



**Republic of Kenya**

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**Ministry of Finance**

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# **Quarterly Economic and Budgetary Review**

**Second Quarter  
2011/2012**

**February 2012 Edition**

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## **LIST OF ABBREVIATIONS AND ACCRONYMS**

|        |   |
|--------|---|
| ADB    | African Development Bank                              |
| ADF    | African Development Fund                              |
| A-I-A  | Appropriation in Aid                                  |
| BADEA  | Arab Bank for Economic Development of Africa          |
| BROP   | Budget Review and Outlook Paper                       |
| CBK    | Central Bank of Kenya                                 |
| CBR    | Credit Bank Rate                                      |
| CCF    | Civil Contingency Fund                                |
| Dev    | Development   |
| DPM    | Directorate of Personnel Management                   |
| EACC   | Ethics and Anti-Corruption Commission                 |
| EEC    | European Economic Community                           |
| EIB    | European Investment Bank                              |
| FY     | Fiscal Year   |
| GDP    | Gross Domestic Product                                |
| IBRD   | International Bank for Reconstruction and Development |
| IDA    | International Development Association                 |
| IMF    | International Monetary Fund                           |
| KBC    | Kenya Broadcasting Corporation                        |
| KShs.  | Kenya Shillings                                       |
| NBFI's | Non Bank Financial Institutions                       |
| NDA    | Net Domestic Asset                                    |
| NFA    | Net foreign Asset                                     |
| O&M    | Operation and Maintenance                             |
| OOP    | Office of the President                               |
| OPEC   | Organisation for Petroleum Exporting Countries        |
| OVP    | Office of the Vice President                          |
| PAYE   | Pay As You Earn                                       |
| PSC    | Public Service Commission                             |
| Rec    | Recurrent   |
| TARDA  | Tana and Athi Rivers Development Authority            |
| VAT    | Value Added Tax                                       |

## **HIGHLIGHTS OF THE SECOND QUARTER ECONOMIC AND BUDGETARY REVIEW: 2011/2012**

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### **1. Recent Economic Developments**

Real GDP grew by 3.6 percent in the third quarter of 2011 compared to 5.7 percent growth in the same quarter of 2010. This growth was mainly attributed to continued expansion in building and construction, wholesale and retail, financial intermediation and agriculture and forestry as well as hotels and restaurants. Overall, the economic performance was resilient considering that the period under review was characterized by delayed rains, high inflation, and weaker shilling, which, to some extent, restrained growth.

### **2. The Overall Fiscal Balance**

The cumulative overall fiscal balance, on a commitment basis (excluding grants), amounted to a deficit of KShs. 73.0 billion (equivalent to 2.2 percent of GDP), as at end-December 2011, compared with a deficit of KShs. 61.9 billion (equivalent to 2.2 percent of GDP) in a similar period in 2010.

### **3. Total Revenue Collection**

The central government cumulative revenue collection as at end of December 2011 amounted to KShs. 338.3 billion (equivalent to 10.3 percent of GDP) against a target of KShs. 373.3 billion. This represented an underperformance of KShs. 35.0 billion.

### **4. Government Expenditure and Net Lending**

The central government cumulative expenditure and net lending for the period ending 31<sup>st</sup> December 2011 amounted to KShs. 411.4 billion. This was KShs. 103.4 billion below the target of KShs. 514.8 billion and was largely attributed to low absorption in development expenditures amounting to KShs. 80.4 billion.

### **5. Guaranteed Loans**

At the end of the second quarter of the financial year 2011/12, the central government paid a total of KShs. 271.9 million against the projected target of KShs. 708.5 million. The variance is attributed to late payment on behalf of KBC for the second quarter which was paid in the third quarter.

### **6. External Financing**

External financing in the first half of FY 2011/12 amounted to a net borrowing of KShs. 16.0 billion compared to a net borrowing of KShs. 12.4 billion in a similar period in FY 2010/11.

**7. Net Domestic financing**

Net domestic financing amounted to KShs. 62.5 billion (equivalent to 1.9 percent of GDP) in the first half of FY 2011/12, compared to the programme target of KShs. 81.5 billion (equivalent to 2.5 percent of GDP). This was largely attributed to decline in Government deposits in the banking system. On gross terms, however, domestic borrowing was Kshs 11.6 billion against the overall annual fiscal year's borrowing target of Kshs 119.5 billion

**8. Domestic Debt**

Total gross domestic debt stock increased by 4.8 percent from KShs. 764.2 billion at end-June 2011 to KShs. 800.7 billion by the end of December 2011.

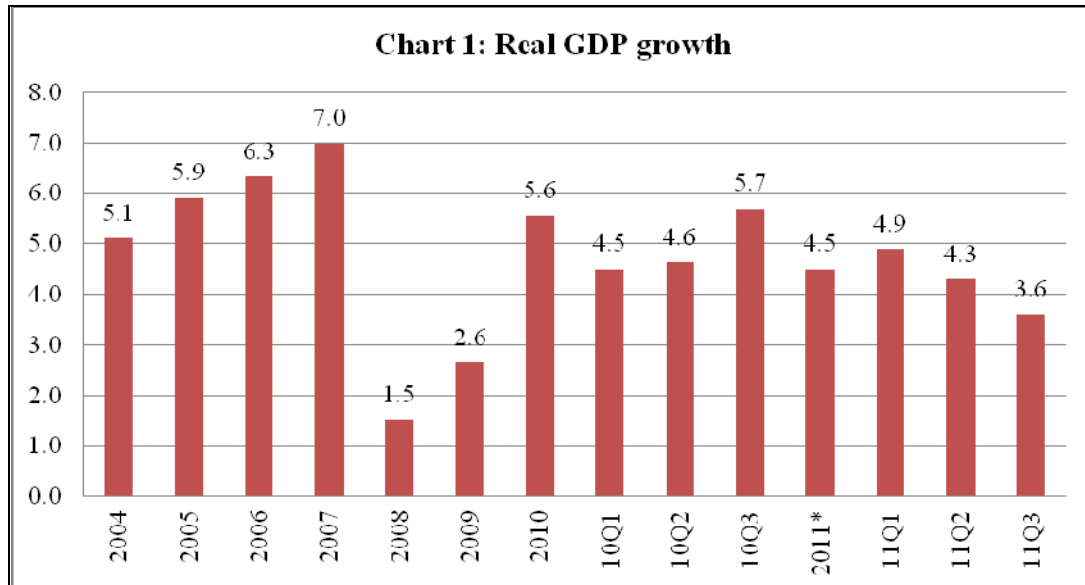
**9. External Debt**

The total external debt stock stood at KShs. 685.6 billion at the period ending December 2011. The debt stock comprised of multilateral debt (62.2%), bilateral debt (34.6%) and Export Credit debt (3.2%).

## 1.0 RECENT ECONOMIC DEVELOPMENTS

### 1.1 Economic Growth

1. Real GDP grew by 3.6 percent in the third quarter of 2011, compared to 5.7 percent in the same period in 2010. This slow down was attributed to deteriorating external environment with sluggish global recovery on account of the sovereign debt crisis in the Euro Zone, weak growth in the US and a general slowdown in output growth for most of Kenya’s trading partners. Rising inflation and exchange rate depreciation in addition to prolonged drought (in some parts of the country) have also combined to weaken internal demand during the period under review (chart 1).



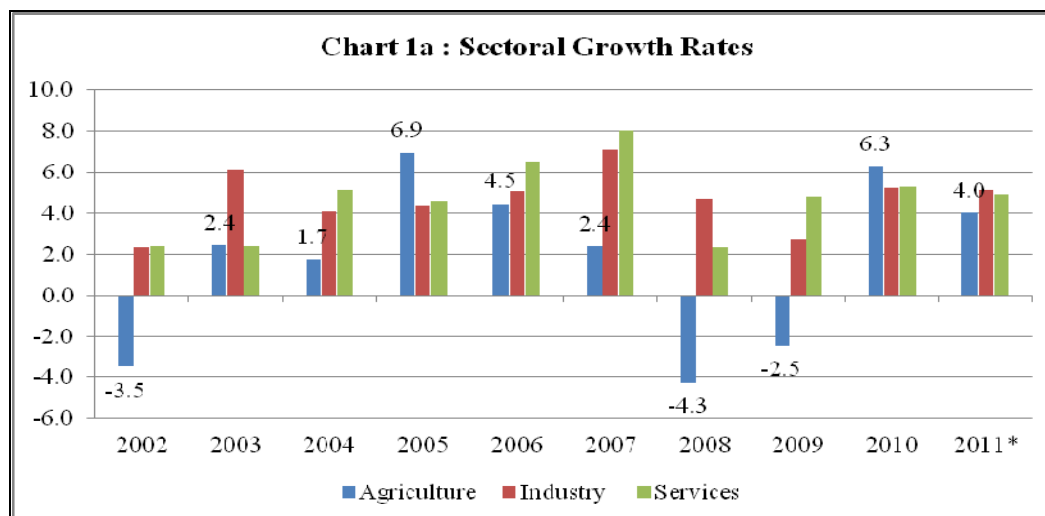
Source: Data from KNBS.

\*BROP projection for 2011

2. In terms of sectoral performance, agriculture and forestry grew by 4.8 percent in the third quarter of 2011 compared to 5.7 percent in the same quarter of 2010. The growth in this sector reflected increased production in food, horticulture and industrial crops. Exported cut-flowers increased by 52.5 percent from 15,796 metric tonnes in third quarter of 2010 to 24,088 metric tonnes in the same period of 2011. Vegetable exports expanded by 12.2 percent in the period under review. However, the quantity of fruits exported declined from 5,470 metric tonnes in third quarter of 2010 to 5,079 metric tonnes in the same period of 2011, representing a 7.1 percent decline (KNBS, 2011).

3. Tea deliveries to the marketing boards expanded by 6.3 percent from 76,461 metric tonnes in the third quarter of 2010 to 81,307 metric tonnes in 2011, while coffee delivered grew by 39.6 percent from 7,710 metric tonnes in the third quarter of 2010 to 10,767 metric tonnes in the same period of 2011. The increase in production of tea and coffee is attributable to better international prices which have been rising since 2009. However, sugarcane deliveries declined by 26.8 percent over the period under review from 1,307 thousand metric tonnes in the third quarter of 2010 to 956.3 thousand metric tonnes in the same period of 2011.

4. Chart 1a shows performance among three key sectors of our economy, namely: agriculture, industry and services. Agriculture has registered a remarkable recovery since recording a 4.3 percent decline in 2008.



5. The financial intermediation sector growth moderated to 6.0 percent in the third quarter of 2011 compared to a growth of 10.6 percent in the same quarter of 2010 while growth of the manufacturing sector slowed down from a growth of 5.7 percent in the third quarter of 2010 to 1.1 percent in the same period in 2011. Significant decline in manufacturing of sugar related foods, soft drinks, and processed sugar, more than offset the expansion in all other manufacturing items such as cement, galvanized sheets and motor vehicle assembly. The slowdown was also attributable to weaker internal demand emanating from rise in inflation and a weaker exchange rate.

6. The electricity and water sector continued to decline for the second consecutive quarter in 2011. The sector declined by 4.6 percent and 12.1 percent for the second quarter and third quarter of 2011, respectively, compared to a growth of 5.8 percent and 17.1 percent, in similar periods in 2010. The decline in the value added in this sector was as a result of a shift in electricity generation mix. Arising from drought and decline in water levels, production of hydro electricity declined, thus necessitating the use of thermal.

7. The hotels and restaurants sector grew by 3.1 percent in the third quarter of 2011 compared to a strong growth of 10.8 percent in the same period in 2010. The number of tourist arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) increased by 28.0 percent. Bed occupancy rate, an indicator of hotel activities, expanded in all the urban centres recording a growth of 3.5 percent. The positive performance of the sector is attributable to continued marketing and government’s increased investment in security to ensure that Kenya remains a safe tourist destination.

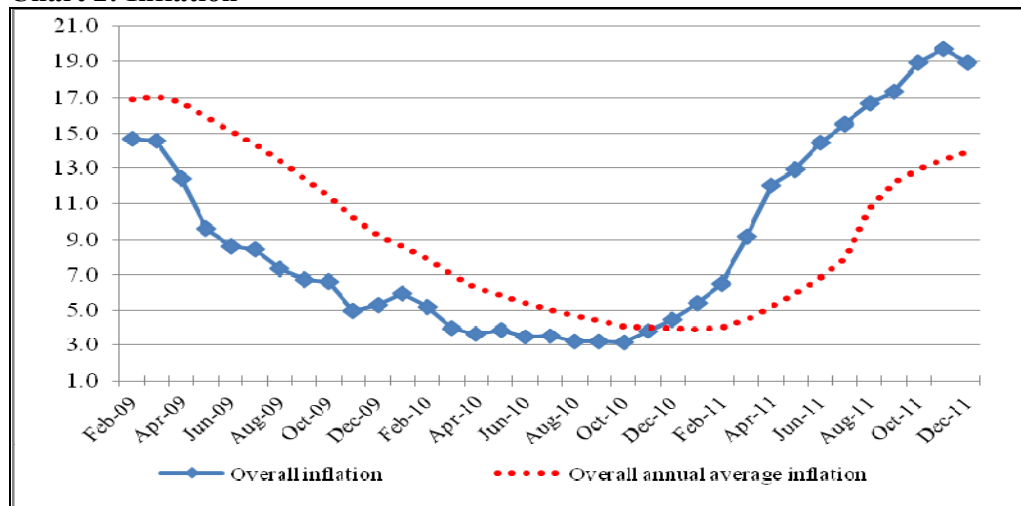
8. Transport and communication sector expanded by 4.5 percent in the third quarter of 2011 compared to a growth of 3.0 percent in the same quarter of 2010. This growth was mainly supported by expansion in activities at the port with an increase in the volume of cargo handled and an increase in consumption of oil fuels for road and air transport. Communication sub-sector expanded by 1.6 percent in the period under review. This was an improvement compared to the contraction of 0.1 percent in the same quarter of 2010. The prevailing low calling rates have also contributed to the increased volume of calls.

9. Construction sector expanded by 6.9 percent in the third quarter of 2011 compared to a growth of 5.8 percent in the same quarter of 2010. The continued rise in public investments in infrastructure projects especially in roads, energy and water supported growth in this sector. Cement production and consumption increased by 6.6 percent from 811.5 million tonnes in the third quarter of 2010 to 865 million tonnes in the same period of 2011.

**1.2 Inflation**

10. Inflation picked to reach double digits level in 2011, mainly due to high food prices, a spike in the international oil prices and the weakening of the Kenya shilling against major currencies (Chart 2). The annual average inflation for 2011 rose to 13.98 percent compared to 4.1 percent in 2010.

**Chart 2: Inflation**



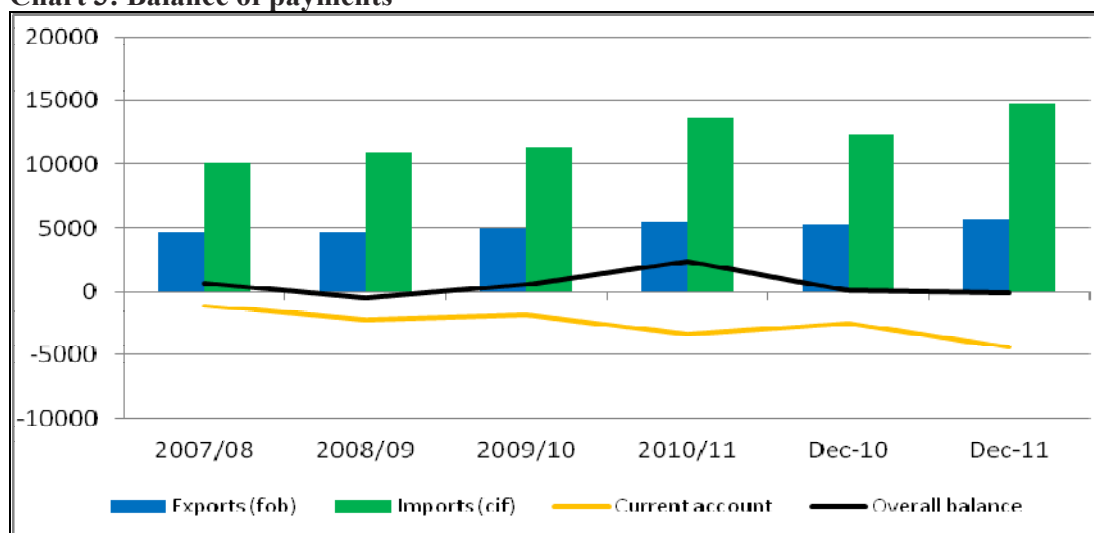
Source: Data from KNBS.

11. The 12-month overall inflation rose to reach 19.7 percent in November 2011 before easing to 18.9 percent in December 2011 and 18.3 percent in January 2012. The Government has taken appropriate policy actions to rein on inflation. A tighter monetary policy was adopted by the CBK with the CBR rising from 6.25 percent in August 2011 to 18 percent in December 2011. Fiscal consolidation is also being pursued through expenditure cuts on non priority and non-productive expenditure items. Going forward, inflation is expected to ease on account of falling international oil prices and as harvests from the long and the short rains become available.

**1.3 Balance of Payments**

12. The external payment position weakened in the year to December 2011, reflecting a faster growth in imports relative to exports. The trade account balance worsened by 26.3 percent to US\$ 9,056 million from US\$ 7,169 million (Chart 3 and Table 1a). The services sector also registered a decline equivalent to 2 percent based on year-to-year growth from US\$ 4,657 million in December 2010 to US\$ 4,567 million in December 2011, resulting in the widening of the current account deficit from US\$ 2,512 million in December 2010 to US\$ 4,489 million in December 2011. The deficit in the current account was more than offset by the surplus of US\$ 4,439 million in the capital and financial account thereby resulting in the overall balance of payment deficit of US\$ 51 million.



**Chart 3: Balance of payments**


Source: CBK

**Table 1a: Balance of Payments Developments (US \$ Million)**

|                                | 2007/08       | 2008/09       | 2009/10       | 2010/11       | 2010          | 2011          | %             |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                | Act.          | act           | Prov.         | June Prov     | Dec-10        | Dec-11        | Change        |
| <b>Current account</b>         | <b>-1,073</b> | <b>-2,296</b> | <b>-1,920</b> | <b>-3,380</b> | <b>-2,512</b> | <b>-4,489</b> | <b>78.7</b>   |
| <b>Trade balance</b>           | <b>-5,428</b> | <b>-6,281</b> | <b>-6,351</b> | <b>-8,118</b> | <b>-7,169</b> | <b>-9,056</b> | <b>26.3</b>   |
| <i>Exports (fob)</i>           | 4,648         | 4,642         | 4,932         | 5,541         | 5,225         | 5,726         | 9.6           |
| Coffee                         | 169           | 179           | 194           | 213           | 209           | 222           | 6.2           |
| Tea                            | 755           | 877           | 1,127         | 1,108         | 1,159         | 1,153         | -0.5          |
| Horticulture                   | 739           | 668           | 715           | 732           | 725           | 678           | -6.6          |
| Man. goods                     | 571           | 570           | 570           | 670           | 608           | 729           | 20.0          |
| Raw materials                  | 320           | 247           | 219           | 264           | 214           | 381           | 78.1          |
| Re-exports                     | 213           | 281           | 317           | 313           | 315           | 317           | 0.6           |
| Other                          | 1,736         | 1,732         | 869           | 1,129         | 1,032         | 1,048         | 1.5           |
| <i>Imports (cif)</i>           | 10,076        | 10,923        | 11,283        | 13,659        | 12,395        | 14,782        | 19.3          |
| Oil                            | 2,448         | 2,556         | 2,636         | 3,299         | 2,673         | 4,081         | 52.7          |
| Chemicals                      | 1,318         | 1,384         | 1,427         | 1,847         | 1,603         | 1,947         | 21.5          |
| Man. goods                     | 1,505         | 1,477         | 1,625         | 2,021         | 1,774         | 2,250         | 26.9          |
| Machinery & trans. eqpt        | 2,762         | 3,151         | 3,212         | 3,942         | 3,808         | 3,686         | -3.2          |
| Other                          | 1,965         | 2,234         | 2,283         | 2,388         | 2,380         | 2,605         | 9.4           |
| <i>Services</i>                | 4,355         | 3,985         | 4,431         | 4,738         | 4,657         | 4,567         | -1.9          |
| <b>Capital &amp; financial</b> | <b>1,756</b>  | <b>1,874</b>  | <b>2,512</b>  | <b>3,641</b>  | <b>2,675</b>  | <b>4,439</b>  | <b>65.9</b>   |
| <b>Overall balance</b>         | <b>683</b>    | <b>-422</b>   | <b>592</b>    | <b>2,431</b>  | <b>163</b>    | <b>-51</b>    | <b>-131.0</b> |
| <i>Official reserves</i>       | 3,445         | 3,219         | 3,799         | 4,142         | 4,002         | 4,248         | 6.1           |
| <i>Months of import</i>        | 3.7           | 3.3           | 3.7           | 3.3           | 3.9           | 3.7           |               |

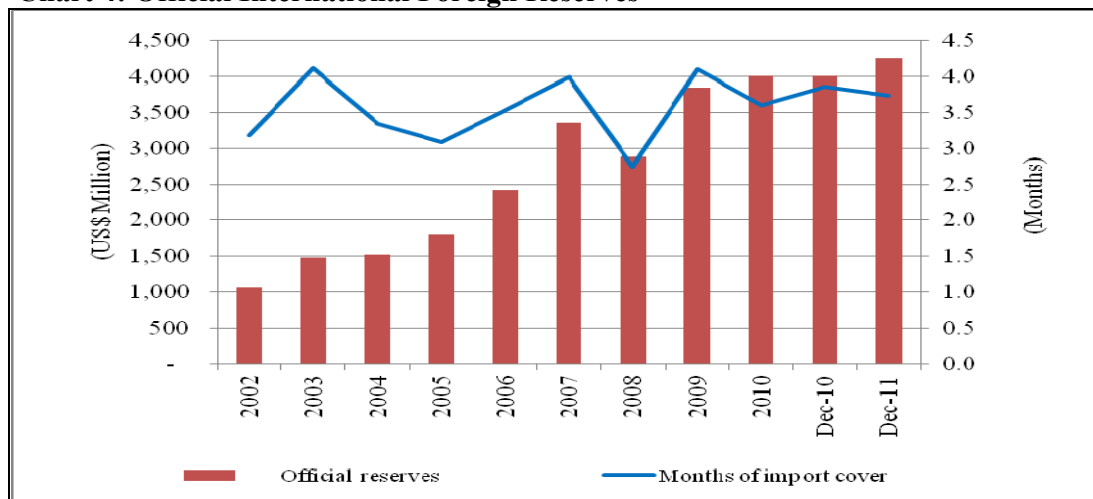
Source: Data from CBK.

#### 1.4 Foreign Exchange Reserves

13. Reflecting higher fuel and food prices, as well as a weaker than expected global output, the external payment position came under pressure from external shocks. However, with small surplus in the overall balance of payments, official foreign exchange reserves held by the Central Bank of Kenya rose slightly to US\$ 4,248 million by end-December 2011, from US\$ 4,002 million at end-December 2010 ( chart 4). Part of the increase reflected disbursement of US\$ 315 million during the year by the IMF in respect to Extended Credit Facility arrangement.

14. However, due to increased value of merchandise imports, official reserves, in terms of months of imports cover, declined from 3.9 months to 3.7 months. The official reserves held by the CBK were below the 4 months statutory minimum stipulated by law.

**Chart 4: Official International Foreign Reserves**

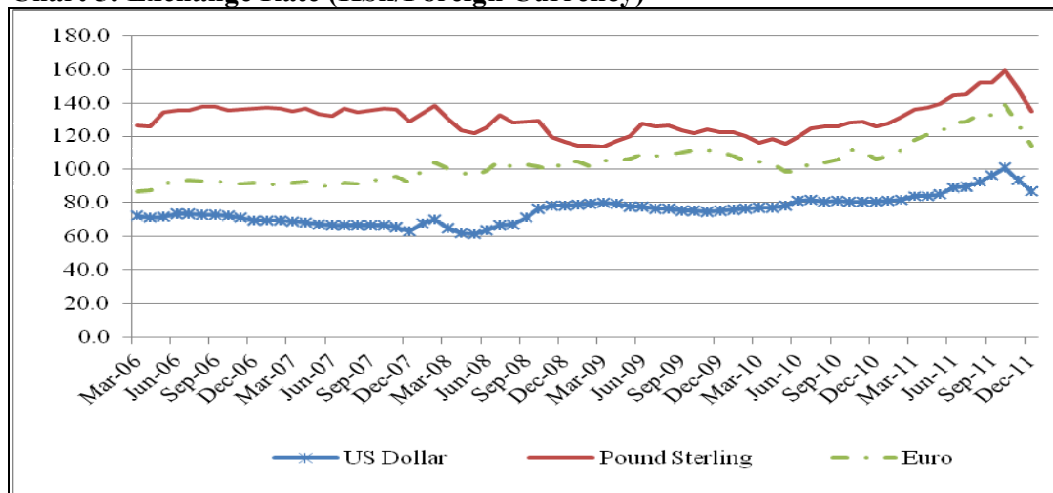


Source: Data from CBK.

### 1.5 Exchange Rates

15. Reflecting increased demand for foreign exchange to finance imports of machinery and capital goods to support investment in infrastructure, larger oil import bill and increased maize imports occasioned by food shortages in 2010 and 2011, the shilling exchange rate weakened against the major currencies from about Ksh 80 per US dollar in 2010 to exchange at a low of Ksh 107 per US dollar in mid-October 2011 before regaining its loses by the close of the year to exchange at about Kshs 85 per US dollar. The firming up of the exchange rate reflected the tightening of monetary policy and reversal of expectations of a further weakening following the disbursement of IMF resources for balance of payments support. Meanwhile, against the Euro and the Pound Sterling, the Kenya shilling exchanged at KShs. 114, and KShs.135, respectively for the month of December 2011, compared to the KShs. 138.7 and KShs.159.4 exchanged in October 2011 (chart 5).

**Chart 5: Exchange Rate (KSh/Foreign Currency)**

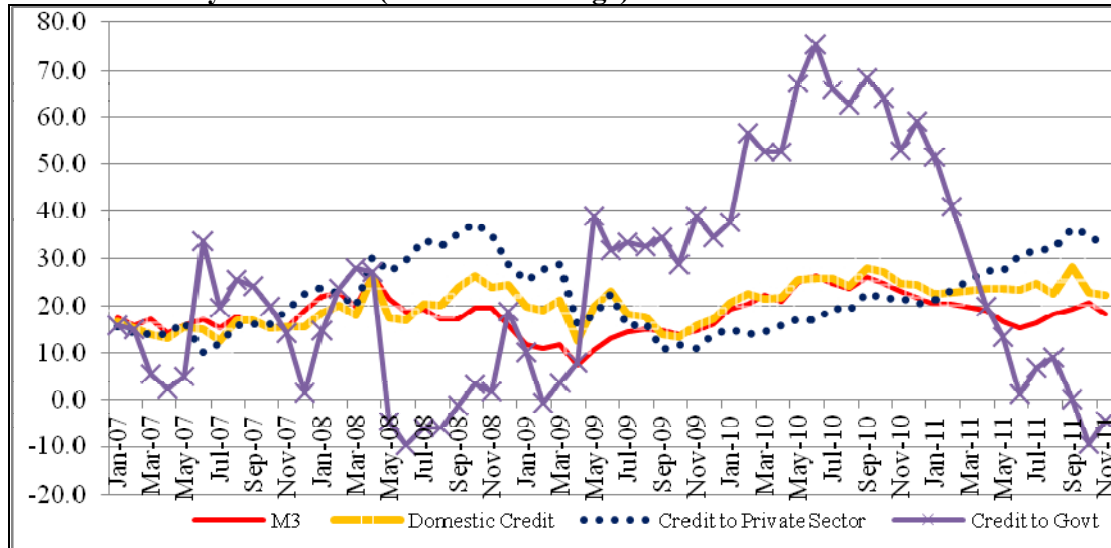


Source: Data from CBK.

### 1.6 Money and Credit

16. Broad money supply, M3, grew at an annual rate of 19 percent in December 2011 compared with a growth of 23.1 percent in the corresponding period in 2010. The growth in M3 was lower than the projected M3 growth target of 20.2 percent for December 2011. Net credit to the Government declined by 4.4 percent in the year to November 2011 compared with an increase of 53 percent in the corresponding period in 2010. Expansion in private sector credit rose to 30.8 percent in the year to December 2011 up from 21.7 percent in the same month in 2010 (chart 6).

**Chart 6: Money and Credit (annual % Change)**



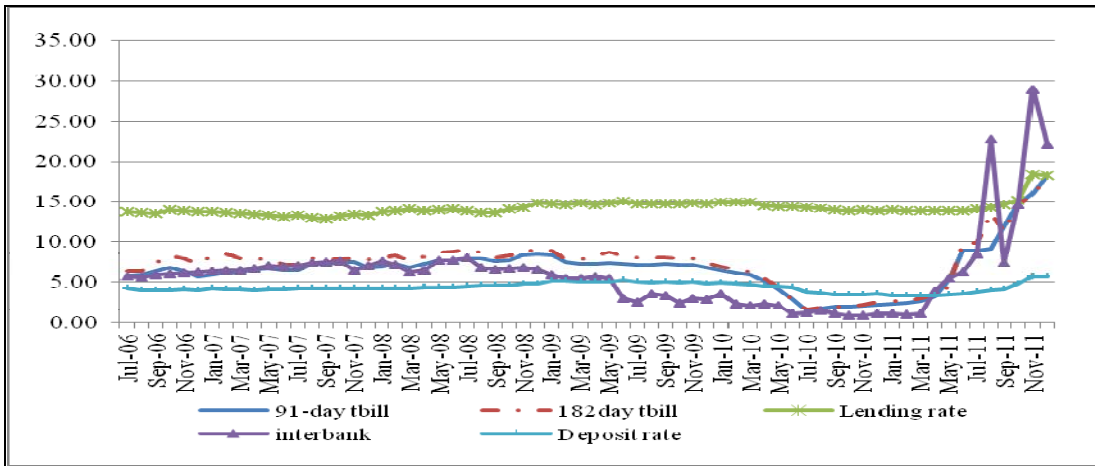
Source: Data from CBK.

### 1.7 Interest Rates

17. Reflecting the tightening of monetary policy, short-term interest rates have increased, with the interbank interest rate rising sharply to about 30 percent in recent months. This has raised other interest rates with the 91-day Treasury bill rates rising to about 18.3 percent by the end of December 2011. Similarly, most commercial banks have adjusted their base lending rates upwards (chart 7).

18. In the short-end of the money market, the average interbank rate, rose to the average of 29.0 percent in December 2011. Average lending rate for commercial bank rates also rose from 13.9 percent in the period January-June 2011 to reach an average rate of 16-18 percent in July – November 2011. The average deposit rate has remained low at an average of 4.1 percent in 2011. As a result, the spread between the average lending and deposit rate increased ranged between 12.percent to about 14 percent in 2011.

**Chart 7: Trends in Interest Rates**



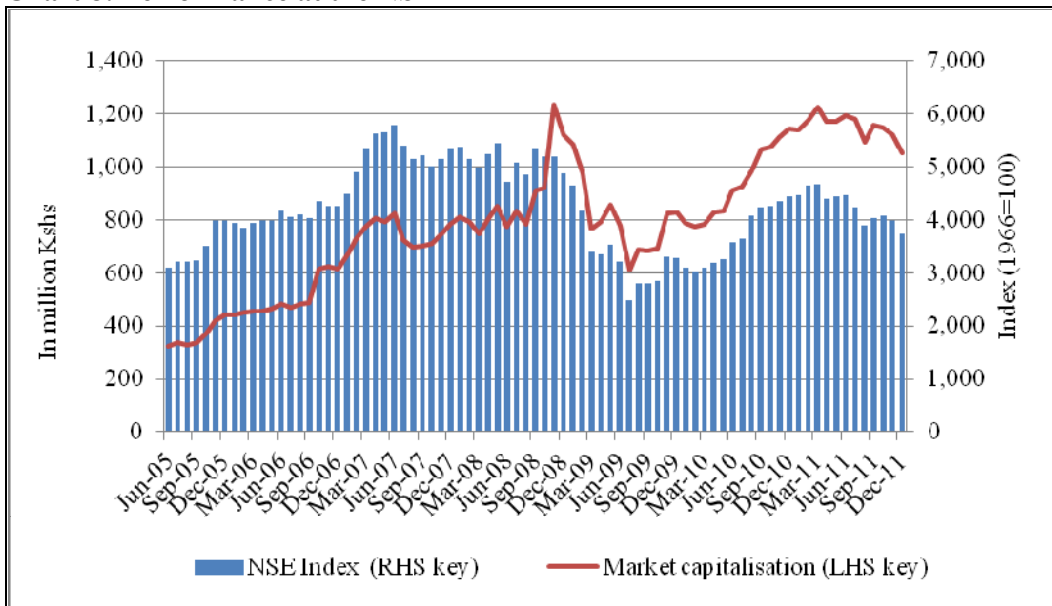
Source: Data from CBK.

### 1.8 Capital Markets

19. The NSE share index lost ground in 2011, declining by about 27.7 percent from 4,433 points in December 2010 to 3,205 points in December 2011. Similarly, market capitalization decreased to KShs. 1.035 trillion in December 2011 from KShs. 1.167 billion in December 2010 ( Chart 8 shows the performance of the NSE for the period to end of December 2011).

20. Uncertainty concerning the sovereign debt crisis in the Euro Zone, rising inflation, and weakening of the exchange rate have all combined to weaken activity in the stock market. The recent spike in interest rates on government bills and bonds also led to a shift in investor’s appetite to government securities and weakening activity in the NSE

**Chart 8: Performance at the NSE**

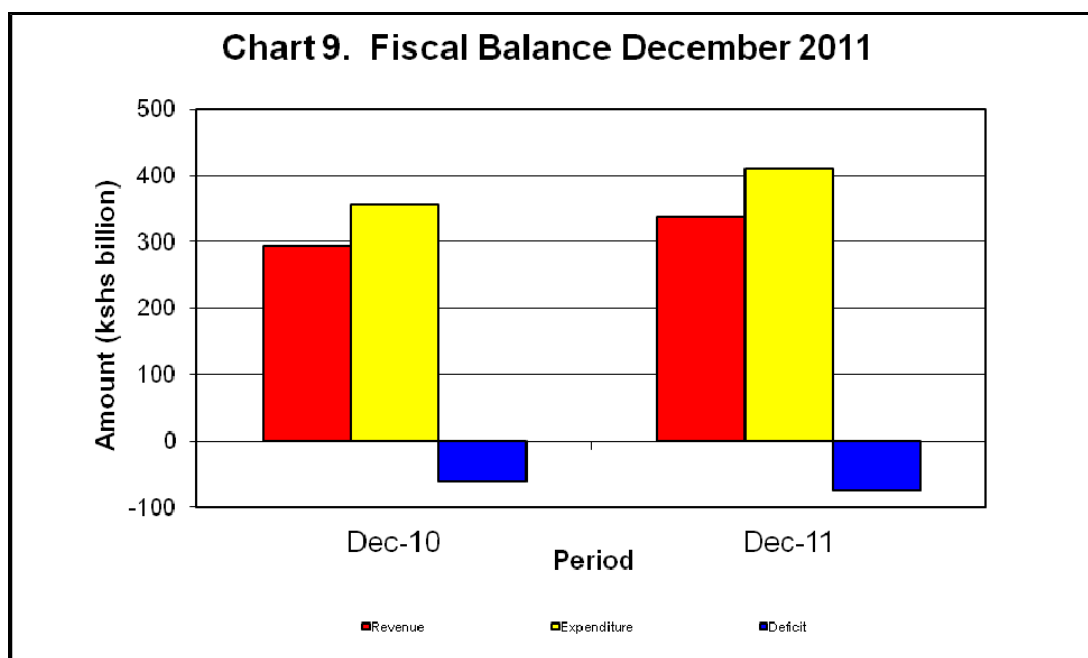


Source: Data from NSE.

## 2.0 FISCAL DEVELOPMENTS

### 2.1 Fiscal Outturn

21. The overall fiscal balance (on a commitment basis and excluding grants), in the first half of the financial year recorded a deficit of KShs. 73.0 billion (equivalent to 2.2 percent of Gross Domestic Product (GDP)), against a target deficit of KShs. 141.5 billion (equivalent to 4.3 percent of GDP). This deficit is higher than the KShs. 61.9 billion recorded in the same period in the FY 2010/11. Meanwhile, the fiscal deficit including grants was KShs.66.0 billion (equivalent to 2.0 percent of GDP), against a target of KShs.124.7 billion (equivalent to 3.8 percent of GDP) (*Chart 9 and Table 1*).



**Table 1: Budget Outturn, 2011/2012(KShs. Million)**

|  | 2010/11<br>Quarter<br>II<br>Actual | 2011/12<br>Quarter II |                   | Quarter<br>II<br>Deviation | %<br>growth   | 2011/12<br>Quarter II<br>as % of GDP |               | 2010/11<br>Quarter<br>II<br>Actual<br>% of<br>GDP |
|--|------------------------------------|-----------------------|-------------------|----------------------------|---------------|--------------------------------------|---------------|---|
|  |                                    | Actual                | Targets           |                            |               | Actual                               | Targets       |   |
| <b>A. TOTAL REVENUE AND GRANTS</b>               | <b>302,970</b>                     | <b>345,357</b>        | <b>390,082</b>    | <b>(44,726)</b>            | <b>13.99</b>  | <b>10.49</b>                         | <b>11.85</b>  | <b>10.91</b>                                      |
| 1. Revenue                                       | 294,862                            | 338,339               | 373,319           | (34,980)                   | 14.74         | 10.28                                | 11.34         | 10.62   |
| Ordinary Revenue                                 | 278,870                            | 314,839               | 338,021           | (23,182)                   | 12.90         | 9.56                                 | 10.27         | 10.05   |
| Import Duty                                      | 22,699                             | 25,055                | 27,451            | (2,396)                    | 10.38         | 0.76                                 | 0.83          | 0.82  |
| Excise Duty                                      | 39,516                             | 37,011                | 44,259            | (7,248)                    | (6.34)        | 1.12                                 | 1.34          | 1.42  |
| Income tax                                       | 114,188                            | 141,448               | 141,298           | 150                        | 23.87         | 4.30                                 | 4.29          | 4.11  |
| VAT  | 81,576                             | 86,161                | 99,221            | (13,060)                   | 5.62          | 2.62                                 | 3.01          | 2.94  |
| Investment Revenue                               | 5,088                              | 4,583                 | 1,953             | 2,630                      | (9.92)        | 0.14                                 | 0.06          | 0.18  |
| Others   | 15,803                             | 20,581                | 23,838            | (3,258)                    | 30.23         | 0.63                                 | 0.72          | 0.57  |
| Appropriation-in-Aid                             | 15,992                             | 23,500                | 35,298            | (11,798)                   | 46.95         | 0.71                                 | 1.07          | 0.58  |
| 2. Grants  | 8,108                              | 7,018                 | 16,763            | (9,745)                    | (13.45)       | 0.21                                 | 0.51          | 0.29  |
| Cash   | 2,838                              | 3,490                 | 5,411             | (1,921)                    | 23.00         | 0.11                                 | 0.16          | 0.10  |
| Appropriation-in-Aid                             | 5,270                              | 3,527                 | 11,352            | (7,824)                    | (33.07)       | 0.11                                 | 0.34          | 0.19  |
| <b>B. EXPENDITURE and NET LENDING</b>            | <b>356,722</b>                     | <b>411,351</b>        | <b>514,783</b>    | <b>(103,432)</b>           | <b>15.31</b>  | <b>12.49</b>                         | <b>15.64</b>  | <b>12.85</b>                                      |
| 1. Recurrent                                     | 273,529                            | 304,359               | 326,387           | (22,028)                   | 11.27         | 9.24                                 | 9.91          | 9.85  |
| Domestic Interest                                | 34,214                             | 37,749                | 37,382            | 367                        | 10.33         | 1.15                                 | 1.14          | 1.23  |
| Foreign Interest Due                             | 3,634                              | 3,455                 | 3,455             | 0                          | (4.92)        | 0.10                                 | 0.10          | 0.13  |
| Pension  | 13,470                             | 14,931                | 18,049            | (3,118)                    | 10.85         | 0.45                                 | 0.55          | 0.49  |
| Wages and Salaries                               | 98,395                             | 108,090               | 111,281           | (3,191)                    | 9.85          | 3.28                                 | 3.38          | 3.54  |
| O & M/Others                                     | 123,817                            | 140,134               | 156,221           | (16,086)                   | 13.18         | 4.26                                 | 4.74          | 4.46  |
| 2. Development and Net Lending                   | 83,193                             | 106,992               | 187,396           | (80,404)                   | 28.61         | 3.25                                 | 5.69          | 3.00  |
| 3. CCF   | 0                                  | 0                     | 1,000             | (1,000)                    | -             | 0.00                                 | 0.03          | 0.00  |
| <b>C. DEFICIT EXCL.GRANT (Commitment basis)</b>  | <b>(61,860)</b>                    | <b>(73,012)</b>       | <b>(141,463)</b>  | <b>68,451</b>              | <b>18.03</b>  | <b>(2.22)</b>                        | <b>(4.30)</b> | <b>(2.23)</b>                                     |
| <b>D. DEFICIT INCL.GRANTS (Commitment basis)</b> | <b>(53,752)</b>                    | <b>(65,994)</b>       | <b>(124,700)</b>  | <b>58,706</b>              | <b>22.78</b>  | <b>(2.00)</b>                        | <b>(3.79)</b> | <b>(1.94)</b>                                     |
| <b>E. ADJUSTMENT TO CASH BASIS</b>               | <b>(13,172)</b>                    | <b>(12,496)</b>       | <b>0</b>          | <b>(12,496)</b>            | <b>(5.13)</b> | <b>(0.38)</b>                        | <b>-</b>      | <b>(0.47)</b>                                     |
| <b>F. DEFICIT INCL.GRANTS (Cash basis)</b>       | <b>(66,924)</b>                    | <b>(78,491)</b>       | <b>(124,700)</b>  | <b>46,210</b>              | <b>17.28</b>  | <b>(2.38)</b>                        | <b>(3.79)</b> | <b>(2.41)</b>                                     |
| <b>G. FINANCING</b>                              | <b>66,924</b>                      | <b>78,491</b>         | <b>124,700</b>    | <b>(46,210)</b>            | <b>17.28</b>  | <b>2.38</b>                          | <b>3.79</b>   | <b>2.41</b>                                       |
| 1. Foreign financing                             | 12,446                             | 15,979                | 43,181            | (27,202)                   | 28.39         | 0.49                                 | 1.31          | 0.45  |
| Disbursements                                    | 20,752                             | 27,223                | 56,176            | (28,953)                   | 31.18         | 0.83                                 | 1.71          | 0.75  |
| Programme Cash Loans                             | 0                                  | 0                     | 0                 | 0                          | -             | 0.00                                 | -             | 0.00  |
| Project Cash Loans                               | 7,017                              | 8,488                 | 15,182            | (6,694)                    | 20.96         | 0.26                                 | 0.46          | 0.25  |
| Loans AIA  | 13,735                             | 18,735                | 40,994            | (22,259)                   | 36.40         | 0.57                                 | 1.25          | 0.49  |
| Repayment due (current)                          | (9,868)                            | (12,996)              | (12,996)          | 0                          | 31.70         | (0.39)                               | (0.39)        | (0.36)  |
| Rescheduling                                     | 0                                  | 0                     | 0                 | 0                          | -             | 0.00                                 | -             | 0.00  |
| Change in arrears (current)                      | 0                                  | 1,752                 | 0                 | 1,752                      | 0             | 0.05                                 | -             | 0.00  |
| Repayment (arrears)                              | 1,561                              | 0                     | 0                 | 0                          | -             | 0.00                                 | -             | 0.06  |
| 2. Privatization proceeds                        | 0                                  | 0                     | 0                 | 0                          | -             | 0.00                                 | -             | 0.00  |
| <b>3. Domestic financing</b>                     | <b>54,478</b>                      | <b>62,512</b>         | <b>81,520</b>     | <b>(19,008)</b>            | <b>14.75</b>  | <b>1.90</b>                          | <b>2.48</b>   | <b>1.96</b>                                       |
| <b>MEMO ITEM:</b>                                |                                    |                       |                   |                            |               |                                      |               |   |
| <b>GDP ESTIMATE</b>                              | <b>2,775,800.</b>                  | <b>3,292,400.</b>     | <b>3,292,400.</b> |                            |               |                                      |               |   |

Source: Ministry of Finance

## 2.2 REVENUE

22. The cumulative revenue collection for the first half of the FY 2011/12 amounted to KShs. 338.3 billion against a target of KShs. 373.3 billion, resulting in a shortfall of KShs. 35.0 billion. Ordinary revenue amounted to KShs.314.8 billion against a target of KShs.338.0 billion (*Table 2 and Chart 10*). This reflects under performance of KShs.23.2 billion and was largely attributed to revenue shortfalls under import duty, excise duty, VAT local and other taxes categories.

**Table 2: Government Revenue and External Grants, Second Quarter (Cumulative) Ending 31<sup>st</sup> December 2011 (KShs. Million)**

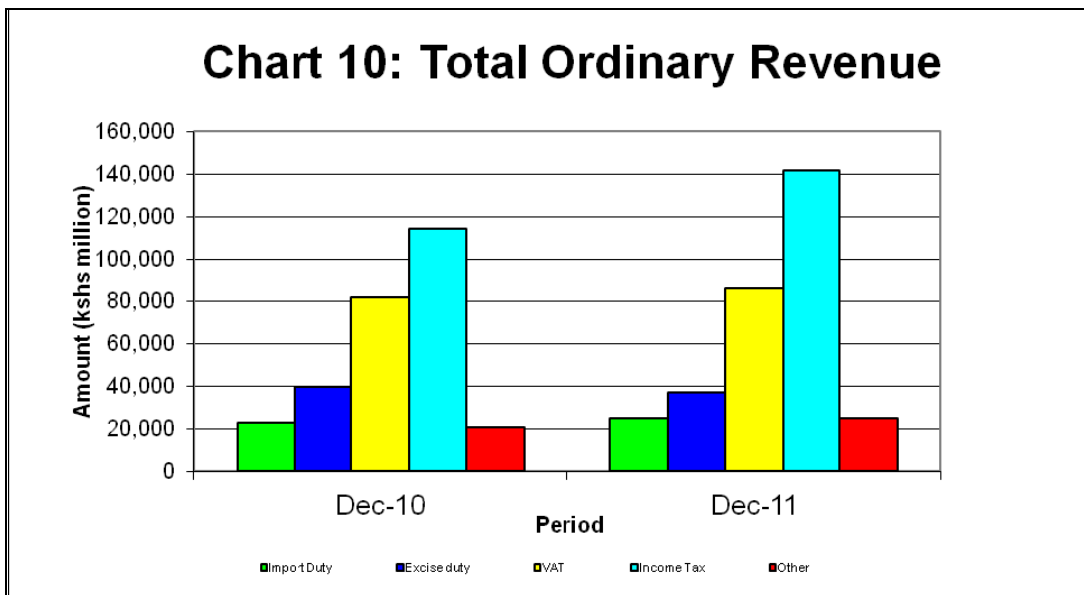
|  | 2010/2011<br>Quarter II<br>Actual | 2011/2012<br>Quarter II |                | Deviation       |
|--|-----------------------------------|-------------------------|----------------|-----------------|
|  |                                   | Actual                  | Target         |                 |
| <b>Total Revenue</b>                     | <b>294,862</b>                    | <b>338,339</b>          | <b>373,319</b> | <b>(34,980)</b> |
| <b>(a) Ordinary Revenue</b>              | <b>278,870</b>                    | <b>314,839</b>          | <b>338,021</b> | <b>(23,182)</b> |
| Import Duty                              | 22,699                            | 25,055                  | 27,451         | <b>(2,396)</b>  |
| Excise Duty                              | 39,516                            | 37,011                  | 44,259         | <b>(7,248)</b>  |
| PAYE                                     | 60,833                            | 75,930                  | 73,657         | <b>2,273</b>    |
| Other Income Tax                         | 53,355                            | 65,518                  | 67,642         | <b>(2,124)</b>  |
| VAT Local                                | 42,495                            | 39,131                  | 51,564         | <b>(12,433)</b> |
| VAT Imports                              | 39,081                            | 47,030                  | 47,657         | <b>(627)</b>    |
| Investment Revenue                       | 5,088                             | 4,583                   | 1,953          | <b>2,630</b>    |
| Traffic Revenue                          | 1,048                             | 1,158                   | 1,188          | <b>(30)</b>     |
| Essential Supplies Revenue               | 8,959                             | 12,414                  | 11,798         | <b>616</b>      |
| Others 1/                                | 5,797                             | 7,009                   | 10,853         | <b>(3,843)</b>  |
| <b>(b) Appropriation In Aid 2/</b>       | <b>15,992</b>                     | <b>23,500</b>           | <b>35,298</b>  | <b>(11,798)</b> |
| <b>External Grants</b>                   | <b>8,108</b>                      | <b>7,018</b>            | <b>16,763</b>  | <b>(9,745)</b>  |
| <b>Total Revenue and External Grants</b> | <b>302,970</b>                    | <b>345,357</b>          | <b>390,082</b> | <b>(44,726)</b> |
| <b>In % of GDP</b>                       | <b>10.91</b>                      | <b>10.49</b>            | <b>11.85</b>   |                 |

1/ includes land, forest, mining, rent of buildings, trade licenses, fines and forfeitures, other taxes, reimbursements and other fund contributions, and miscellaneous revenue.

2/ includes receipts from Road Maintenance Levy Fund

Source: Ministry of Finance

23. As a proportion of GDP, total revenue and grants, was 10.5 percent compared to 10.9 percent in the corresponding period of the FY 2010/11. External grants amounted to KShs. 7.0 billion against a target of KShs. 16.8 billion.



### 2.3 Expenditure

24. Total government expenditure and net lending, for the period under review, was KShs. 411.4 billion, against a target of KShs. 514.8 billion. The shortfall of KShs. 103.4 billion was attributed to lower absorption recorded in both recurrent and development expenditures. In particular, recurrent expenditure amounted to KShs. 304.4 billion, compared with a target of KShs. 326.4 billion. The KShs.22.0 billion shortfall was mainly in operations & maintenance, pensions and salaries & wages. The amount collected by some of the Universities as AIA was not reported by the ministry concerned.

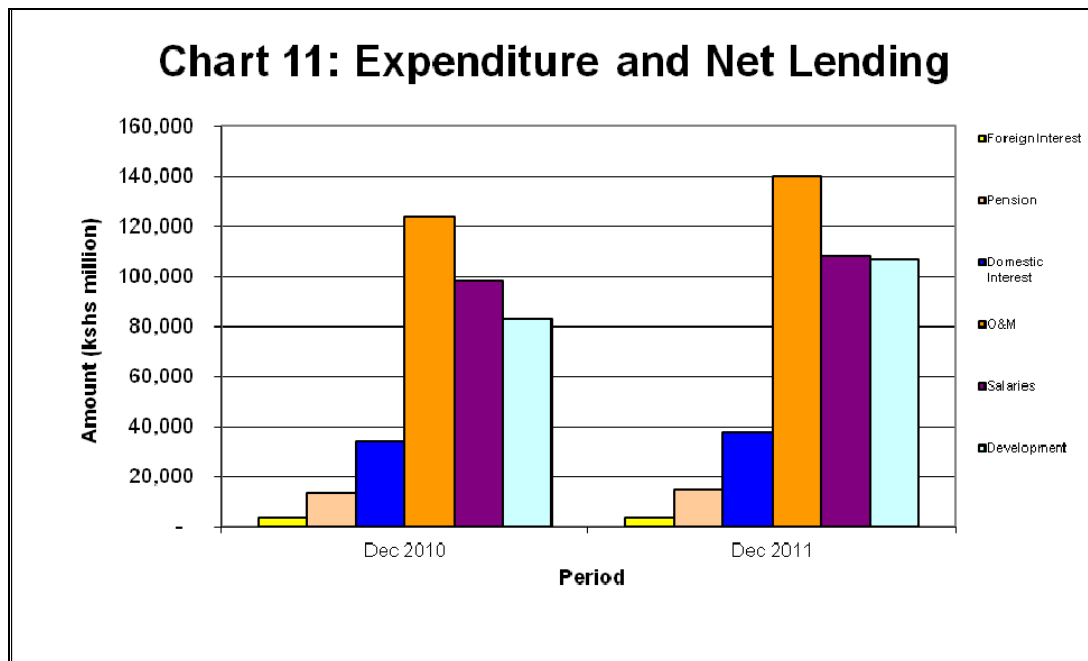
25. Meanwhile, scheduled foreign interest payments amounted to KShs. 3.5 billion which was slightly lower than KShs. 3.6 billion due in the same period in the FY 2010/11. Domestic interest payment totalled KShs. 37.7 billion and was more than KShs. 34.2 billion paid in the corresponding period of the previous financial year. *(Table 3 and Chart 11)*. The development expenditures were also below the target by KShs. 80.4 billion. The lower than expected expenditures are mainly attributed to non capture of the district expenditures and gaps in reporting by the development partners on direct funding of projects implemented by ministries and state corporations by the time of preparing this report.



**Table 3: Expenditure and Net Lending, Second Quarter Ending 31<sup>st</sup> December 2011 (KShs. Million)**

|                              | 2010/2011<br>Quarter II<br>Actual | 2011/2012<br>Quarter II |                | Deviation        |
|------------------------------|-----------------------------------|-------------------------|----------------|------------------|
|                              |                                   | Actual                  | Targets        |                  |
| <b>1. RECURRENT</b>          | <b>273,529</b>                    | <b>304,359</b>          | <b>326,387</b> | <b>(22,028)</b>  |
| Domestic Interest            | 34,214                            | 37,749                  | 37,382         | 367              |
| Foreign Interest             | 3,634                             | 3,455                   | 3,455          | 0                |
| Pensions                     | 13,470                            | 14,931                  | 18,049         | (3,118)          |
| Wages and Salaries           | 98,395                            | 108,090                 | 111,281        | (3,191)          |
| Operation and Maintenance    | 123,817                           | 140,134                 | 156,221        | (16,086)         |
| O/W: Change in Pending Bills |                                   |                         | 0              | -                |
| : Appropriation-in-Aid       | 15,904                            | 22,733                  | 33,185         | (10,452)         |
| <b>2. DEVELOPMENT</b>        | <b>83,193</b>                     | <b>106,992</b>          | <b>187,396</b> | <b>(80,404)</b>  |
| Development Projects (Net)   | 62,935                            | 82,685                  | 131,674        | (48,989)         |
| Payment of Guaranteed Loans  | 1,165                             | 1,277                   | 1,264          | 14               |
| Appropriation-in-Aid         | 19,093                            | 23,030                  | 54,459         | (31,429)         |
| Change in Pending Bills      | -                                 | -                       | 0              |                  |
| <b>3. CCF</b>                | <b>-</b>                          | <b>-</b>                | <b>1,000</b>   | <b>(1,000)</b>   |
| <b>TOTAL EXPENDITURE</b>     | <b>356,722</b>                    | <b>411,351</b>          | <b>514,783</b> | <b>(103,432)</b> |

Source: Ministry of Finance



26. The total cumulative ministerial expenditures stood at KShs. 296.2 billion against a target of KShs. 344.8 billion. Recurrent expenditures were KShs. 225.5 billion against a target of KShs. 251.4 billion, while development expenditures stood at KShs. 70.7 billion against a target of KShs. 93.5 billion. The overall ministerial recurrent and development expenditures were below the targets by KShs. 48.6 billion. Among the ministries that had large overall under expenditures (recurrent plus development) against their targets were Ministries of State for Provincial Administration & Internal Security, Office of the Vice President and Ministry of Home Affairs, Finance, and Water and Irrigation amounting to KShs. 10.9 billion, KShs. 5.5 billion, KShs. 5.1 billion and KShs. 3.6 billion respectively. The lower than expected expenditures are mainly attributed to under reporting by ministries including low coverage of district expenditures.

27. The Ministries of Education; Higher Education, Science and Technology; Medical Services and Public Health and Sanitation accounted for 45.9 percent of total recurrent expenditure. The Ministry of State for Provincial Administration & Internal Security accounted for 8.1 percent of total recurrent expenditure. The Ministry of Development of Northern Kenya and Other Arid Areas accounted for the lowest total expenditures for the period under review.

**Table 4: Ministerial Expenditures, Second Quarter**  
**Ending 31<sup>st</sup> December 2011**  
**(KShs. Million)**

| Ministries/<br>Departments/<br>Commissions                              | Recurrent |        |          | Development |        |          | Total  |        |          | % total<br>expenditure<br>to total<br>target |
|---|-----------|--------|----------|-------------|--------|----------|--------|--------|----------|--|
|   | Actual    | Target | Variance | Actual      | Target | Variance | Actual | Target | Variance |  |
| 1 Ministry of State for Provincial Administration & Internal Security   | 18,197    | 27,494 | (9,297)  | 655         | 2,301  | (1,646)  | 18,852 | 29,794 | (10,942) | 63.27  |
| 2 State House   | 676       | 698    | (21)     | 119         | 98     | 20       | 795    | 796    | (1)      | 99.86  |
| 3 Ministry of State for Public Service                                  | 420       | 521    | (101)    | 16          | 255    | (239)    | 436    | 775    | (339)    | 56.23  |
| 4 Ministry of Foreign Affairs   | 4,412     | 4,671  | (259)    | 34          | 350    | (315)    | 4,447  | 5,021  | (574)    | 88.56  |
| 5 Office of the Vice-President and Ministry of Home Affairs             | 4,082     | 8,824  | (4,742)  | 252         | 982    | (730)    | 4,334  | 9,806  | (5,472)  | 44.20  |
| 6 Ministry of State for Planning, National Development & V2030          | 1,300     | 1,411  | (111)    | 5,052       | 5,512  | (460)    | 6,352  | 6,923  | (571)    | 91.75  |
| 7 Office of the Deputy Prime Minister and Ministry of Finance           | 8,331     | 10,617 | (2,286)  | 3,833       | 6,626  | (2,793)  | 12,164 | 17,242 | (5,079)  | 70.54  |
| 8 Ministry of State for Defence   | 23,552    | 26,097 | (2,545)  | -           | -      | -        | 23,552 | 26,097 | (2,545)  | 90.25  |
| 9 Ministry of Regional Development Authorities                          | 374       | 432    | (58)     | 1,454       | 1,461  | (7)      | 1,829  | 1,893  | (64)     | 96.61  |
| 10 Ministry of Agriculture  | 3,752     | 4,592  | (841)    | 1,990       | 3,154  | (1,164)  | 5,741  | 7,746  | (2,005)  | 74.12  |
| 11 Ministry of Medical Services   | 12,107    | 11,629 | 478      | 663         | 1,018  | (355)    | 12,770 | 12,647 | 123      | 100.97                                       |
| 12 Office of the Deputy Prime Minister and Ministry of Local Government | 515       | 606    | (91)     | 1,811       | 1,770  | 41       | 2,326  | 2,376  | (50)     | 97.88  |
| 13 Ministry of Roads  | 15,251    | 12,590 | 2,662    | 17,087      | 18,469 | (1,381)  | 32,339 | 31,058 | 1,280    | 104.12                                       |
| 14 Ministry of Transport  | 638       | 1,024  | (386)    | 918         | 1,536  | (619)    | 1,556  | 2,561  | (1,004)  | 60.77  |
| 15 Ministry of Labour and Human Resource Development                    | 576       | 615    | (39)     | 61          | 292    | (231)    | 637    | 906    | (269)    | 70.28  |
| 16 Ministry of Trade  | 638       | 916    | (278)    | 163         | 215    | (52)     | 801    | 1,131  | (330)    | 70.84  |
| 17 Ministry of Justice, National Cohesion and Constitutional Affairs    | 936       | 943    | (7)      | 54          | 260    | (207)    | 990    | 1,203  | (213)    | 82.26  |
| 18 Ministry of Gender and Children                                      | 1,244     | 1,586  | (342)    | 365         | 1,767  | (1,402)  | 1,609  | 3,353  | (1,744)  | 47.99  |
| 19 Ministry of Livestock  | 978       | 2,031  | (1,053)  | 696         | 1,365  | (668)    | 1,674  | 3,396  | (1,722)  | 49.31  |
| 20 Ministry of Water and Irrigation                                     | 1,503     | 1,870  | (367)    | 5,956       | 9,233  | (3,277)  | 7,459  | 11,103 | (3,644)  | 67.18  |
| 21 Ministry of Environment and Mineral Resources                        | 1,085     | 1,208  | (123)    | 1,646       | 1,026  | 620      | 2,732  | 2,235  | 497      | 122.23                                       |
| 22 Ministry of Cooperative Development and Marketing                    | 377       | 568    | (190)    | 97          | 106    | (9)      | 475    | 674    | (199)    | 70.46  |
| 23 Cabinet Office   | 525       | 577    | (52)     | 56          | 56     | 0        | 582    | 633    | (51)     | 91.92  |
| 24 Ministry of East African Community                                   | 471       | 495    | (23)     | 1           | 19     | (17)     | 473    | 513    | (41)     | 92.08  |
| 25 State Law Office   | 635       | 657    | (22)     | 15          | 11     | 4        | 650    | 668    | (18)     | 97.34  |
| 26 Judicial Department  | 2,529     | 2,437  | 92       | 671         | 630    | 42       | 3,200  | 3,067  | 133      | 104.34                                       |
| 27 Public Service Commission  | 269       | 257    | 12       | -           | -      | -        | 269    | 257    | 12       | 104.63                                       |
| 28 Kenya National Audit Office  | 421       | 614    | (193)    | -           | -      | -        | 421    | 614    | (193)    | 68.60  |
| 29 National Assembly  | 3,349     | 4,230  | (881)    | 383         | 400    | (17)     | 3,732  | 4,630  | (898)    | 80.60  |
| 30 Ministry of Energy   | 1,110     | 1,094  | 17       | 6,911       | 7,948  | (1,037)  | 8,021  | 9,041  | (1,020)  | 88.72  |
| 31 Ministry of Education  | 16,757    | 18,707 | (1,950)  | 1,704       | 2,185  | (481)    | 18,461 | 20,892 | (2,431)  | 88.36  |
| 32 Ministry of Information and Communications                           | 835       | 891    | (56)     | 1,602       | 1,499  | 103      | 2,438  | 2,390  | 47       | 101.97                                       |
| 33 Interim Independent Electoral Commission                             | 853       | 1,141  | (287)    | -           | -      | -        | 853    | 1,141  | (287)    | 74.79  |
| 34 Ethics and Anti-Corruption Commission                                | 666       | 692    | (27)     | -           | 1      | (1)      | 666    | 693    | (27)     | 96.06  |
| 35 Ministry of State for Special Programmes                             | 4,126     | 6,473  | (2,347)  | 946         | 971    | (25)     | 5,072  | 7,444  | (2,372)  | 68.13  |
| 36 Ministry of Lands  | 882       | 1,071  | (189)    | 308         | 446    | (138)    | 1,190  | 1,518  | (327)    | 78.44  |
| 37 Ministry of State for Immigration and Registration of Persons        | 2,703     | 142    | 2,560    | 749         | 657    | 92       | 3,452  | 799    | 2,653    | 431.88                                       |

| Ministries/<br>Departments/<br>Commissions                        | Recurrent      |                |                 | Development   |               |                 | Total          |                |                 | % total<br>expenditure<br>to total<br>target |
|---|----------------|----------------|-----------------|---------------|---------------|-----------------|----------------|----------------|-----------------|--|
|   | Actual         | Target         | Variance        | Actual        | Target        | Variance        | Actual         | Target         | Variance        |  |
| 38 Ministry of State for National Heritage and Culture            | 854            | 894            | (40)            | 269           | 277           | (8)             | 1,123          | 1,171          | (48)            | 95.90  |
| 39 Ministry of State for Youth Affairs and Sports                 | 1,754          | 2,494          | (741)           | 552           | 1,699         | (1,147)         | 2,306          | 4,193          | (1,887)         | 54.99  |
| 40 Ministry of Higher Education, Science and Technology           | 13,658         | 13,828         | (169)           | 2,234         | 2,964         | (729)           | 15,893         | 16,791         | (899)           | 94.65  |
| 41 Ministry of Housing  | 249            | 606            | (356)           | 652           | 734           | (82)            | 901            | 1,340          | (439)           | 67.26  |
| 42 National Security Intelligence Service                         | 5,504          | 6,413          | (909)           | -             | -             | -               | 5,504          | 6,413          | (909)           | 85.83  |
| 43 Ministry of Tourism  | 717            | 780            | (63)            | 498           | 491           | 8               | 1,215          | 1,271          | (56)            | 95.63  |
| 44 The Teachers Service Commission                                | 55,438         | 54,910         | 528             | -             | -             | -               | 55,438         | 54,910         | 528             | 100.96                                       |
| 45 Office of the Prime Minister                                   | 832            | 921            | (89)            | 197           | 306           | (109)           | 1,029          | 1,227          | (198)           | 83.89  |
| 46 Ministry of Public Health and Sanitation                       | 4,680          | 5,273          | (593)           | 3,282         | 5,231         | (1,949)         | 7,962          | 10,505         | (2,542)         | 75.80  |
| 47 Ministry of Forestry and Wildlife                              | 2,208          | 1,974          | 233             | 953           | 1,196         | (243)           | 3,161          | 3,170          | (9)             | 99.71  |
| 48 Ministry of Fisheries Development                              | 483            | 602            | (119)           | 319           | 646           | (327)           | 802            | 1,248          | (446)           | 64.25  |
| 49 Ministry of Nairobi Metropolitan Development                   | 138            | 198            | (59)            | 906           | 704           | 201             | 1,044          | 902            | 142             | 115.75                                       |
| 50 Ministry of Development of Northern Kenya and Other Arid Areas | 156            | 180            | (24)            | 425           | 1,349         | (923)           | 581            | 1,529          | (947)           | 38.02  |
| 51 Ministry of Public Works                                       | 562            | 551            | 11              | 2,840         | 4,061         | (1,221)         | 3,402          | 4,612          | (1,210)         | 73.77  |
| 52 Ministry of Industrialization                                  | 778            | 861            | (82)            | 1,308         | 1,194         | 114             | 2,086          | 2,054          | 32              | 101.55                                       |
| 53 Directorate of Public Procurement                              | 113            | 130            | (17)            | -             | -             | -               | 113            | 130            | (17)            | 87.30  |
| 54 Human Rights and Equality Commission                           | 139            | 165            | (26)            | -             | -             | -               | 139            | 165            | (26)            | 84.37  |
| 55 Commission for the Implementation of the Constitution          | 151            | 165            | (14)            | -             | -             | -               | 151            | 165            | (14)            | 91.33  |
| <b>TOTAL</b>  | <b>225,491</b> | <b>251,364</b> | <b>(25,873)</b> | <b>70,707</b> | <b>93,468</b> | <b>(22,761)</b> | <b>296,198</b> | <b>344,832</b> | <b>(48,634)</b> | <b>85.90</b>                                 |

Source: Ministry of Finance

### 2.3.1 Guaranteed Loans to Parastatals

28. At the end of the second quarter of financial year 2011/12, the Central Government paid a total of KShs. 271.9 million in guaranteed loans against the projected amount of KShs. 708.5 million, the variance is attributed to late payment on behalf of KBC for the second quarter which was paid in the third quarter. The projected amount includes principal and interest of KShs 590.1 million and KShs 118.4 million, respectively (*Table 5*).

**TABLE 5: SCHEDULED AND ACTUAL PAYMENTS ON GUARANTEED DEBT FOR QUARTER ENDING 31<sup>ST</sup> DECEMBER 2011**

| Borrower           | CUMULATIVE PROJECTIONS<br>QUARTER I AND II |               |               | ACTUAL<br>DECEMBER 2011* |              |               |
|--------------------|--|---------------|---------------|--------------------------|--------------|---------------|
|                    | Principal                                  | Interest      | Total         | Principal                | Interest     | Total         |
| NCC                | 37.24                                      | 3.64          | 40.88         | 40.66                    | 1.84         | 42.5          |
| TARDA              | 155.17                                     | 35.2          | 190.37        | 186.97                   | 42.41        | 229.38        |
| KBC                | 397.72                                     | 79.54         | 477.26        | 0                        | 0            | 0             |
| <b>TOTAL (QTR)</b> | <b>590.13</b>                              | <b>118.38</b> | <b>708.51</b> | <b>227.63</b>            | <b>44.25</b> | <b>271.88</b> |

\* Provisional

Source: Ministry of Finance

## 2.4 Financing the Budget

### 2.4.1 External Financing

29. The cumulative external financing to end- December 2011 amounted to a net borrowing of KShs. 16.0 billion compared to a net borrowing of KShs. 12.4 billion in same period of the FY 2010/11. Total loan disbursements (inflows) including Appropriations-in-Aid amounted to KShs. 27.2 billion by end of the second quarter of FY 2011/12. This amount includes KShs. 8.5 billion in project cash loans and KShs. 18.7 billion in project loans (A.I.A). Cumulative principal repayments on the other hand amounted to KShs. 11.2 billion against the projected KShs. 13.0 billion (*Table 6*).

**Table 6: External Financing, Second Quarter Ending 31<sup>st</sup> December 2011 (KShs. Million)**

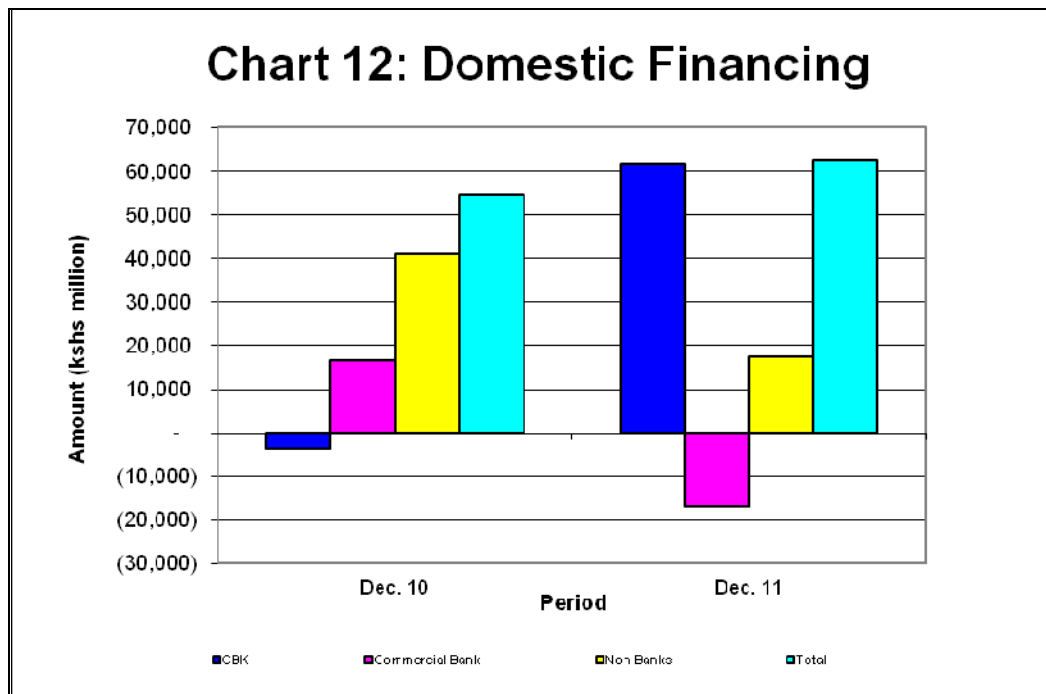
|                              | Quarter II<br>Actual<br>2010/11 | Quarter I<br>Actual<br>2011/12 | Quarter II<br>Actual<br>2011/12 | Cumulative<br>Actual Dec.<br>2011* | Quarter II<br>Target<br>2011/12 |
|------------------------------|---------------------------------|--------------------------------|---------------------------------|------------------------------------|---------------------------------|
| <b>DISBURSEMENTS:</b>        | <b>20,752.01</b>                | <b>9,775.66</b>                | <b>17,447.10</b>                | <b>27,222.75</b>                   | <b>56,176.19</b>                |
| Project Cash loans           | 7,016.92                        | 2,469.12                       | 6,018.56                        | 8,487.68                           | 15,182.12                       |
| Programme loans              | -                               | -                              | -                               | -                                  | -                               |
| Project loans A-I-A          | 13,735.09                       | 7,306.54                       | 11,428.54                       | 18,735.07                          | 40,994.06                       |
|                              |                                 |                                |                                 | -                                  | -                               |
| <b>EXTERNAL REPAYMENTS:</b>  | <b>8,306.12</b>                 | <b>6,828.60</b>                | <b>4,415.13</b>                 | <b>11,243.73</b>                   | <b>12,995.51</b>                |
| Bilateral                    | 3,613.72                        | 2,754.92                       | 1,874.16                        | 4,629.08                           | 6,869.07                        |
| Multilateral                 | 4,692.40                        | 4,073.68                       | 2,540.97                        | 6,614.65                           | 6,126.45                        |
| Commercial                   | -                               | -                              | -                               | -                                  | -                               |
| Other                        | -                               | -                              | -                               | -                                  | -                               |
|                              |                                 |                                |                                 | -                                  | -                               |
| <b>NET FOREIGN FINANCING</b> | <b>12,445.89</b>                | <b>2,947.06</b>                | <b>13,031.97</b>                | <b>15,979.02</b>                   | <b>43,180.67</b>                |

\* Provisional

Source: Ministry of Finance

## 2.4.2 Domestic Financing

30. As at end-December 2011, net domestic financing was KShs. 62.5 billion, comprising of KShs. 61.9 billion from the Central Bank, KShs. 16.4 billion from non-bank financial institutions, KShs. 1.0 billion from non-residents and a net repayment of KShs. 16.8 billion to the Commercial Banks, (Table 7). During the same period in the FY 2010/11, net domestic financing was KShs. 54.5 billion, which comprised of KShs. 16.8 billion from the Commercial Banks, KShs. 40.0 billion from non-banks financial institutions, KShs. 1.1 billion from non-residents, and a net repayment of KShs. 3.4 billion to the Central Bank (chart 12). However, domestic borrowing through government securities (excluding government deposits and overdraft) was only Kshs 11.6 billion against the overall annual fiscal year's borrowing target of Kshs 119.5 billion.



31. The stock of Treasury Bills held by non-banks financial institutions, non-residents and the Central Bank amounted to a net increase of KShs. 4.2 billion, KShs. 1.2 billion and KShs. 7.0 billion, respectively, by the end of December 2011. However, the stock of Treasury Bills held by the Commercial Banks recorded a net decrease of KShs. 33.9 billion during the same period. The stock of Fixed Rate Bonds held by commercial banks and the Central Bank recorded a net increase of KShs. 14.7 billion and KShs. 4.1 billion, respectively, while those held by the non-banks financial institutions and non-residents decreased by KShs. 81.0 million and KShs. 65.0 million, respectively. (**Table 7**).

**Table 7: Domestic Financing, Second Quarter Ending 31<sup>st</sup> December 2011 (KShs. Million)**

|                              | DECEMBER       | JUNE            | SEPTEMBER       | DECEMBER        |
|------------------------------|----------------|-----------------|-----------------|-----------------|
|                              | 2010           | 2011            | 2011            | 2011            |
| <b>1.CENTRAL BANK</b>        | <b>(3,448)</b> | <b>(13,998)</b> | <b>34,838</b>   | <b>61,870</b>   |
| Overdraft                    | 5,016          | (10,078)        | 17,802          | 18,600          |
| IMF funds onlet to Govt      | (241)          | (241)           | 0               | -               |
| Treasury bills               | (2)            | 3               | 1,464           | 7,037           |
| Stocks                       | 0              | 0               | 0               | -               |
| Floating rate T. Bonds       | 0              | 0               | 0               | -               |
| Fixed rate Bonds             | (4)            | 15              | 0               | 4,065           |
| Items on Transit             | (246)          | 93              | (278)           | (359)           |
| Frozen Account               | 0              | (555)           | (555)           | (555)           |
| Less Govt Deposits           | (7,971)        | (3,235)         | 16,405          | 33,083          |
| <b>2.COM. BANKS</b>          | <b>16,774</b>  | <b>22,437</b>   | <b>(24,736)</b> | <b>(16,753)</b> |
| Advances                     | (1)            | 55              | (30)            | (49)            |
| Stocks                       | 0              | 0               | 0               |                 |
| Treasury bills               | (29,125)       | (48,379)        | (15,165)        | (33,886)        |
| Floating rate T. Bonds       | 0              | 0               | 0               |                 |
| Fixed rate Bonds             | 30,130         | 57,383          | (8,572)         | 14,735          |
| Special Bonds                | (219)          | (781)           | 0               |                 |
| Zero Coupon bonds            | 0              | 0               | 0               |                 |
| Infrastructure Bonds         | 16,163         | 16,163          | 0               | 2,229           |
| Savings and Development Bond | 0              | 0               | 0               |                 |
| Less Govt Deposits           | (175)          | (2,005)         | (969)           | 219             |
| <b>3. NON BANKS</b>          | <b>40,022</b>  | <b>78,513</b>   | <b>2,057</b>    | <b>16,353</b>   |
| Stocks                       | (753)          | (753)           | 0               | -               |
| Treasury bills               | 6,365          | 17,918          | (319)           | 4,152           |
| Floating Rate T. Bonds       | 0              | 0               | 0               | -               |
| Fixed rate Bonds             | 19,988         | 46,927          | (98)            | (81)            |
| Zero Coupon bonds            | 0              |                 | 0               | -               |
| Infrastructure Bonds         | 14,422         | 14,422          | 0               | 9,807           |
| Savings and Development Bond | 0              | 0               | 2,475           | 2,475           |
| <b>NON RESIDENTS</b>         | <b>1,129</b>   | <b>4,794</b>    | <b>131</b>      | <b>1,041</b>    |
| Treasury bills               | 1,123          | 1,018           | 243             | 1,064           |
| Floating rate T. Bonds       | 0              | 0               | 0               | -               |
| Fixed rate Bonds             | 6              | 3,776           | (119)           | (65)            |
| Infrastructure Bond          | 0              | 0               | 0               | 35              |
| Savings and Development Bond | 0              | 0               | 7               | 7               |
| Zero Coupon bonds            | 0              | 0               | 0               | -               |
| <b>NET CREDIT</b>            | <b>54,477</b>  | <b>91,745</b>   | <b>12,290</b>   | <b>62,512</b>   |

Note: Treasury bills as reflected here are given at cost value as opposed to Table 9 given at Face value.

Source: Central Bank of Kenya

### 3.0 PUBLIC DEBT

#### 3.1 Overall Debt Position

32. The gross public debt in Shilling terms decreased by KShs. 826.1 million from KShs. 1,487.1 billion at the end of June 2011 to KShs. 1,486.3 billion (45.1 % of GDP) by 31<sup>st</sup> December 2011. Out of which, external debt comprised of 46.1 percent and domestic debt 53.9 percent. The overall decrease is explained by Kshs. 37.3 billion net decrease in external debt (largely on account of exchange rate movement, which was KShs.89.86 in June, 2011 as compared to KShs.85.06 in December, 2011) (*Table 8*).

**Table 8: Kenya's Public and Publicly Guaranteed Debt, June 2007- December 2011 (KShs. millions)**

|                          | Jun-07         | Jun-08         | Jun-09           | Jun-10           | Jun-11           | Sep-11           | Dec-2011*        |
|--------------------------|----------------|----------------|------------------|------------------|------------------|------------------|------------------|
| <b>EXTERNAL</b>          |                |                |                  |                  |                  |                  |                  |
| BILATERAL                | 141,706        | 153,201        | 185,933          | 196,347          | 256,965          | 285,991          | 236,827          |
| MULTILATERAL             | 240,259        | 271,134        | 331,105          | 352,333          | 440,882          | 487,202          | 426,753          |
| COMMERCIAL BANKS         | 574            | -              | -                |                  | -                | -                |                  |
| SUPPLIERS CREDIT         | 18,427         | 18,543         | 23,837           | 20,458           | 25,041           | 26,641           | 22,027           |
| <b>SUB – TOTAL</b>       | <b>400,966</b> | <b>442,878</b> | <b>540,875</b>   | <b>569,138</b>   | <b>722,888</b>   | <b>799,834</b>   | <b>685,607</b>   |
| <b>DOMESTIC:</b>         |                |                |                  |                  |                  |                  |                  |
| CENTRAL BANK             | 36,182         | 45,862         | 39,902           | 50,215           | 39,692           | 58,127           | 68,479           |
| COMMERCIAL BANKS         | 186,802        | 182,905        | 250,708          | 351,579          | 378,376          | 355,021          | 362,676          |
| <b>TOTAL BANKS</b>       | <b>222,984</b> | <b>228,768</b> | <b>290,611</b>   | <b>401,794</b>   | <b>418,068</b>   | <b>413,147</b>   | <b>431,156</b>   |
| NON BANKS                | 181,704        | 201,844        | 230,421          | 258,474          | 346,155          | 351,127          | 369,522          |
| <b>SUB-TOTAL</b>         | <b>404,688</b> | <b>430,612</b> | <b>521,032</b>   | <b>660,268</b>   | <b>764,223</b>   | <b>764,275</b>   | <b>800,678</b>   |
| <b>GRAND TOTAL GROSS</b> | <b>805,654</b> | <b>873,490</b> | <b>1,061,907</b> | <b>1,229,406</b> | <b>1,487,111</b> | <b>1,564,109</b> | <b>1,486,285</b> |
| LESS ON-LENDING          | (5,701)        | (5,701)        | (5,701)          | (5,701)          | (5,701)          | (5,701)          | (5,701)          |
| LESS GOVERNMENT DEPOSITS | (65,687)       | (92,861)       | (111,115)        | (119,785)        | (133,773)        | (105,105)        | (111,038)        |
| <b>GRAND TOTAL NET</b>   | <b>734,266</b> | <b>774,928</b> | <b>945,091</b>   | <b>1,103,919</b> | <b>1,347,637</b> | <b>1,453,303</b> | <b>1,369,546</b> |

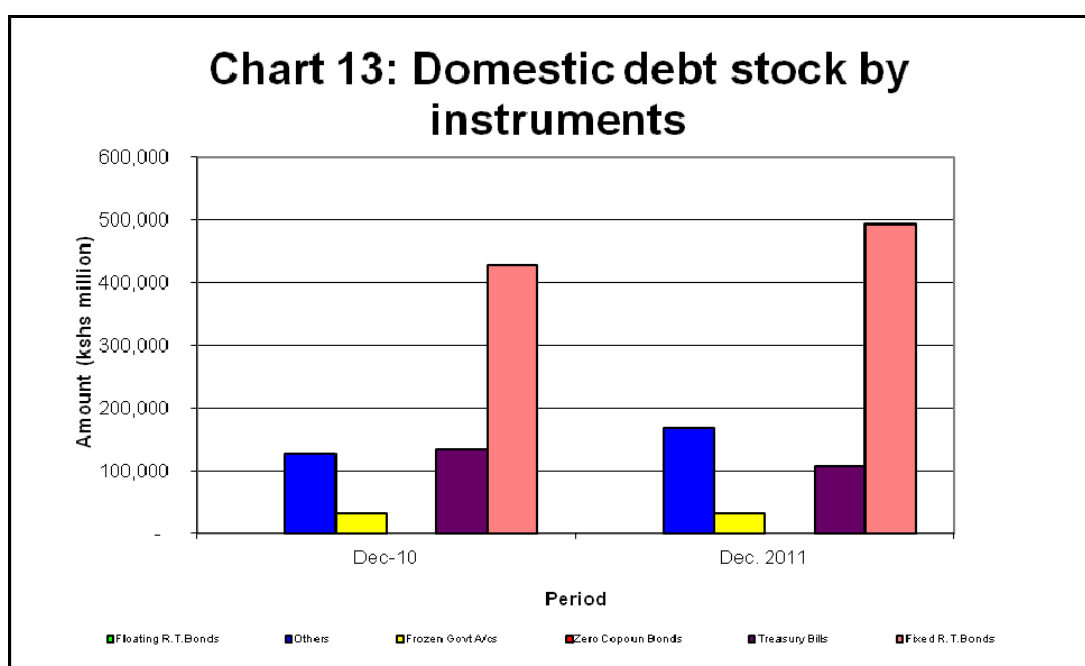
\*Provisional external

Source: Ministry of Finance



### 3.2 Domestic Debt

33. The stock of domestic debt increased from KShs. 764.2 billion in June 2011 to KShs. 800.7 billion in December 2011, a net increase of KShs. 36.5 billion (*Table 9*). The stock of Treasury Bills held by the Central Bank, commercial banks, non -banks financial institution and non -residents recorded a decrease of KShs. 19.5 billion from KShs. 126.6 billion in June 2011 to KShs. 107.1 billion in December 2011. Similarly the stock of Treasury Bonds, Floating, Fixed Rate, Special and Zero coupon Bonds, increased by KShs. 984.0 million from KShs. 508.3 million in June 2011 to KShs. 509.2 million in December 2011 (*chart 13*).



**Table 9: Stock of Domestic Debt, Second Quarter 2011/2012  
(KShs. million)**

|                              | Dec-10         | Jun-11         | Sep-11         | Dec-11         |
|------------------------------|----------------|----------------|----------------|----------------|
| <b>1.CENTRAL BANK</b>        | <b>54,979</b>  | <b>39,692</b>  | <b>58,127</b>  | <b>68,479</b>  |
| Overdraft                    | 22,666         | 7,571          | 25,373         | 26,171         |
| Frozen Govt Accounts         | 32,219         | 31,664         | 31,109         | 31,109         |
| Treasury Bills               | 11             | 16             | 1,480          | 7,053          |
| Items on Transit             | 70             | 409            | 131            | 50             |
| Fixed rate bonds             | 13             | 32             | 34             | 4,097          |
| <b>2.COM.BANKS</b>           | <b>367,291</b> | <b>378,376</b> | <b>355,021</b> | <b>362,676</b> |
| Advances                     | 1,546          | 2,243          | 2,336          | 2,639          |
| Stocks                       | -              | -              | -              | -              |
| Treasury Bills               | 106,920        | 87,736         | 72,873         | 54,089         |
| Floating Rate T. Bonds       | -              | -              | -              | -              |
| Fixed Rate T. Bonds          | 204,340        | 234,473        | 218,739        | 241,972        |
| Special Bonds                | 15,562         | 15,000         | 15,000         | 15,000         |
| Zero Coupon Bonds            | -              | -              | -              | -              |
| Savings and Development Bond | -              | -              | 7,148          | 7,148          |
| Infrastructure Bonds         | 38,924         | 38,924         | 38,924         | 41,828         |
| <b>3. NON BANKS</b>          | <b>293,895</b> | <b>338,299</b> | <b>343,052</b> | <b>360,454</b> |
| Stocks                       | -              | -              | -              | -              |
| Treasury Bills               | 23,659         | 35,636         | 35,839         | 41,499         |
| Floating Rate T. Bonds       | -              | -              | -              | -              |
| Fixed Rate T. Bonds          | 222,093        | 254,520        | 243,999        | 244,005        |
| Tax Reserve Certificate      | 69             | 69             | 69             | 69             |
| Zero Coupon Bonds            | -              | -              | -              | -              |
| Infrastructure Bonds         | 48,074         | 48,074         | 48,074         | 59,809         |
| Savings and Development Bond | -              | -              | 15,072         | 15,072         |
| <b>4. NON RESIDENTS</b>      | <b>4,163</b>   | <b>7,856</b>   | <b>8,075</b>   | <b>9,068</b>   |
| Treasury Bills               | 3,296          | 3,217          | 3,546          | 4,449          |
| Floating Rate T. Bonds       | -              | -              | -              | -              |
| Fixed Rate T. Bonds          | 460            | 4,233          | 4,114          | 4,168          |
| Zero Coupon Bonds            | -              | -              | -              | -              |
| Savings and Development Bond | -              | -              | 9              | 9              |
| Infrastructure Bonds         | 407            | 407            | 407            | 442            |
| <b>5. TOTAL DEBT</b>         | <b>720,328</b> | <b>764,223</b> | <b>764,275</b> | <b>800,678</b> |
| 6. LESS ON-LENDING           | 5,701          | 5,701          | 5,701          | 5,701          |
| 7. Less Govt Deposits        | 133,429        | 133,773        | 105,105        | 111,038        |
| <b>8. NET DEBT</b>           | <b>581,198</b> | <b>624,749</b> | <b>653,469</b> | <b>683,939</b> |

\* excl. IMF funds

NOTE: Treasury Bills reflected here are at face value as opposed to Table 7, given at cost

Source: Central Bank of Kenya

### 3.3 External Public Debt

34. In dollar terms, external public debt increased by US\$15.21 million from US\$ 8,044.3 million in June 2011 to US\$ 8,059.3 million by end of December 2011. This comprised of debt owed to bilateral (34.5%), multilateral (62.2%) and suppliers credit (3.2%). This increase is attributed to disbursements during the quarter under review. **(Exchange rate end December 2011 Ksh/US\$= 85.06)**

**Table 10: Kenya's External Public and Publicly Guaranteed Debt  
June 2007- December 2011 (US \$ Million)**

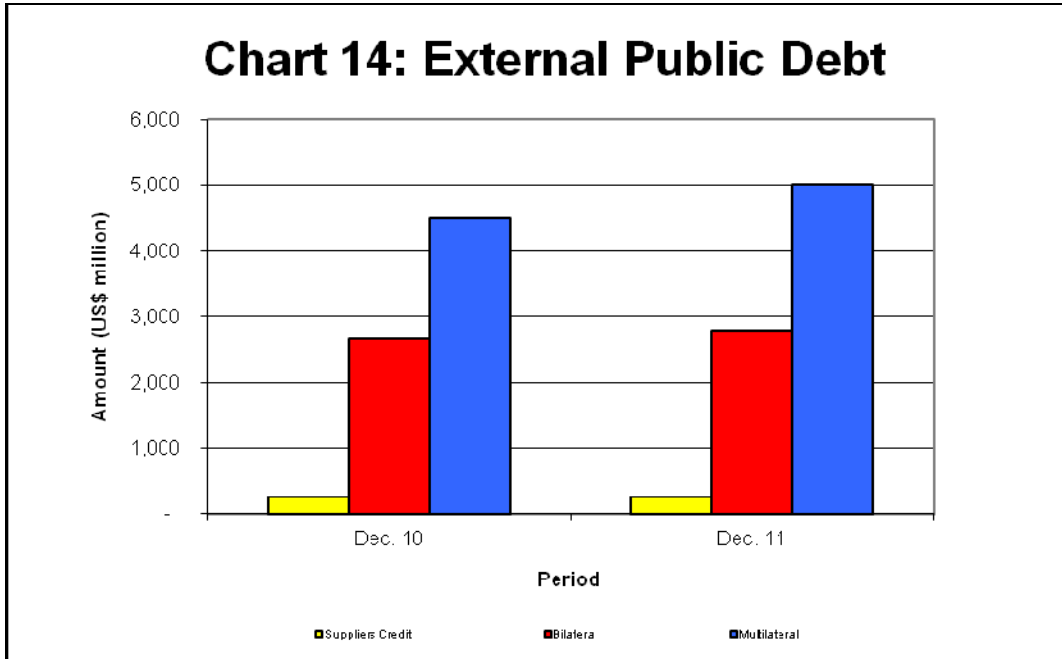
| CREDITOR                   | Jun-07          | Jun-08          | Jun-09          | Jun-10          | Jun-11          | Sept-2011       | Dec-2011*       |
|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b><u>BILATERAL</u></b>    |                 |                 |                 |                 |                 |                 |                 |
| AUSTRIA                    | 45.60           | 50.26           | 28.74           | 22.14           | 22.45           | 19.43           | 18.10           |
| BELGIUM                    | 69.60           | 73.43           | 91.73           | 82.70           | 100.57          | 95.51           | 91.10           |
| CANADA                     | 22.15           | 21.64           | 20.60           | 19.60           | 14.2            | 18.65           | 18.20           |
| DENMARK                    | 32.25           | 36.11           | 30.52           | 28.00           | 35.4            | 28.92           | 26.50           |
| FINLAND                    | 1.77            | 1.85            | 1.67            | 1.45            | 1.47            | 1.42            | 1.30            |
| FRANCE                     | 277.75          | 354.02          | 364.22          | 343.93          | 448.98          | 438.38          | 409.20          |
| GERMANY                    | 198.11          | 243.67          | 213.08          | 198.20          | 296.78          | 280.3           | 272.80          |
| ITALY                      | 107.61          | 98.06           | 74.53           | 53.07           | 48.83           | 45.76           | 34.70           |
| JAPAN                      | 1,006.00        | 1,125.98        | 1,177.40        | 1,206.80        | 1,244.58        | 1,289.30        | 1,271.40        |
| NETHERLANDS                | 35.60           | 35.83           | 27.74           | 22.91           | 33.52           | 42.02           | 37.70           |
| UK                         | 39.55           | 37.99           | 30.51           | 26.00           | 25.91           | 25.12           | 24.80           |
| USA                        | 70.90           | 75.16           | 73.48           | 69.94           | 65.66           | 64.82           | 64.20           |
| OTHERS                     | 164.60          | 214.05          | 275.71          | 322.31          | 521.18          | 515.1           | 514.00          |
| <b>TOTAL BILATERAL</b>     | <b>2,071.49</b> | <b>2,368.05</b> | <b>2,409.93</b> | <b>2,397.05</b> | <b>2,859.53</b> | <b>2,864.73</b> | <b>2,784.00</b> |
| <b><u>MULTILATERAL</u></b> |                 |                 |                 |                 |                 |                 |                 |
| ADB/ADF                    | 353.09          | 465.80          | 423.17          | 500.51          | 585.83          | 642.35          | 760.50          |
| BADEA                      | -               | -               | -               | -               | -               | -               | -               |
| EEC/EIB                    | 150.41          | 173.66          | 143.38          | 128.15          | 139.06          | 127.66          | 120.20          |
| IBRD                       | -               | -               | -               | -               | 0               | 0               | -               |
| IDA/IFAD                   | 2,867.69        | 3,239.00        | 3,194.50        | 3,175.30        | 3,552.80        | 3,360.81        | 3,462.10        |
| IMF**                      | 212.76          | 271.24          | 244.60          | 416.40          | 529.49          | 574.74          | 563.10          |
| OTHERS                     | 27.06           | 42.63           | 74.92           | 80.77           | 98.93           | 98.95           | 110.70          |
| <b>TOTAL MULTILATERAL</b>  | <b>3,611.01</b> | <b>4,192.33</b> | <b>4,080.57</b> | <b>4,301.13</b> | <b>4,906.11</b> | <b>4,804.51</b> | <b>5,016.60</b> |
| <b>COMMERCIAL BANKS 1/</b> | <b>4.30</b>     | <b>-</b>        | <b>-</b>        | <b>-</b>        | <b>-</b>        | <b>-</b>        | <b>-</b>        |
| EXPORT CREDIT              | 271.02          | 286.63          | 308.90          | 249.74          | 278.65          | 266.85          | 258.90          |
| <b>GRAND TOTAL</b>         | <b>5,957.82</b> | <b>6,847.01</b> | <b>6,799.40</b> | <b>6,947.92</b> | <b>8,044.29</b> | <b>7,936.09</b> | <b>8,059.50</b> |
| BILATERAL                  | 34.77           | 34.59           | 35.44           | 34.50           | 35.55           | 36.10           | 34.54           |
| MULTILATERAL               | 60.61           | 61.23           | 60.01           | 61.91           | 60.99           | 60.54           | 62.24           |
| COMMERCIAL BANKS 1/        | 0.07            | -               | -               | -               | -               | -               | -               |
| EXPORT CREDIT              | 4.55            | 4.19            | 4.54            | 3.59            | 3.46            | 3.36            | 3.21            |
| <b>TOTAL</b>               | <b>100.00</b>   | <b>100.00</b>   | <b>100.00</b>   | <b>100.00</b>   | <b>100.00</b>   | <b>100.00</b>   | <b>100.00</b>   |

\*Provisional

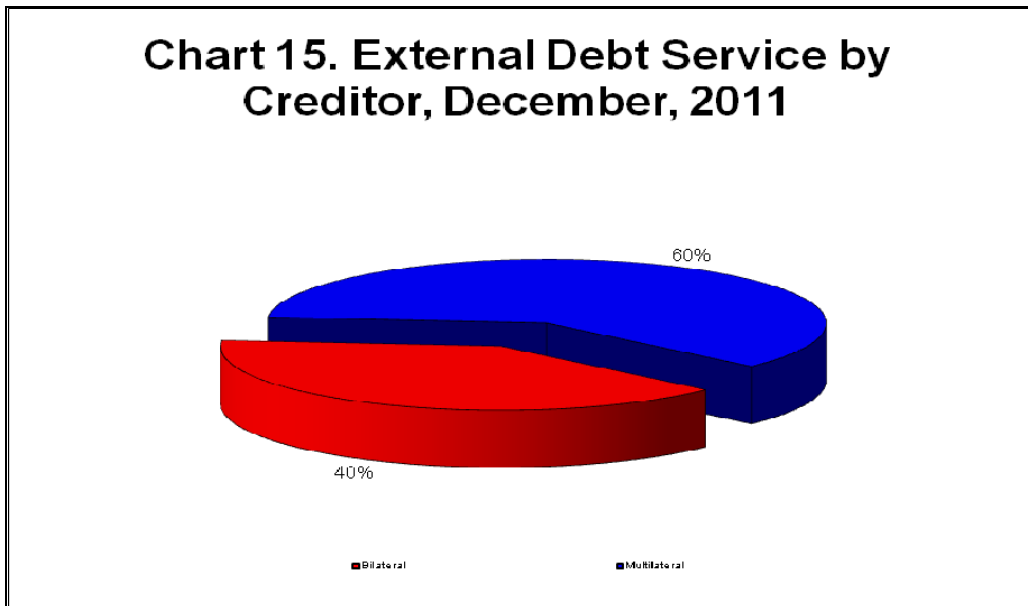
\*\* IMF debt serviced by CBK

Source: Ministry of Finance

3.3.1 External Debt Service



35. At the end of December 2011, the total central government external debt service amounted to KShs 15.6 billion. This comprises of principal and interest repayments of KShs. 12.0 billion (includes KShs. 0.78 billion to IMF serviced by CBK) and KShs. 3.6 billion, respectively. Total payments to bilateral creditors were KShs. 6.2 billion (39.5 percent), while payments to multilateral creditors amounted to KShs. 9.4 billion (60.5 percent). (*Table 11 and chart 15*).



**Table 11: External Debt Service, July 2011 – December 2011  
(KShs. Million)**

| CATEGORY                  | PRINCIPAL*       | INTEREST*       | TOTAL*           |
|---------------------------|------------------|-----------------|------------------|
| <b>BILATERAL</b>          |                  |                 |                  |
| AUSTRIA                   | 164.88           | 17.06           | 181.94           |
| FINLAND                   | -                | -               | -                |
| FRANCE                    | 535.36           | 172.62          | 707.98           |
| ITALY                     | 55.77            | 2.27            | 58.04            |
| JAPAN                     | 2,674.90         | 548.32          | 3,223.22         |
| SAUDI FUND                | 274.42           | 32.65           | 307.07           |
| SPAIN                     | 74.75            | 26.91           | 101.66           |
| USA                       | 81.02            | 46.42           | 127.44           |
| CANADA                    | -                | -               | -                |
| BELGIUM                   | 348.10           | 42.12           | 390.22           |
| GERMANY                   |                  |                 | -                |
| CHINA                     | 267.63           | 601.78          | 869.41           |
| KUWAIT                    | 64.62            | 16.95           | 81.57            |
| NETHERLANDS               | -                | 9.78            | 9.78             |
| SWEDEN                    | -                | -               | -                |
| SWITZERLAND               | -                | -               | -                |
| DENMARK                   | 87.63            | -               | 87.63            |
| KOREA                     | -                | 11.90           | 11.90            |
| UK                        | -                | -               | -                |
| <b>TOTAL BILATERAL</b>    | <b>4,629.08</b>  | <b>1,528.78</b> | <b>6,157.86</b>  |
| <b>MULTILATERAL</b>       |                  |                 |                  |
| ADB/ADF                   | 430.22           | 485.10          | 915.32           |
| BADEA                     | 42.58            | 10.76           | 53.34            |
| EEC                       | 202.22           | 26.04           | 228.26           |
| EIB                       | 340.89           | 95.63           | 436.52           |
| IDA                       | 5,243.72         | 1,333.11        | 6,576.83         |
| OPEC                      | 307.31           | 47.75           | 355.06           |
| NDF                       | -                | 12.89           | 12.89            |
| IFAD                      | 47.71            | 13.47           | 61.18            |
| **IMF                     | 779.50           | -               | 779.50           |
| <b>TOTAL MULTILATERAL</b> | <b>7,394.15</b>  | <b>2,024.75</b> | <b>9,418.90</b>  |
| <b>GRAND TOTAL</b>        | <b>12,023.23</b> | <b>3,553.53</b> | <b>15,576.76</b> |

\*provisional

\*\*IMF debt serviced by CBK

Source: Ministry of Finance.

## 4.0 CORE POVERTY PROGRAMMES (CPP)

36. The Core Poverty Projects/Programmes (CPP) are programmes/projects that impact positively on the lives of the poor by: (i) increasing their incomes or improving their quality of life or enhancing security; (ii) empowering them or improving governance; and (iii) promoting equity and equality in our society. These programmes are given high priority by the Government and are cushioned against budget cuts to ensure that the goals are achieved as planned. The overall expenditure on these programmes by the end of second quarter of FY 2011/12 was KShs. 35.1 billion equivalent to 34.0 percent of the total budget allocation to CPP. Most of the projects are being implemented at the districts and their expenditure returns are not captured in the report. The improvement in the timely capture of the data from the district will be possible once IFMIS is rolled out to all districts and linked to the ministries.

### 4.1 Recurrent Expenditures

37. The total recurrent expenditure (non-wage) of the Core poverty programmes was KShs. 26.2 billion during the first half of FY 2011/12, this was equivalent to 49.7 percent of the total CPP recurrent budget allocation. Table 12 below shows a summary of the ministerial/Departments recurrent expenditures on CPP.

**Table 12: Recurrent Expenditures 2011/12 (Non-Wage) KShs.**

| MINISTRY/DEPARTMENT   | ESTIMATES<br>2011/12  | PAYMENTS              | COMITMENTS           | PAY+COMIT             |
|---|-----------------------|-----------------------|----------------------|-----------------------|
| EDUCATION,SCIENCE & TECHNOLOGY  | 28,361,130,081        | 14,872,840,872        | -                    | 14,872,840,872        |
| MEDICAL SERVICES  | 2,627,394,017         | 93,390,769            | 481,795,717          | 575,186,486           |
| AGRICULTURE   | 1,804,944,852         | 1,233,449,887         | 21,149,760           | 1,254,599,647         |
| ETHICS AND ANTI-CORRUPTION<br>COMMISSION                                  | 1,617,030,000         | 647,336,911           | 18,250,663           | 665,587,574           |
| ROADS   | 9,830,000,000         | 4,511,015,606         | -                    | 4,511,015,606         |
| GENDER , CHILDREN AND SOCIAL<br>DEVELOPMENT                               | 1,027,060,275         | 324,883,200           | -                    | 324,883,200           |
| WATER AND IRRIGATION  | 863,103,707           | 90,735,210            | -                    | 90,735,210            |
| KENYA NATIONAL AUDIT OFFICE   | 503,240,000           | 205,431,546           | -                    | 205,431,546           |
| STATE LAW OFFICE  | 32,259,710            | 12,215,317            | -                    | 12,215,317            |
| COOPERATIVE DEVELOPMENT AND<br>MARKETING                                  | 158,075,300           | 4,195,874             | -                    | 4,195,874             |
| MINISTRY OF STATE FOR PROVINCIAL<br>ADMINISTRATION & INTERNAL<br>SECURITY | 50,591,112            | 13,195,394            | -                    | 13,195,394            |
| MINISTRY OF STATE FOR SPECIAL<br>PROGRAMMES                               | 3,652,827,084         | 1,206,633,974         | -                    | 1,206,633,974         |
| MINISTRY OF PUBLIC HEALTH AND<br>SANITATION                               | 2,188,895,816         | 1,598,544,348         | 866,139,888          | 2,464,684,236         |
| ENVIRONMENT & NATURAL<br>RESOURCES  | 16,723,042            | 2,792,679             | -                    | 2,792,679             |
| <b>GRAND TOTAL</b>  | <b>52,733,274,996</b> | <b>24,816,661,585</b> | <b>1,387,336,028</b> | <b>26,203,997,613</b> |

## 4.2 Development Expenditures

38. Under the development budget, the total expenditures on CPP in the first half of FY 2011/12 amounted to KShs. 8.9 billion, equivalent to 17.7 percent of the total development CPP allocation. Under-performance was attributed to low absorption and also due to non-captures of the expenditures from the districts. Table 13 below gives summary details of the ministerial development CPP expenditures.

**Table 13: Development Expenditures (KShs.)**

| MINISTRY/DEPARTMENT  | ESTIMATES<br>2011/12  | PAYMENTS             | COMITMENTS           | PAY+COMIT            |
|--|-----------------------|----------------------|----------------------|----------------------|
| MINISTRY OF STATE FOR PROVINCIAL<br>ADMINISTRATION & INTERNAL<br>SECURITY  | 1,262,108,484         | 251,202,482          | 101,608,981          | 352,811,463          |
| MINISTRY OF AGRICULTURE  | 2,758,823,916         | 148,905,170          | 4,708,974            | 153,614,144          |
| MINISTRY OF MEDICAL SERVICES   | 4,917,803,594         | 173,566,243          | 173,566,243          | 347,132,486          |
| MINISTRY OF ENVIRONMENT AND<br>NATURAL RESOURCES                           | 2,788,145,260         | 390,456,803          | -                    | 390,456,803          |
| MINISTRY OF EDUCATION  | 1,348,000,000         | 371,861,378          | -                    | 371,861,378          |
| MINISTRY OF WATER AND IRRIGATION   | 3,663,693,232         | 2,235,304,404        | -                    | 2,235,304,404        |
| ENERGY   | 5,784,771,950         | 1,253,890,547        | -                    | 1,253,890,547        |
| JUDICIARY SERVICES   | 390,555,000           | 40,965,151           | -                    | 40,965,151           |
| HOUSING  | 482,353,332           | 5,195,994            | 2,646,524            | 7,842,518            |
| MINISTRY OF ROADS  | 5,000,000             | 525,000              | -                    | 525,000              |
| GENDER , CHILDREN AND SOCIAL<br>DEVELOPMENT                                | 1,192,109,812         | 175,749,124          | -                    | 175,749,124          |
| OFFICE OF THE DEPUTY PRIME<br>MINISTER AND MINISTRY OF LOCAL<br>GOVERNMENT | 6,375,140,000         | 830,971,024          | -                    | 830,971,024          |
| MINISTRY OF STATE FOR SPECIAL<br>PROGRAMMES                                | 4,609,709,980         | 1,229,878,800        | -                    | 1,229,878,800        |
| MINISTRY OF PUBLIC HEALTH AND<br>SANITATION                                | 14,829,697,872        | 94,536,485           | 1,425,054,280        | 1,519,590,765        |
| MINISTRY OF TRADE  | 105,910,000           | 3,264,000            |                      | 3,264,000            |
| <b>GRAND TOTAL</b>   | <b>50,513,822,432</b> | <b>7,206,272,605</b> | <b>1,707,585,002</b> | <b>8,913,857,607</b> |

## FISCAL RESULTS, 2004/05 – 2011/12 (KShs. Millions)

|  | 2004/05          | 2005/06          | 2006/07          | 2007/08          | 2008/09          | 2009/10          | 2010/11*         | 2011/12**        |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>A. TOTAL REVENUE</b>                          | 289,802          | 311,251          | 373,030          | 432,220          | 487,893          | 586,377          | 667,539          | 792,100          |
| 1.Revenue  | 265,715          | 283,427          | 340,010          | 396,489          | 455,780          | 538,836          | 609,223          | 718,200          |
| Income Tax                                       | 94,095           | 108,897          | 124,855          | 156,832          | 184,447          | 216,760          | 258,651          | 293,100          |
| VAT  | 75,989           | 76,263           | 96,270           | 111,939          | 126,854          | 146,792          | 171,881          | 205,300          |
| Import Duty                                      | 23,532           | 20,511           | 27,510           | 32,944           | 36,181           | 41,372           | 46,072           | 55,600           |
| Excise Duty                                      | 44,151           | 50,309           | 56,406           | 61,858           | 69,872           | 74,644           | 80,567           | 93,300           |
| Other Revenue                                    | 27,948           | 27,447           | 34,970           | 32,916           | 38,426           | 59,268           | 52,053           | 70,900           |
| 2.Appropriation –in –Aid                         | 24,087           | 27,824           | 33,020           | 35,731           | 32,113           | 47,541           | 58,316           | 73,900           |
| <b>B.EXPENDITURE &amp; NET LENDING</b>           | 303,373          | 382,818          | 419,570          | 534,842          | 595,719          | 725,201          | 811,849          | 1,071,600        |
| 1.Recurrent                                      | 255,746          | 306,515          | 306,847          | 403,368          | 435,542          | 510,516          | 592,427          | 664,200          |
| Wages and Salaries                               | 105,612          | 112,277          | 127,258          | 145,996          | 155,220          | 172,609          | 198,549          | 222,600          |
| Interest Payments                                | 30,470           | 41,247           | 42,537           | 47,877           | 52,058           | 63,523           | 76,199           | 84,100           |
| Domestic Interest                                | 23,375           | 31,445           | 36,860           | 42,181           | 45,949           | 57,382           | 69,209           | 76,600           |
| Foreign Interest Due                             | 7,095            | 9,802            | 5,677            | 5,696            | 6,109            | 6,141            | 6,989            | 7,500            |
| Pensions, etc                                    | 12,568           | 19,759           | 20,449           | 24,089           | 27,191           | 28,977           | 25,724           | 34,800           |
| Civil Service Reform                             | -                | 1,300            | 1,392            | 800              | 121              | 50               | 5                | -                |
| O & M/ Others                                    | 107,096          | 131,932          | 115,211          | 184,606          | 200,952          | 245,357          | 291,951          | 322,700          |
| Of which Appropriation-in-Aid                    | 20,999           | 23,891           | 28,701           | 32,343           | 40,611           | 42,807           | 54,036           | 68,707           |
| 2.Development & Net Lending                      | 45,627           | 67,692           | 80,354           | 131,473          | 160,177          | 214,685          | 219,422          | 399,200          |
| Development Projects                             | 28,824           | 48,037           | 62,123           | 86,213           | 111,962          | 165,461          | 171,463          | 213,500          |
| Appropriation-in-Aid                             | 15,929           | 18,607           | 16,750           | 42,932           | 45,842           | 46,956           | 46,809           | 183,100          |
| Payment of guaranteed loans                      | 860              | 4,000            | -                | 2,328            | 2,373            | 2,268            | 1,150            | 2,600            |
| 3. Drought Development                           | 2,000            | 1,048            | 1,481            | -                | -                | -                | -                | 8,200            |
| Expenditures/CCF                                 | -                | -                | -                | -                | -                | -                | -                | -                |
| <b>D.DEFICIT EXCL. GRANTS (Commitment Basis)</b> | (13,571)         | (71,567)         | (46,540)         | (102,622)        | (107,826)        | (138,824)        | (144,310)        | (279,500)        |
| <b>E. GRANTS</b>                                 | 14,905           | 20,070           | 15,494           | 25,449           | 18,065           | 31,190           | 18,769           | 18,800           |
| <b>F.DEFICIT INCL.GRANTS (Commitment basis)</b>  | 1,334            | (51,497)         | (30,697)         | (77,173)         | (89,761)         | (107,634)        | (125,541)        | (260,700)        |
| <b>G. ADJUSTMENT TO CASH BASIS</b>               | 5,964            | 15,030           | (5,571)          | 84,738           | (27,259)         | (66,740)         | 6,768            | 24,500           |
| <b>H.DEFICIT INCL.GRANTS (cash basis)</b>        | 7,298            | (36,467)         | (36,269)         | 7,566            | (117,020)        | (174,374)        | (118,773)        | (236,200)        |
| <b>I.FINANCING</b>                               | (7,298)          | 36,467           | 36,269           | (7,566)          | 117,020          | 174,374          | 118,773          | 236,200          |
| Foreign Financing                                | (625)            | 1,216            | (2,392)          | 6,326            | 41,143           | 22,895           | 28,390           | 116,700          |
| Domestic Financing                               | (6,673)          | 35,251           | 38,661           | (13,891)         | 75,876           | 151,479          | 90,383           | 119,500          |
| Of which Domestic Borrowing                      | (6,673)          | 7,000            | 4,000            | -                | 69,427           | 117,037          | 90,383           | 119,500          |
| Others   | -                | -                | -                | -                | -                | 34,442           | -                | -                |
| As a percentage of GDP                           |                  |                  |                  |                  |                  |                  |                  |                  |
| <b>A. TOTAL REVENUE</b>                          | 21.55            | 20.49            | 21.63            | 22.02            | 21.80            | 23.86            | 24.05            | 24.06            |
| 1.Revenue  | 19.76            | 18.66            | 19.72            | 20.20            | 20.37            | 21.92            | 21.95            | 21.81            |
| Income Tax                                       | 7.00             | 7.17             | 7.24             | 7.99             | 8.24             | 8.82             | 9.32             | 8.90             |
| VAT  | 5.65             | 5.02             | 5.58             | 5.70             | 5.67             | 5.97             | 6.19             | 6.24             |
| Import Duty                                      | 1.75             | 1.35             | 1.60             | 1.68             | 1.62             | 1.68             | 1.66             | 1.69             |
| Excise Duty                                      | 3.28             | 3.31             | 3.27             | 3.15             | 3.12             | 3.04             | 2.90             | 2.83             |
| Other Revenue                                    | 2.08             | 1.81             | 2.03             | 1.68             | 1.72             | 2.41             | 1.88             | 2.15             |
| 2.Appropriation –in –Aid                         | 1.79             | 1.83             | 1.92             | 1.82             | 1.43             | 1.93             | 2.10             | 2.24             |
| <b>B.EXPENDITURE &amp; NET LENDING</b>           | 22.56            | 25.20            | 24.33            | 27.25            | 26.62            | 29.50            | 29.25            | 32.55            |
| 1.Recurrent                                      | 19.01            | 20.18            | 17.80            | 20.55            | 19.46            | 20.77            | 21.34            | 20.17            |
| Wages and Salaries                               | 7.85             | 7.39             | 7.38             | 7.44             | 6.94             | 7.02             | 7.15             | 6.76             |
| Interest Payments                                | 2.27             | 2.72             | 2.47             | 2.44             | 2.33             | 2.58             | 2.75             | 2.55             |
| Domestic Interest                                | 1.74             | 2.07             | 2.14             | 2.15             | 2.05             | 2.33             | 2.49             | 2.33             |
| Foreign Interest Due                             | 0.53             | 0.65             | 0.33             | 0.29             | 0.27             | 0.25             | 0.25             | 0.23             |
| Pensions   | 0.93             | 1.30             | 1.19             | 1.23             | 1.21             | 1.18             | 0.93             | 1.06             |
| Civil Service Reform                             | -                | 0.09             | 0.08             | 0.04             | 0.01             | 0.00             | 0.00             | 0.00             |
| O & M/ Others                                    | 7.96             | 8.68             | 6.68             | 9.40             | 8.98             | 9.98             | 10.52            | 9.80             |
| of which A-in-A                                  | 1.56             | 1.57             | 1.66             | 1.65             | 1.81             | 1.74             | 1.95             | 2.09             |
| 2.Development & Net Lending                      | 3.39             | 4.46             | 4.66             | 6.70             | 7.16             | 8.73             | 7.90             | 12.12            |
| Development Projects                             | 2.14             | 3.16             | 3.60             | 4.39             | 5.00             | 6.73             | 6.18             | 6.48             |
| Appropriation-in-Aid                             | 1.18             | 1.22             | 0.97             | 2.19             | 2.05             | 1.91             | 1.69             | 5.56             |
| Payment of guaranteed loans                      | 0.06             | 0.26             | -                | 0.12             | 0.11             | 0.09             | 0.04             | 0.08             |
| 3. Drought Expenditures                          | 0.15             | 0.07             | 0.09             | -                | -                | -                | -                | 0.25             |
| <b>D.DEFICIT EXCL. GRANTS (Commitment Basis)</b> | (1.01)           | (4.71)           | (2.70)           | (5.23)           | (4.82)           | (5.65)           | (5.20)           | (8.49)           |
| <b>E. GRANTS</b>                                 | 1.11             | 1.32             | 0.90             | 1.30             | 0.81             | 1.27             | 0.68             | 0.57             |
| <b>F.DEFICIT INCL.GRANTS (Commitment basis)</b>  | 0.10             | (3.39)           | (1.78)           | (3.93)           | (4.01)           | (4.38)           | (4.52)           | (7.92)           |
| <b>G. ADJUSTMENT TO CASH BASIS</b>               | 0.44             | 0.99             | (0.32)           | 4.32             | (1.22)           | (2.72)           | 0.24             | 0.74             |
| <b>H.DEFICIT INCL.GRANTS (cash basis)</b>        | 0.54             | (2.40)           | (2.10)           | 0.39             | (5.23)           | (7.09)           | (4.28)           | (7.17)           |
| <b>I.FINANCING</b>                               | (0.54)           | 2.40             | 2.10             | (0.39)           | 5.23             | 7.09             | 4.28             | 7.17             |
| Foreign Financing                                | (0.05)           | 0.08             | (0.14)           | 0.32             | 1.84             | 0.93             | 1.02             | 3.54             |
| Domestic Financing                               | (0.50)           | 2.32             | 2.24             | (0.71)           | 3.39             | 6.16             | 3.26             | 3.63             |
| Of which Domestic Borrowing                      | (0.50)           | 0.46             | 0.23             | -                | 3.10             | 4.76             | 3.26             | 3.63             |
| Others   | -                | -                | -                | -                | -                | 1.40             | -                | -                |
| <b>Memorandum Item:</b>                          |                  |                  |                  |                  |                  |                  |                  |                  |
| Nominal GDP at Mkt price (KShs. mn)              | <b>1,345,026</b> | <b>1,519,079</b> | <b>1,724,197</b> | <b>1,962,879</b> | <b>2,238,000</b> | <b>2,458,000</b> | <b>2,775,800</b> | <b>3,292,400</b> |

Note: \* indicate Preliminary results and \*\* Adjusted Budget after Corrigendum

Source: Ministry of Finance



## ANNEX II

## ANNEX II: ESTIMATES OF GOVERNMENT GRANTS (RECURRENT & DEVELOPMENT) TO SOME STATE CORPORATIONS 2008/09-2010/11

|    | STATE CORPORATION                                      | 2008-2009     | 2009-2010     | 2010-2011      |
|----|--|---------------|---------------|----------------|
| 1  | Bukura agricultural college                            | 128,424,000   | 95,100,000    | 136,733,000    |
| 2  | Coffee Research Foundation                             | -             | 14,000,000    | 30,000,000     |
| 3  | Horticultural Crops Development Authority              | 280,000,000   | 320,000,000   | 320,000,000    |
| 4  | Kenya Agricultural Research Institute                  | 1,858,248,000 | 2,242,301,000 | 2,260,520,000  |
| 5  | Kenya coconut development authority                    | 33,490,000    | 80,000,000    | 80,000,000     |
| 6  | Nyayo tea zones Development Corporation                | 17,355,000    | 4,486,000     | 6,918,000      |
| 7  | Coffee Development Fund                                | 659,475,000   | 213,870,000   | 310,000,000    |
| 8  | Coffee Board of Kenya                                  | -             | 305,000       | 32,500,000     |
| 9  | Kenya Plant Health Inspectorate Services               | 423,000,000   | 448,000,000   | 448,000,000    |
| 10 | Kenya Sugar Research Foundation                        | -             | 88,000,000    | 180,000,000    |
| 11 | National Cereals and Produce Board                     | 1,171,671,000 | 970,573,000   | 848,248,000    |
| 12 | Pests Products Control Board                           | 40,000,000    | 38,899,000    | 55,000,000     |
| 13 | Pyrethrum Board of Kenya                               | 55,000,000    | 250,000,000   | 30,000,000     |
| 14 | Tea Board of Kenya                                     | 21,500,000    | 60,000,000    | 60,000,000     |
| 15 | Tea Research Foundation                                | 17,000,000    | 10,000,000    | 30,000,000     |
| 16 | Cooperative College of Kenya                           | 102,085,000   | 77,487,000    | 83,000,000     |
| 17 | SACCO Society Regulatory Authority                     | -             | 36,000,000    | 63,200,000     |
| 18 | Chuka University                                       | 259,792,000   | 499,821,000   | 547,700,000    |
| 19 | Commission For High Education                          | 174,986,000   | 185,986,000   | 185,986,000    |
| 20 | Egerton University                                     | 1,840,209,000 | 2,187,981,000 | 2,095,981,000  |
| 21 | Higher Education Loans Board                           | 158,391,000   | 158,391,000   | 273,689,000    |
| 22 | Jomo kenyatta University of agriculture and technology | 1,235,248,000 | 1,614,128,000 | 1,584,458,000  |
| 23 | Kenya Education Staff Institute                        | 70,000,000    | 113,000,000   | 97,000,000     |
| 24 | Kenya Institute of Education                           | 585,885,000   | 586,885,000   | 586,885,000    |
| 25 | Kenya National Examinations Council                    | 572,033,000   | 469,948,000   | 670,000,000    |
| 26 | Kenya polytechnic University college                   | 226,000,000   | 680,871,000   | 689,400,000    |
| 27 | Kenyatta University                                    | 1,972,457,000 | 2,618,705,000 | 2,963,500,000  |
| 28 | Kimathi University                                     | 189,000,000   | 282,385,000   | 377,165,000    |
| 29 | Kisii university college                               | 167,000,000   | 490,396,000   | 548,000,000    |
| 30 | Maseno University                                      | 902,319,000   | 1,070,078,000 | 1,157,082,000  |
| 31 | Masinde Muliro university of science and tech          | 749,879,000   | 761,327,000   | 733,665,000    |
| 32 | Meru University  | 170,500,000   | 278,874,000   | 444,000,000    |
| 33 | Moi University   | 2,185,227,000 | 2,581,919,000 | 2,783,826,000  |
| 34 | Narok University                                       | 152,000,000   | 223,484,000   | 244,000,000    |
| 35 | Pwani university College                               | 163,115,000   | 389,893,000   | 386,327,000    |
| 36 | School Equipment Production Unit                       | 40,000,000    | 20,000,000    | 10,000,000     |
| 37 | South Eastern university College                       | 150,836,000   | 352,532,000   | 480,670,000    |
| 38 | University of Nairobi                                  | 3,699,715,000 | 4,158,413,000 | 4,606,630,000  |
| 39 | Bondo Unoversity College                               | -             | 230,000,000   | 377,000,000    |
| 40 | Chepkoleil University College                          | -             | -             | 1,884,949,000  |
| 41 | Kabianga University College                            | 83,804,000    | 224,808,000   | 412,308,000    |
| 42 | Karatina University College                            | -             | -             | 269,314,000    |
| 43 | Laikipia University College                            | -             | -             | 344,508,000    |
| 44 | Mombasa University College                             | 195,000,000   | 608,101,000   | 568,000,000    |
| 45 | National Bio-safety Authority                          | -             | 48,378,000    | 100,000,000    |
| 46 | Multimedia university college of Kenya                 | -             | 160,231,000   | 326,000,000    |
| 47 | Energy Regulatory Commission                           | 49,575,000    | -             | 20,000,000     |
| 48 | Geothermal Development Corpoation                      | -             | 5,931,817,000 | 12,262,000,000 |

## ANNEX II

|     | STATE CORPORATION                                     | 2008-2009     | 2009-2010     | 2010-2011      |
|-----|---|---------------|---------------|----------------|
| 49  | Kenya Electricity Transmission Company LTD            | 325,000,000   | 3,715,980,000 | 4,096,000,000  |
| 50  | National Oil Corporation of Kenya                     | -             | -             | 380,000,000    |
| 51  | Rural electrification Authority                       | 3,710,000,000 | 1,255,000,000 | 1,112,000,000  |
| 54  | Kenya Investment Authority                            | 455,491,000   | 340,000,000   | 285,000,000    |
| 55  | Privatisation Commission                              | 140,000,000   | 360,000,000   | 360,000,000    |
| 56  | Public Procurement Oversight Authority                | 200,000,000   | 200,000,000   | 300,000,000    |
| 57  | Registration of Certified Public secretaries          | -             | 1,210,000     | 1,210,000      |
| 58  | State Corporations Appeals                            | 16,375,000    | 19,375,000    | 21,232,000     |
| 59  | Kenya Trade Network Agency                            | -             | -             | 20,000,000     |
| 60  | Kenya Revenue Authority                               | 7,197,976,000 | 8,471,479,000 | 10,504,236,000 |
| 61  | Kenya Marine and Fisheries Research Institute         | 382,119,000   | 462,800,000   | 508,000,000    |
| 62  | Kenya Forestry Research Institute                     | 639,176,000   | 731,232,000   | 849,500,000    |
| 63  | Kenya Forestry Service                                | 1,828,341,000 | 2,556,026,000 | 2,020,727,000  |
| 64  | Kenya Wildlife Service                                | 1,125,277,000 | 1,384,461,000 | 1,501,300,000  |
| 65  | Kenya National Library Services                       | 565,021,000   | 655,000,000   | 630,800,000    |
| 66  | Kenya Medical Training Centre                         | 1,078,143,000 | 1,178,719,000 | 1,325,719,000  |
| 67  | Kenyatta National Hospital                            | 3,615,809,000 | 3,431,809,000 | 3,857,966,000  |
| 68  | Moi Referral and Teaching Hospital                    | 1,146,115,000 | 1,346,295,000 | 1,346,295,000  |
| 69  | Kenya medical Supplies Agency                         | 3,601,090,000 | 6,764,566,000 | 4,922,200,000  |
| 70  | National Museums of Kenya                             | 500,000,000   | 557,652,000   | 560,000,000    |
| 71  | NGO Coordination Bureau                               | 92,900,000    | 128,497,000   | 120,000,000    |
| 72  | Kenya Industrial & Research Development Institute     | 308,229,000   | 518,368,000   | 539,973,000    |
| 73  | Kenya Industrial Estates                              | 21,000,000    | 90,000,000    | 295,000,000    |
| 74  | Anti-Counterfeit Agency                               | -             | -             | 202,000,000    |
| 75  | Kenya Accredation Service                             | -             | -             | 106,000,000    |
| 76  | Kenya Bureau of Standard                              | 230,000,000   | 220,000,000   | 100,000,000    |
| 77  | Kenya Industrial Property Institute                   | 21,178,000    | 29,000,000    | 29,000,000     |
| 78  | Numerical Machine Complex                             | 50,000,000    | 50,000,000    | 50,000,000     |
| 79  | Brand Kenya   | 188,000,000   | 147,000,000   | 147,000,000    |
| 80  | Kenya Film Commission, (KFC)                          | 77,000,000    | 76,500,000    | 85,500,000     |
| 81  | Kenya Broadcasting Corporation                        | -             | 200,000,000   | 500,000,000    |
| 82  | Kenya Film Classification Board                       | -             | 42,399,000    | 118,000,000    |
| 83  | Kenya ICT Board                                       | 1,155,000,000 | 624,500,000   | 2,519,770,000  |
| 84  | Kenya YearBook Editorial Board                        | -             | 47,100,000    | 60,000,000     |
| 85  | Media Council of Kenya                                | -             | 60,000,000    | 50,000,000     |
| 86  | Council of Legal Education                            | 112,592,000   | 233,000,000   | 234,000,000    |
| 89  | Leather Development Council                           | -             | -             | 11,972,000     |
| 90  | Kenya Dairy Board                                     | 35,321,000    | 35,321,000    | 20,320,000     |
| 91  | Kenya Meat Commission                                 | 3,075,000     | 33,000,000    | -              |
| 92  | Kenya Institute of Administration                     | 40,000,000    | 35,000,000    | 25,000,000     |
| 93  | Constituency Development Fund                         | 408,000,000   | 369,879,000   | 428,490,000    |
| 94  | Kenya V2030 Secretariat                               | -             | -             | 563,500,000    |
| 95  | Kenya Institute for Public Policy Research & Analysis | 84,000,000    | 116,000,000   | 175,000,000    |
| 96  | Kenya National Bureau of statistics                   | 1,591,000,000 | 7,745,000,000 | 841,000,000    |
| 97  | National Coordinating Agency for Population & Dev't   | 116,000,000   | 129,500,000   | 399,020,000    |
| 98  | National campaign against drug abuse authority        | 210,000,000   | 210,000,000   | 310,000,000    |
| 99  | Kenya Medical Research Institute                      | 1,143,076,000 | 1,100,000,000 | 1,349,000,000  |
| 100 | Ewaso-Ng'iro South River Basin Dev't Authority        | 81,557,000    | 145,619,000   | 199,012,000    |
| 101 | Kerio Valley Development Authority                    | 153,000,000   | 705,136,000   | 246,302,000    |
| 102 | Lake Basin Development Authority                      | 291,074,000   | 160,745,000   | 257,924,000    |
| 103 | Tana & Athi Rivers Development Authority              | 187,620,000   | 250,437,000   | 477,896,000    |
| 104 | Kenya National highways authority                     | -             | 285,754,000   | 150,000,000    |
| 106 | Kenya rural roads authority                           | -             | -             | 15,471,000,000 |

## ANNEX II

|     | STATE CORPORATION                              | 2008-2009   | 2009-2010     | 2010-2011     |
|-----|--|-------------|---------------|---------------|
| 107 | Kenya Urban roads Board                        | 30,000,000  | 845,042,000   | 1,061,012,000 |
| 108 | Nationa Aids Control Council                   | 485,395,000 | 499,000,000   | 525,000,000   |
| 109 | Natinal Crime Research Centre                  | -           | -             | 46,000,000    |
| 110 | Witness protection Agency                      | -           | -             | 65,000,000    |
| 111 | Kenya Copyright Board                          | 30,000,000  | 62,000,000    | 52,000,000    |
| 112 | Bomas of Kenya Ltd.                            | 213,000,000 | 237,000,000   | 336,000,000   |
| 115 | Kenya Tourism Board                            | 783,098,000 | 750,000,000   | 815,000,000   |
| 117 | Kenya Utalii College                           | 50,000,000  | 80,000,000    | 103,000,000   |
| 118 | Export Processing Zones Authority              | 269,112,000 | 248,150,000   | 347,356,000   |
| 119 | Export Promotion Council                       | 151,860,000 | 185,460,000   | 239,200,000   |
| 120 | Kenya Airports Authrity                        | 663,558,000 | 816,347,000   | 1,965,519,000 |
| 122 | Kenya Maritime Authority                       | 120,000,000 | 160,000,000   | 135,000,000   |
| 123 | Kenya Ferry Services                           | 295,211,000 | 367,000,000   | 520,000,000   |
| 125 | Kenya Railways Corporation                     | 51,572,000  | -             | 1,500,000,000 |
| 126 | Athi water services Board                      | 77,928,000  | 83,654,000    | 90,000,000    |
| 127 | Tana water services board                      | 16,949,000  | 140,487,000   | 80,000,000    |
| 128 | Water resources management Authority           | 125,092,000 | 152,694,000   | 513,812,000   |
| 129 | Coast Water Services Board                     | 49,046,000  | 132,191,000   | 1,501,500,000 |
| 130 | Kenya Water Institute                          | 177,000,000 | 133,000,000   | 281,534,000   |
| 131 | Tanaathi water services                        | 162,963,000 | 266,900,000   | 259,499,000   |
| 132 | Lake Victoria North Region Water Service Board | 56,579,000  | 76,900,000    | 75,000,000    |
| 133 | National Irrigation Board                      | 614,106,000 | 2,394,953,000 | 2,058,300,000 |
| 134 | Northern Water Services Board (NWSB)           | 171,158,000 | 140,000,000   | 130,000,000   |
| 135 | Rift Valley Water Service Board                | 153,696,000 | 422,693,000   | 341,350,000   |
| 136 | Water Service Trust Fund                       | 96,986,000  | 102,803,000   | 120,000,000   |
| 137 | Water Services Regulatory Board                | 8,309,000   | 10,341,000    | 48,000,000    |
| 138 | Youth development Fund                         | 500,000,000 | 550,000,000   | 550,000,000   |
| 139 | Sports Stadia Management Board                 | 79,000,000  | 83,473,000    | 267,000,000   |

Source: Ministry of Finance

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## REMARKS BY PERMANENT SECRETARY, MINISTRY OF FINANCE, AT THE AFRICA BOND MARKETS CONFERENCE ON 7<sup>TH</sup> NOVEMBER, 2011

1. The PS/T said that he was delighted to officiate at the opening of the Africa Bond Markets Conference and noted that the conference objectives included sharing international experiences on the development of bond markets and lessons from the work of Efficient Securities Markets institutional Development (ESMID) in Africa with various stakeholders, as well as discussing emerging issues relevant to bond market development. The conference had participation by stakeholders from the entire spectrum of the bond markets in Africa including issuers, investors, policy makers and infrastructure providers.
2. He said that the ability of governments to mobilize resources to achieve development objectives depended on the capacity to mobilize both short and long term financial resources for investment and sustained economic growth. Bond markets provide an important source of such funding and therefore, in many countries, development of vibrant bond market is often a key government objective. In Kenya, under the first medium Term Plan under the Vision 2030, covering the period 2008-2012, there is a target to raise gross savings as a percentage of GDP from 16.2% to 27.2% and gross investment as a percentage of GDP from 23.2% to 32.6%. Achievement of such targets is predicated on robust and vibrant securities markets.
3. In Kenya, the Bond market is relatively well developed compared to the other countries in the region. However, this is true for the government bonds. The Corporate bond segment has grown but it is still far behind what was envisaged in policy documents setting out the country's development agenda. This is an area that needs concerted efforts from all the relevant stakeholders to remove any impediments that may be constraining its growth. It is expected that if corporate bonds become a significant source of financing, the high interest rate margin in excess of 10% in the banking system in Kenya and indeed the other countries, could reduce.
4. The capital markets are a potential source of long term funding for infrastructure and some of the countries represented in the conference, he said, may have issued infrastructure bonds. Special Purpose Vehicles (SPV) could be established to issue bonds to fund projects with income streams that would be utilized to service bond repayments. In Kenya, issuance of infrastructure bonds has been quite successful since 2009 when program started and a total of Kshs 82 billion (US\$82million) has been raised for projects in Energy, Roads and Water sectors. However, since the repayments of these bonds are still from the Government Budget, they are strictly not true infrastructure bonds. He urged various public enterprises with strong balance sheets and healthy cash flows to venture into capital markets to raise funds. Kengen, one of the companies in the energy sector, successfully issued an infrastructure bond and raised Ksh 25 billion (US\$250million) and urged others to follow the example.
5. For development of the bond market to be achieved, he said, a stable macroeconomic environment is a prerequisite. Most countries are facing serious imbalance due to high inflation and volatility in exchange and interest rates. In Kenya, the 12 month overall inflation has reached 18.9%pa; exchange rate has reached over Ksh 100 to 1US\$ on some days and interbank rates have fluctuated reaching 24% p.a. This instability has impacted adversely on the

government ability to raise the budgeted domestic resources since there are few takers for Government securities. The volatility has also affected the performance of both equities and bonds in the Nairobi Securities Exchange. The Government, together with other stakeholders, is taking measures to stabilise the market but the lesson learnt from this is that there is need for a very close coordination in execution of monetary, fiscal and debt policies and a framework to ensure that the coordination happens should be put in place.

6. Many of the African economies are small with shallow capital markets. It is for this reason that the efforts being taken through assistance of ESMID to integrate the securities markets is in the right direction. In the process of integration, challenges will be encountered but we must soldier on and as much as possible strive to learn from the experiences of successful integration in other parts of the world.
7. He said that there are many reforms being undertaken in the financial and capital markets in African countries being supported by various development partners. The lead supporter is the World Bank through various programs including the Efficient Securities Markets Institutional Development (ESMID) program which had organized the conference; The Financial and Legal Sector Program (FLSTAP) and the Global Emerging Markets Local Currency (GEMLOC) Bond program. He also recognized the work being undertaken by Organization for Economic Cooperation and Development (OECD) in African Central Government Bond Market since 2006. In June this year, a centre was established housed in the Development Bank of South Africa which will be playing a major role in encouraging cooperation among various stakeholders in building strong securities market in Africa. The Centre has produced a publication on *African Central Government Debt - Statistical year book for the period 2003-2009* which provides useful comparisons for the participating countries. The US Treasury has also been providing valuable support and there is a resident Advisor housed at the Central Bank of Kenya. The Government is grateful for the assistance but request that these initiatives are coordinated to avoid duplications and overlaps in order to get maximum value.
8. He was encouraged by the wide range of reforms and projects that have been undertaken and those in the pipeline. To name but a few are: the benchmark bond program; Bond switches and buy backs; Automated Trading System; Primary Dealers/Market Makers; Government Bond Index; Over the counter Trading; Demutualization of the Securities Exchange and the laws and regulations to facilitate development of the various products. The momentum for reforms should be continued and even accelerated where possible.
9. Before he concluded his remarks he highlighted a few of the African countries that have already issued bonds in the International capital markets while others were making preparation to issue. The objectives for issuance include diversifying the sources of funding and establishing a pricing benchmark for future issuance by both the public and private sector. As our countries pursue this route, we should be cautious and ensure that the borrowing is within the debt sustainability benchmarks of each country. We are aware of the debt overhang that some of our countries were faced with until the developed world came to their assistance under the Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). We are also alive to the ongoing debt crisis in the Euro Zone and we should adopt policies and measures to ensure prudent borrowing.

10. He thanked all those involved in the organization of the conference and wished them successful deliberations.