



REPUBLIC OF KENYA



THE NATIONAL TREASURY
(MINISTRY OF FINANCE)

Quarterly Economic and Budgetary Review

Third Quarter
2012/2013

May 2013 Edition

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Quarterly Economic and Budgetary Review

Third Quarter
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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
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
NCC	Nairobi City Council
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

Legal Basis for the Publication of the Quarterly Economic and Budgetary Review Report

The Economic and Budgetary Review Report is Published in accordance with Section 83 of the Public Financial Management Act, 2012. The law states that:

Accounting officer to prepare quarterly reports for national government entity.

83. (1) An accounting officer for a national government entity shall prepare a report for each quarter of the financial year in respect of the entity.

(2) In preparing a quarterly report for a national government entity, the accounting officer shall ensure that the report—

(a) contains information on the financial and non-financial performance of the entity; and

(b) is in a form that complies with the standards prescribed and published by the Accounting Standards Board from time to time.

(3) Not later than fifteen days after the end of each quarter, the accounting officer shall submit the quarterly report to the Cabinet Secretary responsible for the entity and the National Treasury.

(4) The Cabinet Secretary responsible for an entity shall forward a copy of the report to the Cabinet Secretary and Controller of Budget.

(5) Not later than forty five days after the end of each quarter, the National Treasury shall—

(a) consolidate the quarterly reports and submit them to the National Assembly and a copy of the reports to the Controller of Budget, Auditor-General and the Commission on Revenue Allocation; and

(b) publish and publicise the reports.

(6) In the case of an entity that is a state corporation, the accounting officer for the corporation shall submit the quarterly report to the Cabinet Secretary responsible for the corporation who shall, upon approving it, forward a copy to the Cabinet Secretary.

HIGHLIGHTS OF THE THIRD QUARTER ECONOMIC AND BUDGETARY REVIEW: 2012/2013

1. **Recent Economic Developments**

Kenya's economy expanded by 4.7 per cent in the third quarter of 2012, compared to 4.0 per cent growth recorded in the same quarter of 2011. The expansion was more robust in comparison to the preceding quarters of 2012, primarily due to strong performances of the Agriculture and Forestry, Fishing, Manufacturing, Transport and Communication and a turnaround in the performance of the Electricity industry.

2. **The Overall Fiscal Balance**

The cumulative overall fiscal balance, on a commitment basis (excluding grants), amounted to a deficit of KShs. 228.8 billion (equivalent to 6.1 percent of GDP), as at end-March 2013, compared with a deficit of KShs. 141.9 billion (equivalent to 4.3 percent of GDP) in a similar period in FY 2011/12.

3. **Total Revenue Collection**

The central government cumulative revenue collection including A-I-A as at end of March 2013 amounted to KShs. 564.0 billion (equivalent to 14.9 percent of GDP) against a target of KShs. 662.3 billion or 17.5 percent of GDP. This represented an underperformance of KShs. 98.2 billion.

4. **Government Expenditure and Net Lending**

The central government cumulative expenditure and net lending for the period ending 31st March 2013 amounted to KShs. 792.9 billion. This was KShs. 147.1 billion below the target of KShs. 940.0 billion and was largely attributed to low absorption in operations and maintenance, low uptake in pension's payments, as well as slow utilization of domestically and foreign financed development expenditures.

5. **Guaranteed Loans**

At the end of the third quarter of FY 2012/13, the central government paid a total of KShs. 890.1 million on guaranteed loan repayments against the projected debt service on guaranteed loans of KShs. 892.5 million. The difference was mainly due to exchange rate effects.

6. **External Financing**

External financing amounted to a net borrowing of KShs. 33.8 billion compared to a net borrowing of KShs. 27.3 billion in a similar period in FY 2011/12.

7. Net Domestic Borrowing

Net domestic financing amounted to KShs. 165.5 billion (equivalent to 4.4 percent of GDP) in the FY 2012/13, compared to the programme target of KShs. 111.2 billion (equivalent to 3.0 percent of GDP).

8. Domestic Debt

Total gross domestic debt stock increased by 14.3 percent from KShs. 858.8 billion as at end-June 2012 to KShs. 982.0 billion by the end of March 2013.

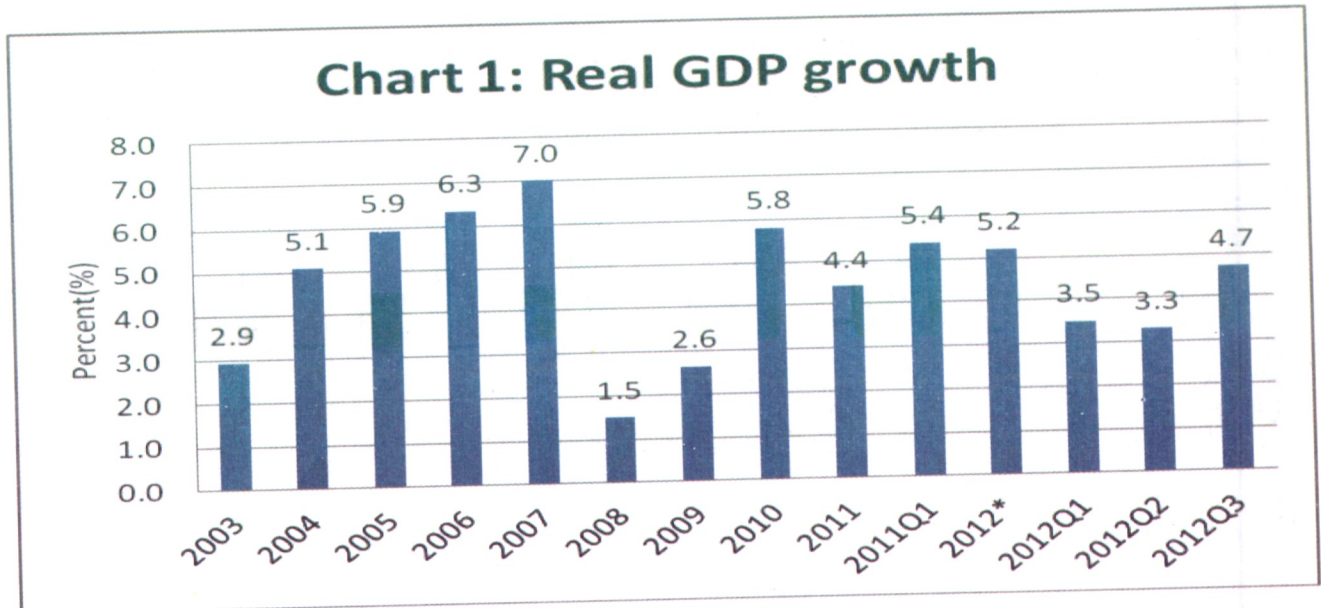
9. External Debt

The total external debt stock stood at KShs. 818.8 billion at the period ending March 2013. The debt stock comprised of multilateral debt (59.9%), bilateral debt (31.2%), Export Credit debt (1.8%) and Commercial banks (7.1%).

1.0 RECENT ECONOMIC DEVELOPMENTS

1.1 Economic Growth

1. Kenya's economy expanded by 4.7 per cent in the third quarter of 2012 compared 4.0 per cent growth recorded in the same quarter of 2011. The expansion was more robust in comparison to the preceding quarters of 2012, primarily due to strong performances of the Agriculture and Forestry, Fishing, Manufacturing, Transport and Communication and a turnaround in the performance of the Electricity industry.



Source: Data from KNBS.
*BPS estimate for 2012

2. Agricultural and Forestry sector recorded an improved performance of 6.9 percent compared to a paltry growth of 0.2 in the same quarter of 2011. The remarkable growth was largely supported by improved and well spread rains during the second and third quarters of the year. Negative effect of the maize disease, mainly experienced in parts of the South Rift, were more than offset by the good rains in most parts of the country. Consequently, production of key crops including maize, beans, sugar cane and fruits increased significantly.
3. Manufacturing sector grew by 4.8 per cent in the third quarter compared to a growth of 2.3 per cent during the same quarter of 2011. The growth in the sector was largely supported by strong expansion in the manufacture of foods mainly buoyed by a rebound in processing of sugar which expanded by 48.7 per cent during the third quarter of 2012, compared to a contraction of 38.2 per cent in a similar quarter of 2011. Other food products whose processing increased significantly include beer, wheat flour and maize meal, which grew by 17.1, 16.3 and 9.3 per cent, respectively. However, soft drinks and dairy products declined considerably by 10.9 and 10.4 per cent, respectively. Manufacture of motor vehicles tyres, laundry and toilet soaps recorded the highest growths in the non-food category over the same period.

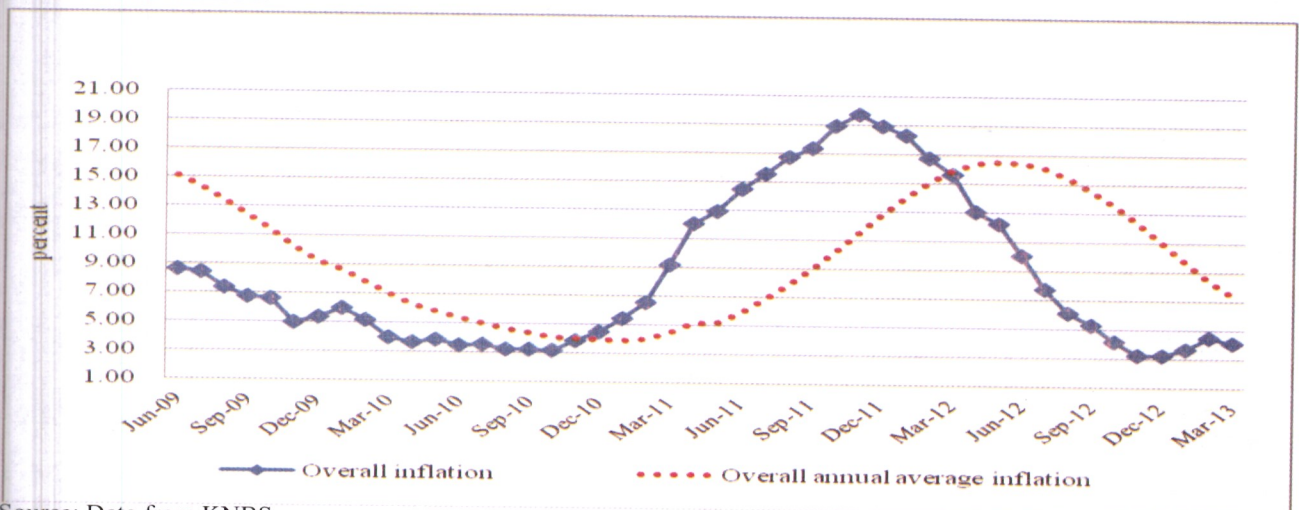
RECENT ECONOMIC DEVELOPMENTS

4. Electricity and water supply recorded 13.7 per cent growth in the third quarter of 2012 compared to a contraction of 11.1 per cent over a similar period in 2011. The turnaround was primarily due to high level of rainfall experienced in the water catchment regions for electricity generation. Hydro electricity generation expanded by 39.0 per cent during the third quarter 2012 compared to the corresponding quarter of 2011. However, generation of power through geo-thermal and thermal declined by 2.3 and 25.2 per cent, respectively. Electricity production increased to 511.3 million KWh during this period compared to 489.9million KWh in the same period of 2011.
5. Hotel and Restaurant sector slowed to 1.1 per cent in the third quarter of 2012 from 2.1 per cent in the same quarter of 2011. This slowdown was primarily on account of terrorism threats posed by political instability in Somalia and a decline in the economic fortunes of major tourist sources like the USA and European countries. As a consequence, tourist arrivals through Jomo Kenyatta and Moi international airports declined from 383,110 visitors in the third quarter of 2011 to 342,135 visitors during the third quarter of 2012.
6. The Construction industry expanded by 0.6 per cent during the third quarter of 2012 compared to a growth of 3.6 per cent in a similar period of 2011. The considerable slowdown in the activities of this sector was mirrored in the production and consumption of cement whose growth slowed to 0.6 per cent and 1.5 per cent during the third quarter compared to expansions of 8.9 and 7.7 per cent, respectively over a similar period in 2011. The slowdown in the activities of the construction sector is attributable to the prevailing high interest rates experienced during the period.

1.2 Inflation

7. Inflation eased to 4.11 percent in March 2013 from 4.45 in February, down by 34 basis, largely in food and non alcohol beverages (Chart 2). Favorable weather condition with adequate rainfall resulted in increased food supplies and use of hydro generated electricity.

Chart 2: Inflation



Source: Data from KNBS

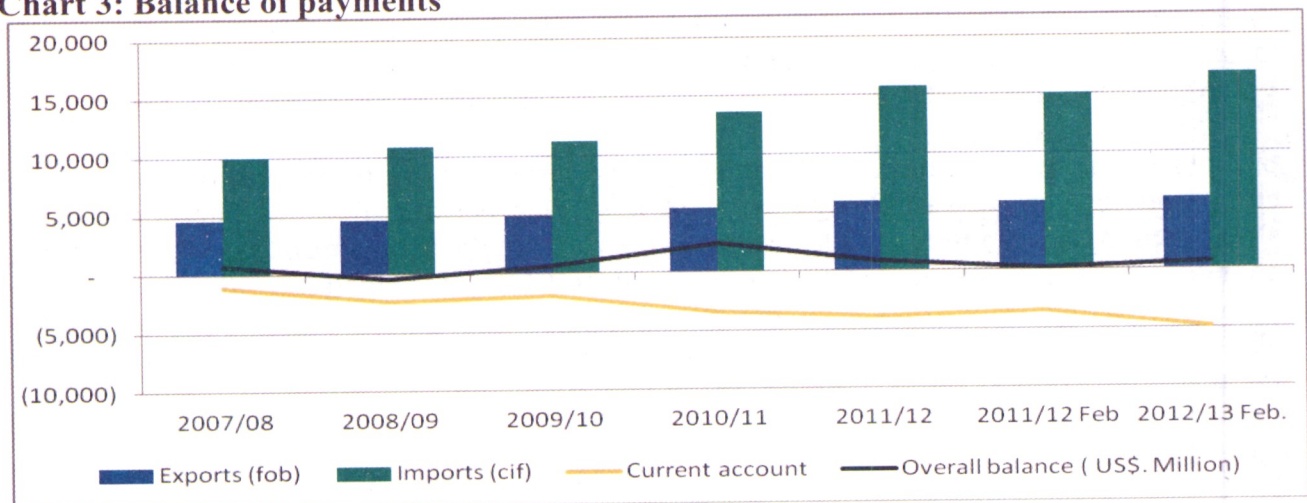
8. The tight monetary policy adopted by the Central Bank of Kenya since November 2011 also contributed to the easing of the inflation. The inflation is therefore, expected to remain within the 5 percent target.

1.3 Balance of Payments

9. The current account deficit widened by 39.0 percent to US\$ 4,862 million in the year to February 2013 from US\$ 3,503 million in the year to February 2012. This reflected 15.0 percent deterioration in the merchandise account deficit. However, there was a marginal improvement in the services account of 1.0 percent (Table 1a).

10. Kenya's overall Balance of Payments position improved from a surplus of US\$ 129 million in the year to February 2011 to US\$ 613 million in the year to February 2013. The improvement in the balance of payments was attributed to performance of the capital and financial account, which more than offset the deterioration in the current account (Chart 3).

Chart 3: Balance of payments



Source: CBK

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

(US\$.Million)	2007/08	2008/09	2009/10	2010/11	2011/12	2011/12	2012/13	%
	Act.	act	Prov.	Act.	Prov	Feb	Feb	Change
Current account	-1,073	-2,296	-1,920	-3,380	-3,893	-3,503	-4,862	39
Trade balance	-5,428	-6,281	-6,351	-8,118	-9,812	-9,140	-10,539	15
<i>Exports (fob)</i>	4,648	4,642	4,932	5,541	5,933	5,906	6,183	5
Coffee	169	179	194	213	263	225	257	14
Tea	755	877	1,127	1,108	1,138	1,186	1,227	3
Horticulture	739	668	715	732	648	659	719	9
Man. goods	571	570	570	670	744	739	693	-6
Raw materials	320	247	219	264	428	416	378	-9
Re-exports	213	281	317	313	365	319	490	54
Other	1,736	1,732	869	1,129	1,132	1,140	1,231	8
<i>Imports (cif)</i>	10,076	10,923	11,283	13,659	15,745	15,046	16,722	11
Oil	2,448	2,556	2,636	3,299	4,192	4,062	4,139	2
Chemicals	1,318	1,384	1,427	1,847	1,979	1,971	2,084	6
Man. goods	1,505	1,477	1,625	2,021	2,315	2,286	2,436	7
Machinery & trans. eqpt	2,762	3,151	3,212	3,942	4,049	3,748	5,005	34
Other	1,965	2,234	2,283	2,388	2,903	2,709	2,870	6
<i>Services</i>	4,355	3,985	4,431	4,738	5,919	5,637	5,677	1
Capital & financial	1,756	1,874	2,512	3,641	4,734	3,633	5,474	51
Overall balance	683	(422)	592	2,431	841	129	613	374
<i>Official reserves</i>	3,445	3,219	3,799	4,142	5,283	4,435	5,290	19
<i>Months of import</i>	3.7	3.3	3.7	3.4	3.7	3.8	3.9	3

Source: Data from CBK.

1.4 Foreign Exchange Reserves

11. The banking system’s total foreign exchange holdings increased from US\$ 6,216 million in February 2012 to US\$ 7,080 million in February 2013. Gross official foreign exchange reserves held by the Central Bank were US\$ 5,290 million (equivalent to 3.9 months of import cover) as at end of February, 2013 (chart 4).

Chart 4: Official International Foreign Reserves

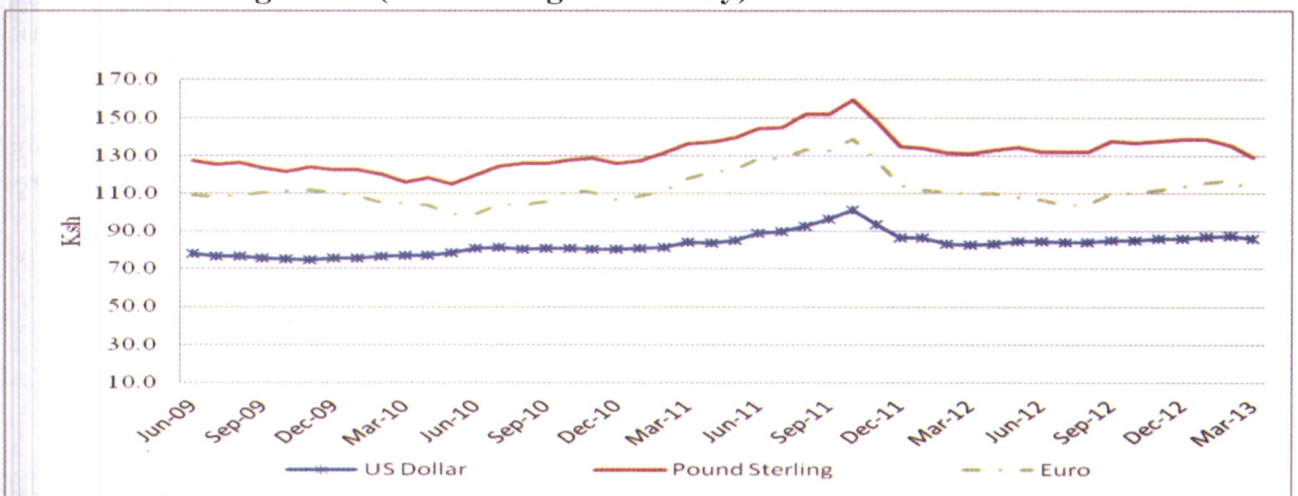


Source: Data from CBK.

1.5 Exchange Rates

12. The Kenya Shilling appreciated against major world currencies in March 2013 as compared to February 2013. The shilling appreciated by 1.6 percent to trade at an average Ksh 85.78 against the US dollar, 6.1 percent against the Sterling pound to trade at an average of Ksh 129.4 and appreciated by 5.6 percent against the Euro to trade at an average of Ksh 111.3. In the EAC region, the Kenya Shilling depreciated against the Uganda shilling and the Tanzania shilling by 0.3 percent and 0.4 percent respectively in March 2013. (Chart 5).

Chart 5: Exchange Rate (KSh/Foreign Currency)

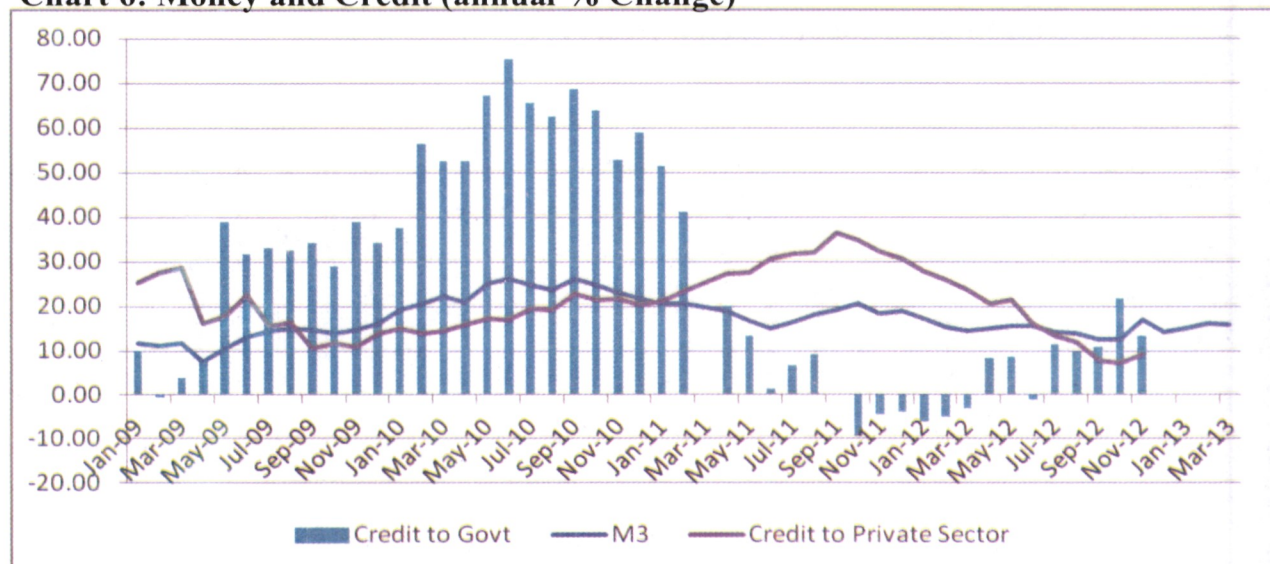


Source: Data from CBK.

1.6 Money and Credit

13. Growth in broad money supply, M3, accelerated to 15.7 percent in the year to March 2013 from 14.5 percent in the year in March 2012, but was below the target for March 2013. (Chart 6).

Chart 6: Money and Credit (annual % Change)



Source: Data from CBK.

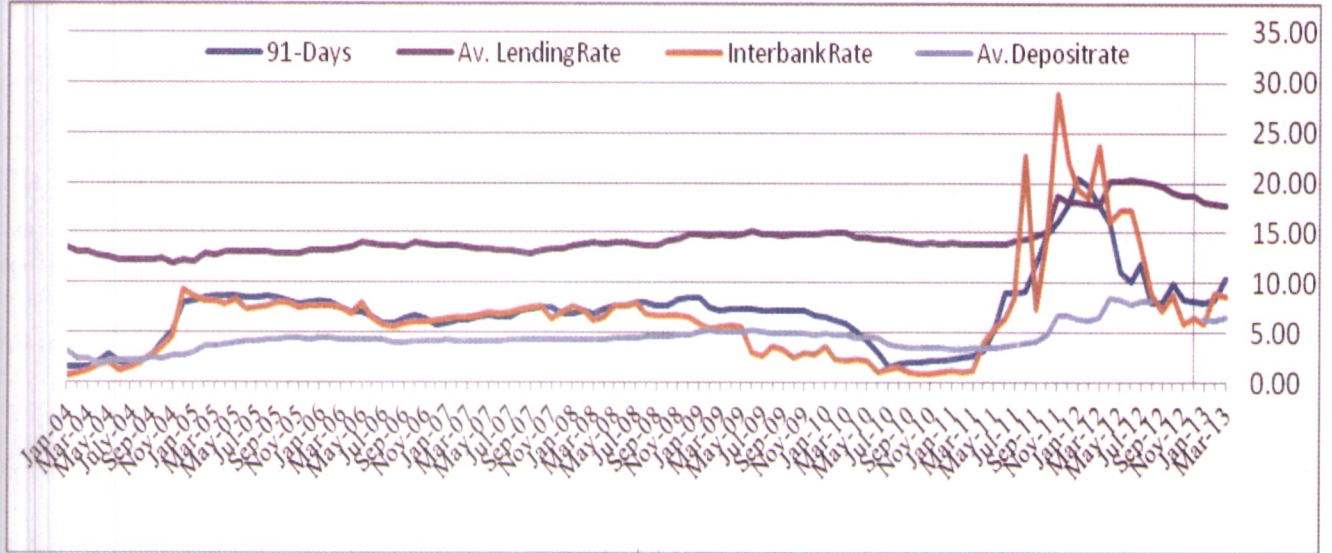
1.7 Interest Rates

14. The weighted average interbank rate increased to 9.04 percent in February 2013 from 5.89 percent in January 2013, but declined to 8.76 per cent towards end of March 2013. The repo rate increased to 9.16 percent in February 2013 from 6.47 percent in January 2013, but increased to 9.41 per cent during the week ending March 2013. In addition, the 91-day Treasury bill rate increased to 8.38 percent in February 2013 from 8.04 percent in January 2013, but later increased to 10.47 in March 2013. (Chart 7)

15. Commercial banks average lending rates declined marginally by 0.11 basis points to 17.73 percent in March 2013 from 17.84 percent in February 2013, while the average deposit rate increased to 6.54 percent in March 2013 from 6.29 percent in February 2013.

16. Recent downwards adjustment of the CBK policy rate from 11 percent in November 2012 and further to 9.5 percent in January 2013 has led to reduction in short term interest rates.

Chart 7: Trends in Interest Rates



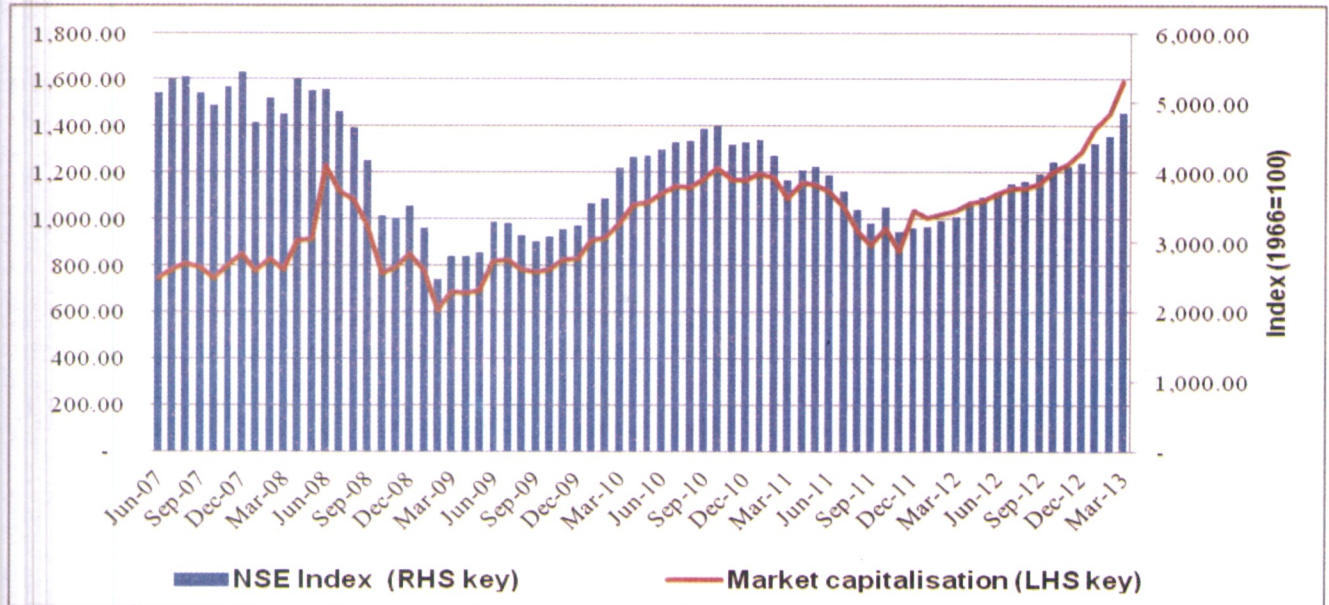
Source: Data from CBK.

1.8 Capital Markets

17. The Capital market recorded a mixed performance with some gains in the equities segments and a weak performance in the bonds markets. All key equities indices gained as well as market capitalization, maintaining an upward rally. Equity turnover fell due to reduced share prices. The NSE share index (NSE 20) improved marginally from 4,518.59 points in February 2013 to 4,860.83 points in March 2013. (**Chart 8**).

18. Bond trading activity declined to Ksh 4,797.8 million for the period ending March, 2013 from KSh 7,245.1 million as at end February, 2013

Chart 8: Performance at the NSE

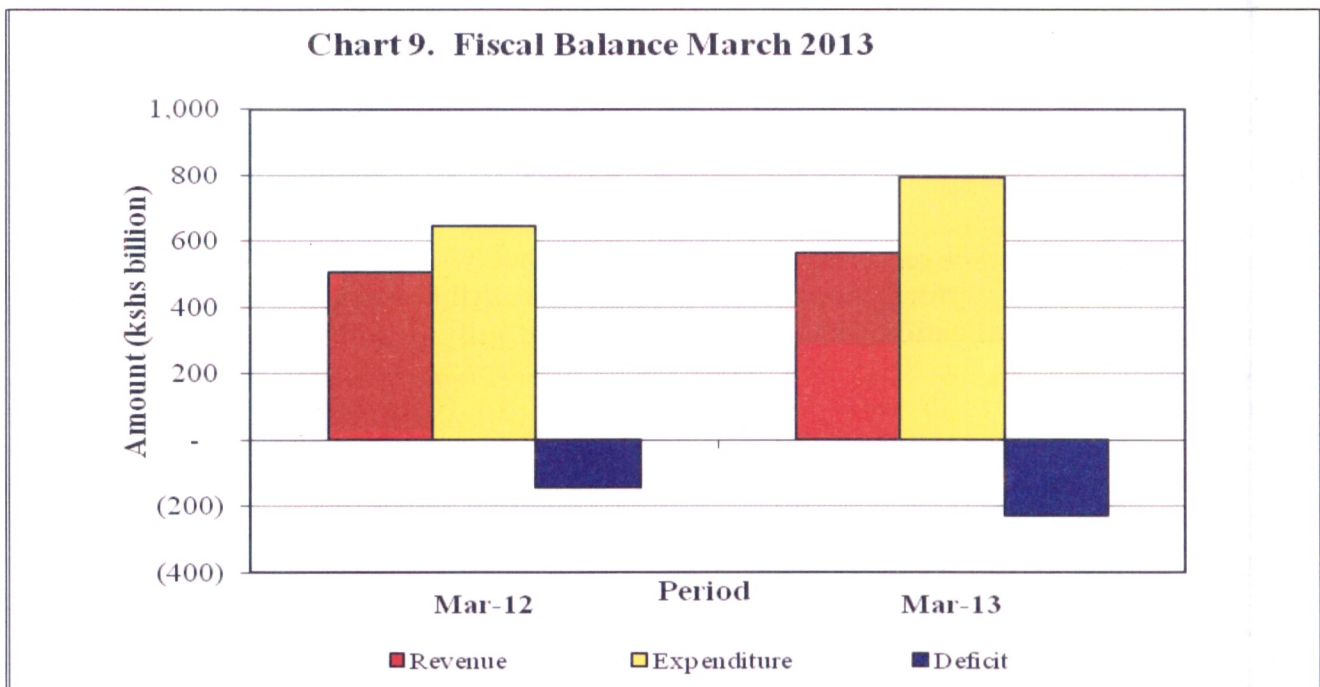


Source: Data from NSE.

2.0 FISCAL DEVELOPMENTS

2.1 Fiscal Outturn

19. As at end of third quarter of FY 2012/13, cumulative overall fiscal balance (on a commitment basis and excluding grants), amounted to KShs. 228.8 billion (equivalent to 6.1 percent of Gross Domestic Product (GDP)) against a targeted deficit of KShs. 277.7 billion (equivalent to 7.4 percent of GDP). Over the same period in the FY 2011/12, the fiscal deficit stood at KShs. 141.9 billion (equivalent to 4.3 percent of GDP). Including grants, the fiscal balance (on a commitment basis) recorded a deficit of 5.7 percent of GDP against a targeted deficit of 6.2 percent of GDP (*Chart 9 and Table 1*).



Source: Ministry of Finance

**Table 1: Budget Outturn, Cumulative Ending 31st
March 2013 (KShs. Million)**

	2011/2012 Actual	2012/2013		Deviation	% growth	2012/2013 as a % of GDP		2011/2012 Actual as a % of GDP
		Actual	Targets			Actual	Targets	
A. TOTAL REVENUE AND GRANTS	515,741	576,143	705,925	(129,782)	11.71	15.26	18.70	15.72
1. Revenue	504,783	564,024	662,271	(98,247)	11.74	14.94	17.54	15.38
Ordinary Revenue	465,170	531,592	610,422	(78,829)	14.28	14.08	16.17	14.18
Import Duty	36,587	42,459	50,047	(7,588)	16.05	1.12	1.33	1.12
Excise Duty	57,999	63,088	66,510	(3,422)	8.77	1.67	1.76	1.77
Income tax	203,053	243,592	259,784	(16,192)	19.96	6.45	6.88	6.19
VAT	128,633	134,455	169,683	(35,227)	4.53	3.56	4.49	3.92
Investment Revenue	5,522	4,543	8,914	(4,371)	(17.74)	0.12	0.24	0.17
Others	33,375	43,455	55,484	(12,029)	30.20	1.15	1.47	1.02
Appropriation-in-Aid	39,613	32,432	51,849	(19,418)	(18.13)	0.86	1.37	1.21
2. Grants	10,958	12,120	43,655	(31,535)	10.60	0.32	1.16	0.33
Programme Grants			0	0	-	0.00	-	0.00
Cash	5,284	6,397	11,753	(5,356)	21.06	0.17	0.31	0.16
Appropriation-in-Aid	5,674	5,722	31,902	(26,179)	0.85	0.15	0.84	0.17
B. EXPENDITURE and NET LENDING	646,664	792,862	939,953	(147,091)	22.61	21.00	24.90	19.71
1. Recurrent	455,911	572,670	588,567	(15,897)	25.61	15.17	15.59	13.89
Domestic Interest	56,092	78,929	69,225	9,704	40.71	2.09	1.83	1.71
Foreign Interest Due	5,099	8,732	8,732	0	71.24	0.23	0.23	0.16
Pension	19,645	17,438	31,756	(14,318)	(11.24)	0.46	0.84	0.60
Wages and Salaries	164,246	202,225	196,050	6,175	23.12	5.36	5.19	5.01
O & M/Others	210,829	265,346	282,804	(17,458)	25.86	7.03	7.49	6.43
2. Development and Net Lending	190,752	220,192	347,636	(127,444)	15.43	5.83	9.21	5.81
3. CCF	0	0	3,750	(3,750)	-	0.00	0.10	0.00
C. DEFICIT EXCL.GRANT (Commitment basis)	(141,881)	(228,838)	(277,682)	48,844	61.29	(6.06)	(7.36)	(4.32)
D. DEFICIT INCL.GRANTS (Commitment basis)	(130,922)	(216,719)	(234,028)	17,309	65.53	(5.74)	(6.20)	(3.99)
E. ADJUSTMENT TO CASH BASIS	(3,366)	17,396	1,318	16,078	(616.80)	0.46	0.03	(0.10)
F. DEFICIT INCL.GRANTS (Cash basis)	(134,288)	(199,323)	(232,710)	33,387	48.43	(5.28)	(6.16)	(4.09)
G. FINANCING	134,288	199,323	232,710	(33,387)	48.43	5.28	6.16	4.09
1. Foreign financing	27,315	33,797	121,489	(87,692)	23.73	0.90	3.22	0.83
Disbursements	46,131	51,296	142,436	(91,139)	11.20	1.36	3.77	1.41
World Bank Counterpart Refinancing	0	0	0	0	-	0.00	-	0.00
Project Cash Loans	13,258	13,906	30,086	(16,180)	4.89	0.37	0.80	0.40
Loans AIA	32,873	37,390	112,350	(74,959)	13.74	0.99	2.98	1.00
Repayment due (current)	(20,134)	(20,947)	(20,947)	0	4.04	(0.55)	(0.55)	(0.61)
Change in arrears (current)	1,318	3,447	0	3,447	161.53	0.09	-	0.04
Repayment (arrears)	0	0	0	0	-	0.00	-	0.00
2. Privatization proceeds	0	0	0	0	-	0.00	-	0.00
3. Domestic financing	106,973	165,526	111,221	54,305	54.74	4.38	2.95	3.26
MEMO ITEM								
GDP ESTIMATE	3,281,200.0	3,775,400.0	3,775,400.0					

*Provisional

Source: Ministry of Finance

2.2 Revenue

20. By the end of March 2013, total cumulative revenue collection including A-I-A, was below the target by KShs. 98.2 billion. Ordinary revenue collection amounted to KShs. 531.6 billion against a target of KShs. 610.4 billion, resulting in an under performance of KShs. 78.8 billion. Cumulative ministerial A-I-A recorded an under performance of KShs. 19.4 billion for the period under review. The A-I-A, especially from the universities had not been captured in the ministry's expenditure return for the period under review (*Table 2 and Chart 10*).

**Table 2: Government Revenue and External Grants, Third Quarter
Ending 31st March, 2013
(KShs. Million)**

	2011/2012 Actual	2012/13		Deviation
		Actual	Target	
Total Revenue	504,783	564,024	662,271	(98,247)
(a) Ordinary Revenue	465,170	531,592	610,422	(78,829)
Import Duty	36,587	42,459	50,047	(7,588)
Excise Duty	57,999	63,088	66,510	(3,422)
PAYE	116,299	141,069	149,753	(8,684)
Other Income Tax	86,753	102,523	110,032	(7,508)
VAT Local	59,787	65,645	82,201	(16,556)
VAT Imports	68,846	68,810	87,482	(18,672)
Investment Revenue	5,522	4,543	8,914	(4,371)
Traffic Revenue	1,677	1,931	2,472	(541)
Essential Supplies Revenue	18,333	17,795	23,136	(5,340)
Others 1/	13,365	23,729	29,877	(6,148)
(b) Appropriation In Aid 2/	39,613	32,432	51,849	(19,418)
External Grants	10,958	12,120	43,655	(31,535)
Total Revenue and External Grants	515,741	576,143	705,925	(129,782)
Total Revenue and External Grants as a percentage of GDP	15.72	15.26	18.70	

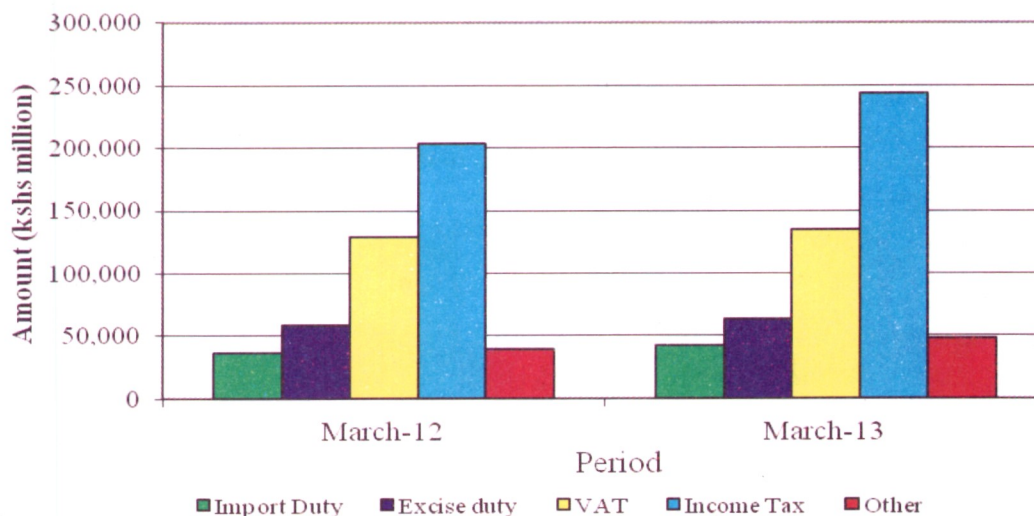
1/ includes aviation, land, forest, mining, rent of buildings, trade licenses, fines and forfeitures, other taxes, reimbursements and other fund contributions, and miscellaneous revenue.

2/ includes receipts from Road Maintenance Levy Fund and A-I-A from Universities

Source: Ministry of Finance

21. As a proportion of GDP, total cumulative revenue and grants in the period under review was 15.26 percent compared to 15.72 percent in the corresponding period of the FY 2011/12. External grants amounted to KShs. 12.1 billion against a target of KShs. 43.7 billion, representing an under performance of KShs. 31.5 billion.

Chart 10: Total Ordinary Revenue



2.3 Expenditure

22. Total expenditure and net lending, for the period under review, amounted to KShs. 792.9 billion, against a target of KShs. 940.0 billion. The shortfall of KShs. 147.1 billion was attributed to lower absorption recorded in both recurrent and development expenditures by the line ministries (*Table 3 and Chart 11*). Recurrent expenditure amounted to KShs. 572.7 billion, against a target of KShs. 588.6 billion, with underperformance recorded in operations and maintenance, and pensions, which accounted for KShs. 17.5 billion, and KShs. 14.3 billion, respectively. The lag between spending at the district level and reporting to the headquarters attributed to expenditure underperformance.

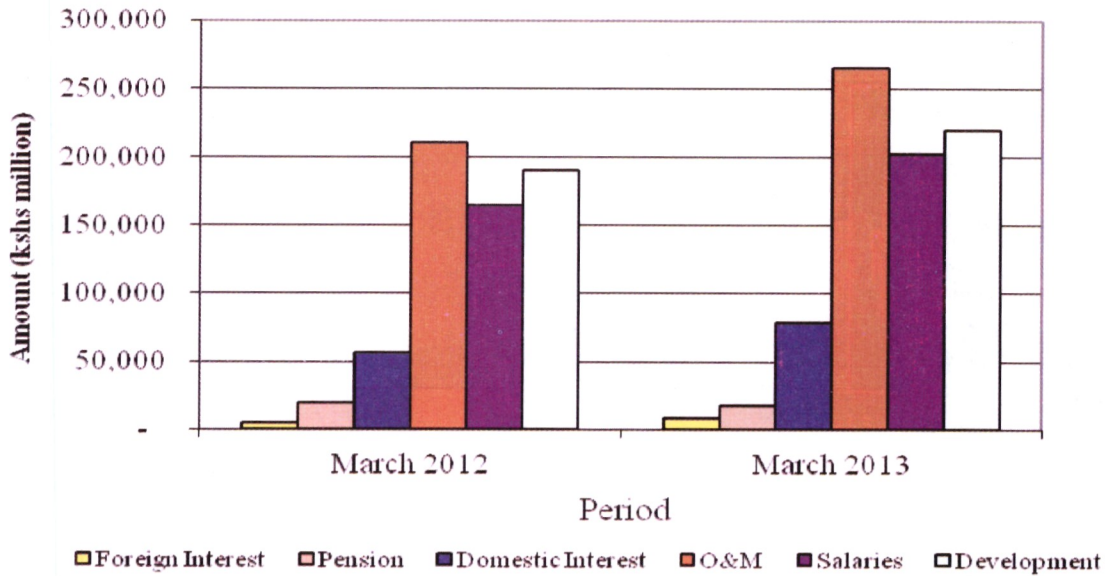
23. Actual foreign interest payments amounted to KShs. 8.7 billion, compared to KShs. 5.1 billion in the same period of the 2011/12 FY. The domestic interest payment totalled KShs. 78.9 billion, which was higher than KShs. 56.1 billion paid in the corresponding period of the previous financial year, mainly due to higher borrowing. (*Table 3 and Chart 11*).

**Table 3: Expenditure and Net Lending, Third Quarter Ending 31st
March 2013 (KShs. Million)**

	2011/2012 Actual	2012/13		Deviation	% Growth
		Actual	Targets		
1. RECURRENT	455,911	572,670	588,567	(15,897)	25.6
Domestic Interest	56,092	78,929	69,225	9,704	40.7
Foreign Interest	5,099	8,732	8,732	-	71.2
Pensions	19,645	17,438	31,756	(14,318)	(11.2)
Wages and Salaries	164,246	202,225	196,050	6,175	23.1
Operation and Maintenance	210,829	265,346	282,804	(17,458)	25.9
O/W: Change in Pending Bills					
: Appropriation-in-Aid	38,762	30,785	48,709	(17,923)	(20.6)
2. DEVELOPMENT	190,752	220,192	347,636	(127,444)	15.4
Development Projects (Net)	149,791	174,028	198,752	(24,724)	16.2
Payment of Guaranteed Loans	1,564	1,405	1,492	(87)	(10.2)
Appropriation-in-Aid	39,398	44,759	147,392	(102,633)	13.6
Change in Pending Bills					
3. CCF	-	-	3,750	(3,750)	
TOTAL EXPENDITURE	646,664	792,862	939,953	(147,091)	22.6

Source: Ministry of Finance

Chart 11: Expenditure and Net Lending



Source: Ministry of Finance

24. Total cumulative ministerial and other public agencies expenditure was KShs. 626.7 billion against a target of KShs. 875.1 billion. Recurrent expenditure was KShs. 464.4 billion against a target of KShs. 532.3 billion, while development expenditure was KShs. 162.3 billion against a target of KShs. 342.8 billion. The percentage of total expenditures to target was 71.6 percent as at the end of the period under review. As indicated earlier, the discrepancy between actual and target expenditures partly reflect the non-capture of the district expenditures and hence under reporting by ministries. These ministerial expenditures are therefore, provisional.

25. As at the end March 2013, expenditures by the ministries of Education; Higher Education, Science and Technology; Medical Services and Public Health and Sanitation accounted for 44.0 percent of total recurrent expenditure. The Ministry of State for Provincial Administration & Internal Security accounted for 8.4 percent of total recurrent expenditure, while the Ministry of Development of Northern Kenya and other Arid Areas, Ministry of Transport and Ministry of Energy were some of the ministries, which reported the least total expenditure against their targets.

26. Analysis of development outlay indicates that the Ministry of Roads at 26.9 percent accounted for the largest share of the total development expenditures, followed by Ministries of Planning and National Development & V2030, and Energy, which accounted for, 10.5 percent, and 8.0 percent respectively. The development expenditures in large ministries were below the target because of non inclusion of expenditures from the districts and donor funds. Details of the various Ministerial/Departmental and Commissions expenditures for the period under review are shown in *table 4*.

**Table 4: Ministerial Expenditures, Third Quarter
Ending 31st March 2013
(KShs. Million)**

	MINISTRY/DEPARTMENT/COMMISSIONS	Mar-13		Variance	Mar-13		Variance	Mar-13		Variance	% total expenditure to total target
		Recurrent			Development			Total			
		Actual*	Target	Actual*	Target	Actual*	Target				
101	Ministry of State for Provincial Administration & Internal Security	38,809	50,298	(11,489)	3,362	4,459	(1,098)	42,171	54,758	(12,587)	77.01
102	State House	1,351	1,282	69	189	207	(18)	1,540	1,489	51	103.46
103	Ministry of State for Public Service	5,160	4,251	908	21	327	(306)	5,181	4,579	602	113.14
104	Ministry of Foreign Affairs	6,125	8,121	(1,996)	163	409	(245)	6,288	8,530	(2,242)	73.72
105	Office of the Vice-President and Ministry of Home Affairs	8,915	11,360	(2,445)	723	1,337	(614)	9,638	12,698	(3,060)	75.90
106	Ministry of State for Planning, National Development & V2030	1,897	2,060	(163)	17,090	20,430	(3,340)	18,987	22,490	(3,502)	84.43
107	Office of the Deputy Prime Minister and Ministry of Finance	13,247	17,123	(3,877)	6,065	31,866	(25,801)	19,311	48,990	(29,678)	39.42
108	Ministry of State for Defence	52,639	56,982	(4,343)	-	-	-	52,639	56,982	(4,343)	92.38
109	Ministry of Regional Development Authorities	535	589	(54)	2,291	4,149	(1,858)	2,826	4,738	(1,911)	59.66
110	Ministry of Agriculture	6,367	7,002	(636)	5,305	8,641	(3,336)	11,672	15,644	(3,972)	74.61
111	Ministry of Medical Services	30,348	31,944	(1,596)	4,040	4,962	(922)	34,387	36,906	(2,519)	93.18
112	Office of the Deputy Prime Minister and Ministry of Local Government	10,225	17,246	(7,021)	3,470	3,609	(139)	13,695	20,855	(7,160)	65.67
113	Ministry of Roads	16,923	24,219	(7,296)	43,613	70,274	(26,661)	60,536	94,492	(33,957)	64.06
114	Ministry of Transport	1,177	3,128	(1,951)	3,801	10,764	(6,963)	4,978	13,892	(8,914)	35.83
115	Ministry of Labour and Human Resource Development	910	1,170	(261)	242	810	(567)	1,152	1,980	(828)	58.18
116	Ministry of Trade	1,009	1,632	(623)	294	558	(264)	1,303	2,190	(887)	59.50
117	Ministry of Justice, National Cohesion and Constitutional Affairs	1,547	1,694	(147)	138	836	(698)	1,685	2,530	(845)	66.60
118	Ministry of Gender and Children	2,797	4,000	(1,203)	1,294	3,497	(2,203)	4,091	7,497	(3,407)	54.56
119	Ministry of Livestock	2,953	3,414	(461)	2,962	3,184	(222)	5,914	6,597	(683)	89.64
120	Ministry of Water and Irrigation	3,021	4,738	(1,717)	12,466	25,918	(13,452)	15,487	30,656	(15,169)	50.52
121	Ministry of Environment and Mineral Resources	1,884	2,326	(442)	3,246	3,292	(46)	5,130	5,618	(488)	91.32
122	Ministry of Cooperative Development and Marketing	621	934	(313)	126	136	(10)	747	1,070	(323)	69.78
123	Cabinet Office	1,382	1,393	(11)	290	1,197	(906)	1,672	2,589	(917)	64.58
124	Ministry of East African Community	1,034	949	85	23	50	(27)	1,057	999	58	105.82
125	State Law Office	1,077	1,296	(219)	150	149	2	1,228	1,445	(217)	84.97
126	Judicial Department	7,774	8,838	(1,064)	1,557	2,070	(513)	9,331	10,908	(1,577)	85.54
130	Ministry of Energy	545	1,875	(1,330)	13,032	62,775	(49,744)	13,577	64,650	(51,073)	21.00
131	Ministry of Education	33,020	32,711	309	4,080	8,611	(4,531)	37,100	41,322	(4,222)	89.78
132	Ministry of Information and Communications	1,375	1,710	(335)	2,140	4,189	(2,049)	3,515	5,899	(2,384)	59.59
134	Ethics and Anti-Corruption Commission	896	1,074	(178)	26	93	(68)	922	1,167	(246)	78.96
135	Ministry of State for Special Programmes	5,352	4,602	750	2,432	4,843	(2,411)	7,784	9,445	(1,661)	82.41
136	Ministry of Lands	1,606	1,996	(390)	1,267	1,687	(420)	2,873	3,683	(810)	78.01
140	Ministry of State for Immigration and Registration of Persons	2,851	3,553	(702)	1,402	1,870	(468)	4,253	5,423	(1,169)	78.43
141	Ministry of State for National Heritage and Culture	1,162	1,275	(113)	306	425	(119)	1,468	1,699	(232)	86.38
142	Ministry of State for Youth Affairs and Sports	3,139	4,808	(1,669)	1,882	3,210	(1,328)	5,021	8,018	(2,997)	62.62
143	Ministry of Higher Education, Science and Technology	27,198	37,896	(10,698)	4,509	11,052	(6,543)	31,707	48,948	(17,241)	64.78
144	Ministry of Housing	911	1,643	(732)	1,423	1,950	(528)	2,334	3,594	(1,260)	64.95
145	National Security Intelligence Service	10,260	10,312	(52)	-	-	-	10,260	10,312	(52)	99.50
146	Ministry of Tourism	1,124	1,068	56	593	596	(3)	1,717	1,664	53	103.20
148	Office of the Prime Minister	1,661	1,488	173	279	464	(185)	1,941	1,953	(12)	99.39
149	Ministry of Public Health and Sanitation	9,776	12,355	(2,579)	4,807	19,516	(14,709)	14,583	31,872	(17,289)	45.76
155	Ministry of Forestry and Wildlife	2,598	4,650	(2,052)	2,503	3,678	(1,175)	5,101	8,328	(3,227)	61.25
156	Ministry of Fisheries Development	896	965	(69)	933	2,287	(1,354)	1,829	3,253	(1,423)	56.24
157	Ministry of Nairobi Metropolitan Development	209	234	(25)	1,165	2,535	(1,370)	1,374	2,769	(1,395)	49.62
158	Ministry of Development of Northern Kenya and Other Arid Areas	183	472	(289)	624	2,002	(1,377)	807	2,474	(1,667)	32.62
159	Ministry of Public Works	843	1,485	(643)	3,280	3,675	(395)	4,123	5,161	(1,038)	79.89
160	Ministry of Industrialization	980	1,504	(524)	1,379	2,397	(1,018)	2,359	3,901	(1,543)	60.46
163	Directorate of Public Prosecution	527	900	(374)	30	46	(16)	557	946	(390)	58.82
165	Commission for the Implementation of the Constitution	333	344	(12)	-	-	-	333	344	(12)	96.58
168	Registrar of Political Parties	285	292	(7)	-	-	-	285	292	(7)	97.72
169	Witness Protection Agency	107	147	(40)	-	-	-	107	147	(40)	72.86
	Transition Authority	250	-	-	-	-	-	-	-	-	-
201	Kenya National Human Rights and Equality Commission	190	189	2	-	-	-	190	189	2	100.86
203	Independent Electoral and Boundaries Commission	23,267	18,200	5,067	-	-	-	23,267	18,200	5,067	127.84
204	Parliamentary Service Commission	6,372	9,734	(3,361)	1,226	1,697	(472)	7,598	11,431	(3,833)	66.47
206	Commission on Revenue Allocation	186	278	(93)	-	-	-	186	278	(93)	66.67
207	Public Service Commission	398	429	(32)	18	60	(42)	416	489	(74)	84.96
208	Salaries and Remuneration Commission	431	586	(155)	-	-	-	431	586	(155)	73.59
209	Teachers Service Commission	103,927	103,155	772	-	-	-	103,927	103,155	772	100.75
210	National Police Service Commission	183	219	(36)	-	-	-	183	219	(36)	83.54
211	Auditor General	1,260	1,505	(245)	-	-	-	1,260	1,505	(245)	83.75
212	Controller of Budget	120	353	(233)	-	-	-	120	353	(233)	34.05
213	The Commission on Administrative Justice	143	194	(51)	-	-	-	143	194	(51)	73.49
214	National Gender and Equality Commission	134	144	(10)	-	-	-	134	144	(10)	92.98
	Independent Police Oversight Authority	150	-	-	-	-	-	-	-	-	-
		464,424	532,339	(67,914)	162,255	342,789	(180,533)	626,680	875,127	(248,448)	71.61

*Provisional

Source: Ministry of Finance

2.3.1 Guaranteed Loans to Parastatals

27. Scheduled cumulative principal and interest payments of guaranteed loans to Parastatals with liquidity problems amounted to KShs 892.5 million for FY 2012/13, of which KShs 890.1 million was paid by the end of the period. (*Table 5*).

TABLE 5: SCHEDULE AND ACTUAL PAYMENTS ON GUARANTEED DEBT FOR THE PERIOD ENDING 31st MARCH 2013 (KSHS. MN)

Borrower	Quarter I		Quarter II		Quarter III		Cumm. March 2013*	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
NCC	38.02	37.79	0	0	37.78	38.45	75.8	76.24
TARDA	181.76	193.36	0	0	179.39	158.71	361.15	352.07
KBC	0	0	455.55	461.8	0	0	455.55	461.8
TOTAL (QTR)	219.78	231.15	455.55	461.8	217.17	197.16	892.5	890.11

* Provisional

Source: Ministry of Finance

2.4 Financing the Budget Deficit

2.4.1 External Financing

28. Cumulative external financing by end of March 2013 amounted to a net borrowing of KShs. 33.8 billion compared to a net borrowing of KShs. 27.3 billion in the same period of FY 2011/12. Total disbursements (inflows) including Appropriations-in-Aid amounted to KShs. 51.3 billion in FY 2012/13 against a target of KShs. 142.4 billion. This amount included KShs. 13.9 billion project cash loans and KShs. 37.4 billion project loans (A.I.A). External repayments (outflows) of principal debt amounted to KShs. 17.5 billion against a target of KShs. 20.9 billion, (*Table 6*).

Table 6: External Financing, Third Quarter, Ending 31st March 2013 (KShs. Million)

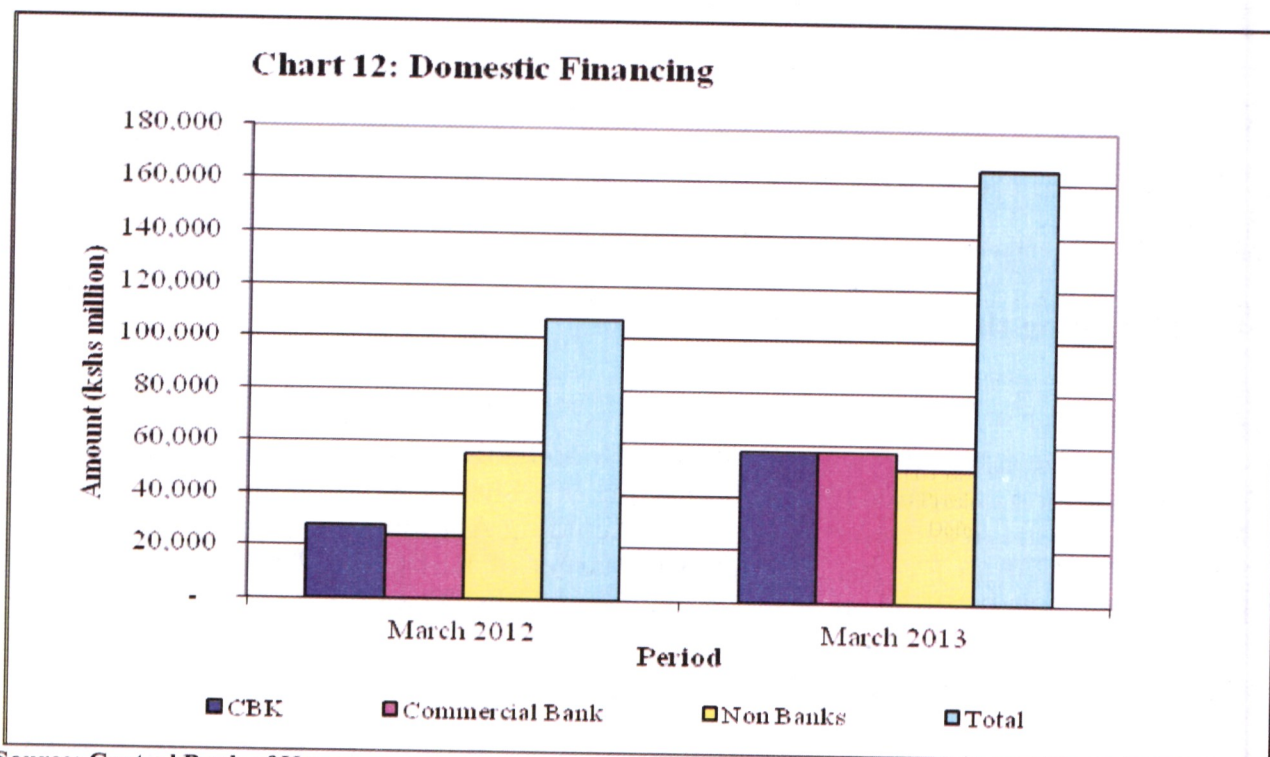
	Quarter III Actual 2011/12	Quarter I Actual 2012/13	Quarter II Actual 2012/13	Quarter III Actual 2012/13	Cumulative Actual March 2013*
DISBURSEMENTS:	46,130.91	7,355.97	15,566.74	28,373.69	51,296.40
Project Cash loans	13,258.32	5,027.83	4,564.32	4,314.04	13,906.20
Project loans A-I-A	32,872.59	2,328.14	11,002.42	24,059.64	37,390.21
Commercial Financing	-	-	-	-	-
EXTERNAL REPAYMENTS:	18,815.89	7,258.83	4,682.98	5,557.31	17,499.13
Bilateral	8,829.28	2,538.41	3,172.08	2,066.86	7,777.35
Multilateral	9,986.61	4,720.42	1,510.91	3,490.45	9,721.78
Commercial	-	-	-	-	-
Other	-	-	-	-	-
NET FOREIGN FINANCING	27,315.02	97.14	10,883.76	22,816.38	33,797.28

* Provisional

Source: Ministry of Finance

2.4.2 Domestic Financing

29. By the end of March 2013, net domestic borrowing amounted to KShs. 165.5 billion. The borrowing comprised of KShs. 57.3 billion from Commercial Banks, KShs. 52.7 billion from Non-Bank Financial Institutions, and KShs. 57.4 billion from Central Bank, and a net repayment of KShs. 1.7 billion to Non Residents and (Table 7). Comparatively, for the same quarter in the FY 2011/12, net domestic borrowing was KShs. 107.0 billion, comprising of net borrowings of KShs. 27.9 billion from the Central Bank, KShs. 23.7 billion from Non-Bank Financial Institutions, KShs. 50.9 billion from Non Residents, KShs. 4.5 billion Non-Resident, (chart 12).



Source: Central Bank of Kenya

30. The stock of Treasury Bills held by the Central Bank and Non-Residents recorded a net decrease of KShs. 6.6 billion and KShs. 400 million, respectively, by the end of March 2013. However, the stock of Treasury Bills held by the Commercial Banks, and Non-Banking Financial Institutions, recorded net increases of KShs. 48.3 billion, and KShs. 12.0 billion, respectively. The stock of Fixed Rate Bonds held by Commercial Banks and Non-Banking Financial Institutions recorded a net increase of KShs. 6.0 billion and KShs. 40.6 billion, respectively, while the stock of Fixed Rate Bonds held by the Central Bank and Non-residents recorded a net decrease of KShs. 2.9 billion and KShs. 1.3 billion, respectively. (Table 7).

Table 7: Domestic Financing, Third Quarter Ending 31st March 2013 (KShs. Millions)

	MARCH 2012	JUNE 2012	SEPTEMBER 2012	DECEMBER 2012	MARCH 2013
1. CENTRAL BANK	27,902	7,480	(968)	6,123	57,361
Overdraft	17,802	(314)	18,126	18,117	18,117
IMF funds onlet to Govt	0		-		
Treasury bills	1,862	1,222	(5,610)	(6,055)	(6,563)
Stocks	0	-	-		
Floating rate T. Bonds	0		-		
Fixed rate Bonds	3,783	3,770	(2,556)	(2,508)	(2,907)
Items on Transit	(328)	(76)	(144)	(162)	(155)
Frozen Account	(1,110)	(1,665)	-		(470)
Less Govt Deposits	5,893	4,545	(10,785)	(3,268)	49,338
2. COM. BANKS	23,702	17,053	32,946	78,330	57,260
Advances	(44)	91	1,320	1,447	5,348
Stocks	0	-	-		
Treasury bills	(11,564)	(17,314)	27,847	61,851	48,323
Floating rate T. Bonds	0	-	-		
Fixed rate Bonds	19,783	23,434	7,051	8,477	5,980
Special Bonds	0	-	-		
Zero Coupon bonds	0	-	-		
Infrastructure Bonds	19,129	19,129	-		
Savings and Development Bond	0	-	-		
Less Govt Deposits	(3,602)	(8,288)	(3,271)	6,555	(2,391)
3. NON BANKS	50,886	45,976	16,876	28,964	52,651
Stocks	0	-	-		
Treasury bills	15,012	10,473	6,855	8,321	12,031
Floating Rate T. Bonds	0	-	-		
Fixed rate Bonds	16,706	16,335	10,021	20,643	40,620
Zero Coupon bonds	0	-	-		
Infrastructure Bonds	16,693	16,693	-		
Savings and Development Bond	2,475	2,475	-		
4. NON RESIDENTS	4,484	2,709	(1,131)	(844)	(1,747)
Treasury bills	4,678	2,909	(1,182)	(892)	(400)
Floating rate T. Bonds	0		-		
Fixed rate Bonds	(237)	(242)	50	48	(1,347)
Infrastructure Bond	35	35	-		
Savings and Development Bond	7	7	-		
Zero Coupon bonds	0		-		
5. NET CREDIT	106,973	73,217	47,723	112,574	165,526

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

31. Gross public debt increased from KShs. 1,633.4 billion as at end of June 2012 to KShs. 1,800.8 billion by 31st March 2013, comprising of 45.5 percent external and 54.5 percent domestic. Net public debt increased by KShs. 209.8 billion over the same period. The overall increase was attributed to net increase in domestic borrowing (*Table 8*).

**Table 8: Kenya's Public and Publicly Guaranteed Debt,
June 2008- March 2013 (KShs. millions)**

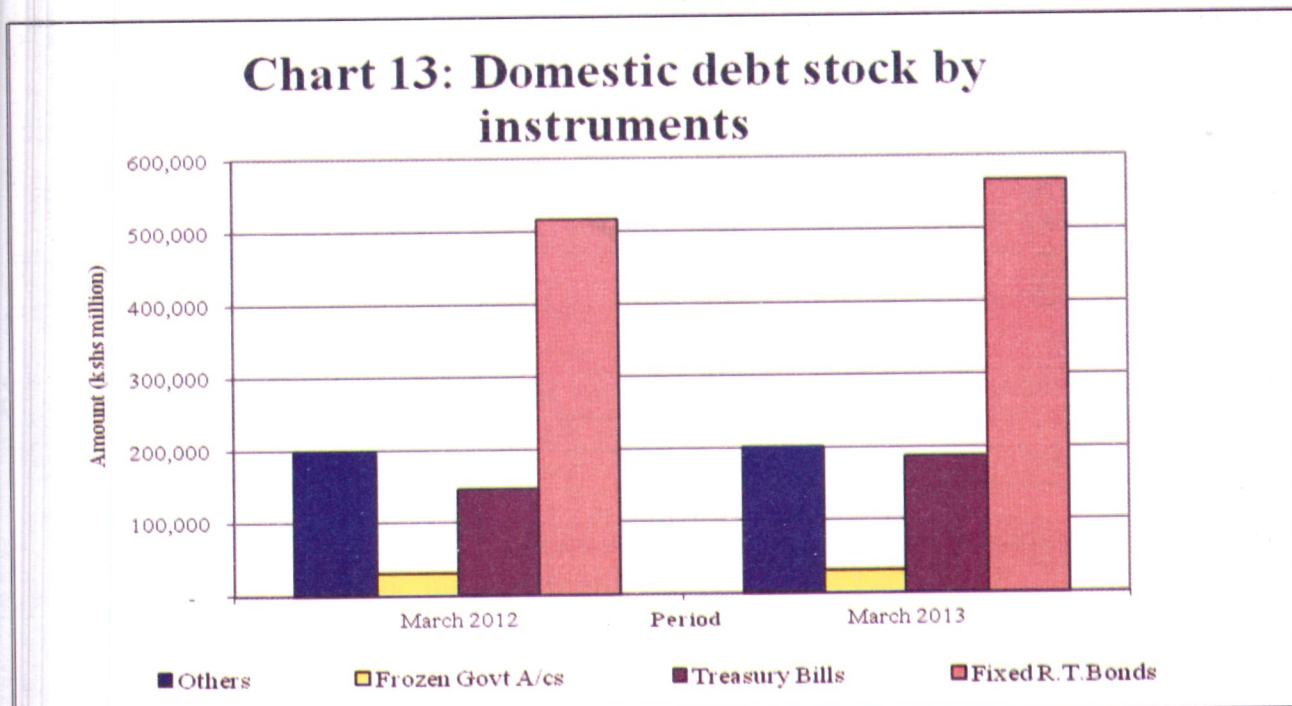
	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	Sept. 12	Dec. 12	Mar- 13*
EXTERNAL								
BILATERAL	153,201	185,933	196,347	256,965	246,240	269,250	265,416	255,282
MULTILATERAL	271,134	331,105	352,333	440,882	462,963	466,975	482,714	490,619
COMMERCIAL BANKS	-	-	-	-	50,540	51,112	58,378	57,905
SUPPLIERS CREDIT	18,543	23,837	20,458	25,041	14,812	15,121	15,463	14,957
SUB - TOTAL	442,878	540,875	569,138	722,888	774,555	802,458	821,971	818,763
DOMESTIC:								
CENTRAL BANK	45,862	39,902	50,215	39,692	47,382	57,199	56,774	55,405
COMMERCIAL BANKS	182,905	250,708	351,579	378,376	411,867	448,736	486,089	474,941
TOTAL BANKS	228,768	290,611	401,794	418,068	459,249	505,935	542,863	530,345
NON BANKS	201,844	230,421	258,474	346,155	399,580	416,271	428,402	451,650
SUB-TOTAL	430,612	521,032	660,268	764,223	858,830	922,206	971,265	981,996
GRAND TOTAL GROSS	873,490	1,061,907	1,229,406	1,487,111	1,633,385	1,724,664	1,793,236	1,800,759
LESS ON-LENDING	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)
LESS GOVERNMENT DEPOSITS	(92,861)	(111,115)	(119,785)	(133,773)	(151,907)	(164,228)	(154,887)	(109,444)
GRAND TOTAL NET	774,928	945,091	1,103,919	1,347,637	1,475,776	1,554,735	1,632,648	1,685,614

*Provisional

Source: Ministry of Finance

3.2 Domestic Debt

32. The stock of domestic debt increased by KShs. 112.4 billion from KShs. 858.8 billion in June 2012 to KShs. 982.0 billion in March 2013. Analysis (using figures in Table 9) indicates that the stock of Treasury Bills held by Central Bank, Commercial Banks, Non-Banking Financial Institution and Non Residents increased by KShs. 54.5 billion from KShs. 132.0 billion in June 2012 to KShs. 186.6 billion in March 2013. Meanwhile, the total stock of Treasury Bonds, Floating, Fixed Rate, Special and Zero coupon Bonds, increased by KShs. 46.3 billion from KShs. 533.9 billion in June 2012 to KShs. 580.1 billion in March 2013 (*Chart 13*).



Source: Data from CBK

Table 9: Stock of Domestic Debt, Third Quarter 2012/2013
(KShs. million)

	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
1.CENTRAL BANK	61,701	47,382	57,190	56,773	55,405
Overdraft	25,373	7,257	25,373	25,373	25,373
Frozen Govt Accounts	30,554	29,999	29,999	29,999	29,529
Treasury Bills	1,878	6,578	968	523	15
Items on Transit	81	252	108	89	97
Fixed rate bonds	3,814	3,298	742	790	391
2.COM.BANKS	413,981	411,867	448,736	486,089	474,941
Advances	2,761	2,256	3,021	3,408	7,127
Stocks	-	-	-	-	-
Treasury Bills	80,838	75,497	103,685	139,161	126,281
Floating Rate T. Bonds	-	-	-	-	-
Fixed Rate T. Bonds	247,023	250,756	258,672	260,162	258,174
Special Bonds	15,000	15,000	15,000	15,000	15,000
Zero Coupon Bonds	-	-	-	-	-
Savings and Development Bond	7,148	7,148	7,148	7,148	7,148
Infrastructure Bonds	61,210	61,210	61,210	61,210	61,210
3. NON BANKS	399,245	388,541	406,490	418,342	442,728
Stocks	-	-	-	-	-
Treasury Bills	54,254	43,375	49,800	51,003	54,392
Floating Rate T. Bonds	-	-	-	-	-
Fixed Rate T. Bonds	260,651	260,826	272,348	282,996	303,994
Tax Reserve Certificate	69	69	69	69	69
Zero Coupon Bonds	-	-	-	-	-
Infrastructure Bonds	69,200	69,200	69,201	69,201	69,201
Savings and Development Bond	15,072	15,072	15,072	15,072	15,072
4. NON RESIDENTS	12,944	11,039	9,780	10,061	8,923
Treasury Bills	8,497	6,597	5,289	5,572	5,908
Floating Rate T. Bonds	-	-	-	-	-
Fixed Rate T. Bonds	3,996	3,991	4,041	4,039	2,565
Zero Coupon Bonds	-	-	-	-	-
Savings and Development Bond	9	9	9	9	9
Infrastructure Bonds	442	442	441	441	441
5. TOTAL DEBT	887,871	858,830	922,196	971,265	981,996
6. LESS ON-LENDING	5,701	5,701	5,701	5,701	5,701
7. Less Govt Deposits	111,038	151,907	164,228	154,887	109,444
8. NET DEBT	771,133	701,221	752,267	810,677	866,851

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

33. In dollar terms, external public debt increased by US \$ 365.0 million from US\$ 9,195.4 million in June 2012 to US\$ 9,560.8 million by end of March 2013. This comprised of debt owed to bilateral (31.2%), multilateral (59.9%), Commercial Banks (7.1%) and suppliers' credit (1.8%). However, the external debt on a quarterly basis between June 2012 and March 2013 has been decreasing as follows, June 2012 - Sept 2012 (US\$ 220.3 mn), Sept 2012 - Dec 2012 (US\$ 135.7 mn) and Dec 2012-March 2013 (US\$ 9.4 mn). This decrease is attributed to the strengthening of the Kenya shilling to the dollar between the period under review (*Table 10 and Chart 14*).

**Table 10: Kenya's External Public and Publicly Guaranteed Debt
June 2008- March 2013 (US \$ Million)**

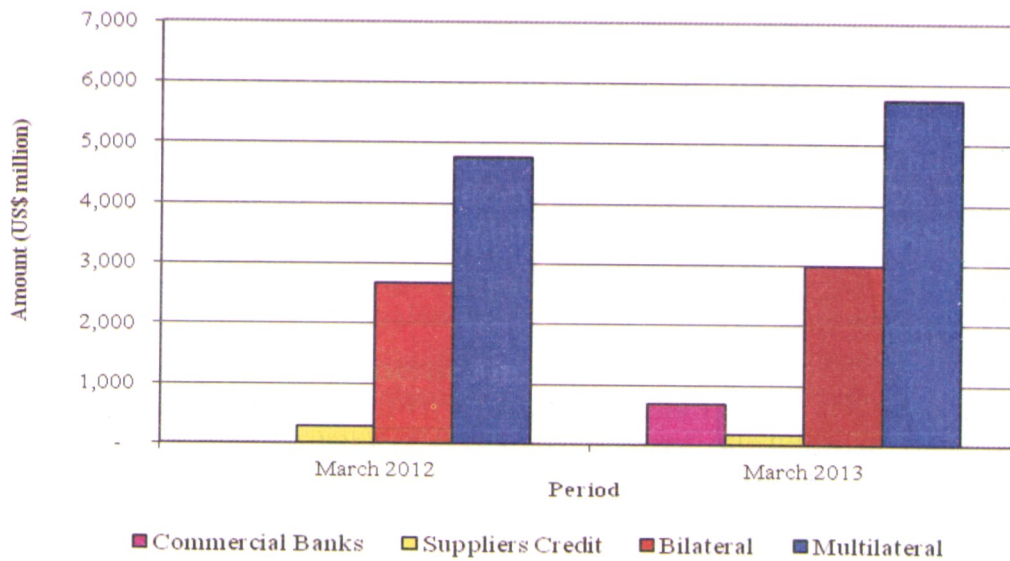
CREDITOR	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	Sep. 12	Dec-12	March 2013*
<u>BILATERAL</u>								
AUSTRIA	50.26	28.74	22.14	22.45	15.64	14.60	14.30	12.20
BELGIUM	73.43	91.73	82.70	100.57	87.44	89.10	96.80	86.90
CANADA	21.64	20.60	19.60	14.2	17.70	13.20	13.20	16.90
DENMARK	36.11	30.52	28.00	35.4	24.65	25.20	25.30	23.80
FINLAND	1.85	1.67	1.45	1.47	1.24	1.30	1.20	1.20
FRANCE	354.02	364.22	343.93	448.98	435.80	485.90	527.20	535.10
GERMANY	243.67	213.08	198.20	296.78	295.36	291.60	297.40	287.80
ITALY	98.06	74.53	53.07	48.83	34.75	25.30	25.90	24.50
JAPAN	1,125.98	1,177.40	1,206.80	1,244.58	1,275.10	1,247.90	1,132.90	1,020.50
NETHERLANDS	35.83	27.74	22.91	33.52	34.73	34.10	35.20	32.10
UK	37.99	30.51	26.00	25.91	22.99	23.90	23.70	21.20
USA	75.16	73.48	69.94	65.66	60.90	59.90	59.90	57.40
OTHERS	214.05	275.71	322.31	521.18	617.07	844.40	846.80	861.30
TOTAL BILATERAL	2,368.05	2,409.93	2,397.05	2,859.53	2,923.39	3,156.40	3,099.80	2,980.90
<u>MULTILATERAL</u>								
ADB/ADF	465.80	423.17	500.51	585.83	811.08	856.80	876.10	952.30
BADEA	-	-	-	-	-	-	-	-
EEC/EIB	173.66	143.38	128.15	139.06	129.80	128.10	149.20	182.20
IBRD	-	-	-	0	-	-	-	-
IDA/IFAD	3,239.00	3,194.50	3,175.30	3,552.80	3,532.90	3,594.60	3,566.10	3,626.20
IMF**	271.24	244.60	416.40	529.49	909.60	795.70	893.90	864.50
OTHERS	42.63	74.92	80.77	98.93	112.76	106.60	108.00	103.80
TOTAL MULTILATERAL	4,192.33	4,080.57	4,301.13	4,906.11	5,496.15	5,481.80	5,593.30	5,729.00
COMMERCIAL BANKS 1/	-	-	-	-	600.00	600.00	678.60	676.20
EXPORT CREDIT	286.63	308.90	249.74	278.65	175.84	177.50	179.70	174.70
GRAND TOTAL	6,847.01	6,799.40	6,947.92	8,044.29	9,195.38	9,415.70	9,551.40	9,560.80
BILATERAL	34.59	35.44	34.50	35.55	31.79	33.52	32.45	31.18
MULTILATERAL	61.23	60.01	61.91	60.99	59.77	58.22	58.56	59.92
COMMERCIAL BANKS 1/	-	-	-	-	6.53	6.37	7.10	7.07
EXPORT CREDIT	4.19	4.54	3.59	3.46	1.91	1.89	1.88	1.83
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

*Provisional

** include IMF item

¹ Syndicate loan

Chart 14: External Public Debt



Source: Ministry of Finance

3.3.1 External Debt Service

34. At the end of March 2013, the total cumulative debt service payments to external creditors amounted to KShs 26.4 billion. This comprised of KShs 19.0 billion (71.7 percent) principal and KShs 7.5 billion (28.3 percent) interest. The principal includes KShs 1.5 billion and interest of KShs 79.2 million to IMF serviced by CBK. (Table 11 and chart 15).

**Chart 15 External Debt by Creditors
March, 2013**

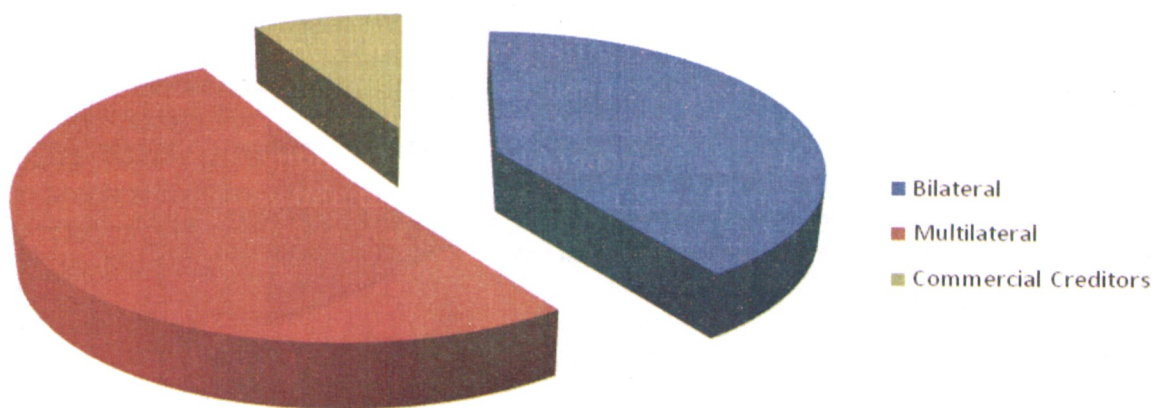


Table 11: External Debt Service, July 2012 – March 2013
(KShs. Million)

CATEGORY	PRINCIPAL*	INTEREST*	TOTAL*
BILATERAL			
AUSTRIA	176.5	23.73	200.23
FINLAND	6.16	0.74	6.9
FRANCE	1,157.99	389.74	1547.73
ITALY	85.93	1.81	87.74
JAPAN	4,095.93	691.15	4787.08
SAUDI FUND	174.54	120.25	294.79
SPAIN	238.15	39.36	277.51
USA	199.68	78.77	278.45
CANADA	7.38	2.34	9.72
BELGIUM	292.14	52.76	344.9
GERMANY	227.54	108.46	336
CHINA	287.07	1159.33	1446.4
KUWAIT	116.06	15.57	131.63
NETHERLANDS	343.09	102.68	445.77
SWEDEN	18.78	2.94	21.72
SWITZERLAND	19.49	1.24	20.73
DENMARK	135.75	0	135.75
KOREA	89.11	18.12	107.23
UK	106.06	17.88	123.94
TOTAL BILATERAL	7,777.35	2,826.87	10,604.22
MULTILATERAL			
ADB/ADF	401.8	460.82	862.62
BADEA	286.98	45.78	332.76
EEC	187.95	22.05	210
EIB	560.26	179.53	739.79
IDA	7,914.91	1,503.82	9418.73
OPEC	232.5	49.99	282.49
NDF	0	21.88	21.88
IFAD	137.37	48.25	185.62
**IMF	1,479.96	79.24	1559.2
TOTAL MULTILATERAL	11,201.73	2,411.36	13,613.09
COMMERCIAL CREDITORS	0	2,249.26	2,249.26
GRAND TOTAL	18,979.08	7,487.49	26,466.57

* Provisional

** IMF debt serviced by CBK

Source: Ministry of Finance.

4.0 CORE POVERTY PROGRAMMES (CPP)

35. 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 provisional expenditure on these programmes by the end of third quarter of FY 2012/13 was KShs. 64.2 billion equivalent to 56.1 percent of the total budget allocation to CPP.

4.1 Recurrent Expenditures

36. The total recurrent expenditure (non-wage) of the Core poverty programmes (incl. FPE & FSE) was KShs. 45.5 billion during the third quarter; this was equivalent to 77.2 percent of the total recurrent budget allocation. Table 12 below is a summary of the ministerial recurrent expenditures on CPP.

Table 12: Recurrent Expenditures 2012/13 (Non-Wage) in KShs.

MINISTRY/DEPARTMENT	ESTIMATES 2012/13	PAYMENTS	COMMITMENTS	PAYMENTS PLUS COMITMENTS
Ministry of Education	34,205,266,160	26,084,239,632	-	26,084,239,632
Ministry of Medical Services	953,920,340	934,664,717	709,692,046	1,644,356,763
Ministry of Public Health and Sanitation	2,513,483,185	1,807,720,655	-	1,807,720,655
Ministry of Gender, Children and Social Development	3,181,808,008	1,554,156,232	-	1,554,156,232
Ministry of Agriculture	575,922,658	1,573,235,165	-	1,573,235,165
Ethics and Anti-Corruption Commission	1,590,748,800	895,881,012	-	895,881,012
Ministry of Justice, National Cohesion and Constitutional Affairs	72,928,294	200,194,146	-	200,194,146
Ministry of Roads	9,748,180,000	6,940,666,519	-	6,940,666,519
Ministry of Water and Irrigation	1,057,864,441	714,730,209	26,618,141	741,348,350
Ministry of Cooperative Development and Marketing	149,693,614	60,839,398	794,200	61,633,598
Ministry of State for Special Programmes	4,928,177,750	4,042,266,854	-	4,042,266,854
TOTAL	58,977,993,250	44,808,594,538	737,104,387	45,545,698,925

4.2 Development Expenditures

37. Under the development budget, the total expenditures on CPP in FY 2012/13 amounted to KShs. 18.7 billion, equivalent to 33.6 percent of the total development CPP allocation. Notable under-performance was recorded in the ministries of Agriculture, Labour and Education, which were attributed to low absorption of the externally funded projects. Other Ministries with low expenditures were also due to non-capture of the expenditures from the districts. Table 13 below gives summary of the ministerial development CPP expenditures.

Table 13: Development Expenditures (KShs.)

MINISTRY/DEPARTMENT	ESTIMATES 2012/13	PAYMENTS	COMMITMENTS	PAYMENTS PLUS COMITMENTS
Ministry of State for Provincial Administration and Internal Security	464,728,150	400,000,000		400,000,000
Ministry of Agriculture	6,735,859,134	285,461,213	-	285,461,213
Ministry of Medical Services	4,436,213,528	1,518,065,122	1,076,926,268	2,594,991,390
Ministry of Roads	5,000,000	4,984,700		4,984,700
Ministry of Environment and Mineral Resources	819,878,690	844,617,776	-	844,617,776
Ministry of Forestry and Wildlife	83,130,000	188,707,726		188,707,726
Ministry of Education	6,129,538,353	348,496,318		348,496,318
Ministry of Labour	106,500,000	8,174,317	1,641,010	9,815,327
Ministry of Gender, Children and Social Development	4,054,576,758	1,092,733,156	-	1,092,733,156
Ministry of Water and Irrigation	4,321,389,304	4,331,113,427	-	4,331,113,427
Ministry of Justice, National Cohesion and Constitutional Affairs	280,000,000	50,000,000	407,700	50,407,700
Ministry of Trade	90,000,000	37,085,000		37,085,000
Ministry of Industrialization	730,000,000	365,000,000		365,000,000
Ministry of Energy	14,670,339,610	1,499,612,309	739,930,715	2,239,543,024
Ministry of Livestock Development	879,725,400	-	201,657,049	201,657,049
Office of the Deputy Prime Minister and Ministry of Local Government	5,092,258,980	2,614,812,466	158,631,538	2,773,444,004
State Law Office	156,000,000	28,614,494	-	28,614,494
The Judiciary	980,000,000	243,103,695	1,243,877	244,347,572
Public Health & Sanitation	4,355,195,000	1,428,901,616		1,428,901,616
Special Programmes	1,194,014,200	1,192,065,035		1,192,065,035
TOTAL	55,584,347,107	16,481,548,369	2,180,438,157	18,661,986,526

ANNEX II

ANNEX II: ESTIMATES OF GOVERNMENT GRANTS (RECURRENT & DEVELOPMENT) TO SOME STATE CORPORATIONS 2008/09-2011/12

	STATE CORPORATION	2008-2009	2009-2010	2010-2011	2011-2012
		REC PLUS DEV	REC PLUS DEV	REC PLUS DEV	REC PLUS DEV
1	Bukura agricultural college	128,424,000	95,100,000	136,733,000	146,500,000
2	Coffee Research Foundation	-	14,000,000	30,000,000	51,000,000
3	Horticultural Crops Development Authority	280,000,000	320,000,000	320,000,000	320,000,000
4	Kenya Agricultural Research Institute	1,858,248,000	2,242,301,000	2,260,520,000	2,199,889,000
5	Kenya coconut development authority	33,490,000	80,000,000	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	310,000,000
8	Coffee Board of Kenya	-	305,000	32,500,000	81,801,000
9	Kenya Plant Health Inspectorate Services	423,000,000	448,000,000	448,000,000	488,000,000
10	Kenya Sugar Research Foundation	-	88,000,000	180,000,000	184,000,000
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	124,605,000
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	138,003,000
15	Tea Research Foundation	17,000,000	10,000,000	30,000,000	66,000,000
16	Cooperative College of Kenya	102,085,000	77,487,000	83,000,000	115,500,000
17	SACCO SOCIETY REGULATORY AUTHORITY	-	36,000,000	63,200,000	100,200,000
18	Chuka University	259,792,000	499,821,000	547,700,000	553,276,000
19	Commission For High Education	174,986,000	185,986,000	185,986,000	222,000,000
20	Egerton University	1,840,209,000	2,187,981,000	2,095,981,000	2,075,981,000
21	Higher Education Loans Board	158,391,000	158,391,000	273,689,000	189,204,000
22	Jomo kenyatta University of agriculture and technology	1,235,248,000	1,614,128,000	1,584,458,000	1,574,458,000
23	Kenya Education Staff Institute	70,000,000	113,000,000	97,000,000	80,000,000
24	Kenya Institute of Education	585,885,000	586,885,000	586,885,000	80,400,000
25	Kenya National Examinations Council	572,033,000	469,948,000	670,000,000	400,000,000
26	Kenya polytechnic University college	226,000,000	680,871,000	689,400,000	794,450,000
27	Kenyatta University	1,972,457,000	2,618,705,000	2,963,500,000	2,983,500,000
28	Kimathi University	189,000,000	282,385,000	377,165,000	617,165,000
29	Kisii university college	167,000,000	490,396,000	548,000,000	538,000,000
30	Maseno University	902,319,000	1,070,078,000	1,157,082,000	1,157,083,000
31	Masinde Muliro university of science and tech	749,879,000	761,327,000	733,665,000	1,015,907,000
32	Meru University	170,500,000	278,874,000	444,000,000	554,505,000
33	Moi University	2,185,227,000	2,581,919,000	2,783,826,000	2,442,521,000
34	Narok University	152,000,000	223,484,000	244,000,000	524,000,000
35	Pwani university College	163,115,000	389,893,000	386,327,000	536,324,000
36	School Equipment Production Unit	40,000,000	20,000,000	10,000,000	10,000,000
37	South Eastern university College	150,836,000	352,532,000	480,670,000	650,000,000
38	University of Nairobi	3,699,715,000	4,158,413,000	4,606,630,000	4,636,622,000
39	Bondo Unoversity College	-	230,000,000	377,000,000	527,985,000
40	Chepkoleil University College	-	-	1,884,949,000	652,000,000
41	Kabianga University College	83,804,000	224,808,000	412,308,000	482,308,000
42	Karatina University College	-	-	269,314,000	430,000,000
43	Laikipia University College	-	-	344,508,000	502,508,000
44	Mombasa University College	195,000,000	608,101,000	568,000,000	738,000,000
45	National Bio-safety Authority	-	48,378,000	100,000,000	100,000,000
46	Multimedia university college of Kenya	-	160,231,000	326,000,000	466,000,000

ANNEX II

47	Energy Regulatory Commission	49,575,000	-	20,000,000	-
48	Geothermal Development Corporation	-	5,931,817,000	12,262,000,000	7,503,000,000
49	Kenya Electricity Transmission Company LTD	325,000,000	3,715,980,000	4,096,000,000	4,096,000,000
50	National Oil Corporation of Kenya	-	-	380,000,000	380,000,000
51	Rural electrification Authority	3,710,000,000	1,255,000,000	1,112,000,000	7,018,000,000
52	Kenya Power and lighting Company	-	-	-	3,050,000,000
53	Kenya Electricity Generation Company LTD	-	-	-	3,700,000,000
54	Kenya Investment Authority	455,491,000	340,000,000	285,000,000	285,000,000
55	Privatization Commission	140,000,000	360,000,000	360,000,000	160,000,000
56	Public Procurement Oversight Authority	200,000,000	200,000,000	300,000,000	355,000,000
57	Registration of Certified Public secretaries	-	1,210,000	1,210,000	1,210,000
58	State Corporations Appeals	16,375,000	19,375,000	21,232,000	21,232,000
59	Kenya Trade Network Agency	-	-	20,000,000	100,000,000
60	Kenya Revenue Authority	7,197,976,000	8,471,479,000	10,504,236,000	10,248,331,000
61	Kenya Marine and Fisheries Research Institute	382,119,000	462,800,000	508,000,000	668,200,000
62	Kenya Forestry Research Institute	639,176,000	731,232,000	849,500,000	885,391,000
63	Kenya Forestry Service	1,828,341,000	2,556,026,000	2,020,727,000	1,794,696,000
64	Kenya Wildlife Service	1,125,277,000	1,384,461,000	1,501,300,000	2,121,300,000
65	Kenya National Library Services	565,021,000	655,000,000	630,800,000	791,000,000
66	Kenya Medical Training Centre	1,078,143,000	1,178,719,000	1,325,719,000	1,325,719,000
67	Kenyatta National Hospital	3,615,809,000	3,431,809,000	3,857,966,000	3,783,809,000
68	Moi Referral and Teaching Hospital	1,146,115,000	1,346,295,000	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	364,100,000
70	National Museums of Kenya	500,000,000	557,652,000	560,000,000	560,000,000
71	NGO Coordination Bureau	92,900,000	128,497,000	120,000,000	120,000,000
72	Kenya Industrial & Research Development Institute	308,229,000	518,368,000	539,973,000	1,076,700,000
73	Kenya Industrial Estates	21,000,000	90,000,000	295,000,000	365,000,000
74	Anti-Counterfeit Agency	-	-	202,000,000	208,575,000
75	Kenya Accreditation Service	-	-	106,000,000	110,000,000
76	Kenya Bureau of Standard	230,000,000	220,000,000	100,000,000	100,000,000
77	Kenya Industrial Property Institute	21,178,000	29,000,000	29,000,000	28,500,000
78	Numerical Machine Complex	50,000,000	50,000,000	50,000,000	215,000,000
79	Brand Kenya	188,000,000	147,000,000	147,000,000	187,800,000
80	Kenya Film Commission, (KFC)	77,000,000	76,500,000	85,500,000	127,000,000
81	Kenya Broadcasting Corporation	-	200,000,000	500,000,000	650,000,000
82	Kenya Film Classification Board	-	42,399,000	118,000,000	154,000,000
83	Kenya ICT Board	1,155,000,000	624,500,000	2,519,770,000	168,000,000
84	Kenya YearBook Editorial Board	-	47,100,000	60,000,000	108,000,000
85	Media Council of Kenya	-	60,000,000	50,000,000	50,000,000
86	Council of Legal Education	112,592,000	233,000,000	234,000,000	234,000,000
87	Kenya Veterinary Vaccine Production Institution	-	-	-	70,000,000
88	Kenya Animal Genetic Resource Center	-	-	-	50,078,000
89	Leather Development Council	-	-	11,972,000	94,943,000
90	Kenya Dairy Board	35,321,000	35,321,000	20,320,000	140,320,000
91	Kenya Meat Commission	3,075,000	33,000,000	-	47,000,000
92	Kenya Institute of Administration	40,000,000	35,000,000	25,000,000	20,000,000
93	Constituency Development Fund	408,000,000	369,879,000	428,490,000	529,425,000
94	Kenya V2030 Secretariat	-	-	563,500,000	233,000,000
95	Kenya Institute for Public Policy Research & Analysis	84,000,000	116,000,000	175,000,000	179,000,000
96	Kenya National Bureau of statistics	1,591,000,000	7,745,000,000	841,000,000	1,283,900,000
97	National Coordinating Agency for Population & Dev't	116,000,000	129,500,000	399,020,000	236,300,000
98	National campaign against drug abuse authority	210,000,000	210,000,000	310,000,000	310,000,000
99	Kenya Medical Research Institute	1,143,076,000	1,100,000,000	1,349,000,000	1,356,000,000
100	Ewaso-Ng'iro South River Basin Dev't Authority	81,557,000	145,619,000	199,012,000	142,644,000

ANNEX II

101	Kerio Valley Development Authority	153,000,000	705,136,000	246,302,000	321,304,000
102	Lake Basin Development Authority	291,074,000	160,745,000	257,924,000	250,163,000
103	Tana & Athi Rivers Development Authority	187,620,000	250,437,000	477,896,000	367,183,000
104	Kenya National highways authority	-	285,754,000	150,000,000	17,879,962,000
105	Kenya roads board	-	-	-	-
106	Kenya rural roads authority	-	-	15,471,000,000	14,696,142,000
107	Kenya Urban roads Board	30,000,000	845,042,000	1,061,012,000	4,788,719,000
108	National Aids Control Council	485,395,000	499,000,000	525,000,000	595,000,000
109	National Crime Research Centre	-	-	46,000,000	50,000,000
110	Witness protection Agency	-	-	65,000,000	235,000,000
111	Kenya Copyright Board	30,000,000	62,000,000	52,000,000	81,000,000
112	Bomas of Kenya Ltd.	213,000,000	237,000,000	336,000,000	460,000,000
113	Kenyatta International Conference Centre, (KICC)	-	-	-	200,000,000
114	Catering Levy Trustees	-	-	-	300,000,000
115	Kenya Tourism Board	783,098,000	750,000,000	815,000,000	771,079,000
116	Kenya Tourist Development Corporation	-	-	-	110,000,000
117	Kenya Utalii College	50,000,000	80,000,000	103,000,000	110,000,000
118	Export Processing Zones Authority	269,112,000	248,150,000	347,356,000	452,403,000
119	Export Promotion Council	151,860,000	185,460,000	239,200,000	305,575,000
120	Kenya Airports Authority	663,558,000	816,347,000	1,965,519,000	624,201,000
121	Kenya Civil Aviation Authority	-	-	-	2,883,000,000
122	Kenya Maritime Authority	120,000,000	160,000,000	135,000,000	135,000,000
123	Kenya Ferry Services	295,211,000	367,000,000	520,000,000	337,000,000
124	Kenya Ports Authority	-	-	-	300,000,000
125	Kenya Railways Corporation	51,572,000	-	1,500,000,000	100,000,000
126	Athi water services Board	77,928,000	83,654,000	90,000,000	300,000,000
127	Tana water services board	16,949,000	140,487,000	80,000,000	195,000,000
128	Water resources management Authority	125,092,000	152,694,000	513,812,000	100,000,000
129	Coast Water Services Board	49,046,000	132,191,000	1,501,500,000	100,000,000
130	Kenya Water Institute	177,000,000	133,000,000	281,534,000	190,000,000
131	Tanaathi water services	162,963,000	266,900,000	259,499,000	576,737,000
132	Lake Victoria North Region Water Service Board	56,579,000	76,900,000	75,000,000	180,000,000
133	National Irrigation Board	614,106,000	2,394,953,000	2,058,300,000	999,834,000
134	Northern Water Services Board (NWSB)	171,158,000	140,000,000	130,000,000	152,000,000
135	Rift Valley Water Service Board	153,696,000	422,693,000	341,350,000	43,000,000
136	Water Service Trust Fund	96,986,000	102,803,000	120,000,000	190,000,000
137	Water Services Regulatory Board	8,309,000	10,341,000	48,000,000	20,000,000
138	Youth development Fund	500,000,000	550,000,000	550,000,000	550,000,000
139	Sports Stadia Management Board	79,000,000	83,473,000	267,000,000	252,500,000

Source: Ministry of Finance

OPENING SPEECH BY MR. RONINSON GITHAU, EGH, MP, MINISTER FOR FINANCE AT THE PUBLIC PRIVATE PARTNERSHIP WORKSHOP HELD ON 12TH FEBRUARY, 2013.

1. The Minister welcomed all the Participants to the Public Private Partnership workshop organized by the Ministry of Finance in conjunction with the World Bank.
2. He said that Kenya's Vision 2030 long-term development blue print seeks to transform Kenya into a middle income country by the year 2030. Infrastructure is seen as the foundation of this development and substantial investments are therefore required to address the infrastructure deficit, a majority of which is expected to come from the private sector. A recent African Infrastructure Country Diagnostic report concludes that Kenya faces a large infrastructure deficit, which requires sustained expenditure of approximately 20 per cent of its GDP per year over the next decade.
3. The lack of adequate infrastructure is a top constraint of doing business in Kenya and particularly infrastructure bottlenecks relating to the transport including the inadequate terminal capacity at port of Mombasa and the need to enhance road and rail interfaces to improve efficiency on the Northern Transport Corridor. Another area of concern, and which has affected business in Kenya is the adequacy and reliability of supply of electricity. All these inefficiencies result in increased direct and indirect costs and ultimately loss of opportunities and competitiveness for Kenya goods.
4. The country therefore needs to improve and modernize its infrastructure by increasing investments in roads, rail, sea and air transport, energy supply and water and sanitation. Although Kenya spends substantial amounts in these critical sectors, there still exists a huge funding gap that the Government alone may not be able to close.
5. The role of the private sector is therefore key towards reducing the infrastructure deficit and to deliver high quality service to the Kenyan citizens. The public private partnership arrangements, therefore, offer an opportunity for Kenya to attract enhanced private sector participation in financing, building and operating infrastructure services and facilities in order to close this huge funding gap.
6. The main focus on the first phase of the country PPP program will be in transport (roads, rail, sea and airports) and electricity generation in order to address the key bottlenecks and reduce the cost of doing business in Kenya.
7. In order to have a truly sustainable Public Private Partnership programme, experience world over has shown that there are three key things that must be put in place by the Government.
8. First, a robust legal and regulatory framework must be in place. Towards this end, the Government has over the past been committed to improve and strengthen the environment

for private sector participation and has passed or amended a number of legislations to accommodate private sector participation in various sectors which includes the enactment of Water Act of 2002, Privatization Act of 2005, Energy Act of 2006, amendment of Public Road and Tolls Act (Cap 407) in 2007 and the amendment of the Kenya Communications Act in 2009 amongst others. The Government also issued the regulatory and legal framework for public private partnerships under the Legal Notice NO. 38 entitled "*The Public Procurement and Disposal Act (Public Private Partnerships) Regulations, 2009*" dated 10th March 2009 which are anchored to the Public Procurement and Disposal Act of 2005.

9. Also, in an effort to improve the PPP investment climate, the Government approved a Public Private Partnership policy in December, 2011 to articulate its commitment to Public Private Partnerships (PPP) and to provide a basis for the enactment of a PPP Law to strengthen the existing legal and regulatory framework. The policy is also expected to provide a foundation for the establishment of institutions to champion the PPP agenda, facilitate mobilization of domestic and international private sector investments, and to provide for Government support for PPP projects, as well as providing a clear and transparent process for project development.
10. To make the investment climate more conducive, the Government enacted The Public Private Partnership Act, 2012, which was assented by the President in January 2013 and is expected to become operational by 15th February, 2013. The PPP Law will strengthen the legal framework and consolidate all issues relating to PPPs into one Law. The New PPP Law:
 - provides the legal capacity to Government bodies to enter into PPP contracts;
 - creates certainty and investor confidence;
 - addresses legal gaps, remove conflicts and overlaps in law;
 - clarifies roles and responsibilities of various bodies and institutions that may have an input to the PPP process;
 - establishes legal institutions to prepare and approve PPP projects;
 - reduces negative impacts on risk profile of PPP projects;
 - provides a framework for PPP project cycle;
 - provides a clear approval process for PPPs;
 - provides for a Procurement process for both solicited and unsolicited investment proposals; and finally,
 - establishes a Project Facilitation Fund to provide for project preparation funds, viability gap funds and any government subsidies.
11. The second important aspect of a successful Public Private Partnership programme, is, the availability of finances to fund the PPP projects from both domestic and international investors and lenders. The government has made tremendous progress in capital market development over the last decade. However, reforms in this area are underway to enable both the government and the private sector to access long term funding on a stable basis and a diversified range of non-bank saving instruments to institutional and retail investors. The current capital market may be able to fund some medium sized PPP projects which have local currency revenues but the on-going reform complemented by legal and institutional changes would be essential to support funding for a PPP pipeline.

12. The third and single most important aspect of a Public Private Partnerships is to have bankable projects that are well prepared and clearly understood by both public and private sectors. He urged the sectors that were present to embark on the preparation of PPP projects and present them to the market when they are ready. He also emphasized on the need to prioritize on projects. There has been a tendency by the sectors to do all the projects at the same time which is not practical. Given the complexity of PPP projects, there is need at the beginning, to seek for services of qualified and experienced experts to assist the sectors develop bankable PPP projects. In doing so, the government shall also be learning and developing its internal capacity to undertake future PPP projects.
13. He noted that the World Bank has extended financial support to the Government of Kenya for a Credit of US\$ 40 million to assist the Government to increase the level of service and quality of targeted infrastructure services by mobilizing private sector participation through a PPP model. This assistance will go a long way in helping Government to prepare and implement a pipeline of a bankable PPP program in a systematic way. In addition, it will also help government to develop a framework for managing contingent liabilities associated with the PPP program, which is critical for the fiscal risk management and overall debt sustainability.
14. Kenya, already has a track record of engaging private sector in infrastructure services and more specifically, in the energy sector. In energy sector for example, the Kenya Government has since 1997 signed contracts with independent power producers for generating approximately 400 Mega Watts of electric power with Off-take Agreements ranging from 7 to 20 years.
15. More recently, the Government has been negotiating with the private sector to provide the much needed power and have signed agreements for Thika Power for 87MW thermal power, Triumph Power for 82 MW thermal power, Gulf Power for 80.3 MW Thermal Power and OrPower for 52MW Geothermal Expansion. In addition, a further 300 MW wind power generation project is expected to be concluded in the coming months once some issues have been sorted out.
16. In conclusion, He thanked all the participants for attending the workshop. Special thanks went to the World Bank, for their continued support to the Government and specifically the Public Private Partnership efforts in Kenya. He hoped that with the PPP Act in place and the funds available to prepare the identified PPP projects, the realization of a successful PPP program in Kenya is now a reality.
17. He then declared the workshop officially open.

