The number of conventional and community payphones decreased from 6 thousand booths in 2006 to 5 thousand booths in 2007, associated with availability of affordable personal handsets, lower call charges and the diminishing profits in this market segment.

Table 14.12: Telecommunications Traffic, 2003-2007

	Unit	2003	2004	2005	2006	2007*
Fixed Lines, CDMA, and other Wireless						
Capacity	'000	508	508	517	533	837
Connections	'000	328	280	287	291	468
Public Call boxes (Telephone Booths):	'000	11	10	9	6	5
Coin Phones	'000	8	8	8	5	4
Card/Prepaid Phones	'000	3	2	1	1	1
Manual Telephone Calls made	'000	1,097	447	455	-	-
Mobile Connections:						
Sold in the year	'000	1,097	1,558	1,315	1,945	4,100
Sold to date.	'000	2,737	4,295	5,328	7,340	11,440
Licensed Internet Services Providers (ISPs)	No.	76	78	72	51	50
Tele - Density %	-	1	0.9	0.9	0.9	1.4
Tele-Accessibility %	-	6.1	8.8	14.6	19.9	35

* Provisional

14.30. During 2007, the telecommunication sector experienced major developments in both service delivery innovations and infrastructure. On service delivery, the introduction and provision of financial services via mobile phones has improved financial intermediation services. Money transfer services using mobile phones were launched by the two leading mobile service providers. These services enable subscribers to transfer money without the need of holding bank accounts.

14.31. The national transmission infrastructure in the country will be bolstered further by the construction of a fibre optic link connecting all the district headquarters in the country. Construction of the National Optic Fibre Backbone Infrastructure (NOFBI) was launched in November 2007 and set to be finalised by 2008. The future outlook of the communications sub-sector looks even brighter after completion of the NOFBI that is expected to lead to significant reduction in the cost of bandwidth and hence result in cheaper service charge for communications.

Information and Mass Media

14.32. Broadcasting Sub-Sector: There was a high demand for broadcasting frequencies during 2007 which is demonstrated by the high number of applicants requesting for allocation of frequencies. However, only 20 FM frequencies sound including 9 low FM and 4 TV broadcasting frequencies were assigned during the year compared to 104 FM sound and 34 TV broadcasting frequencies assigned in 2006. The national telecommunications sector services regulator deliberately discontinued assignment of TV frequencies in order to prepare the country for digital broadcasting. The low FM frequencies were assigned to nine organisations on a shared basis. Some of these major organisations are higher institutions of learning and community-based organisations including: Sarakasi Trust, KOCH FM, St Paul's Theological University, Maseno University, and Masinde Muliro University among others.

Table 14.13: Radio and TV Frequencies Assigned, 2003-2007

Number

	Unit	2003	2004	2005	2006	2007*
Frequencies						
TV Frequencies.	No.	60	77	89	123	127
FM Frequencies.	No.	137	148	244	348	368

Source: Communication Commission of Kenya

* Provisional

14.33. The Communications Commission of Kenya (CCK) informed the public of its decision to discontinue assignment of analogue TV broadcasting frequencies in order to prepare the country for digital broadcasting. The Commission in conjunction with the Ministry of Information and Communications held a consultative forum to inform stakeholders of the new developments in regard to digital broadcasting. The transition from analogue to digital broadcasting, whose deadline has been set for 2015, will allow Kenyans enjoy multiple broadcasting services with improved video and audio quality. This will be coupled with digital dividends emanating from greater spectrum efficiency due to the additional number of programmes which can be accommodated within the same spectrum that was previously occupied by one analogue channel.

Print Media

14.34. Table 14.14 presents the details of the average daily and weekly circulation copies of newspapers in the country. As shown, newspaper readership went up for both the dailies and weekly newspapers. Circulation copies for morning newspapers published in English and Swahili languages grew by 10.2 and 13.7 per cent respectively in 2007. Weekly newspaper circulation copies also increased by 40.8 per cent in 2007 compared to a decline of 9.8 per cent recorded in 2006. The substantial increase in the circulation copies recorded in 2007 is associated with an election year which has always recorded higher than usual newspaper readership.

Table 14.14: Local Daily/Weekly Newspapers in Circulation, 2003-2007

'000 Copies

	2003	2004	2005	2006	2007*
Morning Newspapers-					
English	86,508	78,309	80,938	89,402	98,479
Swahili	8,686	7,711	6,818	6,603	7,510
Other Newspapers-					
English Weeklies	1,505	1,316	1,282	1,156	1,628

* Provisional

Chapter 15
Governance

Overview

Provision of public safety, law and order facilitates economic development in any country through encouraging investors and lowering the cost of doing business. It is on this basis that the Government recognizes the importance of good governance statistics which is crucial for evidence based decision making. Governance chapter is new in this publication and captures information on Public Safety, Law and Order, Democracy and Human Rights. In previous Economic Survey publications, information on governance issues was published in Chapter three.

15.2. In 2007, a total of 63,028 crimes were reported to the Police compared to 72,225 crimes reported in the previous year, representing a decline of 12.7 per cent. The number of persons recorded by Police to have committed crimes reduced by 7.5 per cent from 75,143 in 2006 to 69,484 in 2007. A reduction of 39.3 per cent was recorded in the number of female offenders. Regionally, Western Province recorded the highest reduction of 28.2 per cent in the number of persons reported to Police to have committed offences followed by Nairobi with 25.8 per cent in 2007. There was an increase of 6.2 and 3.4 per cent in offences committed against morality and other offences against persons in 2007, respectively. The increase was mainly noted among persons who committed offences of defilement, incest and creating disturbances with 40.0, 37.7 and 22.9 per cent, respectively, in 2007.

15.3. The number of cases filed and pending in courts declined by 11.2 per cent and 8.0 per cent, respectively, in 2007. The reduction in number of pending cases could partly be attributed to an increase of 19.4 per cent in the number of cases disposed of. Miscellaneous cases filed, pending and disposed of more than doubled in the period under review. Land and affiliation cases registered increases of 9.5 per cent and 45.7 per cent, respectively, among cases filed.

15.4. The number of corruption cases reported to Kenya Anti-Corruption Commission (KACC) increased by 3.8 per cent from 7,888 in 2006 to 8,188 in 2007. The total number of convicted prison population increased by 2.7 per cent from 111,134 in 2006 to 114,087 in 2007. Persons serving probation service declined by 32.2 per cent from 17,425 in 2006 to 11,817 in 2007.Similarly, the number of jailed persons serving community service declined by 12.2 per cent from 39,551 in 2006 to 34,709 in 2007.

15.5. The number of registered voters increased by 14.1 per cent from 12,529.0 thousand in 2006 to14,296.2 thousand in 2007. New identity cards issued and replaced increased from 654.3 thousand in 2006 to 2,407.9 thousand in 2007. Similarly, the number of identity cards collected quadrupled from 549.0 thousand in 2006 to 2,155.5 thousand in 2007. The increases could be attributed to December 2007 General Elections . This is confirmed by the large number of registered voters during the year under review. The number of work permits issued decreased by 37.4 per cent from 8,452 in 2006 to 5,287 in 2007. Passports issued increased by 23.5 per cent from 94,156 in 2006 to 116,253 in

2007 in line with improved service delivery associated with introduction of performance contracts and Rapid Results Initiative (RRI) in the civil service.

Public Safety, Law and Order

15.6. The Kenya Police maintains law and order which is not only necessary to boost investor's confidence but also provides the requisite environment to work peacefully. This in turn contributes to wealth creation which is key to economic growth. The Police play a primary role in investigations, interrogations of suspects and witnesses, and carry out arrests, searches and seizures once offences are reported. Table 15.1 gives annual crimes reported to the Police across the country. The number of crimes reported continued to decline for the third year round recording 63,028 in 2007 from 72,225 in 2006. Except crimes against morality and economic crimes which increased by 4.2 per cent and 1.9 per cent respectively, all the other categories of crimes recorded reductions in 2007.

Table 15.1: Annual Crimes Reported to Police Stations, 2003 - 2007

Number

Crime Category	2003	2004	2005	2006	2007*
Homicide	2,098	2,411	2,313	2,090	1,912
Offences against morality	3,117	3,439	3,153	3,525	3,673
Other offences against persons	19,741	20,247	17,304	18,723	17,831
Robbery	7,678	7,967	6,936	5,234	3,492
Breakings	8,378	9,242	8,454	7,420	6,337
Theft of stock	1,699	2,380	2,219	2,209	1,568
Stealing	11,684	13,119	12,589	10,874	10,749
Theft by servant	2,765	3,217	2,874	2,700	2,169
Vehicles and other thefts	1,910	2,037	1,718	1,660	1,221
Dangerous drugs	5,187	5,761	6,356	5,821	5,401
Traffic offences	57	60	38	62	46
Criminal damage	4,039	3,852	3,236	3,518	2,770
Economic crimes	1,824	1,868	1,390	1,873	1,908
Corruption	62	182	107	252	177
Offences involving police officers	145	6	29	76	32
Offences involving tourists	22	40	32	84	10
Other penal code offences	6,934	8,013	6,652	6,104	3,732
Total	77,340	83,841	75,400	72,225	63,028

Source: Kenya Police Department

* Provisional

15.7. Firearms and ammunitions in the hands of criminals pose a great challenge to the stability and security of the country. Incidences of criminal activities such as murder, robbery with violence, carjacking, cattle rustling, and motor vehicle robberies reported in the country mainly involve use of firearms. Table 15.2 presents data on firearms and ammunitions recovered and/or surrendered to the Government from 2003 to 2007. Firearms recovered in 2007 dropped significantly by 60.6 per cent while those surrendered increased five-fold. Ammunitions recovered more than doubled while those surrendered declined by 22.7 per cent in 2007.

Table 15.2: Firearms and Ammunitions Recovered/Surrendered, 2003- 2007

Number

Firearms/Ammunition			2003	2004	2005	2006	2007*
Firearms	Recovered	Rifles	140	142	132	516	186
		Pistols	298	301	216	619	261
	Total		438	443	348	1,135	447
	Surrendered	Toys	-	83	-	-	-
		Rifles	12	31	1,929	39	206
		Pistols	2	4	23	-	-
	Total		14	118	1,952	39	206
Ammunition	Recovered		5,136	5,316	4,402	3,345	7,084
	Surrendered		102	1,114	4,687	264	204
Magazines	Recovered		18	26	7	1	-

Source: Kenya Police Department

* Provisional

15.8. Table 15.3 gives a breakdown of offences recorded by Police in the Provinces from 2003 to 2007. There was a general decline in cases reported to Police across all the Provinces in 2007. Offences reported by Kenya Airports Police Unit (KAPU) , Nairobi , and Railways declined by 70.3, 43.4 and 27.5 per cent respectively, in 2007.

Table 15.3: Number of Offences Reported to Police by Province, 2003 - 2007

Number

Province	2003	2004	2005	2006	2007*
Nairobi	13,580	13,426	12,300	11,302	6,395
R/ Valley	15,895	17,478	15,320	14,730	12,590
Central	11,506	13,187	12,237	10,900	10,187
Eastern	10,298	10,921	9,454	9,812	9,615
Nyanza	8,960	9,035	7,913	7,962	7,756
Coast	9,045	10,093	8,629	8,601	8,182
Western	6,788	8,735	8,546	7,600	7,088
North Eastern	789	615	605	949	786
Railways[1]	333	294	270	204	148
KAPU[1]	146	57	126	165	281
Total	77,340	83,841	75,400	72,225	63,028

Source: Kenya Police Department

* Provisional

[1]KAPU (Kenya Airports Police Unit) and Railways are considered as Provinces

15.9. Table 15.4 presents the number of persons reported to have committed offences by province and gender from 2004 to 2007. There was a reduction of 7.5 per cent in the number of persons recorded to have committed crimes from 75,143 in 2006 to 69,484 in 2007. A reduction of 39.3 per cent was recorded among females Regionally, Western Province recorded the highest reduction of 28.2 per cent followed by Nairobi with 25.8 per cent in 2007. The number of persons reported in Kenya Airports Police Unit (KAPU), Nyanza and North Eastern increased by 40.1, 35.5 and 11.3 per cent, respectively, in 2007.

*

Table 15.4: Number of Persons Reported to Police to have Committed Offences by Gender, 2004 - 2007

15.10. Table 15.5 shows the number of persons reported to the Police for having committed crimes against morality and other offences against persons by gender for the period 2004 to 2007. In 2007, 6.2 per cent and 3.4 per cent increases were recorded in the number of persons reported to have committed offences against morality and other offences against persons respectively. The increase was mainly noted among persons who committed offences of defilement, incest and creating disturbances with 40.0, 37.7, and 22.9 per cent, respectively in 2007.

Table 15.5: Persons Reported to Police to have committed Offences against Morality and Other Offences against Persons by Gender, 2004 - 2007

15.11. The Judiciary defends and upholds the Kenya Constitution and ensures that the rule of law prevails by protecting each person's constitutional, human, civil and legal rights. Table 15.6 shows different types of cases filed, pending and those disposed of in the Law courts throughout the country in the last four years. There was a reduction of 11.2 per cent and 8.0 per cent of the number of cases filed and pending in courts, respectively, in 2007. The reduction in number of pending cases could be attributed to an increase of 19.4 per cent in the number of cases disposed of among others. Miscellaneous cases filed, pending and disposed of more than doubled in the period under review. Land and affiliation cases registered increases of 9.5 per cent and 45.7 per cent respectively among cases filed. The number of pending cases on land, miscellaneous, civil and criminal significantly increased while those on succession, affiliation and traffic recorded reductions during the review period.

Table 15.6: Cases Filed, Pending and Disposed of by Various Magistrates' Courts[1], 2004 - 2007

Number

Year	Condition of case	Criminal	Traffic	Land	Succession	Affiliation	Miscellaneous	Civil	Total
2004	Filed	189,642	131,285	604	3,944	1,807	2,618	31,476	361,376
	Pending	77,316	358,733	2,199	7,303	1,060	4,659	89,472	540,742
	Disposed of	166,177	166,117	428	4,012	1,518	2,588	23,749	364,589
2005	Filed	171,775	173,680	799	3,583	1,242	5,100	34,628	390,807
	Pending	82,212	378,519	1,509	6,487	3,465	5,216	103,804	581,212
	Disposed of	165,511	147,525	476	2,674	918	3,915	19,574	340,593
2006	Filed	195,098	188,533	1,439	4,146	346	5,380	28,697	423,639
	Pending	127,837	552,438	2,618	30,722	1,191	4,878	94,453	814,137
	Disposed of	178,608	167,637	1,213	3,539	198	5,243	39,646	396,084
2007*	Filed	168,379	161,301	1,575	4,044	504	14,562	25,917	376,282
	Pending	142,381	467,712	3,963	8,845	634	14,946	110,550	749,031
	Disposed of	187,919	229,928	1,405	2,866	410	13,127	37,355	473,010

Source: Judiciary
* Provisional
[1] As at 31st December for the year under reference

15.12. Table 15.7 shows the distribution of Magistrates and Judges in the country by cadre. There was an overall reduction of 3.4 per cent of magistrates and judges from 323 in 2006 to 312 in 2007. The total number of magistrates reduced by 4.9 per cent from 265 in 2006 to 252 in 2007 while that of judges increased by 3.4 per cent from 58 in 2006 to 60 in 2007.

Table 15.7: Distribution of Magistrates and Judges in Law Courts by Cadre, 2004 - 2007

Number

Category	2004	2005	2006	2007*
Magistrates				
Chief Magistrate	14	9	8	14
Senior Principal Magistrate	26	15	15	18
Principal Magistrates	48	30	35	34
Senior Resident Magistrates	122	102	78	100
Resident Magistrates	92	77	119	74
District Magistrate (II)	41	38	10	12
Sub-total	343	271	265	252
Judges				
Court of Appeal Judges	9	9	9	11
High Court Judges	49	49	49	49
Sub-total	58	58	58	60
Total	401	329	323	312

Source: Judiciary, 2007

* Provisional

15.13. Kenya Anti-Corruption Commission (KACC) sensitizes the public on the phenomenon of corruption, its effects on society and the benefits of preventing it among other activities. As shown in Table 15.8, the number of corruption cases reported to KACC increased by 3.8 per cent from 7,888 in 2006 to 8,188 in 2007. The number of cases investigated by KACC and those referred to other investigative agencies increased by 40.1 per cent and 11.0 per cent, respectively, in 2007. Similarly, those pending and awaiting further information more than tripled over the same period. During the review period, KACC witnessed a reduction in the number of cases that required no further action and those that were referred to public service organizations for administrative interventions.

Table 15.8: Cases Reported to KACC by Type, 2003 -2007

Number

Type of case	2003	2004	2005	2006	2007*
No. of corruption cases for investigation	303	242	384	1,150	1,611
Criminal cases referred to other investigative agencies	1,332	1,322	705	885	982
Cases referred to public service organizations for	890	1,149	1,010	1,474	1,376
Pending for more information	20	32	17	59	192
Complainants advised on the right authority to report	476	578	330	4,071	3,853
No further action	371	229	251	249	174
Total	3,392	3,552	2,697	7,888	8,188

Source: Kenya Anti-Corruption Commission,

* Provisional

15.14. Table 15.9 gives the number of quarterly reports forwarded to the Attorney General by KACC for various reasons. In 2007, the number of reports recommended for administrative action quadrupled while those whose files were closed more than doubled. The total number of quarterly reports increased by 81.0 per cent while those recommended for prosecution increased by 58.6 per cent.

Table 15.9: Number of Quarterly Reports from KACC to the Attorney General[1], 2004 - 2007

Number

Type of Report	2004	2005	2006	2007
Quarterly Reorts	38	35	84	152
Reports recommended for prosecution	26	23	70	111
Files closed	9	12	12	30
Reports recommended for administrative action	3	0	2	8

Source: Kenya Anti-Corruption Commission,
* Provisional
[1] As at 31st December every year

15.15 Table 15.10 shows the convicted prison population by age and gender between 2003 and 2007. The total number of convicted prison population increased by 2.7 per cent from 111,134 in 2006 to 114,087 in 2007. The number of convicted male youth aged between 16 and 17 increased by 14.8 per cent from 4,455 in 2006 to 5,115 in 2007. Similarly, convicted females in the same age group increased by 12.8 per cent from 367 in 2006 to 414 in 2007. The number of convicted males and females aged between 18 to 20 went up by 9.2 per cent and 14.8 per cent from 20,710 and 2,797 in 2006 to 22,621 and 3,212 respectively, in 2007. Notable reduction in prison population was witnessed among the under 16 who recorded a decline of 96.5 per cent for males and 25.0 per cent for females.

Table 15.10: Convicted Prison Population by Age and Gender, 2003 - 2007

Number

Year	Gender	Under 16	16-17	18-20	21-25	26-50	50+	TOTAL
2003	Male	1	5,465	17,465	26,382	28,629	6,150	84,092
	Female	0	644	3,071	2,776	3,304	333	10,128
	Total	1	6109	20536	29158	31933	6483	94220
2004	Male	166	3,706	19,134	27,921	19,846	8,559	78,432
	Female	0	351	2,874	3,780	3,290	562	10,857
	Total	166	4057	22008	31701	23136	9121	89289
2005	Male	2	3,293	16,685	30,440	33,339	5,936	89,689
	Female	0	548	2,198	4,333	4,298	624	12,001
	Total	2	3841	18883	34773	37637	6560	101,696
2006	Male	1077	4,455	20,710	27,838	37,005	6,700	97,785
	Female	12	367	2,797	3,894	5,666	613	13,349
	Total	1089	4822	23507	31732	42671	7313	111134
2007*	Male	38	5,115	22,621	30,122	35,102	6,549	99,547
	Female	9	414	3,212	4,011	6,223	671	14,540
	Total	47	5,529	25,833	34,133	41,325	7,220	114,087

Source: Kenya Prisons Service Department
* Provisional

15.16. Table 15.11 shows the daily average population of both convicted and remand prisoners by gender from 2003 to 2007. The population went up by 3.4 per cent from 47,155 in 2006 to 48,759 in 2007. In 2007, the daily average number of convicted and remand prisoners increased by 3.6 per cent and 3.2 per cent from 25,360 and 21,795 in 2006 to 26,262 and 22,496 in 2007, respectively. Notable differences exist among both convicted and remand prisoners by gender. Whereas the number of convicted females increased by 9.2 per cent, that of males increased by 3.3 per cent during the year under review. Male remandees increased by 3.9 per cent while female remandees decreased by 9.2 per cent during the same period.

Table 15.11: Daily Average Population (DAP) of Prisoners by Gender, 2003 - 2007

Number

	Convicted Prisoners			Remand Prisoners			
Year	Males	Females	Total	Males	Females	Total	Total DAP
2003	24,531	1,238	25,769	15,020	924	15,944	41,713
2004	25,510	1,292	26,802	20,675	774	21,449	48,251
2005	23,063	1,261	24,324	19,484	1,003	20,487	44,811
2006	24,084	1,276	25,360	20,609	1,186	21,795	47,155
2007*	24,868	1,394	26,262	21,419	1,077	22,496	48,759

Source: Kenya Prisons Service Department

* Provisional

15.17. Table 15.12 gives the prison population by sentence duration from 2003 to 2007. In 2007, a reduction was recorded of 13.2 per cent in the total number of persons who had previously been convicted. The prisoners who died in prison excluding executions, declined by 7.9 per cent while those committed to sentences of two years and above declined by 6.5 per cent in 2007. The prisoners convicted for debts and the remandees increased by 24.1 per cent and 14.4 per cent from 842 and 224,620 in 2006 to 1,045 and 256,854 in 2007, respectively. Variations existed among the prison population by gender and sentence duration. Whereas there was an increase of 14.9 per cent among females jailed for two or more years, males recorded a decline of 7.5 per cent.

15.18. Table 15.13 shows the number of convicted prisoners by type of offence. There was a drop of 3.2 per cent in the number of convicted prisoners from 110,389 in 2006 to 106,844 in 2007. The largest reduction occurred among persons convicted for attempts and conspiracies followed by those found to have committed offences related to Liquor Act. Persons convicted for attempted conspiracies reduced by 62.7 per cent from 5,563 in 2006 to 2,075 in 2007 while those jailed under Liquor Act reduced by 11.0 per cent from 32,657 in 2006 to 29,080 in 2007. The highest percentage increase of prisoners was recorded among those jailed for offences related to injuries to public followed by those whose offences were related to property.There was a 17.2 per cent increase in number of prisoners jailed for injurious to public from 4,710 in 2006 to 5,520 in 2007. Similarly, there was an increase of 13.3 per cent from 11,145 in 2006 to 12,630 in 2007 among those jailed for offences related to property.

Table 15.12: Prison Population by Sentence Duration, 2003 - 2007

15.19. Personnel in the Police, Prisons and Probation Departments play an important role of ensuring that there is public safety, law and order. Their population in relation to the population they take care of determines their efficiency and effectiveness in the performance of their duties. Table 15.14 shows the total number of police, prison and probation officers from 2003 to 2007. Whereas there was a reduction of 4.2 per cent of probation officers in 2007, Police and Prisons Departments registered increases in the number of officers by 4.9 per cent and 10.8 per cent, respectively.

Table 15.13: Convicted Prisoners by Type of Offence 2003 - 2007

Table 15.14: Justice and Security Personnel in Police, Prisons and Probation and Aftercare Departments, 2003 - 2007

Number

Year	Gender	Police officers[1]	Prisons officers	Probation officers
2003	Males		12,045	181
	Females		2,389	106
	Total		14,434	287
2004	Males		12,192	198
	Females		2,431	107
	Total		14,623	305
2005	Males	34,063	12,254	196
	Females	2,802	2,511	105
	Total	36,865	14,765	301
2006	Males	35,862	12,366	271
	Females	3,210	2,551	162
	Total	39,072	14,917	433
2007*	Males	37,382	13,953	259
	Females	3,615	2,573	156
	Total	40,997	16,526	415

Source: Police, Prisons and Probation and Aftercare Departments

* Provisional

[1] Data not available for 2003 and 2004

15.20. Criminal Justice System is putting more emphasis on non-custodial sentences for offenders who have not committed capital offences. This is being implemented in order to overcome overcrowding in prisons. This system puts offenders on either probation or community service orders as an alternative to serving full jail terms in prison. This is done after probation officers conduct investigations to reveal the psycho-social and personal history of those brought before the courts. Social enquiry and maintenance reports are produced in courts before judgments are undertaken. Tables 15.15 and 15.16 give the number of offenders on probation and community service orders by gender and type of offence respectively for the period 2003 to 2007.

15.21. The number of offenders on probation service and that of prisoners serving community service orders declined by 32.2 per cent and 12.2 per cent, respectively, in 2007 as shown in Table 15.17. In contrast, those serving community aftercare rehabilitation more than tripled from 624 to 1,965 during the same period. Significant increases were noted among those who were released after serving their jail terms for murder, manslaughter and, robbery and allied offences.

Table 15.15: Number of Offenders Serving Probation Sentence by Gender and Type of offence, 2003 -2007

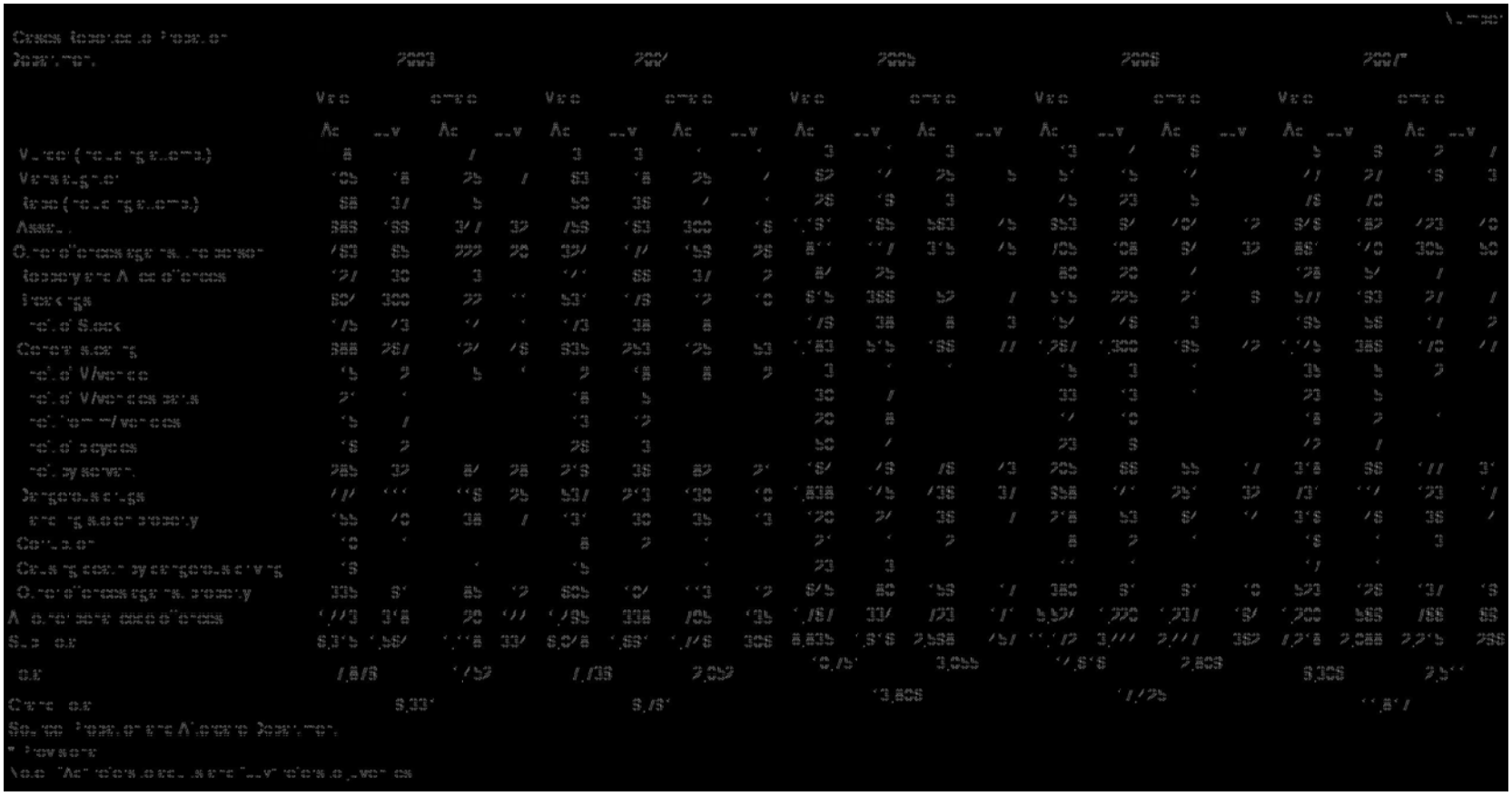


Table 15.16: Number of Offenders Serving Community Service Order by Gender and Offence, 2003 - 2007

Table 15.17: Number of Offenders Serving Community Aftercare Rehabilitation by Gender and Offence, 2003 - 2007

Number

Cases Reported to Probation Department	2003		2004		2005		2006		2007*	
	Males	Females	Males	Females	Males	Females	Males	Females	Males	Females
Murder (including attempt)	7	5	12	17	29	46	2	0	15	15
Manslaughter	5	1	6	7	13	20	3	0	17	17
Rape (including attempt)	30	0	30	30	60	90	35	0	86	86
Assault	15	0	15	15	30	45	24	0	70	70
Other offences against the person	47	2	49	51	100	151	32	0	59	59
Robbery and Allied offences	20	0	20	20	40	60	17	0	73	73
Breakings	169	0	169	169	338	507	102	0	171	171
Theft of Stock	14	0	14	14	28	42	14	1	50	51
General stealing	145	2	147	149	296	445	162	4	208	212
Theft of M/vehicle	0	0	0	0	0	0	4	1	2	3
Theft of M/vehicles parts	0	0	0	0	0	0	1	0	6	6
Theft from m/ vehicles	0	0	0	0	0	0	2	0	8	8
Theft of bicycles	1	0	1	1	2	3	1	0	3	3
Theft by servant	9	1	10	11	21	32	23	2	46	48
Dangerous drugs	49	0	49	49	98	147	65	0	38	38
Handling stolen property	4	0	4	4	8	12	12	0	15	15
Corruption	2	0	2	2	4	6	0	0	0	0
Causing death by dangerous driving	3	0	3	3	6	9	0	0	3	3
Other offences against property	40	0	40	40	80	120	40	0	15	15
All other penal code offences	94	2	96	98	194	292	94	1	93	94
Total	657	13	670	683	1,353	2036	633	9	978	987
Grand Total	**670**		**1,353**		**3,389**		**642**		**1,965**	

Source: Probation and Aftercare Department

* Provisional

Democracy

15.22 Table 15.18 presents the number of registered voters by gender from 2003 to 2007. The number of registered voters increased by 14.1 per cent from 12,529.0 thousand in 2006 to14,296,2 thousand in 2007. However, this growth should be interpreted against the background that 2007 was an election year. North Eastern province registered the highest increase of 23.5 per cent followed by Nairobi, and Nyanza with 19.1 per cent and 15.0 per cent rise respectively. Rift Valley province accounted for the largest share of 23.5 per cent of the total voters in the country. It was followed by Eastern and Central at 16.6 per cent and 15.3 per cent respectively. North Eastern province accounted for 2.2 per cent of total registered voters recording The number of registered voters is a key indicator of citizens' preparedness to exercise their democratic right of voting for their preferred candidates in general elections.

Table 15.18: Number of Registered Voters by Province and Gender, 2003 - 2007

Human Rights

15.23. Kenyan National Identity Cards (IDs) are crucial for proving citizenship and are required virtually in most of official transactions. One requires an identity card to get a Kenyan passport, an elector's card, besides other business and Government transactions. Table 15.19 shows the number of identity cards issued, replaced and collected by gender from various centres. The number of new identity cards issued and replaced almost quadrupled from 654.3 thousand in 2006 to 2,407.9 thousand in 2007. Similarly, the number of IDs collected more than tripled from 549.0 thousand in 2006 to 2,155.5 thousand in 2007. The increases could be associated to increased demand of elector's card, which is a requisite condition for participation in general elections.

Table 15.19: Number of National Identity Cards Issued, Replaced and Collected by Gender, 2003 - 2007

Number

Year	Gender	New IDs Issued	IDs Replaced	Total	IDs Collected	Uncollected Cards
2003	Males	381,802	144,599	526,401		
	Females	261,499	73,808	335,307		
	Total	643,301	218,407	861,708	542,187	319,521
2004	Males	403,128	158,316	561,444		
	Females	267,911	73,502	341,413		
	Total	671,039	231,818	902,857	587,075	315,782
2005	Males	473,865	187,998	661,863		
	Females	331,765	96,583	428,348		
	Total	805,630	284,581	1,090,211	847,075	243,136
2006	Males	268,946	122,354	391,300		
	Females	194,870	68,160	263,030		
	Total	463,816	190,514	654,330	549,004	105,326
2007*	Males	816,092	400,695	1,216,787		
	Females	947,780	243,366	1,191,146		
	Total	1,763,872	644,061	2,407,933	2,155,489	252,444

Source: Ministry of State for Immigration and Registration of Persons
* Provisional

15.24. A Kenyan passport is a travel document issued by the Government for prove of nationality and allows the bearer to enter and pass through other countries. All non-Kenya Citizens must be in possession of work permits issued by the Principal Immigration Office, before they can take up employment in Kenya, whether paid or unpaid. Table 15.20 presents the number of passports and work permits issued by the Kenya Government from 2003 to 2007. The number of work permits issued decreased by 37.4 per cent from 8,452 in 2006 to 5,287 in 2007. However, the number of passports issued increased by 23.5 per cent from 94.2 thousand in 2006 to 116.3 thousand in 2007. The increase is in line with improved service delivery associated with introduction of performance contracts and rapid results initiative in the civil service.

Table 15.20: Number of Passports and Work Permits Issued, 2003 - 2007

Numbers

Category of issuance	2003	2004	2005	2006	2007*
Number of Entry Permits Issued	5,167	11,934	9,966	8,452	5,287
Number of Passports Issued	76,309	84,315	88,674	94,156	116,253

Source: Ministry of State for Immigration and Registration of Persons

* Provisional

Appendix 15.1 Note: Police Department reclassified offences reported to police in view of new legislations such as the Economic Crimes.This therefore necessitated revision of table 15.1. Another new development is the reporting of offences by gender. Below is the classification of offences shown in table 15.1.

CODE	OFFENCES	CATEGORY OF OFFENCES
1	HOMICIDE	a) Murder
		b) Manslaughter
		c) Infanticide
		d) Procuring Abortion
		e) Concealing Birth
		f) Suicide
		g) Causing Death by dangerous Driving
2	OFFENCES AGAINIST MORALITY	a) Rape
		b) Defilement
		c) Incest
		d) Unnatural Offences(Sodomy)
		e) Bestiality
		f) Indecent assault
		g) Abduction
		h) Bigamy
3	OTHER OFFENCES AGAINIST PERSONS	a) Assault
		b) Creating Disturbance
		c) Affray
4	ROBBERY	a) Robbery
		b) Robbery with Violance
		c) Carjacking
		d) Robbed of M/V
		e) Cattle Rustling
5	BREAKING	a) House Breaking
		b) Burglary
		e) Other Breakings
6	THEFT STOCK	
7	STEALING	a) Handling Stolen Property
		b) Stealing from Person
		c) Stealing by Tenants/lodgers
		d) Stealing from a building
		e) General Stealing
8	THEFT BY SERVANT	a) Stealing by Directors
		b) Stealing by employee/servant

Cont'd

CODE	OFFENCES	CATEGORY OF OFFENCES
9	VEHICLE AND OTHER THEFTS	a) Theft of M/V b) Theft from M/V c) Theft of M/V part d) Theft of M/Cycle
10	DANGEROUS DRUGS	a) Possession b) Handling c) Trafficking d) Cultivating e) Usage
11	TRAFFIC OFFENCES	a) Taking and Driving Motor Vehicle without Authority b) Driving under influence of alcohol
12	CRIMINAL DAMAGE	a) Malicious Damage b) Arson c) Negligent Acts
13	ECONOMIC CRIMES	a) Obtaining by False Pretence b) Currency Forgery c) Other Fraud/Forgery Offences
14	CORRUPTION	a) Soliciting for Bribe b) Accepting Bribe c) Accept Free Gifts d) Demanding by false pretence e) Other Corruption Offences
15	OFFENCES INVOLVING POLICE OFFICERS	a) Soliciting for Bribe b) Accepting Bribe c) Accept Free Gifts d) Demanding by false pretence e) Other Criminal Offences
16	OFFENCES INVOLVING TOURIST	a) Bag Snatching b) Other offences Against Tourists c) Other Offences involving Tourist

Chapter 16

Highlights of Well-Being in Kenya by Socio-economic Profiles, 2005/06

Introduction

This chapter presents summary findings of the poverty situation in Kenya as contained in the Report on Well-Being in Kenya by Socio-economic Profiles, 2005/06. The report is based on information generated from the Kenya Integrated Household Budget Survey (KIHBS), a study conducted between May 2005 and May 2006. The chapter highlights associations between poverty and socio-economic variables, namely; household size, sex of household-head, education (literacy levels), marital status, child survival, fertility and main source of drinking water.

Poverty Concepts and Measurement

16.2. Measures of welfare in the report were based on household consumption rather than income. KIHBS 2005/06 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. Poverty measures discussed in this chapter therefore refer to adult equivalents and relate to the absolute (overall) poverty line.

16.3. The poverty lines derived from the KIHBS data were based on the Cost-of-Basic-Needs (CBN) method. The food poverty line was estimated as the cost in monetary terms 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 (absolute) poverty lines were KSh 1,562 and KSh 2,913 for rural and urban areas, respectively.

Poverty by Socio-economic Characteristics

16.4. Poverty and Total (Age) Dependency Ratio: The total dependency ratio, also referred to as age dependency ratio, is defined as the proportion of population that is dependent (age 0-14 and 65+) on the working-age population (age 15-64). Table 16.1 shows that Kenya's total dependency ratio stands at 81.4. This implies that there are 81 persons dependent on every 100 working-age people. In terms of poverty status, the poor generally exhibit higher dependency ratios compared to their non-poor counterparts across all provinces. The poor on average have 20 more dependents per 100 working age population compared to the non-poor.

Table 16.1: Age-dependency Ratio and Mean Household size by Region and Poverty Status

Region	Age Dependency Ratio			Mean Household size		
	Poor	Non Poor	Total	Poor	Non poor	Total
Kenya	93.9	71.8	81.4	6.2	4.4	5.1
Rural	98.0	79.6	88.3	6.5	4.7	5.5
Urban	73.2	51.5	58.3	5.0	3.6	4.0
Province						
Nairobi	71.3	48.1	52.7	4.3	3.7	3.8
Central	82.8	62.8	68.5	5.8	4.2	4.6
Coast	92.8	69.2	82.4	7.7	4.8	6.5
Eastern	89.8	74.3	81.8	6.5	5.0	5.7
North Eastern	140.0	113.0	132.3	6.7	4.7	6.0
Nyanza	90.2	81.2	85.3	5.6	4.5	5.0
Rift Valley	93.6	77.8	85.2	6.7	4.9	5.6
Western	105.7	85.0	95.4	6.6	5.2	5.9

16.5. Poverty and Household Size: According to KIHBS 2005/06, the mean household size was 5.1 members, with 6.2 among the poor and 4.4 among the non poor. The poor had higher household sizes across all regions and area of residence with the highest being reported in Coast Province.

16.6. Table 16.2 presents information on household size classified under three categories by poverty status and by region of residence. The poor depict invariably higher proportions of households with 7 members and above compared to their non poor counterparts across all regions. However, the non poor have higher proportions of households with 4-6 members in rural areas and three or less members in the urban areas.

Table 16.2: Percentage Distribution of Households by Size, Region and Poverty Status

Region	Poor				Non Poor			
	1-3	4-6	7+	N	1-3	4-6	7+	N
Kenya	15.7	42.1	42.2	2,672,311	38.2	42.9	18.5	4,307,921
Rural	12.5	41.2	46.2	2,183,976	32.2	46.0	21.9	3,016,967
Central	16.4	45.5	38.1	207,373	37.3	49.3	13.4	647,297
Coast	8.9	34.7	56.4	187,405	36.5	38.8	24.8	127,737
Eastern	12.2	38.7	49.1	435,053	24.9	51.8	23.4	531,355
North Eastern	5.9	41.3	52.7	101,630	22.2	59.2	18.6	51,863
Nyanza	19.3	47.9	32.8	365,750	35.8	45.2	19.0	501,377
Rift Valley	10.1	39.7	50.2	566,801	32.3	42.5	25.2	798,330
Western	11.3	40.7	48.0	319,964	28.3	40.8	30.8	359,008
Urban	29.8	45.9	24.4	488,335	53.6	35.7	10.7	1,290,954
Nairobi	37.4	51.2	11.4	144,296	51.2	37.8	10.9	590,143
Mombasa	33.3	28.7	38.0	56,519	51.5	35.6	12.9	143,964
Kisumu	17.3	46.9	35.7	19,822	39.7	45.8	14.4	31,556
Nakuru	32.7	45.0	22.4	26,139	57.4	41.8	0.9	37,029
Other Urban	25.1	46.7	28.2	241,560	57.7	32.0	10.2	488,263

16.7. Poverty and Sex of Household Head: Analysis of household headship by sex indicates that majority of households are headed by males both in poor and non poor households as shown in Table 16.3. Among the non poor in rural areas, females head a much lower percentage of households compared to urban. The percentage of households headed by females among the non poor is highest (4 in 10) in Nyanza Province. However, among the poor in urban Kisumu only 1 in 10 households is headed by a female.

Table 16.3: Sex of Head of Household by Region and Poverty Status

Region	**Poor**			**Non Poor**		
	Male	Female	N	Male	Female	N
Kenya	**68.8**	**31.2**	**2,672,311**	**72.4**	**27.6**	**4,307,921**
Rural	**68.4**	**31.6**	**2,183,976**	**69.6**	**30.4**	**3,016,967**
Central	68.6	31.4	207,373	69.1	30.9	647,297
Coast	71.7	28.3	187,405	70.1	29.9	127,737
Eastern	65.5	34.5	435,053	72.1	27.9	531,355
North Eastern	69.6	30.4	101,630	72.6	27.4	51,863
Nyanza	62.5	37.5	365,750	59.8	40.2	501,377
Rift Valley	72.5	27.5	566,801	74.7	25.3	798,330
Western	69.4	30.6	319,964	68.4	31.6	359,008
Urban	**70.4**	**29.6**	**488,335**	**79.0**	**21.0**	**1,290,954**
Nairobi	73.7	26.3	144,296	81.5	18.5	590,143
Mombasa	60.7	39.3	56,519	83.8	16.2	143,964
Kisumu	93.5	6.5	19,822	77.4	22.6	31,556
Nakuru	69.4	30.6	26,139	86.9	13.1	37,029
Other Urban	69.0	31.0	241,560	74.2	25.8	488,263

16.8. Poverty and Marital Status: As presented in Figure 16.1a and 16.1b, there was no significant difference between married monogamous unions, among the poor and the non poor. However, polygamous unions were more common among the poor while the proportion of the never married is higher in the non poor.

Figure 16.1a: Marital Status among the Poor

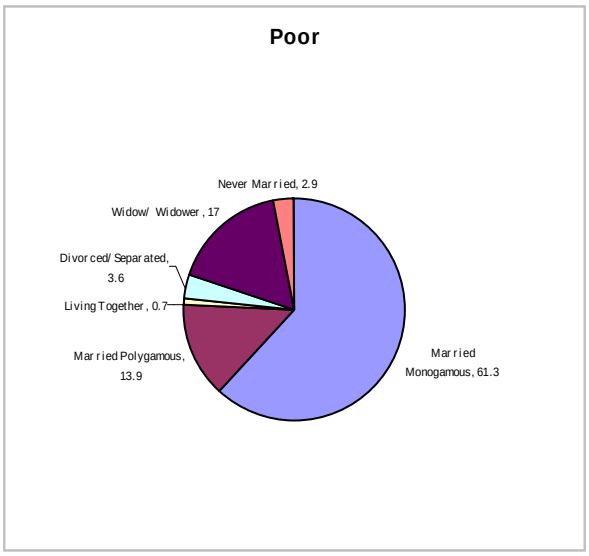
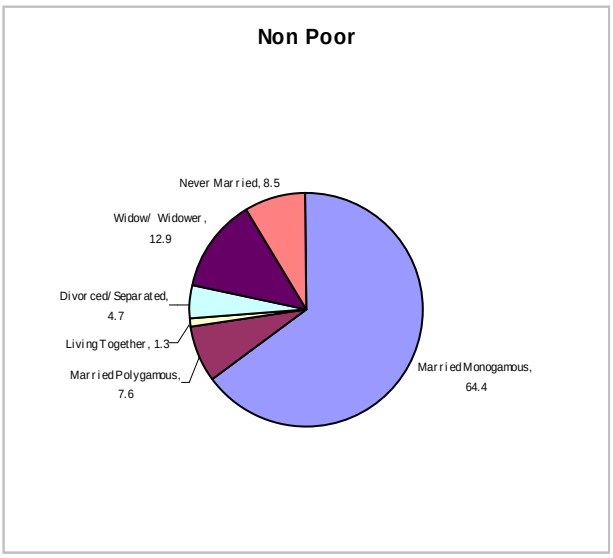


Figure 16.1b: Marital Status among the Non Poor



16.9. Results presented in Table 16.4 indicate that polygamous unions are more common among rural households. Among the rural poor, polygamous unions are more common in North Eastern and Coast Provinces, while among the urban poor, Kisumu town had the highest proportion. Similarly, North Eastern and Nyanza Provinces reported higher polygamous unions among the non poor.

Table 16.4: Percentage Distribution of Population by Marital Status, Region and Poverty

Region	Poor				Non Poor			
	Married Monogamous	Married Polygamous	Other[1]	N	Married Monogamous	Married Polygamous	Other[1]	N
Kenya	61.3	13.9	24.2	2,661,041	64.4	7.6	27.4	4,285,983
Rural	61.8	15.3	22.4	2,173,983	64.6	9.0	26.0	3,004,191
Central	70.9	2.9	26.2	207,373	68.9	1.5	29.4	643,827
Coast	53.9	21.2	24.3	186,889	52.3	12.0	34.8	127,306
Eastern	65.9	9.3	24.5	433,864	71.1	6.7	21.6	528,809
North Eastern	53.3	28.8	17.8	101,630	62.9	16.6	20.4	51,863
Nyanza	54.5	17.0	27.8	364,920	54.6	15.4	29.8	499,557
Rift Valley	64.9	17.4	17.6	560,443	65.5	9.3	24.7	793,821
Western	60.6	17.9	19.6	318,862	63.9	13.6	21.5	359,008
Urban	59.1	7.9	32.5	487,058	63.9	4.3	30.9	1,281,792
Nairobi	49.9	8.2	41.0	144,296	66.8	3.1	29.4	585,102
Mombasa	54.7	9.7	35.6	56,519	68.2	6.9	23.4	143,964
Kisumu	79.3	14.2	6.5	19,822	69.1	8.6	19.4	31,556
Nakuru	69.4	0.0	30.6	26,139	61.9	0.0	32.0	34,919
Other Urban	62.8	7.7	29.0	240,283	59.1	5.0	35.7	486,251

[1]Living together,Divorced/separated,Widow/widower and Never married

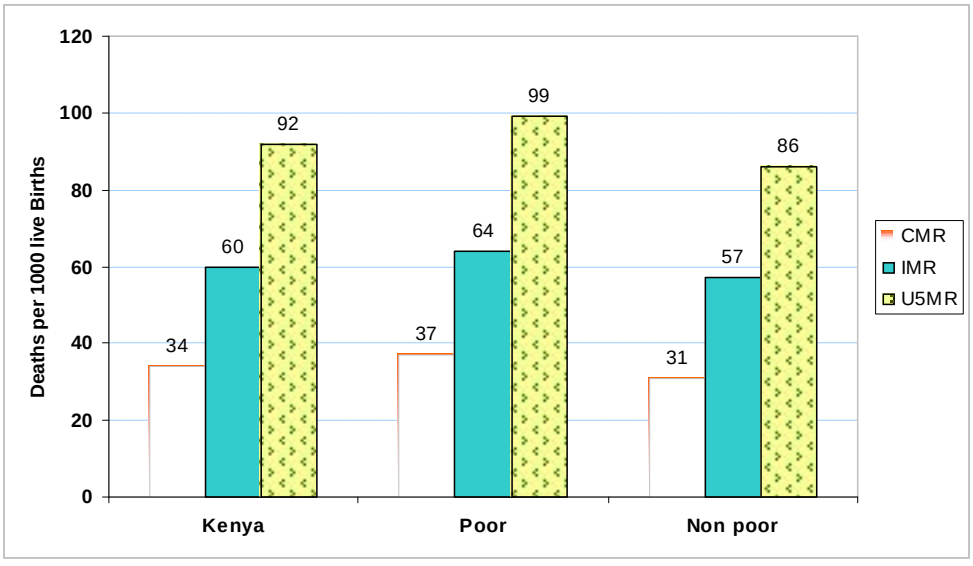
16.10. Poverty and Literacy: The distribution of population by adult literacy, sex and region is presented in Table 16.5. The non poor have higher literacy levels of 88.5 per cent compared to 71.8 per cent for the poor. Generally, males are more literate than females amongst both the poor and non-poor population. In addition, urban dwellers are relatively more literate than their counterparts in rural areas. Regionally, among rural dwellers, North Eastern stands out with the lowest rates of literacy for all groups across Kenya and between the sexes. Conversely, Central Province has the highest literacy rates in the rural areas for both the poor and non-poor. In urban areas, Nairobi depicts the highest literacy levels, for both sexes and poverty groups.

Table 16.5: Percentage distribution of population aged 15+ years by Literacy, Sex and Poverty Status

	Poor			Non Poor			
	Male	Female	Total	Male	Female	Total	Total
Kenya	74.9	60.4	67.5	89.2	80.8	84.9	76.8
Rural	71.8	56.6	64.0	85.8	74.6	80.1	71.8
Central	87.5	75.1	80.8	93.4	83.3	88.1	85.9
Coast	62.8	39.9	50.5	78.5	56.0	66.8	56.0
Eastern	70.9	55.8	63.2	82.7	72.8	77.7	69.9
North Eastern	31.4	4.4	18.6	30.9	8.6	19.1	18.7
Nyanza	88.9	70.5	79.2	92.7	78.2	85.0	82.2
Rift Valley	66.5	53.9	60.3	83.8	74.3	79.1	69.4
Western	84.8	72.9	78.5	88.3	79.7	83.9	81.1
Urban	84.4	72.3	78.3	94.9	91.4	93.1	87.7
Nairobi	92.5	90.4	91.5	98.4	96.1	97.2	96.5
Mombasa	84.5	66.7	75.4	95.5	85.4	90.2	85.8
Kisumu	100.0	95.8	98.1	97.7	98.8	98.2	98.2
Nakuru	87.0	93.3	89.5	98.0	94.7	96.6	94.5
Other Urban	83.6	71.1	77.3	93.8	90.4	92.0	85.8

16.11. Poverty and Child-Survival: Figure 16.2 shows the Infant Mortality Rate (IMR), Child Mortality Rate (CMR) and Under-five Mortality Rate (U5MR) by poverty status. IMR is the probability of dying before the first birthday. CMR is the probability of dying between the first and fifth birthday while U5MR is the probability of dying before the fifth birthday. All the three rates are expressed per 1,000 live births. IMR, CMR and U5MR in Kenya stand at 60, 34 and 92 deaths per thousand live births respectively. The poor experience higher mortality rates than the non-poor in all the three categories. Mortality rates for infants, children and those below 5 years of age among the poor are higher than the national average rates.

Figure 16.2: Infant, Child and Under-five Mortality Rates by Poverty Status



16.12. Poverty and Fertility: Table 16.6 shows Total Fertility Rate (TFR) by region and poverty status. The national TFR was 5.0 children with rural women registering a higher rate of 5.5 compared to 3.2 for their urban counterparts. Among the poor households, TFR is highest in North Eastern and Rift Valley Provinces.

Table 16.6: Total Fertility Rate by Region and Poverty Status

	Total Fertility Rate (TFR)		
Region	Kenya	Poor	Non Poor
Kenya	5.0	6.1	4.1
Rural	5.5	6.5	4.6
Urban	3.2	4.1	2.9
Province			
Nairobi	2.8	3.5	2.6
Central	3.2	3.6	3.0
Coast	5.6	6.5	4.2
Eastern	5.0	6.1	4.0
North Eastern	7.2	7.2	7.0
Nyanza	5.4	6.2	4.7
Rift Valley	5.8	6.9	4.9
Western	5.8	6.3	5.3

16.13. Poverty and Main Source of Drinking Water: Disparities in drinking water sources exist between the poor and non poor as shown in Table 16.7. Among poor households, only 1 in 5 access piped water, compared to 2 in 5 among non poor households. The poor rely more on river/ lake/ponds/streams, unprotected well and rain water, while the non poor rely on piped water and boreholes.

Table 16.7: Percentage Distribution of Households by Main source of Drinking Water and Poverty Status

Source of Drinking Water	Poor			Non Poor		
	Kenya	Rural	Urban	Kenya	Rural	Urban
Piped into dwelling	1.5	1.1	3.2	11.3	5.7	24.5
Piped into plot/yard	6.6	3.1	23.1	18.1	11.4	33.7
Public Tap	12.8	8.0	35.9	10.1	6.2	19.4
Tubewell/Borehole with Pump	6.5	7.4	2.2	6.0	7.8	1.7
Protected dug well	7.5	7.9	5.6	6.9	8.5	3.1
Protected spring	11.3	13.1	3.2	7.2	9.7	1.1
Rain water collection	2.9	3.1	1.9	4.9	6.5	1.2
Unprotected dug well/springs	16.1	18.9	3.0	10.0	14.0	0.7
River/lake/ponds/streams	26.7	31.1	6.0	16.4	22.9	1.2
Tankers-truck/vendor	3.1	1.7	9.7	4.9	2.5	10.6
Bottled water	-	-	-	0.1	-	0.3
Other	4.3	4.2	4.6	3.7	4.4	2.1
Not stated	0.7	0.5	1.6	0.3	0.2	0.4
Households	2,632,455	2,172,383	460,072	4,285,748	3,003,784	1,281,964

16.14. Table 16.8 presents the nutritional status of children by region and poverty status. Overall, 47.1 per cent of children from poor households were reported to be stunted compared to 36.3 per cent from non poor households. Significant disparities exist in urban areas between non poor and poor children, and on average, poor children are 1.6 times more likely to be stunted as non-poor children.

Table 16.8: Percentage of children (6-59 months) moderately malnourished by Region and Poverty Status

	Poor				Non Poor			
	Stunted <-2SD	Underweight <-2SD	Wasted <-2SD	N	Stunted <-2SD	Underweight <-2SD	Wasted <-2SD	N
Kenya	**47.1**	**21.0**	**7.2**	**1,640,928**	**36.3**	**13.5**	**5.8**	**1,897,879**
Rural	**48.0**	**21.5**	**7.3**	**1,424,711**	**39.2**	**15.0**	**5.9**	**1,498,094**
Central	49.4	8.7	1.8	**85,135**	31.9	8.9	3.2	**247,917**
Coast	52.8	24.7	5.9	**160,861**	40.0	17.1	9.5	**74,523**
Eastern	58.2	32.9	9.6	**286,171**	43.5	18.9	6.1	**264,003**
North Eastern	52.8	27.2	25.3	**52,876**	51.8	21.8	27.4	**26,472**
Nyanza	46.1	15.9	7.3	**220,248**	44.9	13.2	5.6	**261,401**
Rift Valley	43.5	19.5	7.0	**369,688**	40.1	16.5	7.1	**385,564**
Western	40.1	17.6	4.0	**249,733**	32.7	15.1	3.5	**238,214**
Urban	**41.5**	**17.1**	**6.6**	**216,217**	**25.4**	**7.9**	**5.3**	**399,785**
Nairobi	57.7	22.1	3.7	**49,141**	28.9	8.6	4.1	**176,712**
Mombasa	12.9	9.6	-	**23,228**	24.7	13.6	11.9	**47,431**
Kisumu	40.7	30.5	42.8	**10,544**	17.8	1.6	0.8	**14,293**
Nakuru	47.1	2.5	-	**16,156**	51.6	5.6	-	**14,402**
Other Urban	39.6	17.3	6.8	**117,147**	19.6	6.0	5.7	**146,947**

16.15. Significant variation in underweight prevalence exists among children by region. One in five children from poor households is likely to be underweight. Among the non poor, only 13.5 per cent of the target children are underweight. The highest levels of underweight prevalence among the poor were found in Eastern province, 32.9 per cent, and Kisumu urban, 30.5 per cent. Prevalence of children wasted present a different pattern with poor children in Central, Coast and Rift Valley provinces exhibiting lower wasting levels compared to their non-poor counterparts.

Chapter 17

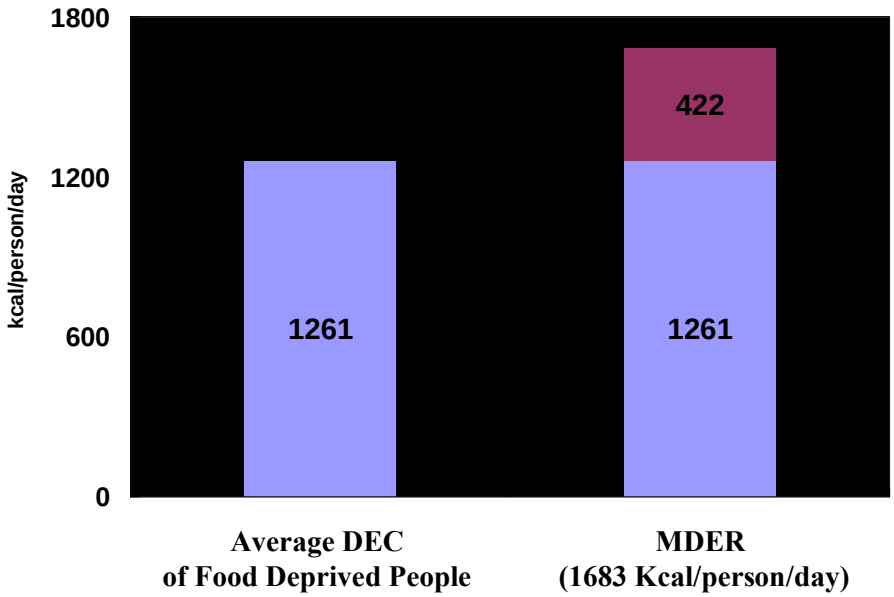
Highlights of Food Insecurity Assessment In Kenya

Overview

This chapter presents highlights of the key findings about Kenya's food insecurity situation at national and provincial levels using Food and Agriculture Organization (FAO) methodology. The information is based on food consumption statistics derived from data collected in the Kenya Integrated Household Budget Survey (KIHBS), 2005/06. The trends presented here show the extent of the country's food insecurity in relation to the requirements. It gives at a glance the country's depth of hunger in terms of kilocalories consumed by each person daily as using Food and Agriculture Organization methodology.

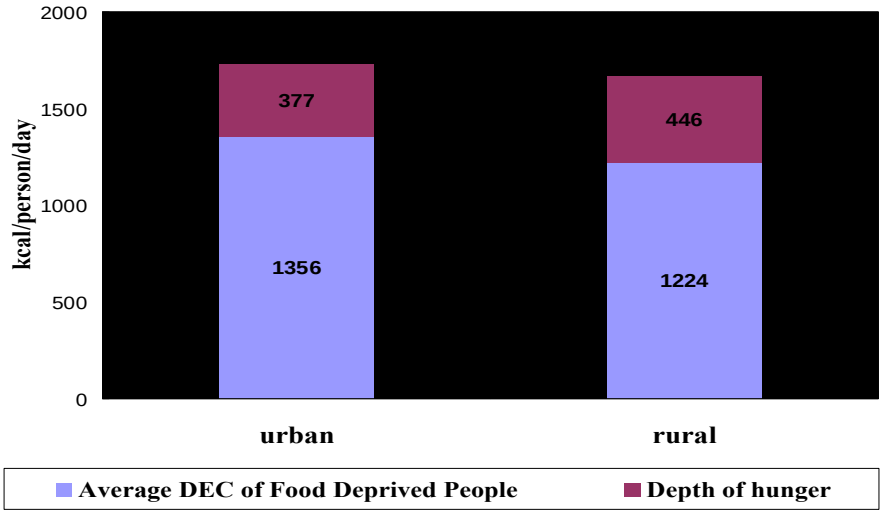
17.2. Depth of hunger: In 2005/06, 51 per cent of the population recorded a daily food consumption of 1,261 kcal/person, which was well below the national Minimum Dietary Energy Requirment (MDER) benchmark of 1,683 kcal/person/day. This implied that they required an additional 422 kcal/day to reach the national MDER and another 117 kcal/day to get to the national average dietary energy consumption of 1,800 kcal/person/day as shown in shown in Figure 17.1.

Figure 17.1: Depth of Hunger in Kenya



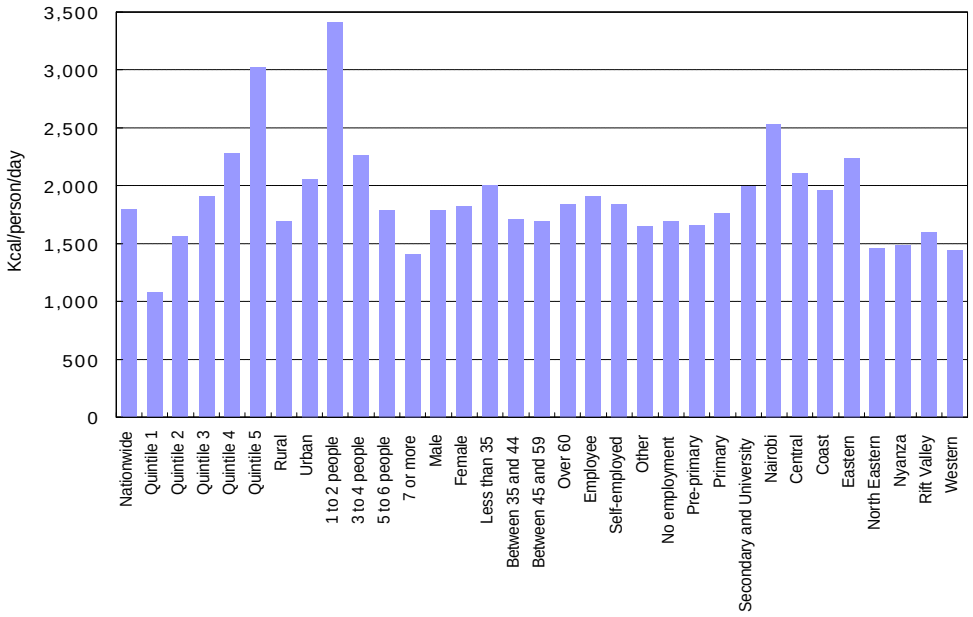
17.3. Depth of hunger in urban and rural areas of Kenya: Figure 17.2 shows the gap between the Average Dietary Energy Consumption (DEC) of undernourished people from urban and rural areas with respective MDER. The MDER of urban populations was 1,733 kcal/person/day compared to 1670 kcal/person/day for rural populations. The average DEC of food deprived people 1,356 kcal/person/day in urban areas and 1,224 kcal/person/day in rural areas, which meant urban dwellers required 377 kcal/person/day to reach the MDER, while rural needed 446 kcal/person/day.

Figure 17.2: Depth of hunger in urban and rural areas of Kenya



17.4. Dietary Energy Consumption (DEC): The daily average dietary energy consumption was 1,800 kcal/person as shown in Figure 17.2. The DECs levels in rural and urban areas was 1,690 and 2,060 kcal/person/day respectively. Analysis by income levels indicated that DEC increased with rising income levels ranging from 1,080 kcal/person/day for people in the lowest income quintile to 3,020 kcal/person/day for those in the highest income quintile.

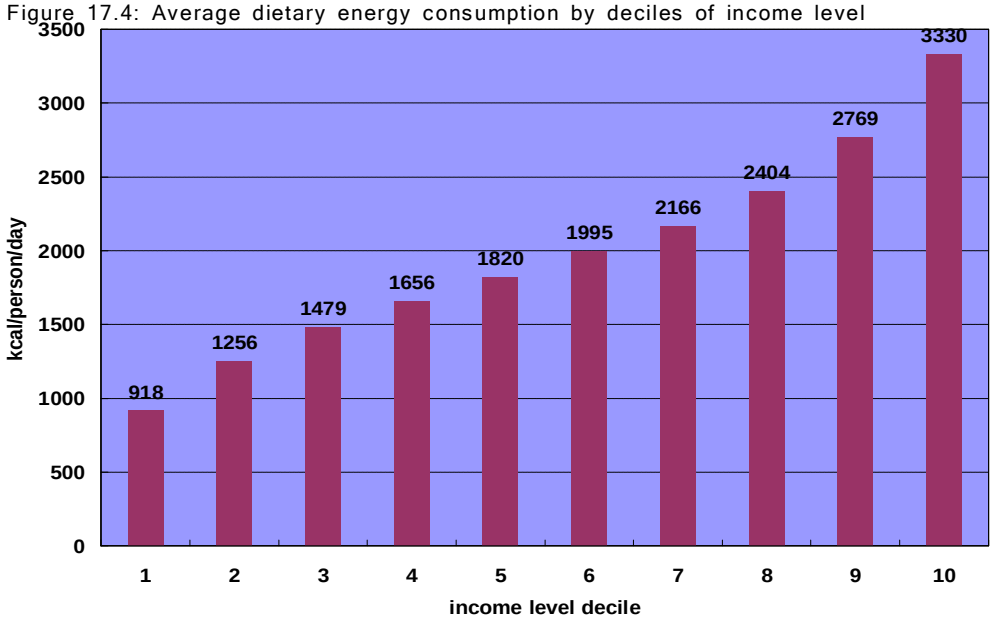
Figure 17.3: Average Dietary Energy Consumption



The average DEC for households' whose heads' were employed, self-employed and not employed were 1,910 kcal/person/day, 1,840 kcal/person/day and 1690 kcal/person/day respectively. This could be attributed to stable income by the households' whose heads' were employed, hence improved food accessibility.

17.5. Average dietary energy consumption by deciles of income level: Consumption of the households in the first four income level deciles as shown in Figure 17.4 were respectively 765, 427, 204 and 27 kcal/person/day, lower than the Minimum Dietary Energy Requirement of 1,683 kcal/person/day. The four lower income deciles constituted the proportion of households that were food insecure. Households of the ninth and tenth deciles who could afford high energy food commodities were consuming 1,087 and 1,647 kcal/person/day above the MDER.

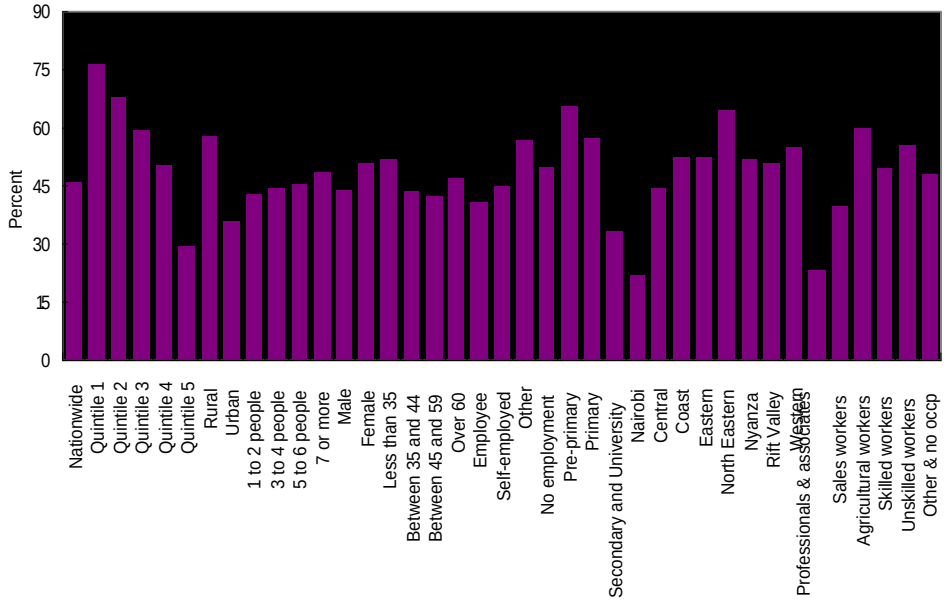
Figure 17.4: Average dietary energy consumption by deciles of income level



17.6. Share of food expenditure to total consumption: The share also known as Engel ratio is an indicator of consumption pattern, and usually is closely related to income. Nationally, Engel's ratio was reported as 46 per cent. The lowest income quintile as shown in Figure 17.5 registered the highest amount of expenditure (76 per cent) on food consumption in relation to the total household consumption. The finding is consistent with Engel's law which states that the share of households expenditure on food decreases with increasing income.

17.7. Households in rural areas spent most of their income on food compared to urban households with respective shares of 58 and 36 per cent. Regionally, it was observed that households in Nairobi on average spent 21.8 per cent of their income on food compared to other provinces that spent about 55 per cent of their income to acquire food.

Figure 17.5: Share of food monetary value to total consumption



17.8. Share of food consumption by food source: Most of the food consumed by the population was acquired through purchases, own production or obtained free. Some people consumed outside their homes in restaurants or from street vendors. At the national level, as shown in Figure 17.6a, households acquired 63 per cent of their food from purchases, 15 per cent from their own production, and 5 per cent eaten away from home and 18 per cent from other sources. Majority of the households that relied on eating away were mostly found in urban centres.

Figure 17.6a. Food consumption in monetary value

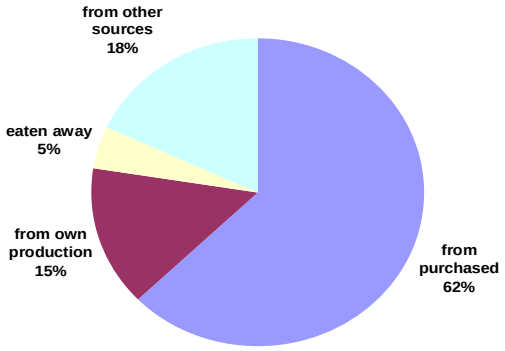
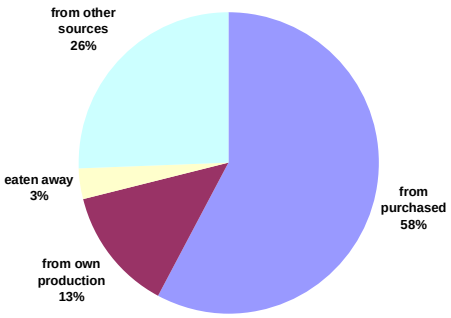


Figure 17.6b. Food consumption in dietary energy



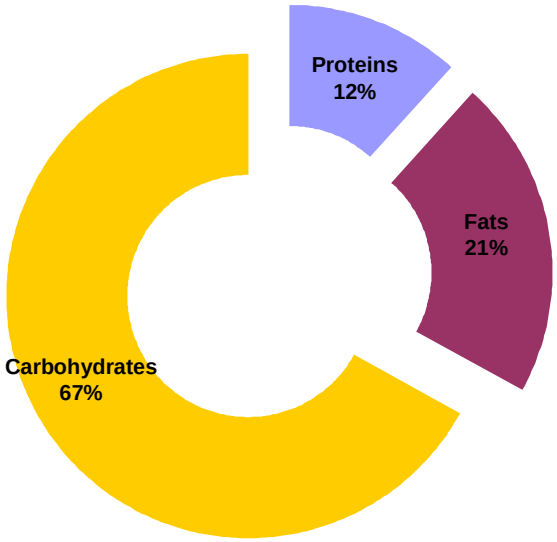
In terms of dietary energy as shown in Figure 17.6b, the source of acquisition are the same but the shares differed slightly as purchased accounted for 58 per cent of dietary energy consumed while other sources accounted for more than one fourth of dietary energy consumed and own production contributed for only 13.5 per cent of the dietary energy consumed.

17.9. Dietary Diversity: Dietary diversity is a qualitative measure of food consumption that reflects household access to a variety of foods and acts as proxy for nutrient adequacy for individual diets. A simple count of foods consumed over a reference period (mostly over 24 hour period) is made. A high score is associated with increased nutrient adequacy of the diet. A score below three reflects poor dietary diversity and is unacceptable, a score of three is regarded acceptable while a score of four and above reflects adequate nutrient intake.

17.10. The measure also shows the economic ability of a household to consume a variety of foods. Studies have shown that high dietary diversity score is associated with socio-economic status and household food security. In case of Kenya, food items collected in the KIHBS were grouped into 19 different categories of food products to identify those food groups that contributed the most to the diet of the Kenyan in terms of quality and quantities of nutriments consumed.

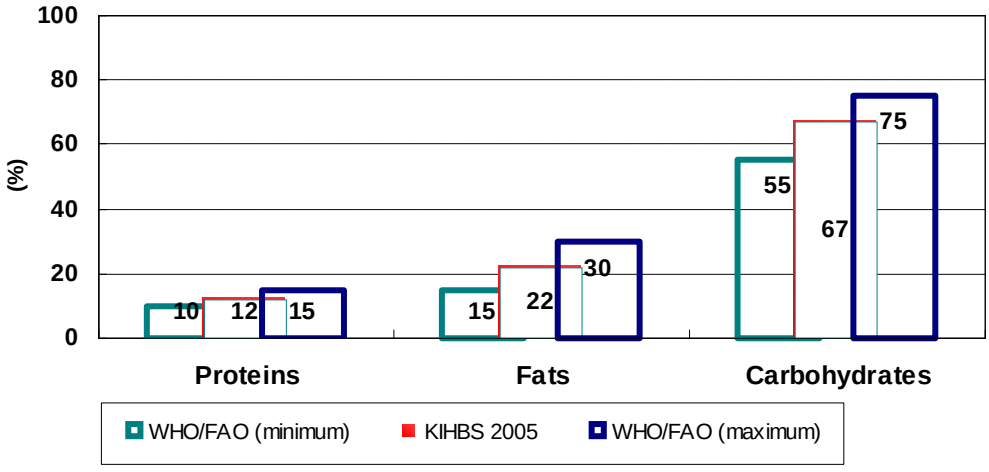
Figure 17.7 shows that on average, dietary energy consumption consisted of 12 per cent of proteins, 21 per cent of fats and 67 per cent of carbohydrates.

Figure 17.7: Share of nutrients to dietary energy consumption



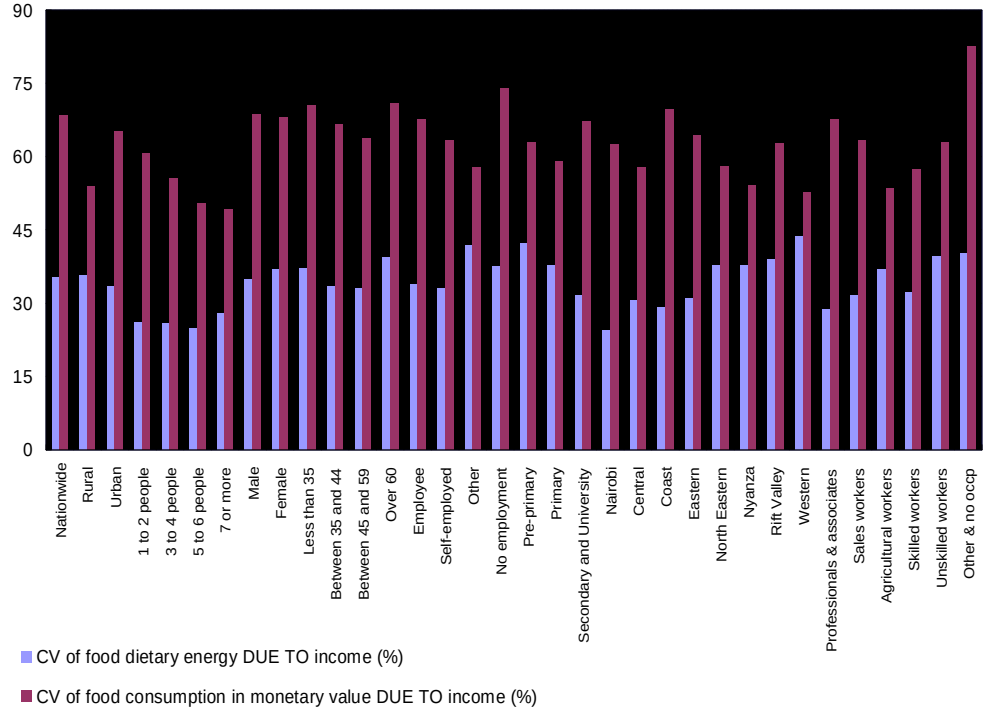
17.11. Kenya is fairly within the recommended World Health Organization standard for a balanced diet as shown in Figure 17.8, consisting of 10-15 per cent of proteins, 15-30 per cent of fat and finally 55-75 per cent of carbohydrates. Carbohydrates are relatively cheap and easily available to households while cost of proteins and fats tend to be costly hence not easily accessible.

Figure 17.8: Comparison of share of nutrients to dietary energy consumption with WHO norms



17.12. Inequality in access to food consumption due to income at provincial levels: Inequality in access to food as measured by the Coefficient Variations (CV) of DEC due to income as shown in Figure 17.9 was 35 per cent nationwide but inequalities differed according to the sub groups of population. Higher inequalities of DEC of magnitude more than the national level were observed in rural areas, female headed households, household heads with less than 35 and over 60 years, heads without employment and higher education. Male headed households, households whose head was less than 35 and over 60 years and without employment had more CV of food consumption in monetary value due to income than national level of 68.5 per cent.

Figure 17.9: Inequality of food consumption due to income by Sub-national levels



Glossary Of Terms

Average Energy Requirement

It refers to the amount of energy considered adequate to meet the energy needs for normative average acceptable weight for attained height while performing moderate physical activity in good health.

Degree of Food Deprivation

A measure of the overall food insecurity situation in a country, based on a classification system that combines prevalence of undernourishment, (the proportion of the total population suffering from from a dietary energy deficit, and depth of undernourishment), that is the magnitude of the undernourished population's dietary energy deficit.

Depth of Food Deprivation

It refers to the difference between the average dietary energy intake of an undernourished population and its average minimum energy requirement (MDER).

Dietary Energy Consumption

This is food consumption expressed in energy terms. At national level, it can be calculated from the Food Balance Sheet (FBS); the FBS estimate refers to both private (households) and public (hospitals, prisons, military compounds, hotels, residences, etc) food consumption. At sub-national levels is estimated using food consumption data in quantities collected in National Household Surveys (NHS); these estimates refer to private food consumption.

Dietary Energy Intake

The energy content of food consumed.

Dietary Energy Requirement

It refers to the amount of energy required by an individual to maintain body functions, health and normal physical activity.

Dietary Energy Supply

Food available for human consumption, expressed in kilocalories per person per day (kcal/person/day). At the country level, it is calculated as the food remaining for human use after deduction of all non-food consumption

(exports, animal feed, industrial use, seed and wastage)

Food Deprivation

Food deprivation refers to the condition of people whose food consumption is continuously below their requirements. FAO's measure of food deprivation refers to the proportion of the population whose dietary energy consumption is below the minimum energy requirement (see below).

Household Income

Income is the sum all receipts, in money or in kind, which as a rule are received regularly and are of recurring nature, including food.

Kilocalorie (Kcal)

Kilocalorie is a unit of measurement of dietary energy. In the International System of Units (ISU), the universal unit of dietary energy is the joule (J) but Kcal is still commonly used. One kilocalorie = 4.184 kilo-joules (KJ).

Minimum Dietary Energy Requirement

In a specified age/sex category, the amount of dietary energy per person that is considered adequate to meet the energy needs for maintaining a healthy life and carrying out a light physical activity. For an entire population, the minimum energy requirement is the weighted average of the minimum energy requirements of the different age/sex groups in the population. This is expressed as kilocalories per person per day.

Nutritional Status

The physiological status of an individual that results from the relationship between nutrient intake and requirement and from the body's ability to digest, absorb and use these nutrients. Lack of food as well as poor health and sanitation and inappropriate care and feeding practices are the major causes of poor nutritional status.

Undernourishment

Undernourishment refers to the condition of people whose dietary energy consumption is continuously below a minimum dietary energy requirement for maintaining a healthy life and carrying out a light physical activity. The number of undernourished people refers to those in this condition.

Undernutrition

The result of undernourishment, poor absorption and/or poor biological use of nutrients consumed.

Chapter 18
Highlights of the 2005/06 KIHBS Labour Force Analytical Report

Overview

The 2005/6 Kenya Integrated Household Budget Survey (KIHBS) was designed to capture data that would be used to update statistics on labour and employment among others. This data was necessary to furnish the planning process with information on the levels of employment, unemployment, establish the size and structure of the informal sector and provide statistics on rural agriculture and pastoralist activities. The labour force indicators in this report have been compared with those of the 1998/99 Integrated Labour Force Survey (ILFS).

18.2. The age-sex structure of the surveyed population showed a youthful population; with 52.9 per cent of the population falling within the 0-19 age bracket. The overall dependency ratio was 76.8 per cent in 2005/06 KIHBS, a decrease from 85.4 per cent registered in 1998/99 ILFS. The economically active population aged 15 - 64 constituted 12.7 million employed persons and 1.9 million unemployed persons while the inactive population totalled to 5.3 million persons. In 2005/06 KIHBS, reported and unemployment rate of 12.7 per cent compared to 14.6 per cent in 1998/99. The overall participation rate for the population aged 15-64 was 72.6 per cent, lower than 73.6 per cent in 1998/99.

Survey Findings

18.3. Age and Sex Structure: Table 18.1 presents the distribution of population by age group and sex. The data shows that 52.9 per cent of the population fall within the 0-19 age bracket. There were no major disparities noted between the two sexes in all the age groups.

Table 18.1: Distribution of Population by Age -Group and Sex

	Sex				Total	
	Male		Female			
Age group(Years)	Number	%	Number	%	Number	%
0 - 4	2,077,548	11.9	2,017,584	11.2	4,095,132	11.5
5 - 9	2,667,312	15.3	2,660,568	14.8	5,327,880	15.0
10 - 14	2,316,418	13.2	2,376,039	13.2	4,692,457	13.2
15 - 19	2,356,311	13.5	2,321,193	12.9	4,677,503	13.2
20 - 24	1,680,046	9.6	1,881,940	10.4	3,561,987	10.0
25 - 29	1,339,771	7.7	1,509,154	8.4	2,848,926	8.0
30 - 34	1,134,048	6.5	1,108,796	6.2	2,242,844	6.3
35 - 39	817,904	4.7	911,177	5.1	1,729,081	4.9
40 - 44	744,883	4.3	802,115	4.4	1,546,998	4.4
45 - 49	613,828	3.5	613,808	3.4	1,227,636	3.5
50 - 54	464,900	2.7	461,635	2.6	926,534	2.6
55 - 59	379,833	2.2	366,148	2.0	745,980	2.1
60 - 64	249,552	1.4	292,221	1.6	541,772	1.5
65 +	610,497	3.5	672,940	3.7	1,283,437	3.6
Not Stated	35,105	0.2	31,268	0.2	66,374	0.2
Total	17,487,955	100.0	18,026,587	100.0	35,514,542	100.0

18.4. Regional Distribution: Table 18.2 shows the distribution of population across regions. The proportion of the rural population was 74.8 per cent in 2005/06 KIHBS compared to 74.1 per cent in 1998/99 ILFS. Rift Valley province registered the largest proportion at 24.6 per cent of the population followed by Eastern province at 16.4 per cent. North Eastern province had the least proportion of the population at 3.1 per cent.

Table 18.2: Regional Distribution of Population by Sex

	Sex				Total	
	Male		Female			
Region	Number	%	Number	%	Number	%
Kenya	17,487,955	100.0	18,026,587	100.0	35,514,542	100.0
Rural	13,024,530	74.5	13,524,190	75.0	26,548,720	74.8
Urban	4,463,425	25.5	4,502,397	25.0	8,965,822	25.2
Province						
Nairobi	1,435,092	8.2	1,372,063	7.6	2,807,155	7.9
Central	2,062,305	11.8	2,315,611	12.8	4,377,915	12.3
Coast	1,608,214	9.2	1,670,454	9.3	3,278,668	9.2
Eastern	2,835,743	16.2	2,985,892	16.6	5,821,635	16.4
North Eastern	570,147	3.3	536,162	3.0	1,106,309	3.1
Nyanza	2,429,211	13.9	2,622,350	14.5	5,051,561	14.2
Rift Valley	4,443,488	25.4	4,284,760	23.8	8,728,247	24.6
Western	2,103,756	12.0	2,239,295	12.4	4,343,051	12.2

18.5. Age Dependency Ratio: Table 18.3 shows the distribution of population and Dependency ratio by Region. Age dependency rate is defined as the ratio of the surveyed population considered dependent (aged below 15 years and 65 years and above) to the working age population (aged 15 to 64 years). Overall, the dependency rate declined from 85.4 per cent reported during the 1998/99 ILFS to 76.8 per cent in 2005/06 KIHBS. Rural areas recorded a dependency rate of 84.6 per cent, a decline from 95.4 per cent in 1998/99. In urban areas, this rate remained at 1998/99 ILFS level of 57.1 per cent. Comparison across provinces indicates North Eastern had the highest dependency rate of 118.7 per cent followed by Western (88.9 per cent), Rift Valley (80.1 per cent) and Nyanza (79.4 per cent) Provinces. Nairobi Province recorded the lowest dependency rate of 50.6 per cent.

Table 18.3: Age Dependency Ratio of the Surveyed Population by Region

	Age				Total	Dependency
Region	Under 14	15 - 64	Over 64	Not Stated		Ratio
Kenya	14,115,469	20,049,262	1,283,437	66,374	35,514,542	76.8
Rural	10,996,021	14,357,776	1,153,606	41,317	26,548,720	84.6
Urban	3,119,448	5,691,486	129,831	25,056	8,965,822	57.1
Province						
Nairobi	909,314	1,858,229	30,466	9,147	2,807,155	50.6
Central	1,506,635	2,634,233	233,042	4,006	4,377,915	66.0
Coast	1,317,867	1,865,612	90,008	5,182	3,278,668	75.5
Eastern	2,289,501	3,246,881	277,038	8,215	5,821,635	79.0
North Eastern	559,191	505,213	40,428	1,477	1,106,309	118.7
Nyanza	2,030,727	2,812,539	203,270	5,025	5,051,561	79.4
Rift Valley	3,642,227	4,830,357	227,049	28,614	8,728,247	80.1
Western	1,860,007	2,296,200	182,137	4,708	4,343,051	88.9

Labour Force Participation

18.6. Information on household labour force participation or inactivity status is for the current and usual economic activity determined with respect to one week reference period. The labour force framework analysed here classifies the population into employed, unemployed and not in labour force. The employed and the unemployed categories together make up the labour force, or the currently active population, which gives the number of people comprising the labour force at a specified period in time. The inactive population covers those members of the population who are not available for work.

18.7. The Economically Active: The economically active population analysed in Table 18.4 consists of the employed and the unemployed persons. The employed includes those persons who reported that they actually did some work during the reference period or they held a job even if they were not actually doing any work at the time. This covers persons who were on leave or had a business to return to. Unemployed were persons who reported to be without work, available for work and actively seeking work. The economically active population aged 15-64 constituted 12.7 million employed persons and 1.9 million unemployed persons while the inactive population were 5.3 million persons.

Table 18.4: Distribution of Population Aged 15 - 64 by Activity Status

Age groups	Working	Unemployed	Inactive	Undetermined	Total
15-64	12,708,035	1,856,294	5,266,112	218,821	20,049,262
15 - 19	1,056,015	352,357	3,210,685	58,447	4,677,503
20 - 24	1,895,834	605,167	992,053	68,932	3,561,987
25 - 29	2,088,468	388,747	335,359	36,351	2,848,926
30 - 34	1,897,206	154,360	169,531	21,746	2,242,844
35 - 39	1,497,662	122,725	101,214	7,481	1,729,081
40 - 44	1,357,371	92,262	91,978	5,387	1,546,998
45 - 49	1,070,783	64,636	81,760	10,458	1,227,636
50 - 54	787,417	38,666	95,607	4,845	926,534
55 - 59	624,308	26,350	91,389	3,934	745,980
60 - 64	432,972	11,024	96,536	1,240	541,772

18.8. Participation Rates: Participation rate is a measure of the population's participation in the labour force and is computed as the proportion of the labour force to the working age population during the reference period. A high participation rate is an indication of high participation of the target population in the production of goods and services and the converse is true for a low participation rate. The analysis presented in Table 18.5 is for persons aged 15-64 years to ensure international comparability. Overall, participation rate was 72.6 per cent, lower than 73.6 per cent recorded in 1998/99 ILFS. The highest participation rate was recorded for both age cohorts 35-39 and 40-44 at 93.7 per cent. The lowest was recorded for persons aged between 15 and 19 years who are mainly at school. The participation rates for males and females were 75.7 per cent and 69.7 per cent respectively. Participation rates for males were higher than those of females in all age cohorts.

Table 18.5: Labour Force Participation Rates by Sex and Age

Age-groups (Yrs)	Male	Female	Total
15-64	76	70	73
15 - 19	30	30	30
20 - 24	73	68	70
25 - 29	93	82	87
30 - 34	97	86	91
35 - 39	98	90	94
40 - 44	98	90	94
45 - 49	96	89	92
50 - 54	93	85	89
55 - 59	92	82	87
60 - 64	89	76	82

18.9. As indicated in Table 18.6, overall participation rate was slightly higher in urban areas than in rural areas. Among the eight provinces, Central had the highest participation rate of 80.5 per cent, followed by Nairobi with 75.8 per cent. North Eastern province registered the lowest rate at 50.9 per cent but recorded a higher urban participation rate of 79.8 per cent in 1998/99. Its rural component was not covered in 1998/99 ILFS.

Table 18.6: Distribution of Base and Labour Force Population Aged 15 - 64 by Rural/ Urban and Province

Region	Base Population	Labour Force	Participation Rate
Kenya	20,049,262.1	14,564,329.2	72.6
Rural	14,357,775.6	10,370,780.0	72.2
Urban	5,691,486.4	4,193,549.2	73.7
Province			
Nairobi	1,858,228.5	1,409,001.7	75.8
Central	2,634,232.6	2,120,569.4	80.5
Coast	1,865,611.5	1,283,139.5	68.8
Eastern	3,246,881.0	2,359,863.5	72.7
North Eastern	505,213.2	257,342.7	50.9
Nyanza	2,812,538.7	2,001,620.7	71.2
Rift Valley	4,830,357.1	3,519,893.6	72.9
Western	2,296,199.5	1,612,898.1	70.2

18.10. Employment: Distribution of employed persons by region is shown in Table 18.7. The proportion of employed persons in rural areas was 73.6 per cent in 2005/06. Gender analysis shows that 77.1 per cent and 70.3 per cent of employed females and males were working in rural areas, respectively.

Table 18.7: Spatial Distribution of the Employed Persons Aged 15-64

Region	Male	Female	Total
Kenya	6,576,865	6,131,170	12,708,035
Rural	4,623,944	4,726,647	9,350,591
Urban	1,952,921	1,404,523	3,357,445
Province			
Nairobi	689,877	422,497	1,112,374
Central	934,886	961,853	1,896,739
Coast	559,704	505,342	1,065,046
Eastern	1,060,954	1,069,838	2,130,793
North Eastern	113,254	33,232	146,486
Nyanza	890,238	956,443	1,846,681
Rift Valley	1,643,991	1,431,434	3,075,426
Western	683,961	750,530	1,434,491

18.11. Distribution of Employed Persons by Sector: Table 18.8 shows the working population (15-64) distributed by modern, informal and small scale agriculture. According to 2005/06 KIHBS formal sector employment stood at 1,750.1 thousands and the informal sector employment was 5,785.0 thousands.

Table 18.8: Working Population Aged 15-64 by Sector and Sex[1]

Sector	Sex		Total
	Male	Female	
Total			
Modern	1,204,331	545,806	1,750,138
Informal	3,020,107	2,764,876	5,784,983
Agriculture	2,352,426	2,820,488	5,172,915
Rural			
Modern	556,226	244,244	800,470
Informal	1,786,576	1,746,619	3,533,195
Agriculture	2,281,142	2,735,784	5,016,926
Urban			
Modern	648,105	301,562	949,668
Informal	1,233,531	1,018,257	2,251,788
Agriculture	71,285	84,704	155,989

[1] The data presented in the table differ with those presented in Chapter 4 in that the latter includes those working and aged 5 years and above.

18.12. Unemployment: The rate of unemployment is an indicator of the ability of the economy to provide income earning opportunities for its labour force. In the 2005/06 KIHBS, a total of 1,856.3 thousand persons were unemployed, comprising 55.3 per cent females and 44.7 per cent males as shown in Table 18.9. This was an improvement over the 1998/99 ILFS findings where 67.1 per cent and 32.9 per cent of males and females were unemployed, respectively. In 2005/06 the rate of unemployment in rural areas stood at 55.0 per cent while it was 45.0 per cent in urban areas.

18.13. Spatial Distribution of the Unemployed: Analysis of the unemployed by region shows the extent of utilization of the labour force within the regions.

Table 18.9 presents the distribution of the unemployed by region and sex. The share of unemployed persons by region was highest in Rift Valley at 23.9 per cent followed by Nairobi and Eastern provinces at 16.0 and 12.3 per cent, respectively. The province with the least share of the total unemployed was North Eastern province at 6.0 per cent.

Table 18.9: Distribution of the Unemployed Persons by Region and Sex

	Male		Female		Total	
Region	Count	%	Count	%	Count	%
Total	830,405	100.0	1,025,888	100.0	1,856,394	100.0
Rural	485,674	58.5	534,516	52.1	1,020,248	55.0
Urban	344,732	41.5	491,373	47.9	836,146	45.0
Nairobi	119,175	14.4	177,453	17.3	296,642	16.0
Central	85,812	10.3	138,019	13.5	223,841	12.1
Coast	118,115	14.2	99,979	9.7	218,108	11.7
Eastern	125,423	15.1	103,648	10.1	229,086	12.3
North Eastern	60,326	7.3	50,531	4.9	110,864	6.0
Nyanza	51,630	6.2	103,309	10.1	154,946	8.3
Rift Valley	189,647	22.8	254,821	24.8	444,491	23.9
Western	80,277	9.7	98,130	9.6	178,417	9.6

18.14. Unemployment Rates: The unemployment rate is computed as the proportion of unemployed persons to the total labour force. In this survey, the unemployment rate gives the proportion of the labour force that did not have a job and was actively looking for work. Estimates from previous surveys indicate that the unemployment rate has remained high over the decades. Table 18.10 presents unemployment rates by age and sex for the population aged 15-64. The overall unemployment rate was 12.7 per cent with that of females being higher at 14.3 per cent compared to 11.2 per cent for males. The overall rate recorded in 2005/06 was an improvement from that of 1998/ 99 ILFS which was 14.6 per cent. Unemployment rates were highest (25.0 per cent) at age group 15-19 declining progressively with the rise in age groups. Overall unemployment rate was higher in urban areas at 19.9 per cent compared to the rural areas at 9.8 per cent.

Table 18.10: Unemployment Rates for Population Aged 15-64 by Age-group, Region and Sex

	Rural			Urban			Total		
Age-groups	Male	Female	Total	Male	Female	Total	Male	Female	Total
Overall	9.5	10.2	9.8	15.0	25.9	19.9	11.2	14.3	12.7
15 - 19	18.2	21.1	19.6	42.3	47.8	45.5	22.4	27.7	25.0
20 - 24	16.8	20.3	18.6	30.1	40.8	35.8	21.0	27.3	24.2
25 - 29	11.1	12.1	11.6	17.3	29.1	22.8	13.5	17.9	15.7
30 - 34	5.6	7.2	6.4	6.8	14.3	9.8	6.1	9.2	7.5
35 - 39	6.7	5.7	6.1	7.2	14.7	10.6	6.9	8.3	7.6
40 - 44	5.2	4.7	4.9	9.2	12.3	10.5	6.4	6.4	6.4
45 - 49	4.3	5.6	5.0	6.3	10.4	7.8	4.9	6.5	5.7
50 - 54	4.5	3.8	4.1	6.4	8.5	7.1	4.9	4.4	4.7
55 - 59	4.8	2.8	3.8	4.9	6.2	5.3	4.8	3.2	4.0
60 - 64	3.9	0.8	2.3	5.6	1.4	4.2	4.2	0.8	2.5

18.15. Underemployment: In 2005/06 KIHBS, underemployed persons comprised of those in paid or self employment, involuntarily working less than 28 hours in the past seven days preceding the date of interview who were seeking or available for additional work. It is therefore assumed that the underemployed were working less than the normal hours of work involuntarily that is, not because of illness or disability, and were seeking or available for additional work in the past 7 days. Table 18.11 shows that 48.8 per cent of the underemployed persons worked for between 18 to 25 hours during the survey's reference week, with 26.5 per cent working for 22-25 hours a week. Nearly a third of the underemployed worked for less than 14 hours a week. About 2.7 million persons or slightly more than one fifth of the total working population were underemployed as measured by time worked. In 2005/06, the underemployment situation worsened to 21.3 per cent compared to 4.8 per cent recorded in 1998/99. Majority of underemployed persons were females at 55.4 per cent.

Table 18.11: Distribution of Under-Employed Aged 15-64 by Average Hours Worked per Week

Hours Worked	Rural			Urban		
	Male	Female	Total	Male	Female	Total
Less than 6	82,921	87,148	170,069	52,149	36,190	88,339
6-9	78,068	101,050	179,118	40,099	46,088	86,188
10-13	92,333	151,473	243,806	55,457	37,495	92,952
14-17	91,658	147,107	238,765	17,762	27,488	45,249
18-21	220,151	302,443	522,594	35,320	31,674	66,994
22-25	283,311	377,021	660,331	28,075	32,836	60,912
26-28	115,756	101,515	217,270	19,613	29,048	48,661
Total	964,198	1,267,756	2,231,954	248,475	240,819	489,294

Hours Worked	Total		
	Male	Female	Total
Less than 6	135,070	123,338	258,407
6-9	118,168	147,138	265,306
10-13	147,790	188,968	336,758
14-17	109,420	174,594	284,014
18-21	255,471	334,117	589,588
22-25	311,386	409,857	721,243
26-28	135,369	130,563	265,932
Total	1,212,673	1,508,575	2,721,248

18.16. Time related underemployment rate is an important indicator for improving the description of employment related problems as well as assessing the extent to which available human resources are being utilized in production. This indicator may be measured in relation to labour force or employment. Table 18.12 shows that in both cases, time related underemployment was higher in the rural areas compared to urban areas. It was also higher for females than for their male counterparts.

Table 18.12: Under Employment Rates for Population Aged 15-64

	Labour Force			Underemployed			Underemployed Rate		
Region	Male	Female	Total	Male	Female	Total	Male	Female	Total
Total	7,407,270	7,157,059	14,564,329	1,212,673	1,508,575	2,721,248	16.4	21.1	18.7
Rural	5,109,617	5,261,163	10,370,780	964,198	1,267,756	2,231,954	18.9	24.1	21.5
Urban	2,297,653	1,895,896	4,193,549	248,475	240,819	489,294	10.8	12.7	11.7
	Employed			Under employed			Under employed Rate		
Total	6,576,865	6,131,170	12,708,035	1,212,673	1,508,575	2,721,248	18.4	24.6	21.4
Rural	4,623,944	4,726,647	9,350,591	964,198	1,267,756	2,231,954	20.9	26.8	23.9
Urban	1,952,921	1,404,523	3,357,445	248,475	240,819	489,294	12.7	17.1	14.6

18.17. Inactive Population: Economically inactive population also known as persons not in the labour force, covers persons who did not work or hold a job during the reference period and did not seek work because they were either full time students, the infirm/incapacitated, retired or did not need work due to unspecified reasons. Persons who reported that they were retrenched or declared redundant and persons whose businesses closed and had not

taken steps towards searching for alternative jobs or starting other businesses were included in the inactive population. In 2005/06, the inactive population was 5.3 million representing 26.3 per cent of the labour force as shown in Table 18.13. This was a slight increase in the proportion of the inactive population from 22.6 per cent in 1999. Over 68 per cent of the inactive population were full time students while 8.4 per cent were persons who did not need work. The proportion of all inactive females indicates that 54.6 per cent were full time students while 13.3 per cent did not need work. On the other hand, 86.1 per cent of the males were full time students while 1.9 per cent did not need work.

Table 18.13: Distribution of the Inactive Population by Reason and Sex

Reason	Sex		Total
	Male	Female	
Sick	62,799	167,942	230,741
Retired	26,251	20,762	47,013
Looking for work	7,570	17,405	24,975
Out of season	7,130	30,259	37,389
Retrenchment/ Rendundancy	1,883	15,680	17,562
Temporaly lay off	988	8,999	9,987
Dont need work	41,941	401,241	443,182
Business closed	5,713	40,915	46,628
Too young/ old	30,514	68,407	98,921
Other	91,022	546,717	637,738
Student	1,947,155	1,642,604	3,589,759
Incapacitated	37,282	44,934	82,215
Total	2,260,249	3,005,863	5,266,112

Estimation of employment size (5+) in the small scale agriculture and pastoralist activities

18.18. In 2005/06 KIHBS, the number of persons working in the small scale agriculture and pastoralist activities was 5,172.9 thousand as shown in Table 18.8. This number excludes the under 15 and over 64 year's old working in these sectors. Further analysis of the inactive population (Table 18.13), indicates that about 136 thousand persons who fall under the categories; looking for work, out of season, temporally lay off, retrenched/redundant, and business closed were excluded in the inactive category. This population is assumed as usually active under a relaxed definition and therefore added to the labour force (employment and unemployment). Consequently, the modified labour force would be 14,700.9 thousand persons while the modified inactive population, which include the categories; sick, retired, don't need work, too young/old, students and incapacitated, is 4,491.8 thousand. The categories 'other' and 'undetermined' in Table 18.1 are not clearly defined and therefore need to be distributed proportionately between the modified labour force and inactive populations. The final modified labour force would therefore be 15,393.0 thousand while the final inactive population would be 4,703.3 thousand. The adjusted employment for those in the small scale agricultural and pastoralist activities sector (15-64) would therefore be 5,977.0 thousand (labour force less informal and modern sectors employment). From the 1999 census, those aged 15-64 working in agriculture and pastoralist activities were 6,062.8 thousand. In the same year, Medium and Small Enterprise (MSE) survey recorded 7,676.6 thousand persons aged 5 and above as having worked in the same sectors. Therefore using the same proportionality, in 2005/06 survey those aged 5 years and above working in the sectors would be 7,567.4 thousand.

Chapter 19

The Proposed Kenya Consumer Price Index (CPI) Based on 2005/06 KIHBS

The Definition and Uses of CPI in Kenya

The Consumer Price Index (CPI) is a key macroeconomic indicator used to monitor price movements and how the latter affect policy decisions. It is defined as a measure of the aggregate change in the retail prices paid by consumers for a given basket of goods and services. The price changes are measured by re-pricing the same basket at regular intervals, and comparing the aggregate costs with the costs of the same basket in a selected base period.

19.2. A convenient way of thinking about the CPI is to imagine a very large "shopping basket" full of goods and services on which people typically spend their money. The basket could include items such as rice, maize flour, coffee, paraffin, electricity and clothes. The contents of the basket are fixed at a particular point in time, but as the prices of the individual commodities in the basket change, so does the price of the whole basket.

19.3. Being a measure of price changes, the CPI is used by many organisations, including the Government, non-governmental organisations (NGOs), international agencies, the business community (including investors) and researchers. In Kenya, the CPI is widely used for the following purposes:-

- As the main estimator of the rate of inflation - The percentage change in the CPI over a given period is what is usually referred to as the rate of inflation.
- As a macroeconomic indicator - The CPI is used for general socio-economic analysis, policy formulation and evaluation.
- As a tool in wage negotiations and indexation:- CPI is used to adjust taxes and to determine, among other things, wage levels in the event of trade disputes, social security benefits, public service remuneration and pensions.
- As a deflator of expenditure - The prevailing CPI can be used to establish the real/constant value by deflating nominal values of goods and services

Computation of the Inflation Rates from the CPI

19.4. Based on the CPI obtained from retail price data, Kenya National Bureau of Statistics (KNBS) computes different measures of inflation each with a distinct definition but all involve comparison of CPI over two periods. The "annual inflation" is computed as a percentage change of a twelve Calendar months average of the CPI. The "month on month" inflation rate is calculated as a percentage change of the CPI between the current month and the same month a year before, e.g. percentage change of CPI between the month of March 2007 and month of March in 2008 could be computed as;

Month on month Inflation rate for March, 2008 = $\frac{I_{March08} - I_{March07}}{I_{March07}} * 100$,

where, I is the monthly index.

19.5. The overall CPI uses prices of all consumer goods and services contained in the "basket". This basket may be broken down into two categories: items of which prices are not affected by policy but by normal supply and demand and other transitory factors and, items the prices of which are affected directly by fiscal and monetary policies, in addition to demand and supply forces. Policy factors include changes in the money supply and the financing of the Government operations while non-policy factors may include price changes induced by transitory factors such as drought, floods and other natural disasters. The "underlying inflation" is computed by using a partial basket, which includes only goods and services the prices of which, in addition to demand and supply forces, are affected directly by fiscal and monetary policies. KNBS currently excludes the food items in its computations of the underlying inflation rates mainly due to their price variations arising from the vagaries of the weather. Petroleum products could also be excluded from the basket because the domestic market does not wholly control their prices as they are dependent on the international prices of oil.

The 2005/06 Kenya Integrated Household Budget Survey (KIHBS)

19.6. The fixed basket of goods and services bought in the base year upon which the CPI is based tends to be outdated with time. Changes also take place in the social and economic characteristics of the population. New goods and services enter into the market as others disappear. There are also changes in the consumer behaviour, incomes, tastes and preferences. All these factors affect the relative importance of some goods and services. The present CPI basket was based on the 1993/94 Urban Household Budget Survey (UHBS) and hence does not fully reflect the current consumption patterns.

19.7. The Government, through KNBS, carried out the Kenya Integrated Household Budget Survey over a period of 12 months from mid-May 2005 to mid-May 2006. The Survey was designed with one of its key objectives being to update the urban CPI.

19.8. The KIHBS findings showed that expenditure patterns in urban areas have changed significantly compared to the findings of the 1993/94 UHBS. Following the findings of the 2005/06 KIHBS, income brackets that define the different income groups have been revised to reflect the current levels. A new basket of goods and services has also been proposed, with corresponding new weights. Further, there are plans to expand the CPI to produce provincial indices. Specifically, the major differences between the two most recent household budget survey findings were:

(a) In the 2005/06 survey, in Nairobi, three income groups were established compared to two in 1993/94 survey. The proportions for the lower, the middle and the upper income groups in 2005/2006 were 72.12,

24.12 and 3.76 per cent, respectively. In the 1993/94 survey, the proportions were 80 per cent for the Nairobi lower income and 20 per cent for both middle/ upper income groups combined. The upper income group was numerically insignificant and hence was pooled with the middle income group.

(b) In the 2005/06 survey, the income groups for Nairobi comprised of households with the following monthly incomes: lower income group, below KSh 23,670; middle income group, between KSh 23,671 and KSh 120,000; and upper income group above KSh 120,000. In the 1993/94 UHBS, the income groups comprised the following: lower income group, below KSh 10,000; middle /upper income group above KSh 10,000.

(c) In the 2005/06 survey, the percentage of households in Nairobi, compared with those in other urban towns, had increased from 39.9 per cent in the 1993/94 survey to 41.2 per cent. However, the proportion of expenditure by Nairobi residents compared to the total expenditure in the whole country dropped from 57.1 per cent in 1993/94 to 54.6 per cent in 2005/06. (The extent of the urban centres considered in the respective surveys differed considerably; Refer Tables 19.2 and 19.3).

(d) Nationally, in the 2005/06 survey, the proportion of expenditure on food and non-alcoholic drinks dropped from 50.5 per cent in 1993/94 survey to 40.3 per cent in 2005/06, while proportion of expenditure on transport and communications increased from 5.8 per cent to 12.7 per cent between the two surveys.

(e) The number of commodities in the current CPI basket is 216 items compared to 234 in the proposed 2005/06 survey. The major items that were added included un-packeted fresh milk, pork, arrow roots, wimbi flour, black grams (njahi), capsicum (pilipili hoho), camel meat, mineral water, laboratory tests, optician services, parking charges, boda-boda fares, cell phone air time, Internet costs, cellular handsets, computers, and school transport (for both primary and secondary schools). Inclusion of the above commodities indicates that the consumption behaviour of Kenyan households has changed over time. Items selected in the basket were those with expenditure of over 0.05 per cent.

19.9. The major consumption items in the consumer basket for urban households are housing, matatu fares, beef with bones, kerosene, sugar, milk, bread and maize flour. Items in the 2005/06 basket that have high expenditure proportions and were not in the previous basket are cell phones, airtime and un-packeted fresh milk.

CPI Baskets Derived from the 1993/94 UHBS and the 2005/06 KIHBS

19.10. Some items in the CPI basket are consumed more than others and hence more money is spent on them. Each item, sub-group and broad group of goods and services is, therefore, assigned a “weight”, which represents its relative importance in the household expenditure. Thus, the weights correspond to the share or proportion of the reported expenditures in relation to the total household consumption expenditure.

19.11. Based on the international standards of classification, the Kenyan basket is split into ten groups. These groups and their corresponding weights over the last two household budget surveys are as tabulated in Table 19.1.

Consumption Patterns for Different Income Groups Over the Last Three Household Budget Surveys

19.12. For convenience purposes, it is considered useful to categorise the population into relatively homogeneous groups where homogeneity is related to the respective expenditure. For instance, those with low incomes may spend a greater proportion of their income on food, while those with higher incomes might spend on education and housing. It follows, therefore, that the first step in creating an easily computable CPI is to examine whether, in fact, the expenditure amounts differ in some discernible way.

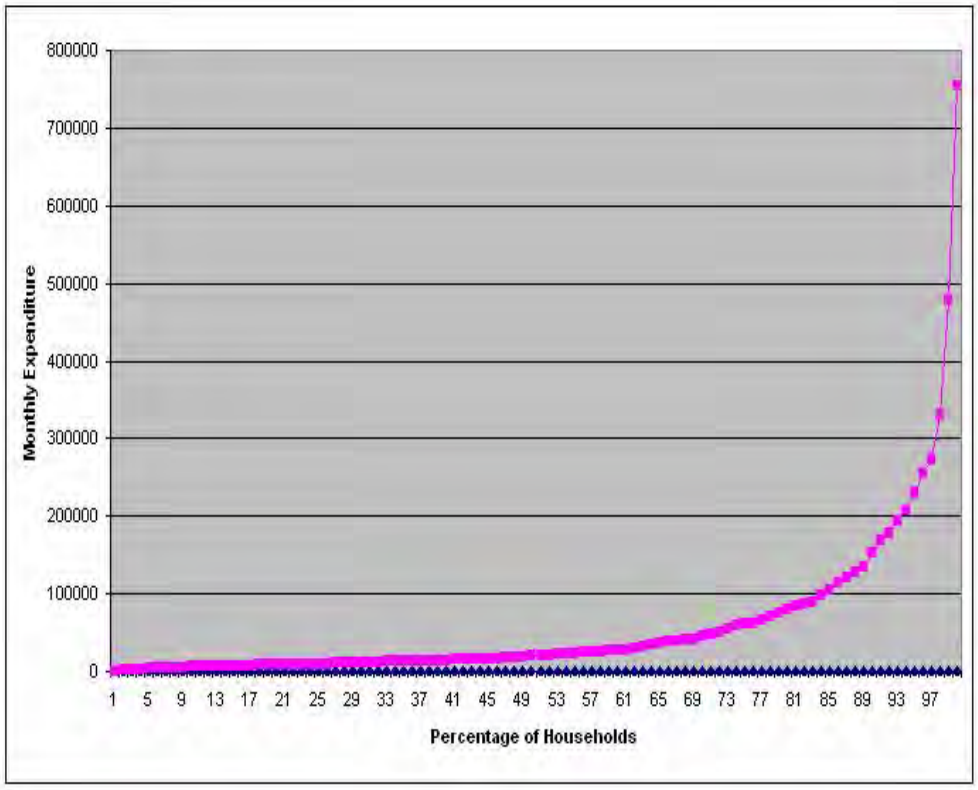
19.13. In Tables 17.4, 17.6 to 17.9, two sets of weights are involved. The first, as discussed above, relates to the significance of a category of goods or services in the expenditure pattern of a particular homogeneous group of households. The second set of weights relates to the numerical significance of each homogeneous group of households in the overall population.

19.14. In the CPI based on the 1982 UHBS survey, it was observed that households whose monthly earnings were below KSh 1,999, between KSh 2,000 and KSh 7,999 and over KSh 8,000 per month had different expenditure patterns. In the 1993/94 UHBS, the expenditure pattern for the households earning below KSh10,000 were different from the rest.

Income Groups for the Proposed Kenya CPI Based on the 2005/06 KIHBS

19.15. Using expenditure as a proxy for income, Nairobi was divided into separate income groups during the KIHBS due to the level of inequality in the province. Figure 1 shows ranking by household expenditure. The curve in the figure becomes steeper rising at the 72.12 percentage point. To distinguish between middle income and upper income groups using the graph, percentage changes were used from one point to the other.

Figure 19.1: Ranking of Nairobi Households by Monthly Expenditures (in KSh)



19.16. The second highest kink was recorded at the 96.24 percentage point, which was decided to be the cut-off point for the middle-income group. Households above this point (i.e., 96.24%) were classified as being in the upper income group. The comparison of these breakpoints approximates to a change in behaviour associated with a change in average of propensity to consume.

19.17. Table 19.4 shows the minimum and maximum values per annum for each decile. In the bottom 10 per cent, the household with the least expenditure per year was KSh 3,331, while the highest was KSh 61,853 per annum .The minimum annual amount in the top 10 per cent was KSh 707,600 per annum, while the highest was about KSh 9.1 million per annum. The bottom 10 per cent of the population accounted for only 1.3 per cent of the total expenditure, while the top 10 per cent constituted 47.7 per cent.

Table 19.1: Percentage Expenditure Weights for Broad Item Groups Over the Last Two Household Budget Surveys.

Broad Item Group	% Weights (93/94 UHBS)	% Weights (05/06 KIHBS)
Food & Non-alcoholic drinks	50.50	40.30
Alcohol & Tobacco	2.97	2.00
Clothing & Footwear	9.00	7.30
Housing Costs	11.74	13.70
Fuel & Power	4.18	6.90
Household Goods & Services	5.82	4.10
Medical Goods and Services	1.59	3.10
Transport & Communication	5.75	12.70
Recreation & Education	6.02	5.70
Personal Goods	2.45	4.20
All Groups	100.00	100.00

Table 19.2: Percentage Total Expenditure for Nairobi Between 1993/94 and 2005/06 Surveys

Survey Date	Nairobi	Rest of the country
1993/94	57.1	42.9
2005/06	54.6	45.4

Table 19.3: Percentage Number of Households in Nairobi Between 1993/94 and 2005/06 Household Budget Surveys

Survey Date	Nairobi	Rest of the country
1993/94	39.9	60.1
2005/06	41.2	58.8

Table 19.4: Annual Minimum and Maximum Values for Expenditure Deciles in Nairobi based on the 2005/06 KIHBS

Expenditure Decile	Minimum KSh	Maximum KSh	% Share of Expenditure	Cumulative % Share of Expenditure
Bottom 10 per cent	3,331	61,853	1.3	1.3
2nd Decile	61,854	85,018	2.3	3.6
3rd Decile	85,019	108,267	2.9	6.5
4th Decile	108,268	137,325	3.8	10.3
5th Decile	137,326	166,844	4.5	14.8
6th Decile	166,845	194,604	5.2	20
7th Decile	194,605	264,951	7.2	27.2
8th Decile	264,952	373,792	9.3	36.5
9th Decile	373,793	707,599	15.8	52.3
Top 10 per cent	707,600	9,060,036	47.7	100

Table 19.5: Ratios of Consumption for the Different Broad Categories of Goods and Services Based on the 1993/94 Household Budget Survey

Broad Items' Group	Nairobi income groups Combined	Rest of Kenya	All Kenya
Weight	0.399	0.601	1.000
Food & Non-alcoholic drinks	0.509	0.502	0.505
Alcohol & Tobacco	0.017	0.038	0.030
Clothing & footwear	0.088	0.091	0.090
Housing	0.159	0.090	0.117
Fuel & power	0.032	0.048	0.042
Household Goods & Services	0.049	0.064	0.058
Medical Goods & Services	0.010	0.020	0.016
Transport & Communications	0.061	0.055	0.057
Recreation, entertainment & Education	0.051	0.066	0.060
Personal Goods & Services	0.022	0.026	0.024
Total Weights	1.000	1.000	1.000

Base October 1997=100

Table 19.6: Ratios Of Consumption for the Different Broad Categories of Goods and Services Across Different Income Groups Based on the 1982 UHBS (Nairobi Basket)

Broad Items' Group	Lower	Middle	Upper	Nairobi
Weight	0.768	0.209	0.023	1.000
Food & Non-alcoholic drinks	0.442	0.212	0.139	0.387
Alcohol & Tobacco	0.021	0.031	0.041	0.024
Clothing & footwear	0.050	0.052	0.041	0.050
Housing	0.250	0.302	0.324	0.263
Fuel & power	0.031	0.081	0.097	0.043
Household Goods & Services	0.053	0.099	0.107	0.064
Medical Goods & Services	0.030	0.040	0.034	0.032
Transport & Communications	0.041	0.062	0.079	0.046
Recreation, entertainment & Education	0.062	0.081	0.099	0.067
Personal Goods & Services	0.020	0.040	0.039	0.024
Total Weights	1.000	1.000	1.000	1.000

Base February/March 1986=100

Table 19.7: Ratios of Consumption for the Different Broad Categories of Goods and Services Across Different Income Groups Based on the 2005/06 KIHBS.

Broad Items' Group	Nairobi Lower Income group	Nairobi Middle Income group	Nairobi Upper Income group	All Nairobi groups Combined
Weight	0.721	0.241	0.038	1.000
Food & Non-alcoholic drinks	0.483	0.258	0.105	0.414
Alcohol & Tobacco	0.016	0.014	0.013	0.015
Clothing & footwear	0.048	0.060	0.071	0.052
Housing	0.146	0.183	0.159	0.155
Fuel & power	0.077	0.063	0.039	0.072
Household Goods & Services	0.033	0.046	0.063	0.037
Medical Goods & Services	0.024	0.031	0.043	0.026
Transport & Communications	0.104	0.198	0.345	0.136
Recreation, entertainment & Education	0.032	0.098	0.128	0.052
Personal Goods & Services	0.038	0.049	0.034	0.040

Figure 19.2: Comparison of Broad Item Weights Over the Last Three Household Budget Surveys in Nairobi.

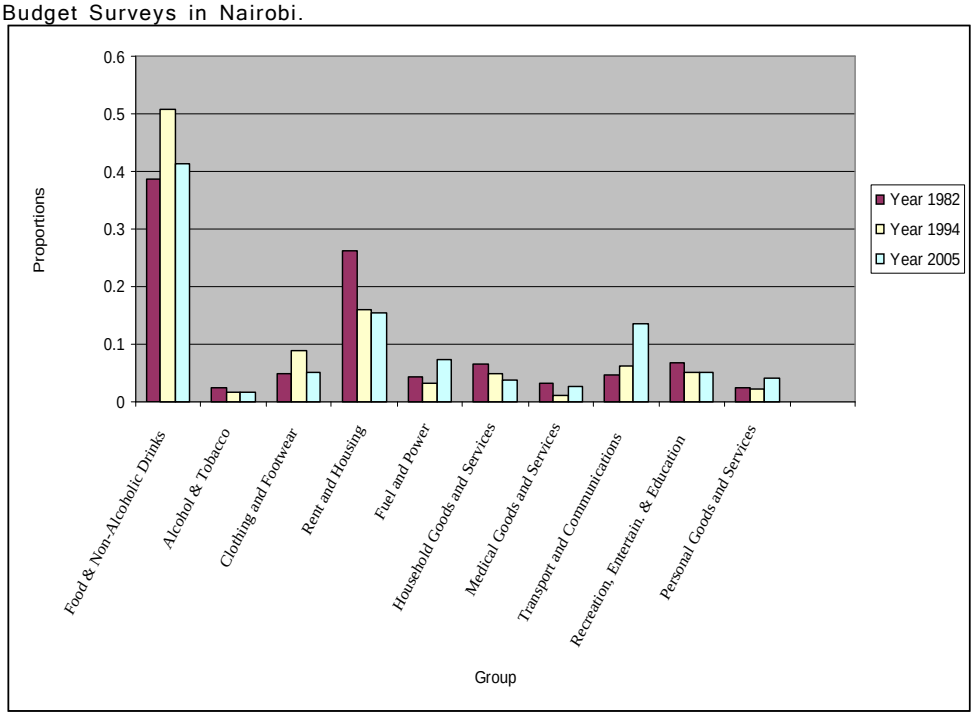


Table 19.8: Ratios of Consumption for the Different Broad Categories of Goods and Services Across Different Provinces Based on the 2005/06 KIHBS.

Broad items group	Central	Coast	Eastern	North eastern	Nyanza	Rift Valley	Western	Total for other Urban areas excluding Nairobi
Weight	0.131	0.264	0.088	0.028	0.139	0.280	0.074	1.000
Food & Non-alcoholic drinks	0.398	0.398	0.395	0.591	0.346	0.390	0.414	0.395
Alcohol & Tobacco	0.019	0.033	0.030	0.011	0.011	0.030	0.016	0.024
Clothing & footwear	0.085	0.074	0.097	0.120	0.099	0.080	0.101	0.087
Housing	0.113	0.164	0.119	0.070	0.101	0.110	0.122	0.124
Fuel & power	0.067	0.075	0.061	0.067	0.060	0.070	0.065	0.067
Household Goods & Services	0.044	0.038	0.054	0.023	0.052	0.040	0.061	0.043
Medical Goods & Services	0.046	0.016	0.036	0.013	0.047	0.040	0.031	0.035
Transport & Communications	0.134	0.105	0.100	0.025	0.163	0.130	0.091	0.121
Recreation, entertainment & Education	0.058	0.054	0.640	0.044	0.068	0.060	0.058	0.060
Personal Goods & Services	0.036	0.042	0.045	0.035	0.052	0.050	0.040	0.044

Weight based on proportion of households in the urban centres in the province

Table 19.9: Ratios of Consumption for the Different Broad Categories of Goods and Services Across All Urban Areas Based on the 2005/06 KIHBS.

Broad Items' Group	Nairobi	Other provinces	All urban areas
Food & Non-alcoholic drinks	0.414	0.395	0.403
Alcohol & Tobacco	0.015	0.024	0.020
Clothing & Footwear	0.052	0.087	0.073
Housing Costs	0.155	0.127	0.137
Fuel & Power	0.072	0.067	0.069
Household Goods & Services	0.037	0.043	0.041
Medical Goods and Services	0.026	0.035	0.031
Transport & Communication	0.136	0.121	0.127
Recreation ,entertainment & Education	0.052	0.060	0.057
Personal Goods and services	0.040	0.044	0.042
Total weights	1.000	1.000	1.000

Weight based on proportion of households in the urban centres in the location

Chapter 20
International Comparison Program - Round 2005: Highlights for Africa

Introduction

The United Nations International Comparison Project was started in 1968 with the aim of conducting global comparisons. Comparisons were made every five years commencing in 1970. Initially ten countries were involved, including one from Africa. By 1993, the International Comparison Program (ICP) involved 118 countries, among them 22 from Africa. Substantial changes to the program were implemented following a major review of the 1993 round of comparisons. The 2005 round of ICP involved a record of 150 participating countries.

20.2. ICP-Africa was launched in 2002 by the African Development Bank (AfDB) with the aim of generating comprehensive and comparable measures of real per capita expenditure on Gross Domestic Product (GDP). Unlike programs in the other regions, the Africa program also served as a platform for improving the national statistical systems of participating African countries. This broad-based, capacity-building effort involved African and global partnerships.

20.3. The African region is one of the most diverse in the world. The already complex task of conducting a large-scale project like ICP-Africa, covering 48 countries, was further complicated by the countries' geographic dispersion and by the large variations in their size, structure, and standard of living. The huge variety in the types of goods and services produced and consumed in different parts of the region presented the AfDB with some difficulties during the process of developing a common list of products to be priced across the region. These difficulties were further compounded by the fact that several countries in the region are at low levels of statistical development.

20.4. The challenges among participating countries were largely overcome through mechanisms that were put in place at various stages of program implementation. All participating countries worked closely under AfDB technical supervision to generate price and national accounts data that are now more comparable and meet international standards. As a result, the estimates of Purchasing Power Parities (PPPs) in this round are far more robust than previous estimates due to improved methodology coupled with better data collection, editing, and processing procedures.

Concepts and Definitions of Purchasing Power Parities (PPPs)

20.5. Purchasing power parity is a form of exchange rate that takes into account the differences in price levels across countries. One can think of a PPP as a rate at which one country's currency would have to be exchanged to buy the same quantity of goods and services in another country. A PPP between two countries, A and B, is, therefore, the ratio of the number of units of country A's currency needed to purchase in country A the same quantity of a specific good or service as one unit of country B's currency would purchase in country B. PPPs can be expressed in terms of the currency of either country.

20.6. Using PPPs allows for the comparison of real values of goods and services produced in various economies, adjusted through a common set of international (or regional) average prices. The PPPs can, therefore, be seen as the average price ratios in participating countries. This process allows for the removal of distortions caused by different price levels and market exchange rates observed between countries for similar goods and services.

Purchasing Power Parities versus Exchange rates

20.7. Using observed market exchange rates to convert aggregates into local currency units can be misleading because exchange rates do not reflect relative domestic price levels and are inherently biased for several reasons: (i) they do not measure differences in the price levels of commodities in the different countries; (ii) in some countries they are fixed by policy decrees and do not necessarily reflect the true value of the currency; (iii) they are subject to fluctuations from currency speculation and short-term capital movements; (iv) they do not indicate differences in price levels in the various sectors of the economy; and (v) fluctuations can result in some arbitrary changes in the wealth of countries sometimes overnight, as has been the case in the euro zone following the weakening of the dollar during the past few years.

20.8. Human development has many dimensions and is measured using various factors. These factors include per capita incomes, economic growth, health, education, social progress, globalization, poverty reduction or a combination of them. In each case, having internationally comparable, high-quality statistical measures is vital to making reliable inter-country comparisons, monitoring progress, and assisting in evidence-based decision making. Comparing economic and social data such as poverty statistics is a complex procedure because economic aggregates are typically expressed in national currencies. The use of exchange rates is a common method to convert economic data from a national currency to a numeraire currency such as the United States dollar.

20.9. This simplistic approach is not appropriate, however, for comparisons of real income or output , productivity and standards of living. Using exchange rates to convert aggregates into national currency units can be misleading because exchange rates do not reflect relative domestic price levels and are influenced by extraneous factors such as financial flows. Exchange rates are often subject to large, short-term swings of a speculative nature that can wrongly imply corresponding shifts in relative living standards. In assessing relative standards of living, it is necessary to compare the volumes of goods and services (value aggregates in real terms or at constant prices) actually available to residents of different countries in their own countries, taking into account the relative price levels of each of the countries.

20.10. PPPs directly take into account differences in the relative price levels between countries. For example, products in low-income countries are normally cheaper than those in high-income countries largely because services are usually cheaper in low-income countries. Many services are produced and consumed within a country and cannot be exported or imported directly (e.g., haircuts, dry cleaning). The price charged for these services is based largely on the wages paid to those providing the services. As a result,

in lower-income countries, the prices paid for such services are cheap because wages are low, and vice versa for high-income countries. Such services do not affect a country's exchange rate, but they have a marked impact on PPPs, which are obtained by directly comparing the prices paid for such services in different countries. Using PPPs rather than exchange rates to convert values into a common currency generally has the effect of proportionally narrowing the gap observed between high-income and low-income countries.

Compilation Methodology

20.11. Participation in ICP-Africa included two basic data requirements. Each participating country had to provide estimates of its GDP according to the framework described in the 1993 System of National Accounts (SNA93) following the expenditure approach. The AfDB then required that the data it be compiled using the expenditure approach, with its components allocated to 155 basic headings. In this regard, several classifications as used in the SNA93 were required. For ICP purposes, the most important classifications are those relating to expenditure. In particular, the Classification of Individual Consumption by Purpose provides a good framework for dividing individual consumption expenditure by households into 110 basic headings.

20.12. Similarly, the Classification of the Functions of Government provides the framework for delineating government expenditure, individual and collective. The other large component of GDP, Gross Fixed Capital Formation (GFCF), is classified by type of asset on which expenditures were incurred, such as construction and equipment.

20.13. In several participating countries, the national accounts were compiled using the production approach, meaning that the expenditure estimates required for ICP purposes were not available. In such cases, the basic headings were computed using alternate data sources (household surveys, supply and use tables, or commodity flows).

20.14. Participating countries were also required to provide annual average exchange rates and the mid-year resident population for the reference year. The prices that countries were required to collect were national annual prices charged to consumers. Countries were not required to price inventories, valuables, exports and imports.

20.15. Obtaining PPPs for the 48 participating countries in ICP-Africa involved three broad aggregation processes:

- Averaging the individual price observations to form a national annual average price for each product in each economy;
- Calculating PPPs at the basic heading level; and
- Calculating PPPs for GDP and its major aggregates in the 48 countries within the region for which GDP estimates were available.

Highlights of the Results

20.16. This section provides an overview of the key findings of the ICP-Africa data collection exercise conducted during the period 2005 to 2007. It provides information on the size and relative rankings of African countries, comparison of living standards across countries, relative price levels observed in the countries, as well as comparative investment expenditure levels.

The Largest or Smallest Economies

20.17. ICP-Africa gives an opportunity to compare economies on the basis of their purchasing power and rank countries' contributions to the region's output. Table 20.1 shows GDP figures of African countries at PPPs and exchange rates using results from the current ICP-Africa round. The figures reveal that when Africa's GDP is measured at PPPs, its size is larger in comparison to GDP size at market exchange rates. This is because exchange rates often tend to understate the purchasing power of the currencies of developing countries, particularly for non-tradable goods and services.

20.18. Africa's GDP at current PPPs and official exchange rates shows that the top five countries account for nearly two-thirds of the region's GDP when measured in real terms. Among the top five, Egypt, Nigeria, and Sudan are oil-producing countries, while Nigeria is also the most populous country in Africa. Kenya comes a distant eighth with a contribution of 2.70 per cent. Thirty African countries individually account for less than 1 per cent of the region's output and collectively account for less than 15 per cent of the region's total GDP. Some dynamic changes in the relative size and shares of these top five African economies appear however, when using PPPs or market exchange rates to measure output.

Table 20.1: Real and Nominal GDP in Africa

	Real GDP		Nominal GDP		Real GDP	Nominal GDP	PLI	
	Share (Africa=100)	Rank	Share (Africa=100)	Rank	in Billion US $	in Billion US $	Index	Rank
South Africa	22.35	1	28.84	1	397.46	242.01	1.35	4
Egypt, Arab Republic	19.88	2	11.78	3	353.41	98.83	0.58	47
Nigeria	13.91	3	13.52	2	247.28	113.46	1.01	24
Morocco	6.03	4	7.03	4	107.14	58.96	1.22	7
Sudan	4.48	5	4.19	5	79.59	35.18	0.98	29
Tunisia	3.64	6	3.46	7	64.79	29.04	0.99	28
Angola	3	7	3.61	6	54.97	30.27	1.22	6
Kenya	2.70	8	2.23	8	47.93	18.73	0.86	35
Ethiopia	2.39	9	1.32	12	42.55	11.07	0.58	48
Tanzania	2.02	10	1.51	11	35.94	12.70	0.78	39
Cameroon	1.97	11	1.98	9	34.98	16.65	1.05	21
Cote d'Ivoire	1.69	12	1.95	10	30.07	16.39	1.21	9
Uganda	1.48	13	1.09	15	26.25	9.14	0.77	40
Ghana	1.47	14	1.28	13	26.14	10.72	0.91	33
Botswana	1.15	15	1.16	14	20.50	9.71	1.05	22
Senegal	1.02	16	1.03	17	18.13	8.65	1.06	19
Gabon	1.00	17	1.03	16	17.84	8.67	1.07	18
Madagascar	0.95	18	0.65	28	16.84	5.45	0.72	44
Congo, Democratic Republic	0.89	19	0.85	19	15.74	7.12	1.00	27
Chad	0.84	20	0.70	25	14.89	5.87	0.87	34
Burkina Faso	0.82	21	0.66	26	14.59	5.54	0.84	36
Mozambique	0.81	22	0.80	20	14.42	6.75	1.03	23
Zambia	0.76	23	0.87	18	13.44	7.27	1.20	11
Mauritius	0.71	24	0.75	22	12.63	6.28	1.10	16
Equitorial Guinea	0.68	25	0.79	21	12.18	6.64	1.21	10
Mali	0.68	26	0.65	27	12.05	5.49	1.01	26
Republic of Congo	0.68	27	0.73	24	12.03	6.13	1.13	14
Benin	0.59	28	0.52	29	10.47	4.36	0.92	31
Namibia	0.52	29	0.74	23	9.29	6.23	1.48	3
Guinea	0.49	30	0.35	31	8.78	2.94	0.74	41
Malawi	0.48	31	0.34	32	8.57	2.85	0.74	43
Niger	0.44	32	0.40	30	7.74	3.33	0.95	30
Rwanda	0.40	33	0.28	34	7.15	2.39	0.74	42
Zimbabwe	0.35	34	é ..		6.20	é ..	3.27	1
Swaziland	0.28	35	0.30	33	4.94	2.56	1.15	13
Mauritania	0.27	36	0.21	36	4.81	1.79	0.83	37
Togo	0.26	37	0.25	35	4.63	2.11	1.01	25
Sierra Leone	0.23	38	0.18	37	4.03	1.49	0.82	38
Central African Republic	0.15	39	0.16	39	2.70	1.35	1.11	15
Lesotho	0.15	40	0.17	38	2.64	1.45	1.21	8
Djibouti	0.08	41	0.08	41	1.47	0.70	1.05	20
Cape Verde	0.08	42	0.13	40	1.35	1.06	1.73	2
Liberia	0.07	43	0.07	42	1.23	0.61	1.09	17
Gambia, The	0.06	44	0.03	45	1.06	0.28	0.59	46
Guinea-Bissau	0.04	45	0.04	44	0.75	0.31	0.91	32
Comoros	0.04	46	0.04	43	0.65	0.37	1.27	5
Sao Tome and Principe	0.01	47	0.01	46	0.22	0.11	1.16	12
Burundi	é		é ..		é ..	é ..	0.70	45
Africa Region	**100.00**		**100.00**		**1,835,589.00**	**839,156.00**	**1.00**	

Source:ICP Round 2005

... Data Not available

20.19. In particular, the size and share of the Egyptian economy increase significantly using PPPs. Egypt's economy, which is less than one-half the size of the South African economy when using market exchange rates, more than trebled when using PPPs. Egypt's share of the region's aggregate GDP also increases to about 20 per cent when using PPPs, compared with 12 per cent when using market exchange rates. Measuring the economy of Egypt in

US dollars at market exchange rates, therefore, underestimates its relative weight and size. On the other hand, South Africa's share in the region's GDP falls from 29 to 22 per cent when its output is measured using PPPs rather than market exchange rates. This is a reflection of relatively low price levels in Egypt compared to South Africa.

The Richest or Poorest Countries

20.20. Real GDP per capita is typically used to distinguish between rich and poor countries. Deflating GDP by population removes the distortion created by population size and allows a comparison of the standard of living across countries. Real GDP per capita measures the flow of goods and services that is available to countries to contribute to their economic well-being. Table 20.2 and Figure 20.1 illustrate the distribution of per capita income in PPP and in nominal terms (US$) by country.

20.21. Measured by real GDP per capita, the five richest countries are Gabon (US$ 12,742), Botswana (US$ 12,057), Equatorial Guinea (US$ 11,999), Mauritius (US$ 10,155), and South Africa (US$ 8,477). Four of these five countries have a small population of between 1 and 1.7 million, and their share in real terms of the regional output varies from 0.68 to 1.2 per cent. The region's average real GDP per capita is US$ 2,223 in PPP terms. Thirty-four countries have a real GDP per capita of less than US$ 2,500; half have a real GDP per capita of less than US$ 1,400; Kenya (US$ 1,359) being one of them and a quarter have a real GDP per capita of less than US$ 800. As shown in Figure 20.1, the latter category includes the five poorest countries: Ethiopia (US$ 591), Guinea-Bissau (US$ 569), Zimbabwe (US$ 538), Liberia (US$ 383), and Democratic Republic of Congo (US$ 264). In the ranking, Kenya is ranked number 25 with Tanzania and Uganda being number 30 and 31 respectively.

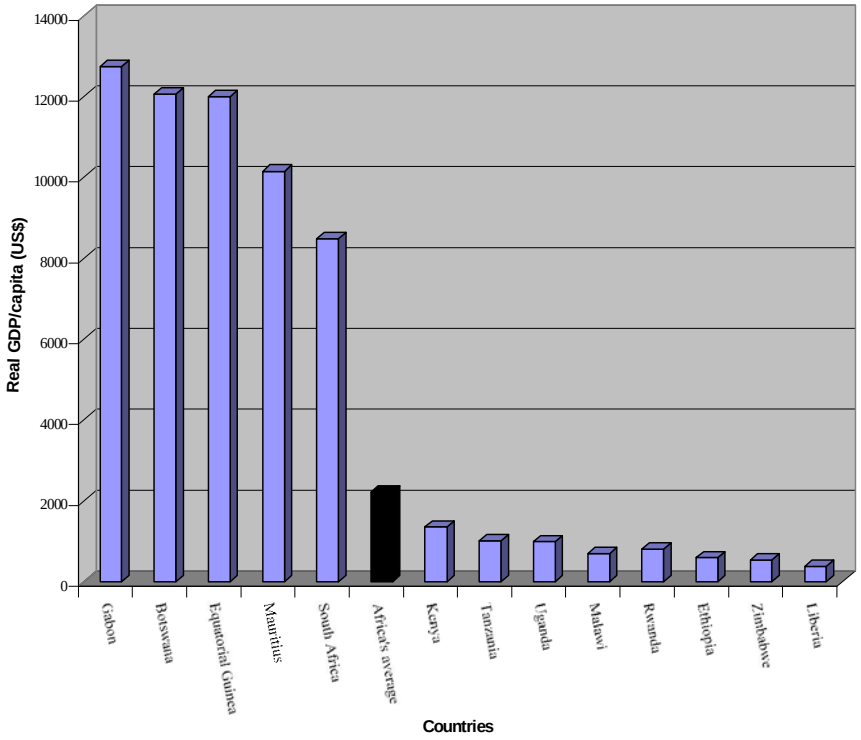
Table 20.2: Real and Nominal Per Capita GDP in Africa

	Real GDP/capita		Nominal GDP/capita	
	in US $	Rank	in US $	Rank
Gabon	12,742	1	6,190	2
Botswana	12,057	2	5,712	3
Equatorial Guinea	11,999	3	6,538	1
Mauritius	10,155	4	5,053	5
South Africa	8,477	5	5,162	4
Tunisia	6,461	6	2,896	7
Egypt	5,049	7	1,412	13
Namibia	4,547	8	3,049	6
Swaziland	4,384	9	2,270	8
Republic of Congo	3,621	10	1,845	12
Morocco	3,547	11	1,952	10
Angola	3,533	12	1,945	11
Cape Verde	2,831	13	2,215	9
Sudan	2,249	14	994	14
Cameroon	1,995	15	950	15
Djibouti	1,964	16	936	16
Nigeria	1,892	17	868	17
Chad	1,749	18	690	22
Mauritania	1,691	19	631	24
Senegal	1,676	20	800	19
Côte d'Ivoire	1,575	21	858	18
Sao Tome and Principe	1,460	22	769	21
Lesotho	1,415	23	777	20
Benin	1,390	24	579	26
Kenya	1,359	25	531	27
Ghana	1,225	26	502	28
Zambia	1,175	27	636	23
Burkina Faso	1,140	28	433	30
Comoros	1,063	29	611	25
Mali	1,027	30	468	29
Tanzania	1,018	31	360	32
Uganda	991	32	345	34
Madagascar	988	33	320	36
Guinea	946	34	317	37
Togo	888	35	405	31
Rwanda	813	36	271	39
Sierra Leone	790	37	293	38
Mozambique	743	38	347	33
Gambia, The	726	39	192	43
Malawi	691	40	230	42
Central African Republic	675	41	338	35
Niger	613	42	264	40
Ethiopia	591	43	154	45
Guinea-Bissau	569	44	234	41
Zimbabwe	538	45	é	
Liberia	383	46	188	44
Congo, Democratic Republic	264	47	120	46
Burundi	é		é	
Africa Average	**2,223**		**1,016**	

Source: ICP Round 2005

... Data Not available

Figure 20.1: Richest and Poorest Countries in Africa (Real GDP Per Capita in US$)



20.22. On one hand, adjusted PPP estimates of GDP result in a drop in the wealth of some countries. The largest changes in ranking are for Central African Republic and Comoros. Central African Republic is ranked 35th richest economy when the market exchange rate is used but drops to 41st when the PPP exchange rate is used (see Table 20.2). Comoros drops from 25th to 29th place. On the other hand, some countries are found to be richer when real GDP per capita is used instead of the market-based exchange rate converted GDP. For example, Egypt moves up from 13th to 7th place, Mauritania from 24th to 19th, Chad from 22nd to 18th, and The Gambia from 43rd to 39th place.

20.23. Egypt posts the biggest rank gain when PPP-adjusted GDP is used. Indeed, although Egypt is a middle-income country, it is the cheapest country in the sample (as is further elaborated), with the lowest price level index, and is tied with Ethiopia, which is much poorer. The difference in Egypt's ranking provides an illustration of the extent to which PPP rather than market exchange rates is regarded as a better measure of the relative cost of living.

Countries with The Highest or Lowest Living Standards

20.24. While the full range of goods and services that enter GDP serve to measure countries' general economic development PPPs based on what households consume should be used to compare living standards in different countries. A more appropriate measure of the economic well-being of the population is obtained by comparing per capita Actual Final Consumption Expenditure (AFCE). Table 20.3 and Figure 20.2 show real and nominal per capita AFCE. Kenya falls below the Africa's average index of 100 as its Real AFCE/capita index is 77.

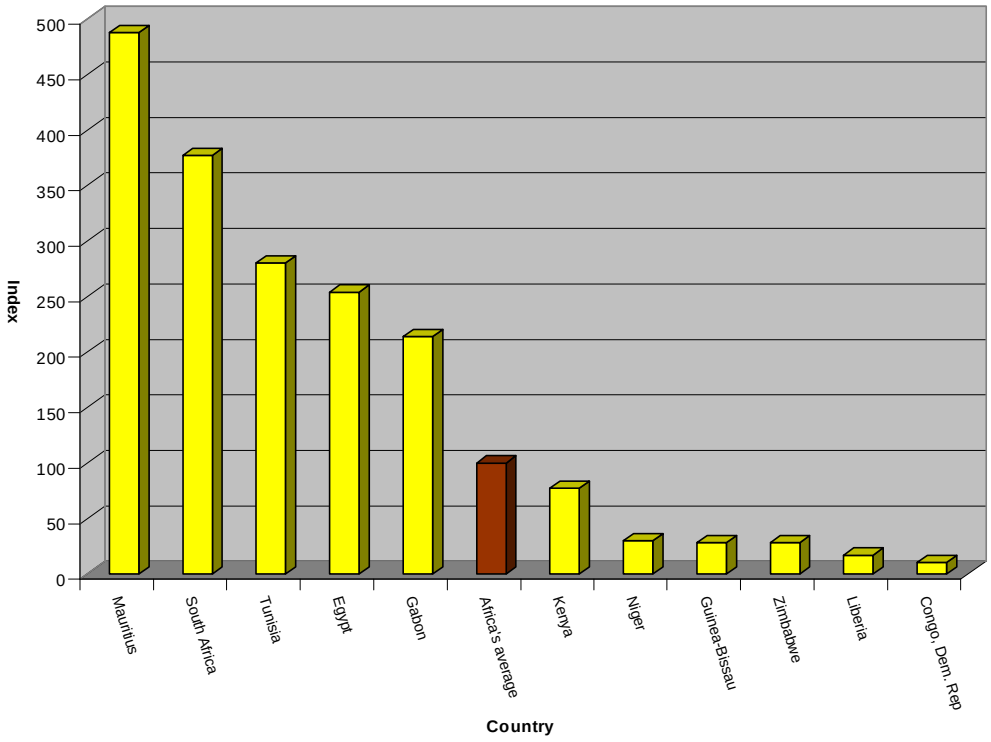
Table 20.3: Real and Nominal Per Capita Actual Final Consumption Expenditure and Price Level Indices in Africa

	Real AFCE/capita		Nominal AFCE/capita		PLI	
	Index	Rank	Index	Rank	Index	Rank
Mauritius	488	1	527	1	1.07	18
South Africa	377	2	516	2	1.36	7
Tunisia	280	3	283	4	1.01	23
Egypt, Arab Republic	254	4	151	11	0.59	47
Gabon	214	5	314	3	1.46	6
Swaziland	203	6	221	9	1.08	16
Botswana	200	7	256	8	1.27	9
Equitorial Guinea	186	8	275	5	1.47	5
Namibia	175	9	265	7	1.50	4
Cape Verde	166	10	269	6	1.61	2
Morocco	144	11	176	10	1.22	10
Sudan	120	12	111	13	0.92	32
Lesotho	115	13	115	12	1.00	24
Cameroon	97	14	99	15	1.01	22
Sao Tome and Principe	95	15	103	14	1.08	17
Senegal	86	16	90	16	1.03	21
Nigeria	81	17	87	17	1.06	19
Djibouti	78	18	86	19	1.09	15
Kenya	77	19	64	26	0.82	39
Mauritania	77	20	66	23	0.85	37
Cote d'Ivoire	76	21	86	18	1.13	14
Benin	68	22	65	25	0.94	29
Republic of Congo	66	23	80	20	1.21	11
Ghana	62	24	56	29	0.90	34
Chad	60	25	58	27	0.96	28
Togo	59	26	57	28	0.96	27
Comoros	58	27	79	21	1.35	8
Zambia	57	28	66	24	1.13	13
Burkina Faso	54	29	45	31	0.83	38
Uganda	52	30	40	35	0.75	42
Tanzania	52	31	41	33	0.78	40
Madagascar	49	32	34	37	0.68	45
Mali	49	33	49	30	0.99	25
Sierra Leone	47	34	40	34	0.86	36
Angola	46	35	73	22	1.59	3
Guinea	42	36	31	38	0.73	44
Central African Republic	41	37	43	32	1.05	20
Rwanda	40	38	30	39	0.76	41
Gambia, The	39	39	26	43	0.66	46
Mozambique	39	40	35	36	0.90	33
Malawi	33	41	29	40	0.87	35
Ethiopia	31	42	18	44	0.58	48
Niger	30	43	28	41	0.92	31
Guinea-Bissau	28	44	27	42	0.97	26
Zimbabwe	28	45	é		3.57	1
Liberia	17	46	16	45	0.93	30
Congo, Democratic Republic	10	47	12	46	1.20	12
Burundi	é		é		0.73	43
Africa Average	**100**		**100**		**1.00**	

Source:ICP Round 2005

... Data Not available

Figure 20.2: African Countries with the Highest or Lowest Living Standards (Real Per Capita AFCE Index: Africa=100)

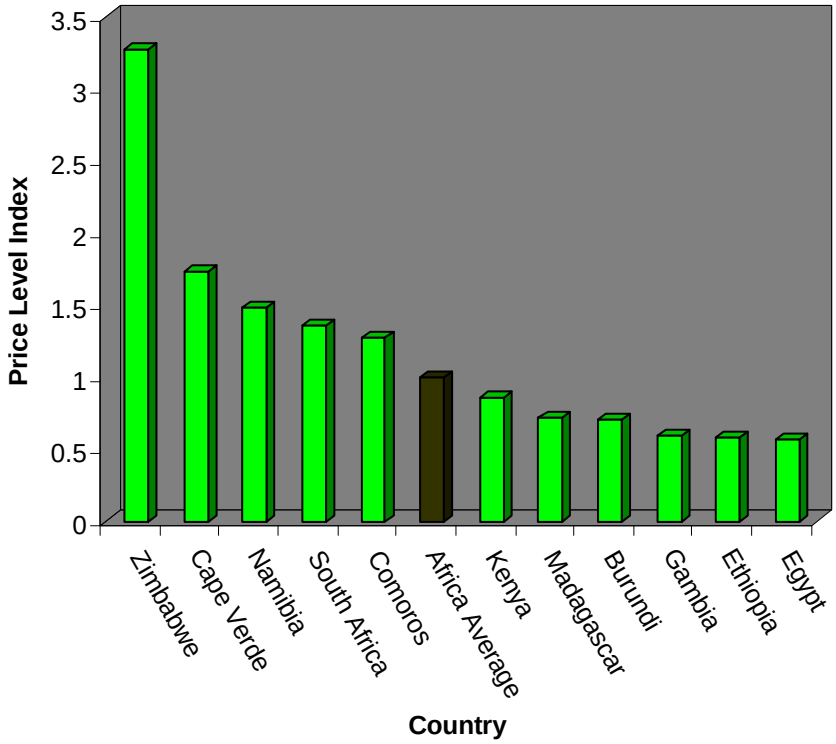


20.25. Although the same group of countries that were at the top of the list on the basis of real per capita GDP continue to dominate the top rankings when the comparison is based on per capita real AFCE, their rankings change. Gabon, Botswana, and Equatorial Guinea each drop by four and five positions, moving respectively from first, second and third to fifth, seventh and eighth. Mauritius, South Africa, Tunisia, and Egypt, each move up by three positions, from fourth, fifth, sixth, and seventh to first, second, third, and fourth, respectively.

The Most and Least Expensive Countries

20.26. The Price Level Index (PLI) is the ratio of a country's PPP to the exchange rate of its currency to the U.S. dollar. PLIs provide a comparison of the countries' overall price levels with respect to Africa's average. A PLI greater than 1 means that prices are higher than the region's average, and a PLI less than 1 means that prices are relatively lower than the region's average. Hence, PLIs allow the identification of the most and the least expensive countries, as indicated in Figure 20.1.

Figure 20.3: Most or Least Expensive Countries in Africa (Price Level Indices: Africa =1.0)



Note: For country details, refer to Table 20.1

20.27. While on average, PLIs are higher in richer countries than in poorer ones, some notable exceptions appear. Zimbabwe has the highest PLI, followed by Cape Verde, Namibia, South Africa and Comoros. PLIs are lowest in Ethiopia, Egypt, The Gambia, and Burundi. The fact that Zimbabwe has the highest PLI is a reflection of the hyper inflation situation prevailing in the country. Indeed, prices in Zimbabwe are close to twice as high as the second most expensive country in the region.

20.28. Kenya's price level is 14 per cent lower than the Africa's average and its ranked number 35 in terms of the most expensive countries out of 48 countries that participated (i.e. 13th least expensive country in Africa). In East Africa, Uganda has the lowest prices (23 per cent below the Africa's average), followed by Tanzania with a price level of 22 per cent below the Africa's average.

Countries with the Highest and Lowest Relative Investment Expenditures

20.29. Gross Fixed Capital Formation (GFCF) measures a country's investment expenditures and consists primarily of purchases of machinery and equipment goods and construction services. GFCF accounts on average for around 22 per cent of the regional GDP. Table 20.4 and Figure 20.4 presents real and nominal per capita GFCF. Kenya falls below the African average and is ranked 27th with a real GFCF/capita index of 49.

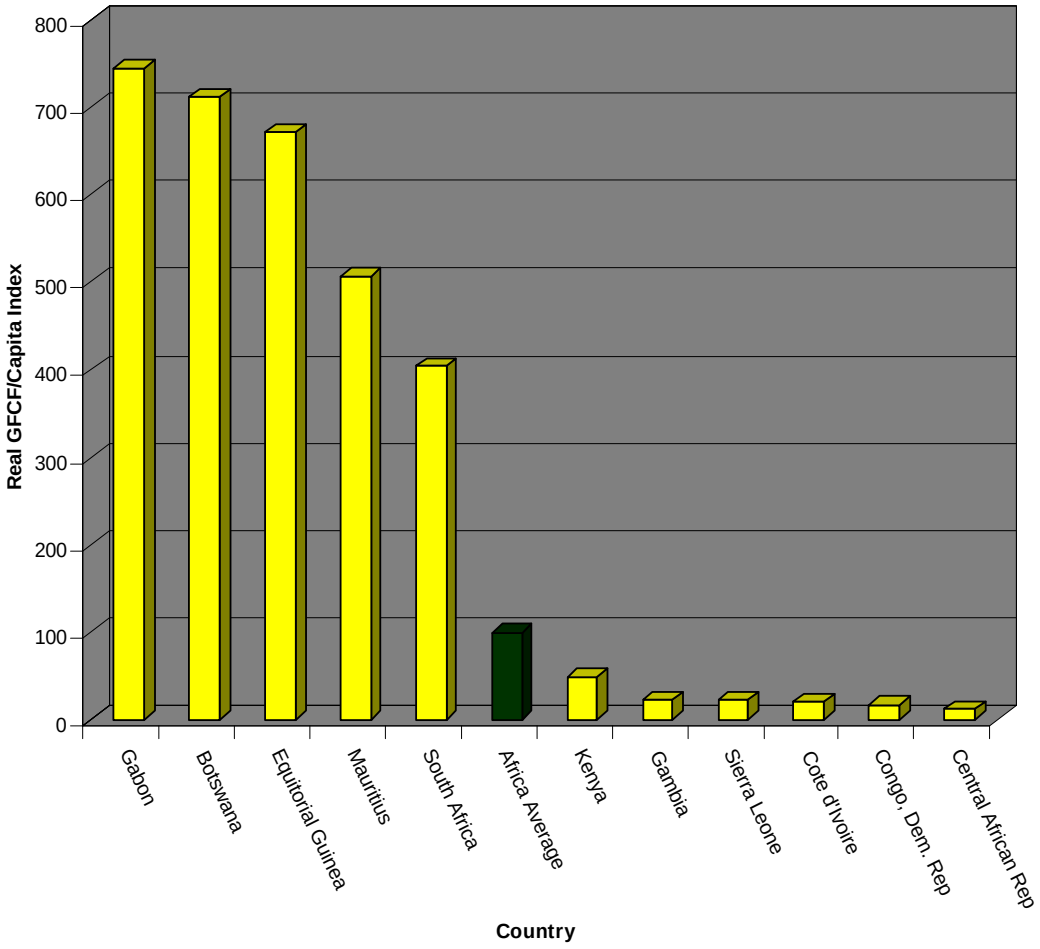
Table 20.4: Real and Nominal Per Capita Gross Fixed Capital Formation and Price Level Indices in Africa

	Real GFCF/capita		Nominal GFCF/capita		Real GFCF		Nominal GFCF		PLI	
	Index	Rank	Index	Rank	Share (Africa=100)	Rank	Share (Africa=100)	Rank	Index	Rank
Gabon	745	1	731	2	1.23	15	1.24	15	0.97	26
Botswana	712	2	581	3	1.43	13	1.19	18	0.80	42
Equitorial Guinea	672	3	1,092	1	0.81	21	1.34	13	1.60	3
Mauritius	507	4	558	4	0.75	25	0.84	23	1.08	20
South Africa	404	5	455	5	22.43	1	25.80	1	1.11	19
Tunisia	382	6	332	9	4.54	6	4.03	7	0.86	34
Cape Verde	330	7	379	7	0.19	37	0.22	37	1.13	18
Namibia	322	8	386	6	0.78	22	0.95	20	1.18	12
Angola	292	9	341	8	5.39	5	6.43	5	1.15	15
Morocco	282	10	287	10	10.10	3	10.48	2	1.00	24
Swaziland	226	11	274	11	0.30	35	0.37	33	1.19	11
Mauritania	224	12	195	12	0.76	23	0.67	28	0.85	35
Egypt, Arab Republic	171	13	123	15	16.37	2	10.38	3	0.71	46
Lesotho	97	14	141	14	0.21	36	0.32	35	1.43	4
Senegal	95	15	92	17	1.21	16	1.21	17	0.96	27
Republic of Congo	91	16	178	13	0.36	34	0.72	26	1.92	2
Ghana	89	17	81	20	2.25	8	2.10	9	0.90	30
Sudan	89	18	106	16	3.73	7	4.53	6	1.17	14
Djibouti	86	19	78	21	0.08	40	0.07	41	0.89	31
Cameroon	71	20	86	19	1.47	12	1.83	10	1.20	10
Zambia	70	21	89	18	0.95	18	1.23	16	1.25	9
Benin	69	22	58	23	0.61	28	0.53	30	0.83	38
Chad	66	23	72	22	0.66	26	0.74	25	1.08	21
Nigeria	54	24	54	24	8.37	4	8.45	4	0.97	25
Guinea	54	25	45	27	0.59	29	0.51	31	0.82	40
Burkina Faso	49	26	44	28	0.75	24	0.69	27	0.89	32
Kenya	49	27	51	25	2.04	10	2.17	8	1.03	22
Tanzania	48	28	41	29	2.01	11	1.74	11	0.83	37
Madagascar	43	29	40	31	0.87	19	0.81	24	0.90	29
Malawi	43	30	20	37	0.63	27	0.30	36	0.46	48
Uganda	42	31	40	30	1.31	14	1.29	14	0.95	28
Rwanda	38	32	32	35	0.40	33	0.34	34	0.82	39
Mozambique	37	33	51	26	0.84	20	1.18	19	1.35	6
Mali	32	34	37	33	0.45	31	0.53	29	1.13	17
Togo	30	35	35	34	0.18	38	0.22	38	1.13	16
Niger	28	36	28	36	0.42	32	0.44	32	1.01	23
Ethiopia	24	37	16	42	2.07	9	1.45	12	0.67	47
Guinea-Bissau	23	38	19	39	0.04	43	0.03	43	0.81	41
Gambia, The	23	39	20	38	0.04	42	0.04	42	0.88	33
Sierra Leone	23	40	18	40	0.14	39	0.11	39	0.78	43
Cote d'Ivoire	20	41	40	32	0.46	30	0.92	21	1.92	1
Congo, Democratic Republic	17	42	12	43	1.19	17	0.89	22	0.72	45
Central African Republic	12	43	17	41	0.06	41	0.08	40	1.35	7
Zimbabwe	é		é		é		é		1.39	5
Sao Tome and Principe	é		é		é		é		1.29	8
Liberia	é		é		é		é		1.17	13
Comoros	é		é		é		é		0.85	36
Burundi	é		é		é		é		0.75	44
Africa Average	**100**		**100**		**100.00**		**100.00**		**1.00**	

Source:ICP Round 2005

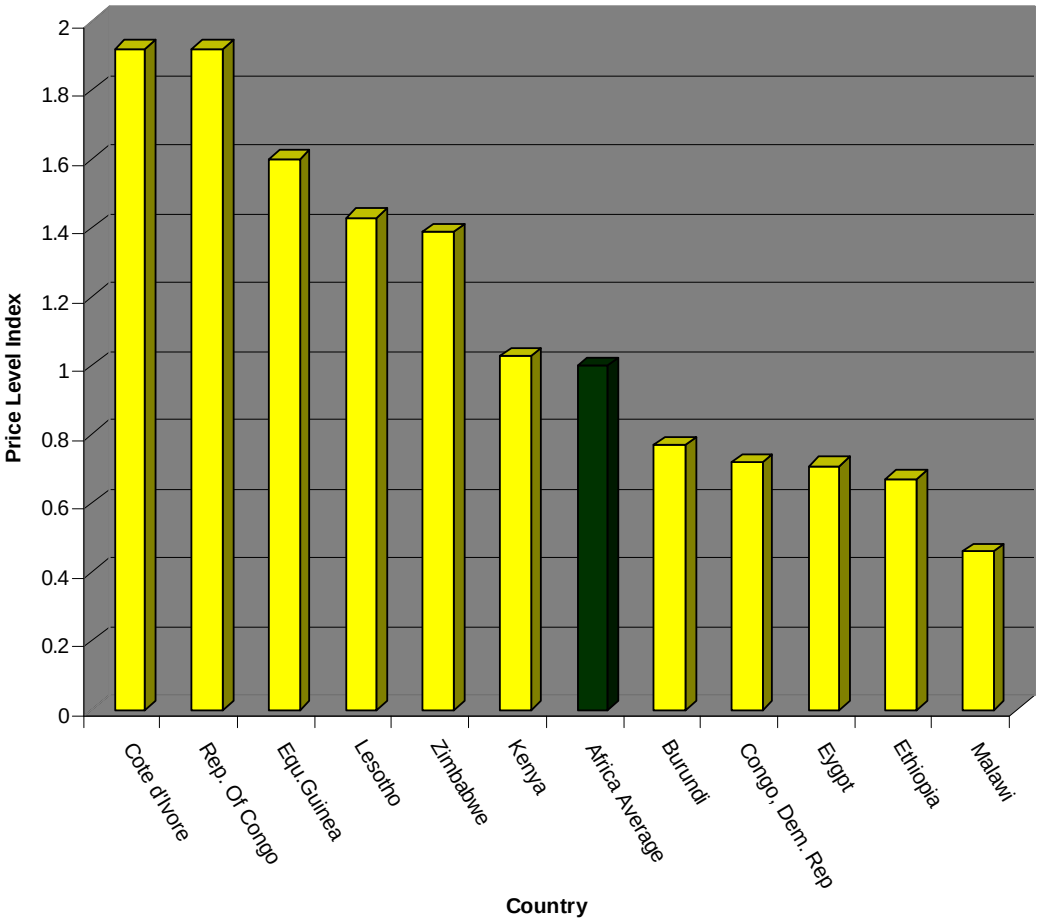
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Figure 20.4: African Countries with the Highest or Lowest Per Capita Investment Expenditures (Real Per Capita GFCF Index: Africa =100)



20.30. The same group of countries that were at the top of the list on the basis of real GDP per capita continues to dominate the top rankings when the comparison is based on real GFCF per capita: Gabon, Botswana, Equatorial Guinea, Mauritius, and South Africa. At the level of GFCF, price level indices provide a measure of the differences in investment prices between countries. Cote d'Ivoire and Republic of Congo with a PLI of 1.92 are almost twice as expensive as the average for the region. On the other hand, Malawi has the lowest PLI (0.46) for investment, representing the cheapest investment destination on the continent (see Figure 20.5). In East Africa, Tanzania has the lowest PLI of 0.83, followed by Uganda with a PLI of 0.95 with Kenya PLI of 1.03 falling above the African average. This implies that Tanzania is the cheapest investment destination in East Africa.

Figure 20.5: African Countries with the Highest or Lowest Price Levels for Investment (Africa Index=1.00)



Note: For country details, refer to Table 20.4