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Quarterly Economic and Budgetary Review

Second Quarter
2011/2012

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February 2012 Edition

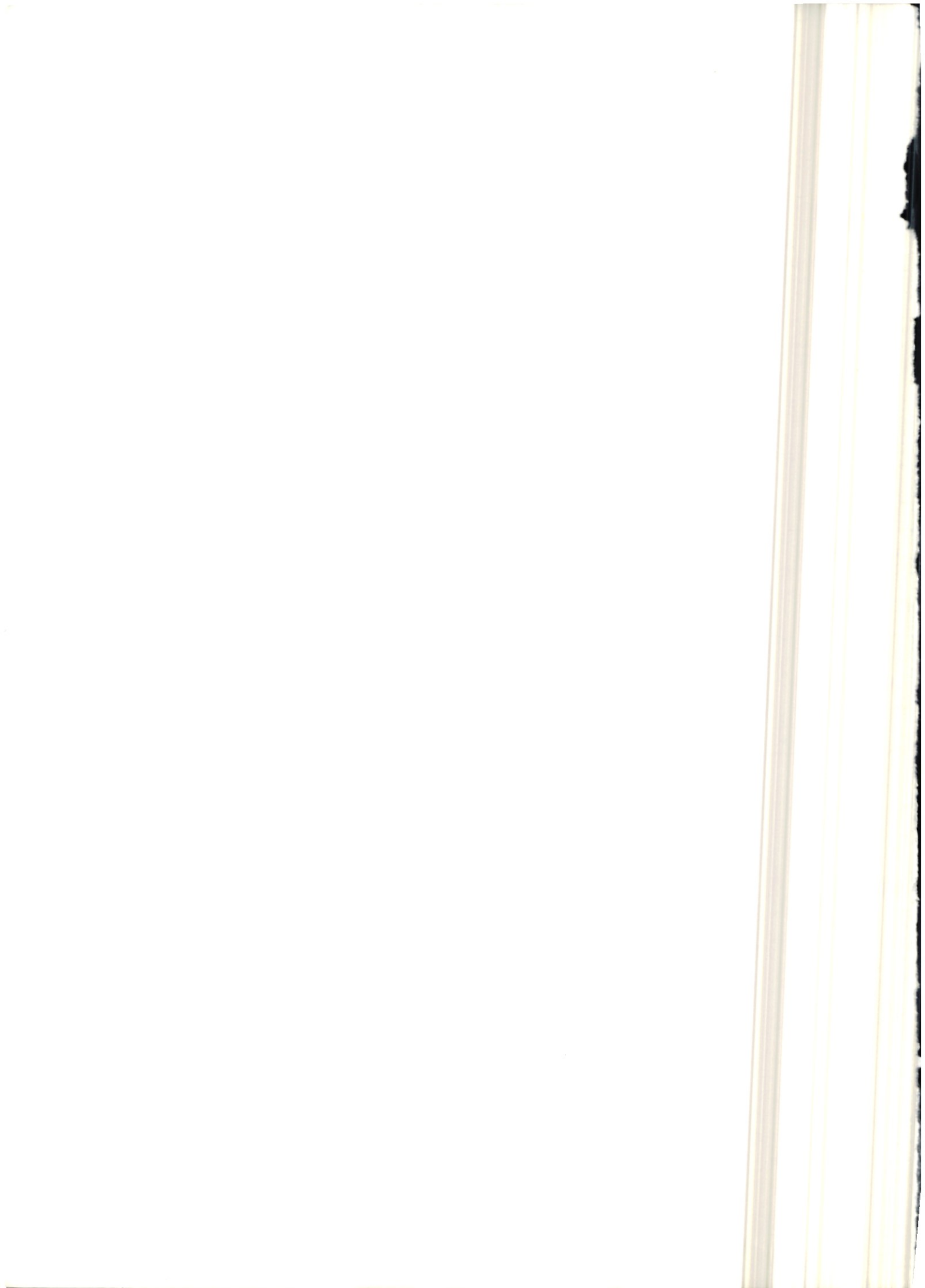


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LIST OF ABBREVIATIONS AND ACCRONYMS

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

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 31st 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.

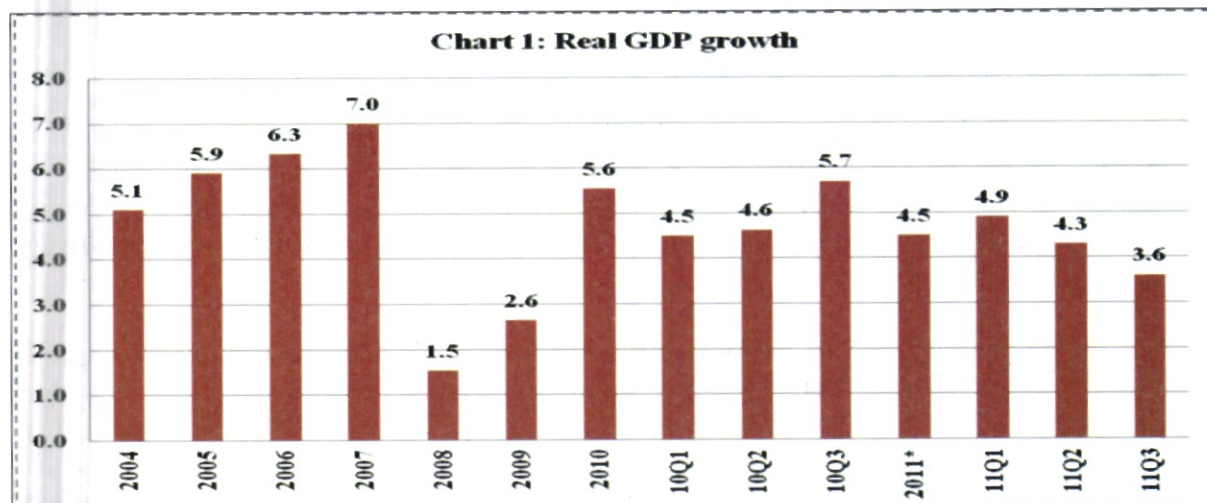
9. External Debt

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

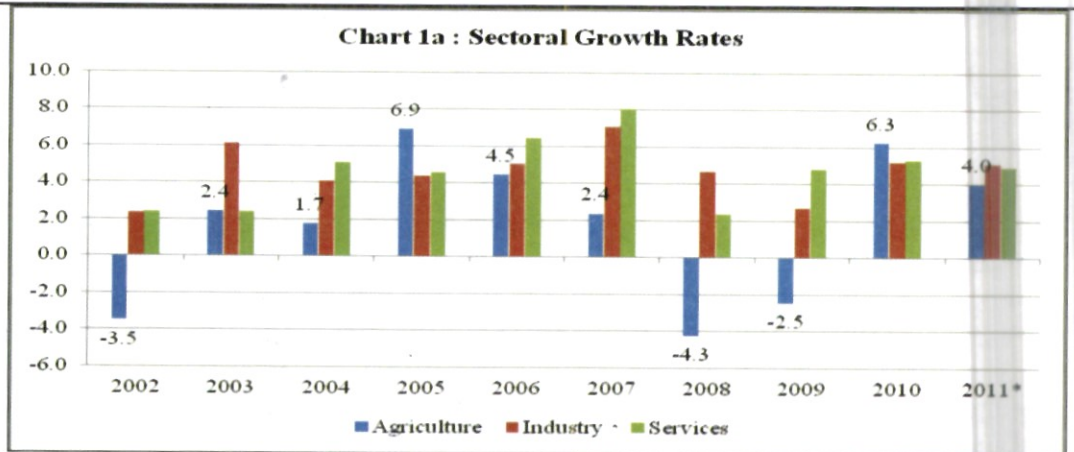
1.1 Economic Growth

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.

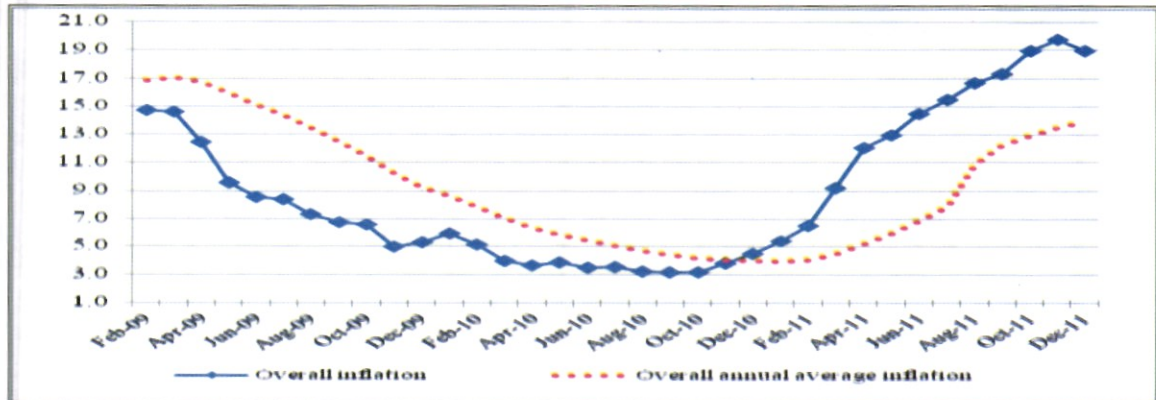


5. The financial intermediation sector growth moderated to 6.0 percent in the third quarter of 2011 compared to a growth of 10.6 percent in the same quarter of 2010 while growth of the manufacturing sector slowed down from a growth of 5.7 percent in the third quarter of 2010 to 1.1 percent in the same 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



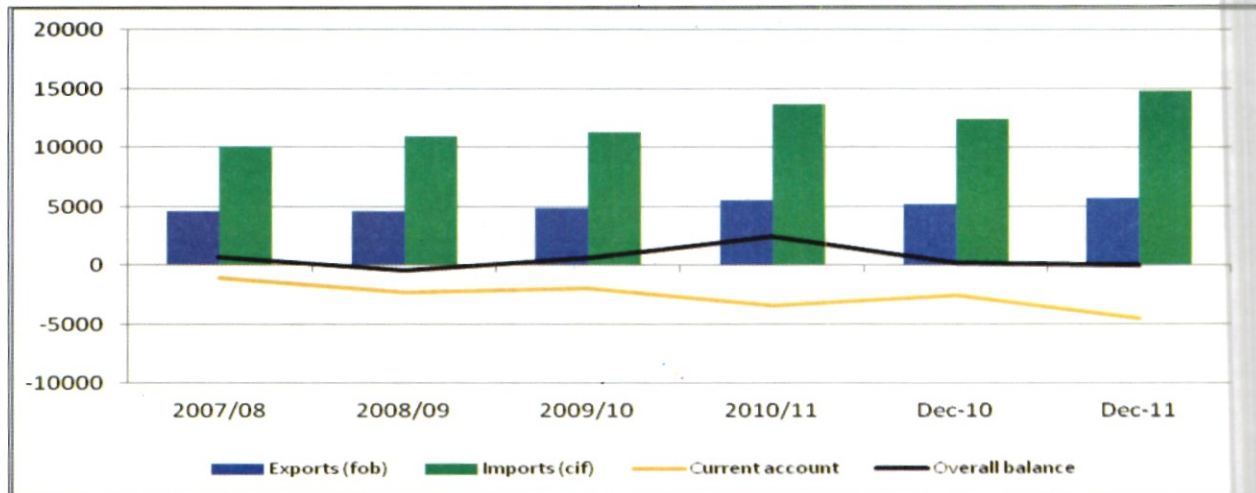
Source: Data from KNBS.

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	% Change
	Act.	act	Prov.	June Prov	Dec-10	Dec-11	
Current account	-1,073	-2,296	-1,920	-3,380	-2,512	-4,489	78.7
Trade balance	-5,428	-6,281	-6,351	-8,118	-7,169	-9,056	26.3
Exports (fob)	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
Imports (cif)	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
Services	4,355	3,985	4,431	4,738	4,657	4,567	-1.9
Capital & financial	1,756	1,874	2,512	3,641	2,675	4,439	65.9
Overall balance	683	-422	592	2,431	163	-51	-131.0
Official reserves	3,445	3,219	3,799	4,142	4,002	4,248	6.1
Months of import	3.7	3.3	3.7	3.3	3.9	3.7	

Source: Data from CBK.

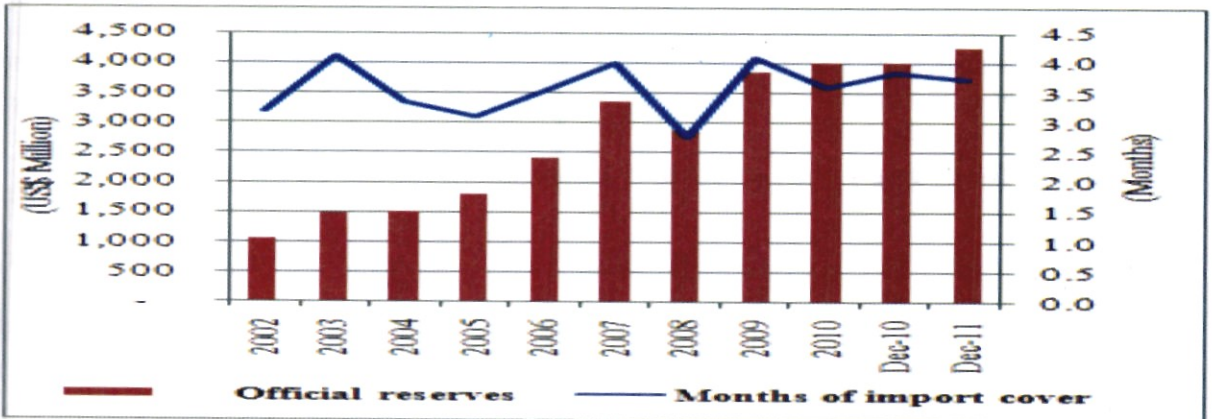
1.4 Foreign Exchange Reserves

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.

RECENT ECONOMIC DEVELOPMENTS

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

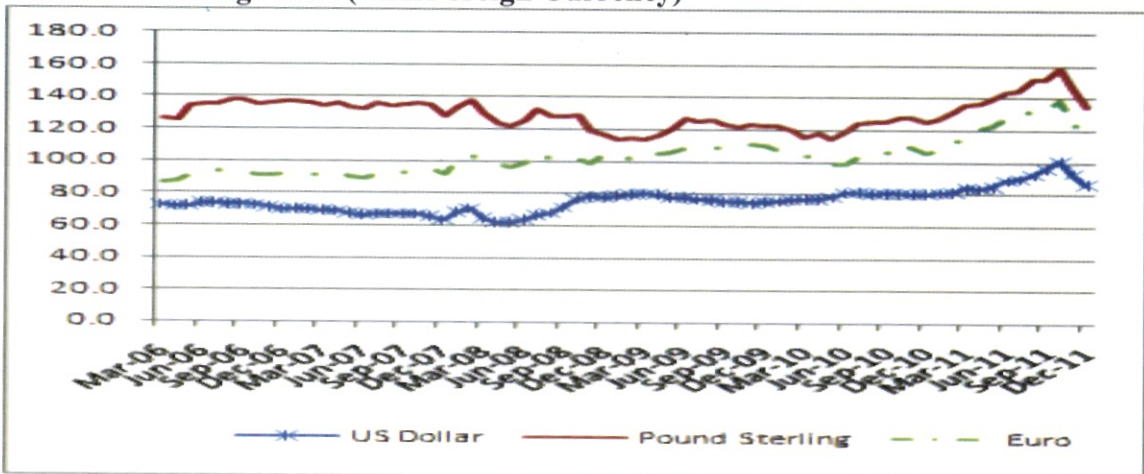


Source: Data from CBK.

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)

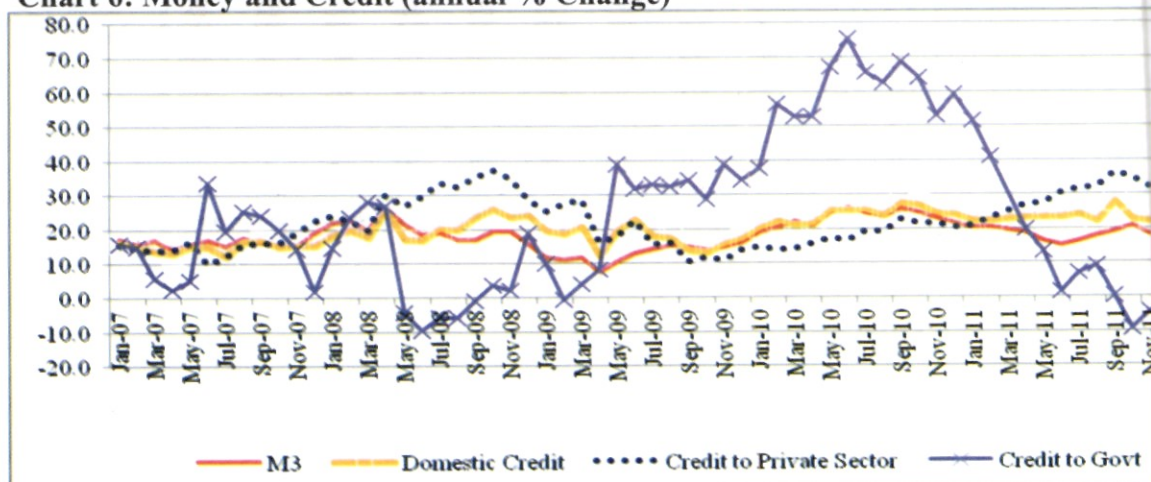


Source: Data from CBK.

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)



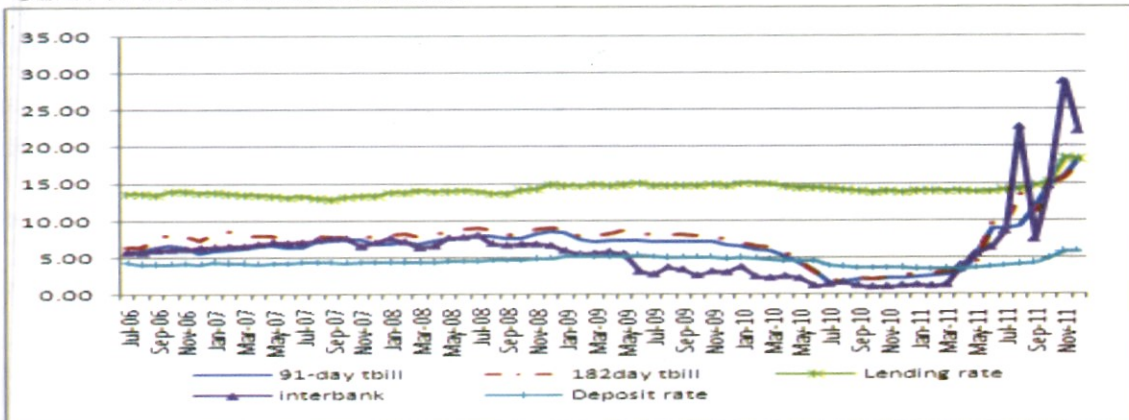
Source: Data from CBK.

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



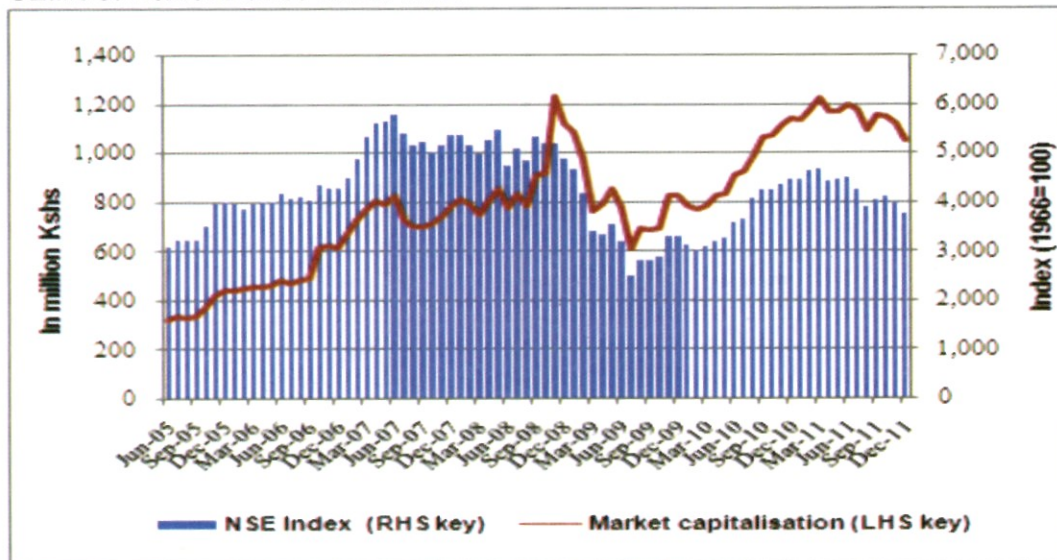
Source: Data from CBK.

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*).

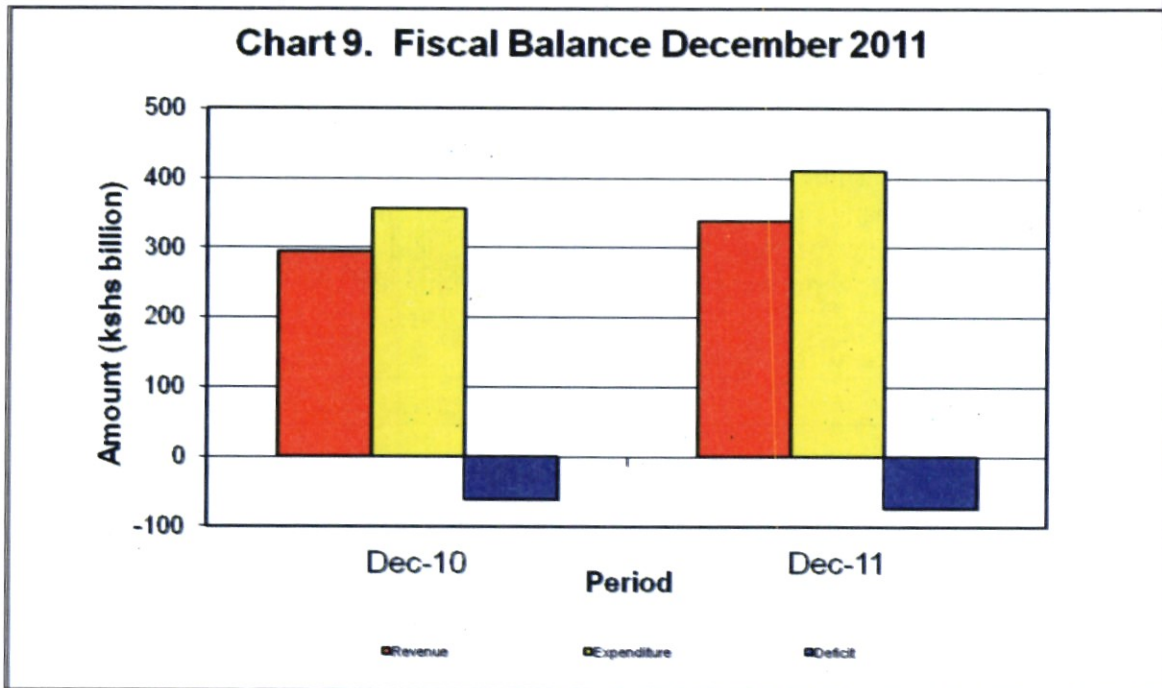


Table 1: Budget Outturn, 2011/2012(KShs. Million)

	2010/11 Quarter II Actual	2011/12 Quarter II		Quarter II Deviation	% growth	2011/12 Quarter II as % of GDP		2010/11 Quarter II Actual % of GDP
		Actual	Targets			Actual	Targets	
A. TOTAL REVENUE AND GRANTS	302,970	345,357	390,082	(44,726)	13.99	10.49	11.85	10.91
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. EXPENDITURE and NET LENDING	356,722	411,351	514,783	(103,432)	15.31	12.49	15.64	12.85
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
C. DEFICIT EXCL.GRANT (Commitment basis)	(61,860)	(73,012)	(141,463)	68,451	18.03	(2.22)	(4.30)	(2.23)
D. DEFICIT INCL.GRANTS (Commitment basis)	(53,752)	(65,994)	(124,700)	58,706	22.78	(2.00)	(3.79)	(1.94)
E. ADJUSTMENT TO CASH BASIS	(13,172)	(12,496)	0	(12,496)	(5.13)	(0.38)	-	(0.47)
F. DEFICIT INCL.GRANTS (Cash basis)	(66,924)	(78,491)	(124,700)	46,210	17.28	(2.38)	(3.79)	(2.41)
G. FINANCING	66,924	78,491	124,700	(46,210)	17.28	2.38	3.79	2.41
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
3. Domestic financing	54,478	62,512	81,520	(19,008)	14.75	1.90	2.48	1.96
MEMO ITEM:								
GDP ESTIMATE	2,775,800.	3,292,400.	3,292,400.					

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 31st December 2011 (KShs. Million)

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

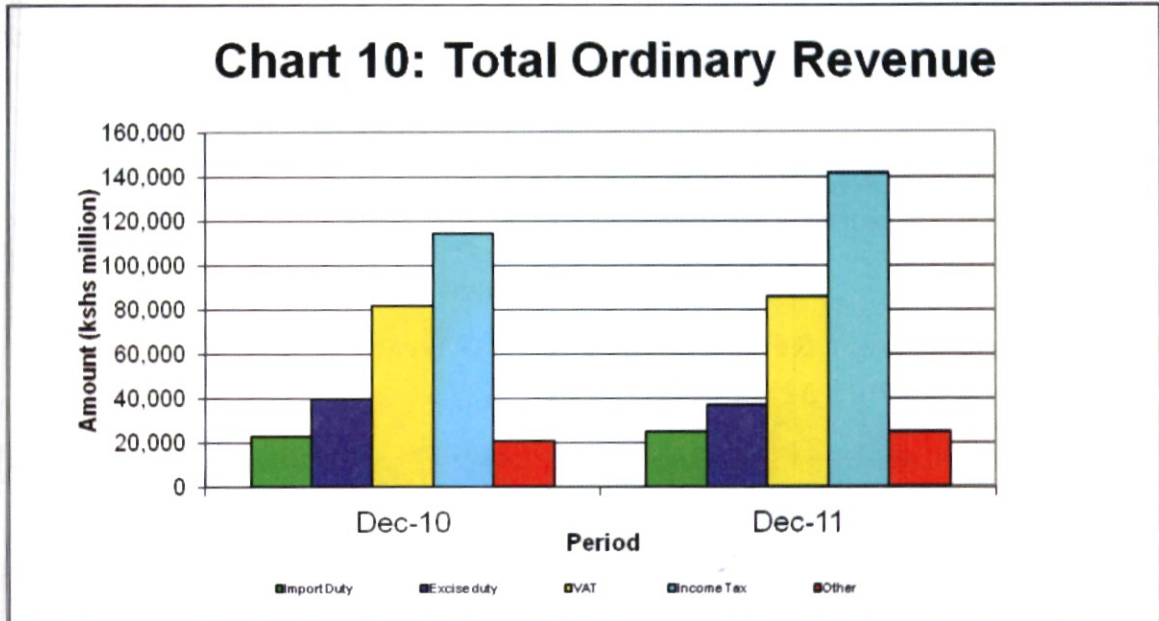
1/ includes land, forest, mining, rent of buildings, trade licenses, fines and forfeitures, other taxes, reimbursements and other fund contributions, and miscellaneous revenue.

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.

Chart 10: Total Ordinary Revenue



2.3 Expenditure

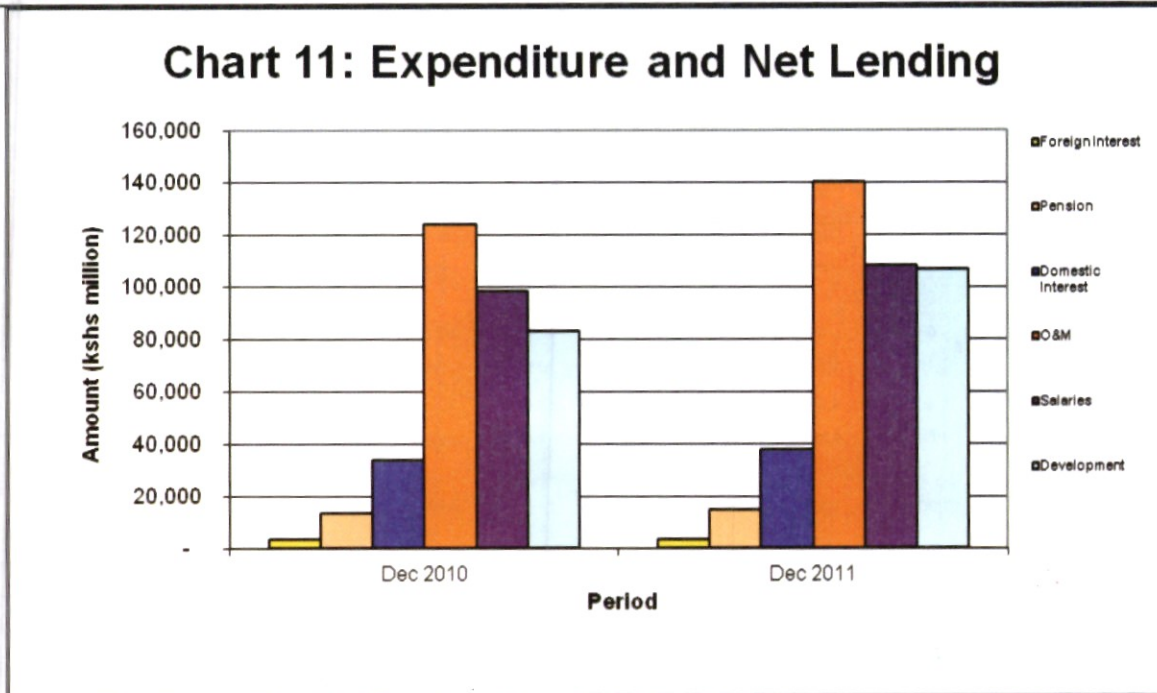
24. Total government expenditure and net lending, for the period under review, was KShs. 411.4 billion, against a target of KShs. 514.8 billion. The shortfall of KShs. 103.4 billion was attributed to lower absorption recorded in both recurrent and development expenditures. In particular, recurrent expenditure 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 31st December 2011 (KShs. Million)

	2010/2011 Quarter II Actual	2011/2012 Quarter II		Deviation
		Actual	Targets	
1. RECURRENT	273,529	304,359	326,387	(22,028)
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)
2. DEVELOPMENT	83,193	106,992	187,396	(80,404)
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	
3. CCF	-	-	1,000	(1,000)
TOTAL EXPENDITURE	356,722	411,351	514,783	(103,432)

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 31st December 2011
(KShs. Million)**

	Ministries/ Departments/ Commissions	Recurrent			Development			Total			% total expenditure to total 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

FISCAL DEVELOPMENTS

	Ministries/ Departments/ Commissions	Recurrent			Development			Total			% total expenditure to total target
		Actual	Target	Variance	Actual	Target	Variance	Actual	Target	Variance	
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
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 Prosecution	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
TOTAL		225,491	251,364	(25,873)	70,707	93,468	(22,761)	296,198	344,832	(48,634)	85.90

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 31ST DECEMBER 2011

Borrower	CUMULATIVE PROJECTIONS QUARTER I AND II			ACTUAL 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
TOTAL (QTR)	590.13	118.38	708.51	227.63	44.25	271.88

* 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 31st December 2011 (KShs. Million)

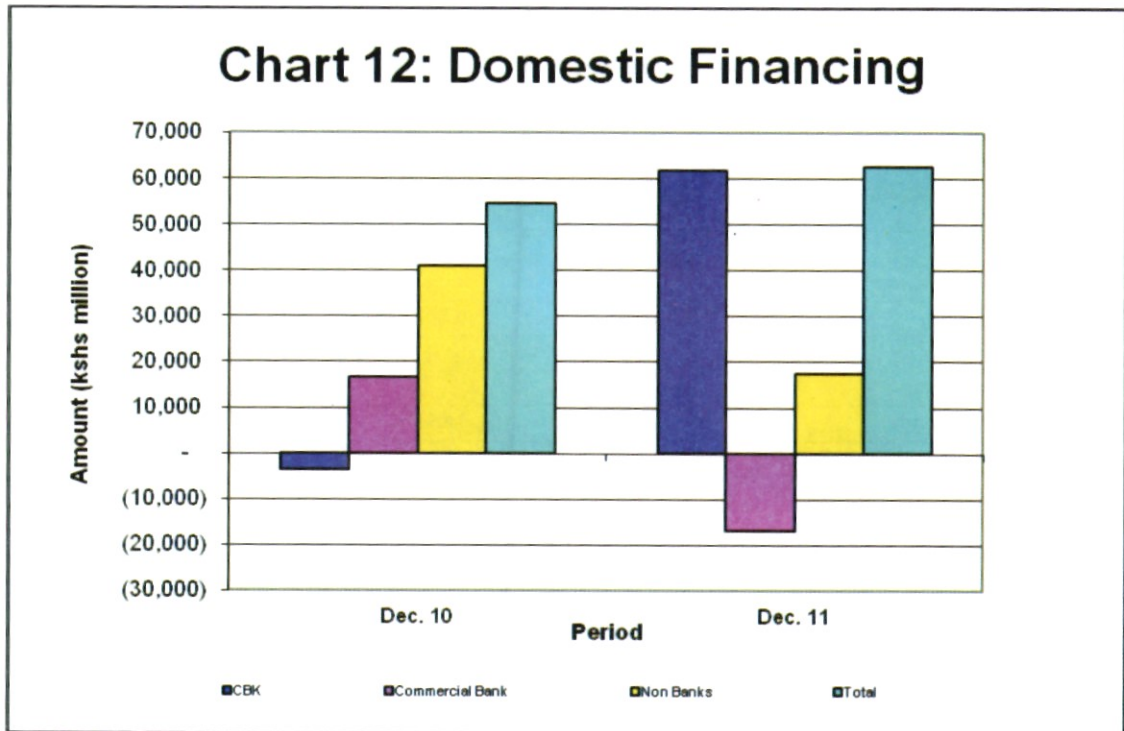
	Quarter II Actual 2010/11	Quarter I Actual 2011/12	Quarter II Actual 2011/12	Cumulative Actual Dec. 2011*	Quarter II Target 2011/12
DISBURSEMENTS:	20,752.01	9,775.66	17,447.10	27,222.75	56,176.19
Project Cash loans	7,016.92	2,469.12	6,018.56	8,487.68	15,182.12
Programme loans	-	-	-	-	-
Project loans A-I-A	13,735.09	7,306.54	11,428.54	18,735.07	40,994.06
				-	
				-	
EXTERNAL REPAYMENTS:	8,306.12	6,828.60	4,415.13	11,243.73	12,995.51
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	-	-	-	-	-
				-	
NET FOREIGN FINANCING	12,445.89	2,947.06	13,031.97	15,979.02	43,180.67

* 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 31st December 2011 (KShs. Million)

	DECEMBER	JUNE	SEPTEMBER	DECEMBER
	2010	2011	2011	2011
1.CENTRAL BANK	(3,448)	(13,998)	34,838	61,870
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
2.COM. BANKS	16,774	22,437	(24,736)	(16,753)
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
3. NON BANKS	40,022	78,513	2,057	16,353
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	0	-
Infrastructure Bonds	14,422	14,422	0	9,807
Savings and Development Bond	0	0	2,475	2,475
NON RESIDENTS	1,129	4,794	131	1,041
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	-
NET CREDIT	54,477	91,745	12,290	62,512

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 31st 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)

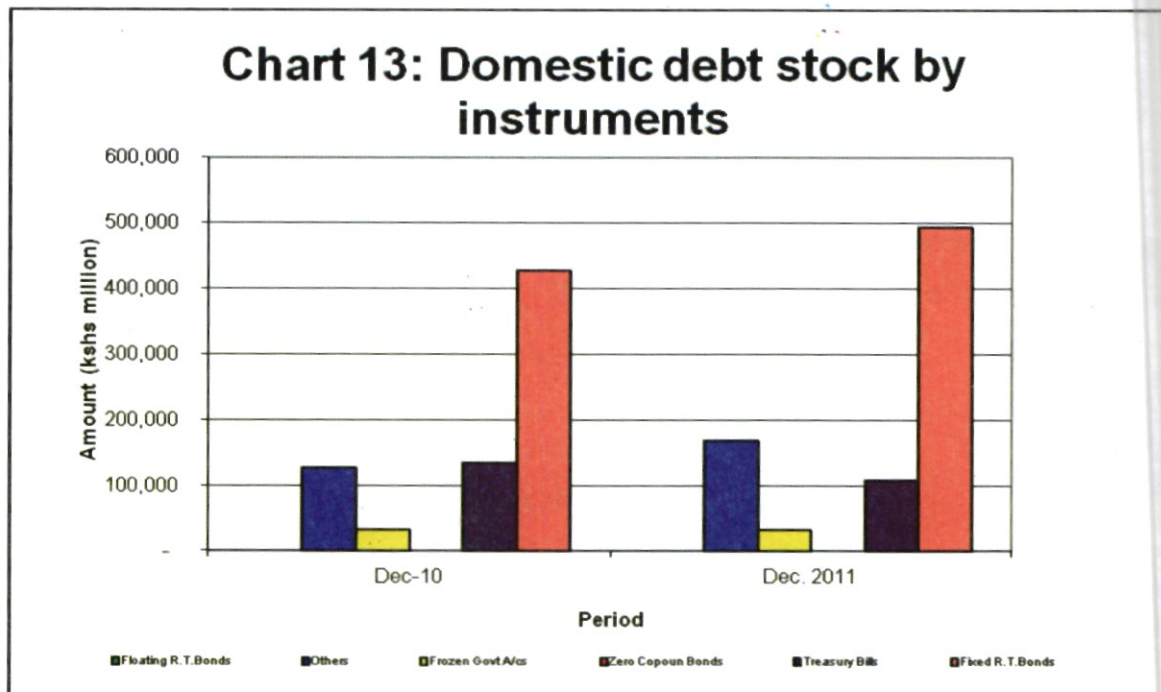
	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11	Sep-11	Dec-2011*
EXTERNAL							
BILATERAL	141,706	153,201	185,933	196,347	256,965	285,991	236,827
MULTILATERAL	240,259	271,134	331,105	352,333	440,882	487,202	426,753
COMMERCIAL BANKS	574	-	-	-	-	-	-
SUPPLIERS CREDIT	18,427	18,543	23,837	20,458	25,041	26,641	22,027
SUB - TOTAL	400,966	442,878	540,875	569,138	722,888	799,834	685,607
DOMESTIC:							
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
TOTAL BANKS	222,984	228,768	290,611	401,794	418,068	413,147	431,156
NON BANKS	181,704	201,844	230,421	258,474	346,155	351,127	369,522
SUB-TOTAL	404,688	430,612	521,032	660,268	764,223	764,275	800,678
GRAND TOTAL GROSS	805,654	873,490	1,061,907	1,229,406	1,487,111	1,564,109	1,486,285
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)
GRAND TOTAL NET	734,266	774,928	945,091	1,103,919	1,347,637	1,453,303	1,369,546

*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).



FISCAL DEVELOPMENTS

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

	Dec-10	Jun-11	Sep-11	Dec-11
1.CENTRAL BANK	54,979	39,692	58,127	68,479
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
2.COM.BANKS	367,291	378,376	355,021	362,676
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
3. NON BANKS	293,895	338,299	343,052	360,454
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
4. NON RESIDENTS	4,163	7,856	8,075	9,068
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
5. TOTAL DEBT	720,328	764,223	764,275	800,678
6. LESS ON-LENDING	5,701	5,701	5,701	5,701
7. Less Govt Deposits	133,429	133,773	105,105	111,038
8. NET DEBT	581,198	624,749	653,469	683,939

* 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

FISCAL DEVELOPMENTS

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)**

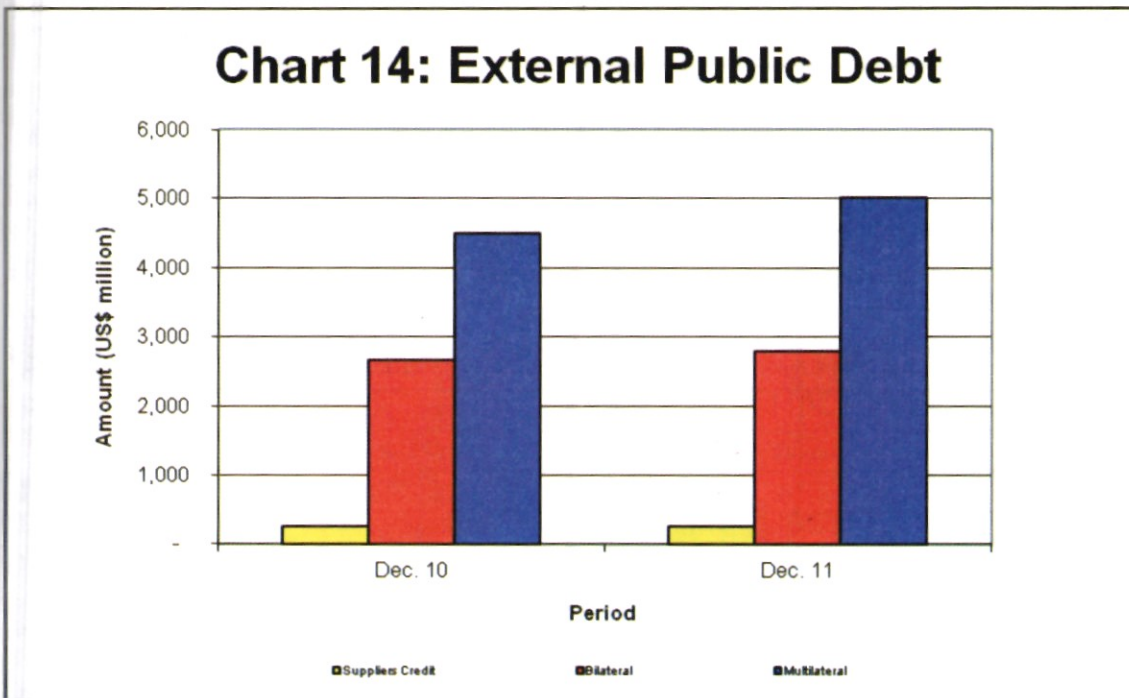
**Table 10: Kenya's External Public and Publicly Guaranteed Debt
June 2007- December 2011 (US \$ Million)**

CREDITOR	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11	Sept-2011	Dec-2011*
<u>BILATERAL</u>							
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
TOTAL BILATERAL	2,071.49	2,368.05	2,409.93	2,397.05	2,859.53	2,864.73	2,784.00
<u>MULTILATERAL</u>							
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
TOTAL MULTILATERAL	3,611.01	4,192.33	4,080.57	4,301.13	4,906.11	4,804.51	5,016.60
COMMERCIAL BANKS 1/	4.30	-	-	-	-	-	-
EXPORT CREDIT	271.02	286.63	308.90	249.74	278.65	266.85	258.90
GRAND TOTAL	5,957.82	6,847.01	6,799.40	6,947.92	8,044.29	7,936.09	8,059.50
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
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00

*Provisional

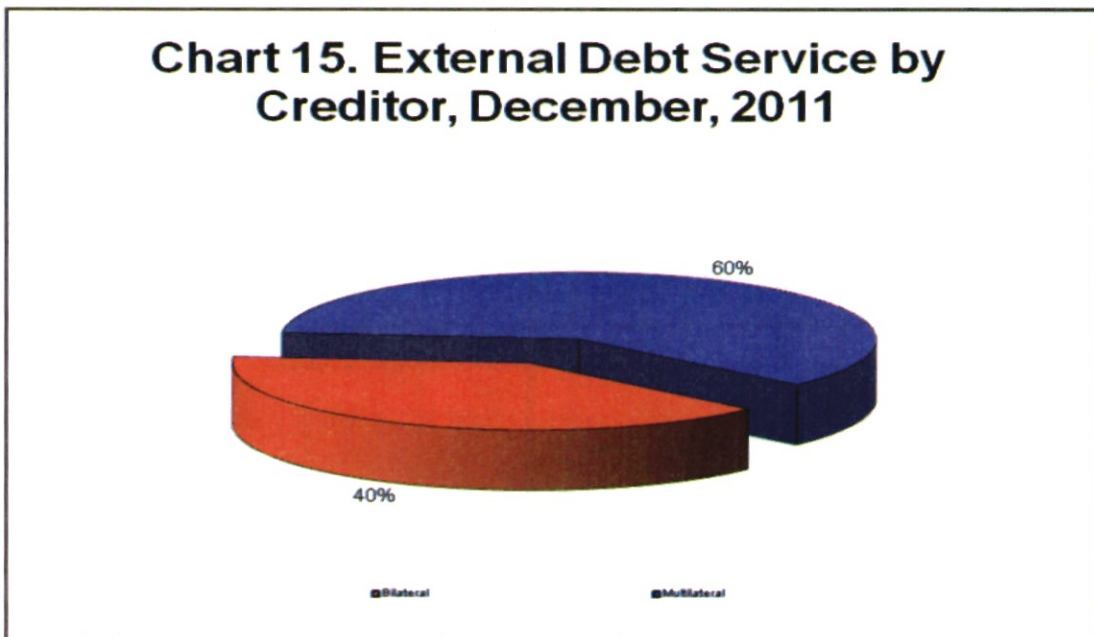
** IMF debt serviced by CBK

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*
BILATERAL			
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	-	-	-
TOTAL BILATERAL	4,629.08	1,528.78	6,157.86
MULTILATERAL			
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
TOTAL MULTILATERAL	7,394.15	2,024.75	9,418.90
GRAND TOTAL	12,023.23	3,553.53	15,576.76

*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 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 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 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 MARKETING	158,075,300	4,195,874	-	4,195,874
MINISTRY OF STATE FOR PROVINCIAL ADMINISTRATION & INTERNAL SECURITY	50,591,112	13,195,394	-	13,195,394
MINISTRY OF STATE FOR SPECIAL PROGRAMMES	3,652,827,084	1,206,633,974	-	1,206,633,974
MINISTRY OF PUBLIC HEALTH AND SANITATION	2,188,895,816	1,598,544,348	866,139,888	2,464,684,236
ENVIRONMENT & NATURAL RESOURCES	16,723,042	2,792,679	-	2,792,679
GRAND TOTAL	52,733,274,996	24,816,661,585	1,387,336,028	26,203,997,613

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 2011/12	PAYMENTS	COMITMENTS	PAY+COMIT
MINISTRY OF STATE FOR PROVINCIAL ADMINISTRATION & INTERNAL 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 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 DEVELOPMENT	1,192,109,812	175,749,124	-	175,749,124
OFFICE OF THE DEPUTY PRIME MINISTER AND MINISTRY OF LOCAL GOVERNMENT	6,375,140,000	830,971,024	-	830,971,024
MINISTRY OF STATE FOR SPECIAL PROGRAMMES	4,609,709,980	1,229,878,800	-	1,229,878,800
MINISTRY OF PUBLIC HEALTH AND 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
GRAND TOTAL	50,513,822,432	7,206,272,605	1,707,585,002	8,913,857,607

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

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11*	2011/12**
A.TOTAL REVENUE	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.EXPENDITURE & NET LENDING	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 Expenditures/CCF	2,000	1,048	1,481	-	-	-	-	8,200
D.DEFICIT EXCL. GRANTS (Commitment Basis)	(13,571)	(71,567)	(46,540)	(102,622)	(107,826)	(138,824)	(144,310)	(279,500)
E.GRANTS	14,905	20,070	15,494	25,449	18,065	31,190	18,769	18,800
F.DEFICIT INCL.GRANTS (Commitment basis)	1,334	(51,497)	(30,697)	(77,173)	(89,761)	(107,634)	(125,541)	(260,700)
G. ADJUSTMENT TO CASH BASIS	5,964	15,030	(5,571)	84,738	(27,259)	(66,740)	6,768	24,500
H.DEFICIT INCL.GRANTS (cash basis)	7,298	(36,467)	(36,269)	7,566	(117,020)	(174,374)	(118,773)	(236,200)
I.FINANCING	(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								
A.TOTAL REVENUE	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.EXPENDITURE & NET LENDING	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
D.DEFICIT EXCL. GRANTS (Commitment Basis)	(1.01)	(4.71)	(2.70)	(5.23)	(4.82)	(5.65)	(5.20)	(8.49)
E.GRANTS	1.11	1.32	0.90	1.30	0.81	1.27	0.68	0.57
F.DEFICIT INCL.GRANTS (Commitment basis)	0.10	(3.39)	(1.78)	(3.93)	(4.01)	(4.38)	(4.52)	(7.92)
G.ADJUSTMENT TO CASH BASIS	0.44	0.99	(0.32)	4.32	(1.22)	(2.72)	0.24	0.74
H.DEFICIT INCL.GRANTS (cash basis)	0.54	(2.40)	(2.10)	0.39	(5.23)	(7.09)	(4.28)	(7.17)
I.FINANCING	(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	-	-
Memorandum Item:								
Nominal GDP at Mkt price (Kshs. mn)	1,345,026	1,519,079	1,724,197	1,962,879	2,238,000	2,458,000	2,775,800	3,292,400

Note: * indicate Preliminary results and ** Adjusted Budget after Corrigendum
Source: Ministry of Finance

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	177,000,000
40	Chepkoiel 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	Lalikipia 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 Corporation	-	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	1,828,741,000	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 Kenya Industrial & Research Development Institute	92,900,000	128,497,000	120,000,000
72		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 Accreditation 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 Kenya Institute for Public Policy Research & Analysis	-	-	563,500,000
95		84,000,000	116,000,000	175,000,000
96	Kenya National Bureau of statistics National Coordinating Agency for Population & Dev't	1,591,000,000	7,745,000,000	841,000,000
97		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

ANNEX II

	STATE CORPORATION	2008-2009	2009-2010	2010-2011
104	Kenya National highways authority	-	285 754,000	150,000 000
106	Kenya rural roads authority	-	-	15 471,000,000
107	Kenya Urban roads Board	30,000,000	845,042,000	1,061,012,000
108	National Aids Control Council	485,395 000	499 000,000	525 000,000
109	National 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 Authority	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	281 514,000
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

REMARKS BY PERMANENT SECRETARY, MINISTRY OF FINANCE, AT THE AFRICA BOND MARKETS CONFERENCE ON 7TH 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.

