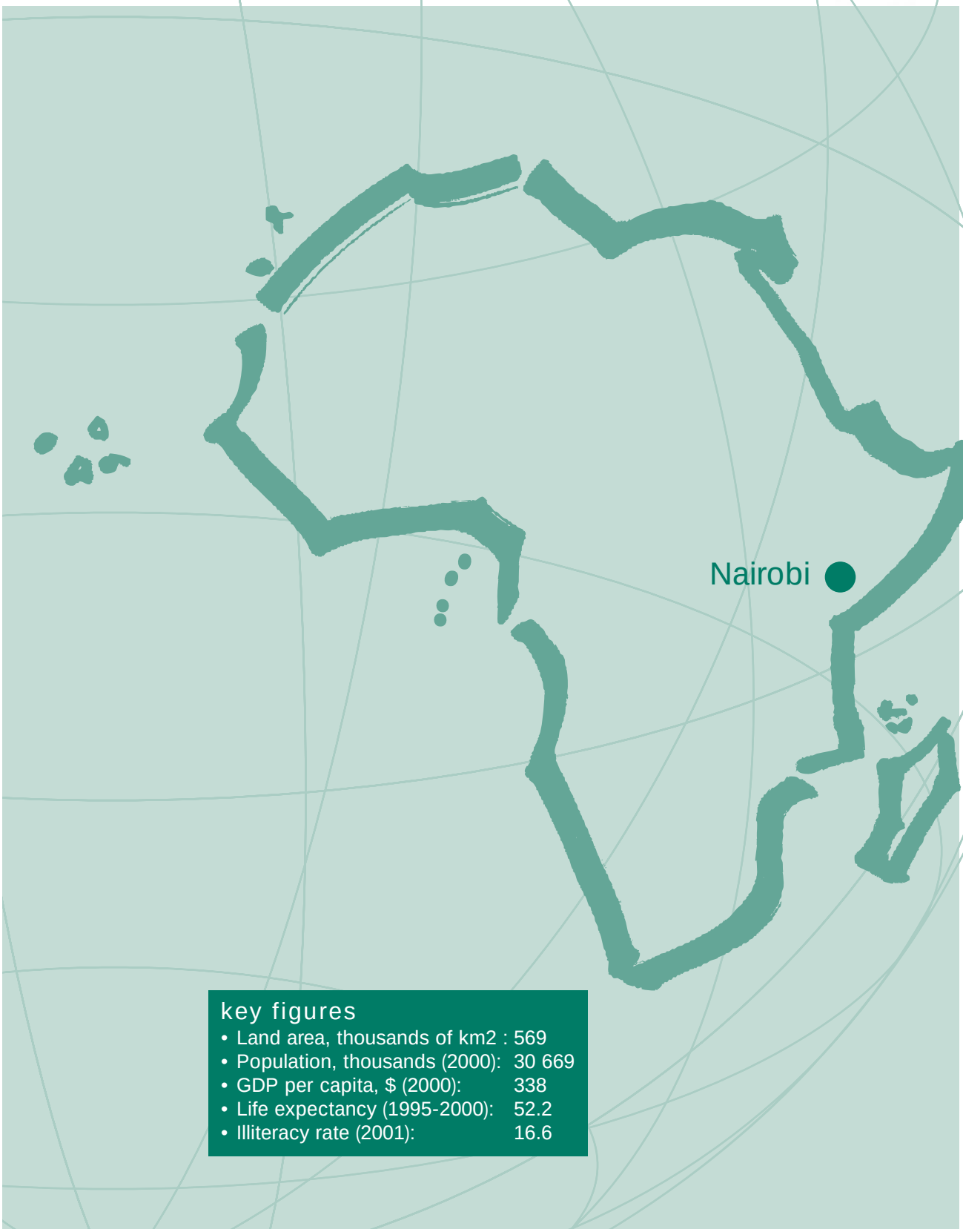
Kenya



key figures

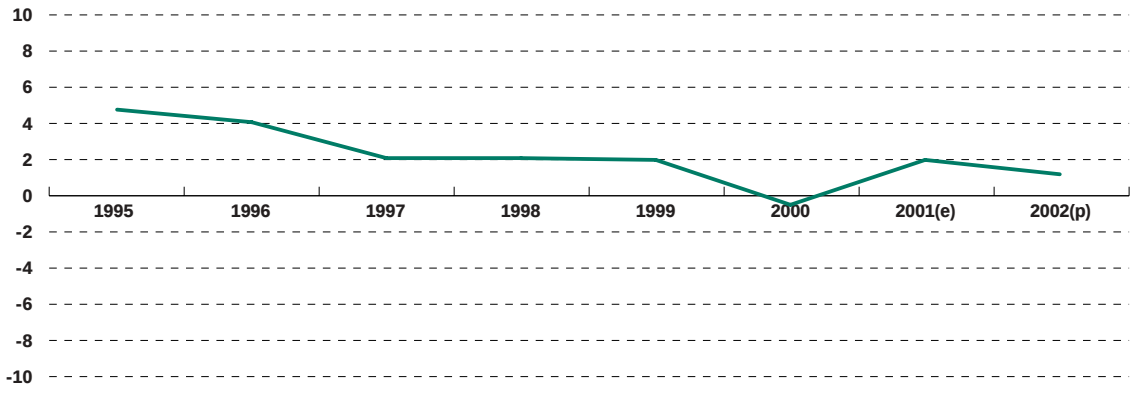
- Land area, thousands of km2 : 569
- Population, thousands (2000): 30 669
- GDP per capita, $ (2000): 338
- Life expectancy (1995-2000): 52.2
- Illiteracy rate (2001): 16.6

Kenya

THE KENYAN ECONOMY CONTINUES to register dismal performances with declining economic growth rates in the past four years. In 2000, real GDP growth slumped to –0.5 per cent following weak macroeconomic performance and governance-related problems that continue to pitch Kenya against the major international donors, thereby depriving the country of much needed external inflows. The deteriorating economic performance is reflected in poor fiscal performance, rising inflation and a depreciating local currency. The external position of the country also continues to deteriorate as a widening trade deficit, resulting from poor export performance, reflects in a widening current account deficit. Real GDP growth is estimated to remain weak at 2.0 per cent in 2001 and is projected at 1.2 per cent in 2002 as the government makes renewed growth-enhancing efforts, including renewed efforts to meet donor conditions in order to maintain the flow of international assistance. Although Kenya has a relatively long history of economic reforms to liberalise the economy, and has made some progress, the country's commitment in the area of privatisation has been called into question. Also, poor economic governance characterised by corruption at all levels of public life is a major contributor to the poor economic performance as well as a matter of contention between Kenya and international donors. In addition, the democratic dispensation of the country is now under stress with bitter struggles for the succession of President Daniel arap Moi. Kenya's declining economic performance, coupled with poor economic governance, is reflected in the widespread poverty situation of the country, with declining health indicators compounded by a rising HIV/AIDS prevalence rate.

Poor Governance is a major contributor to the poor economic performance in Kenya as well as a matter of contention with donors

Figure 1 - Real GDP Growth

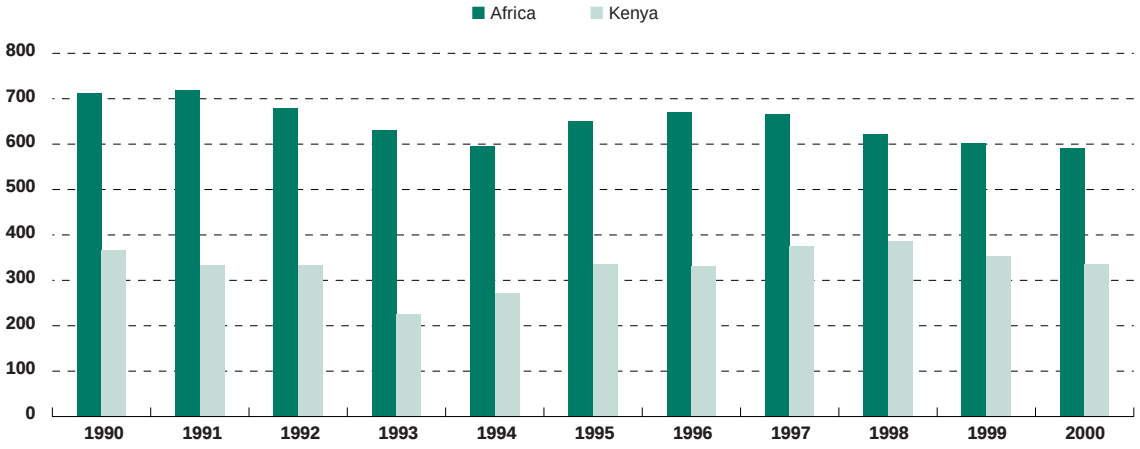


Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Recent Economic Developments

The Kenyan economy's growth rate has continued to decline since 1997, with real GDP growth rate slumping to -0.5 per cent in 2000 compared with 1.9 per cent in 1999. Several factors have accounted for the continuous decline. In 2000 these factors included poor economic management; inefficiency in the public sector, the impact of withdrawal of donor support from 1997 and adverse weather conditions. Real GDP growth is estimated to remain weak at 2.0 per cent in 2001 and is projected at 1.2 per cent in 2002

Figure 2 - GDP Per Capita in Kenya and in Africa (current $)



Source: Authors' estimates based on IMF data.

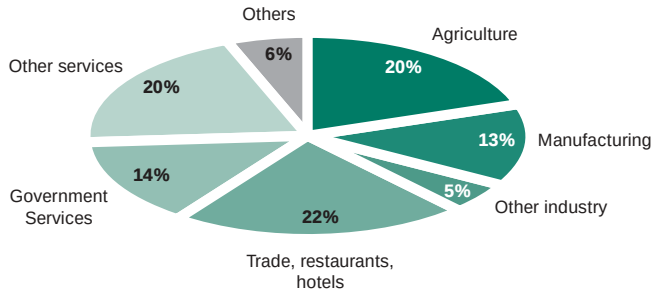
as the government makes renewed growth-enhancing efforts, including renewed efforts to meet donor conditions in order to maintain the flow of international assistance.

The decline in economic activity in 2000 was reflected in all the major sectors of the economy. The agricultural sector growth rate decelerated from 1.2 per cent in 1999 to -2.4 per cent in 2000. Bad weather conditions, poor international prices of agricultural commodities and poor infrastructure contributed to the decline. In the crops sector, for the second consecutive year, maize production declined by 14 per cent from 233 500 tons in 1999 to 201 200 tons in 2000, resulting in the importation of about 409 000 tons of maize for relief and commercial purposes. Drought, inadequate supply of quality seeds, poor crop husbandry and high cost of farm inputs were among the factors that contributed to the decline in maize output. Similarly, wheat production was low in 1999 and 2000 registering 55 400 tons and 73 800 tons respectively compared with 177 100 tons produced in 1998; Kenya imported 636 000 additional tons of wheat in 2000. In the cash crop sector, coffee production increased by 47.9 per cent from 68 100 tons in 1999 to 100 700 in 2000. However, the effect of low prices due to the glut in international markets is expected to reverse the trend in increased production in 2001. Tea production declined by 5 per cent from 248 700 tons in 1999 to 236 300 tons in 2000. The decline was attributed to the drought and frost in some tea- growing areas.

The industrial sector as a whole declined by 1.5 per cent in 2000 compared with the marginal growth of 1.2 per cent in 1999. The manufacturing sub-sector was affected by the decline in agricultural performance due to the reduction in the supply of raw materials for agro-based industries. Output in the grain-milling, sugar, tobacco, and bakery products industries declined by big margins of 21.5 per cent, 16.9 per cent, 14.4 per cent and 12.9 per cent respectively in 2000. Other industries such as textiles, chemicals and transport continued with their downward trend as the foreign exchange squeeze affected production. However, output of plastic and petroleum products, beverages and leather and footwear industries that have a strong export market continued to record upward trends. Industrial production activity was generally affected by inadequate public utilities, especially water and energy. Metered power supply to the commercial and industrial sector declined by 5.4 per cent, leading to increased use of generators as an alternative source of power. Consequently, there was reduced plant capacity utilisation leading to less output.

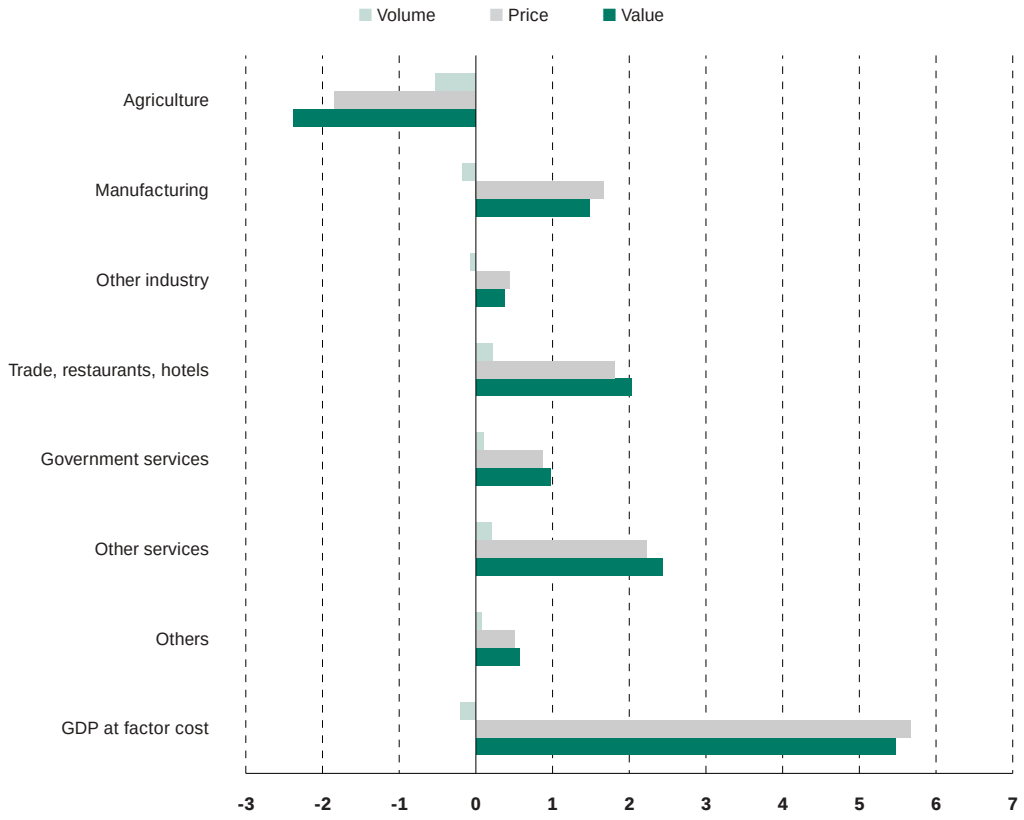
In the services sector, the performance of tourism continued to pick up in 2000 albeit at a slower pace than in 1999. The number of visitor arrivals, which had

Figure 3 - GDP by Sector in 2000



Source: Authors' estimates based on IMF and domestic authorities' data.

Figure 4 - Sectoral Contribution to GDP Growth, 1999/2000



Source: Authors' estimates based on IMF and domestic authorities' data.

grown by 8.4 per cent in 1999, grew further by 6.9 per cent in 2000. The slower growth in the number of visitors in 2000 was due to the political unrest and insecurity in the country, coming at a time when other tourist destinations such as Uganda and South Africa were offering more competitive environments than Kenya. The transport and communications sub-sector recorded improved performance in 2000. The sector grew by 14.2 per cent in the year, compared with 11.3 per cent in 1999. The higher growth was derived from the volume of imports handled, which rose by 11.9 per cent.

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**22.5**	**17.2**	**15.6**	**16.4**	**15.8**	**15.0**
Public	8.1	6.4	5.8	6.1	6.1	5.8
Private	14.4	10.8	9.7	10.2	9.8	9.3
Consumption	**84.1**	**90.7**	**90.4**	**95.7**	**97.9**	**98.2**
Public	14.8	16.1	16.5	18.5	19.1	18.6
Private	69.3	74.6	73.9	77.2	78.8	79.7
External sector	**-6.6**	**-7.8**	**-5.9**	**-12.1**	**-13.7**	**-13.3**
Exports	32.6	25.2	24.4	26.5	23.5	22.0
Imports	-39.1	-33.0	-30.3	-38.5	-37.2	-35.3

Source: Authors' estimates and predictions based on domestic authorities' data.

Kenya's growth performance has been underlined by a consistently high level of domestic consumption (public and private). Consequently, domestic investment as a share of GDP had continued to fall. Total consumption is expected to continue the upward trend and is estimated at 98 per cent of GDP in 2001 and 2002 while domestic investment falls from 16.4 per cent of GDP in 2000 to a projected 15.0 per cent of GDP in 2002.

Macroeconomic Policy

Fiscal and Monetary Policies

The Kenyan government's revenue position deteriorated sharply in 1998/99 and it remained precarious in 1999/2000; the ratio of revenue to GDP fell to 24 per cent as the government undertook no domestic revenue-enhancing measures in 1999/2000. However, external grants increased slightly, rising from 0.7 per cent of GDP in 1998/99 to 1.2 per cent of GDP in 1999/2000. This followed the resumption of aid after Kenya signed the three-year poverty reduction and growth facility (PRGF) at the start of 2000 to mark what appeared to be the easing of Kenya's frosty relations with international donors. However, the easing of the frosty relation came unstuck at end-2000 leading to the suspension of the second of three IMF/World Bank tranches under the PRGF that was due to be released in December 2000, with adverse implication for the budget of the 2000/01 fiscal year.

In 1998/99, the government made major efforts to reduce the level of government expenditure. Measures taken included stricter monitoring of ministerial budgets; rationalisation of expenditure through the review of

Table 2 - Public Finances[a] (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Total revenue and grants[b]	**30.2**	**28.0**	**27.2**	**24.0**	**24.1**	**24.1**
Tax revenue	25.1	n.a.	23.3	19.9	20.0	20.0
Total expenditure and net lending[b]	**31.2**	**29.7**	**27.3**	**24.0**		
Current expenditure	24.4	n.a.	22.3	20.6		
Excluding interest	*17.0*	*n.a.*	*16.8*	*16.6*	*17.1*	*16.5*
Wages and salaries	9.9	n.a.	8.8	8.8	8.9	8.8
Interest on public debt	7.3	5.8	5.5	4.0		
Capital expenditure	6.9	n.a.	5.0	3.4	3.3	3.2
Primary balance	**6.3**	**4.1**	**5.4**	**4.0**	**3.7**	**4.4**
Overall balance	**-1.0**	**-1.7**	**-0.1**	**0.0**		

a. Fiscal year begins 1 July.
b. Only major items are reported.
Source: Authors' estimates and predictions based on domestic authorities' data.

government functions in the ministries; and shedding of non-essential government services and redundancies in the civil service. In addition, the number of ministries was reduced from 27 to 15. These measures succeeded in reducing total expenditure to 27.3 per cent of GDP in 1998/99 compared to 29.7 per cent in 1997/98. In 1999/2000, total expenditure came down to 24 per cent of GDP. Notwithstanding the fall in total expenditure, the government was not successful in all its expenditure control measures. Salaries and wages remained at the 1998/99 level of 8.8 per cent of GDP in 1999/2000 because the government failed in its expenditure control effort by not completing planned retrenchment of established civil service posts. This failure was damaging as civil service salaries alone accounted for about 40 per cent of ordinary revenues and constituted about 30 per cent of total expenditure. At the same time, poor remuneration in the civil service was behind the decline in discipline and low morale, which in turn has led to increasing levels of corruption in the country. Another item of current expenditure that increased in 1999/2000 was the government's purchases of goods and services, which went up from 8.8 per cent of GDP in 1998/99 to 9.5 per cent of GDP in 1999/2000. The increase was necessary as the government had to undertake a number of projects in the areas of drought response, emergency power supply and road rehabilitation under the El-Niño Emergency Project. In the event, the primary balance fell from 5.4 per cent of GDP in 1998/99 to 4 per cent of GDP in 1999/2000.

The outlook on the government's finances is a slight reduction in the primary balance estimated at 3.7 per cent of GDP in 2000/01 and projected at 4.4 per cent of GDP in 2001/02. On the revenue side, the improvement is expected to come from enhanced revenue measures including the increase in the VAT rate from 15 per cent to 18 per cent in 2000, the tightening of policies and procedures for tax exemption. Moreover, the Kenya Revenue Authority is continuing its efforts on education and sensitisation on tax compliance.

The Kenyan government has been successful over the past three years at maintaining a tight monetary policy of keeping money supply within the targeted growth rate of less than 8 per cent per annum. This success was continued in 2000. Broad money supply, M3, expanded by 1.6 per cent in 2000 compared with 2.8 per cent in 1999. The deceleration in money supply growth was in line with the economic slowdown during 2000 and was mainly attributed to slackened demand for bank credit. Credit to the private sector (including other public sector) increased by 4.5 per cent in 2000, down from 9.3 per cent in 1999. Credit to the central government declined by 3.6 per cent in 2000 following a drop of 3.8 per cent in 1999. Actually, the Central Bank of Kenya Amendment Bill (1998) placed a limitation on the new borrowing requirements of the government to 5 per cent of expected annual revenues. The government essentially operated within this limit in 1999 and 2000. On the other hand, Net Foreign Assets (NFA) increased significantly by 57.1 per cent in 2000, reflecting a shift to asset portfolio in favour of deposits denominated in foreign currency holdings as a hedge against the depreciation of the Kenyan shilling.

The overall inflation rate increased from 3.5 per cent in 1999 to 6.2 per cent in 2000. The rise in inflation was explained by the increase in prices of basic foodstuffs. Other factors including the increase in the VAT rate, depreciation of the shilling against the US dollar and the rise in petroleum products contributed to the inflationary pressures. The rate of inflation is expected to be maintained at single-digit figures and is estimated at 5.3 per cent in 2001 as the first quarter of 2001 has witnessed decreases in the prices of food items such as fruits and vegetables owing to unexpected rains in January 2001. The rate of inflation is projected at 5.4 per cent in 2002.

In an attempt to maintain real interest rates, Parliament approved in 2000 the Central Bank Amendment Bill which obliged commercial banks to fix the lending and deposit rates at respectively 4 percentage points and 8 percentage points above the 91-day Treasury bill rate. The government's intention was to control the hike in interest rates, which was experienced in the two preceding years. However, this was seen as a step backwards in the market liberalisation which was completed in 1995. The passing of this Bill by Parliament and its subsequent approval by the cabinet were one of the reasons for the withholding of

the second tranche of IMF PRGF. However, as the economy slowed down in 2000, the principal interest rates declined. The average interest rate for the 91-day Treasury bill eased to 9.52 per cent in July 2000, but subsequently edged upwards to settle at 13.47 per cent in December 2000.

Kenya has maintained a flexible exchange rate system since 1995. The Kenya shilling weakened against the US dollar by about 6.5 per cent in 2000 as the economic fundamentals weakened. However, the shilling strengthened against other currencies including the pound Sterling, the euro and the Japanese yen by 1.4 per cent, 1.3 per cent, and 4.8 per cent respectively. The strength of the shilling against these currencies however reflected the substantial weakening of these currencies against the US dollar in the international markets in 2000.

External Position

Kenya has maintained a liberalised external trade system since 1993 and has progressively reviewed its trade tariffs downwards to the current top rate of 22 per cent. The current trade regime is operated within the framework of the COMESA free trade area launched in October 2000. The government intends to adopt by end-2001 a 100 per cent tariff reduction on goods from the COMESA member states. The importance of regional groupings to Kenya has been reflected in its direction of trade. Export to COMESA rose by about 6 per cent in 2000 to account for 42 per cent of total exports. Remaining exports went to the EU (29 per cent), Middle East (5 per cent) and Far East (11 per cent). The value of imports from COMESA countries rose by 45 per cent in 2000 to account for 9 per cent of total imports. The EU continued to be the main source of imports with 31-percentage share of total imports followed by Middle East (30 per cent) and Far East (20 per cent).

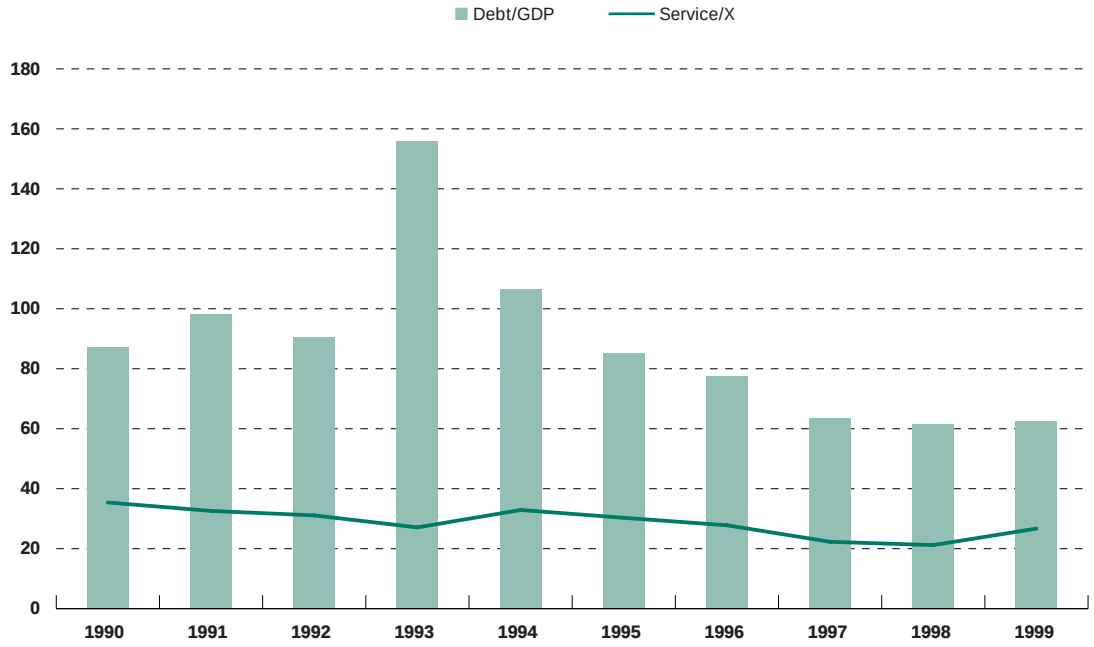
Kenya's poor external performance continued in 2000 with the trade deficit widening from 8.4 per cent of GDP in 1999 to 14.4 per cent in 2000 as a result of unmatched growth in imports and exports. The widening trade deficit was reflected in the deterioration in the current account deficit, which increased from 2.3 per cent of GDP in 1999 to 5.4 per cent of GDP in 2000. Domestic exports of goods performed poorly with the value of goods exported increasing by less than 1 per cent in 2000. The sluggish performance of export earnings was mainly due to the fact that over three-quarters of the principal export commodities recorded a decline in quantities and/or reduction in price. The principal export commodities were tea, horticulture, coffee and petroleum products, which jointly contributed 64.7 per cent of the domestic export earnings in 2000. The export quantities of horticulture decreased by 3.3 per cent in 2000, while the volume of tea exported declined by 16.5 per cent. Export quantities of coffee increased by 21.5 per cent but its value suffered from international price decline. The total value of imports of goods increased by 11.6 per cent in 2000. Imports of industrial machinery went up to 15.9 per cent of the total import bill in 2000 compared with 14.9 per cent in 1999. The increase was largely a result of importation of electrical generators to cater for the shortfall in power supply as a consequence of the drought. The import value of crude petroleum rose by 87.5 per cent owing to increases in the international price of the commodity.

Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-8.2	-9.0	-8.4	-14.4	-14.9	-14.2
Exports of goods (f.o.b.)	21.3	17.8	16.0	17.0	15.5	14.5
Imports of goods (f.o.b.)	-29.5	-26.8	-24.5	-31.4	-30.3	-28.8
Services	1.7	1.1	2.6	2.1		
Factor income	-3.5	-1.1	-1.7	-1.2		
Current transfers	4.4	4.2	5.3	8.0		
Current account balance	**-5.6**	**-5.0**	**-2.3**	**-5.4**		

Source: Authors' estimates and predictions based on domestic authorities' data.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

The outlook on the external position remains bleak as the trade deficit is estimated to rise to 14.9 per cent of GDP in 2001 and projected to fall only marginally to 14.2 per cent of GDP in 2002. The continual poor trade performance is a reflection of the inability of exports to improve significantly even as the level of imports stabilises.

At end-1999, the total outstanding external debt of Kenya was estimated at $6.56 billion. Of the total outstanding debt 51 per cent was owed to multilateral institutions. The International Development Association (IDA) accounted for 76 per cent of the multilateral debt and 44 per cent of total debt. Bilateral donors accounted for 35 per cent of the total debt. Japan was the main bilateral creditor accounting for 51 per cent of the bilateral debt and 22 per cent of the total debt. In 1998 Kenya reached an agreement with its Paris Club creditors to reschedule about $49 million of its debt and cancel $21 million in commercial debts. Also, as part of its debt management strategy, the government has adopted a policy to limit its external borrowing to only concessionary loans. The larger share of IDA debt underscores the concessionary nature of the debt. Consequently, Kenya is regarded by the IMF/World Bank as a sustainable case, requiring no debt relief under enhanced HIPC.

Structural Issues

Kenya has a relatively long history of structural reforms to liberalise its economy. Earlier reforms included the removal of quantitative import and price controls, the abolition of foreign exchange controls and the revision of labour laws to make them more flexible and in line with private sector requirements.

To streamline investment procedures, an Investment Promotion Centre was established as a one-stop shop. The Foreign Investment Protection Act was enacted to guarantee repatriation of capital, remittance of dividends and interests on investments. Reforms to attract investment, especially in manufacturing, included the in-bond programme open to both domestic and foreign investors, under which investors are offered incentives

including duty and VAT exemptions on imported plant, machinery and equipment, raw materials and other inputs. Kenya has also established two export-processing zones (EPZ) since 1990 to encourage production for export. Enterprises operating in the zones enjoy additional benefits, including tax holidays and exemptions, and freedom from restrictions on management or technical arrangements. Key performance indicators of the EPZ show better performance in 2000 compared with 1999. The number of gazetted zones now stands at 19, of which 17 are privately owned and operated while two are public. In 2000, 24 enterprises were operating compared with 18 enterprises and 22 enterprises in 1998 and 1999 respectively. However, four enterprises folded in 2000 for various reasons including the effect of the adverse political situation; on the other hand, one new enterprise also started in 2000. In 2000, about 14 per cent of the total investment was wholly Kenyan while 33 per cent were joint ventures and 53 per cent were wholly foreign. Investments in the EPZ have diversified from the initial interest in garments to include electronics, pharmaceuticals, agro-processing and software development.

In 1990 the Kenyan Government held equity in over 240 commercially oriented enterprises. Under the public enterprises reform programme the government was to retain 33 of the enterprises considered "strategic", while the remaining 207 would be privatised. By end-1999, 167 enterprises had been partially or completely privatised. The strategic enterprises such as Kenya Ports Authority, Kenya Railways, and Kenya Posts and Telecommunications Corporation had also been restructured. The commitment of the government to the privatisation exercise was called into question following the cabinet decision to reject the privatisation of 49 per cent of Telcom Kenya on the grounds that the offers made by prospective investors were too low. This decision was another bone of contention between the government and the IMF and behind the suspension of the second tranche PRGF.

The Kenya public reform programme lapsed in 1997 when the government failed to take actions that would have facilitated the release of the second tranche under the ESAF Arrangement that was supporting the reforms. The government failed to *i)* pass the legislation to initiate reforms in the energy sector; *ii)* establish an anti-corruption authority to investigate all suspected cases of financial mismanagement, specifically the ruling by the Constitutional Court declaring the Kenya Anti-Corruption Authority (KACA) unconstitutional; *iii)* enact the bill separating the Kenya Posts and Telecommunications Corporation, in preparation for privatisation of communications; and *iv)* conclude legal proceedings relating to the Goldenburg case, involving $400 million fraud. Similarly, as already indicated, the implementation of Kenya's three-year PRGF has stalled following the government's failure to revamp the privatisation process and take steps on governance and economic management issues. In addition to those already enumerated, issues at stake here included the rejection by Parliament of the Code of Conduct and Ethics Bill; and Parliament's postponement of the debate on the Anti-corruption and Economic Crimes Bill.

In Kenya's financial sector reforms have taken place over a period up to 1998. About 30 financial institutions were liquidated, 17 placed under the Deposit Protection Board, seven placed under Consolidated Bank Limited, four under receivership, one under voluntary liquidation, one wound up by the courts, and five banks placed under statutory management. These actions were largely in response to the poor management and non-performing and unrecoverable loan portfolios of the institutions that created considerable instability in the financial system. Other measures taken to stabilise the banking sector include: *i)* an increase in the minimum paid-up capital requirement in order to increase capitalisation; *ii)* divestiture from the banking sector by the government; and *iii)* tightening of the banking regulations, particularly with respect to management of the institutions. The functioning of the Nairobi Stock Exchange has also been revamped with the government revising the operating regulations of the market to allow foreign investment. However, the deterioration in the economy has negatively affected the business climate and led to diminishing confidence among investors. The loss of confidence in the country's economy is reflected in the depressed activities of the

stock market whose capitalisation declined from $2.1 billion in 1998 to $1.4 billion in 1999. Activity at the stock market remained depressed in 2000. The cumulative volume of shares traded decreased by 10 per cent in 2000, as the all-share index also fell by 17 per cent. In 2000, the Capital Markets Authority segmented the capital market into four independent segments, namely: Main Investment Market; Alternative Investments Market; Fixed Incomes Securities Market; and Futures and Options Market. The first three market segments are already operational while the last one will be implemented at a later stage.

Political and Social Context

Kenya is a functioning democracy. However, the democratic dispensation in Kenya is currently under considerable stress as bitter struggles ensue for the succession to the Presidency after President Daniel arap Moi. Accusations and counter-accusations of corruption among the leading contenders and the public at large threaten not only the ruling party but national unity. Meanwhile the Constitution of Kenya Review Commission is also battling with controversial issues including electoral reform, the nature of presidential power and the country's regional administration.

Currently, poor economic governance, characterised by corruption at all levels of public service, is believed to be a major contributor to the weak performance of the Kenyan economy. This has manifested itself in inefficient allocation of resources and the resultant deterioration in investor confidence in Kenya. The resolve of the government for quick action on corruption has also been questioned by certain developments. The Kenya Anti-Corruption Authority (KACA), established in December 1997 to track down and prosecute all cases of corruption, did not become operational until 1999, only for Parliament to reject in August 2001 the Constitutional (Amendment) Bill that would have given KACA the much-needed police powers to investigate and prosecute suspected cases of corruption. Also, the Central Tender Board, which in 2000 the government opened to private sector participation to enhance openness and accountability, has been abolished and replaced by Ministerial Tender Boards. The government has however established a procurement appeals board, which consists of membership from the private sector.

Poverty remains widespread in Kenya and has been aggravated by the recent economic decline. It is estimated that about 15 million Kenyans (52 per cent of the population) live below the poverty line of one US dollar a day. This incidence of poverty is higher in rural areas where the estimate of the population living in absolute poverty is about 53 per cent. The basic features of poverty in Kenya include landlessness and lack of any form of education; the poor are also clustered in certain socio-economic categories, which include small farmers, pastoralists in the arid and semi-arid land areas, agricultural labourers, unskilled workers, female-headed households, the physically handicapped, orphans and street children. The government's current poverty alleviation programme – the National Poverty Eradication Plan (NPEP) – launched in 1999 focuses on the agricultural sector, physical infrastructure and rural development. The success of the programme requires the government to review and possibly remove some of the 120 restrictive laws and regulations that prohibit free entry into the agricultural sector. Also, the programme relies to a large extent on donor support and its success requires the government to take action to mend its relations with donors.

The Kenya Demographic and Health Survey (1998) indicates that the country's achievements in health and demographic indicators during the 1980s and early 1990s are declining steadily. In 2000, there were 481 hospitals, 601 health centres and 3 273 dispensaries in the country. These facilities registered an increase of 7.1 per cent, 1.3 per cent and 2.5 per cent respectively compared to 1999. About 77 per cent of the Kenyan population have access to health services, which is high compared to the African average of 60 per cent. Increasing incidence of epidemics such as malaria and easily preventable diseases have contributed to the deteriorating health situation. In areas such as child immunisation, Kenya's performance stands below the average for Africa: only 32 per cent of children in

Kenya are immunised against measles, and 42 per cent against tuberculosis, compared with African averages of 63 per cent and 77 per cent respectively. Recently HIV/AIDS has become a major factor behind the deteriorating health situation. UNAIDS estimates that the adult HIV/AIDS prevalence rate has increased in the last years, reaching a level of 13.95 per cent in 1999. According to national analyses the prevalence rate is higher in urban areas where the increase is from 16.3 per cent to 17.5 per cent, compared to the rural areas where the increase has been from 11 per cent to 13 per cent over the same period. It is also estimated that HIV/AIDS accounts for 50 per cent of daily deaths in Kenya. The declining health situation is a reflection of the worsening socio-economic situation as well as the inadequate resources devoted to health services in Kenya, where public expenditure represents only 1.7 per cent of GDP compared with the average 2.5 per cent for Africa.

Kenya made significant achievement on the literacy front from earlier investments in education which saw the educational system witness rapid growth in enrolment at all levels. The earlier gains continue to give the country strong educational indicators in Africa. The adult illiteracy rate of 20.7 per cent compares favourably with the African average of 43.5 per cent; the total primary school enrolment ratio (1995) stood at 84.9 per cent, compared with 79.5 per cent for Africa. The total number enrolled in primary school, which fell by 2.2 per cent in 1999, rose by 1.6 per cent in 2000. However, the numbers in primary school in 2000 were below 1998 levels. Government expenditure on education has remained consistent at around 6 per cent of GDP per annum over the 1995-2000 period, which is higher than the average 4 per cent for Africa. However, education in Kenya is currently characterised by non-enrolment, high levels of dropout and low completion rates particularly among girls, and poor transition rates from one level of education to the other. The government's current educational programme aims to increase expenditure on primary education from its current level of 57 per cent to 67 per cent of the Ministry of Education's recurrent expenditure, with the increased spending focused on provision of textbooks, bursaries for the poor, and increasing the participation of girls at all levels. Similarly, secondary education is to be boosted by reducing the cost of education and shifting subsidies away from the richest segments of the population to the poor.