RESTRICTED

AE6
Vol. 1

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

ECONOMIC DEVELOPMENT PROSPECTS IN KENYA

(in two parts)

PART I: MAIN REPORT

October 22, 1969

Eastern Africa Department

EQUIVALENTS

Currency

20 Kenya Shillings (K Shs)	=	1 Kenya Pound (K£)
K£ 1	=	U.S. $2.80 = £ 1.167 (Sterling)
U.S. $1	=	7.14 K Shs
£ 1 (Sterling)	=	17.1428 K Shs

Weight

Unless otherwise stated, tons in this report refers to long tons of 2,240 lb.

1 ton	=	1,016.047 kilograms (Kg)
1 Kg	=	2.205 lb.

Area

1 Acre	=	0.40469 hectares
1 Square Mile	=	2.5900 square kilometres

THE MISSION

This report is based on the findings of a mission which visited Kenya during April-May, 1969. This mission consisted of the following:

Colin Bruce	-	Chief of Mission and Chief Economist
Arun Shourie	-	General Economist and Econometrician
John Burrows	-	Agricultural Economist
Kack Kordik	-	Agriculturalist
Walter Freeman	-	Adviser on Rural Development
James Simmons)		
Asha Datar)	-	Advisers on Tourism
James McGibbon)		
Vinod Dubey)	-	Advisers on Creditworthiness

Consultants

(The Mission received general assistance from the Bank's Permanent Mission to East Africa, and particular assistance from Messrs. Bickers and Reid on Transport, Messrs. Groenveld (FAO) and Schaeffer-Kehnert on Agriculture and Mr. Il Hi Kang on Tourism.)

ECONOMIC DEVELOPMENT PROSPECTS IN KENYA

TABLE OF CONTENTS

PART I

Page No.

APPENDICES

1. Population Growth and Control
2. Housing
3. Projects Suitable for External Financing
4. An Econometric Model of the Kenya Economy
5. External Public Debt Projections
6. Tables

MAP

PART II

ANNEXES (In separate volume)

A. Agriculture, Forestry and Fishing
B. Rural Development
C. Tourism

KENYA

Basic Data

Area: Total - 225,000 sq. miles = 582,750 sq. kilometres
Land area - 219,800 sq. miles = 569,282 sq. kilometres

Population: (mid-1968 estimate): 10.21 million
Rate of growth: 3.0 percent
Population density: Total land area - 43.7 per sq. mile
Arable land area - about 450 per sq. mile

Literacy Rate (1968): 30 percent estimated

Political Status: Republic since Independence on December 12, 1963
Member of the British Commonwealth & the Sterling Area

Gross National Product at Factor Cost (1968): K£ 420 million ($1,176 million)

GNP per capita (1968): K£ 41.1 ($115.1)

GDP (at factor cost) Growth Rate:

	1964-68	1968
Constant 1964 prices	6.3%	6.6%
Current prices	6.8%	5.9%

Industrial Distribution of GDP (at constant prices):

	% 1964	% 1968
Agriculture	39.28	36.77
Manufacturing & Mining	10.62	10.32
Building & Construction	3.81	3.98
Electricity & Water	2.09	1.87
Transport, Storage & Communications	7.59	9.16
Services & Others	23.63	23.81
General Government	12.98	14.09
TOTAL	100.00	100.00
Of which is Monetary	73.17	75.10
Of which is Non-Monetary	26.83	24.90

Investment & Savings:

	K£ Million	
	1964	1968
Gross Fixed Capital Formation	45.14	91.00
Change in Stocks	2.30	2.60
Gross Capital Formation	47.44	93.60
Balance of Goods and Non-Factor Services	14.70	-14.80
Gross Domestic Saving	62.14	78.80
Net Factor Income Payments	-7.10	-4.30
Gross National Saving	55.04	74.50

Capital Formation as percentage of GDP at factor cost	14.3%	21.7%
Gross Domestic Saving percentage of GDP at factor cost	18.8%	18.3%
Gross National Saving percentage of GNP at factor cost	16.6%	17.3%

Balance of Payments:

	K£ Million	
	1964	1968
Exports of Goods & Non-Factor Services	119.7	134.7
Imports of Goods & Non-Factor Services	105.0	149.5
Balance of Goods & Non-Factor Services	14.8	-14.8
Net Factor Payments	-7.1	-7.1
Net Transfers	9.8	5.7
Balance of Payments on Current Account	17.5	-16.2
Net Private Long-Term Capital Inflow	-15.0	10.5
Net Public Long-Term Capital Inflow	-1.0	8.9
Net Short-Term Capital Movements	0.1	1.6
Change in Reserves - Increase (-) Decrease (+)	3.4	-11.3

Budget:

	K£ Million
	1967/68
Current Revenue	73.78
Current Expenditure	66.68
Current Surplus	7.10
Capital Revenue	5.42
Balance	12.52
Capital Expenditure	-27.30
Overall Deficit	-14.78
Financed by: Internal Grants & Loans	8.56
External Grants & Loans	7.87
Increase in Cash Balance	1.65

Foreign Exchange Reserves (April, 1969): Total K£ 52 Million ($146 million)

IMF Position (Million U.S. $)

	1965	1968
Quota	25	32
Drawings	--	--

External Debt (31 December 1968):

	$ thousand Disbursed	Including Undisbursed
Total Debt Outstanding		
Kenya:	254,588	343,152
Notional 1/3 share of East African Community Debt:	58,706	64,864
TOTAL	313,194	408,016
Total Debt Service - 1968		
Kenya:	17,799	
Notional 1/3 share of East African Community Debt:	10,935	
TOTAL DEBT SERVICE	28,734	

Debt Service Ratio: 6.9%

ECONOMIC DEVELOPMENT PROSPECTS IN KENYA

PART I

SUMMARY AND CONCLUSIONS

1. From the standpoint of the expansion of output, Kenya is among the successful developing countries. Despite an exceptionally high population growth (three percent per annum), an increase in real per capita income of about three percent per annum has been achieved over the past five years. 1/ The new 1969-74 Development Plan projects output (GDP) in real terms to grow at 6.7 percent a year over the next five years compared with 6.3 percent over the past five years. As a target rate of growth of GDP, 6.3 percent is not unreasonable. Although actual performance may fall a little short of this, a real growth rate of about 6-1/2 percent should be possible if the policy objectives of the new Plan are achieved. 2/

2. Kenya's economic strength and potential stem from a diverse and efficient agriculture and also from a small but fairly well developed industrial base. 3/ These factors provide both a degree of self sufficiency and also a diversity of output which enables the economy to adapt to changing export market situations without too much disruption. Kenya has benefited from being an 'early starter' in the development of manufacturing and a range of services (banking, insurance, etc.) particularly compared to its Common Market partners. While some of this initial advantage may be eroded as development gets underway in other African, particularly East African, countries, there now exist external economies of production and distribution which could provide a basis for further development.

3. Kenya's development has been greatly facilitated by an adequate supply of capital both from domestic and external sources. While the available statistics preclude categorical statements, the marginal domestic savings rate, 25 percent, is relatively high and Kenya has also secured an inflow of private and official capital from abroad on terms which have not so far created any debt servicing difficulties.

1/ Recent economic performance is summarized in Chapter II. For developing countries as a whole the recent growth in per capita income has been about 2.5 percent per annum, but with a lower population growth (2.5 percent per annum).

2/ See Chapter III, Section (a).

3/ See Chapter I, para. 3, and Section (b) (iv) of Chapter III.

4. Kenya's success has also been in considerable measure due to the pragmatic and well directed development philosophy applied by the government, which is likely to continue into the future. The development philosophy of the new Plan is dealt with in greater detail in Chapter III.

5. In general the macro-economic projections in the 1969-74 Development Plan are reasonable. The development priorities, as reflected in the sector projections of development and current expenditures, appear to be in accordance with what is required, although an even larger allocation of resources to the agricultural sector would be desirable.

6. While the growth target in the new Development Plan seems reasonable, this judgment is predicated on success in tackling certain economic and social problems which could assume more serious proportions over the coming five years and constrain growth. These factors are dealt with at various points in the report and are summarized briefly here.

7. The continued high population growth puts an increasing strain on the economy not only in terms of the growing proportion of national resources which have to be diverted from development to maintaining per capita levels of consumption and social infrastructure, but also in terms of the economic, social and political strains which could result from imbalance between growth of the labor force and employment opportunities. In the time perspective of the Plan no tangible improvement can be effected. As is pointed out in Chapter III, and in Appendix 1, a substantial improvement in the efficiency of the Family Planning program would only reduce the population growth from its present three percent per annum to about 2.8 percent per annum at the end of the Plan period. While effective action would not have much effect during the Plan period, more effective action needs to be taken now if the legacy of previous ineffectiveness in dealing with this problem is not to make itself increasingly felt over the coming five years.

8. The pressure to provide employment opportunities may already be making itself felt in ways detrimental to growth. For example, the report indicates--with due reservation on the statistics--that there may be evidence in the manufacturing sector that in those industries where employment has grown fastest there has been a tendency for the growth of productivity to stagnate or decline. Both tourism and the service industries are relatively labor-intensive, but past experience has shown that, even with high growth rates, these sectors cannot provide sufficient employment in the urban areas. Hence, as the Plan recognizes, it is necessary to look to the agricultural sector to provide most of the required new jobs or opportunities for self-employment.

9. The extent to which the educational system in its broadest sense requires a greater orientation to vocational needs and skills is dealt with in Chapter III, Section (b) (vii) and in Annex B. The present imbalance in the number of school leavers in relation to job opportunities, and also the lack of adequate training in the skills which will be required, not only constitutes a misdirection of economic resources, but also creates a potentially serious social and political problem of growing literate unemployment.

10. The uncertainty confronting the Asian population could produce a further exodus of skilled labor and entrepreneurship; also the redistribution of income, which might be a consequence of Africans having a greater share of ownership and operation of trade and commerce, could produce a reduction in the savings rate. The solution to this problem is not, of course, purely an economic matter, but it is to be hoped that the Government will continue to resist any political pressures to introduce measures which could have damaging effects on the economy. The Kenyanization process has so far been carried out realistically, but, as the Report indicates, there have been recent signs that the Government is facing mounting political pressures to accelerate the pace.

11. Despite the attempts by Government to spread the benefits of economic development there is a continuing gap between rich and poor, and mainly as a result of this conspicuous gap, there is a persistent pressure on the main urban areas. These stresses could lead to social and economic measures being taken which would threaten the growth potential of the country. The forthcoming general election is presently a major factor in the political scene which will create some uncertainty and could exacerbate tribal differences. If a suitable climate for economic progress is to be ensured, these potentially divisive factors will have to be controlled as firmly as in the past.

12. The public sector plan requires a development expenditure of K£ 180 millions, of which rather less than half will be financed locally from budget surpluses and local borrowing. This is about the same proportion to be financed locally as has been achieved over the last five years, and it is probable that a rather higher proportion might be aimed at. Reference is made in the Report to the high degree of liquidity which exists in the economy, and it seems that local borrowing could be greater in the plan period, even when account is taken of the financial requirements of local authorities and parastatal organizations.

13. The projected 6-1/2 percent growth in GDP, together with fixed capital formation of nearly K£ 600 millions over the five year period, will require a gross capital inflow of K£ 222 millions, of which nearly K£ 80 will be needed to cover the repatriation of private capital and the amortization of debt. It is estimated that K£ 100 million (45 percent) of this foreign exchange gap would be financed by inflows of private equity capital and supplier's credit, and that the remaining K£ 122 million of public lending would be in the ratio of 36 percent Bank-type lending to 64 percent lending on concessionary terms.

14. This pattern of external finance differs significantly from the composition of the inflow in recent years. The private capital inflow (direct investment and supplier's credits) is assumed to account for a larger proportion of the gap (45 percent over the plan period compared to about 25 percent in 1965-67) and the overall proportion of loans on concessionary terms (3 percent interest or below) would be significantly lower (see Appendix 5 Table 1). Over the plan period the debt service ratio (the ratio of interest and amortization payments on public and publicly guaranteed

debt to exports of goods and non-factor services) would rise from about 8 percent in 1970 to about 10 percent in 1974. Since the private equity capital inflow is taken to be significantly greater than in the past larger repatriations of private capital will also have to be met from foreign exchange earnings. When this element is taken into account the claims on foreign exchange resources would be of the order of 15 percent in 1974. In the longer term continued dependence on external capital at the level and on the terms assumed for the plan period would place a growing debt service burden on the Kenyan economy -- reaching a debt service ratio of about 14 percent by 1985 and together with capital repatriations on equity investment a total claim on foreign exchange resources of about 20 percent. 1/ Such longer term projections are necessarily very approximate but they do suggest that any hardening of terms beyond that assumed for the plan period could create debt servicing difficulties. Given its still relatively low level of per capita income Kenya will need continued access to concessionary finance on IDA type terms. In the longer term it would also seem desirable that there should be some reduction in the degree of dependence on external capital for the financing of development.

15. The projections made by the Mission in the econometric model assume conditions in which the foreign exchange gap is potentially significantly larger than the savings-investment gap (see Table 8). One of the most obvious ways of reconciling this position is to increase the rate of investment in both the public and the private sectors, coupled with policies designed to curb imports of non-essential goods. Although government has little direct influence on the propensity to invest in the private sector, political stability is a necessary condition of a high rate of private investment. The three partner states of the East African Community could also encourage the inflow of private investment into all three countries if they could work out some co-ordinating machinery which could minimize the risk of excess capacity and wasteful competition.

16. With regard to the public sector, there are certain deficiencies in planning organization and machinery which are discussed in Section C of Chapter V, and which are an obstacle to increasing the quantity and improving the quality of public investment. The most important of these have been the absence of planning units in the key operating ministries and the lack of adequate coordination between planning, annual budgeting and personnel planning. Recently much progress has been made to establish sectoral planning units, and technical assistance is to be made available for project preparation. This should help to increase the rate of public sector investment.

1/ The full detail of the debt projections and the assumptions underlying them are shown in Appendix 5.

ECONOMIC DEVELOPMENT PROSPECTS IN KENYA

I. INTRODUCTION

1. The Bank made a comprehensive study of the Kenyan economy two years ago. 1/ This study included an analysis of the 1966-70 Development Plan, which in essence was a revision of the 1964-70 Development Plan. The main purpose of this new study is to examine and assess the new 1969-74 Development Plan. The previous Bank report included detailed studies of agriculture (including forestry and fisheries), manufacturing, tourism, transport, electric power and education. Partly because of the scope and depth of coverage in the last report and partly because the emphasis in the two development plans is somewhat different, this report does not cover as many sectors in depth. The mission has concentrated its efforts particularly on agriculture (see Annex A) and coordinated rural development (see Annex B), but attention has also been paid to tourism (see Annex C), population (see Appendix I) and housing (see Appendix II).

2. There have been no basic changes in the political, economic and social structure of Kenya since the previous report was issued. Kenya remains a Republic, with an executive President, within the British Commonwealth and the Sterling Area. The country has been politically stable since independence, and with the successful resolution of the border dispute with Somalia, is no longer faced with any apparent security threats. The country is committed to holding general elections by June 1970, and it can be expected that decision making in the management of the economy will be affected until after the elections are over. There is bound to be some uncertainty in the period leading up to the election which is also a potentially divisive factor which could bring latent tribalism to the surface in public affairs. However, the Government fully realizes the threat posed by tribalism to the political and economic stability of the country, 2/ and has so far successfully held it in check. The firm handling of events following the recent assasination of the Minister of Economic Planning and Development suggests that the Government will continue to provide a strong unifying force.

3. Although still a poor country compared with the more developed nations, Kenya's economy is rather more advanced than most in Africa. A diversity of soils and climates enables a wide variety of tropical, semi-tropical and temperate crops and products to be produced. The presence of relatively large European and Asian populations, with their capital and

---

1/ Prospects for Economic Development in East Africa, Volume II-Kenya, in seven parts, Report No. AF-58b, dated August 31, 1967.

2/ The dangers of tribalism have been emphasized as recently as August 1968 by both the President (at a public rally in Mombasa) and by the Governing Council of the ruling Kenya African National Union Party. The latter strongly condemned tribalism in all its aspects, and called upon Government to discipline those found guilty of practising it.

skills, enlarged the effective purchasing power in the economy, thus making possible a larger market for agricultural produce and a more rapid industrialization, and providing additional resources for a faster rate of development. Previously established high farming standards have had a spillover effect on African farming, particularly since the introduction of the Swynnerton Plan, which permitted and encouraged Africans to grow such crops as coffee and pyrethrum for the first time. Although the transference of land from European to African ownership and the Settlement Schemes resulted in some initial loss of productivity and output, the progress made with African agriculture over the past five years has been remarkable.

4. Kenya's economy is less dependent upon agriculture 1/ and upon exports than that of some developing countries, and its agriculture is more diversified. The diversifed nature of its economy continues to be a source of strength in the face of difficult export markets both outside and within the East African common market and the adverse weather experienced for some crops from time to time.

5. Since the previous economic report was distributed, the East African Community, as established by the Treaty for East African Cooperation, has come into effect. Behind this historic document lies considerable bargaining, and Kenya had to make substantial concessions to keep the common market intact by permitting Tanzania and Uganda to obtain a greater share of its benefits. The major concessions were:

(1) removal of certain common services headquarters from Nairobi to Arusha, Kampala and Dar es Salaam, and decentralization of some functions;

(2) introduction of limited transfer duties on intra-community trade--in practice almost entirely falling on Kenya's exports to the partner states;

and

(3) the instructions given to the newly established East African Development Bank to invest a higher proportion of its funds (38-3/4 percent) in Tanzania and Uganda than in Kenya (22-1/2 percent).

6. Some comments on the effects of the Treaty to date on trade are given in the next chapter.

1/ Throughout this report, unless specifically stated to the contrary, agriculture should be read as including forestry and fishing.

II. RECENT ECONOMIC PERFORMANCE

(a) Trends Over The Past 5 Years

7. Output. Since the last economic report was written, the national income accounts have been completely revised and a constant price series produced for the first time. The new current price series (see Appendix Table 9) shows GDP at factor cost during the two years 1964 and 1965 (the period of overlap of the old and new series) to be about 16 percent higher on average than formerly estimated. The constant price series (See Appendix Table 10) indicates that the real growth of Kenya's economy from 1964 to 1968 has been faster than was estimated by the previous economic mission, which put the real growth rate during the first half of the sixties at about 3-1/2 percent. The new constant price series goes back to only 1964 but shows that, between then and 1968, GDP at factor cost grew at just over 6 percent a year, with monetary GDP increasing at nearly 7 percent and non-monetary GDP increasing at just over 4 percent a year. 1/ The real rate of growth has been approximately in line with the 1966-70 Development Plan projections.

8. Since 1964, per capita GDP at constant prices has increased at about 3 percent a year--a good rate considering Kenya's high rate of population increase of about 3 percent a year. In absolute current price terms, and using GNP in place of GDP, the per capita increase was from K£34.1 ($95.5) in 1963 to K£41.5 ($116.1) in 1968. It is evident that Kenya is not among the poorest of African countries and that considerable progress has been made.

9. The more rapidly growing sectors have been "transport, storage and communications," tourism (although this is not shown as a separate sector in the national income accounts), manufacturing, general government services and, more recently, building and construction. In 1966 and 1967, exports of manufactured products fell. This was caused by quantitative import restrictions imposed by Tanzania and, to a lesser extent, Uganda on imports from Kenya in the two years prior to December 1, 1967, when the Treaty for East African Cooperation came into force. 2/ However, most of the slack was taken up by the growth in home demand. The import restrictions

---

1/ Because the terms of trade deteriorated over the period, the increase in real incomes was not as great.

2/ In the 5 years prior to 1965, Kenya's common market exports nearly doubled, increasing at 16 percent a year. Between 1965 and 1968, they fell by a little over 11 percent.

have been replaced by Transfer Duties. The full effect of these duties cannot yet be foreseen, but there is a general presumption that they are less restrictive, and there has been some recovery in exports to Tanzania. 1/

10. For many years Kenya has provided considerable entrepot, banking, commercial, transport, storage and communications services to land-locked Uganda and to the Arusha-Moshi area of Tanzania. The introduction of separate central banks and separate currencies, together with the adoption of more independent commercial and trade policies by the Tanzanian and Ugandan Governments, has resulted in a decline in some of the services previously performed by Kenya. Nevertheless, Kenya's income earned from transport, storage and communications has continued to grow at a rapid rate.

11. One of the fastest growing sectors is tourism, although this is difficult to show accurately because there is not a complete time series. Prior to the middle of 1967 no records of interterritorial movements of persons were kept. Thus, visitors coming into and departing from Kenya via Tanzania and Uganda were not recorded. This was an important omission since they are about equal in number to those arriving in and departing from Kenya directly. Taking just the direct visitors, the growth between 1963 and 1967 was at the average compound rate of nearly 24 percent a year. Adding on 1968 reduces the rate to 16 percent. Nevertheless, there seems little doubt that the growth accelerated up through 1966 and then declined, and it is probable that the growth in the number of visitors coming into and leaving via Tanzania and Uganda has been slower. The slower growth since 1966 is partly because of a shortage of hotels and game lodges, which is rapidly being overcome, and partly due to the closing of the Suez Canal and troubles in the Middle East. Tourism is now Kenya's largest single earner of foreign exchange, bringing in about K£16 million a year, which is K£3 million and K£6 million more, respectively, than earned from coffee 2/ and tea.

12. Although the recent real growth rate in agriculture reached 5.3 percent, it has been slower than in most other sectors, and agriculture's share in total GDP has fallen from 41.5 percent in 1963 to 34.8 percent in 1968. This trend is significant because agriculture provides a livelihood for about four-fifths of the population, and exports of agricultural primary and processed products constitute just over two-thirds of total exports.

1/ In 1968, exports to Tanzania increased by 15 percent. Uganda's imports from Kenya continued to decline (although at a slower rate), probably because it introduced both a sales tax and a system of import licensing which Kenya and Tanzania considered was contrary to the Treaty. In compliance with the decision of the Common Market Council, Kenya and Tanzania introduced a system of open general licensing in May, 1968, but Uganda only undertook to do so later--in two stages by April and May 1, 1969.

2/ Were it not for coffee berry disease, the export of coffee would probably have been higher than the K£16 million earned from tourism.

The causes of the small relative decline lie partly in the fast growth in other sectors, partly in transitional problems consequent upon the large-scale transfer of high potential land from Europeans to African hands, and partly in adverse world market conditions for many agricultural exports such as coffee, sisal, pyrethrum, and wattle. In the short-run also, unfavorable weather conditions--drought and floods--have at times caused lower output of such crops as tea and maize; and recently coffee production was seriously affected by a greatly increased incidence of coffee berry disease. It is thought that the answer to this disease has been found, but it is expensive. Agricultural output would probably have declined, were it not for a substantial increase in tea output, particularly by smallholders, and a breakthrough in the production of maize and wheat.

13. Investment and Savings. The rate of investment has increased both absolutely--from K£45 million in 1964 to K£91 million in 1968, or at nearly 20 percent a year--and relatively to GDP at market prices--from 12.7 percent in 1964 to 19.6 percent in 1968. In real terms capital formation over the period increased at just over 14 percent a year. While gross domestic savings have grown absolutely, it would appear that the average propensity to save has remained almost constant. 1/ Not all the domestic savings have been available for financing replacement and new investment. Part has had to be used to pay the interest on Kenya's external debt - between 1964 and 1968, 91 percent of gross domestic savings were available for investment. 2/

14. A sectoral distribution of capital formation is given in Appendix Table 13. The low proportion of investment in agriculture relative to agriculture's share in GDP, and conversely, the high proportion of investment in manufacturing relative to its contribution to GDP, reflects to a large extent the differing capital/output ratios in the two sectors. However, the trend over the period 1964-68 shows the proportion of investment in agriculture falling, while that in manufacturing has increased a little and Government's share increased considerably. The share of the public sector as a whole in total capital formation increased from 24.5 percent in 1964 to just over 37 percent in 1968. Although falling relatively, a large proportion of capital formation is still in transport, storage and communications - just over a fifth of capital formation in the monetary sector.

1/ Taking the whole period 1964-68, the average propensity to save (ratio of gross domestic savings to GDP at factor cost) was around 20 percent. The ratio fell in 1968 to 19.6 percent, but this change may not be significant because the 1968 data are provisional and in any event the calculation of savings from figures of capital formation and balance of payments should be treated with reservation.

2/ The difference between domestic and national savings is net factor income payments made abroad. Following the new conventions adopted by the United Nations and the OECD, the mission has excluded "general government interest" from net factor income payments and put it in net transfers.

15. Balance of Payments. As might be expected, under the influence of a dynamic development plan, Kenya's current account balance of payments has moved from a surplus to a deficit. In the early part of the 1960's the surplus increased but then diminished rapidly, moving from a surplus of K£17.5 million in 1964 to a deficit of K£20.4 million in 1967. Provisional estimates for 1968 indicate a smaller deficit of K£13.4 million. 1967 was a bad year for merchandise exports, because of the increased incidence of coffee berry disease 1/ and adverse weather which reduced tea output. 2/ It was also a relatively poor year for the growth of tourism, which was inhibited by the Middle East troubles and the closing of the Suez Canal, and by a bottleneck in accommodation. In 1968, there was a recovery in merchandise exports, but not quite back to the 1966 level, with coffee output still being seriously affected by coffee berry disease. Invisible receipts continue to grow more slowly because the accommodation bottleneck had not been removed, although new hotels and game parks lodges at present under construction should shortly improve the situation.

16. From just prior to independence through 1964 there was a net outflow of private capital. The extension of exchange control to all countries outside the Community, coupled with increasing confidence in the ability of the Government, reversed the outward trend in private capital, 3/ and from 1964 through 1968 there was a net inflow. After the decision to accelerate the Kenyanization of the private sector of the economy by the introduction of work permits and the restrictive application of trade licenses, it is estimated that about 13,500 Asians left Kenya in the Spring of 1968. 4/ However, this did not appear to lead to a net outflow of private capital. 5/ 1969 is likely to see another fairly large outflow of Asians

---

1/ Between 1966 and 1968, the coffee exports fell from nearly K£19 million to less than K£13 million, part of this fall being due to a price decline.

2/ The value of tea exports fell from K£8.71 million in 1966 to K£7.40 in 1967. In 1968, however, the value rose to K£10.04 million.

3/ An additional reason for the reversal may have been the limitation in the repatriation of profits each year to 25 percent of capital employed for those companies which are not "Approved Companies" under the Foreign Investment Protection Act.

4/ See Section (e) of Chapter V.

5/ There were restrictions on the amount of capital which could be taken out, and the amounts were shortly afterwards reduced, but had each emigrant taken out the legal maximum there would have been a very serious loss of foreign exchange.

as the restrictions on the right of non-citizens to trade are tightened, but there is no evidence as yet of a net outflow of private capital, although it is known that there has been a certain amount of illegal export through illicit invoicing and other malpractices.

17. Over the whole period, 1961-68, there has been a net inflow of public capital, partly to finance pension and compensation payments to departing expatriate civil servants, but mainly to assist the Kenya Government to finance its rapidly growing development expenditure.

18. Taking into account all capital movements, private and public, since 1961 there have been 5 surplus years and 3 deficit ones, the latest being 1967. However, the surpluses have been greater than the deficits: K£35.5 as against K£11.5. Thus, despite the losses incurred by the devaluation of sterling in 1967, the foreign exchange reserves increased by about K£24 million ($67 million) over the period 1961-68. As of April 30, 1969 the foreign exchange reserves stood at just over K£52 million ($146 million), and were equivalent to 5 months' imports at the 1968 rate. 1/

19. Public Sector Finances. In 1967 the public sector 2/ accounted for K£99 million or between a fifth and a quarter of GDP at factor cost, and its share is slowly increasing (see Appendix Table 33). A summary of Central Government accounts in national income accounting format is given in Appendix Table 34, with details supplied in the following Tables 35-40 In Tables 41 and 42 an economic and functional analysis of East African Community expenditure in Kenya is given, and the revenues and expenditures of Municipalities and Local Authorities appear in Table 43.

20. In national income accounting terms, the Kenya Government had been dissaving for many years prior to 1966/67, but this calculation excludes from current revenue the substantial though diminishing "current grants and loans," mainly from the United Kingdom Government, used to finance "OSAS technical assistance" 3/ and the compensation and pension payments of departing expatriate civil servants. Taking account of this revenue, there were contributions to help finance development expenditure, and from 1966/67 current surpluses have been made. In addition, particularly in the last 4 years, the Government has increased its local borrowing

---

1/ In 1968 the governments of Kenya and the United Kingdom signed an agreement whereby, in return for Kenya maintaining an agreed proportion of its foreign exchange reserves in sterling, the U.K. provides a guarantee in terms of U.S. dollars on a large proportion of the foreign exchange reserves.

2/ Central and Local Government, the East African Community and Statutory Boards.

3/ Overseas Service Aid Scheme. There has in fact been a real increase in OSAS grants, but the method of accounting for them has changed.

- from the private sector - to add to the local financing of the public sector development expenditure. With the substantial public capital inflow, the liquid reserve position of the Central Government has generally shown a surplus position (see Appendix Table 34). There are no accounts for the rest of the public sector, but on balance it has probably been a small net saver.

21. Government total current revenue, which has increased at 8 percent a year over the last five years, is nearly a fifth of monetary GDP at market prices and tending to increase slightly. Current expenditure has to increase by about 3 percent a year just to cover the "salary drift": since the civil service is a young one, annual increments to salaries and promotions to higher salary brackets are not offset by retirements and new appointments at the lower end of salary brackets. On top of this are the recurrent costs arising from rapidly increasing development expenditures and current costs of a development nature. Overall total current expenditure has increased at 7.9 percent a year over the last 5 years. 1/

22. While it is clearly necessary to regulate the growth in current expenditure, the control over recurrent expenditure in Kenya has not always been consistent with the objectives of planning, and the indiscriminate pruning of estimates has in some cases held back development. The previous economic mission stressed the importance of planning the current budget, and particularly synchronizing the government budget with the expenditure sequence of the development plans. This problem and the relationships between the Treasury, the Directorate of Personnel and the Ministry of Economic Planning and Development are discussed in Section (c) of Chapter V.

23. Liquidity and Development. In the Spring of 1969, the Kenyan economy was in an extremely liquid state. Both the commercial banks (K£15.3 million) and the Government (K£6.6 million) had large deposits with the Central Bank (as at April 30, 1969). 2/ Recent Government Bond and Treasury Bill issues and the private issue by the British American Tobacco Ltd. were oversubscribed and the commercial banks complained of a dearth of investment opportunities. Their advances/deposits ratio fell from 80 percent in 1967 to 70 percent in 1968, while their cash ratio rose from nearly 10 percent in December 1967 to just over 15 percent in December 1968. Part of this excessive liquidity may be due to uncertainty in the private sector about the future of the common market and to destocking by Asian traders in the face of the threat to their livelihood. Part also of the general

---

1/ These growth rates are taken from the functional analysis of current revenues and expenditure (See Appendix Tables 37 and 38). It would be more accurate to use the economic analysis (See Appendix Tables 35 and 36), but these are not up-to-date.

2/ These deposits, particularly the Government deposits, are normally seasonally high at this time of the year, but in the Spring of 1969, they were unusually high.

increase in liquidity is due to the large increase in the foreign exchange reserves in 1968 - K£11 millions compared with a gross long-term capital inflow of K£16 millions.

24. In view of the high degree of liquidity in Kenya, it is difficult to understand the reluctance shown by the Government and the Central Bank to allow local authorities and other parastatal bodies to borrow from the local capital market. In some cases this reluctance has been due to doubts over the soundness or priority of the projects to be financed, but the Government also seems to have been influenced by the fear that it might not be able to satisfy its own requirements. This seems excessively cautious, particularly in view of the fact that Government has so far not had to use its ability to borrow from the Central Bank. 1/ No doubt part of the excessive liquidity may be short-term and due to special factors which may disappear. Nevertheless, the response to this situation has been slow and tentative, and the liquid state of the market does suggest that a greater proportion of development could be usefully financed locally. This possibility is discussed in Chapter III in relation to the 1969/74 Plan.

25. External Debt. As of December 31, 1968, Kenya's external public debt outstanding was $343.2 million, including $88.6 million undisbursed. Including Kenya's notional one-third share of East African Community debt the total external debt outstanding was $408.1 million, including $94.8 million undisbursed. In 1968 debt service payments (including Kenya's notional one-third share of Community debt service) expressed as a percentage of current account balance-of-payments earnings (excluding transfer income) was 6.9 percent. There is little contractor finance or suppliers' credits in the public sector, and it is believed that private sector credits are in no way abnormal. 2/

(b) Progress with the 1966-70 Development Plan

26. A comparison of actual performance with the 1966-70 Development Plan and previous World Bank economic mission projections is very difficult because the revisions to the national income accounts mean that one is not comparing like with like. The Statistics Division of the Ministry of Economic Planning and Development did, however, produce the figures shown in Table 47 of the Statistical Appendix, in which the published Plan has been roughly adjusted to conform to the revisions in the national income accounts.

1/ Except for recent short-term seasonal borrowing. The Central Bank's freedom to lend to Government is subject to an absolute limitation - K£ 12 million in any one year, of which not more than K£ 3 million can be long-term. The Central Bank Act is to be amended to make the Government's borrowing powers more flexible, and make them a function of some economic indicator.

2/ Kenya's external debt is discussed in more detail in Chapter VI.

27. The differences between the Plan projections and actual performance are so small when compared with likely errors in the accounts themselves that they are not significant. Nevertheless, it is not surprising that overall performance more or less matched projections because, as the previous economic mission said, the 1966-70 Plan was a sound and realistic one.

28. It is interesting to note that the Plan generally overestimated growth in the commodity sector, particularly in agriculture and manufacturing, and underestimated the growth in transport and the other service industries. It also seriously underestimated capital formation. In the public sector, actual investment has been close to projected, but investment in the private sector, especially in transport, has been much higher than projected in the Plan. It appears also that domestic saving has been higher than projected.

III. AN OUTLINE AND APPRAISAL OF THE 1969-74 DEVELOPMENT PLAN

(a) Outline of the Plan

(i) Principal Goals and Basic Policies

29. The government's basic development philosophy was outlined in Sessional Paper No. 10 of 1965: "African Socialism and its Application to Planning in Kenya." The application of this philosophy as a strategy for development was spelled out in some detail in the 1966-70 Development Plan, which was summarized in the Bank's previous economic report. Basically, African Socialism as conceived by the Kenya Government is pragmatic, and might be described as a marriage of Fabian Socialism to African traditions of self-help and "Harambee" - which means working together.

30. The 1969-74 Development Plan points out that Sessional Paper No. 10 stressed the government's commitment to the economic objectives of "universal freedom from want, disease and exploitation; equal opportunities for advancement; and high and growing per capita incomes, equitably distributed among the population." A high and steadily growing national income is a necessary condition to fulfill the economic objectives of African Socialism, but it is not a sufficient condition.. It is necessary to aim at ".... a broadly based development of the whole economy, in which all the people of the country are involved. This kind of growth will only come as a result of participation of all the people in the task of nation building, as well as in the enjoyment of the fruits of progress."

31. There are many constraints facing the planners, not only on the supply side, but also with respect to demand. In the plan it is stated that while some of these constraints can be left to private enterprise to handle effectively with encouragement and support from the government, it is necessary, in a country like Kenya at its particular stage of development, for the government to play an important direct role. There is in fact a mixture of private and public enterprise, which works well on the whole.

32. On the demand side, effective arguments are put forward in the Plan in favor of:

(a) Family Planning to limit the diversion of the nation's resources from investment to providing homes, schools and hospitals; and

(b) Securing a just distribution of the national income as between individuals and sectors through appropriate taxation policies, although these should not be taken so far as to blunt incentives to work.

33. Much of the Plan document is devoted to discussing methods of increasing production although some specific targets are included. Some of these are outlined below.

(a) Employment. The recorded employment statistics are not very reliable and there are no unemployment figures, but recorded employment is a small proportion of the working population, the number of unemployed is large and growing and the number of under-employed perhaps even larger. Specific targets for increasing employment are thus wisely not laid down. It is pointed out in the Plan that even with a much higher growth rate in manufacturing, commerce and tourism, these sectors of the economy could provide only a small fraction of the required increase in employment. Hence the Plan argues that "the great bulk of future employment will have to be provided in the rural areas, on large farms, on smallholdings and in a wide variety of non-agricultural enterprises; much of this employment will take the form of self-employment." The Plan estimates that on the basis of present trends, including the growth in the population, "agriculture will have to employ twice as many people in 30 years' time as it does today if the problem of unemployment is not actually to worsen." This is probably an understatement.

(b) Rural Development. It is for this reason that advanced planning is in progress on 6 pilot rural development schemes, which will later be expanded to 14. Based on the experience of these schemes, larger and more widespread programs will be devised and introduced. Further information on these pilot schemes is given in section b (ii) below and in Annex B.

(c) Primary Education. Free and universal primary education remains the ultimate goal, but it is recognized that resources are not yet adequate to achieve it. The Plan target is to increase from 60 percent to 75 percent the proportion of children of primary school age enrolled in primary schools. The number of remissions of school fees for the children of really poor parents will be doubled. It will be the aim to make primary education more terminal and adapted to the type of jobs primary school leavers can hope to get.

(d) Secondary Education. It is planned to increase the number of pupils attending secondary schools from 101,400 (1968) to 165,000 by the end of 1974. Greater emphasis will be placed on the teaching of science and mathematics and on practical subjects - agriculture, commerce, industrial arts and home science.

34. Regional and District Balances. All ministries have been instructed to take account of the problem of securing a more satisfactory balance between developments in different Provinces, Counties and Districts. Three Regional Planning teams have been established in the Coast, Central and Eastern Provinces with Canadian, French and Norwegian technical assistance, and District Development Committees and Development Advisory Committees have been set up. The regional planning operation is not yet working very well. The rich cities of Nairobi and Mombasa are having to relinquish half of their Graduated Personal Tax receipts to help pay for higher grants to the poorer Local Authorities. Now that the Shifta problem has receded, it will be possible to devote more resources to the development of the North-Eastern and Eastern Provinces.

35. Urbanization. Although increasing emphasis is put on rural development, the Plan points out that it is unlikely that there will be much change during the Plan period on the rate of urbanization. It is, therefore, necessary to plan the growth of Kenya's cities and towns, particularly the latter, so that development and growth will not be concentrated too much on Nairobi and Mombasa. Within the overall urbanization plans most emphasis is put on increasing the supply of housing.

36. East African Cooperation. The Plan restates the Kenya Government's belief in the East African Community, emphasizes its confidence in the success of the common market and looks forward to the widening of the common market and the association of other countries with the Community. This is a reference to the application for full or partial membership of Ethiopia, Somalia, Zambia and Burundi.

(ii) The Macro-Economic Plan

37. Assumptions. The assumptions on which the macro-economic projections were made are:

(a) An expanding world economy without any serious recessions or new restrictions on trade flows from developing countries;

(b) continuation and strengthening of the economic cooperation within the East African Community resulting in better coordination and greater diversification of manufacturing in industry in East Africa;

(c) expanding demand and new markets for Kenya goods outside East Africa;

(d) continued mobilization of the people in the development effort through self-help schemes, organized and controlled as an integral part of the Development Plan;

(e) gradual improvement in the planning machinery and in project preparation and implementation in the public sector; and

(f) timely inflows of adequate private and public technical and financial assistance from donor countries and organizations.

No distinction is made in these "assumptions" between those which are exogenous and outside Kenya's control - (a), part of (b), (c) and (f), and those which Kenya can control - part of (b), (d) and (e).

38. Output. Total GDP at factor cost is projected to grow at an average rate of 6.7 percent over the period up to 1974, with monetary GDP growing at 7.7 percent and the subsistence sector at 3.6 percent. A breakdown of the Plan's projected growth in GDP by industrial sector is given in Table 1.

39. The fastest rates of growth are expected to occur in the building and transport sectors, while manufacturing, banking services and electricity and water are also projected to increase at a rate faster than the average. In absolute terms, the largest increment in production is expected from the manufacturing sector (K£32 millions), followed by transport (K£27 millions) and agriculture (K£26 millions). These three sectors together account for 40 percent of the growth assumed over the period. The increases for commercial agriculture and manufacturing appear on the high side.

40. Investment. The Plan projects a total gross capital formation of K£727 millions of which K£51 millions is a provision for an increase in stocks. Fixed capital formation is expected to increase at an average rate of about 9 percent per year up to 1974, compared with an average rate of about 14 percent from 1964 through 1968. As a percentage of GDP at market prices, investment is expected to rise from 19.5 percent in 1968 to just over 21 percent in 1974. The implied incremental capital-output ratio without lags is 1:3.3, which is close to the actual average ratio between 1964 and 1968.

41. The projected breakdown of fixed capital formation by industrial sector is shown in Table 2. The highest proportion of new investment is expected to be absorbed by the transport sector, followed by general government services and manufacturing. Taking 1967 as the base year, rapid increases in investment are expected to take place in the manufacturing, construction and transport industries, in wholesale and retail trade, and in government and other services. All these sectors are projected at growth rates in the range 9 - 11 percent. The ownership of dwellings is projected at an average growth rate of 15.2 percent which appears rather high, while the very rapid increases shown in the small mining and banking sectors are probably not very significant. It is particularly significant, however, that investment in agriculture is expected to increase at a slower rate than investment in any other sector of the money economy.

Table 1: 1969/74 PLAN PROJECTIONS: GDP BY INDUSTRIAL SECTOR AT CONSTANT PRICES

Industrial Sector	1968 (a) KL Millions	1968 (a) % of Total	1974 KL Millions	1974 % of Total	1968-74 KL Millions	1968-74 % of Total	Average Compound Growth Rate 1968-74 %
A. Monetary Economy							
Agriculture, Forestry & Fishing	62.89	14.5	88.53	13.8	25.64	12.3	5.9
Mining & Quarrying	2.14	0.5	3.19	0.5	1.05	0.5	6.9
Manufacturing & Repairing	48.53	11.2	80.65	12.6	32.12	15.5	8.8
Building & Construction	12.82	3.0	22.36	3.5	9.54	4.6	9.7
Electricity & Water	6.76	1.6	10.83	1.7	4.07	2.0	8.2
Transport, Storage & Communications	35.81	8.3	62.72	9.8	26.91	13.0	9.8
Wholesale/Retail Trade	44.53	10.3	64.47	10.1	19.94	9.6	6.4
Banking, Insurance & Real Estate	16.40	3.8	27.50	4.3	11.10	5.3	9.0
Dwellings	14.76	3.4	18.86	2.9	4.10	2.0	4.2
Other Services	16.90	3.9	28.08	4.4	11.18	5.4	8.6
Total Enterprises	261.54	60.4	407.19	63.6	145.65	70.1	7.6
Private Households	3.81	0.9	5.61	0.9	1.80	0.9	6.6
General Government Services	56.75	13.1	91.04	14.2	34.29	16.5	8.2
TOTAL MONETARY PRODUCTION	322.10	74.4	503.84	78.6	181.74	87.5	7.7
NON-MONETARY PRODUCTION	111.02	25.6	136.90	21.4	25.88	12.5	3.6
TOTAL GDP AT FACTOR COST	433.12	100.0	640.74	100.0	207.62	100.0	6.7

a/ The period is taken from 1968 as this is the last year for which (provisional) GDP estimates are available. Values are shown at constant 1967 prices.

Source: Draft 1969/74 Development Plan documents.

Table 2: 1969/74 PLAN PROJECTIONS: GROSS FIXED CAPITAL FORMATION BY INDUSTRIAL SECTORS, AT CONSTANT PRICES

Industrial Sector	1967 K£ Millions	1970 K£ Millions	1974 K£ Millions	1970-74 K£ Millions	1970-74 % of Total	1967-74 Average Compound Growth Rate %
Monetary Economy						
Agriculture, Forestry & Fishing	11.7	14.6	18.8	83.0	12.2	7.0
Mining & Quarrying	0.2	0.7	0.7	3.7	0.5	19.6
Manufacturing & Repairing	14.9	15.8	22.2	94.4	14.0	10.7
Building & Construction	4.3	5.7	8.2	34.5	5.1	9.7
Electricity & Water	6.2	5.7	10.4	42.5	6.3	7.7
Transport, Storage & Communication	16.7	21.9	31.0	130.8	19.3	9.2
Wholesale/Retail Trade	3.0	3.8	6.1	23.3	3.4	10.7
Banking, Insurance & Real Estate	0.3	0.7	1.1	4.5	0.7	23.2
Dwellings	5.1	7.2	13.7	53.2	7.9	15.2
Other Services	4.8	6.7	10.1	41.5	6.1	11.2
General	67.2	82.8	122.3	511.4	75.6	8.9
General Government	12.8	19.4	25.4	115.5	17.1	10.3
TOTAL MONETARY INVESTMENT	80.0	102.2	147.7	626.9	92.7	9.1
NON-MONETARY INVESTMENT	7.5	8.9	11.0	49.5	7.3	5.7
TOTAL	87.5	111.1	158.7	676.4	100.0	8.9

Source: Draft 1969/74 Development Plan documents.

42. About 64 percent (K£ 432 million) of gross fixed capital formation is assumed to arise in the private sector, where manufacturing, transport and agriculture will be the main contributors. The public sector investment is very largely concentrated in the fields of transport, storage and communications, housing, and electricity and water. Of the K£ 244 millions, projected as public sector investment, about K£ 135 million (55 per-cent) will be undertaken by central government as part of its development program (see below). East African Community investments in Kenya account for about K£ 46 millions, local authority investments for some K£ 50 million, and statutory boards for the remainder.

43. The Public Expenditure Plan. The development expenditure program of the Central Government over the five years 1969/70 to 1973/74 amounts to nearly K£ 193 million, 1/ and the proposed expenditures under this program are given in Appendix Table 48. This shows that 24 percent is allocated to agriculture (including settlement), forestry and fisheries, 35 percent to "basic services" (roads, airports, water supplies and government buildings), 27 percent to social services, (education - 7 percent, health and housing - 8 percent each), 2 percent to tourism and 6 percent to commerce, industry and construction. The tourism program does not include infrastructure such as roads and airport improvements, and the tourism and commerce, industry and construction allocations are low because the bulk of the investment in these sectors will be carried out private enterprise.

44. The development programs of other authorities and organizations falling under the public sector were less firm at the time of the Mission's visits to Kenya, but the following data show what information was available on the development expenditure planned by these bodies:

	Development Expenditure in K£ Millions 1969/70 to 1973/74
East African Community:	
East African Railways	21.3
East African Harbours	11.6
Posts and Telecommunications	6.8
East African Airways	6.3
TOTAL	46.0
Local Authorities and Self-Help Groups:	
Municipalities	44.8
County Councils	5.5
Self-Help (Harambee) Schemes	20.8
TOTAL	71.1
Other Agencies and Organizations:	
Statutory Boards	14.0 a/
Educational Institutions	2.4
National Social Security Fund	1.0
Tourist Agencies	0.6
TOTAL	18.0

a/ This figure represents capital formation only. Total development expenditure will be considerably higher, but it is not known what proportion will be financed by the Boards themselves.

1/ Mainly capital but includes some current expenditures.

These figures show a total development expenditure program amounting to KL 135 millions in addition to the KL 193 million program to be mounted by the Central Government. There is some overlap in the financing of the expenditure program of the whole public sector, however, caused by transfers from Central Government - mainly to local authorities. Over KL 19 million of the municipalities' programs are to be financed by Central Government transfers, while the plans of the county councils will be very heavily dependent upon government support. Rather more than KL 1.5 million out of the county councils' proposed expenditure will be in education, health and roads, and if these services are taken over by Central Government, these sums will have to be added to the expenditure programs of the relevant ministries. Further details of the public expenditure plan are given in later sections of this Chapter.

45. Financing Development Expenditure. Although the total central government development program amounts to nearly KL 193 millions, financial provision will only be sought for KL 180 million on the assumption that there will be some slippage. It is planned to finance the KL 180 million thus required as follows: KL 20 million surplus on current account, KL 30 million borrowing from the National Social Security Fund, and KL 35 million other borrowing from the local market. This gives a total of KL 85 million (47 percent) which it is proposed to finance locally. The remaining KL 95 million is expected to be obtained from external loans and grants. As of December 31, 1968, the undisbursed part of outstanding loans amounted to KL 36.9 millions, but as there will be need for a carry-over to the following plan period, the figure of KL 95 million can be taken as the approximate value of new loan commitments which will be required.

46. The expenditure programs of common service organizations will be financed partly from their own resources, partly from local borrowing and partly from overseas borrowing. The Plan assumes that KL25 millions out of the KL 46 millions required by the EAC agencies will be obtained from abroad. The municipalities will also finance their development from a blend of sources: 43 percent from government transfers, 30 percent from local borrowing, 17 percent from overseas borrowing, and 10 percent from their own resources. County councils and statutory boards will be far more dependent upon direct government financing unless steps are taken to improve their ability to finance more of their own development. The bulk of financing of development will fall on the private sector, and the Plan assumes that the larger part of this will be provided internally from depreciation reserves, retained profits, and new issues of equity and loans.

47. Balance of Payments. Commodity imports at constant prices are projected to increase at an average rate of 7-1/2 percent during the Plan period, compared with a 6 percent real growth rate in exports. The terms of trade are assumed to deteriorate during the period, with average import prices rising by 1 percent a year while export prices remain constant. Thus at current prices commodity imports are projected at an annual rate of 8-1/2 percent while exports increase at only 6 percent per year. The increasing trade deficit will be only partially offset by invisible receipts, particularly from tourism, rising faster than payments, so that the current

account deficit is expected to increase considerably 1/. Over the period 1970-74, the cumulative trade deficit is expected to be K£ 351 millions. This will be partly offset by a net credit of K£ 190 millions on non-factor service account, giving a K£ 161 millions deficit balance on goods and services. Adding an estimated K£ 51 millions for net factor payments abroad and allowing K£ 27 million for net transfer credit gives a current account balance of payments deficit of K£ 185 millions for the period. By 1974 the deficit is expected to be running at the rate of about K£ 45 millions a year.

48. In addition to meeting this deficit on current account, gross capital inflows will have to cover amortization of loans and other capital expenditure. These are estimated to amount to some K£ 86 millions over the period 1970-74, thus making the total foreign exchange gap about K£ 270 millions. It has been assumed that central government would secure external financing at K£ 85 millions for its development program and the EAC agencies K£ 25 millions. This would leave a balance of K£ 160 millions, nearly all of which would be represented by an inflow of private capital.

(b) An Appraisal of the Proposed Development by Sectors

(i) Agriculture, Forestry and Fishing

49. Agriculture has been the dominant sector in the development of the economy of Kenya. The vast majority of the Kenyan population depend upon the production of crops and livestock for subsistence and for their main or only source of income, and the industry has typically and directly generated from 35 to 40 percent of GDP. Agriculture has also been the largest source of wage and self-employment, and has contributed most of the country's major export commodities on which the growth of the economy has depended heavily.

50. Agriculture has shown remarkable progress over the last decade. There have been substantial increases in the production of coffee, tea, pyrethrum, wheat, maize and dairying, while sugar - and to a lesser extent, rice and cashew nuts - have become important crops for the first time. The most significant feature of this period has been the successful introduction of many of these crops into the production economy of the small-scale African farms. In recent years, however, the pace of development in agriculture has shown signs of slackening and the industry has tended

---

1/ The Plan's balance of payments projections are reproduced in Appendix Table 50 and the Plan projection of total supply and use of resources Table (Appendix Table 49) gives further information.

to lose its relative importance. Its relative contribution to GDP has been falling even in real terms, while there has been a decline in the number of workers employed in agriculture. 1/

51. The slower rate of development in the agricultural sector can be explained partly by the falling trends in export prices in recent years, coupled with the production cutback caused by the increased incidence of Coffee Berry Disease, and partly by the temporary disruptive effects of the land transfer program. But a further and more serious explanation has been the tendency for agriculture to get a diminishing share of development resources over the last decade. This trend is manifested by an 18 percent fall in Government expenditure on agriculture over the period 1963/64 to 1968/69, and the falling proportion of gross capital formation going to the agricultural sector. In the past this has been due to the tailing off of expenditure on settlement, but it is significant that investment in agriculture in the 1969/74 Plan is projected to increase more slowly than in any other sector of the money economy.

52. The relative decline of agriculture as the economy's leading sector is often regarded as a normal accompaniment of economic growth. But it is too early in Kenya's economic development for agriculture to lose its place as the growth industry, in the absence of any other substantial "productive" sector to assume its role. Commerce, industry and tourism are unlikely to be able to offer sufficient employment or to generate sufficient export earnings in the foreseeable future, and if Kenya is to thrive it is most important that the agricultural industry be given a further development boost.

53. Against this background, the agricultural plan is somewhat disappointing. The allocation of expenditure under the Development Plan shows a much smaller share than was given in the previous plan period (24 percent as against 42 percent). Again this is partly because of less settlement, but also because of much faster expansion in other sectors. The planned public development expenditure in the agricultural sector as a whole is K£ 46.8 million in the five years, made up as follows: agriculture, livestock and irrigation - K£ 27.4 million; land adjudication and registration - K£ 6.3 million; forestry - K£ 5.9 million; fisheries - K£ 1.4 million and settlement - K£ 5.8 million. There appears to be a number of gaps in the Plan. The continued lack of an adequate cover of credit (and especially seasonal credit) stands out as a particularly serious bottleneck to rural development, while it may be doubted whether it is either politically feasible or economically sound to stage a virtual moratorium on further settlement for the next five years. On the other hand, too much prominence

---

1/ It may be argued on the other hand, that self-employment has increased. It is conceptually difficult, however, to measure self-employment in an industry in which most families are at the subsistence level.

is given in the Plan to expanded sugar production and to irrigation schemes, neither of which appear to be justified in terms of the Government's major economic criteria, although there are strong political pressures forcing the Government in a contrary direction.

54. The agricultural industry, having experienced a period of quite impressive growth over the last decade, has now reached a plateau, and will require a new impetus to stimulate a renewed period of rapid growth. It has come up against constraints, in both the world and domestic markets, and in the production gains which can be secured by an expansion in acreage or in livestock numbers. 1/ The priorities for development in the Plan period, therefore, appear to be for technical research (including collating and evaluating existing research results), market research and for programs designed to increase the unit productivity of the mass of producers. Technical research needs to continue on the existing major crops, but there is also need for new research programs, particularly on oilseeds, horticulture and livestock. A vigorous market research program would help Kenya not only to keep pace with market trends in the world, but also to give more attention to the exploitation of its own domestic market - especially in the field of nutritional foods. The program to increase productivity will be the hardest task facing the industry, since it involves not only learning how to bring the whole range of modern farm technology to the mass of small-scale producers, but also how to motivate the population along development lines.

55. All this requires sound and detailed planning, and there is great need to strengthen the planning organization both at the center and in the main development ministries. The most recent re-organization of the Ministry of Agriculture provides a much better basis for sound planning, while technical assistance has now been secured to supplement planning personnel in both the Ministry of EPD and the technical ministries who will be part of the new unified Economic Service of government. These recent improvements should help to speed up policy formulation and project preparation in the agricultural sector.

56. The reasons which have caused agricultural development to lag in recent years, will affect its prospects during the Plan period. The prospects for individual commodities vary; for some they are quite reasonable but none can be said to have a really bright future. The major export crops are all facing difficulties either in the limitation of the market (coffee), or in depressed prices (tea) or in both (sisal and pyrethrum). Other crops, which have developed rapidly on the basis of domestic demand, now face less renumerative prices as the domestic market becomes saturated at existing incomes and prices. Such commodities include wheat, sugar cane, rice, small stock, and poultry. Only maize looks as though it might

---

1/ The previous economic report remarked on the unused and under-utilized high potential areas of the Narok District of Masailand, which are ripe for development. Difficulties with the Masai people have so far proved intractable despite efforts on the part of the Government.

be on the verge of a substantial increase in production and sales if costs of production, storage and transport can be reduced both for home and export markets. A high potential exists for both oilseed production and horticulture, but both require much more research. There is a long-term potential for beef production as a major export product but a shortage of breeding stock, inadequate infrastructure and low standards of management mean that it will be a long time before this potential can be realized. Various bilateral and multilateral agencies are assisting the Kenyan Government to make a start.

57. On the whole the projections of agricultural output and exports contained in the Plan are realistic and are all capable of achievement. Taking into account all the probabilities of production delays, adverse weather conditions and other retarding factors, the economic mission considered that the average rate of growth in real output assumed in the Plan (5.4 percent between 1968 and 1974) was a little too optimistic. The average growth rate used by the Mission in projecting monetary agriculture was 4.7 percent in real terms or 4.3 percent at current prices, these rates being built up from estimates of changes in output and price of each major commodity. The growth in the monetary sector is likely to be higher and the growth in the non-monetary sector rather lower than these rates. The Mission estimated exports to grow at a rather higher rate than gross output - 5.7 percent at current prices, or 6.3 percent at constant prices. Detailed projections of agricultural exports were not available from the Plan at the time of the economic mission's visit to Kenya, but they are expected to be rather higher than these levels.

(ii) Rural Development

58. Rural people as a whole, and many of the small farmers in particular, have not been able to contribute significantly to the growth in marketed output. Consequently, many of the past gains in the Kenyan economy have not been reflected in the welfare of rural people. This is true generally in developing countries and is not specific to Kenya, although the problems arising are rapidly becoming more acute in Kenya than in some other countries. The Kenya Government has accordingly given rural development a high priority in the new 1969-74 Development Plan, and has launched a Rural Development Program to increase productivity and employment and improve rural living conditions. This program will initially consist of 14 pilot projects (6 in the first year) that will serve as experimental laboratories for innovations in agricultural production, rural training, public services and self-help projects. The program will be conducted as an experiment, and the Institute of Development Studies, University College, Nairobi, will play a prominent role in the analysis and evaluation of the experiments.

59. Not much research has been done on the socio-political background of the small farmer of Kenya. There is a lack of information regarding his problems in adapting to this environment, his tribal affiliations, his political convictions and his social aspirations. This has left most of those who plan rural development with meager knowledge about the

most significant group of people to be affected by rural development. The farmer is too often viewed merely as an economic unit of production rather than as a person who is to benefit from agricultural development. Excessive emphasis upon economic goals has obscured essential elements of social planning in the rural development schemes. Thus, an important priority in rural development planning should be to carry out research into the socio-political background of the small farmer.

60. Three critical processes will be involved in the rural development program. First, it will be necessary to define the objectives of the program, in such real terms as can provide a focus for concerted local action. Development priorities will vary from region to region and the obstacles to achieving success in the various projects included in the program will be determined by conditions found at the local and regional levels as well as the national level. Second, it will be necessary for those planning the program to secure coordination of action amongst all the departments and agencies involved in its execution. Third, and most important, it will be essential to involve the local people in both the planning and the implementation of the program.

61. The involvement and participation of rural people is a necessary ingredient in any rural development program. The self-help program in Kenya has been an outstanding example of the strength in local initiative, but the enthusiasm which it has generated has not always been directed into the most productive channels. The lack of direction and help from the Central Government and the inadequate support, particularly financial help, for the Local Authorities have played an important part in this failure. The Department of Community Development could well be given more authority and responsibility for channelling self-help efforts into economically and socially productive programs. For this purpose the Ministry could use the personnel which will staff the proposed new multi-purpose training centers, referred to in paragraph 63 below.

62. It has been decided that some of the functions presently being performed by local authorities will be transferred to central government. However, no plans have yet been prepared by the Government for such a transfer of responsibility, and there is the danger of a breakdown in services occurring if the plan is pushed any further. There is as yet no evidence that central government will be able to operate these services more efficiently than local authorities have in the past or, and of equal importance, that a centralization of administration will be able to secure the necessary participation of the local community. Unless Government is quite satisfied that its ministries can take over both these two vital functions, it would be preferable to strengthen and improve the efficiency of the existing local government system. Some possible ways of improving the efficiency of the local authorities are outlined in Section (d) of Chapter V.

63. The restructuring of education and the reorientation of training to the needs of rural communities are prerequisites for rural development. A Board of Adult Education has been established at the national level, which

cuts across ministerial, public authority and voluntary organization boundaries, to provide coordinated programs of adult education. The Board has proposed the establishment of multi-purpose training centers in each District. All training and extension services are to be based at these centers. The success of these centers depends upon the availability of qualified teaching staff. At present there is little hope that the institutions for training teachers in rural education can be equipped to meet the needs of these centers. Teachers in Adult Education and Extension are poorly prepared to teach and assist rural people, and the morale of the teaching corps in most existing centers is quite poor. New career patterns, better recruitment, and a revised curriculum for adult educators in rural training is an immediate priority for the success of rural development. Hitherto there has been little systematic attempt to provide vocational training to youths who have had little or no formal education or who have had only some primary school education. Some Rural Polytechnics and Youth Centers have been started and others are planned but these have yet to be integrated into the multi-purpose training center program.

64. The provision of adequate rural infrastructures is critical to rural development planning. Concrete plans exist for the extension, improvement and maintenance of rural roads and water supplies, but unless some satisfactory answer is found soon to the local government problem and the adequate financing of these and other local services, the rural development schemes will suffer.

(iii) Tourism

65. The 1969/74 Development Plan for Tourism is based on projections of visitor numbers estimated to rise by 16-17 percent annually in the case of visitors from overseas and by 5 percent annually in the case of visitors from neighboring countries. The estimated total numbers of visitors are shown in Table 3.

Table 3: Estimated Visitor Numbers - 1968 and 1974
(000's)

	1968	1974
Visitors from overseas	144.5	374
Visitors from neighboring countries	112.5	185/1
	257.0	559

/1 This figure is based on a 5 percent annual growth from an estimated 131,000 visitors from neighboring countries in 1967.

66. Gross foreign exchange earnings from tourism rose by almost 13 percent annually in the past five years. They represented 11.5 percent of all earnings from exports of goods and non-factor services in 1968. On present estimates of exports of goods and services in the next five years, this proportion should rise to 19 percent by 1974, at which time gross earnings from tourism are officially projected at about K£ 35 million.

67. This increase in traffic is estimated to require almost 6,000 new hotel beds by 1974, as compared with the 6,500 existing in January 1968. The total cost of the new hotel and lodge program is estimated at about K£ 10 million, of which approximately a third is expected to be raised from Government sources and the balance from the private sector. The phasing of these expenditures is not yet fully determined. However, almost half of the total has already been spent on new international hotels in Nairobi and new game lodges so that in the years of the Plan period average annual expenditures would not be much in excess of K£ 1 million. In addition, the Kenya National Parks and Game Department has estimated development spending at K£1.5 million over the five years. Major infrastructure investments related to tourism will be in highways and the airports at Nairobi and Mombasa. Finance for new highways linking Nairobi with northern Tanzania via the Mara and Amboseli Game Reserves has already been secured. The next phase of the tourist road program is being studied, as is the development of the airports at Nairobi and Mombasa. Decisions on the latter have not yet been reached, but expenditures of about K£ 3.5 million in new taxiways, parking apron, storage facilities and minor improvements to the terminal building at Nairobi's international airport might well be justified.

68. Apart from the amounts required for infrastructure investments, the total call on Government funds seems unlikely to be greater than K£ 500,000 annually in the Plan period. This is very small (only 3 percent) in relation to the total annual public development spending during the Plan and should present few problems of financing. Private sector investments could be in excess of K£ 1 million annually. Given favorable Government policies and encouragement, these sums should be found without difficulty, partly from the local market and partly from overseas.

69. The projected growth of visitors during the Plan period does not appear over-optimistic on the demand side having regard to the average annual growth rate achieved in the past five years and to the present plans of the travel trade both in Kenya and the major countries in Europe and North America from which the tourists originate. To achieve the targets, however, will require an adequate expansion of accommodation and associated facilities both in total and in the particular locations of principal interest to visitors. In this context the projected additions to capacity in game areas seem likely to be inadequate to meet the projected growth in demand. Moreover, the difficulties being experienced in reaching satisfactory agreements with local government authorities in certain game areas, make the achievement of the target for expansion of lodge capacity in these areas very doubtful. While the projected additions to hotel capacity in Nairobi and on

the Kenya Coast should be capable of realization, a shortage of lodge capacity in game areas could seriously impede the growth of visitor traffic as a whole, given the importance of game viewing in the tourist attractions of Kenya.

70. While the Government, through its investments in infrastructure and its contributions to the financing of new hotels, channeled through the Kenya Tourist Development Corporation (KTDC), has provided substantial support for the growth of the industry, the private sector still plays the major role in organizing the trade, in financing and operating hotels, and in providing the local transport required to move tourists through Kenya. In these circumstances close cooperation and consultation between the Government and private investors is essential if the industry is to be developed rapidly in the future. In the past, consultation has not been as close as desirable, and relations between the Ministry of Tourism and the private sector need to be improved. This will be necessary if the Ministry of Tourism and the KTDC are to fulfill their role in developing the industry. This is particularly important in relation to achieving the required expansion of capacity in wildlife areas and to developing the new tourist circuits needed to serve the growing numbers of visitors.

(iv) Manufacturing

71. Recent Performance. In the early part of the 1960's manufacturing production rose fairly rapidly and an increasing proportion was exported to Kenya's common market partners. This was a major cause of the strain which nearly resulted in the breakup of the common market and led to Tanzania and Uganda imposing quantitative restrictions on imports from Kenya, which in turn resulted in Kenya's common market exports declining in 1966 and 1967 after increasing by 16 percent 1/ a year from 1960 through 1965. Fortunately, the reduction in exports was partially offset by the growth in home demand, and during the period 1964 through 1968 both the volume and value added at constant prices in the manufacturing sector increased at an average annual rate of 5.7 percent.

72. The growth of individual industries has varied. Thus, while the output of some consumer durable goods increased at a fairly rapid rate, that of the food processing industries rose slowly. This may have been due to the lower income elasticity of demand for food products, but there were also some supply problems, particularly with regard to pork and dairy products and canned fruit and vegetables. Two of the fastest growing industries were petroleum products, based on imported crude oil, and cement, based on local raw materials. It is not just a coincidence that both these industries have large export markets. The metal working and repair industries together remain the largest segment of the manufacturing sector, but their relative importance decreased somewhat.

1/ If petroleum products are excluded, the growth rate was only 3.5 percent.

73. After declining over a fairly long period, employment in manufacturing increased at just over 7 percent a year between 1964 and 1968, the most rapid increase being in footwear and clothing, textiles and food processing. These were also the industries in which productivity per worker 1/ declined or stagnated. (See Appendix Table 51.) Thus, it appears that the less the productivity growth, the greater the employment generation.

74. Most of the industrial output is concentrated in large enterprises: in 1967, 78 percent of output was from firms employing 50 or more workers, and 92 percent from firms employing 20 or more workers.

75. While the ratio of value added to gross output has been fairly constant around 35 percent for manufacturing industry as a whole, the ratio has increased for some industries and decreased for others. There is some indication (see Appendix Table 52) that the ratio has declined for those industries with stagnant or falling productivity and vice versa. This may be the result of a correlation between rising capital intensity and productivity increases.

76. The Manufacturing Sector in the Plan. The projected annual growth rate of value added in manufacturing is a little less than 9 percent at constant prices, which compares with the real growth rate of 5.7 percent a year over the past five years. The plan target may be on the high side, and much will depend upon the longer term effect of the transfer duties which are discussed in greater detail in paragraph 81(b) below, but it is likely that the transfer duties will prove to be less restrictive than the quantitative import restrictions in force during 1966 and 1967 which affected to some extent the growth in net output as a whole. The growth in the food processing industries, with the exception of canned pineapples, will remain low, while textiles, pulp and paper products, tanning and leather, rubber and petroleum products and the non-electric machinery industries are all projected to grow at above average rates. The continuation of the past rapid growth in textiles, however, is doubtful owing to the present general over-capacity in the textile industry in East Africa, although Kenya's new factories have concentrated on the better qualities and include rayons, nylons and mixtures, while the factories in Tanzania and Uganda have concentrated on the mass market for grey cloths.

77. Total projected capital formation in manufacturing during the 1970-74 period is K£ 94 million. The government investment in manufacturing is confined to transfers to the Development Finance Company of Kenya (DFCK) and the Industrial and Commercial Development Corporations (ICDC). Assuming no

---

1/ As measured by value added per worker. Although prices generally were fairly stable, there are no separate indices for each category of manufacturing and so one cannot be sure that productivity changes were not due to relative price changes. Some care should, therefore, be exercised in interpreting the productivity changes.

lags, the incremental capital/output ratio is about 1:3.3, and assuming a lag of one year it would be 1:3.1. Both these figures appear reasonable in the light of past experience, but capital/output ratios are notoriously unreliable.

78. Employment in manufacturing is projected to grow more slowly than output and this accords with past experience also. Productivity, as measured by value added at constant prices per employee, is expected to grow most rapidly in textiles, rubber, chemicals and petroleum. The projected increase in productivity in textiles and the food processing industries is a reversal of past trends.

79. Plan Priorities and Policies. While the general considerations influencing industrial priorities remain the same as those of the previous plan, there are several changes of emphasis. First, the development of an efficient internal distributive system, the examination of the market constraints and opportunities within the East African Common Market, and the exploration of export markets are to be given as much attention as the development of industrial capacity. Second, more attention will be placed on project studies and project preparation to identify potential industries and to insure that the projects selected are efficient. A new Economics and Planning Division has been established in the Ministry of Commerce and Industry, and an Industrial Survey and Promotion Center is proposed to undertake project feasibility studies. These are welcome developments, and should result in improved performance.

80. The Government has a pragmatic approach to industrial development, with import substitution and value added domestically being important considerations influencing its support. This is essentially indirect, and includes (a) protection of private investment, and guaranteed remittance of profits, capital and loan interest for those possessing a Certificate of Approved Enterprise under the Foreign Investment Protection Act; (b) refund of customs duties on imported raw materials for certain industries; (c) tariff protection and licensing of imports competing with domestic industry; (about 10 percent of Kenya imports are subject to licensing for protection - this proportion may increase during the Plan); (d) an investment allowance of 20 percent on buildings and new equipment; (e) direct financial support through the DFCK and the ICDC. DFCK, which is a partnership of the British Commonwealth Development Corporation, the German Kreditanstalt für Wiederaufbau, the Dutch Nationale Investerings Bank and the Kenya Government, concentrates on developing the larger-scale industries. It is well managed and has no problem in raising its capital as and when necessary. ICDC concentrates its attention on small-scale industries and is the government's main method of promoting Kenyanization in industry. Like some other parastatal organizations, such as the Agricultural Finance Corporation and the Tourist Development Corporation, its capital needs restructuring. If external aid is to be procured, it will be necessary to convert much of the existing loan capital from the Treasury into equity so that it has a realistic debt/equity ratio. At the same time the management needs to be strengthened and supported by a small team of project identification/evaluation professionals.

81. Factors Influencing Industrial Development. The future development of industry in Kenya will be influenced by a number of factors, the more important of which are discussed below.

(a) Size of the Domestic Market and export Prospects: For most industrial products the Kenya market, though an expanding one, is too small to support production plants of optimum (efficient) scale. The wider common market of the East African Community is potentially much more attractive to industrial investors, but entrepreneurs are discouraged from planning investment in any of the three Partner States by the fear that the establishment of other competing firms within the region will result in excess capacity and thereby destroy any benefits which the common market might bring. In these circumstances, and in the absence of allocative machinery, greater attention might be given to other export markets. There is already an Export Promotion Council which does good work, but there is need for much more export market research. In 1967 manufactured goods exports to all countries were 26 percent of the total output of the manufacturing sector, 1/ while manufactured goods exports (including processed agricultural commodities) were 45 percent of total exports from Kenya. About 46 percent of the manufactured goods exports were to countries outside the Common Market. These figures indicate that much of the sales of Kenya's manufacturing industry is orientated outside the Common Market. The petroleum and cement industries are examples of those which have solved the size of the domestic market constraint by successful export development. Other industries in which this could be done have to be investigated and encouraged. Kenya's geographical location in Eastern Africa, its proximity to markets around the Indian Ocean, and in the Middle East and its other attractions to private investors would appear to offer some scope for industries exploiting both domestic and export markets, and taking advantage of economies of scale.

(b) The Development of the Common Market: An attempt to develop a regional industrial allocation policy (incorporated in the Kampala Agreement, 1964) failed and no specific allocation machinery was established in the Treaty for East African Cooperation. The East African Industrial Council continues to operate and grants licenses to new industries

1/ Manufactured goods exports include tinned meat and preparations, tinned pineapples, petroleum products, beverages and cigarettes in addition to those classified as such in Tables 51, 54 and 55 in the Statistical Abstract, 1968.

in certain fields, e.g. textiles and glassware, after consultation with the respective Ministries of Commerce and Industry in the three Partner States and after hearing views of the existing business community. The mechanism of transfer taxes, which can be imposed on manufactured goods by "a Partner State which is in deficit in its total trade in manufactured goods with the other two Partner States," is a more important factor influencing industry. The rate of transfer tax cannot exceed 50 percent of the rate of external tariff. First indications from the returns for 1968 are that the replacement of quantitative restrictions by transfer taxes has led to a resumption of growth of manufactured goods exports to Tanzania, but not, as yet, to Uganda. There is not sufficient evidence to be sure about the reasons why exports to Uganda have not increased, but the continued existence of import licensing on some commodities, the levy of a sales tax on consumer goods and perhaps a greater degree of competitiveness by Uganda's industries, particularly those established during the period of quantitative restrictions, must be important causes. For the future, the transfer taxes should not prevent some growth of exports of Kenyan manufacturers to the Partner States, but the rates of growth witnessed in the early sixties are unlikely to be resumed.

(c) Supply of Labor and Skills: Given the Government policy of Kenyanization, and the time required before sufficient numbers of trained African workers are likely to be available, the shortage of skilled labor probably inhibits industrial development. In most large-scale industry 85-95 percent of the labor force is African, but few of them are in the technically skilled or supervisory jobs, and their number can only be increased gradually. There is an active trade union movement which negotiates agreements on wage increases of about 5 percent per year. The rising money wages are not always matched by increasing productivity and in some cases may affect the competitiveness of Kenya industry.

(d) Capital and Credit: A shortage of capital does not appear to be a limiting factor in industrial development. As pointed out elsewhere in this Report, money for investment is plentiful and relatively cheap. Foreign entrepreneurs are interested in coming into Kenya, but have been inhibited to some extent by uncertainties regarding the size of their potential market within the East African Community.

82. Conclusion. The growth of manufacturing over the next five years is likely to be faster than over the previous five years, but probably not quite as fast as projected in the Plan - perhaps 7 percent as against 9 percent. The growth rate could be higher if the three Partner States established some coordinating machinery to minimize wasteful competition and excess

capacity. A higher rate of investment in manufacturing in all three of the Partner States would probably be possible in the long run, if potential investors were assured of obtaining the whole of the common market.

(v) Transport

83. The transport sector accounts for 8.3 percent of GDP and is expected to absorb 19.3 percent of the Plan's projected investment. The sector as a whole is functioning well and its investment plans are soundly conceived.

84. Transport services are provided by the three East African Community Corporations for Railways, Harbours and Airways, a small East African National Shipping Line and authorities within Kenya responsible for the construction and maintenance of Kenya's roads: principally the Ministry of Works and a large number of local authorities. The performance and investment plans of railways, harbours and roads sub-sectors have just been or are being intensively surveyed by the Bank Group in connection with individual loan applications. Consequently, only a brief outline of the existing capital stock, the investment plans and some general problems are given below.

Existing Stock

85. The East African railway system comprises about 3,700 miles of railway lines, of which the most heavily used 1,000 mile section is the one from Mombasa to points in Uganda. Kenya accounts for 60 percent of the total traffic (of about 12 million tons) handled by East African Railways Corporation (EARC). Its share in total ton-miles is somewhat lower at 53 percent, because the average length of haul in Kenya (387 miles) is lower than the average for the system as a whole (about 430 miles). The bulk of the traffic is accounted for by ten - mostly agricultural - commodities which are transported in large shipments over long hauls.

86. Kenya has about 26,000 miles of roads of which 1,400 are paved and 9,150 are improved gravel and earth roads. At present there are about 130,000 vehicles (excluding motorcycles and trailers) of which 55,000 are automobiles and about 45,000 are trucks. Their rate of increase is rising and is expected to be about 9-10 percent a year by 1970. An important qualitative change over the last few years has been a dramatic increase in the average size of freight vehicles plying some of the principal routes: while the capacity of most vehicles till 1963 was around 3 to 5 tons, vehicles up to 30-ton capacity and about 400 large tankers with a gross weight of almost 26,000 lbs. on a single axle were recently introduced.

87. Kenya is served by a large number of international airlines. East African Airways (EAAC) is owned equally by Kenya, Uganda and Tanzania. Its aircraft fleet includes four Super VC 10's with a fifth on order, three Comets, four Friendships, six DC3s and four Twin Otters. In addition to EAAC, a number of smaller private carriers operate charter services in Kenya as elsewhere in East Africa. EAAC provides about 128,600 seat miles on its intra-East African routes and about 902,600 seat miles on its international routes. The rate of utilization is around 53 percent and 44 percent

respectively, and is expected to remain around this level in the Plan period. The two principal airports are the Embakasi Airport at Nairobi and the airport at Mombasa. Embakasi has a single 13,000 foot runway that can handle all modern aircraft that are in commercial use. The Mombasa airport has three runways, the longest of which is 6,200 feet; it cannot handle long distance aircraft of the 707 or DC8 class. Embakasi serves about one million passengers a year at present. The Plan expects this number to grow by 19 percent a year between 1969-1974.

88. Kenya's principal harbour is at Mombasa. It has 13 deep-water quays and lighterage facilities equal in capacity to an additional deep-water quay. About 1,100 ocean-going dry-cargo vessels touch Mombasa port every year, discharging and picking up about 2 million tons of cargo. The cargo tonnage is increasing by about 4.5 percent a year. The port is working well beyond its economic capacity at present and the degree of congestion has led conference lines to request a 10 percent surcharge for ships touching Mombasa and Dar es Salaam.

Investment Plans

89. The Plan provides for an overall investment of K£ 130.8 million in the transport sector over the period 1970-74. Investment plans for railways, roadways and harbours are well conceived. Their formulation and execution have in the past involved close association of the Bank Group. This close participation is expected to continue.

Railways: EARC are expected to invest K£ 17.95 million in 1970-74 broken down as follows:

Table 4: PLANNED INVESTMENT IN KENYA OF EARC, 1970-74
(K£ million)

	Building & Construction	Machinery & Equipment	Total
Foreign Exchange	4.80	9.40	14.20
Local currency	3.56	0.19	3.75
Total	8.36	9.59	17.95

90. This is about K£ 3 million less than the amount projected by the Plan for 1970-74 1/. The new investment program continues the expansion and modernization initiated with the aid of two loans from UK and the Bank

1/ The investment plans obtained by the economic mission from the EAC common service organizations differ somewhat from the figures given in the Plan.

Group. Under these loans about 5,500 goods wagons have been or are being replaced. Another 1,500 wagon units and 125 steam locomotives are to be replaced in 1970-74. Additional steps - such as dieselization, improvement in signalling and telecommunications, renewal of tracks etc. - are to be taken to improve the operating efficiency of the railway system. The EARC has requested the Bank for a new loan of £ 15 million ($ 42 millions) and has been invited to enter into negotiations on the proposed loan in October, 1969.

91. Roads: Expenditures of the Central Government on roads in 1959-68 totaled K£ 41.5 million of which K£ 22.2 million were on new construction and upgrading and K£ 12.5 million on maintenance. About 58 percent of these (i.e. K£ 23.9 million) have been financed by external assistance. The Plan anticipates an expenditure of K£ 43 million on roadways in 1970-74. Forty-six percent of this is for trunk roads, 34 percent for secondary roads and 20 percent for roads connected with specific economic development projects (i.e. tea and sugar cultivation and tourism development). A new Bank loan to cover the $23.5 million foreign exchange component of a $36.3 million highways development program was approved by the Executive Directors in September. This program - as the ones since 1959 - is based on the sound principle of stage construction; i.e., of designing a road to meet traffic needs in the first instance and then upgrading it as the actual traffic flow increases. On the whole the development program is well conceived.

92. Harbours: The Plan provides for investment by EAHC in Kenya of K£ 11.6 million in 1970-74. A new port loan to EAHC involving a K£ 12.5 million loan by the Bank has recently been approved (638 EA on August 25, 1969). The loan will cover the foreign exchange component of a K£ 20.8 million development program to be executed in 1969-72 and interest during the construction period. Of its total investment expenditures in 1970-74, EAHC plan to invest about K£ 10.3 million in Kenya broken down as follows:

Table 5: PLANNED INVESTMENT IN KENYA BY EAHC, 1969-74
(K£ million)

	Building & Construction	Machinery & Equipment	Total
Foreign Exchange	4.59	2.76	7.35
Local currency	2.90	0.05	2.95
Total	7.49	2.81	10.30

93. This includes provision for two new general cargo berths (berths 16 and 17) at Mombasa which will be built to be used as container berths when such traffic develops and one bulk materials wharf for grain and cement cargo with grain silos and the requisite handling equipment. Existing berths 1-5 and 7-10 and stacking areas are also to be improved as part of the development program.

94. Airways: East African Airways anticipate a total investment in 1970-74 of KL 17.70 million. Kenya's share of this would be KL 5.98 million, although the Plan provides for KL 6.3 million. Seventy percent of investment expenditures would be on purchases of new aircraft and modifications of existing aircraft; 12 percent will be buildings and terminal facilities; the rest consists of additions to working capital and miscellaneous items like expenditures on sales offices etc. EAAC expect to finance 20 percent of this from their operating profits, 73 percent from provisions for depreciation, about 5 percent from new borrowing and the remaining 2 percent from miscellaneous receipts.

95. Airports: Airports, except for navigational aids, are the responsibility of the respective Governments. The Plan provides for a total expenditure of KL 7.4 million on airports in the five-year period 1969-70 to 1973-74. Following the report of a consultant and the visit of a Bank preappraisal mission in May 1969, the previous plans to build a new passenger terminal building at Embakasi Airport, Nairobi during the 1970-74 period have been phased back. Interim modifications will now be made to the airport, mainly to improve aircraft maneuvering and freight handling. Construction of the new building is now scheduled to start in 1975. Plans are being made however to extend the capacity of Mombasa Airport to allow for the increasing tourist traffic there. The terminal building is already completely inadequate for present passenger usage, while the runway is too small to accommodate modern jet aircraft. Depending upon the results of a study being made early in the Plan period, total developments at Mombasa could cost as much as KL 3.6 millions.

General Issues

96. Railway Rates Policies: Thus far railways have been the central feature of East Africa's transport system and EARC has been able to finance a considerable proportion of its expansion program from its own resources. Railway rates are structured on a differential basis: different types of traffic being charged what they will bear and not what it costs to transport them. High value goods like petroleum products and imports have been charged as much as three to four times the variable costs of transporting them while agricultural products and goods for export have been charged less than costs of transportation directly attributable to them. The diversion of the former category of goods to other modes of transport (chiefly roads) was prevented by a system of truck licensing that protected the interests of the railways. Better roads, the dramatic increase in the size of freight vehicles and freer licensing since 1967 have led to a considerable diversion of high value traffic (especially petroleum products) to road transportation. The railways have suffered a loss of about KL1 million in operating revenues. The economic cost of this diversion is many times greater because railways have a definite comparative advantage in carrying bulk traffic over long hauls.

97. These developments point towards the need for greater flexibility in determining railway rates. A once-over change will not be sufficient as the recent experience in lowering rates for petroleum products shows: the reduction was promptly matched by truck-operators so that the railways were

able to recoup only a small part of the traffic they had lost. The Economist Intelligence Unit in an extensive report on transport coordination in East Africa (for the United Nations Development Program (UNDP) with the Bank as Executing Agency) has - among other things - recommended greater flexibility in rate fixation. The proposals have yet to be worked out in specifics but the general principle seems unexceptionable. It is important that whatever recommendations are finally accepted are acted upon quickly.

98. If the railways are going to fix their rates to cover their variable costs and to ensure that they do not lose the traffic in which they have a comparative advantage, the resulting rates may be higher in relatively backward regions which have poorer road networks than in regions like the Mombasa-Uganda section on which competition from roads is keener. This would increase inter-country and inter-region inequalities in East Africa. However, it should be possible to overcome this problem by specifying a set of ground rules within which railways would be free to make rate changes; for example, maximum rates could be prescribed or a procedure could be instituted to hear appeals against rate exploitation.

99. The general issue of the appropriate relationship between the East African Communications Council and EARC requires further elucidation. The issue has been resolved in a pragmatic way for operations of EAHC and there is no reason to believe that it will not be similarly resolved in the case of EARC.

100. Roads: Two, partially inter-related, issues have come into prominence in the last two years and will require considerable attention in the near future. First, the maintenance of roads has not been fully satisfactory. Three sets of contrasting explanations are being put forward for this: that maintenance of secondary and minor roads has been a responsibility of rural Local Authorities which do not have the expertise to carry out the maintenance work and have been diverting funds assigned for road maintenance to other purposes, particularly primary education; second, that the Treasury has been too conservative in the extent to which it has authorized increases in maintenance expenditures by the Ministry of Works: the increments have been limited to 6-7 percent a year when increments of perhaps 10-12 percent are needed; third, the traditional Treasury view, that the problem lies not with the amount of the authorizations, but in their effective utilization; that the Ministry of Works is just not equipped to handle the amount of maintenance work that needs to be done and, therefore, increased authorizations will not necessarily result in improved maintenance.

101. Two measures are needed to determine the appropriate course of action: one is to assess the relative abilities of rural Local Authorities and the Ministry of Works in handling maintenance work and the extent to which either or both of them have to be strengthened; second, to quantify the costs and work involved in maintaining different types of roads in different parts of the country. The Government recently retained the services of Associated Industrial Consultants (UK) to examine the issue of reorganizing the Ministry of Works. Their report does not answer the

first question but - even though it concentrates almost exclusively on the mechanics of reorganization - it should serve as a useful basis for further study of the more basic questions bearing on road maintenance.

102. The question of maintenance was recently dramatized in the case of the Mombasa-Nairobi road by the sudden introduction of about 400 heavy tankers. The tankers which had carrying capacities of about 26,000 lb. per axle were allowed to ply on a road which had been originally designed for only 6,000 lb. per axle vehicles. Consequently, the road was greatly damaged. Action was taken subsequently to enforce the statutory axle requirements. However, the statutory maximum for gross weight per axle (17,600 lbs.) far exceeds in many cases the capacity of roads on which vehicles with this loading are allowed to travel. Clearly, it would not be wise to forbid the progressive introduction of heavier vehicles that entail considerable economies of scale and yet episodes like the Nairobi-Mombasa road cannot be allowed to recur. The optimum degree of regulation of heavier vehicles and the principles that should underlie it should, therefore, be closely examined. In the meantime, it seems eminelty desirable that, as a first step, the taxation of vehicles should be tied in a proportionate or progressive manner to the number of axles a vehicle has and the load transmitted on to the road by its most heavily laden axle when the vehicle is laden to its design capacity.

(vi) Electricity and Water

103. Electricity. Since 1964 electricity consumption has increased in line with the growth in the economy. The growth has been somewhat uneven, with low rates in 1965 (2.0 percent) and 1967 (4.5 percent) and higher rates in 1966 (7.0 percent) and 1968 (9.2 percent). During the Plan period, sales are expected to grow at 10 percent a year.

104. The previous economic report drew attention to the advantage to both Kenya and Uganda in coordinating their electric power developments. The two Governments responded to this by holding two meetings with the Uganda Electricity Board and the Electricity Companies in Kenya to explore the potential for coordinated development. Following requests by the two Governments the Bank put forward the names of three suitable persons from whom the Governments selected Lord Hinton of Bankside to act as independent Chairman at these meetings. A report prepared in July 1968 jointly by the engineering consultants of the Kenya and Uganda power undertakings, which estimated the benefits to be obtained from coordinated development, formed the basis for discussion. As a result of these discussions, the participants agreed to work together to develop a coordinated supply of electricity in both countries.

105. As a first step it was agreed that the following developments should proceed as soon as possible:

(a) the Kamburu/Gtaru development on the Tana river for commissioning at the beginning of 1974;

(b) exploratory and design work on the first stage of the Murchison Falls development expected to be required about the end of 1975.

It was accepted that modification of these proposals and their timing might result from more detailed consideration of the projects or from changes in the projected growth in demand.

106. At the time this agreement was reached Uganda estimated that it would face a shortage of generating capacity sometime between 1973 and 1975, taking into account its continuing commitment to supply 30 M W to Kenya. After discussions were held between the Uganda Electricity Board and the Kenya Companies, mutual agreement was reached on a basis for helping out Uganda if any shortages occurred before the commissioning of Stage I of Murchison Falls. Six-monthly liaison meetings are taking place between the electricity undertakings in Kenya and Uganda.

107. Although Kenya still supports the principle of coordination, the Kenya Government and the Kenya Electricity Companies have felt bound to reserve their position about developments after 1975, because it would not be reasonable to commit the country and the Company to any specific projects, so far ahead. Another important consideration is the possibility of using geothermal steam resources as an alternative or supplementary source of energy for electrical generation in Kenya, and it is proposed to spend about K£ 1 million on exploration of geothermal steam resources during the period of the 1969/74 Plan.

108. In the meantime further engineering studies and site investigation have led to a modification of the plans for the development of the Tana River. It is proposed that the first stage of the Kamburu Scheme will be commissioned at the beginning of 1974, and the total project, estimated to cost K£ 15-1/2 millions, including engineering, interest during construction and contingencies, is included in Appendix 3 as a suitable project for external financing. Taking into account expenditure on the Nairobi/Mombasa 132 KV transmission line, the addition of a 30 MW steam turbine and a 15 MW aircraft gas turbine and generator to the Kipevu power station, and capital expenditure of the order of K£ 1 million per year on extending the distribution system, the total expenditure by the Kenya Companies through 1974 is estimated at a minimum of K£ 30 million.

109. Water (a) Rural - In spite of the importance of water supplies in the social and economic life of the people, most of the expenditure on water supply systems since Independence has been in the urban areas, and only a small minority of the 8 million people living in rural areas of Kenya have been served by adequate water supplies. Recognizing this situation, the Government intends to embark upon a large water supply program with the long-term objective of bringing acceptable water supplies to all the rural population. At the same time, the scale of the program is impressive: it is estimated that it would cost K£ 30-35 millions merely to provide minimal services.

110. The initial policy is to provide communal water supplies at appropriate locations designed to allow individual offtakes to be connected at the consumers' own expense. The first stage of development will comprise some 220 water schemes of various kinds. This program will cover the first two years of the Plan and is estimated to cost some K£ 1.75 millions. Much self-help activity has been involved in the past in bringing these proposed schemes to their present stage of preparation, and self-help groups are also expected to participate in their implementation.

111. While this initial development program is under way, it is intended to draw up a master plan for rural water development. To do this the Water Development Division of the Ministry of Agriculture will require additional expert technical assistance. The Division will be enlarged so that staff can be made available in all districts to plan and operate both urban and rural water schemes. The headquarters staff will also be strengthened to undertake the planning, design and construction of new schemes, and a planning section is also being formed to work on longer term planning. Kenya has already received a considerable amount of external assistance in water development. Over the past eight years UNICEF and WHO have worked jointly with the Ministry of Health in a national demonstration program for communal water supplies, and, together with UNESCO, are now assisting with training and education related to community development water supply programs. The Swedish Government has also been assisting the long-term water development program.

112. The development of rural water supplies is of particular importance to the economic development of the arid and semi-arid areas of Kenya which cover some two-thirds of the total land area and in which water is a critical resource for the life of the people and for their stock. Much of the potential development of the livestock industry is dependent upon improving water supplies, and more attention has been paid to this aspect of development in recent years, with assistance from US AID, Sweden and IDA.

113. (b) Urban - Compared with the rural areas, the urban areas are already well served with water, and less emphasis will be put on urban development in the Plan period. The largest projects within this field will be the expansion of Nairobi's water supply system which has been made necessary by the rapid growth of the capital city and the expansion of tourism. It is likely that the first stage of a long-term development program involving a run-of-the-river scheme on the Chania and Thika rivers, would cost about K£ 3-1/2 millions, with a foreign exchange component of about £ 2 millions. The Nairobi City Council has submitted an application to the Bank, which will be considered in conjunction with an engineering report which is awaited from the Council's water consultants.

(vii) Education

114. Kenya's formal education system consists of: 7 years of primary education, starting at the age of 5-1/2; 4-1/2 years of junior secondary education at the end of which students sit for the Cambridge Ordinary Level Certificate; 2 years of senior secondary education at the end of which

students sit for an Advanced Level Certificate; and degree and diploma level programs at University College, Nairobi. Other important educational institutions include the Kenya Polytechnic, primary and secondary teacher colleges, agricultural institutes and colleges, technical institutes and trade schools.

115. The number of pupils in primary schools has increased from just over one million in 1964 to 1.21 million in 1968. There are a large number of repeaters in Standard 7 which results in a bulge in the education pyramid. Although starting from a small base, progress in secondary education has been very rapid - the number of enrolled pupils increasing from nearly 36 thousand in 1964 to just over 100 thousand in 1968. At University College, Nairobi, the number of Kenya undergraduates has risen from 235 in 1964/65 to 859 in 1968/69; the corresponding figures for all Kenya students are 369 and 947. The total enrollment at the University in 1968/69 was 1,779. Expressed as proportions on the estimated total number of children in each age group, the primary school enrollment ratio is between 60-65 percent and the secondary school enrollment ratio between 5-6 percent. There is a marked fall off between Forms 4 and 5.

116. Kenya inherited a liberal arts type of general education essentially designed to prepare students for university, and which is ill suited to Kenyan economic and social conditions. The system does not provide sufficient terminal programs in the sense that students would be prepared to enter employment from various steps in the educational ladder having had practical courses of a pre-employment nature. Too few schools are equipped and staffed to provide courses in mathematics, sciences and practical courses in agricultural, industrial, commercial, and service fields.

117. Substantial progress has been made in reforming the curriculum, but much remains to be done. A revised primary school curriculum more relevant to Kenya has been introduced and as part of the reform process primary teachers are being trained to relate primary instruction to agriculture, which is of paramount importance to the future of Kenya. Practical subjects in agriculture, industry, commerce and home economics have been introduced at secondary school level with financial assistance from the International Development Association. However, the Government has not produced the Sessional Paper on Education which has been under consideration for several years, and the only indication of the Government's long term planning objectives are the statements contained in the draft Plan.

118. Government's overall objectives for education remain unchanged in the 1969/74 Plan, although certain changes in emphasis and priorities will be made. In the primary education field, it is intended to raise the proportion of children of school-going age enrolled to 75 percent by 1974, implying a total expansion in enrollment from 1.2 million in 1969 to 1.8 millions in 1974. As part of this expansion program, a larger proportion of school fees will be remitted.

119. Special attention will be given to the expansion of primary education in those poorer districts of Kenya in which education has previously lagged behind the national average. In many of these districts enrollment will have to double to catch up with the 75 percent target, and

to enable this to happen it is proposed that each of these districts should have at least one Government primary school with boarding facilities. It is further planned to make primary education more relevant to the needs of Kenya by giving it an agricultural bias in rural areas. A second IDA project now under preparation would assist in this by providing primary teacher training colleges with agricultural facilities and it would also assist in an upgrading of the teaching force. By 1974 it is intended that the percentage of unqualified teachers will be reduced from the 1968 level of 26 percent to a much lower level, while a number of other measures will be taken to improve the teaching standards.

120. The general secondary school expansion program provides for enrollment in maintained and assisted secondary schools to increase from some 55,800 in 1968 to 82,500 in 1974, or by 48 percent. Within this expansion, higher forms will increase much faster (195 percent) than the lower forms (39 percent). Selp-help unaided schools (the "Harambee" schools) will continue to be absorbed into the Government program, but at a slower rate. In all, 195 classes of Form I will be taken over and 84 new classes of Form V will be established during the six year period 1969-74. The expansion in the enrollment of those Harambee schools which will continue under local control is difficult to project, but is estimated that total enrollment in unaided general secondary schools will reach 64,000 in 1974 - an increase of 26 percent on the 1968 level.

121. In recognition of the liberal arts orientation of the educational system in the past, a far greater emphasis will be put on practical studies, science and technology in the future. In the lower levels of secondary school more attention will be given to the teaching of practical courses in agriculture, commerce, industrial arts and home science in an attempt to make the curriculum more relevant to the needs of the country. In the higher levels of the secondary schools there will be a greater emphasis and priority given to science and mathematics, mainly with a view to stimulating the output of scientists, engineers and other technically-qualified graduates from the University and other higher institutions. With the same aim in mind, the proposed second IDA project would assist in improving secondary technical schools and vocational schools and permit a doubling of enrollment between 1968 and 1974.

122. The secondary school program has had to come to terms with two constraining factors. At one end of the scale the requrrent costs of education have been increasing at a rate (over 16 percent a year) which can hardly be maintained. At the other end, the employment opportunities for secondary school leavers and therefore the primary rationale for investment in education have been diminishing as the supply of educated manpower catches up with demand. The 1967 manpower survey, which projected manpower requirements at various levels of education up to 1982, throws a harsh light on this growing problem. The survey estimates that at the planned rate of expansion, there will be a considerable surplus of Form II and Form IV, but not of Form VI, school leavers. The surplus in Forms II and IV will, however, consist almost entirely of school leavers with an academic, rather than a technical background.

123. The priority given to science-based subjects will also be reflected in the expansion plans of the University. Between 1968/69 and 1973/74 it is anticipated that undergraduate enrollments will almost double from 1,743 to 3,433. The faculties of arts, commerce and architecture will only expand by 35 percent however, while science, medical and engineering enrollments will increase by 133 percent. One of the most significant developments will be the establishment of the new faculty of agriculture as part of the proposed IDA credit although its total enrollment in 1973/74 (130) will still be only one-fifth of that in the Arts Faculty.

124. Taking into account the expansion required in primary and secondary school teacher training and the proposed expenditures on the Kenya Polytechnic, the Kenya Institute of Education, the Institute of Adult Education, and other educational programs, the total development expenditure will be over K£ 16 millions over the Plan period. Recurrent expenditure is estimated to increase at an average compound rate of 8.3 percent per year, to reach a level of over K£ 32 million by 1974. This is probably an underestimate. An application has been made to IDA for a credit of about $ 10 million of a project costing $ 14.4 million which would cover a part of the Government's educational expansion program, with emphasis on agricultural training. The draft appraisal report on this project is expected in October.

125. Kenya has now been faced with the same dilemma in education which many other developing countries have faced, and the 1969/74 Plan only goes part of the way to meet this problem. The Government has set its eyes on the target of universal primary education, and hopes to have gone three-quarters way to achieving this target by 1974. Yet even by that date only about one in twelve Standard VII leavers will succeed in entering secondary school, and the majority will be forced to terminate their formal education at or before that level. The most serious aspect of this high drop-out rate is that these children are qualified neither by age nor training to play a productive role in their country.

126. An expansion in general secondary education by itself would not solve this problem, but only defer it. Even if the resources were available to expand the number of Form I places, there will not be the employment opportunities for secondary school graduates to justify an expansion: the relationship between present plans for expansion and projected job opportunities will mean that a school leaver will still have about the same chance of finding a job in 1974 as he has now. In fact it appears that too high a proportion of resources is already planned for general secondary education in the 1969/74 Plan, and that a larger proportion might well be devoted to making the curriculum more effectively terminal for the majority of primary school leavers. Progress will be made in this direction through the introduction of more practically-orientated subjects in the junior secondary and primary schools. But this will not face up to the magnitude of the problem, and a new approach to the aims, content and structure of formal education is necessary to make the system more relevant to the manpower requirements

of the country. Close attention will also have to be paid to the success of the multi-purpose training centers under the special rural development projects as a possible means of equipping the mass of young people to play a productive role in the labor market.

(viii) Health and Family Planning

127. The Health part of the 1969-74 Development Plan is well though-out, balanced and realistic, with one notable exception: insufficient attention is given to the economic and social consequences of not taking effective action to control the population growth, and consequently the resources allocated to family planning are inadequate to even arrest the increase in the growth rate let alone cause a fall from the present high rate of 3 percent a year. The crude birth rate is about 50 per thousand and is probably stationary. The crude death rate has fallen to about 20 per thousand and is likely to continue falling for some time. If nothing is done to reduce the birth rate, the population growth rate will rise above the present 3 percent - one of the highest in the world. Some of implications of this are spelt out in Appendix 1 of this volume.

128. As pointed out in the Health Plan, the development of preventative and curative health services is constrained by the already high and growing recurrent costs and by the acute shortage of trained medical and paramedical personnel. The planned increase in recurrent expenditure - about 10 percent a year at constant prices - is above the average annual total plan increase: 8 percent. Particular emphasis is put in the Plan on training of doctors, medical assistants, nurses and other paramedical service personnel.

129. The Development Plan strategy adapted to conform with the budgetary constraints calls for the following measures:

(a) a slight shift of emphasis from curative medicine towards preventative and promotive measures;

(b) a major investment in training, the full benefits of which will not be felt until succeeding plan periods;

(c) a deliberate limitation on the construction of new health facilities because of the shortage of staff, and emphasis on extending and improving existing facilities;

(d) improving health facilities in those areas, particularly the rural areas, which are at present below the national average standards;

(e) a greater measure of assistance from the central government to local authorities and missions. This has important implications for the rural development program and is to be welcomed. However, despite this general policy there is a proposal to transfer, inter alia, rural health services from the Local Authorities to the Central Government. This

130. The planned capital expenditure over the five-year period is K£14 millions, which is broken down into broad categories in Table 6. The amount allocated to the extension of the Kenyatta National Hospital appears high at first sight, and might be construed as being contrary to the policy of bringing up standards in rural areas. However, the Kenyatta National Hospital is the teaching hospital for the newly established medical school at University College, Nairobi, and these extensions are necessary for this purpose.

131. The allocation of K£3.6 million, or a quarter of the total to housing appears to be very much on the high side. Key medical personnel need to be housed near to medical facilities, and in the rural areas it is more important to provide captive housing than in urban areas, but a closer inspection of the housing plans might result in considerable economies.

132. As pointed out in paragraph 127, the birth rate is unlikely to decline in the near future unless a major program is mounted, and a much larger allocation is required in the budget. However, the financial needs of an expanded family planning program are small in relation to the costs of the whole health program and very small in relation to the potential economic and social benefits. Moreover many of the costs of an expanded service can be met from foreign sources, and increasing use can be made of the facilities of the health centers as they are provided.

Table 6: CAPITAL EXPENDITURE ON HEALTH, 1969/70 to 1973/74[1/]

K£ thousand

	1969/70	1970/71	1971/72	1972/73	1973/74	Total
Kenyatta National Hospital extension	950	800	800	800	800	4,150
KNH housing	275	75	95	40	40	525
New hospitals	50	75	100	150	225	600
Housing for new hospitals	--	20	80	120	180	400
Hospital Improvement and extensions	250	500	820	1,000	1,030	3,600
Housing as part of hospital improvements and extensions	102	387	423	450	698	2,060
Medical training	343	332	201	190	169	1,235
Public health	105	136	171	220	268	900
Grants in aid	25	35	100	150	190	500
Medical research	--	40	30	--	--	70
Totals	2,100	2,400	2,820	3,120	3,600	14,040

Source: Ministry of Economic Planning and Development

1/ These are provisional figures. A more recent figure for the total allocation to health services is a little higher (K£ 14.8 millions) but no breakdown by item is available.

(ix) Housing

133. A more detailed analysis of the housing situation is given in Appendix 2 to this volume. Mainly because of political uncertainties there was a slump in private residential building, and with the urban population continuing to grow at about 6 percent per annum, there is now a serious shortage of houses, particularly in Nairobi, and rents have risen to high levels--to the point that it is now possible to amortise a house over four to five years. The rental housing situation has been aggravated by the government's practice of charging only nominal rents, and that of the Nairobi City Council, which covers its costs but does not charge economic rents.

134. It is now the policy of the Government to move away gradually from the position of providing for civil servants, except for those in residential jobs, for those who are subject to frequent transfer and for those in rural areas. Emphasis in the new Development Plan is being placed on low cost housing, on which some useful experimental and construction work has already been done. The National Housing Corporation (NHC), which is the Government's main instrument for channelling funds for housing to the private sector, has been instructed not to finance the building of houses costing more than K£1,200. Civil Servants are being encouraged to buy or build their own houses and funds are being provided to the Housing Finance Company of Kenya (HFCK) for this purpose.

135. Housing priorities and allocations of funds in the Plan are probably about right, although housing subsidies benefit those with relatively high incomes. Total capital allocations in the Plan is K£ 14.9 million, to which must be added large expenditures on the part of the local authorities. A large part of the finance could and should be provided locally, and to this end the Nairobi City Council should be permitted to borrow more on the local market. The NHC is well managed and it, as well as HFCK and the Nairobi City Council, are all suitable agencies for managing external funds.

IV. MACRO-ECONOMIC PROJECTIONS

(a) Introduction

136. At the time of the economic mission's main visit to Kenya in April/May 1969, the 1969/74 Plan was still in an early stage of preparation, and the macro projections contained in the Plan - particularly the critical projections of financial and foreign exchange requirements - were therefore only in a provisional form. Partly for this reason - but also to allow an independent assessment of the likely movement in the principal macro-economic factors - the Mission undertook its own projections. On a subsequent visit to Kenya in August 1969, when the Plan projections were almost finalized, discussions were held on the two sets of projections, and as a result the difference was narrowed by adjustments and modifications on both sides.

137. This section of the report will describe the methodology used by the Mission and draw attention to the significance of the key macro projections. The Mission's projections are then critically compared with those undertaken by the Ministry of Economic Planning and Development and the basic reasons for remaining discrepancies analyzed. Finally, some suggestions are given as to how the ex-ante disequilibrium in the two-gap model will be resolved in practice.

(b) Mission Projections

138. Growth prospects were assessed in each of the seven major individual sectors 1/ of the economy and fed into an econometric model of the Kenyan economy which is described in Appendix 4. Insufficient information was available to disaggregate projections to a lower level than the seven sectors referred to, except in the case of the agricultural sector, in which projections of value added and exports were made for each major commodity. As the statistical series on GDP at constant prices only goes back to 1964, all the econometric relationships used in the model were estimated at current prices, and therefore the initial projections of sectoral value added and total GDP were also made in current prices.

139. The projections of gross domestic product at current and constant prices are shown in Table 7 in the level of disaggregation in which they were made 2/, together with the derived rates of growth over the period 1968-74. In monetary terms, the GDP is estimated to increase at an average annual rate of 7-1/2 percent, with the monetary sector growing at 8.4 percent and the subsistence sector at 4.4 percent per annum. In real terms, the growth rate is expected to be about 1 percentage point lower.

1/ Agriculture, mining, manufacturing, construction, electricity and water, transport, and "other".

2/ Detailed projections of agricultural commodities are given in Appendix 1, Table 2 of Annex A in Part II of this Report.

Table 7: MISSION PROJECTIONS OF GROSS DOMESTIC PRODUCT AT FACTOR COST AT CURRENT AND CONSTANT PRICES

Sector	Value Added (KL Millions)			Average Annual Rate of Growth	
	1968	1974	1974 (at 1968 Prices)	Current Prices	Constant Prices
Non-Monetary					
Agriculture	84.96	110.00	110.00	4.4	4.4
Forestry	3.11	3.69	3.69	2.9	2.9
Fishing	0.15	0.24	0.24	8.1	8.1
Construction	8.65	11.59	11.59	3.1	3.1
Water Supplies	3.12	3.36	3.36	1.3	1.3
Dwellings	8.98	12.30	12.30	5.4	5.4
Total Non-Monetary	108.97	141.18	141.18	4.4	4.4
Monetary					
Agriculture	57.40	73.89	76.05	4.3	4.8
Forestry	2.92	4.71	4.71	8.3	8.3
Fishing	1.26	2.29	2.29	10.4	10.4
Mining and quarrying	2.19	2.97	2.97	5.3	5.3
Manufacturing	49.05	91.75	73.61	11.0	7.0
Construction	13.13	27.34	22.02	13.0	9.0
Electricity and Water	6.95	12.72	10.79	10.6	7.6
Transport, storage & Communications	35.86	58.50	58.50	8.5	8.5
Other Sectors	153.01	248.34	232.87	8.3	7.3
Total Monetary	321.77	522.51	483.81	8.4	7.0
TOTAL GDP	430.74*	663.69	624.99	7.5	6.4

* These figures are still provisional; more recent estimates add some KL 3 million to the total figure.

140. Econometric relationships were then used to project the Investment-Savings gap and the Import-Export gap independently. In an ex post sense these gaps are necessarily equal. But this quality is brought about by a large number of involuntary and voluntary adjustments. To put it another way, the fact that the projections predict a difference between the two gaps merely serves to illustrate that some of the values and relationships assumed in the model will not hold in the future.

Table 8: MISSION PROJECTIONS OF THE INVESTMENT-SAVINGS AND BALANCE OF PAYMENTS GAPS, 1970-74

(KL Millions at Current Prices)

		1968	1970	1974	Total 1970-74
1.	Gross fixed investment	91.0	100.3	137.2	595.1
2.	Increase in stocks	4.6	8.4	11.3	49.0
3.	Gross Capital formation (1+2)	95.6	108.7	148.5	644.1
4.	Gross domestic savings	90.3	106.6	147.6	631.1
5.	Net factor payments	10.7	14.5	22.1	91.2
6.	Gross national savings (4-5)	79.6	92.1	125.5	539.9
7.	Investment-savings gap (3-6)	-16.0	-16.6	-23.0	-104.2
	External debits				
8.	Imports of Goods	121.1	140.6	188.1	817.7
9.	Imports of services	11.9	14.1	18.4	80.9
10.	Tourism expenditures	7.6	7.9	9.5	43.3
11.	Interest on existing debt)		5.2	4.3	23.5
12.	Interest on new debt)	13.7	-	4.5	11.1
13.	Other factor payments, net)		9.3	13.3	56.5
14.	Private and government transfers	-	15.0	15.0	75.0
15.	Total debits (8 to 14)	154.3	192.1	253.1	1,108.0
	External credits				
16.	Exports of goods	83.5	92.0	117.0	520.7
17.	Exports of services	32.3	38.0	45.1	207.3
18.	Tourism earnings	16.4*	21.3	35.9	140.5
19.	Private and government transfers	0.9	18.0	18.0	90.0
20.	Net government transactions, n.e.s.	3.2	1.5	1.5	6.9
21.	Total credits (16 to 20)	136.3	170.8	217.5	965.4
22.	Balance of payments gap (21-15)	-18.0	-21.3	-35.6	-142.6
	Capital account debits				
23.	Repatriation of long-term private capital	-	8.0	9.0	43.0
24.	Amortization of existing debt)		6.6	5.4	25.1
25.	Amortization of new debt)	4.2	-	5.8	11.3
26.	Provision for increased reserves	11.3	-	-	-
27.	TOTAL GAP TO BE FINANCED (22 to 26)	-33.5	-35.9	-55.8	-222.0

* Net transfers.

141. Although it is not possible to identify which variables will change or what the magnitudes of the changes will be, it is evident from the projections that the balance of payments gap is potentially larger than the investment-savings gap, and from Table 8 it can be seen that

assuming the relationships contained in the model the difference between the two gaps widens rather than narrows during the period of the projections. Over the whole of the Plan period the investment-savings gap is projected to be some K£ 104 millions. The separate projection of the balance of payments transactions gives a total gap over the five years of K£ 143 millions, to which have to be added capital commitments of a further K£ 79 millions, bringing the total gap to be financed to K£ 222 millions. No provision for increased reserves has been included under the capital debits, since the high level of reserves in 1969, together with the creation of IMF Special Drawing Rights, should maintain an acceptable level of international liquidity through 1974.

142. Provided the assumptions used in the projections are broadly correct, the value of the two-gap approach is to expose the potential disequilibrum in the economy, and to throw light on the policy choices on which the planner should focus. This is particularly important since, while the reconciliation between the two gaps can be brought about in practice in a wide variety of ways, some of these are more desirable than others. For example, the ex ante disequilibrium revealed by the Mission's projections could be reconciled by, inter alia, a higher rate of increase in consumption than has been estimated. But it would be clearly better to direct economic policy so that the de facto reconciliation was achieved in a way which would be more beneficial to the economy. It seems that in Kenya's case, the two most efficient courses of action would be first, to take steps to raise the level of fixed investment in the economy above the projected level and, second, to curtail the imports of some types of consumer goods. In the field of import substitution, these two measures would be not only consistent with each other but mutually reinforcing.

143. The real constraint on growth is Kenya's ability to increase its investment rate. Increasing this rate is perhaps the most efficient way of reconciling the gaps. In the private sector, this means mainly that Kenya has to ensure a climate of confidence for the investor and access to the markets of Kenya's neighbors; in the public sector it means an improved capacity to prepare and implement projects. As is pointed out elsewhere in this report, particularly in Section (c) of Chapter V, much can be done to raise the rate of investment by improving the planning machinery.

144. As the import gap is likely to be the larger one, efforts to increase investment or Governmental outlay should be directed mainly at sectors that have a lower import content in their investments and production. Agriculture is an obvious candidate. The "reduced" form of the econometric model given in Appendix 4 shows that an increased investment rate in the manufacturing sector also fares better than the other sectors as regards its net effect on the balance of payments. But this relatively favorable and somewhat surprising impact on balance of payments 1/ is predicated on Kenya's

---

1/ This results from projecting past trends. It might be that the future growth of manufacturing might be of a type which would require relatively higher imported materials and parts.

access to the markets of its neighbors. At present about one-quarter to one-third of Kenya's manufacturing output is exported and most of this goes to Tanzania and Uganda. If access to these markets can be ensured then the manufacturing sector also is a very good candidate for increased investment activity. 1/

145. A second consideration in choosing between sectors is their relative impact on disposable income, and through this, on imports of consumer goods. A given increase of investment in sectors like agriculture and manufacturing - which do well on the first criterion - is liable to increase disposable incomes more than a similar amount invested in some of the other sectors that have relatively higher capital-output ratios. Expansion in these sectors could, therefore, have a more pronounced effect on imports of consumer goods, even though the propensity to import is probably lower in rural than in urban areas. This suggests that efforts to increase investment in these sectors should be accompanied by efforts to curtail imports, as mentioned below.

146. The second method would be to constrain the imports of some types of consumer goods by raising import duties. Thirty percent of total imports projected for 1969-74 are consumer durable and non-durable goods. A sizeable proportion of these consists of goods that are not in any way crucial to Kenya's growth efforts. The average nominal rate of duty on consumer durables is about 30 percent and on non-durables about 35 percent. If these imports could be brought down to even four-fifths of the level they are likely to be if no action is taken, the import-export gap would be diminished by about K£50 million. This would mean, in effect, that Kenya would be financing a larger proportion of the foreign exchange outlay needed for the Plan. It might also have a desirable impact on the rate of saving within the economy. This is important because a substantial part of savings are contributed by the Asian community, and with the increasing pressure on Asians to move out of commerce and industry, this contribution could be much lower in the future in the absence of counteracting influences. Hence, some action may need to be taken to maintain the present high marginal saving rate of 25 percent.

(c) Comparison between Plan Projections and Mission Projections

147. A comparison between the two sets of projections is complicated by certain differences in methodology and also by the fact that the Plan's projections of balance of payment transactions are at current prices whereas its projections of GDP, investment, savings and other items of resource utilization are at constant (1967) prices. Moreover, the Mission used 1968 as its base year for projections, while the Plan tends to use 1967 because the 1968 figures of GDP and certain other data are still provisional.

1/ See Section (b) (iv) of Chapter III.

Finally, the Plan derives savings as a residual, rather than projecting it independently, and this will also make any comparison of the investment-savings gap irrelevant.

148. Most differences between the two sets of projections originate from the somewhat higher growth assumptions made in the Plan. Thus, while the Mission projections predict a real growth rate of 6.4 percent a year up to 1974, the Plan assumes a 6.7 percent rate. The slightly higher rate of growth in value added results in the Plan's projected GDP in 1974 being 2-1/2 percent higher than the Mission's projection. The higher growth rate also results in the Plan projecting higher values for capital formation, but the two estimates cannot be compared legitimately for the reasons stated in para. 147.

149. The Plan's projections of the balance of payments gap over the period 1970-74 are compared with the Mission's projections in the following table:

Table 9: COMPARISON BETWEEN MISSION AND PLAN PROJECTIONS OF THE BALANCE OF PAYMENTS GAP 1970-74, AT CURRENT PRICES (KL millions)

	Plan Projections	Mission Projections
Commodity exports	532.4	520.7
Commodity imports	-883.1	817.7
Trade Balance	-350.7	-297.0
Exports of services	366.2	347.8
Imports of services	-176.1	-124.2
Balance of Services	190.1	223.6
Net factor payments a/	-50.9	-91.1
Net transfers	27.0	21.9
Current Balance of Payments	-184.5	-142.6
Amortization of existing capital	75.0	-68.1
Amortization of new debt	11.0	-11.3
Total Gap to be financed	-270.5	-222.0

a/ Including net general government interest.

Source: Mission projections and draft Plan documents.

The Mission and Plan projections both produce a similar magnitude of foreign exchange inflows during the Plan period, the Plan estimate being rather higher than the Mission's, mainly due to rather more pessimistic assumptions in regard to the balance of trade. While differences exist between the Plan projections and those made by the Mission, the differences are generally not great and may not be very significant in relation to the rather large magnitudes of errors which may be implicit in the projections themselves.

150. Conclusions. The fact that the projected balance of payments gap is so much larger than the investment-savings gap would seem to indicate that foreign exchange is going to be the effective constraint on growth. But this is not the case. Imports into Kenya have been free and substantial yet the foreign exchange reserves have been increasing and now equal five months' imports. Kenya's savings rate has been high, and whatever capacity has been underutilized has not been forced into idleness by a shortage of imported components, spares or raw materials. All these facts indicate that, though Kenya's current account balance of payments has moved from a surplus to a deficit, and though this is projected to grow substantially in the next few years, it is not likely to be an effective constraint on growth in the next five years.

151. The most efficient methods of reconciling the gaps projected by the Mission would be to raise the rate of investment above that assumed in the projections and to take steps to curtail consumer imports. Viable investments in agriculture or manufacturing might both curtail imports, through substitution and increased exports, and the need for an intensified planning and project preparation program in these two key sectors of the economy has been stressed in the report. The demand for some types of consumer goods that are now imported liberally could be dampened down by raising import duties, although such action would require consultation with Tanzania and Uganda.

(d) Financing the External Gap

152. In Section III reference was made to the Plan's financing proposals both for the public expenditure plan and for the development plan as a whole. The Central Government anticipates obtaining some K£ 95 millions from abroad for the development plan, while it was assumed that the common service organizations would draw about K£ 25 millions from external sources. Local authorities - mainly the larger municipalities - could also be expected to finance a small proportion of their development programs from external borrowing. These assumptions are reflected in the following table in which a feasible pattern of financing is suggested:

Table 10: FINANCING OF THE BALANCE OF PAYMENTS GAP, 1970-74

	KL Millions	Percent of Total
(a) Public sources:		
(I) Commercial terms	44	20
(II) Concessionary terms	78	35
Total Public	122	55
(b) Private Sources:		
(III) Suppliers' credits	44	20
(IV) Equity capital	56	25
Total Private	100	45
TOTAL ALL SOURCES	222	100

153. The total capital inflow assumed from public sources is KL 122 millions, which is consistent with the assumptions made in regard to the financing of the development plan. The blend between commercial sources of capital (Bank-type loans) and concessionary sources of capital (IDA-type funds) is derived from past proportions between these types of international capital. The implications of a possible hardening of the blend of terms on which Kenya can obtain long-term capital are discussed in Section VI. The assumptions made in regard to public funds leaves KL 100 million to be obtained by the private sector from suppliers' credits and equity participation. This appears quite reasonable assuming continued political stability and a suitable climate for private risk capital to be invested in Kenya.

(e) Financing of Local Costs

154. The external financing of local costs and the tying of external loans were questions raised at the Paris meeting of the Consultative Group. The Kenya Treasury has supplied some evidence of the extent to which foreign loans are tied to purchases in the donor countries concerned, and this has caused, and will no doubt continue to cause, some particular difficulties from time to time, but taken as a whole it cannot be said that local cost financing is a problem in Kenya. Provided a country is adequately mobilizing its own resources and provided the external foreign exchange gap is covered, it is, of course, irrelevant - both from the donor's and the recipient's point of view - whether or to what extent direct local costs are financed. Over the past few years donors have in fact financed some local expenditures in Kenya, although the exact extent is not known, and a fairly high proportion of external loans have been either completely untied, as in the case of World Bank Group, Swedish, and German loans and credits, or

partly untied, as in the case of British, Canadian, Danish and some other loans. Moreover, although there has been the occasional year when the foreign exchange reserves have fallen, over the past ten years the reserves have increased substantially.

155. Although it may be irrelevant whether local or foreign exchange costs are financed, it is nevertheless true that not all development projects are considered eligible for external financing. Consequently, if the foreign exchange element of the total development program is to be covered, then in fact more than the foreign exchange element of those "eligible projects" must be financed by external donors. To what extent local costs should be covered depends upon the proportion of ineligible projects and the size of foreign exchange gap. It is estimated that only about 70 percent of projects in the Kenya Development Plan would be eligible for external financing; accounting for about K£ 126 millions of the total K£ 180 millions planned expenditure in the period 1969-74. Thus, in order to cover the foreign exchange costs of the whole Plan - about K£ 80 millions - it would be necessary for external donors to cover about 63 percent (i.e. K£ 80 millions out of K£ 126 millions) of the total costs of eligible projects. Allowing a 5 percent margin of error either side, probably between 60 and 65 percent of eligible projects should be externally financed. In fact a more desirable principle would be for the proportion of local costs financed by external donors to be related to the overall foreign exchange requirements of the country, rather than the characteristics of the project themselves.

V. PROBLEMS AND POLICIES

(a) Introduction

156. The factors making for growth and the constraints on a faster rate of growth are discussed in various parts of this report and they are brought together in the Summary and Conclusions. There are, however, a number of key problems and policy issues, which affect the rate of development, on which attention needs to be focused, and these are analyzed in some detail in the following sections.

(b) Income Inequality and Development

157. The policy of African Socialism includes as an important goal the achievement of a more equitable distribution of income and wealth, and the tax system is regarded as a major method of doing it. The 1966-70 Development Plan said that it is a "fundamental government policy to work towards a more equitable distribution of income ... within a framework of growth;" and the 1969-74 Development Plan reiterates that: "a major objective of the government is to secure a just distribution of the national income ..." and it goes on to say "... only if the better off members of the community are aware of their responsibilities to the rest of the people will it be possible to reduce the income gap between rich and poor *to a socially acceptable level* within a reasonable period of time." (Italics added.) The Development Plan gives some evidence of a narrowing distribution of income, but the statistical basis is not very convincing. It is certainly true in Kenya as in many developing countries that there is a growing number of unemployed and under employed, and there are indications that the general disparity between the haves and the have-nots is probably widening rather than narrowing.

158. The Plan intends tackling this problem in a number of ways. First, all reasonable measures will be taken to expand paid employment, although it is recognized that employment will continue to increase at a much lower rate than GDP. Attention will be given to the possible incentives which can be given to employers to use labour-intensive methods of production. Second, self-employment - particularly in agriculture, - can be made more attractive as an alternative to paid employment by coordinated programs to increase productivity, and by a close attention to prices of both agricultural commodities and basic inputs. Third, an income policy - including both fiscal policies and wages policies - will be put forward to secure a fair distribution of national income.

159. Progress has been made in all these fields. Agricultural development is being pushed forward, and imaginative experimental rural development schemes will be tried during the new Plan. A start has been made to put more practical content into the formal educational syllabus, to step up the training of technicians and to make the various stages of education more terminal and suited to employment opportunities - particularly in the rural areas. In the field of income policy, the salaries of civil servants in the upper levels have been held constant, and Parliament approved a measure in last year's budget to reduce the large personal and other allowances which are set

off against income before income tax is computed. These measures, together with recent increases in the import duties imposed on certain luxuries are encouraging signs that Government is taking the problem of distribution seriously. Nevertheless, if the Government's fundamental policy as set out in the Plan is to succeed in its aims, further measures of this kind are likely to be needed, and it will be necessary to find ways of accelerating the planned rate of development in agriculture and other rural development programs.

(c) Planning and Budgeting

160. Commenting on the planning organization and machinery, the previous economic report said:

> "There is a grave weakness in the planning and plan implementation machinery, but it stems from the absence of effective planning and plan implementation units in the main spending departments of the Government, and not from any deficiencies in the present set-up of the Planning Ministry -- Both the preparation and the implementation so far of the Plan have suffered from the absence of planning units---" (paragraph 121).

161. The above comment is still valid today, although some progress in setting up planning machinery has been made. The preparation of the existing plan has been slow partly because of poor plan preparation by the operating ministries and agencies; most ministries and agencies have been unable to submit properly written-up plans because they do not have staff to do so. For this reason the central planners have moved into the field of detailed sectoral planning which should be the function of the operating ministries.

162. The new Plan is also somewhat deficient in project content. This is not meant to imply that for, say, the first two years of the plan period there should be evaluated, written-up projects or programs fully substantiating the macroeconomic projections. It would be unrealistic ever to expect this state of perfection in economic planning. But if there is too little project preparation and benefit-cost evaluation by the ministries and government operating agencies, or if only some ministries prepare and submit evaluated plans, the central planners cannot be sure that the order of priorities in the overall plan is correct. Moreover, if there is no carry-over of properly prepared projects or programs from the previous planning period and there is inadequate project preparation for the new plan, the new plan will get off to a slow start.

163. This weakness in the planning machinery has been recognized by both the Treasury and the Ministry of Economic Planning and Development (MEPD) for some years, and the Cabinet has recently decided that all ministries are to set up planning units where there were none. A number of ministries, including the key sectors of agriculture and commerce and

industry, have now established planning units, and a number of others are proposed. The main problem will now be to find sufficient experienced professional personnel to staff them. Both the MEPD and the Ministry of Agriculture have so far succeeded in maintaining a cadre of experienced expatriate advisers, while several teams of planners, provided under bilateral technical assistance programs are working in the field of regional planning. A valuable supplement to government planning personnel is provided by the staff of the Institute of Development Studies at the University in Nairobi, where a number of relevant social and economic studies are being carried out in close collaboration with government. Other plans to obtain technical assistance are being prepared including an agreement with the Canadian Government for a team of project preparation and evaluation experts to be supplied to the MEPD and other key operating ministries. It is understood that the Canadian Government will also supply an experienced planner to head the new Economic Planning Division in the Ministry of Agriculture.

164. This external assistance to both the MEPD and the operating ministries in Kenya is of the utmost value and is a high priority for the future. Nevertheless, expatriate advisers, however experienced and dedicated, can never be a substitute for capable local personnel, and there are as yet few experienced Kenyan economists in any of the planning units. This is a weakness which will take some years to overcome, but it is most important that as high a priority as possible should be given to establishing a local cadre of planners. The recently established B. Phil. course at the University should materially help in this objective.

165. The establishment, and even more important the preservation, of an experienced body of Kenyan economists will depend, in part, on the career prospects which can be offered to young graduates. In this respect it is particularly important that the young professional officer has a clear line of promotion offered to him which will be at least as attractive as that offered to administrative grades of civil servants and to graduates employed by the private sector. Kenya has now created a Government Economic Service, incorporating all eocnomists in the civil service, and this will ensure that promotion posts may be competed for by all eligible economists in the service. Members of the Service will serve under the overall professional supervision of the MEPD, but once posted to a ministry, the planning officer will be administratively responsible to the Permanent Secretary of that Ministry. This is most important, as it is vital to the operation of the planning process that the planning units should have the complete confidence of their Permanent Secretaries. It is also important that the head of a ministerial planning unit should have direct access to the Permanent Secretary, as now happens in the Ministry of Agriculture.

166. Although the establishing of sectoral planning units should improve the planning and implementation machinery of the Government, some important problems remain. First, annual tranches of the Development Plan (modified as required in the light of experience,) are not properly

reflected in each year's Budget. 1/ Moreover, it is as important to plan the current as the capital budget since current expenditure can be as important for development as capital expenditure, particularly in such major fields as Rural Development, Education and Health Services. The MEPD needs to be brought much more closely into both the capital and current budgeting exercise. This could be accomplished if the MEPD Sector Planning Officers/Advisors were to sit in with the Treasury Sector Budget Officers in all meetings with operating ministries and agencies, with a small high level coordinating committee to resolve differences. Unless there is a real attempt to translate each year of the Plan into each year's budget, planning becomes not only artificial, but fruitless.

167. Second, there has been a lack of plan coordination in the MEPD because the positions of Permanent Secretary and Chief Planning Economist have been held by the same person for a long period. It would be preferable to separate the two posts again and to promote a Kenyan economist to the key position of Chief Planning Economist, but unfortunately, none with the requisite experience is available. However, action is being taken to obtain a Plan Coordinator through technical assistance. It may be expected that the separation of these two positions will also allow more attention to be paid to the coordination of development policy at an inter-ministerial level. This is a field in which a planning ministry can play a most valuable role.

168. Third, the preparation of the 1969-74 Development Plan has been slowed down and the task of the planners made more difficult by the absence of clear guidelines on some key problems. It is true that the planners have had a general guide in Sessional Paper No. 10, "African Socialism and its Application to Planning in Kenya," but this was published in 1965, and concrete policy issues - such as for example, how much, more settlement, if any, of the former scheduled areas is required? - have to be decided at an early stage in the planning process.

169. Fourth, the Directorate of Personnel comes under the President's office, and there is little coordination between the Directorate and the Treasury and the MEPD. Manpower planning is the responsibility of MEPD, but for the manpower plan to be implemented requires that the Treasury agree to make the necessary provisions in each year's budget, the Directorate of Personnel approve the establishment of new posts and the Public Service Commission approve appointments to fill established posts. The Directorate must, therefore, coordinate with MEPD to establish the manpower requirements of the civil service to fulfill the development plans. There is need for much more effective teamwork between MEPD, the Treasury and the Directorate of Personnel.

1/ This would be facilitated if the accounting conventions used in the Government accounts were brought into line with national income concepts and definitions. The different standards used at present make comparisons difficult and give rise to ambiguities in interpretation.

(d) <u>Future of Local Government</u>

170. There is no question but that action needs to be taken to improve local government in Kenya, which has consistently displayed considerable inefficiency in operations. The Government appointed a Committee of Inquiry on Local Government, whose report is commented on in Sessional Paper No. 12, 1967. This committee made a number of recommendations to strengthen local government, but the government has not so far implemented them.

171. The government now has before it suggestions for transferring primary education, local health services, secondary roads and local water services from Local Authorities to the Central Government. The centralization of these services is not proposed as a permanent measure, and the Plan states that the policy would be to hand back these functions as soon as the local authorities were in a position to take them on. It may be that the situation warrants such drastic action, but if these services are taken away from the local authorities, it would virtually sound the death knell of local government in Kenya because very little of importance would be left, and it is doubtful whether there would be any structure to take back these services again at a later date. The government is attempting to make rural work and life more important and attractive, and is introducing some imaginative and very promising pilot rural development schemes, in an attempt to stem the movement from the countryside to the towns: the schemes would almost certainly be set back if the government were to take away from the Local Authorities functions which would form an important and integral part of coordinated rural development. The importance of local government to rural development and as a means for coordinating local self-help and initiative is spelt out in greater detail in Annex B.

172. No detailed proposals have yet been made for the method in which these functions are to be transfered to the relevant central government ministries. There is no doubt that the absorption of these additional functions by the ministries concerned would require a very substantial increase in their operations, and there is some room for doubt whether central government could run primary schools, rural health services and local water services any more efficiently than the local authorities. On purely pragmatic grounds, therefore, it would be unwise to destroy an existing administrative structure, however inefficient its operation, unless and until Government is quite satisfied that its operating ministries have the organization, the staff and the funds to do a better job.

173. As an alternative to the centralization of these services, Government might consider the following possible measures for strengthening the existing fabric of local government: (i) instituting a local government civil service with transferable rights (including pension rights) to the Central Government Civil Service, in order to provide good career possibilities to those going into local government; (ii) creating a local government Civil Service Commission to regulate the appointment, conditions, transfer and dismissal of local government civil servants (at the moment, local

government officers have no protection against arbitrary dismissal); (iii) promulgating and enforcing standard financial regulations; (iv) appointing a corps of local government auditors in the Comptroller and Auditor-General's Office; and (v) reforming the financing of local government expenditures. To the extent that local authorities cannot be provided with adequate independent sources of revenue to fulfill their obligations, the Central Government subventions should be geared to objective, economic indicators. These reforms would go a long way towards rectifying the present situation, and this would greatly strengthen the chances of success of the rural development schemes.

(e) The Pace of Kenyanization

174. "The primary responsibility of the Government of Kenya is to insure that Kenya citizens will receive first priority in employment." Commenting on this declared aim of Government policy, 1/ the previous Economic Report stated that "the test of achieving a nice balance between the relative contributions between Africans and non-Africans to future development is an extremely complex one and Government's policy in this regard needs to be viewed with a mixture of sympathy and understanding." While further progress has been achieved, the basic problems to which the previous report drew attention still remain. The progress of Kenyanization in the public sector and in the industrial branches of the private sector is still constrained by a shortage of qualified African personnel. This situation still prevails despite a growing literate urban population, the emergence of which is likely to increase public pressures for a speeding up of the Kenyanization process. This has already made itself felt in recent years in the Government's handling of work permits and trading licenses. In trade and commerce, where the Asian community has a virtually complete monopoly of ownership and operation, the problem is to effect the necessary transfer of capital to Africans who have the capacity to participate in the running of a business and are also willing to share in the risks.

175. In the public sector there is still a considerable reliance on expatriate advisors despite the Government's declared policy that the employment of expatriates would depend on the existence of a training scheme for Kenyan counterparts. The lack of progress in the training of Kenyan counterparts is due both to a shortage of appropriately qualified Kenyan personnel and also to the loss of potential employees to the private sector. The situation is aggravated by the relatively short length of stay of expatriate advisors with detrimental effects on the continuity of work in the various ministries. The Government is taking certain measures to improve the situation, for example, by helping in the setting up of a B. Phil. degree at University College, Nairobi, which would insure that the academic syllabus was geared as closely as possible to the needs for employment in

---

1/ A statement on Government policy relating to the employment of non-citizens in Kenya, Ministry of Labour, April 19, 1967.

the Government service. The shortage of adequately trained entrants is likely to persist and its solution depends on a more widespread restructuring of the educational system towards vocational needs.

176. The measures which the Government has recently introduced have been of both a positive and negative character. To promote more rapid and meaningful Kenyanization, the Kenyanization Personnel Bureau was established in April 1967, with the express aim of furthering Kenyanization in the private sector. The main objective of the Bureau is to advise the Government as to which jobs can be most readily and quickly Kenyanized. The Bureau maintains a liaison with private firms regarding their training programs and likely future needs for personnel. In December 1967, the Ministry of Home Affairs established a list of certain categories of occupations which should be reserved for citizens. Non-citizens occupying these jobs would be required to apply for work permits which would normally be granted for periods from six months to two years. Employment in banks and insurance companies comes within this category. The Kenyanization Bureau also has a careers section maintaining active liaison with schools, collecting information on job opportunities and establishing a register of employment desires of school leavers. Through the activities of the careers section, employers are put in touch with school leavers seeking employment and an effort is made to coordinate the vocational needs of particular occupations and the skills and interest of the applicants. The Kenyanization Bureau also has a manpower section dealing with people already in employment. This section is particularly concerned with investigating those cases where a position in a private firm has been created for an African, but where corresponding functions and responsibilities have not been created. Such cases of "window dressing" Africanization are known to occur in private enterprises.

177. While the Kenyanization Bureau has come under criticism within Kenya for not proceeding more rapidly with the Kenyanization process, this criticism to a considerable extent reflects a lack of understanding of the problems and the pace at which the Kenyanization process can realistically be expected to proceed. In many sectors the period of training and length of experience required to occupy positions efficiently is such that an indiscriminate acceleration of the program would necessarily impair efficiency. It is encouraging that the Bureau is assuming the function of bringing employers and those seeking jobs into closer contact and organizing its activities to a considerable extent around employment exchange and manpower forecasting functions. This pragmatic approach to the problem is to be preferred to a more precipitate program responding to the often ill-informed pressure of public feeling.

178. Reference has already been made to the virtual monopoly of trade and commerce exercised by the Asian population. The Government has created the Kenya National Trading Corporation to bring Africans more directly into the distributive sector by appointing African agents with exclusive trading rights in a number of commodities. This list extends to both locally manufactured and imported items. The government is also extending help to some

African building and construction firms through the National Construction Company. ICDC has created a subsidiary investment company in which Africans are encouraged to take shares and through its subsidiary and operating companies, pressure is brought to bear on its private partners to introduce training and Kenyanization programs. African entrepreneurship is being developed through the Kenya Industrial Training Institute and the Management Training and Advisory Centre. The Nairobi Industrial Estate (opened in August 1968) provides not only small factory premises, but also consulting services and technical assistance. 1/ These measures are bringing some success in the assimilation of Africans in entrepreneurial positions.

179. The Government has been under increasing pressure to take action in accelerating the Kenyanization of trade and commerce. In the spring of 1968 the Government announced that it would tighten up the granting of trade licenses, and would introduce a system of work permits. This caused an exodus of those Asians who held British passports to the United Kindom. The British Government also announced its intention to limit the entry of British citizens from Kenya and the limit was set at 1,500 heads of families and their dependents. It is estimated that as a result about 13,000 Asians, many of them skilled artisans, left Kenya in Spring of 1968. The outflow was arrested when the Vice President promised that the processing of applications for Kenya citizenship would be speeded up. Agreement was subsequently reached with the Indian Government to relax its restriction, and the British High Commission is making efforts to speed up the processing of U.K. entry applications, although a considerable waiting list still exists. In 1969 the Kenyan Government announced that trading licenses would not in future be granted to non-citizens outside urban areas; and estimated that in the immediate future about 6,000 Asian traders in rural areas would lose their licenses. This has resulted in a substantial increase in applications for entry permits into the U.K., the exact number is not known, but it almost certainly considerably exceeds the quota.

180. In pursuing Kenyanization policies, the Government has to reconcile the reality of the situation with the need to satisfy internal political pressures. From the standpoint of the economy as a whole, a too rapid implementation of the program could deprive the economy of a strategic supply of supervisory staff and skilled workers. The creation of positions for Africans without any corresponding functions and responsibilities, while pacifying political pressures, will only result in an inflation of the wage bill and tend to increase costs and prices. Moreover, the treatment accorded to citizens of Asian origin could have detrimental effects on the supply of savings since much of the saving still originates in Asian households and business. Any system which increases the extent of African ownership of trade and commerce without bringing Africans into effective management and operation in the firms, lends itself to bribery and of course reduces the

---

1/ Two more industrial estates are planned - one at Mombasa and one at either Nakuru or Kisumu.

efficiency of the distributive system. It is necessary to insure that any displacement of Asians by Africans takes place when appropriately trained replacements are available or when the African has a genuine interest in acquiring a share not only in the ownership, but also in the management and efficient running of the business. In general the process of Kenyanization has to be related to realistic manpower availability. The closer orientation of the education system to these needs and the speed at which this can be attained will govern the Kenyanization process. It is unfortunate that so much emphasis has been placed on some negative policies such as work permits and the restriction of trading licenses. The activities of the Kenyanization Bureau should produce positive results in inducing private enterprises to adopt Kenyanization programs. It might even be possible to impose a training levy on larger firms to help finance central training schemes for those firms which are too small to bear the full cost of training programs.

VI. CREDITWORTHINESS

181. Present Debt. Kenya's total external public debt outstanding, including amounts undisbursed, was $343.2 million at the end of 1968. 1/ External public debt outstanding has increased by about 60 percent since 1963, a somewhat faster growth (8.5 percent per annum) over the period than in the Gross National Product (6.8 percent at current prices). Service payments on external public debt were $17.8 million in 1968 -- about 4.7 percent of Kenya's exports of goods and non-factor services.

182. Service payments on external public debt have risen by about 50 percent since 1963, but with the expansion in export earnings the debt service ratio has remained fairly stable around 5 percent (the substantial increase in debt service in 1964 was due to a bunching of maturities). Table 12 shows Kenya's debt outstanding by creditor source. Over recent years the amounts of privately held debt have decreased while there has been a significant increase in debt outstanding to multilateral organizations (particularly IDA) and to foreign governments (particularly the United Kingdom).

183. Table 13 indicates the terms on which Kenya's foreign capital inflow has been acquired over the period 1965-67. The terms have been very favorable by international standards, grants accounting for about 33 percent and concessional loans (i.e. loans with interest rate of 3 percent or below) for about 42 percent. Kenya's present debt situation is therefore very favorable -- about 50 percent of present debt outstanding is due to be amortized by 1980 (see Appendix 6, Table 2).

184. Although Kenya is still a relatively poor country, it is well endowed with physical resources for agricultural and tourism development; its economy is already fairly well diversified, both within and without agriculture; it has had a high real growth in per capita output over the last five years; savings are high and have been supplemented by a substantial inflow of capital and technical assistance; the public finances have been soundly managed; the foreign exchange reserves are healthy; and there has been political stability.

185. There are, however, a number of less favorable factors and some potential danger spots. The population is growing very rapidly; unemployment is increasing; there has been a misdirection of resources applied to educational development, so that the system is turning out too many liberal arts graduates (particularly at the junior secondary level), and not enough agriculturalists, engineers, accountants, skilled tradesmen, etc.; there are continuing gaps between the righ and the poor and between town and countryside; there are weaknesses in planning and budgetary organization and the pace of Kenyanization could cause a loss of management and technical skills and a drop in the savings rate.

1/ Excluding East African Community Debt. Kenya's share of community debt was about $65 million at the end of 1968.

TABLE 11 KENYA - EXTERNAL PUBLIC DEBT /1 1963-69
(Thousand of U.S. dollars)

Year	Debt Outstanding Beginning of Period: Including Undisbursed	Debt Outstanding Beginning of Period: Disbursed Only	Service Payments During Period: Amortization	Service Payments During Period: Interest	Service Payments During Period: Total Service Payment	Debt Service Ratio /2 Percent
1963	211,402	159,002	4,388	7,808	12,196	4.0
1964	257,978	178,806	22,680	9,009	31,690	9.5
1965	248,457	182,686	5,181	9,711	14,891	4.5
1966	276,378	210,533	7,641	10,708	18,349	4.8
1967	308,625	236.655	10,024	11,023	21,046	5.8
1968	326,814	219,622	6,984	10,815	17,799	4.7
1969	343,152	254,588	-	-	-	-

/1 Excluding Kenya's share of East African Community Debt.

/2 Ratio of service payments (amortization and interest) to exports of goods and non factor services.

TABLE 12: KENYA EXTERNAL PUBLIC DEBT OUTSTANDING BY TYPE OF CREDITOR

Type of Creditor	Debt Outstanding (Including Undisbursed) Beginning of Period - thousand US$						
	1963	1964	1965	1966	1967	1968	1969
1. Privately held debt	85,464	83,068	79,458	79,362	85,281	70,442	65,811
2. Loans from International organizations	13,999	13,997	20,633	22,928	29,180	35,785	51,227
of which:							
a) IBRD	13,999	13,997	13,333	12,628	11,880	7,286	6,328
b) IDA	-	-	7,300	10,300	17,300	26,200	42,600
3. Loans from Governments	111,939	160,914	148,365	176,088	194,163	220,585	226,114
of which:							
a) United Kingdom	97,658	146,633	138,790	155,319	163,495	182,518	181,123
b) United States	-	-	2,200	13,474	17,903	17,056	16,520
c) West Germany	14,281	14,281	7,375	7,295	12,218	11,824	12,169
4. Total External Public Debt Outstanding	211,402	257,978	248,457	276,378	308,625	326,814	343,152

Note: 1. Data relates to debt outstanding including undisbursed at the beginning of the period.

2. Excluding Kenya's share of East African Community Debt.

TABLE 13: DEBTS CONTRACTED 1965-67 BY TYPE OF REPAYMENT TERMS

Type of Repayment Terms		Amounts Committed (thousand U.S.$)			Percent of Total
Interest	Pay-off Period /1	1965	1966	1967	1965-67
1. Grants		36,780	23,700	23,600	32.56
2. Private Export Credits		130	12,332	362	4.97
a) Interest 0-7%	8 yrs. & under	-	-	362	0.14
	over 8 years	130	11,588	-	4.54
b) Interest over 7%	8 yrs. & under	-	-	-	-
	over 8 years	-	744	-	0.29
3. Concessional Loans		18,166	29,681	59,713	41.65
(Interest 3% & below)	28 yrs. & under	14,616	21,691	47,213	32.34
	over 28 years	3,550	7,990	12,500	9.31
4. Other Loans		36,962	10,275	5,296	20.35
a) Over 3% to 7%	8 yrs. & under	-	-	-	-
	9 - 17 years	8,506	4,375	-	4.99
	Over 17 years	16,733	2,564	4,811	9.34
b) Interest over 7%	8 yrs. & under	288	-	-	0.11
	9-17 years	755	228	317	0.51
	Over 17 years	10,680	3,108	168	5.40
5. Total /2		92,717	76,536	88,971	100.0

/1 Pay off period equals maturity less grace.
/2 Totals include small amounts for which terms are not specified.

186. Nevertheless, it seems likely that, provided political and social stability can be maintained, and provided action is taken to counteract some of the unfavorable trends and factors listed above, the economy will continue to grow at a high rate - probably a little higher than in the past. The new Development Plan strategy is sound and the stated priorities right, but the actual allocations in the public sector are not entirely in accordance with the stated strategy and priorities. Thus, too few resources are to be devoted to agriculture and to family planning. The public sector finances are likely to continue to be well managed, although a somewhat higher proportion of Government investment could be financed locally.

187. It has been assumed that 45 percent of the anticipated foreign exchange gap in the Plan period will be financed by private equity capital inflows and suppliers' credit, 35 percent by concessionary public lending, and 20 percent by public lending on commercial terms. This pattern of external financing would represent a significantly harder blend of terms than Kenya has been used to in the past, and would increase Kenya's debt service ratio to about 10 percent in 1974. If the capital repatriations which would arise from private equity investment are also taken into account, the total claim on foreign exchange earnings would be of the order of 15 percent in 1974. In the longer term, continued dependence on external capital on such terms would place a growing debt burden on the Kenya economy, implying a debt service ratio of 14 percent in 1985, or about 20 percent of foreign exchange earnings if private capital repatriations are included.

188. In Appendix 5, projections are made on the assumption of an even harder blend (Mix 2: 36 percent concessionary and 64 percent commercial). This blend would not seriously affect Kenya's debt service position up to 1975, but would significantly increase the burden of debt servicing from 1980 onwards. Thus by 1985, the debt service ratio would be 18 percent, while total claims on foreign exchange earnings would be as high as 25 percent. With any set back in Kenya's export prospects - and particularly in the growth of tourist earnings - such a debt burden would put strains on the economy. The debt projections (Appendix 5) show that if export receipts from tourism grew by 10 percent rather than the 14 percent growth rate assumed over the Plan period, the debt servide ratio would rise to about 24 percent by 1985. Given the relatively low per capita income, Kenya is likely to be dependent on external capital for a long time, and it would therefore be desirable that the future blend of lending should be as close as possible to that assumed in variant one of the debt projection exercise.

APPENDIX 1

POPULATION GROWTH AND CONTROL

A. THE DEMOGRAPHIC PICTURE

1. As with most African countries, population statistics in Kenya cannot be considered very accurate. Registrations of births, deaths and marriages are required by law, but it is not strictly enforced because of the difficulty in enforcing registrations in large parts of the rural areas. Therefore it is not possible to obtain direct estimates of the rate of natural increase in the population through recorded fertility and mortality figures. These have to be estimated indirectly from census data, which tends to be more or less unreliable both as regards coverage and reliability of reporting, and from comparison with demographic knowledge of other countries. The coverages of censuses has tended to improve, so it is not possible to take unadjusted inter-censal changes in the total population to calculate the rate of population increase. In Kenya, it has been estimated 1/ that the 1948 census--the first census to include Africans--under-enumerated the African population by about 4-1/2 percent as compared with the 1962 census. It is likely that the census held in August 1969 will show a similar "statistical" growth in the population.

Estimation of Population Growth Rates 2/

2. Volume III of the Kenya Population Census 3/ estimates the growth in Kenya's population in three ways: (a) from adjustments to the crude inter-censal increase; (b) from a comparison of the age distribution as shown in the 1962 census with models of age distribution and life tables of stable populations; and (c) from estimated fertility and mortality trends.

3. Inter-Censal Comparisons - The difference between the total African populations in the 1948 and 1962 census years 4/ gives an overall apparent growth rate of 3.1 percent a year. However, an analysis by Districts shows increases not reasonably explainable by a combination of natural increases and migration trends. Omitting these Districts (10 out of 30) gives a mean annual increase of 2.77 percent, with a median growth rate of 2.94 percent and a modal average growth rate of 2.69 percent. The report concludes that a growth rate of 2.8 percent a year can be taken as a fair approximation.

1/ "The Kenya Population Census, 1962," Volume III published by the Statistics Division of the Ministry of Economic Planning and Development, October, 1966. p. 78.

2/ The analysis which follows only deals with the African population.

3/ Ibid pp. 78-80.

4/ Ibid p. 75.

4. Age-Distribution Comparisons - Through experimentation it was found that the stable population model which gave the closest least-squares fit to the recorded age distribution of the African population of Kenya (excluding the Northern Province) was that based on the United Nations Model Life Table at "Level 45," with an expectation of life at birth of 42.5 years, combined with a growth rate of 2.8 percent a year. Although this figure of 2.8 percent is the same as that found with inter-censal comparisons, this method is unreliable as the age distribution of the population is extremely insensitive to changes in mortality. As the report remarks ". . . virtually equally close fits would have been obtained with a stable population model with an expectation of life of 45 years and a growth rate of 3 percent per annum, or one with an expectation of life of 40 years and a growth rate of 2.5 percent per annum . . ." 1/

5. Fertility, Mortality and Natural Increase - Using three methods of calculation--reverse survival of children between the ages 0-4 and 5-9, comparison with stable population models and the average number of children borne by women aged 15-34 and 15-39, the Kenya Population Census report estimates the crude birth rate to be between 45 and 52 per thousand and the total fertility rate to be between 6.4 and 7.4. Using Coale-Demany and United Nations model life tables the Census report estimates the crude death rate to be between 18 and 24 per thousand. This yields a range for the average population growth rate of between 2.1 to 3.4 percent a year.

6. Final Population Increase Estimates - Comparing the three methods we have the following estimates of the growth rates of population:

Table 1: ESTIMATED POPULATION GROWTH RATES

	Estimated Population Increase (%)
Inter-censal comparison	2.7 - 2.9
Age-Distribution comparison	2.5 - 3.0
Natural Increase	2.1 - 3.4
Average Range	2.4 - 3.1
Average	2.8

2.8 percent is in fact the estimate which the report suggests.

Changes in Fertility and Mortality

7. There is no evidence one way or another to indicate a fall in fertility. There is, however, evidence that the mortality rates have been falling, causing a rise in the rate of increase in the population. During the 1950's it was assumed that the African population was increasing at about

1/ Ibid p. 77.

1.5 percent a year. In 1961, in the light of the Tanzania and Uganda censuses and a re-examination of the fertility and mortality data obtained in the 1948 Kenya census, the growth rate was revised upwards to 2.25 percent a year. The 1962 Census Report puts the rate at about 2.8 percent and it is now assumed for planning purposes that the rate is now about 3.0 percent a year. 1/ This rate compares with 1.9 percent for the world as a whole, 0.8 percent for Europe, 2.0 percent for Asia, 2.1 percent for America (2.9 percent for Latin America), 2.5 percent for Africa as a whole and Uganda and 2.9 percent for Tanzania. It is clear that Kenya is at the very top end of the scale.

8. The Census Report makes two projections of the population in five-year intervals up to the turn of the century. 2/ In one, fertility is assumed constant and mortality is assumed to decline according to a pattern advocated by U.N. studies (an annual increase in the expectation of life at birth of 0.5 a year). In the other, fertility is also assumed to decline according to the trend in age- specific rates of Japanese women between 1949 and 1959. 3/ The constant fertility projection yields a total population of 14.7 million in 1980 and 30.3 million in the year 2000; the declining fertility projection yields a 11.6 million in 1980, and only 16.0 million in 2000. The growth rate of population would rise to nearly 3.9 percent per year with the constant fertility assumption and decline to 1.42 percent per year in the case of the projection with declining fertility.

9. A decline in fertility at the pace and to the extent assumed in the low projection of the Census is clearly not to be expected. The question remains whether and to what extent fertility is likely to decline as Kenya becomes more "modern," as per capita income increases and as a result of actions taken to reduce fertility through family planning techniques. Part B of this appendix addresses itself to this question.

Population, Density and Natural Resources

10. Kenya's population density is about 17 per km.^{2}. This compares with a world average of 25, 92 for Europe, 69 for Asia, 11 for Africa as a whole, America as a whole and the USSR, 13 for Tanzania and 34 for Uganda. But these broad comparisons can be misleading as water areas are included and they take no account of resource endowment and climatic factors. Because

---

1/ The 1967 U.N. Demographic Yearbook estimates Kenya's crude birth rate to be 50 per thousand, the crude death rate to be 20 per thousand and the rate of increase in the population to be 3.0 percent a year.

2/ Ibid. Tables 19 and 20 on pp. 79 and 80.

3/ It is not clear why such an extreme utopian assumption about fertility was adopted for the Kenya growth projections. Perhaps the reason was to underline the illustrative nature of the projections.

of lakes, soil and climate only about one quarter of Kenya's total area is suitable for agricultural development and the distribution of the population reflects this. Thus, the population density varies from as little as 2 per km.^{2} in north-eastern province to 537 per km in Nairobi (Extra-Provincial). In the latter there is a severe land shortage, with highly intensive cultivation. Nevertheless, there are areas of high potential land (e.g. in the Narok district of Masailand) which, for political reasons, have not been exploited in any meaningful way. The transfer of about 600 thousand hectares of high potential land from European to African hands has eased the situation somewhat, but if the population continues to increase, land could become an explosive political-economic factor. Kenya is not well endowed with mineral resources and, although its resources for the growth in tourism are extremely good, experience has so far shown that the fast growth rates in industry, commerce and tourism have not been sufficient to provide jobs for those leaving the land at an increasing rate.

Population, Growth Rates and Economic Development

11. A high population growth rate has significantly unfavorable effects on economic development. It increases the demand for private consumption (especially food and clothing), public consumption (particularly education and health services), raises the proportion of dependents to working-age population, and therefore tends to depress savings available for investment. Consequently, other things being equal, it requires greater reliance on foreign loans to maintain a given rate of investment than if the rate of population growth was slowed by reducing the birth rate. Further, with a high rate of population growth, development targets such as the desire for universal primary education, and then universal secondary education, can be attained only over a longer period. Similarly, a higher population growth rate implies poor housing conditions.

12. A purely illustrative exercise based on the two population projections given in the Census Report 1/ compares 1985 with 1970 to bring out the effects of decline fertility and slower population growth on savings and on social services. 2/ In 1985 the population would be 38 percent larger if fertility were unchanged, and each person of working age would have to support 1.13 dependents as compared to the 0.63 dependents which he would have to support if fertility were to decline as assumed. The number of school going children in 1985 would be more than double on the high population growth assumption. Given the current construction cost of £ 20 per pupil, high population growth would require £ 50 million additional investment in facilities to provide primary education for all children of school going age. If we

---

1/ See paragraph 8 above.

2/ Over a period of 15 years, declining fertility and slower population growth is unlikely to affect the labor force, which consists normally of people aged 15 years and over. For the exercise this was a reasonable assumption.

assume that the level and pattern of investment is the same for population growth alternatives, 1/ the per capita GNP in 1985 is more than a third higher with low population growth and the requirements for foreign saving significantly less than it is with high population growth. Table 3 summarizes the implications of illustrative high and low population growth rates.

Table 2: IMPLICATIONS OF CONSTANT AND DECLINING FERTILITY (AN ILLUSTRATIVE EXERCISE) 1985

	High Population Growth	Low Population Growth
Total Population	17.4 million	12.6 million
Dependent Population a/	9.2 million	4.9 million
Population of School Going Age b/	4.9 million	2.3 million
Domestic Saving c/	£ 179 million	£ 222 million
Foreign Saving Requirements for a 20% investment/GNP Ratio	£ 46 million	£ 3 million
Per Capita GNP	£ 65	£ 89

a/ defined as the population aged 0-14 years and 55 years and over.

b/ defined as the population aged 5-14 years.

c/ assumes a GNP growth of 5% per year, a marginal propensity to save 0.25 and subsistence consumption of £ 20 per year for each additional equivalent adult consumer. Children aged 0-4 are considered equivalent to 0.25 adult consumers, and those aged 5-14 to 0.8 adult consumers.

B. POPULATION CONTROL AND FAMILY PLANNING

13. While the above exercise illustrates the very substantial advantages that could accrue to Kenya from a rapid decline in fertility of the kind that occured in Japan between 1949 and 1959, such a steep fall in fertility in Kenya is quite unlikely. Nevertheless, is there any reason to expect a spontaneous decline in fertility in Kenya? There is a possibility that with increasing modernization and growth in per capita income there will be some decline and the family planning program being carried out will hopefully have some effect in reducing the birth rate. However, it is doubtful

1/ This implies that the educational, health, and housing facilities relative to population are much poorer in the case of unchanged fertility and rapidly growing population.

if any significant decline in fertility will occur without the wider dissemination of knowledge about birth control methods, more clinics and other facilities and medical personnel, and more understanding of the attitudes and mores influencing the size of families. In short, the birth rate is unlikely to decline in the near future unless a major program is implemented. The existing family planning program cannot be regarded as a major program.

14. The first successful efforts at family planning began in 1957 with the formation of the Family Planning Association of Kenya and the establishment by the Association of several clinics. The Association was affiliated with the International Planned Parenthood Federation (IPPF) in 1962, and is largely financed by it. By mid 1965 Kenya had 21 clinics, of which 14 were in Nairobi. The Government invited a mission of experts from the Population Council to advise on effects of rapid population growth and on means of checking it. 1/ In 1966 Kenya adopted a national family planning program--the first country in mainland tropical Africa to do so. The Development Plan 1966-70, while not specifying any targets, included measures to promote family planning education by:

a) establishing a Family Planning Council with representatives from concerned ministries to coordinate the efforts of the Government, the Family Planning Association (FPA), private agencies and local government in the field of family planning;

b) making available the facilities of Government hospitals and health centers for establishing family planning clinics;

c) preparing an educational program and collecting information on family planning attitudes, etc.

15. The Council referred to above was established in February 1967, but unfortunately it got involved in controversies with the IPPF (and with the Family Planning Association). In October 1967, President Kenyatta decided to disband the Council and family planning was put under the control of the Ministry of Health. For some time thereafter there was no decision as to whether the program would be a government-aided program, being executed by the FPA, or a government program. Ultimately it was decided that the Government would establish its own clinics, and a senior post within the Ministry of Health on Maternal and Child Health and Family Planning was created. The post has remained vacant for over a year, because the designated person was abroad for training and because subsequently he decided not to accept it. There are about 30 Provincial and District Hospitals with free family planning clinics. The FPA continues to run about 40 clinics in Government or local authority facilities with free contraceptive supplies provided by the Government. 2/ In addition, there are three (to be increased to 7) IPPF-supported mobile clinics to serve approximately 35 health centers. The

---

1/ Their report "Family Planning in Kenya" was presented to the Government in 1966.

2/ Formerly FPA clinics were not free of charge.

Nairobi City Council runs 12 family planning clinics, and in addition there is a clinic at Kenyatta National Hospital. The clinics generally work once a week at specified hours. The response is quite good: about 1,500 new acceptors are coming forth per month and the number is probably rising. 1/ Preliminary figures relating to 3,320 first visits by acceptors made to National Family Planning Clinics during January-August 1968, indicate that 60 percent of the women were below 30 years of age (the mean age being 29.4 years). 2/ This augurs well for the effect of family planning on population growth. There is however no information about the length of continuity of contraceptive practices by acceptors, about the dropout rates, etc. Many contraceptive methods are used, but most acceptors preferred the pill. Financial, technical and equipment assistance has been given by many sources e.g. the Pathfinder Fund, the Population Council, SIDA, USAID, Ford Foundation and the IPPF.

16. While a start has been made with the family planning program, it suffers from a number of weaknesses that raise strong doubts about the feasibility of the stated government objective in the Development Plan to reduce the growth rate of the population. No specific target is set but the plans are not commensurate with making any marked reduction in the birth rate. If the death rates were to remain unchanged at present estimated levels of 20 per 1,000, to reduce the population growth rate from 3.0 percent per year to 2.5 percent, would imply a decline in the birth rate from the estimated 50 per 1,000 to 45 per 1,000. Since some decline in the death rate is likely during this period, an even larger fall in the birth rate would, however, be necessary. This would require a much larger and a more effective family planning program than at present for even a moderate effect on the population growth rate by 1974. It has been estimated on the basis of experience of other countries that about 6,500-7,000 new acceptors of family planning would have to be recruited monthly to reduce the birth rate to 44-45 per 1,000 in 1974. Assuming that the death rate would decline to 17 per 1,000 in that year, the growth rate of population would then be 2.7 percent per year. This modest target would thus imply recruitment of acceptors about 3-4 times the current rate. There would also have to be a large increase in the supply of contraceptive devices. It is estimated that the annual expenditure on the family planning program would have to average about L500,000 a year, of which approximately half could be financed from overseas grants. A large part of this cost is to pay for field-workers who play a particularly important role in family planning programs because of the need for preparatory, informational work and for follow-up action to discourage dropouts. The continuation of contraceptive practice is as important as initiation to them, but this follow-up aspect tends to be neglected. Based on Korean and Taiwan experience,

---

1/ The number of first visits to the government health clinics during January-June, 1969 was 11,413.

2/ "Introduction to Family Planning," paper by C.N. Ejiogu, University College, Nairobi, for Seminar on Interprovincial Teamwork for the Family, April 20-26, 1969.

it is estimated that 900 field workers would be required (1 per 2,000 married women of reproductive age). 1/ However, there are as yet no plans for a training program on this scale.

17. There is a basic lack of information about demographic characteristics and attitudes in Kenya, and there has been no attempt to follow-up the working of the program to evaluate its effectiveness and to identify problems. Some research on family planning attitudes has been done, or is under way, 2/ and a start has been made in collecting information on the working of the program. However, much remains to be done, and a program of research should be undertaken.

18. Conclusions If a serious attempt is to be made to reach the stated objective of reducing the rate of growth of the population, there will have to be a firm decision to give the family planning program a higher priority. This means much greater publicity, 3/ with less emphasis on the medical and more on the economic and social aspects, and a large increase in field workers. Family planning is still, in some degree, a controversial issue in Kenya 4/ and it is difficult to see how a program can be really successful until this issue is resolved.

1/ At present the field workers number about 40, mostly with the FPA.

2/ e.g. D.F. Heisel, "Fertility Limitation Among Women in Rural Kenya," Institute of Development Studies, University College, Nairobi. "An African Family Study" is being carried out by Dr. Walter Martin at the Institute.

3/ The importance of publicity through the use of mass media of communication in successful family planning programs is reported in "Communications in Family Planning, a Report of a Working Group, (United Nations, e/CN.11/830).

4/ The experience of the program to date, limited though it may be, does not indicate any opposition at the grass roots level. It would appear, however, that men are more opposed than women.

APPENDIX 2 - HOUSING

A. Housing Problems and Policies

1. By and large donor countries and aid agencies have not helped to finance housing development in developing countries. There are exceptions to this general rule. In Kenya some donors, including the World Bank, have included the finance of a certain amount of staff housing in development programs, e.g. in education. The Commonwealth Development Corporation (CDC) has provided funds to municipalities for housing projects and has played a major role in rescuing the buildings societies, when they were faced with a serious liquidity crisis at the time of Independence. 1/

2. There is a growing recognition of the importance of housing in developing economies. Consumption patterns vary considerably from country to country, and according to stages of development and patterns of income distribution, but no matter what the differences, housing expenditures constitute a high proportion of consumer outlays - anything from a fifth to a half of total consumption expenditure. Adequate housing or lack of it can materially affect productivity, either directly, for example through improved mobility of labor or indirectly through improved family and community health.

3. Besides contributing to higher living standards, housing accounts for a relatively high proportion of capital formation, and it is a relatively labor-intensive industry. 2/ Prior to 1961 investment in housing in Kenya averaged about 20 percent of total investment in the monetary sector and the bulk of investment in the subsistence sector, but the uncertainties just prior to and after Independence resulted in the virtual cessation of private house building, particularly for rent. Recently a recovery commenced, but still only about 12 percent of total capital formation in the monetary sector goes into residential accommodation. This is expected to rise to about 15 percent over the plan period.

4. While the supply of new housing was very low for many years, demand has increased rapidly. Whereas Kenya's total population is increasing at about 3 percent a year, which is high, the population in the main urban areas has been increasing at double that rate. The falling supply up to 1964 and the small increase thereafter, coupled with the rapidly rising demand, has resulted in a serious housing shortage, particularly in the urban areas and

---

1/ The CDC's Building Society operations are summarized in the note attached to this appendix.

2/ The Development Plan estimates that each K£ 1 million spend on conventional housing means one year's full time direct employment for about 2,000 men. It is further estimated that during the plan period the increased investment in private and public housing will provide direct employment for between 8,000 and 11,000 men a year.

particularly for the poorer sections of the population. 1/ It is estimated that the occupancy ratio in Nairobi averages between four and five persons per room.

5. The main cause of the slump in building and construction and of the still low rate of building of private houses today was and still is the uncertainty facing non-Africans and particularly the Asian community. Even those Asians who became citizens at Independence by virtue of the fact that they and one of their parents were born in Kenya, and those Asians who opted for Kenya citizenship, are reluctant to put their savings into long-term investments such as housing. An additional reason for the slow recovery from the slump has been the changing nature of the demand, i.e. towards really low-cost housing on which little, if any, profit can be made by enterpreneurs, architects, etc. The situation has, moreover, been exacerbated by certain official housing practices of long standing.

6. The Kenya Government inherited a system from the colonial administration of providing good quality housing at nominal rents, or housing allowances in lieu of housing, for the upper echelons of the civil service, 2/ and parastatal organizations and many private enterprises followed suit. This has tended to inhibit the provision of private rental housing and create

---

1/ Nairobi City Council has an active waiting list for rental housing of 30,000. Although the size of such lists is a function of prices charged it is to some extent a measure of the unfilled demand. The supply shortage forced the Government in 1966 to introduce rent control for houses and flats on which the standard rental as of January 1965 was below K£ 40 a month (non-furnished) or K£ 55 a month (furnished).

2/ Government housing is basically of two sorts. First, there are "Pool Houses", allocated by a committee of civil servants and serviced as regards maintenance and repairs by the Ministry of Works. There are just over 1,000 pool houses rented out to civil servants and technical assistance personnel. The distribution according to class of housing in descending order is as follows:

22	houses	of	"A"	category
128	"	"	"B"	category
261	"	"	"C"	category
404	"	"	"D"	category
129	"	"	"E"	category
82	"	"	"F"	category
1,026	houses	of	all	categories

Second, there are the "Captive Houses" of the Ministries and parastatal organizations, the former being serviced by the Ministry of Works. These are housing units which are permanently allocated to Ministries because of the nature of the work. The mission was unable to obtain any estimate of the total number.

a vicious circle. It is argued that the government cannot move rapidly away from providing housing because the supply of private houses both for purchase and renting is insufficient, but the policy of providing subsidized housing to government officials reduces the incentive to expand the supply. It is also argued that if the government charged economic rents for its housing this would be merely a bookkeeping transaction as it would have to consolidate in salaries an adequate housing allowance in lieu. 1/

7. It may be that much cannot be done until the supply of private housing has been greatly increased, but there are two reasons why some action should be taken as soon as possible. First, it is pointed out in the main report that the growing gap between rich and poor, the rapid urbanization and the inadequate employment opportunities could create dangerous social pressures. One of the many ways for narrowing the income differential would be to reduce the real income of the more wealthy sections of the population by gradually increasing rents on government housing (and reducing the housing allowance in lieu) and not consolidating in salaries an adequate housing allowance. Parastatal organizations and private enterprise would have to do likewise.

8. Second, charging economic rents for government housing would result in a more efficient allocation of housing. Under the present system whereby people are allocated classes of pool houses according to rank, some people occupy houses larger than they need, while others who want and need larger houses cannot get them.

9. The government has recently introduced a number of improvements. The NHC has been instructed not to provide funds for accommodation units costing more than K£ 1200, which rent for about K£ 10 a month. The urban housing demand is such that about 70 percent of the families cannot afford a home costing more than K£ 600 or renting for more than K£ 5 a month. The government is not going to provide any more pool housing in urban areas and civil servants are being encouraged to buy or build their own houses, and the government is providing funds to the Housing Finance Company of Kenya (H.F.C.K.) to enable it to provide mortgages for this purpose. 2/

10. Consideration should be given to gradually increasing the rents on civil service housing to economic levels. By economic level is not meant rents equivalent to the scarcity rents now being charged in Nairobi, but a rate of return at least equal to the opportunity cost of capital on the capital employed, revalued at current building costs. All pool housing and all houses owned by the ministries and agencies could be turned over to an

---

1/ It is additionally argued that pension costs would be raised considerably if housing allowances were consolidated in salaries. But there is no reason why the consolidated portion should be eligible for pension rights.

2/ See note attached to this appendix.

enlarged NHC, managed on commercial lines. The government could retain the right of first refusal for a number of houses sufficient to house civil servants in rural areas where housing of the required standard is unavailable, for civil servants who are subject to frequent transfers and for technical assistance personnel.

11. The Nairobi City Council does not charge fully economic rents, but does cover its costs. The Council, with the help of the National Housing Corporation (NHC), is making a great effort to provide low income housing. It is sponsoring useful research at the University College and is experimenting with new methods of building and new materials for low cost housing, but it is going to be difficult to provide adequate housing for the majority of urban low income workers without some subsidization. 1/ The Council might consider subsidizing the lower cost housing on a graduated scale, and recuperating the cost of the subsidies through charging higher rents and premia on higher cost housing and land.

B. The Housing Development Plan

12. Objectives. As stated in the new Development Plan, the long-term housing policy of the Government is

> "... to move towards a situation where every family in Kenya will live in a decent home, whether privately built or state sponsored, which provides at least the basic standards of health, privacy and security, and is placed in a context which facilitates the use of communal social institutions and technical installations in both urban and rural areas."

13. The Plan realistically admits that these objectives cannot be achieved during the next planning period, and indeed, may take several decades, but argues in favor of stepping up the building program in both urban and rural areas.

14. Demand. The following table, reproduced from the Development Plan, gives estimates of the 1968 demand for housing in urban areas, by income category.

1/ The Development Plan estimates that for the lowest income group - annual incomes below K£ 120 - the maximum cost of a house is K£ 300 and the maximum monthly rent which can be afforded is K£ 2.5 per month.

Table I: ANNUAL AVERAGE DEMAND FOR HOUSING IN URBAN AREAS IN 1968, BY INCOME LEVEL, HOUSE COST AND MONTHLY RENTAL

Income Level (K £ per yr.)	Affordable House Cost (K £)	Affordable Rental (K Sh per mo.)	Houses Demanded per Year: Number	Houses Demanded per Year: Percentage of Total
Up to 119	Up to 300	Up to 50	3,536	35.4
120 - 179	450	75	2,066	20.7
180 - 239	600	100	1,333	13.3
240 - 359	900	150	881	8.8
360 - 479	1,200	200	481	4.8
480 - 599	1,500	241	374	3.7
600 - 899	2,250	375	637	6.4
900 & over	2,250	375	692	6.9
Totals	-	-	10,000	100.0

15. The following table, also taken from the development plan, gives an analysis of housing requirements by location for the planning period.

Table 2: AVERAGE ANNUAL HOUSING REQUIREMENTS IN MAIN URBAN AREAS, 1969-1974

Urban Center	Population 1968	(est.) 1974	Households[a/] 1968	1974	Compound Increase	Housing Units Av/year	Required % of total
Nairobi	480,000	668,000	102,000	131,400	4.3	5,880	58.0
Mombasa	235,000	305,000	50,000	60,000	3.0	2.000	19.7
Nakuru	53,400	74,500	11,400	14,600	5.3	640	6.3
Kisumu	32,600	45,200	6,900	8,900	4.3	400	3.9
Eldoret	28,300	41,200	6,000	8,100	5.2	420	4.1
Kitale	10,900	13,000	2,300	2,600	2.1	60	0.6
Thika	22,700	37,200	4,800	7,300	7.3	500	4.9
Sub-total	862,900	1,184,100	183,400	232,900	4.1	9,900	97.5
Urban Area Councils	98,100	117,100	20,900	22,700	1.4	360	2.5
Total Urban	961,000	1,301,200	204,300	255,600	3.8	10,260	100.0

a/ At 4.7 persons per household in 1968 and 5.15 persons per household in 1974.

Table 3 : PLANNED FINANCIAL ALLOCATION IN HOUSING DEVELOPMENT PROGRAMME 1969/70 - 1973/74

(Excluding Institutional Housing under various Ministries)

PURPOSE	1969/70	1970/71	1971/72	1972/73	1973/74	1969/70 - 1973/74
	PERIOD					
Urban Housing:						
N.H.C. a/	1,560,000	1,784,000	1,784,000	1,784,000	1,784,000	8,696,000
H.F.C.K. b/	150,000	150,000	150,000	150,000	150,000	750,000
Total urban	1,710,000	1,934,000	1,934,000	1,934,000	1,934,000	9,446,000
Rural Housing:						
N.H.C. c/	250,000	250,000	250,000	250,000	250,000	1,250,000
Total Urban and Rural	1,960,000	2,184,000	2,184,000	2,184,000	2,184,000	10,696,000
Government Staff Pool Housing	400,000	300,000	300,000	300,000	300,000	1,600,000
Refinancing, Compensation and Research	140,000	16,000	16,000	16,000	16,000	204,000
GRAND TOTALS	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	12,500,000

a/ For housing up to £ 1200/unit

b/ For housing in the cost range £ 1200-£ 7000 (emphasis on £ 1500- £ 4000; maximum loan £ 5400)

c/ For rural pilot scheme, loans on conventional housing, and small loans for higher standards in traditional housing.

16. Projected Supply. The Ministry of Housing's share of investment during the five years 1969-74 is K£ 12.5 million - about 10 percent of the total public sector investment. Table 3 gives the breakdown by category.

17. Priorities. Three-quarters of the planned expenditure is on urban housing. Urban unemployment is very high, overcrowding is increasing and the number of squatters and the growth of shanty towns in the peri-urban areas is also increasing rapidly. Rural development programs, at least in the Plan period, are unlikely to reduce the urbanization rate. Consequently, the proper planning and development of urban services, such as housing, has to continue. However, it is important that the towns other than Nairobi and Mombasa should receive adequate attention. The allocation of funds to housing as a whole, the distribution as between urban and rural, and the distribution as between housing and other services in the urban areas all appear to be reasonable in the circumstances. It would be desirable, however, to speed up the pace of rural development after experience has been gained with the pilot rural development schemes. One of the most important parts of the allocation for rural housing is a pilot rural housing scheme in each of the provinces. When experience has been gained from these schemes, a higher proportion of resources could well be devoted to rural housing.

18. K£ 1.6 million is allocated in the Plan to Government Staff Pool Housing in addition to allocations in ministry votes for institutional housing. This provision is for housing outside the main urban areas.

19. K£ 2.8 million of the K£ 8.7 million allocated to the National Housing Corporation will be for site and service schemes, utilizing the self-help potential which has been demonstrated in the Harambee secondary school program.

20. The Ministry of Housing, in collaboration with the Housing Research and Development Unit, the NHC and the Nairobi City Council will undertake much research and experimentation into low income housing, using new materials and new methods of construction.

21. Financing of the Housing Plan. It should be possible to raise a significant part of the finance required for the housing investment plan from local resources. The Nairobi City Council should be permitted to borrow much more in the local market, not just for housing but for other social overhead investment in its development plan, such as water, sewerage and roads. Eventually the NHC and the HFCK should reach the stage of development where investors would purchase their bonds. The organization of the NHC is sound and the management efficient.

22. The links between adequate housing and increased economic efficiency are hard to demonstrate, but some links there are. Moreover, even if there was no relationship, housing is an essential social overhead, which must be met within the limitation of resources. The allocation in the Development Plan is probably about right. External donors might consider whether and to what extent they might help finance the foreign exchange component of the

housing plan. Emphasis should be placed on low cost housing and on progress in the experimentation with new materials and new building methods particularly where this might result in the development of African building firms and the stimulation of the production of a local building supplies industry. Perhaps housing might be considered in a wider project of urban planning and development. Although no doubt improvements could be made, Nairobi has a good record in this respect. In the narrower housing field, NHC, HFCK and the Nairobi City Council are all suitable agencies for managing external funds. A Nairobi City Council/NHC project is outlined in Appendix 3.

C. A Note on the CDC and Kenya Building Societies

23. Prior to independence there were three Building Societies operating in Kenya, the First Permanent Building Society (owned by Rhodesian interests and operating throughout East Africa), the Kenya Building Society, and Savings and Loan Ltd. (a subsidiary of the Pearl Assurance Co.).

24. The societies operated in the conventional way, borrowing short and lending long, and some 60-70 percent of their public deposits were European-owned. After the Lancaster House Conference in 1961 which started the negotiations leading to independence there were large withdrawals of deposits by Europeans from all three Societies. The CDC was asked by the British Government to see what could be done to maintain the interests and activities of these societies. The First Permanent Building Society, which had been managed in a speculative manner and was losing most money, was taken over by CDC and a new company, First Permanent East Africa Society was formed. CDC put about £ 1-1/2 million into the new society and started to build up public deposits. The First Permanent still has a debt of about £ 1/2 million to the Zambian Government being repaid to 1972-73. The CDC in collaboration with the Pearl Assurance Company also refinanced Savings & Loan Ltd. In 1963 the Kenya Building Society was taken over and administrated as part of the First Permanent East Africa. The CDC's operations in these societies was concerned only with the maintenance and servicing of existing mortgages, no new mortgage business being contracted. By 1965 the CDC considered the situation sufficiently stable to begin discussions with the Kenya government on the extension of mortgage business. In 1967 the Housing Finance Company of Kenya (HFCK) was formed (60 percent CDC, 40 percent Kenya Government) with a total loan finance of £ 650,000. Negotiations are currently underway to transfer the assets of First Permanent to the HFCK. CDC has proposed to the Kenya Government that HFCK acquires all the assets and liabilities of First Permanent and the Kenya Building Society. The CDC and the Kenya Government are providing about K£ 3/4 million each and it is intended that HFCK would mainly finance schemes undertaken by the National Housing Corporation (a parastatal organization controlled by the Ministry of Housing) which is building mortgageable houses for lower income bracket households. Between a half and two-thirds of mortgage customers are civil servants.

APPENDIX 3

PROJECTS SUITABLE FOR EXTERNAL FINANCING

1. At the 1968 meeting in Paris of the Consultative Group for East Africa, it was agreed that the three East African countries and the East African Community would prepare lists of projects for which they were seeking external financial assistance. It was further agreed that the Bank would collate these projects and distribute project lists for consideration at periodic meetings of local representatives of the Consultative Group in East Africa.

2. Uganda and the East African Community have prepared lists and there have been a number of meetings of local representatives. Probably because they have been heavily engaged in preparing new plans, neither Kenya nor Tanzania have prepared such lists, although there have been a number of informal meetings of local representatives of member countries of the Consultative Group.

3. The recent economic mission attempted to obtain a list of projects, with sufficient supporting data to enable the mission to make a tentative recommendation that the projects in question were prima facie sound, of high priority and suitable for external financing. The attempt was not very successful. This was partly due to the fact that there are a fairly large number of projects which have recently been submitted to donors, and the applications are being processed. It was partly due to the preoccupation of personnel with preparing the new plan and the 1969/70 Budget, but it was also because of the lack of planning units in the ministries which is discussed in Chapter V (c).

4. The following is an incomplete list of those projects in which donors have already expressed an interest. Some of them are already in an advanced stage of processing; others are still undefined but could be prepared for external assistance during the first two years of the Plan period. Most of the estimated costs and proposed loans are very tentative.

Proposed Project	Estimated Cost $1,000	Proposed Loan or Grant $1,000	Interested Donors
AGRICULTURE, NATURAL RESOURCES AND RURAL DEVELOPMENT			
Basic Surveys			
Aerial photography survey of parts of S. W. Kenya	500	-	Canada
Lake Rudolf Survey	400	400	United Kingdom
Soil Surveys, aerial mapping	22	-	Netherlands
Regional planning, E. Province	-	-	Norway
Development of the Taita Area	-	-	Norway

Proposed Project	Estimated Cost $1,000	Proposed Loan or Grant $1,000	Interested Donors
Technical Research			
Horticulture research and training	2,520	-	United Kingdom
Pasture research	-	-	United Kingdom
Grain storage	-	-	United Kingdom
Cotton, grain legumes, oilseeds	672	-	Netherlands, Norway
Coffee research	129	-	Netherlands
Veterinary investigation centers	392	-	Netherlands, Norway
Dairy	210	-	Netherlands, Norway
Training and Education			
Agricultural College and (2) FTCs, Kakamega	-	-	West Germany
Extension to Egerton College	151	-	Netherlands, IBRD
Animal husbandry education	98	-	Netherlands, IBRD
Multipurpose training centers	-	-	Norway
New Agricultural Faculty, University College	3,440	) 4,500	IBRD
Agricultural institutions and FTCs	4,420	)	IBRD
Production Programs			
Mwea irrigation scheme (mainly rice)	778	-	West Germany
Major Forest plantations	3,300	2,600	IBRD
Group ranch development	1,568	-	Netherlands
Kano Plains Irrigation Project (subject to success of pilot scheme)	20,000	13,000	IBRD
Basic Services			
Bulk Grain handling: harbour & railway	c. 1,400	c. 1,000	IBRD
Soil conservation equipment	300	200	United Kingdom
Equipment			
Abattoir, dairying, grain drying	-	-	Denmark
Sugar factories	700	-	Denmark, U.K.

Proposed Project	Estimated Cost $1,000	Proposed Loan or Grant $1,000	Interested Donors
Roads			
Road maintenance project	11,000	11,000	IBRD
Tea roads II	7,280)		
Trunk roads II	22,708)	22,500	IBRD
Settlement roads II	3,920)		
Major Secondary and Feeder Roads II	50,400	33,800	IBRD
Great North Road	1,274	-	A.D.B., USAID
Nairobi - Addis Ababa road	9,439	-	Italy
Tourist Roads I, II and III	4,712	-	West Germany
Fish Roads I and II	3,508	-	NORAD
Lake Rudolf fish road (Ferguson's Gulf to Lodwar)	1,500	1,000	IBRD
Somalia Road	3,732	-	USAID
Rice Roads	1,033	-	West Germany
OTHER INFRASTRUCTURE			
Airport development	-	-	IBRD
Nairobi water supply	9,600	6,000	IBRD
Water supply and sewerage schemes, Nakuru and Kisumu	-	-	West Germany
Rural water development	7,000	-	Sweden, Norway
Kamburu Hydro-electric Project Stage I	c.44,000	c.26,000	IBRD
EDUCATION			
University:			
New faculty of agriculture (see agriculture)			
Department of education	200	-	United Kingdom
Physics/mathematics building	-	-	Norway
Central catering unit	400	-	United Kingdom
Secondary and technical schools	5,800)	c. 4,900	IBRD
Teacher training	1,900)		
MANUFACTURING, CONSTRUCTION AND HOUSING			
Industrial estates, Nairobi (Phase II) Mombasa and Kisumu	-	-	West Germany
Vocational training center	-	-	West Germany
Low cost housing	-	-	Norway
Expanded support to National Construction Corp.	-	-	Norway

5. The Economic Mission consider the following projects of relatively high priority and worth consideration by donor countries and agencies. For reasons given in paragraph 3 above it is not a comprehensive list and no priority should be attached to the order in which they are presented.

6. Agriculture and Rural Development. There are no large "capital" projects ready for consideration by donor countries and agencies in the agricultural sector, but many valuable programs are suitable for external assistance. As pointed out in Annex A, the greatest need is for programs designed to increase the unit productivity of the mass of small-scale farmers, and within this need there are two main priorities. The first is for technical and financial assistance to rejuvenate existing research programs and to establish new ones. Because of the wide diversity of commodities produced in Kenya, research is required over a very broad front; however, the priorities for external assistance appear to be in coffee, cotton, horticulture, oilseeds, and livestock products, including pasture development. Agricultural research appears to be a most suitable field for bilateral aid. Perhaps the best form of aid is a package program to assume the major responsibility for one discrete area of research, with the donor country supplying the manpower, capital costs and possibly part of the equipment for a specialized research station, with a strong emphasis being given to training local personnel whenever they are available.

7. The second priority in the agricultural sector, is for expanded agricultural credit - particularly short-term credit - to allow the small-scale farmers to put the recommendations of the research workers into practice. No suitable machinery exists at present for distributing credit to the mass of producers, and it is doubtful whether one will be established during the next two years. It is unlikely, therefore, that a suitable agency will be available in the near future through which external finance could be channeled into agricultural credit. In the longer term, this is likely to be a priority project for aid; in the meantime technical assistance will be required to assist Kenya in continuing the pilot co-operative credit program and in preparing a larger program.

8. It would be valuable if external assistance could be used to help implement at least one program during the Plan period for an integrated agricultural development scheme on a relatively large-scale. Apart from the pilot co-operative credit program being assisted by the Nordic group, the only project proposed in the Plan which might be suitable for such aid is the tea development program of the Kenya Tea Development Authority, which is scheduled to spend some K£ 1.2 millions ($3.3 millions) during the 1969-74 Plan period. However, this Report has suggested that other commodities - notably cotton - might also be developed under the control of an authority, and this is a possibility which might be of interest to outside donors.

9. An essential ingredient of any rural development scheme is the need to win the understanding, support and active participation of the people involved. It is for this reason that the Report has laid particular emphasis on the 14 pilot rural development projects to be implemented during the Plan

period, as they offer the most promise of doing this. For the time being it is difficult to see any possibility of outside donors becoming involved in this program in any major way. But it is considered that the development and progress of these pilot schemes will be followed with interest by all donors, and it is possible that they might prove to be the prototype of a full-scale operation which would require massive external assistance over a long period.

10. Further projects in the agricultural plan which appear suitable for external financing are the programs for land registration, settlement, cereals storage and handling facilities, some items of the irrigation programs and some of the items of forestry development not covered by the proposed Bank loan. The land registration and consolidation programs have been very largely financed by the United Kingdom in the past, and it is possible that the United Kingdom will be interested in providing further assistance in the future. The need for additional cereals storage and handling arises from the decision to convert to the bulk handling of maize destined for export. The larger part of the requirements (bulk storage and loading facilities at Mombasa and railroad rolling stock) will be financed by the Bank as part of the Harbor Loan (No. 638 EA) or the proposed Railways Loan to the East Africa Community. There remains the up-country storage requirements, however, the main component being the construction of two grain silos at an estimated cost of some K£500,000 ($1.4 millions). Further details of possible agricultural and rural development projects are given in Annex A (particularly Section II (5)) and in Annex B.

11. Manufacturing. The Industrial and Commercial Development Corporation (ICDC) needs to increase its capital and external assistance is both desirable and necessary. External donors will wish to have some say in the projects which would be financed by ICDC and this could take the form of program financing, with sub-projects being submitted for approval at intervals. However, before external assistance can be considered, it will be necessary for the capital of ICDC to be restructured to give it a sound equity/debt ratio and the management of the corporation requires strengthening.

12. Tourism. The comments which were made above with regard to ICDC apply with even more force to the Tourist Development Corporation (TDC). The provision in the Plan for game lodges in the game parks and reserves is probably inadequate and the TDC should take the lead after consulting private enterprise, particularly with regard to location, in seeing that additional accommodation is provided.

13. Power. External financial assistance is required for the further development of the Seven Forks hydro-electric scheme, as the first stage of coordinated development of power resources in Kenya and Uganda. This is the 50 Mw Kamburu Stage I project on the Tana River, together with a transmission line to Nairobi. The whole project is estimated to cost some K£ 15-1/2 millions. Subsequent phases of development of the Seven Forks scheme would be a 25 Mw Stage II at Kamburu, the construction of a reservoir, and the development of the Gtaru project at a later stage. An engineering feasibility report on Kamburu has recently become available. The project would

be undertaken by the Tana River Development Co. Limited, which would sell power in bulk to the East African Power and Lighting Company. An application for financing has been submitted to the Bank.

14. Housing. The National Housing Corporation (NHC) and the Nairobi City Council require finance for the second stage of a low-cost rental housing scheme, which involves the planning of a 117 acre site, including open spaces, nursery, primary and secondary schools, a maternity and child welfare clinic and a shopping center. A breakdown of capital costs is estimated as follows:

	K £
300 2-roomed houses @ £ 635	= 190,500
600 3-roomed houses @ £ 705	= 423,000
300 4-roomed houses @ £ 880	= 264,000
Shops with living accommodations above	= 80,432
External works	= 42,200
Civil Engineering works	= 196,200
Services	= 62,205
Fees and Disbursements	= 101,462
Development costs and Contingencies	= 67,500
Supervisory Staff on site	= 15,000
TOTAL	1,442,499
	Say $4.0 million

15. The estimated direct foreign exchange component is only about K£ 380,000 because the aim is to use as much local materials as possible. The estimated recurrent costs in the first full year of operation is about K£ 181,000.

16. Sewerage. The continued expansion of Nairobi's main sewerage distribution network and treatment works is necessary and the City Council estimates that the next stage of development would cost about K£ 1.5 million, broken down as follows:

	K£ thousand
Thomson Estate Trunk Sewer	120
Langata Trunk Sewer	52
Central Area Reconstruction	150
Ruaraka Trunk Sewer	150
Juja Road Outfall Sewer	20
Ruaraka Pumping Station	20
Nairobi River Canalization	270
Kariobangi Works Stage 3	710
Miscellaneous	50
TOTAL	1,542
	Say $4.3 million

Much of the foregoing expenditure would be revenue producing.

17. Economic and Social Research. The Institute of Development Studies of the University College, Nairobi, is doing valuable research both directly relevant to the needs of various government agencies and its development plans and indirectly of great benefit to Kenya. The Social Science Division of the IDS presently has a professional staff of 23 and a recurrent budget of some K£ 130,000 a year, about 12-1/2 percent of which is met by the University and the rest by external agencies, principally the Rockefeller Foundation and the United Kingdom Ministry of Overseas Development. Expansion plans in the University call for the construction of a Social Sciences Building to house not only the expanded IDS, but also the four related social science departments of the College (economics, geography, government and sociology). The building, which would provide facilities for conferences as well as for teaching, interdisciplinary research and administration, woulc cost an estimated K£ 215,000. The annual operating costs of the Social Science Division of the IDS are expected to increase to some K£ 1/4 million by 1975/76 by which time it is hoped to have a staff of 32 senior research officers and 18 junior research officers.

18. Health. The Development Plan includes over K£14 millions capital expenditure on health services, the largest items being the extension to the Kenyatta National Hospital (K£ 4.2 millions), improvements to other hospitals, and medical training. The program should provide a variety of both large and small projects which would be suitable for external assistance in the forms of loans/grants, equipment or staff.

19. The Report has drawn attention to the importance of population control to the future development of the Kenyan economy, and suggested that the program included in the Plan is probably too small to have sufficient impact. The family planning program, on its proposed scale or in an expanded form, is however a project of great priority which would be suitable for external assistance.

20. East African Community. Possible Community projects are not included here, but Kenya will have to severally and jointly guarantee loans for railways, harbors and telecommunications, and will have to provide her share of the foreign exchange for debt servicing. This has been taken into account in the investment, output and debt projections in the body of this report.

APPENDIX 4

AN ECONOMETRIC MODEL OF THE KENYAN ECONOMY

I. INTRODUCTION

1. Models - even simple ones - are useful for a variety of purposes: they provide a compact summary of past trends and relationships and as such they help to discern interrelationships within an economy; and they provide a framework within which policy changes can be represented and projections made. A planner or a country economist is usually interested in all these aspects.

2. For the purposes of a report of this kind a useful model will perhaps consist of five building-blocks: (a) It will begin by specifying elements of final demand which are: consumption, fixed investment, stocks, Government expenditures and exports. For the first four it will distinguish between domestic and imported components and for exports it may treat the effects of domestic production, the proportion that is exported and the effects of world prices separately. Having obtained relationships for final demand in this way it will (b) feed them into an input-output table to get estimates of intermediate output: (c). (a) and (b) will then provide estimates of total domestic output, exports, imports, etc. and of total income generated in the domestic production activities: (d). (c) would then be combined with the factor income account and be split up into wages, profits, taxes or other convenient income categories which would form the basis for final demand vectors in the next year. (e) a run of (a) to (d) would yield the initial gaps to be financed; the two gaps would, if necessary, be reconciled and a net gap that has to be financed would be obtained; one would specify the proportions of this gap that would be financed on differing terms; a simple sub-routine will yield the gross inflow needed to finance the net gap on the terms that have been assumed. This much would be its bare skeleton. Sub-routines dealing with import-substitution, price changes, etc. would be built in depending on the questions that one is interested in.

3. While a good deal of data collection work is underway in Kenya which will enable one to construct a comprehensive model of this kind in the next four or five years, at present there is not enough information to undertake anything this ambitious. In particular, work on an input/output table has only just begun; data on consumer expenditure patterns is extremely scanty 1/;

1/ As an instructive example of the host of assumptions that one has to employ to make it yield some results see Hans-Erik Dahl, Household Demand for Consumer Goods in Kenya, 1963-1965, with Projections for 1966-73, The Chr. Michelsen Institute, Bergen, Norway, 1969.

the figures on stocks are still being finalized; details of investment totals have yet to reach a level of stability: they will most probably be revised when the results of the 1967 Census of Industrial Production have been fully processed and when greater efforts are made to reconcile the series that emerge from Trade Reports and the one that emerges from the Business Expectations Inquiry. In the absence of relevant data one is forced to construct a model that is much simpler and, almost certainly, much less useful.

II. CONSTRUCTION OF THE MODEL

Purpose

4. The main reasons for constructing the model were twofold: first, to have a summary of past trends and relationships as a ready-reference for our work; and second, to project the import-export and investment-savings gaps independently; these were to be used to form a rough estimate of the amount of foreign financing needed and to assess the consequences of financing the gaps on different terms.

Types of Equations

5. For each of the relationships listed below (except the capital-output ratios) four types of equations were estimated: (i) one in which the marginal and average rates are equal and constant ($Y = aX$); (ii) one in which the marginal rate is constant but the average rate may change ($Y = a + bX$); (iii) a third in which both the average and marginal rates may change but the elasticity remains unchanged ($Y = aX^b$); and (iv) a quadratic form ($Y = a + bX + cX^2$) in which the two rates and the elasticity are all allowed to change. It is common to estimate linear equations only. This is unsatisfactory for it often suppresses important accelerations and decelerations in the underlying data. The individual functions are now described.

6. A. Growth Rates. Growth prospects in individual sectors were determined exogenously after field work. The projections were then grouped into seven sectors.

7. B. Gross Domestic Investment.

(i) Fixed Investment: for obtaining a rough estimate of investment requirements capital-output ratios were estimated as follows 1/: gross fixed investment in a sector $(INVEST)_i$ consists of net investment (INVNET) and depreciation (INVDEP):

$$(INVEST)_i = (INVNET)_i + (INVDEP)_i$$

1/ Cf: A.M. Strout, Savings, Imports and Capital Productivity in Developing Countries, USAID, Mimeo, 1965.

Assuming that a given proportion (d) of the capital stock is replaced every year and that the capital stock bears a fixed relation to the value added in a sector

$$(INVDEP)_i = d(kSTOCK) = d \cdot k(GDP)_i = b(GDP)_i$$

Therefore

$$(INVEST)_i = (INVNET)_i + b(GDP)_i$$

Dividing both sides by $\Delta(GDP)_i$ we get

$$\frac{(INVEST)_i}{\Delta(GDP)_i} = \frac{(INVNET)_i}{\Delta(GDP)_i} + b \frac{(GDP)_i}{\Delta(GDP)_i} \qquad (1)$$

or $k_{gi} = k_{ni} + b \frac{1}{r_i}$

where k_{gi} is the gross capital-output ratio in section (i), k_{ni} the net capital-output ratio and r_i the sectoral rate of growth. On fitting equation (1) to the data we obtain the relevant gross capital-output ratios:

Sector	Gross Capital Output Ratio	$\bar{R}^2$	Period Taken
Agriculture, forestry and fishing	2.11	.968	1963-68
Mining and quarrying	2.51	.556	1963-68
Manufacturing and repairing	3.14	.902	1963-68
Building and construction	3.63	.982	1960-68
Electricity and water	4.22	.960	1960-68
Transport, storage and communication	4.85	.918	1960-68
Other Services	2.61	.987	1960-68

8. The very impressive $\bar{R}^2$ should not be taken too seriously. These scores are artificially high for the denominator of both sides of equation (1) - namely $\Delta(GDP)_i$ - has a much higher coefficient of variation than either $(INVEST)_i$ or $(GDP)_i$.

9. If the rate of growth in the projection period is different from the rate of growth in the sample period from which the capital-output ratios have been estimated, the projected investment will be an over- or under-estimate of the true investment requirements. Sectoral investment was first

calculated using the ratios obtained above and then corrected by the following factor 1/:

$$1 - \left[\frac{1}{(1+R)^{t-1}(R+R/r_1+1)}\right] \left[\frac{1}{(1+r_1)^A}\right]$$

where r_1 is the sectoral growth rate in the sample period, A is an assumed average life of capital stock in the sector and R represents acceleration or deceleration in the growth rate ($R = [(1+r_2)/(1+r_1)] - 1$; where r_2 is the projected rate of growth in the sample period).

10. The (r_1) is obtained in each case by fitting regression trend lines ($Y_t = Y_o(1+r)^t$, i.e. $\log Y_t = \log Y_o + t \log(1+r)$, to sectoral data over the period that was used for estimating the capital-output ratio for that sector. The object of fitting a trend line in this way was to ensure that an undue weight is not given to the base and end years of the series.

(ii) Stocks: the series on stock changes are new and are likely to be revised as time goes on. Cumulative changes in stocks were about 1.68 percent of cumulative GDP between 1963-68; it is assumed that they will be 1.7 percent in the projection period.

11. C. Savings

(i) Gross Domestic Savings (GDMSAV) are made a function of GDP at factor cost (GDPFAC). In the figures given below the standard error of a coefficient is reported in parenthesis beneath the coefficient; the columns show the Durbin-Watson statistic (D-W), the $\bar{R}^2$ - i.e., the coefficient of determination corrected for degrees of freedom, and the F-ratio.

Equation	D-W	$\bar{R}^2$	F-ratio
$(GDMSAV) = \underset{(0.006)}{0.205}\ (GDPFAC)$;	1.914;	.844;	43.387
$= -16.120+0.252(GDPFAC)$;	2.156;	.858;	49.173
$\log(GDMSAV) = \underset{(0.015)}{-1.239} + \underset{(0.201)}{1.216} \log(GDPFAC)$:	2.060;	.817;	36.612

(ii) The Factor Income Balance was divided into three parts: (i) interest on existing debt which is given; (ii) interest on net debt which emerges from the debt-routine described in paragraph 20 below and (iii) other net factor payments which were made a function of total exports and imports of goods in the preceding period:

1/ For the rationale and derivation of the correction factor see J. Vanek, Estimating Foreign Resource Needs for Economic Development, McGraw Hill, New York, 1967, Chap. 7.

Equation	D-W	$\bar{R}^2$	F-ratio
$(OFACPAY) = \underset{(.334)}{-2.910} + \underset{(.011)}{0.057}(XGOODS + MGOODS)_{t-1};$	2.054;	.768;	24.211
$= \underset{(.00246)}{(.03848)}\ (XGOODS + MGOODS)_{t-1};$	1.498;	.712;	17.230
$\log(OFACPAY) = \underset{(0.032)}{-2.708} + \underset{(0.380)}{1.586} \log\ (XGOODS + MGOODS);$	1.824;	.700;	17.363

(iii) Gross National Savings = (GDMSAV) - (FACBAL)

12. D. Imports of Goods were divided into four categories:

(i) Imports of Capital Goods: two overall functions relating these to fixed investment were fitted for 1960-68 and 1963-68 and they yielded good fits: an $\bar{R}^2$ around (.85) and around (.90) respectively for the four types of equations. For 1963-68, however, imports of capital goods were apportioned to individual sectors of use. These imports of each sector were then made a function of the sector's fixed investment. Again all four types of equations were fitted. Some of the linear and log versions are given below as illustrative of the results:

Equation	D-W	$\bar{R}^2$	F-ratio
(a) $(MCAPTL)_{agr} = \underset{(0.013)}{0.322}(FIXINV)_{agr};$	1.171;	.861;	24.755
$= \underset{(0.142)}{-0.965} + \underset{(0.078)}{0.406}(FXINV)_{agr};$	1.400;	.868;	27.322
$\log(MCAPTL)_{agr} = \underset{(0.091)}{-0.852} + \underset{(0.259)}{1.337} \log\ (FXINV)_{agr};$	1.528;	.865;	26.618
(b) $\log(MCAPTL)_{mining} = -0.312 + \underset{(0.031)}{0.174} \log(FXINV)_{mining};$	1.706;	.539;	5.681
(c) $(MCAPTL)_{manu} = \underset{(0.323)}{1.489} + \underset{(0.098)}{0.258}(FXINV)_{manu};$	2.276;	.601;	7.017
$\log(MCAPTL)_{manu} = \underset{(.032)}{-0.023} + \underset{(0.235)}{0.635} \log(FXINV)_{manu};$	2.449;	.610;	7.263
(d) $(MCAPTL)_{const} = \underset{(0.145)}{0.769} + \underset{(0.101)}{0.231}(FXINV)_{const};$	5.166;	.510;	5.166

(e) $$(MCAPTL)_{elec} = \underset{(0.013)}{0.283}(FXINV)_{elec}; \qquad 0.823;\ .939;\ 62.047$$

$$= \underset{(0.026)}{0.184} + \underset{(0.015)}{0.237}(FXINV)_{elec}; \qquad 1.422;\ .983;\ 238.860$$

$$\log(MCAPTL)_{elec} = \underset{(0.015)}{-0.400} + \underset{(0.066)}{0.755}; \qquad 1.958\quad .970;\ 129.693$$

(f) $$(MCAPTL)_{trans} = \underset{(0.048)}{0.525}(FXINV)_{trans}; \qquad 2.012;\ .769;\ 13.314$$

$$= \underset{(0.619)}{-3.112} + \underset{(0.131)}{0.746}(FXINV); \qquad 3.157;\ .799;\ 16.910$$

$$\log(MCAPTL)_{trans} = \underset{(0.037)}{-0.750} + 1.395 \log(FXINV)_{trans}; \qquad 2.857;\ .833;\ 20.995$$

(g) $$(MCAPTL)_{other} = \underset{(0.213)}{1.084} + \underset{(0.025)}{0.071}(FXINV)_{other}; \qquad 2.235;\ .639;\ 8.095$$

$$\log(MCAPTL)_{other} = \underset{(0.033)}{-0.502} + \underset{(0.235)}{0.687} \log(FXINV)_{other}; \qquad 2.098;\ .653;\ 8.543$$

13. The total of projected capital imports obtained by using these disaggregated equations agreed very closely with the total obtained from projections that used the overall equations linking 1963-68 imports of capital goods to fixed investment in 1963-68.

(ii) Imports of Intermediate Goods could not be apportioned to sectors of use in the time available. They were, therefore, related to value added in all sectors except in the "Other Services" sector (GDP*).

	D-W	$\bar{R}^2$	F-ratio
$(MINTER) = \underset{(.006)}{0.189}\ (GDP^*)$	1.722;	.791	30.319
$= \underset{(1.413)}{-5.881} + \underset{(.040)}{0.216}\ (GDP^*);$	2.042;	.776;	28.751
$\log(MINTER) = \underset{(.015)}{-1.140} + \underset{(.215)}{1.177} \log(GDP^*);$	2.045;	.782;	29.777

14. The consequence of fitting a single function relating imports of intermediate goods to value added in six sectors is that a unit-change in value added in any one of the sectors has an equivalent effect on imports of intermediate goods. This is obviously an oversimplification and should be kept in mind while interpreting the reduced forms given later on. In particular, this procedure overstates the import consequences of an increase of GDP

in sectors like agriculture whose production has a lower-than-average import content and understates the import consequences of an increase of GDP in sectors like manufacturing.

(iii) Imports of Consumer Durables are the smallest category and they are subject to considerable fluctuations from year to year. An expedient was adopted: two-year moving averages of imports of consumer durables were related to two-year moving averages of (GDP at factor cost *minus* direct taxes *minus* FACBAL *minus* GDMSAV) written as (GNP - TS):

	D-W	$\bar{R}^2$	F-ratio
(MDURAB) = -4.114 + .037(GNP-TS); (.184) (.006)	2.162;	.848;	40.180
log(MDURAB) = -3.940 + 1.936 log(GNP-TS);	2.267;	.775;	25.162

(iv) Similarly Imports of Nondurable Consumer Goods were related to (GDP at factor cost *minus* direct taxes *minus* FACBAL *minus* GDMSAV). The data was not averaged in this case - except that moving averages were taken for 1966-67 and 1967-68. Imports of these goods suffered a severe decline in 1967 because of destocking by the traders. The reasons for this destocking are well known and were exceptional to 1967.

	D-W	$\bar{R}^2$	F-ratio
(MNONDU) = 11.292 + (0.061) (GNP-TS); (0.402) (0.012)	2.329;	.778;	25.553
log(MNONDU) = 0.04844 + 0.57358 log(GNP-TS);	2.305;	.765;	23.752

Similar functions were fitted for all consumer goods taken together and yielded $\bar{R}^2$ around (0.97).

The foregoing equations require Direct Taxes to be projected. The functions for these are:

	D-W	$\bar{R}^2$	F-ratio
(DIRTAX) = 0.048 (GDPFAC); (0.002)	.378;	.822;	36.997
= -9.030 + 0.075 (GDPFAC); (0.399) (0.007)	1.124;	.933;	112.502
log(DIRTAX) = -2.543 + 1.482 log(GDPFAC); (0.010) (0.134)	1.129;	.938;	122.441

Equations were also fitted relating the direct tax rate (DIRTAX/GDPFAC) to time. The quadratic equation

	D-W	$\bar{R}^2$	F-ratio
$(\text{DIRATE}) = \underset{(0.00035)}{0.04566} - \underset{(0.00050)}{0.00245t} + \underset{(0.00006)}{0.00049t^2}$;	3.249;	.959;	93.841

fitted the data best-reflecting the considerable fall in collections immediately after independence.

15. E. Exports of Goods have been related to (GDPFAC) originating in the agricultural and manufacturing sectors.

	D-W	$\bar{R}^2$	F-ratio
$(\text{XGOODS}) = \underset{(0.012)}{0.409}(\text{GDPFAC})_{\text{agr \& manu}}$	1.091;	.804;	32.866
$\log(\text{XGOODS}) = \underset{(0.013)}{-0.642} + \underset{(0.190)}{1.114} \log(\text{GDPFAC})_{\text{agr\&manu}}$	1.230;	.807;	34.348

In addition exports from 1963-68 were classified into agricultural and manufactured or processed commodities using the UN concordance between SITC and SIC categories. 1/ Classification of exports in this way does not fully represent the contribution of a sector to the export effort. The FOB value of a manufactured good that is exported has contributions from many sectors. The ratio of value added to output in the manufacturing sector is about 35.6 percent and in agriculture it is about 81.4 percent. As a first step, therefore, the FOB values of exports were deflated by these factors and then fitted to the value-added in each sector. (Multiplication by a constant does not alter the goodness of fit in any way. It merely alters the values of the coefficients in the equation.) The quadratic equation

	D-W	$\bar{R}^2$	F-ratio
$(.356)(\text{XMANU}) = \underset{(0.332)}{-19.468} + \underset{(0.637)}{1.778}(\text{GDPFAC})_{\text{manu}} - \underset{(0.008)}{0.021}(\text{GDPFAC})_{\text{manu}}$;	2.978;	0.708;	7.019

fared best for manufacturing exports - reflecting the marked impact of the difficulties Kenya experienced in its trade with Tanzania and Uganda in 1967-68. If we exclude these years even the simple linear equation

	D-W	$\bar{R}^2$	F-ratio
$(\text{XMANU}) = \underset{(0.252)}{4.851} + \underset{(0.052)}{0.334}(\text{GDPFAC})_{\text{manu}}$	1.999;	.929;	40.232

fits the data very well. Similarly for agricultural exports in 1964-68 the following equations fare well enough:

1/ United Nations, Classification of Commodities by Industrial Origin Statistical Papers, Series M, No. 43, New York, 1966.

	D-W	$\bar{R}^2$	F-ratio
$(.814)\ (XAGR) = .1662(GDPAGR);$ $\qquad (.0047)$	2.658;	.699;	9.290
$= 1.6118 + 0.1546(GDPAGR);$ $\quad (.740)\quad (.058)$	2.754;	.604;	7.103
$\log(.814(XAGR)) = -0.5838 + 0.9084 \log(GDPAGR);$ $\qquad (.0135)\ (0.322)$	2.719;	.635;	7.959

16. Agricultural exports were projected independently on a commodity-by-commodity basis as explained in Annex A. These projections and the equations relating total exports to $(GDPFAC)_{agr\ \&\ manu}$ were used for the projection exercise. In the reduced form analysis, however, an attempt was made to get a better idea of the differential impact of individual sectors on exports. Therefore, the equations relating manufactured and agricultural exports to the value added in those sectors were used as first approximations. The results were adjusted roughly to take account of inter-industry flows between agriculture and manufacturing sectors. Only about 85 percent of the FOB value of agricultural exports and 75 percent of the FOB value of manufacturing exports has been apportioned into the contributing sectors. To obtain a complete picture of the proportion of final value contributed by each sector - in particular to quantify the contribution of sectors other than agriculture and manufacturing - one would need a detailed input-output table.

17. F. Imports and Exports of Services consist mainly of freight, transportation, insurance and similar items. Most of these arise from the movement of goods in import and export trade. Service payments and receipts of a given year were, therefore, made to depend on the total value of imports and exports of goods in that year.

	D-W	$\bar{R}^2$	F-ratio
$(XSERVC) = 0.158\ (MGOODS + XGOODS);$ $\qquad (0.003)$	0.903;	.924;	60.603
$= -5.163 + 0.187\ (MGOODS + XGOODS);$ $\quad (0.465)\ (0.022)$	1.721;	.935;	73.388
$= 9.721 + 0.004(MGOODS+XGOODS)+.0001(MGOODS+XGOODS)^2$ $\quad (0.527)$	2.105;	.912;	28.674
$\log(XSERVC) = -1.236 + 1.193 \log(MGOODS + XGOODS);$ $\qquad (0.007)$	1,754;	.950;	95.548
$(MSERVC) = .0615(MGOODS + XGOODS);$ $\qquad (.0017)$	2.192;	.779;	17.614
$= 0.389 + .059\ (MGOODS + XGOODS);$ $\quad (0.334)\ (.0157)$	2.178;	.725;	14.184

	D-W	$\bar{R}^2$	F-ratio
$\log(MSERVC) = -1.026 + 0.917 \log(MGOODS + XGOODS)$; $(.0141)(0.249)$	2.083;	.715;	13.551

18. G. Earnings from and expenditures on international travel, current transfers and Government transactions (NES) were specified exogenously. Similarly, amortization of and interest on existing debt (including Kenya's share in EACSO's obligations) were available from debt tables compiled by the External Debt Section of the Bank.

19. H. It was assumed that Kenya should endeavour to maintain its foreign exchange reserves at four months' imports. Therefore,

$$\text{Provision for increased reserves} = (.33) \cdot (MGOODS)$$

Kenya's reserves will be around K£ 63 millions by the end of 1969, equivalent to about one third of total merchandise imports projected in 1974. In addition, Kenya will have access to about K£ 5 millions under the new Special Drawing Rights of the IMF. No provision has been made therefore, for an increase in reserves in the projections.

20. I. The foregoing items give one an initial estimate of the import-export gap that has to be financed. To this must be added interest and amortization obligations that arise from the new debt that is incurred to finance the initial gap. The easiest practical way to proceed is to classify new debt into a few broad categories - each of the categories having a representative interest rate, grace period and maturity. 1/ Two sets of assumptions are required to complete the exercise: assumptions specifying average interest rates, grace periods and maturities on different types of debt and, second, the share of each type of inflow in financing the total gap. For purposes of the 6-year projection exercise it was assumed that 55 percent of the gross inflow will be financed from official sources and 45 percent from private sources; and that 65 percent of the official inflow would be on IDA-type terms (0.75% interest, 10 years grace, 50 years maturity), and 35 percent on IBRD-type terms 7% interest, 5 years grace and 20 years maturity). Of the private inflow 55 percent was taken as direct investment and 45 percent as supplier's credits (the latter carrying 7.0% interest, one year grace and five years maturity).

21. If one's perspective is limited to six years only, marginal changes in these proportions or terms do not make too much difference to the cumulative totals of gross or net inflows. Of course, they do make a very considerable difference if the exercise is conducted for the next 20 or 25 years.

1/ Strictly speaking, average terms - even when they are weighted by the face value of loans - do not yield accurate estimates of interest or amortization liabilities. One can get nearer the true figures by disaggregating and using not - say - 3 or 4, but 8 or 10 types of inflows. We did not have sufficient information to do so.

Accordingly, greater attention was paid to the proportions and terms in the longer-term debt exercise. The consequences of varying the mix and the terms were worked out in detail.

22. J. A large number of subsidiary equations were also used for estimating other magnitudes in the economy. To obtain GDP at market prices, for example, estimates of indirect taxes are needed: separate functions were estimated for duties on imports of durable and nondurable consumer goods, intermediate goods and capital goods and for other indirect taxes. Trend equations of tax rates for each of these categories of indirect taxes were also estimated to discern significant changes. Similarly, equations relating gross output to value added were used to estimate the consequences for gross output of the value added targets of the plan and those projected here.

III. Reduced Form of Equations

23. The reduced form of structural equations listed above was used for projections covering the 6-year period: 1969-74. It is also instructive to look at the reduced form at a point of time. Tables 1, 2 and 3 give first derivatives of the reduced form in three versions. Each of these uses coefficients of the linear equations alone.

24. Table 1 shows the consequences of raising value added in a given sector by E1 million. Table 2 shows the consequences of raising the growth rate of a given sector by one percentage point and Table 3 shows the results of raising fixed investment in a sector by E1 million.

25. Each of the tables can be derived from the other in the following manner: Table 1 gives values of dY_t/dX_{it} where Y_t is the dependent variable and X_{it} is the independent variable (in this case GDP in the i'th sector); when linear equations ($Y_t = a + bX_{it}$) are being used this is simply 'b'. But $X_{it} = X_{io}(1+r_i)^t$. Therefore,

$$Y_t = a + bX_{io}(1+r_i/100)^t$$

and

$$\frac{dY_t}{dr_i} = \frac{b\ t\ X_{io}(1+r_i)^{t-1}}{100}$$

Thus, multiplying entries in Table 1 by $(t\ X_{io}(1+r)^{t-1}/100)$ yields Table 2. For Table 2, t has been taken as 3; i.e., Table 2 pertains to 1971 with 1968 as t_o. Entries in Table 3 can similarly be obtained by multiplying entries in Table 1 by the reciprocal of the sectoral capital-output ratio corrected for acceleration or deceleration of sectoral growth rates, as explained earlier.

IV. LIMITATIONS OF THE MODEL AND CONCLUSIONS

26. The model outlined above is an aid to and in no sense a substitute for vigorous economic analysis and evaluation. The equations listed above were used only for rough, initial calculations. Whenever more specific information was available - e.g., about investment in electricity generation or about export prospects of individual commodities - it was incorporated instead of the mechanical results that emerge from the equations.

27. The model outlined above is a simple one and has many shortcomings, some of which are given below:

(a) Available data did not permit a very elaborate specification of relations in the economy. It would have been useful, for example, to split up (GDMSAV) into household, corporate and Governmental saving. The investment estimates too are based only on a requirement's basis. No provision has been made for the role of expectations or of factors - like direct taxes - that affect them; these factors are obviously important in an economy where the private sector accounts for two-thirds of total capital formation. The absence of adequate employment data meant that employment functions could not be included in the model even though the employment problem is a crucial one in Kenya.

(b) Sectoral detail was introduced only for estimates of investment and imports of capital goods. The result is that the reduced form of the equations almost certainly overstate the import consequences of increments in GDP of sectors like agriculture. And in this sense, Tables 1, 2 and 3 should not be used uncritically. However, while estimates of the precise quantitative impact of expansion in different sectors are subject to considerable error, the ranking of the sectors is probably fairly reliable.

(c) Throughout, the raw series have been used to fit the functions. As most of them have pronounced trend components, the $\bar{R}^2$ are to some extent high just for this reason.

(d) Finally, there is the pervasive problem of the data base. Kenya's national accounts have been revised very considerably in the last few years. Both the capital formation and the GDP series have been revised upward by 15% to 20%. On the other hand, trade and balance of payments data have not been changed to any comparable extent. Obviously, national statistics have to be revised as and when new data or new information becomes available. However, one should also take note of the consequences. Consider the savings figures: these are derived as a residual, using data on capital formation and balance of payments; as the capital formation figures have been revised upwards by a considerable margin and as the balance of payments data have not, one gets very different savings coefficients today than one would for a comparable period using the old data. The same holds for import and export functions.

Given the state of the data base, national accounts will continue to be revised from time to time. Consequently, the coefficients should be regarded with reserve. The projections given in this report indicate only rough orders of magnitudes and should not be used for other than illustrative purposes.

Table 1: CONSEQUENCES OF RAISING GDP IN A SECTOR BY £1 MILLION

Dependent Variables	Agriculture	Mining & Quarrying	Manuf. & Repairing	Building and Construction	Electricity and Water	Transport, Storage & Comm.	Other Services
	Sector in which GDP is increased:						
I. Gross Fixed Investment	2.222	3.508	3.021	2.388	4.557	4.861	2.482
Stocks	.017	.017	.017	.017	.017	.017	.017
Gross Domestic Saving	.252	.252	.252	.252	.252	.252	.252
Net Factor Income Payments							
a. Interest on new debt/1	-.041	-.050	+.006	-.035	-.057	-.167	-.001
b. Other net factor payments	-.078	-.068	-.102	-.047	-.078	-.222	-.014
Gross National Saving	.133	.134	.156	.170	.117	-.137	.237
Investment-Saving Gap	-2.108	-3.391	-2.714	-2.235	-2.457	-5.015	-2.262
II. Imports of Capital Goods	-.903	-.907	-.604	-.550	-1.080	-3.640	-.175
Imports of Intermediate Goods	-.216	-.216	-.216	-.216	-.216	-.216	-
Imports of Consumer Goods	-.057	-.057	-.057	-.060	-.056	-.042	-.062
Total Imports of Goods	-1.176	-1.180	-.877	-.826	-1.352	-3.898	-.237
Exports of Goods	.463	-	.415	-	-	-	-
Imports of Services	-.097	-.074	-.078	-.052	-.086	-.246	-.016
Exports of Services	.306	.222	.241	.155	.254	.730	.044
Balance of Goods and Services	-.504	-1.032	-.299	-.723	-1.184	-3.414	-.209
Interest on new debt/1	-.028	-.050	-.018	-.035	-.057	-.167	-.001
Other Net Factor Payments	-.097	-.068	-.078	-.047	-.078	-.222	-.014
Current Account Balance	-.629	-1.150	-.397	-.805	-1.319	-3.803	-.224
Provision for Reserves	.020	.020	.015	.014	.023	.066	.004
Amortization of New Debt/1	.061	.117	.040	.082	.134	.387	.023
Import-Export Gap	-.710	-1.287	-.452	-.901	-1.576	-4.256	-.251

1/The reduced form expressions for interest and amortization are quite complicated depending as they do on the composition of inflows, the interest rate, and the grace and maturity periods of each type of inflow, the extent to which amortization continues to be financed by new borrowings, etc. In this table new interest payments have been taken as 4.5% of the (balance of goods and services plus other net factor payments plus provision for new reserves). Amortization has been taken as 10% of these items. These approximations are necessary only because the reduced form refers to a single point in time. No comparable difficulties arise in making actual projections over a number of years.

Table 2: CONSEQUENCES OF RAISING THE GROWTH RATE OF A SECTOR BY 1 PERCENT

Dependent Variables	Sector in which the rate of growth is increased						
	Agri-culture	Mining & Quarrying	Manuf. and Repairing	Building and Construction	Electricity and water	Transport, Storage & Communi-cation	Other Services
I. 1. Gross Fixed Investment	10.75	0.25	5.48	1.95	1.56	1.29	14.13
2. Stocks	0.08	+0.00	0.03	0.01	0.01	0.00	0.10
3. Σ 1+2	10.83	0.25	5.51	1.96	1.57	1.29	14.23
4. Gross Domestic Saving	1.22	0.02	0.46	0.21	0.09	0.07	1.44
5. Net Factor Income Payments							
a. Interest on new debt	-0.20	-0.00	0.01	-0.03	-0.02	-0.04	-0.01
b. Other Net Factor Payments	-0.38	-0.00	-0.18	-0.04	-0.03	-0.06	-0.08
6. Gross National Saving	0.64	0.02	0.27	0.14	0.04	-0.03	1.35
7. Investment-Saving Gap	10.19	0.23	5.24	1.82	1.53	1.32	12.88
II. 1. Imports of Capital Goods	-4.37	-0.07	-1.10	-0.45	-0.37	-0.97	-1.00
2. Imports of Intermediate Goods	-1.04	-0.02	-0.39	-0.18	-0.07	-0.06	-
3. Imports of Consumer Goods	-0.28	-0.00	-0.10	-0.05	-0.02	-0.01	-0.35
4. Total Imports of Goods	-5.69	-0.09	-1.59	-0.68	-0.46	-1.04	-1.35
5. Exports of Goods	2.24	-	0.75	-	-	-	-
6. Imports of Services	-0.47	-0.01	-0.14	-0.04	-0.03	-0.07	-0.09
7. Exports of Services	1.48	0.02	0.44	0.13	0.09	0.19	0.25
8. Balance of Goods & Services	-2.44	-0.08	-0.54	-0.59	-0.40	-0.92	-1.19
9. Interest on new debt	-0.14	-0.00	-0.33	-0.03	-0.02	-0.04	-0.01
10. Other Net Factor Payments	-0.47	-0.00	-0.14	-0.04	-0.03	-0.06	-0.08
11. Current Account Balance	-3.05	-0.08	-1.01	-0.66	-0.45	-1.02	-1.28
12. Provision for Reserves	0.10	0.00	0.03	0.01	0.01	0.18	0.02
13. Amortization of New Debt	0.29	0.01	0.07	0.07	0.05	0.10	0.13
14. Import-Export Gap	-3.44	-0.09	-1.11	-0.74	-0.51	-1.30	-1.43

Table 3: CONSEQUENCES OF RAISING SECTORAL INVESTMENT BY £1 MILLION

Dependent Variable	Sector in which fixed investment is increased: Agriculture	Mining & Quarrying	Manuf. & Repairing	Building and Con-struction	Electricity and Water	Transport, Storage & Comm.	Other Services
I. Gross Domestic Product	0.45	0.29	0.33	0.42	0.22	0.21	0.40
II. Gross Domestic Savings	0.11	0.07	0.08	0.11	0.06	0.05	0.10
Net Factor Income Payments							
a. Interest on new debt	-0.02	-0.01	+0.00	-0.01	-0.01	-0.03	-0.00
b. Other net factor payments	-0.04	-0.02	-0.03	-0.02	-0.02	-0.05	-0.01
Gross National Savings	0.05	0.04	-0.05	0.08	0.03	-0.03	0.09
Investment-Savings Gap	0.95	0.96	0.95	0.92	0.97	1.03	0.91
III. Imports of Capital Goods	-0.41	-0.26	-0.20	-0.23	-0.24	-0.75	-0.07
Imports of Intermediate Goods	-0.10	-0.06	-0.07	-0.09	-0.05	-0.04	-
Imports of Consumer Goods	-0.03	-0.02	-0.02	-0.03	-0.01	-0.01	-0.02
Total Imports of Goods	-0.54	-0.34	-0.29	-0.35	-0.30	-0.80	-0.09
Exports of Goods	0.21	-	0.14	-	-	-	-
Imports of Services	-0.04	-0.02	-0.02	-0.02	-0.02	-0.05	-0.01
Exports of Services	0.14	0.06	0.08	0.65	0.06	0.15	0.02
Balance of Goods and Services	-0.23	-0.30	-0.09	0.28	-0.26	-0.70	-0.08
Interest on New Debt	-0.01	-0.01	-0.01	-0.01	-0.01	-0.03	-0.00
Other Net Factor Payments	-0.10	-0.02	-0.03	-0.02	-0.02	-0.05	-0.01
Current Account Balance	-0.34	-0.33	-0.13	0.25	-0.29	-0.78	-0.09
Provision for Reserves	0.01	0.01	+0.00	0.01	0.01	0.01	+0.00
Amortization of New Debt	0.06	0.03	-0.01	0.03	0.03	0.08	0.01
Import-Export Gap	-0.41	-0.37	-0.14	0.21	-0.33	-0.86	-0.10

APPENDIX 5

EXTERNAL PUBLIC DEBT PROJECTIONS

Projection of Gaps for Debt Exercise

1. The Gap for 1970-74 The gap to be filled by foreign inflows for 1970-74 was estimated from a seven sector model of the Kenyan economy. 1/ The implicit growth rate of exports of goods and services (excluding tourism) is 5.8 percent and of imports 7.6 percent per annum. Consequently the net imports of goods and services (excluding tourism) is projected to almost double over the period (Table A attached). Net earnings from tourism are taken to increase at about 19 percent per annum. Other factor income payments are projected from the relationship of the model, while interest and amortization on existing debt is taken directly from available debt statistics. It has been assumed that a reserve requirement equal to four months imports would be adequate and given the present level of Kenya's reserves, no allowance for reserve accumulation has been assumed to 1974. In line with the assumption that private equity investment will meet a higher proportion of the capital requirement than has been the case in the past, allowance has been made for capital repatriation corresponding to an assumption of a 15 percent rate of return on direct investment. The net requirement for external loan capital derived from these assumptions increases by about 50 percent over the Plan period.

2. The Gap for 1975-85. Two alternative gaps for foreign borrowing have been projected for 1975-85. Alternative A (Table B) projects the same rates of growth for exports, imports, etc. as have been assumed for the Plan period 1970-74. Alternative B assumes a growth of tourism of 10% per annum instead of the 14% per annum growth assumed for the Plan period (and for alternative A). In alternative B other elements in the projection are assumed identical to alternative A. The net requirements for external finance under each alternative are shown in Table B.

3. The debt projections calculate the total debt service for gaps A and B under alternative assumptions as to the terms of the capital inflow. 2/ The first assumption on terms (mix 1) is that the net inflow requirement is met from private equity investment (25%), suppliers credits (20%), Bank-type lending (20%), and capital on IDA terms (35%). In mix 2 Bank-type lending is taken to account for 35% of the capital inflow and IDA-type lending for 20%, the proportions for private equity investment and suppliers credits remaining unchanged. The debt service ratios arising from these alternative projections are set out in Table C.

1/ See Appendix 4.

2/ Terms assumed:

	Maturity	Grace Period	Interest
Suppliers Credits	5 years	1 year	7.0%
Bank Type	20 years	5 years	7.0%
IDA Type	50 years	10 years	0.75%

Table A: PROJECTION OF FOREIGN EXCHANGE GAP: 1970-74

K£ million

		1970	1971	1972	1973	1974
1.	Net Imports of Goods and Services	24.73	28.75	34.42	38.25	44.41
2.	Net Tourism Earnings	13.38	15.95	19.13	22.38	26.37
3.	Net Transfers	4.50	4.50	4.20	4.20	4.50
4.	Other Factor Income Paymemts	9.26	10.35	11.27	12.32	13.32
5.	Interest and Amortization Existing Debt	11.81	9.71	8.57	8.86	9.66
6.	Repatriation of Long-Term Private Capital	8.00	8.50	8.50	9.00	9.00
7.	Requirement for External Finance (1-2-3+5+6)	35.92	36.86	39.43	41.85	45.52
8.	Disbursement of Existing Undisbursed Debt	4.80	1.60	0.80	0.80	0.40
9.	Net Requirement for External Loan Capital	31.12	35.26	38.63	41.05	45.12

Source: Mission Estimates

Table B: PROJECTION OF FOREIGN EXCHANGE GAP: 1975-1985 (KL Millions)

Alternative A

		1975	1980	1985
1.	Net Imports of Goods and Services	50.36	89.90	151.71
2.	Net Tourism Earnings	30.91	65.81	134.38
3.	Net Transfers	4.50	4.50	4.50
4.	Other Factor Income Payments	14.25	19.98	28.02
5.	Interest and Amortization Existing Debt	10.93	6.99	5.42
6.	Repatriation of Long-term Private Capital	15.00	25.00	35.00
7.	Net Requirement for External Finance (1-2-3+4+5+6)	55.13	71.56	81.27

Alternative B

		1975	1980	1985
1.	Net imports of Goods and Services	50.36	89.90	151.71
2.	Net Tourism Earnings	29.51	51.04	86.60
3.	Net Transfers	4.50	4.50	4.50
4.	Other Factor Income Payments	14.25	19.98	28.02
5.	Interest and Amortization Existing Debt	10.93	6.99	5.42
6.	Repatriation of Long-term Private Capital	15.00	25.00	35.00
7.	Net Requirement for External Finance (1-2-3+4+5+6)	56.53	86.33	129.05

Source: Mission Estimates.

Table C: PROJECTED DEBT SERVICE RATIO

	1970	1974	1975	1980	1985
Gap Projection: Alternative A					
Terms:					
Mix 1	8%	10%	11%	12%	14%
Mix 2	8%	11%	12%	15%	18%
Gap Projection: Alternative B					
Terms:					
Mix 1	8%	10%	11%	13%	18%
Mix 2	8%	11%	12%	17%	24%

Source: Mission Estimates.

APPENDIX 6

STATISTICAL TABLES

INDEX

E. Money and Banking

24. Supply of Money, 1963-1968.
25. Assets and Liabilities of the Commercial Banks, 1964-1968.
26. Cash, Liquidity and Advances/Deposits Ratios of the Commercial Banks, 1963-68.
27. Assets and Liabilities of the Central Bank of Kenya, 1967, 1968 and April 30, 1969.

F. Output in Selected Sectors

28. Analysis of Gross Farm Revenue, 1964-1968.
29. Quantity Index of Manufacturing Production by Industry, 1963-1968.
30. Generation, Imports and Sales of Electricity by Type of User, 1964-1968.
31. Migration and Tourism, 1967 and 1968.
32. Transport, Storage and Communications, Value of Sales, 1963-1968.

G. Public Finance

33. Contribution of the Public Sector to Gross Domestic Product, 1964-1968.
34. Summary of Central Government Accounts (Economic Analysis), 1962/63-1967/68.
35. Economic Analysis of Current and Capital Revenues, 1962/63-1967/68.
36. Economic Analysis of Current and Development Expenditures, 1962/63-1967/68.
37. Functional Analysis of Current Revenue, 1963/64-1969/70. (Estimates).
38. Functional Analysis of Development Revenue, 1963/64- 1969/70. (Estimates)
39. Functional Analysis of Current Expenditure, 1963/64-1968/69 (Estimates).
40. Functional Analysis of Development Expenditure, 1963/64-1969/70 (Estimates).
41. Economic Analysis of East African Community Expenditure in Kenya 1963/64-1967/68.
42. Functional Analysis of East African Community Expenditure in Kenya, 1963/64-1967/68.
43. Revenues and Expenditures of Municipalities and Local Authorities, 1964-1968.

H. Social Services

44. Enrollment in Primary and Secondary Schools, 1964-1968.
45. University College, Nairobi, Enrollment of Kenyan Students, 1964/65-1968-69.
46. Hospital Beds Available and Number of Medical Practitioners and Dentists, 1964-1968.

I. Other

47. Comparison of 1964-70 Planned Targets (Adjusted) against Performances Achieved, 1964-1968 at Constant Prices.

J. <u>1969-74 Development Plan</u>

Table 1: KENYA - EXTERNAL PUBLIC DEBT OUTSTANDING AS OF DECEMBER 31, 1968 /1

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

Source	Debt Outstanding December 31, 1968	
	Disbursed only	Including undisbursed
TOTAL EXTERNAL PUBLIC DEBT	254,588	343,152
Privately held debt	65,159	65,811
Publicly issued bonds /2	51,257	51,257
Suppliers	6,794	7,047
Germany	6,794	6,879
United Kingdom	-	168
Financial institutions	6,252	6,650
United Kingdom	6,154	6,552
United States	98	98
Privately placed bonds	857	857
Loans from international organizations	19,738	51,227
African Development Bank	144	2,299
IBRD /3	4,107	6,328
IDA	15,487	42,600
Loans from governments	169,691	226,114
Denmark	-	2,667
Germany	10,285	12,169
Israel	1,524	1,986
Italy	7,520	7,520
Sweden	-	3,673
U.S.S.R.	457	457
United Kingdom	136,478	181,123
United States	13,427	16,520

/1 Debt with an original or extended maturity of one year or more.
/2 Net of accumulated sinking funds of $29,282,000.
/3 Guaranteed by U.K. Government.

Statistical Services Division
Economics Department
June 9, 1969

Table 2: KENYA - ESTIMATED FUTURE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1968

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
	TOTAL EXTERNAL PUBLIC DEBT			
1969	332,106	7,682	11,731	19,413
1970	323,156	15,886	11,663	27,549
1971	305,942	8,953	10,989	19,941
1972	295,854	9,711	10,459	20,170
1973	285,122	10,769	10,052	20,821
1974	273,275	12,343	9,618	21,962
1975	259,791	12,532	9,184	21,716
1976	246,044	14,374	8,751	23,124
1977	230,378	12,493	8,203	20,696
1978	216,592	28,790	6,903	35,692
1979	186,999	11,322	5,589	16,911
1980	175,409	11,555	5,199	16,753
1981	163,568	11,716	4,795	16,511
1982	151,546	14,887	4,133	19,020
1983	136,498	11,047	3,479	14,526

Note: Includes service on all listed in Table 1 prepared June 9, 1969 with the exception of the following, for which repayment terms are not available:

Financial institutions (U.K.)	$ 1,015,000
Loans from governments	
Israel	462,000
United Kingdom	9,570,000
	$11,047,000

Table 2: KENYA - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1968

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
		PRIVATELY-HELD DEBT		
1969	64,796	2,478	4,113	6,590
1970	61,050	9,982	3,975	13,957
1971	49,740	2,763	3,408	6,171
1972	45,842	2,230	3,131	5,361
1973	42,591	2,191	3,030	5,220
1974	39,323	2,807	2,917	5,724
1975	35,376	2,088	2,807	4,895
1976	32,073	3,548	2,708	6,256
1977	27,233	1,679	2,491	4,170
1978	24,262	17,920	1,499	19,419
1979	5,538	202	555	757
1980	5,068	202	548	750
1981	4,579	202	541	743
1982	4,071	3,622	280	3,903
1983	288	-	23	23

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	AMORTIZATION	INTEREST	TOTAL
		PUBLICLY-ISSUED BONDS		
1969	51,257	990	3,234	4,225
1970	48,998	8,660	3,178	11,838
1971	39,010	1,401	2,719	4,120
1972	36,474	702	2,531	3,234
1973	34,750	706	2,527	3,233
1974	32,967	1,317	2,512	3,830
1975	30,509	594	2,501	3,094
1976	28,700	2,066	2,501	4,566
1977	25,343	550	2,380	2,930
1978	23,500	17,820	1,444	19,263
1979	4,877	101	507	608
1980	4,508	101	507	608
1981	4,120	101	507	608
1982	3,712	3,552	254	3,805

Table 2: KENYA - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1968

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
		PRIVATELY-HELD DEBT		
		SUPPLIERS		
1969	7,047	821	492	1,313
1970	6,226	652	440	1,092
1971	5,574	688	373	1,061
1972	4,886	850	325	1,175
1973	4,037	808	269	1,076
1974	3,229	808	212	1,020
1975	2,422	808	156	963
1976	1,614	808	99	907
1977	807	807	43	849

		FINANCIAL INSTITUTIONS		
1969	5,635	626	319	944
1970	5,009	629	292	922
1971	4,380	633	255	888
1972	3,747	637	217	854
1973	3,110	637	179	816
1974	2,473	641	141	783
1975	1,832	646	103	749
1976	1,186	634	64	698
1977	552	281	27	308
1978	270	60	17	77
1979	210	60	13	73
1980	150	60	9	69
1981	90	60	5	65
1982	30	30	1	31

Table 2: KENYA - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1968

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
	PRIVATELY-HELD DEBT			
	PRIVATELY PLACED BONDS			
1969	857	41	68	108
1970	816	41	64	105
1971	776	41	61	102
1972	735	41	58	99
1973	694	41	55	95
1974	654	41	51	92
1975	613	41	48	89
1976	572	41	45	86
1977	532	41	42	82
1978	491	41	38	79
1979	451	41	35	76
1980	410	41	32	73
1981	369	41	29	69
1982	329	41	25	66
1983	288	-	23	23
	LOANS FROM INTERNATIONAL ORGANIZATIONS			
1969	51,227	1,138	476	1,614
1970	50,089	1,264	556	1,820
1971	48,825	389	573	962
1972	48,436	408	567	975
1973	48,028	419	551	970
1974	47,610	469	535	1,004
1975	47,141	540	510	1,050
1976	46,601	612	510	1,122
1977	45,989	758	508	1,266
1978	45,231	872	478	1,351
1979	44,358	966	446	1,412
1980	43,393	988	413	1,400
1981	42,405	1,010	377	1,387
1982	41,395	544	348	892
1983	40,851	572	339	911

Table 2: KENYA - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1968

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
		LOANS FROM INTERNATIONAL ORGANIZATIONS		
		AFRICAN DEVELOPMENT BANK		
1969	2,299	-	25	25
1970	2,299	59	97	156
1971	2,240	118	111	228
1972	2,122	118	105	223
1973	2,004	118	99	217
1974	1,887	118	93	211
1975	1,769	118	87	205
1976	1,651	118	81	199
1977	1,533	118	75	193
1978	1,415	118	69	187
1979	1,297	118	63	181
1980	1,179	118	57	175
1981	1,061	118	52	169
1982	943	118	46	164
1983	825	118	40	158

		IBRD		
1969	6,328	1,138	347	1,485
1970	5,190	1,205	280	1,485
1971	3,985	271	225	496
1972	3,714	290	210	500
1973	3,424	301	192	493
1974	3,123	323	175	498
1975	2,800	334	156	490
1976	2,466	356	137	493
1977	2,110	378	116	494
1978	1,732	400	94	494
1979	1,332	422	70	492
1980	910	444	46	490
1981	466	466	20	486

Table 2: KENYA - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1968

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
	LOANS FROM INTERNATIONAL ORGANIZATIONS			
	IDA			
1969	42,600	-	103	103
1970	42,600	-	179	179
1971	42,600	-	237	237
1972	42,600	-	252	252
1973	42,600	-	261	261
1974	42,600	28	267	295
1975	42,572	88	267	355
1976	42,484	138	292	430
1977	42,346	262	317	579
1978	42,084	355	315	670
1979	41,730	426	312	738
1980	41,304	426	309	735
1981	40,878	426	306	732
1982	40,452	426	303	729
1983	40,026	454	299	753

	LOANS FROM GOVERNMENTS			
1969	216,083	4,066	7,143	11,209
1970	212,017	4,640	7,132	11,772
1971	207,377	5,801	7,007	12,809
1972	201,576	7,073	6,761	13,834
1973	194,502	8,160	6,471	14,631
1974	186,342	9,068	6,166	15,234
1975	177,275	9,905	5,868	15,772
1976	167,370	10,214	5,532	15,746
1977	157,157	10,057	5,203	15,260
1978	147,100	9,997	4,925	14,922
1979	137,103	10,154	4,588	14,742
1980	126,949	10,365	4,238	14,603
1981	116,584	10,504	3,877	14,381
1982	106,080	10,720	3,505	14,225
1983	95,360	10,475	3,116	13,591

Table 2: KENYA - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1968

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
		LOANS FROM GOVERNMENTS		
		DENMARK		
1969	2,667	-	-	-
1970	2,667	-	-	-
1971	2,667	-	-	-
1972	2,667	-	-	-
1973	2,667	-	-	-
1974	2,667	-	-	-
1975	2,667	73	-	73
1976	2,593	147	-	147
1977	2,447	147	-	147
1978	2,300	147	-	147
1979	2,153	147	-	147
1980	2,007	147	-	147
1981	1,860	147	-	147
1982	1,713	147	-	147
1983	1,567	147	-	147

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
		GERMANY		
1969	12,169	716	339	1,056
1970	11,453	716	323	1,039
1971	10,737	716	306	1,022
1972	10,021	862	286	1,148
1973	9,159	1,064	254	1,318
1974	8,095	1,081	217	1,298
1975	7,014	1,139	211	1,350
1976	5,875	1,139	172	1,311
1977	4,736	781	134	915
1978	3,955	423	114	537
1979	3,532	423	102	525
1980	3,109	423	39	512
1981	2,686	423	76	499
1982	2,263	361	64	425
1983	1,902	361	53	414

Table 2: KENYA - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1968

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
		LOANS FROM GOVERNMENTS		
		ISRAEL		
1969	1,524	109	46	155
1970	1,415	218	82	299
1971	1,197	218	69	286
1972	980	218	56	273
1973	762	218	42	260
1974	544	218	29	247
1975	327	218	16	234
1976	109	109	3	112

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
		ITALY		
1969	7,520	537	338	876
1970	6,983	537	314	851
1971	6,446	537	290	827
1972	5,909	537	266	803
1973	5,371	537	242	779
1974	4,834	537	218	755
1975	4,297	537	193	731
1976	3,760	537	169	706
1977	3,223	537	145	682
1978	2,686	537	121	658
1979	2,149	537	97	634
1980	1,611	537	73	610
1981	1,074	537	48	585
1982	537	537	24	561

Table 2: KENYA - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1968

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
		LOANS FROM GOVERNMENTS		
		SWEDEN		
1969	3,673	-	-	-
1970	3,673	-	-	-
1971	3,673	-	-	-
1972	3,673	-	-	-
1973	3,673	-	-	-
1974	3,673	-	8	8
1975	3,673	-	10	10
1976	3,673	-	11	11
1977	3,673	-	13	13
1978	3,673	18	14	33
1979	3,654	37	16	52
1980	3,618	37	17	53
1981	3,581	37	18	54
1982	3,544	37	19	55
1983	3,508	37	20	56

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
		USSR		
1969	457	42	11	53
1970	415	42	10	52
1971	374	42	9	51
1972	332	42	8	50
1973	291	42	7	49
1974	249	42	6	48
1975	208	42	5	47
1976	166	42	4	46
1977	125	42	3	45
1978	83	42	2	44
1979	42	42	1	43

Table 2: KENYA - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1968

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTIZATION	INTEREST	TOTAL
		LOANS FROM GOVERNMENTS		
		UNITED KINGDOM		
1969	171,554	2,152	6,149	8,302
1970	169,402	2,617	6,154	8,771
1971	166,785	3,779	6,076	9,855
1972	163,006	4,905	5,897	10,802
1973	158,101	5,789	5,686	11,475
1974	152,312	6,680	5,457	12,137
1975	145,632	7,386	5,211	12,596
1976	138,246	7,675	4,954	12,629
1977	130,571	7,941	4,691	12,632
1978	122,631	8,139	4,417	12,556
1979	114,492	8,274	4,133	12,407
1980	106,217	8,523	3,836	12,359
1981	97,694	8,659	3,527	12,186
1982	89,035	8,934	3,206	12,140
1983	80,101	9,222	2,868	12,091
		UNITED STATES		
1969	16,520	510	258	768
1970	16,010	510	249	759
1971	15,499	510	258	768
1972	14,989	510	249	759
1973	14,479	510	240	750
1974	13,969	510	231	741
1975	13,458	510	221	731
1976	12,948	566	217	783
1977	12,382	610	217	827
1978	11,773	691	257	948
1979	11,081	695	241	935
1980	10,387	698	224	922
1981	9,689	702	208	910
1982	8,987	705	192	897
1983	8,282	709	175	884

Statistical Services Division
Economics Department
June 9, 1969

Table 3: KENYA GOVERNMENT INTERNAL AND EXTERNAL PUBLIC DEBT, 1958-1968

K £ million

Year as at June 30	Total Debt[a/] External	Internal	Total	Total Sinking Fund at Market Value	Gross Annual Service Charges Amort.	Interest	Interest & Loan Repayment Receipts	Net Cost of Service Charges
1958	40.64	13.86	54.51	3.75	0.46	1.99	0.69	1.76
1959	39.81	17.61	57.42	4.39	0.51	2.09	1.24	1.36
1960	44.26	18.64	62.90	4.72	0.49	2.34	1.13	1.70
1961	51.32	17.85	69.17	5.33	0.67	2.73	1.51	1.89
1962	57.24	18.20	75.44	5.28	0.85	3.29	1.75	2.39
1963	64.95	18.04	82.99	6.67	1.00	3.66	1.83	2.83
1964	68.12	17.99	86.11	7.88	1.16	4.05	2.04	3.17
1965	76.91	18.53	95.44	9.05	1.95	4.41	2.82	3.54
1966	86.10	19.34	105.44	9.99	2.98	4.73	2.89	4.81
1967	91.11	27.49	118.60	11.22	3.08	5.25	3.60	4.73
1968	85.49[b/]	36.17	121.66	11.01	2.51	5.40	3.87	4.04

a/ Excluding short-term borrowing.

b/ The 1968 external figure is low because of the devaluation of sterling.

Source: Economic Survey, 1968

Table 4: POPULATION
(1,000)

(i) Distribution by Race

Race	1911	1921	1931	1948	1962	1967[a/]	1968[a/]
	Census Years						
African	-	-	-	5,251.1	8,365.9	9,651.0	9,941.0
Non-African							
Asian	11.7	25.3	43.6	97.6	176.6	192.0	182.0
European	3.1	9.6	16.8	29.6	55.7	42.0	42.0
Arab	9.1	10.1	12.1	24.1	34.0	39.0	40.0
Other	0.1	0.6	1.3	3.3	3.9	4.0	4.0
Total non-African	24.1	45.6	73.9	154.8	270.3	277.0	268.0
Total Population	...	...	...	5,405.9	8,636.2	9,948.0	10,209.●

a/ Estimated

(ii) Distribution by Area and Population Density by Provinces, 1962[b/]

Province	Land Area Sq. Km.	Estimated Population	Density No. per Sq. Km.
Coast	83,076	741.1	8.9
North Eastern	126,956	268.9	2.1
Eastern	154,605	1,556.9	10.1
Central	13,194	1,334.9	101.2
Nairobi (Extra-Provincial)	684	343.5	505.2
Rift Valley	170,219	1,739.8	10.2
Nyanza	12,531	1,634.1	130.4
Western	8,227	1,014.5	123.3
Total (including persons in transit)	569,491	8,636.2	15.2

b/ Figures shown in this table represent population totals as enumerated in the 1962 Census, but have been adjusted for provincial boundary changes made since 1963.

Source: Statistical Abstracts.

Table 5: INDUSTRIAL DISTRIBUTION OF WAGE EMPLOYMENT, 1965-68 1/

thousands

	1965	1966	1967	1968 2/	Percentage change 1965-68
Private Sector					
Agriculture and forestry	202.4	188.1	172.7	173.0	- 14.5
Mining and quarrying	2.3	2.3	2.4	2.9	+ 26.1
Manufacturing and repairing	52.1	52.4	56.8	58.2	+ 11.7
Building and construction	8.7	10.3	17.4	18.1	+108.0
Electricity and water	2.5	2.7	2.8	2.7	+ 8.0
Commerce	46.5	46.1	43.5	40.1	- 13.8
Transport and communications	12.0	14.8	18.1	18.0	+ 50.0
Other services	75.7	79.3	74.9	73.8	- 2.3
Total Private Sector	402.2	396.0	388.6	386.8	- 3.8
Public Sector					
Kenya Government	85.1	93.5	94.9	99.1	+ 16.5
Statutory boards	n.a.	n.a.	13.4	14.1	-
E.A. common services	34.5	36.7	36.1	36.0	+ 4.3
Local authorities	59.4	60.2	59.8	63.1	+ 6.2
Others	9.2	10.0	7.9	9.6	+ 1.4
Total Public Sector	188.2	200.4	212.1	221.9	+ 17.4
Total Wage Employment	590.4	596.4	600.6	608.7	+ 3.1

1/ Defined to include employment in the towns, on large-scale farms and in modern forestry enterprises.

2/ Provisional figures

Source: Economic Survey, 1969.

Table 6: ESTIMATED ANNUAL EARNINGS FROM EMPLOYMENT, 1965-68

	Total Earnings (K£ millions)				Average Earnings per Employee			
Private Sector	1965	1966	1967	1968*	1965	1966	1967	1968*
Agriculture and forestry	13.1	12.9	11.7	12.3	64.7	68.6	67.7	71.1
Mining and quarrying	0.4	0.5	0.7	0.7	173.9	217.4	291.7	241.4
Manufacturing and repairing	12.6	15.1	16.8	18.9	241.8	288.2	295.8	324.7
Building and construction	1.7	2.7	4.2	4.6	195.4	262.2	241.4	254.1
Electricity and water	1.1	1.2	1.2	1.4	440.4	444.4	428.6	518.5
Commerce	19.1	20.1	21.3	20.9	410.8	436.0	489.7	521.2
Transport and communication	4.0	5.0	7.1	6.3	333.3	337.8	392.3	350.0
Other	11.0	11.7	14.3	14.9	273.1	289.4	296.6	302.4
Total Private Sector	62.8	69.2	77.3	80.0	193.4	213.3	233.4	241.5
Public Sector								
Kenya Government	22.8	26.2	27.1	29.4	267.9	280.2	285.6	296.7
Statutory boards	n.a.	n.a.	3.4	3.9	-	-	253.7	276.6
Local authorities	11.6	12.0	14.2	14.5	195.3	199.3	237.4	229.8
E.A. common services	13.8	16.1	15.3	15.9	400.0	438.7	423.8	441.7
Others	3.2	3.7	3.0	3.5	347.8	370.0	379.7	402.3
Total Public Sector	51.4	58.0	62.9	67.1	273.1	289.4	296.6	302.4
TOTAL EARNINGS	114.2	127.2	140.2	147.0	193.4	213.3	233.4	241.5

* Provisional figures

Source: Economic Survey, 1969

Table 7: INDICES OF CONSUMER PRICES (EXCLUDING RENT), NAIROBI, DECEMBER 1960-68

(Base year 1964 = 100)

(a) Wage-Earners' Index[1/]

	Base Weight	1960	1961	1962	1963	1964	1965	1966	1967	1968
Food	671	101	104	105	101	100	114	116	119	119
Beverages and tobacco	79	81	82	97	99	100	105	107	110	113
Clothing and footwear	79	101	102	101	101	100	103	103	102	106
Fuel and light	52	82	88	88	96	100	100	101	103	107
Household operation	53	110	108	102	104	100	115	128	131	133
Personal health and care	19	82	82	83	100	100	35	37	40	39
Recreation & entertainment	11	84	84	84	84	100	100	100	117	117
Transport	26	87	87	100	100	100	100	100	100	100
Miscellaneous	10	42	54	54	100	100	100	100	100	100
ALL GROUPS	1,000	96	98	101	101	100	107	110	112	113

(b) Middle-Income Index[2/]

	Base Weight	1964	1965	1966	1967	1968
Food	409	100	108	112	116	115
Beverage and tobacco	106	100	105	104	109	111
Clothing and footwear	120	100	102	107	113	115
Furniture and utensils	62	100	100	109	108	108
Fuel, light and water	44	100	100	102	106	113
Household operation	43	100	101	108	106	107
Personal care and health	37	100	48	50	53	53
Recreation and entertainment	24	100	100	111	111	111
Transport and travel	98	100	104	111	113	113
Miscellaneous	57	100	99	99	99	100
ALL GROUPS	1,000	100	102.2	105.9	109.6	110.4

1/ Wage-earners are those earning less than approximately K Sh. 350 ($49) per month.

2/ Middle-income persons are those earning between £ 200 ($560) and £ 750 ($2,100) a year.

Source: Statistical Abstract, 1968.

Table 8: IMPORT AND EXPORT QUANTITY, PRICE, VALUE, AND TERMS OF TRADE INDICES, 1960-1968

Old Series 1954 = 100

	Net Imports			External Exports			Terms of Trade
	Quantity	Price	Value	Quantity	Price	Value	
1960	105	110	116	195	88	172	80
1961	114	100	114	204	84	172	84
1962	112	104	116	219	82	180	79
1963	111	110	122	250	85	213	77
1964	115	110	127	254	86	218	78
1965	132	112	148	257	85	218	76
1966	165	112	185	318	85	270	76
1967	156	113	176	310	80	248	71

New Series 1964 = 100

	External Trade			Common Market Trade			Total Trade		
	Export Prices	Import Prices	Terms of Trade	Export Prices	Import Prices	Terms of Trade	Export Prices	Import Prices	Terms of Trade
1964	100	100	100	100	100	100	100	100	100
1965	99	102	97	102	109	94	100	103	97
1966	99	102	97	105	106	99	101	103	98
1967	93	102	91	110	104	106	99	103	96
1968	95	103	92	109	108	101	100	104	96

Sources: Statistical Abstracts

Statistics Division of Ministry of Economic Planning and Development

Table 9: GDP AT FACTOR COST BY INDUSTRIAL ORIGIN AT CURRENT PRICES
1963-1968
(Revised Series)

K £ million

	1963 a/	1964	1965	1966	1967	1968b/
Monetary and Non-monetary						
Agriculture	123.20	125.33	110.32	138.53	139.71	142.35
Forestry	3.44	3.87	4.10	4.46	5.44	6.03
Fishing	1.00	0.96	1.12	1.36	1.32	1.41
Sub-total	127.64	130.16	115.54	144.35	146.47	149.79
Mining and Quarrying . . .	1.63	1.46	1.35	1.61	2.04	2.19
Manufacturing and Repairing .	28.86	33.74	37.45	41.90	45.19	49.05
Building and Construction . .	11.55	12.63	13.40	16.74	20.34	21.78
Electricity and Water . .	4.37	6.93	7.24	7.81	9.21	10.07
Transport,Storage,Communication	24.56	25.14	27.62	31.78	33.44	35.86
Wholesale and Retail Trade . .	30.87	32.98	35.00	39.24	40.15	44.24
Banking,Insurance,Real Estate	10.59	11.60	12.85	14.16	15.14	16.41
Ownership of Dwellings . .	18.22	18.87	19.57	20.92	22.50	24.11
Other Services	10.96	11.90	13.44	14.37	15.36	16.62
Sub-total	141.61	155.25	167.92	188.53	203.37	220.33
Private Households (Domestic Services)	2.76	2.94	3.28	3.54	3.73	3.56
Public Administration . .	15.95	16.85	17.20	17.98	18.52	19.46
Defense	1.45	2.19	2.74	3.46	4.02	3.89
Education	6.89	11.20	10.30	11.27	13.95	16.04
Health	3.86	4.69	4.61	5.73	6.32	6.91
Agricultural Services . . .	4.04	4.41	4.74	5.03	4.59	5.07
Other Government Services . .	3.02	3.66	4.16	5.14	5.72	5.69
Total-General Government .	35.22	43.00	43.75	48.61	53.12	57.05
Total GDP at Factor Cost . .	307.23	331.35	330.49	385.03	406.69	430.73
Non-Monetary Economy						
Agriculture	71.40	73.36	63.57	82.19	85.19	84.96
Forestry	1.77	1.99	2.14	2.42	2.84	3.11
Fishing	0.11	0.11	0.12	0.15	0.14	0.15
Building and Construction . .	4.80	5.81	6.35	7.30	7.95	8.65
Water	1.88	2.09	2.21	2.47	2.89	3.12
Ownership of Dwellings . .	4.80	5.53	6.10	7.00	8.17	8.98
Total Non-Monetary Economy . .	84.76	88.89	80.49	101.53	107.18	108.97
Non-Monetary as % of Total . .	27.6%	26.8%	24.4%	26.4%	26.4%	25.3%
Total Monetary Economy . .	222.47	242.46	250.00	283.50	299.51	321.76

a/ Extrapolation backwards by Mission. b/ Provisional.
Source: Statistics Division of Ministry of Economic Planning and Development.

Table 10: GDP AT FACTOR COST BY INDUSTRIAL ORIGIN AT CONSTANT 1964 PRICES, 1964-1968 (New Series)

K ₤ million

	1964	1965	1966	1967	1968[a]
Monetary and Non-Monetary					
Agriculture	125.33	112.74	139.49	141.59	149.05
Forestry	3.87	3.96	4.04	4.48	4.76
Fishing	0.96	0.98	1.25	1.20	1.29
Sub-total	130.16	117.68	144.78	147.27	155.10
Mining and Quarrying	1.46	1.41	1.38	1.37	1.44
Manufacturing and Repairing	33.74	35.56	37.76	39.21	42.11
Building and Construction	12.63	13.01	14.95	16.19	16.81
Electricity and Water	6.93	7.00	7.04	7.68	7.90
Transport, Storage, Communication	25.14	28.79	32.47	36.11	38.66
Wholesale and Retail Trade	32.98	34.54	38.37	38.42	42.63
Banking, Insurance, Real Estate	11.60	12.99	14.17	14.93	16.17
Ownership of Dwellings	18.87	19.24	19.59	19.94	20.70
Other Services	11.90	12.92	14.74	15.76	17.34
Sub-total	155.25	165.46	180.47	189.61	203.76
Private Households (Domestic Services)	2.94	3.15	3.39	3.65	3.73
Public Administration	16.85	16.97	18.04	17.38	18.34
Defense	2.19	2.74	3.34	3.63	3.92
Education	11.20	12.47	14.22	17.35	19.22
Health	4.69	5.75	7.03	7.40	7.77
Agricultural Services	4.41	4.69	5.15	4.51	4.81
Other Government Services	3.66	4.14	4.96	5.27	5.42
Total General Government	43.00	46.76	52.72	55.53	59.48
Total GDP at Factor Cost	331.35	333.05	381.36	396.06	422.07
Non-Monetary Economy					
Agriculture	73.36	63.47	80.59	84.15	87.14
Forestry	1.99	2.03	2.10	2.17	2.23
Fishing	0.11	0.12	0.14	0.14	0.15
Building and Construction	5.81	6.08	6.43	6.29	6.56
Water	2.09	2.12	2.15	2.18	2.20
Ownership of Dwellings	5.53	5.83	6.16	6.46	6.82
Total Non-Monetary Economy	88.89	79.65	97.57	101.39	105.10
Non-Monetary as % of Total	26.8%	24.0%	25.6%	25.6%	24.9%
Total Monetary Economy	242.46	253.40	283.79	294.67	316.97

a/ Provisional

Source: Statistics Division of Ministry of Economic Planning and Development

Table 11: GDP AND GNP AT FACTOR COST AND MARKET PRICES, TOTAL USE OF RESOURCES, 1963-1968 (At Current Prices)

K£ Millions

	1963	1964	1965	1966	1967	1968 a/
GDP at factor cost	307.2	331.4	330.5	385.0	406.7	430.7
+ Indirect taxes	23.3	25.0	27.0	30.8	34.7	35.8
- Subsidies	- 0.6	- 0.4	- 0.5	- 0.7	- 1.6	- 2.5
= GDP at market prices	329.9	356.0	357.0	415.1	439.8	464.0
- Net factor income payments abroad b/	-6.9	-7.1	-6.6	-6.4	-8.6	-4.3
= GNP at market prices	323.0	348.9	350.4	408.7	431.2	459.7
- Indirect taxes less subsidies	-22.7	-24.6	-26.5	- 30.1	- 33.1	- 33.3
= GNP at factor cost	300.3	324.3	323.9	378.6	398.1	426.4
GDP at market prices	329.9	356.0	357.0	415.1	439.8	464.0
+ Import surplus c/	10.9	-14.7	-3.5	0.5	9.7	14.7
= Total Revenues available for investment consumption	340.8	341.3	353.5	415.6	449.5	478.7
- Gross Investment	-...	-47.4	-52.0	- 77.4	- 94.0	- 93.6
= Total Consumption	...	293.9	301.5	338.2	355.5	385.1
Of which - Private	...	(244.0)	(248.6)	(280.5)	(291.1)	(316.9)
- Public	...	(49.9)	(52.9)	(57.7)	(64.4)	(68.2)

---

a/ Provisional

b/ Excluding General Government Interest

c/ Balance of goods and non-factor services

Table 12: SECTORAL SHARES OF GDP AT FACTOR COST AND SECTORAL GROWTHRATES AT CONSTANT PRICES, 1964-1968[a/]

	Share of Total 1964	Compound Growth Rates 1964 to 1968	Annual Rate of Growth 1967 to 1968	Share of Total 1968
Monetary and Non-Monetary				
Agriculture	37.8	4.4	5.3	35.3
Forestry	1.2	5.3	6.3	1.1
Fishing	0.3	7.6	7.5	0.3
Sub-total	39.3	4.5	5.3	36.7
Mining and Quarrying	0.4	-0.3	5.1	0.3
Manufacturing & Repairing	10.2	5.7	7.4	10.0
Building and Construction	3.8	7.5	3.8	4.0
Electricity and Water	2.1	3.3	2.9	1.9
Transport, Storage and Communications	7.6	11.4	7.1	9.2
Wholesale & Retail Trade	10.0	6.6	11.0	10.1
Banking, Insurance and Real Estate	3.5	8.6	8.3	3.8
Ownership of Dwellings	5.7	2.3	3.8	4.9
Other Services	3.6	9.8	10.0	4.1
Sub-total	46.8	7.0	7.5	48.3
Private Households (Domestic Services)	0.9	6.1	2.2	0.9
Public Administration	5.1	2.1	5.5	4.3
Defense	0.7	15.7	8.0	0.9
Education	3.4	14.5	10.8	4.6
Health	1.4	13.4	5.0	1.8
Agricultural Services	1.3	2.2	6.7	1.1
Other Government Services	1.1	10.4	2.8	1.3
Total General Government	13.0	8.4	7.1	14.1
Total GDP at Factor Cost	100.0	6.3	6.6	100.0
Monetary GDP	73.2	6.9	7.6	75.1
Non-Monetary GDP	26.8	4.2	3.7	24.9

a/ Provisional

Source: Statistics Division, Ministry of Economic Planning and Development

Table 13: CAPITAL FORMATION BY INDUSTRIAL ORIGIN, 1964-1968
AT CURRENT AND CONSTANT (1964) PRICES

K £ million

	1964	1965		1966		1967		1968[a/]	
	Current Prices	Current Prices	Constant Prices	Current Prices	Constant Prices	Current Prices	Constant Prices	Current Prices	Constant Prices
A. Non-Monetary Economy									
Traditional dwellings	5.24	5.72	5.62	6.47	5.83	7.52	6.01	8.37	6.53
B. Monetary Economy									
Agriculture	7.92	7.70	7.73	10.22	9.83	10.91	9.69	11.61	10.02
Forestry	0.22	0.08	0.08	0.28	0.26	0.35	0.31	0.19	0.16
Mining and Quarrying	0.04	0.05	0.05	0.09	0.09	0.16	0.14	0.60	0.55
Manufacturing & Repairing	6.95	7.55	7.30	9.51	8.85	14.90	13.68	14.13	12.28
Building & Construction	1.37	2.09	2.02	1.66	1.54	4.33	3.99	4.81	4.29
Electricity & Water	1.32	2.17	2.12	2.46	2.25	6.17	5.22	3.38	2.84
Transport, Storage, Communications	10.85	8.21	7.92	13.35	12.46	16.66	15.22	17.18	15.25
Wholesale & Retail	2.53	1.88	1.83	2.35	2.18	3.02	2.67	2.84	2.35
Banking, Insurance & Real Estate	0.31	0.24	0.23	0.17	0.15	0.41	0.35	0.84	0.69
Dwellings	2.05	2.09	2.05	2.84	2.56	5.10	4.09	6.77	5.29
Other Services	1.97	1.72	1.66	2.91	2.69	4.87	4.19	4.54	3.87
Sub-total	35.54	33.79	32.98	45.85	42.85	66.87	59.55	66.89	57.59
Public Administration	0.71	0.96	0.93	1.09	1.19	1.82	1.56	2.22	1.88
Health	0.47	1.25	1.21	0.94	0.77	1.31	1.13	1.34	1.10
Education	0.59	0.62	0.61	0.91	0.73	1.82	1.50	2.81	2.24
Agricultural Services	0.96	1.21	1.17	1.22	1.11	1.55	1.32	1.31	1.08
Other Government Services	1.63	3.01	2.94	4.74	4.29	6.40	5.23	8.05	6.37
Total General Government	4.36	7.04	6.86	8.90	8.09	12.91	10.74	15.74	12.67
Total Monetary Economy	39.90	40.83	39.84	54.75	50.94	79.78	70.29	82.63	70.26
Total Non-Monetary Economy	5.24	5.72	5.62	6.47	5.83	7.52	6.01	8.37	6.53
Total Gross Fixed Capital Formation	45.14	46.54	45.46	61.21	56.78	87.30	76.30	91.00	76.80
Change in Stocks	2.30	5.50		16.20		6.70		2.60	
Total Investment	47.44	52.04		77.41		94.00		93.60	

a/ Provisional

Source: Economic Survey, 1968
Statistics Division, Ministry of Economic Planning and Development

Table 14: CAPITAL FORMATION BY TYPE OF ASSET, PUBLIC AND PRIVATE, AT CURRENT PRICES, 1964 - 1968

K £ million

	1964	1965	1966	1967	1968 a/
DWELLINGS					
Private					
(i) Traditional	5.24	5.72	6.47	7.52	8.37
(ii) Modern	1.23	1.06	1.66	2.69	2.48
Total	6.47	6.78	8.13	10.21	10.85
Public	0.75	0.94	1.09	2.33	4.23
Total Dwellings	7.22	7.72	9.22	12.54	15.08
NON-RESIDENTIAL BUILDINGS					
Private	3.24	2.70	2.57	4.40	4.46
Public	1.77	2.44	3.53	5.83	9.44
Total	5.02	5.14	6.09	10.23	13.90
CONSTRUCTION AND WORKS					
Private	3.55	3.95	4.79	5.70	5.35
Public	3.44	4.17	6.77	10.20	12.49
Total	6.99	8.12	11.56	15.90	17.84
LAND IMPROVEMENT AND PLANTATION DEVELOPMENT (PRIVATE)	1.59	1.19	1.40	1.60	1.98
TRANSPORT EQUIPMENT					
Private	6.01	6.33	8.02	10.88	10.66
Public	3.68	2.55	4.56	6.63	4.66
Total	9.69	8.88	12.58	17.51	15.32
MACHINERY AND OTHER EQUIPMENT					
Private	13.58	13.44	15.60	24.70	22.39
Public	1.44	1.79	3.42	3.51	3.18
Total	15.02	15.22	19.01	28.21	25.57
BREEDING STOCK AND DAIRY CATTLE					
Private	-0.38	0.26	1.35	1.30	1.31
TOTAL CAPITAL FORMATION					
Private	34.06	34.65	41.84	58.76	56.93
Public	11.08	11.89	19.37	28.53	34.07
Total	45.14	46.54	61.21	87.30	91.00

a/ Provisional

Source: Economic Survey, 1969
Statistics Division, Ministry of Economic Planning and Development.

Table 15: GROSS DOMESTIC AND GROSS NATIONAL SAVING, 1964-1968

K£ million

	1964	1965	1966	1967	1968 [a/]
Gross Fixed Capital Formation	45.14	46.54	61.21	87.30	91.00
Change in Stocks	2.30	5.50	16.20	6.70	2.60
Gross Capital Formation	47.44	52.04	77.41	94.00	93.60
Balance on Goods and Non-Factor Services	14.70	3.50	-0.50	-9.70	-14.70
Gross Domestic Saving (excluding transfers)	62.14	55.54	76.91	84.30	78.90
Net Factor Income Payments [b/]	-7.10	-6.60	-6.40	-8.60	-4.30
Gross National Saving (excluding transfers)	55.04	48.94	70.51	75.70	74.60
Net Transfers (including government interest)	9.80	3.40	0.10	-1.90	5.70
Gross Domestic Saving (including transfers)	71.94	58.94	77.01	82.40	84.60
Gross National Saving (including transfers)	64.84	52.34	70.61	73.80	80.30

a/ Provisional
b/ Excluding "General Government Interest"
Source: Mission Estimates

Table 16: BALANCE OF PAYMENTS ON CURRENT ACCOUNT
1961-68

KL millions

	1961	1962	1963	1964	1965	1966	1967	1968 a/
Merchandise exports, f.o.b.	55.9	58.9	67.7	77.3	78.0	86.8	79.3	84.2
Merchandise imports, c.i.f.	-73.4	-76.1	-81.3	-86.7	-97.4	-113.5	-116.6	-120.2
Visible trade balance	-17.5	-17.2	-13.6	- 9.4	-19.4	-26.7	-37.3	- 36.0
Non-factor service income	34.0	36.0	41.4	42.4	40.5	48.7	50.6	50.6
Non-factor service payments	-14.7	-15.6	-16.9	-18.3	-17.7	-22.5	-23.1	-29.3
Net non-factor services	19.3	20.3	24.5	24.2	22.8	26.2	27.5	21.3
Balance of goods and non-factor services	1.8	3.1	10.9	14.7	3.5	- 0.5	-9.7	-14.7
Net factor payments	-6.1	-7.0	-6.9	-7.1	-6.6	- 6.4	-8.6	- 4.3
Balance of goods and all services	-4.3	-3.9	4.0	7.6	3.1	-6.9	-18.3	-19.0
Net general government interest	(b)	(b)	(b)	-2.7	-2.4	-3.0	- 2.9	- 3.0
Net transfers	7.1	8.4	-0.6	12.5	5.8	3.1	1.0	8.7
Balance on current account	2.8	4.5	3.4	17.4	0.3	-6.8	-20.2	-13.3

a/ provisional
b/ included under net factor payments

Sources: IMF Balance of Payments Yearbook
Statistical Abstracts
Statistics Department of the Ministry of Economic Planning and Development

Table 17: BALANCE OF PAYMENTS ON CAPITAL ACCOUNT
1961-1968

K £ million

	1961	1962	1963	1964	1965	1966	1967	1968a/
Long Term Capital Movements								
Private								
Inflow	0.9	2.7	-	-	8.8	2.1	3.0	9.0
Outflow	1.3	-2.9	-9.4	-15.0	-7.3	-1.1	4.9	1.5
Net Inflow	2.2	-0.2	-9.4	-15.0	1.5	1.0	7.9	10.5
Public								
Inflow	9.0	6.3	10.9	11.3	9.6	12.5	10.0	6.5
Outflow	-1.6	-1.9	-2.1	-12.3	-3.0	1.1	- 1.6	0.2
Net Inflow	7.4	4.4	8.8	-1.0	6.6	13.6	8.4	6.7
Total Inflow	9.9	9.0	10.9	11.3	18.4	14.6	13.0	15.5
Outflow	-0.3	-4.8	-11.5	-27.3	-10.3	0.0	3.3	1.7
Net Inflow	9.6	4.2	-0.6	-16.0	8.1	14.6	16.3	17.2
Short-Term Capital Movements								
Total Inflow	-0.1	-	1.0	1.1	1.1	-8.8	1.4	-5.2
Outflow	-1.5	0.9	0.9	1.0	-1.7	-3.7	-0.8	-4.6
Net Inflow	-1.6	0.9	-	0.1	-0.6	-12.5	0.6	-9.2
Total Net Capital Movements	8.0	5.1	-0.6	-15.9	7.5	2.1	15.7	8.0
Change in Reserves	-6.2	-4.5	2.3	3.4	-1.8	-11.7	5.8	-11.3
Total Capital & Monetary Movements	1.8	0.6	1.7	-12.5	5.7	-9.6	21.5	-3.3
Balance on Current Account	2.8	4.5	3.4	17.4	0.3	-6.8	-20.2	-13.3
Net Errors and Omissions	-4.6	-5.1	-5.1	-4.9	-6.0	+16.4	- 1.3	+16.6

a/ Provisional

Source: IMF Balance of Payments Yearbook
Statistical Abstract
Statistics Division of the Ministry of Economic Planning and Development

Table 18: SUMMARY OF EXTERNAL AND COMMON MARKET TRADE, 1961-1968[a]

K £ million

	1961	1962	1963	1964	1965	1966	1967	1968
Imports								
External	68.94	69.49	73.69	76.60	89.04	112.40	106.60	114.76
Common Market								
From Uganda	5.15	5.39	6.25	7.24	7.14	7.32	10.17	8.65
From Tanzania (Mainland)	1.84	1.95	2.91	4.11	4.57	3.81	3.29	3.69
Total Common Market	6.99	7.34	9.16	11.35	11.71	11.13	13.46	12.34
Total Imports	75.93	76.83	82.85	87.85	100.69	123.43	120.05	127.11
Exports								
External (including re-exports)	41.74	45.15	50.98	53.55	52.04	62.31	59.59	62.94
Common Market								
To Uganda	7.05	7.30	9.43	12.58	15.34	15.62	14.80	13.27
To Tanzania (Mainland)	8.90	10.02	10.37	13.30	14.09	13.28	11.38	13.07
Total Common Market	15.95	17.32	19.80	25.88	29.43	28.90	26.18	26.34
Total Exports	57.69	62.47	70.77	79.43	81.47	91.21	85.77	89.28
Balance-External	-27.19	-24.35	-22.71	-23.05	-37.00	-50.09	-47.01	-51.82
Balance-Common Market								
With Uganda	1.90	1.91	3.18	5.34	8.20	8.30	4.63	4.62
With Tanzania (Mainland)	7.06	8.07	7.46	9.19	9.52	9.47	8.09	9.38
Total Common Market	8.96	9.98	10.64	14.53	17.72	19.77	12.73	14.00
Total Balance	-18.24	-14.37	-12.07	-8.52	-19.28	-32.32	-34.28	-37.82

a/ Unadjusted trade statistics

Source: Statistical Abstracts
Economic Survey, 1968
Annual Trade Reports, 1968

Table 19: PRINCIPAL EXTERNAL MERCHANDISE EXPORTS 1961-1968[1]

K L million

	1961	1962	1963	1964	1965	1966	1967	1968
Coffee	10.61	10.59	11.02	15.40	14.10	18.78	15.68	12.81
Tea	4.00	5.19	5.67	6.06	6.09	8.71	7.40	10.04
Petroleum Products	-	-	0.57	2.16	4.67	5.88	7.17	6.26
Pyrethrum Extract & Flowers	3.08	3.16	3.03	2.45	2.23	2.83	2.91	3.04
Meat and Meat Products	2.28	2.76	2.57	2.17	2.47	2.99	2.86	3.03
Sisal	4.19	4.32	7.53	6.03	3.85	3.34	2.06	1.83
Hides and Skins	1.58	1.37	1.17	1.29	1.76	2.57	1.74	1.67
Maize	-	1.01	1.57	0.02	-	-	1.41	4.77
Soda Ash	1.59	1.24	1.23	0.71	0.81	1.11	1.02	1.13
Cement	0.42	0.47	0.50	0.80	0.94	0.84	1.01	1.17
Wattle Extract and Bark	0.91	0.87	0.80	1.08	0.83	1.60	0.93	1.24
Cotton raw	0.63	0.44	0.44	0.65	0.75	0.87	0.63	0.40
Pineapples tinned	0.45	0.69	0.82	0.87	0.78	0.54	0.55	0.44
Cashew Nuts	0.33	0.09	0.23	0.29	0.55	0.48	0.54	0.63
Wool	0.44	0.53	0.58	0.51	0.56	0.57	0.49	0.58
Other	4.82	5.18	6.10	6.62	6.78	6.96	7.12	8.75
	35.33	37.91	43.83	47.11	47.17	58.07	53.52	57.79

[1] Unadjusted Trade Returns

Sources: Statistical Abstracts
Economic Survey, 1968
Annual Trade Report, 1968

Table 20: PRINCIPAL EXPORTS TO TANZANIA AND UGANDA, 1963-1968

K £ million

	TO UGANDA						TO TANZANIA						TO EAST AFRICA		
	1963	1964	1965	1966	1967	1968	1963	1964	1965	1966	1967	1968	1963	1967	1968
Major Categories															
Food, Beverages & Tobacco	3.49	4.52	4.07	3.94	3.70	2.60	4.41	4.47	3.90	3.37	3.70	3.17	7.90	7.40	5.77
Basic Materials & Foods	0.19	1.23	2.73	2.81	3.13	3.67	0.25	1.68	3.12	2.40	1.95	1.97	0.44	5.08	5.64
Manufactured Goods	5.72	6.81	8.50	8.82	7.91	6.99	5.64	7.06	6.96	7.46	5.69	7.92	11.36	13.60	14.91
Miscellaneous	0.03	0.03	0.04	0.06	0.06	-	0.07	0.09	0.10	0.05	0.04	0.01	0.10	0.10	0.01
Total Exports	9.43	12.58	15.34	15.62	14.80	13.27	10.37	13.30	14.09	13.28	11.38	13.07	19.80	26.18	26.34
Individual Items															
Petroleum Products a/	0.02	1.05	2.15	2.37	2.55	3.00	0.03	1.47	2.75	2.06	1.52	1.41	0.05	4.07	4.41
Chemicals&Products	1.28	1.34	1.72	1.86	2.36	2.10	1.07	1.69	1.53	1.93	1.27	1.76	2.35	3.63	3.86
Cereals & Cereal Preparations	0.71	1.55	1.09	1.01	1.03	0.98	1.15	1.10	1.05	0.39	0.97	0.97	1.86	2.00	1.95
Dairy Products	0.76	0.85	1.36	1.18	1.17	0.19	0.34	0.35	0.31	0.44	0.57	0.50	1.10	1.74	0.69
Clothing	0.57	0.87	1.35	1.48	1.25	0.42	0.83	1.13	1.02	0.18	0.14	0.56	1.40	1.39	0.98
Metal Manufactures	0.61	0.84	0.99	0.97	0.49	0.69	0.67	0.78	0.75	0.78	0.71	0.68	1.28	1.20	1.37
Paper & Manufactures	0.37	0.45	0.57	0.62	0.50	0.52	0.34	0.42	0.53	0.80	0.86	0.99	0.71	1.36	1.51
Fruit & Vegetables	0.19	0.20	0.21	0.28	0.35	0.33	0.34	0.28	0.31	0.37	0.41	0.39	0.53	0.76	0.72
Cement	0.15	0.12	0.07	0.08	0.16	0.06	0.54	0.76	0.88	0.80	0.53	0.94	0.69	0.69	1.00
Footwear	0.52	0.61	0.60	0.40	0.28	0.22	0.68	0.79	0.69	0.61	0.30	0.46	1.20	0.58	0.68
Cigarettes	0.78	0.80	0.45	0.36	0.18	0.11	1.13	0.82	0.36	0.16	0.19	-	1.91	0.37	0.11
Other	3.47	3.90	4.78	5.01	4.48	4.64	3.25	3.71	3.91	4.76	3.91	4.41	6.72	8.39	9.05
Total Exports	9.43	12.58	15.34	15.62	14.80	13.26	10.37	13.30	14.09	13.28	11.38	13.07	19.80	26.18	26.33

Sources: Statistical Abstracts
Economic Survey, 1968

a/ excluding by-products.

Table 21: PRINCIPAL IMPORTS FROM TANZANIA AND UGANDA, 1963-1968

K £ million

	FROM UGANDA						FROM TANZANIA						FROM EAST AFRICA		
	1963	1964	1965	1966	1967	1968	1963	1964	1965	1966	1967	1968	1963	1967	1968
Major Categories															
Food, Beverages & Tobacco	3.41	3.87	3.06	2.18	4.24	3.41	1.16	1.49	1.89	1.24	1.14	1.05	4.57	5.38	4.46
Basic Materials & Foods	1.25	1.30	1.57	1.31	1.72	1.57	0.76	0.71	0.75	0.79	0.92	1.10	2.01	2.64	2.67
Manufactured Goods	1.58	2.08	2.50	3.82	4.21	3.66	0.99	1.90	1.92	1.77	1.22	1.54	2.57	5.43	5.20
Miscellaneous	-	-	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	-	0.01	0.02	0.01
Total Imports	6.24	7.25	7.14	7.32	10.18	8.65	2.92	4.11	4.57	3.81	3.29	3.69	9.16	13.47	12.34
Individual Items															
Cotton Piece Goods	1.03	1.29	1.26	1.91	2.31	1.76	0.08	0.19	0.06	0.06	0.04	0.03	1.11	2.35	1.79
Sugar	1.84	1.96	0.84	0.22	1.24	1.32	0.20	0.01	0.15	-	-	-	2.04	1.24	1.32
Unmanufactured Tobacco	0.35	0.48	0.81	0.41	0.96	0.64	0.02	0.28	0.41	0.35	0.27	0.02	0.37	1.23	0.66
Oil Seeds, Nuts & Vegetable Oils	0.66	0.76	1.01	0.73	0.90	0.83	0.33	0.48	0.60	0.53	0.49	0.66	0.99	1.39	1.49
Margarine & Shortening	0.12	0.31	0.49	0.56	0.89	0.69	-	0.01	0.03	0.02	0.02	0.03	0.12	0.91	0.72
Electricity	0.35	0.41	0.42	0.44	0.55	0.50	0.04	0.01	-	-	-	-	0.39	0.55	0.50
Iron & Steel	0.04	0.19	0.19	0.38	0.40	0.39	-	0.08	0.10	0.03	-	-	0.04	0.40	0.39
Other	1.86	1.84	2.11	2.67	2.92	2.52	2.24	3.05	3.22	2.82	2.47	2.95	4.11	5.39	5.47
Total Imports	6.25	7.24	7.13	7.32	10.17	8.65	2.91	4.11	4.57	3.81	3.29	3.69	9.16	13.46	12.34

Source: Statistical Abstracts
Economic Survey, 1968

ESTIMATED

Table 22: TOTAL NET IMPORTS BY ECONOMIC CATEGORY OF GOODS, 1960-1968[a/]

	1960	1961	1962	1963	1964	1965	1966	1967	1968
Consumer Durables	5.02	2.10	3.37	5.09	5.10	5.20	5.68	6.86	7.46
Consumer Non-Durables	21.90	25.60	25.72	24.76	25.56	27.92	35.06	23.85	37.00
Total Consumer Goods	26.92	27.70	29.09	29.85	30.66	33.12	40.74	30.71	44.46
Intermediate Goods	32.11	30.94	29.81	36.26	37.40	48.10	52.05	53.57	51.12
Capital Goods	13.02	10.87	10.69	9.60	13.46	14.66	22.50	29.03	25.32
Re-Exports	5.01	6.42	7.23	7.15	6.43	4.87	4.23	6.07	5.20
Total Imports	77.06	75.93	76.82	82.86	87.95	100.75	119.52[b/]	119.38[b/]	126.10[b/]

a/ Including imports from Tanzania and Uganda, and derived from unadjusted trade figures.

b/ The total net imports shown here are somewhat less than the total net imports recorded in the Annual Trade Reports, as only one third of the air craft purchased by East African Airways and only 60 percent of railway equipment imported into Kenya have been debited to Kenya's account.

Source: Annual Trade Reports
Mission Estimates

Table 23: FOREIGN EXCHANGE RESERVES, 1961-68

K £ million

	1961	1962	1963	1964	1965	1966	1967	1968
Government (excluding sinking funds)a/	10.1	9.4	11.1	10.4	15.2	1.3c/	1.4c/	1.2c/
Commercial Banksb/	5.7	9.1	4.3	3.4	4.9	8.3	-2.2d/	1.9d/
IMF Gold Tranche	-	-	-	1.4	1.4	1.4	1.4	1.4
Central Bank of Kenya	-	-	-	-	-	17.0	28.9	33.7
Share of East Africa								
Currency Board	15.0	15.0	18.2	18.6	16.6	12.1	4.3	2.7
Balancing Iteme/	-4.5	-11.7	-9.5	-6.3	-12.4	-2.6	1.9	2.0
Total	26.3	21.8	24.1	27.5	25.7	37.5	35.7	42.9
Importsf/	73.4	76.1	81.3	86.7	97.4	113.5	116.6	121.2
Foreign Exchange Reserves: As a percentage of imports	35.8%	28.6%	29.6%	31.7%	26.4%	33.0%	30.6%	35.4%
Foreign Exchange Reserves: Number of Months of imports	4.3	3.4	3.6	3.8	3.2	4.0	3.2	4.3

a/ Including the Post Office and other public entities.

b/ For the purpose of this table, it is assumed that Tanzania and Uganda are foreign countries.

c/ Except for working balances the government's holdings of foreign exchange have been taken over by the Central Bank of Kenya.

d/ Except for working balances the commercial bank's holdings of foreign exchange are now held in the Central Bank of Kenya.

e/ The total foreign exchange reserves for 1967 and 1968 are those given by the Statistics Division of the Ministry of Economic Planning and Development. The totals for previous years have been calculated by applying backwards the changes in the foreign exchange reserves given in the balance of payments (Table 17). The totals of individual items do not add up to the totals derived from balance of payment changes. The balancing item is mainly due to timing problems.

f/ Merchandise imports only.

Source: Statistics Division, Ministry of Economic Planning & Development.
Mission estimates.

Table 24: SUPPLY OF MONEY, 1963-1968

K L million

	1963	1964	1965	1966	1967	1968
As of June 30						
Currency in Circulation[a/]	18.7	19.6	18.2	20.3	22.5	23.35
Private Demand Deposits	31.9	32.6	34.7	38.8	41.1	45.90
Total Money Supply	50.6	52.2	52.9	59.1	63.6	69.25
Private Savings & Time Deposits[b/]	20.5	20.4	22.3	31.1	36.3	38.24
Total Near Money	71.1	72.6	75.2	90.2	99.9	107.49
Currency as % of Monetary GDP[c/]	7.6	7.3	6.8	6.4	6.7	6.5
Money Supply as % of Monetary GDP [c/]	20.5	19.5	19.8	18.7	19.1	19.4
Near Money as % of Monetary GDP[c/]	28.8	27.1	28.1	28.5	30.0	30.0

a/ Excluding Bankers' balances and up to 1965 based on Kenya's estimated share (33.3%) of East African currency in circulation.

b/ Including Post Office Savings Bank deposits.

c/ At market prices.

Sources: Statistical Abstracts
Annual Reports of the Central Bank of Kenya
Annual Reports of the East African Currency Board
Mission Estimates

Table 25: ASSETS AND LIABILITIES OF THE COMMERCIAL BANKS, DECEMBER 31, 1964-1968 AND MARCH 31, 1969

K £ million

	1964	1965	1966	1967 c/	1968 c/	1969
ASSETS						
Cash	3.0	2.41	3.04	3.25	3.25	3.37
Net Balances due from:						
Central Bank a/	-	0.42	1.30	4.97	11.36	12.95
Kenya Banks	0.1	2.46	0.73	2.44	3.78	2.60
EA Banks	18.8	7.57	1.92	1.78	2.09	2.03
Banks Abroad b/	-	8.25	10.04	3.24	1.80	3.52
Total	18.9	18.70	13.99	12.43	19.03	21.10
Loans, Advances and Bills Discounted:						
Loans to Industry	5.6	5.89	8.30	12.22	12.72	13.18
Loans to Agriculture	7.2	7.00	6.28	6.65	7.77	7.34
Other Loans	41.8	44.70	40.93	49.13	46.30	43.82
Total	54.6	57.59	55.51	68.00	66.79	64.34
Investments	3.0	4.80	4.25	4.66	4.76	7.91
Other Assets b/	10.8	26.01	31.21	30.72	37.63	35.88
Total Assets	90.4	109.50	108.00	119.05	131.45	132.60
LIABILITIES						
Deposits - Demand	48.5	50.24	49.80	51.17	55.93	57.44
Time	5.6	6.31	10.49	12.33	13.79	15.11
Saving	10.9	13.05	17.14	21.53	25.41	26.10
Total Deposits	65.0	69.60	77.43	85.03	95.13	98.65
Net Balances Due to:						
Central Bank	-	2.10	-	-	-	-
Kenya Banks	-	2.10	0.70	1.76	3.20	2.27
EA Banks	-	2.41	0.70	1.58	0.79	0.79
Banks Abroad	15.4	8.54	3.00	5.63	1.23	2.54
Total	15.4	15.15	4.40	9.02	5.22	5.60
Other Liabilities b/	10.0	22.57	24.31	25.04	31.11	28.35
Total Liabilities	90.4	109.50	108.00	119.05	131.45	132.60

a/ East African Currency Board Balances before September 14, 1966.
b/ Includes contra items.
c/ New Series.
Sources: Annual Reports of the Central Bank of Kenya

Table 26: CASH, LIQUIDITY AND ADVANCES/DEPOSITS RATIOS OF THE COMMERCIAL BANK, DECEMBER 31, 1964-68 AND MARCH 31, 1969

	1964	1965	1966	1967 c/	1968 c/	1969
Cash Ratio a/	4.6	3.5	3.9	3.8	3.4	3.4
Liquidity Ratio b/	10.0	8.6	16.3	7.8	18.0	19.1
Total Advances/Deposits Ratio	84.0	82.7	71.7	80.0	70.2	65.2
Private Advances/Deposits Ratio	99.6	95.3	82.6	89.5	75.7	71.9

a/ Ratio of cash to total deposits.

b/ Ratio of cash plus net balances in East Africa and abroad to total deposits.

c/ New Series

Source: Derived from Table 25.

Table 27: ASSETS AND LIABILITIES OF THE CENTRAL BANK OF KENYA, 1967 and 1968 and APRIL 30, 1969

K £ million

	June, 1967	December, 1967	June, 1968	December, 1968	April 30, 1969
Liabilities					
Capital	0.67	0.67	0.67	0.67	0.67
Notes in circulation	17.97	23.14	22.25	24.97	26.97
Coins in circulation	0.64	0.95	1.11	1.48	1.41
Deposits:					
Government	6.34	2.73	7.94	2.40	6.63
Kenya Banks	2.21	5.14	5.29	11.56	15.26
External Banks	0.19	0.34	0.20	0.36	0.54
Others	-	0.46	0.50	0.08	0.24
Other Liabilities[a/]	0.36	0.37	0.77	1.19	1.93
Total Liabilities	28.38	33.79	38.72	42.70	53.65
Assets					
Foreign Exchange:					
Balances with Banks	0.01	9.77	10.94	16.36	21.80
Treasury Bills	13.46	6.24	8.58	9.39	10.05
Other Investments	10.41	9.27	9.87	7.97	13.41
Total	23.88	25.28	29.39	33.72	45.27
Kenya Government Securities received from EACB	3.23	3.23	3.23	3.23	3.23
Other Kenya Government Securities	0.45	0.39	0.39	0.39	0.39
Securities of Public Entities	-	-	-	-	-
Advances and Discounts	-	-	-	0.85	-
Revaluation Account	-	3.58	3.57	3.57	3.57
Other Assets	0.83	1.32	2.15	0.93	1.20
Total Assets	28.38	33.79	38.72	42.70	53.65

a/ From June, 1967 this item includes General Reserve Fund.

Source: Annual Reports of the Central Bank of Kenya.

Table 28: ANALYSIS OF GROSS FARM REVENUE, 1964-1968

K£ million

	1964		1965		1966		1967		1968 a/	
	Large Farms	Small Farms	Large Farms	Small Farms	Large Farms	Small Farms	Large Farms	Small Farms	Large Farms	Small Farms
Crops										
Coffee	8.69	5.81	7.71	5.40	9.28	9.34	5.58	8.41	5.50	6.99
Tea	7.42	0.37	6.79	0.54	9.15	0.75	7.85	1.08	8.25	1.66
Sisal	5.89	0.80	3.72	0.20	3.03	0.07	2.38	0.01	2.23	0.07
Wheat	3.41	0.12	4.05	0.27	3.17	0.31	4.08	0.49	5.11	0.90
Maize	0.98	1.49	1.03	0.82	1.28	1.41	2.87	1.35	3.18	2.47
Other Cereals	0.47	0.33	0.49	0.35	0.32	0.50	0.30	0.54	0.33	0.60
Pyrethrum	0.49	0.42	0.76	0.80	0.74	1.79	0.42	2.27	0.52	2.28
Sugar Cane	1.28	0.21	1.30	0.24	0.88	0.11	1.03	0.57	1.14	0.98
Cotton	-	0.59	-	0.64	-	0.68	-	0.60	-	0.65
Other Crops b/	0.77	2.04	0.79	2.23	0.89	3.01	1.05	3.02	1.04	3.00
TOTAL CROPS	29.40	12.18	26.64	11.49	28.74	17.97	25.56	18.34	27.30	19.60
Livestock and Livestock Products										
Cattle and Calves	2.34	7.09	2.10	7.27	2.18	8.74	2.16	9.17	2.23	9.60
Sheep and Lambs	0.17	0.24	0.19	0.25	0.19	0.25	0.22	0.18	0.23	0.21
Pigs for slaughter	0.48	0.02	0.47	0.08	0.54	0.06	0.50	0.08	0.42	0.14
Poultry and Eggs	0.25	0.09	0.22	0.01	0.20	0.08	0.20	0.11	0.21	0.12
Wool	0.34	0.01	0.40	0.02	0.44	0.04	0.46	0.06	0.48	0.07
Hides and Skins	-	0.47	-	0.47	-	0.59	-	0.63	-	0.65
Dairy products	2.77	1.63	3.28	1.45	3.71	1.95	3.94	2.44	3.80	2.56
TOTAL LIVESTOCK	6.35	9.55	6.66	9.55	7.26	11.71	7.48	12.67	7.37	13.35
Estimated unrecorded output	-	2.83	-	2.87	-	3.15	-	3.25	-	3.34
TOTAL GROSS FARM REVENUE	35.75	24.56	33.31	23.91	36.00	32.83	33.04	34.26	34.67	36.29

a/ Provisional

b/ Includes wattle, coconut products, cashew nuts, tobacco, oil seeds and pulses, potatoes, fruits, vegetables and flowers.

Source: Statistical Abstract
Ministry of Economic Planning and Development

Table 29: QUANTITY INDEX OF MANUFACTURING PRODUCTION BY INDUSTRY, 1963-1968 (1964=100)

	1963	1964	1965	1966	1967	1968 a/	Percentage Change 1963 - 1968
Food	93.3	100.0	99.5	102.8	110.2	113.0	3.1
Beverages and Tobacco	97.3	100.0	97.1	101.4	99.8	108.7	2.1
Textiles	91.1	100.0	111.1	135.4	149.4	205.1	19.6
Footwear and Clothing	106.7	100.0	118.9	132.6	125.2	146.5	10.0
Wood	86.1	100.0	110.0	135.6	125.7	142.6	9.2
Furniture and Fixtures	95.0	100.0	105.0	110.0	122.5	125.0	5.7
Paper and Printing	91.9	100.0	125.6	140.6	149.4	138.3	8.5
Leather	96.7	100.0	96.7	110.0	100.0	116.7	4.0
Rubber	98.0	100.0	104.0	132.0	134.0	172.0	14.4
Chemicals	97.3	100.0	100.6	112.4	109.2	118.4	4.3
Petroleum Products	8.8	100.0	118.8	119.3	128.5	126.3	5.9
Non-metallic Minerals	81.0	100.0	109.8	112.7	117.7	134.8	7.7
Metal Products	88.8	100.0	101.6	94.6	98.6	111.8	2.8
Non-electrical Machinery	91.4	100.0	122.9	167.1	180.0	170.0	14.2
Electrical Machinery	97.0	100.0	103.7	107.9	102.3	117.4	4.1
Transport Equipment	98.6	100.0	103.2	108.5	119.8	128.6	6.5
Miscellaneous	83.3	100.0	108.9	123.3	82.2	86.7	-3.6
Total	87.1	100.0	105.4	111.9	116.2	124.8	5.7

a/ Provisional

Source: Economic Survey, 1969

Table 30: GENERATION, IMPORTS AND SALES OF ELECTRICITY BY TYPE OF USER, 1964-1968

kwh million

	1964	1965	1966	1967	1968
Domestically generated	323.17	327.50	346.43	339.36	401.71
Imported	183.29	190.48	203.04	241.98	224.25
Total Available	506.46	517.99	549.47	581.35	625.96
Power Station use and transmission plus distribution losses	80.78	83.97	84.91	95.78	95.83
Net Sales	425.68	434.02	464.56	485.56	530.13
Of which					
Domestic	89.67	87.40	93.13	95.00	98.78
Off peak water heating and pumping	70.73	73.81	74.65	77.97	82.24
Small power supplies	20.40	20.70	21.73	21.48)	
Large power supplies	95.41	81.30	92.82	103.15)	248.47
Commercial	68.00	63.70	71.17	79.11)	
Lighting (small consumers)	5.37	5.63	6.08	6.21	6.80
Street Lighting	8.30	8.44	8.80	8.13	8.39
Special Contracts	65.56	90.63	93.47	91.83	83.00
Staff Quarters	2.23	2.42	2.72	2.69	2.47

Source: Economic Survey, 1969

Table 31: MIGRATION AND TOURISM, 1967 and 1968

Numbers

Old Series Year	ARRIVALS Returning Residents	Immi-grants	Persons In Transit	Visitors	Total	DEPARTURES Temporary Emigrants	Permanent Emigrants	Persons In Transit	Visitors	Total
1967 1st Qtr.	8,285	603	12,402	18,179	39,469	10,393	681	12,164	21,296	44,534
2nd Qtr.	11,056	394	13,201	13,336	37,987	14,337	506	15,869	14,918	45,630
3rd Qtr.	12,596	161	14,071	17,552	44,380	16,532	1,721	14,487	20,883	53,623
4th Qtr.	9,368	200	11,096	17,309	37,973	10,936	1,217	11,870	16,180	40,203
1967 Total	41,305	1,358	50,770	66,376	159,809	52,198	4,125	54,390	73,277	183,990
1968 1st Qtr.	8,360	2,040	13,109	26,542	50,051	15,930	3,896	13,638	30,596	64,060
New Series Year										
1967 3rd Qtr.	37,271	167	21,831	52,511	111,781	40,420	1,754	22,889	49,553	114,616
4th Qtr.	25,869	204	17,029	44,508	87,610	28,032	1,272	15,796	40,906	86,006
1968 1st Qtr.	23,801	3,211	19,214	51,658	97,884	32,313	3,966	19,683	57,841	113,803
2nd Qtr.	22,485	4,289	18,507	34,178	79,459	26,655	2,369	17,080	33,815	79,919
3rd Qtr.	28,606	5,746	19,637	49,111	103,100	35,948	2,686	18,071	51,485	108,190
4th Qtr.	23,205	3,727	17,062	50,716	94,710	28,954	2,476	14,833	44,283	90,546
1968 Total	98,097	16,973	74,420	185,663	375,153	123,870	11,497	69,667	187,424	392,458

Source: Kenya Statistical Digest, Vols. VI and VII - Nos. 2 and 3, March and June, 1968.
For details of the new series see the above Digest.

Table 32: TRANSPORT, STORAGE AND COMMUNICATIONS,
VALUE OF SALES, 1963-1968

K £ Million

	1963	1964	1965	1966	1967	1968 a/
Railway Transport	13.71	14.18	15.07	16.98	16.97	17.57
Road Passenger Transport	4.31	5.39	4.87	6.47	7.33	8.15
Road Freight Transport	5.98	6.59	7.30	6.90	8.61	9.61
Water Transport	8.25	9.41	11.01	12.76	12.10	12.99
Air Transport	4.73	6.45	6.85	8.26	9.63	11.10
Services Incidental to Transport, Including Storage	1.80	1.98	2.55	3.27	3.39	3.49
Total Transport and Storage	38.79	44.00	47.66	54.64	58.02	62.91
Communications	5.58	5.76	5.97	6.54	6.81	7.22
Total Transport, Storage and Communications	44.36	49.76	53.63	61.18	64.83	70.13

a/ Provisional

Source: Economic Survey, 1969

Table 33: CONTRIBUTION OF THE PUBLIC SECTOR TO GROSS DOMESTIC PRODUCT
1964-1968

K£ Million

	1964					1965	1966	1967	1968 (Provisional)				
	Central Govt.	E.A. Community a/	Statutory Boards b/	Local Authorities	Total	Total	Total	Total	Central Govt.	E.A. Community a/	Statutory Boards b/	Local Authorities	Total
GENERAL GOVERNMENT SERVICES													
General Administration	5.1	1.7	--	1.7	8.6	8.7	8.8	8.8	5.5	1.8	--	1.8	9.1
Justice and Police	8.2	0.1	--	--	8.3	8.5	9.1	9.8	10.3	--	--	--	10.3
Defence	2.2	--	--	--	2.2	2.7	3.5	4.0	3.9	--	--	--	3.9
Education	3.6	--	0.6	7.1	11.2	10.3	11.3	14.0	4.9	--	2.7	8.5	16.0
Health Services	3.2	--	--	1.5	4.7	4.6	5.7	6.3	4.8	0.1	--	2.0	6.9
Agricultural and Veterinary Services	3.9	0.3	0.1	0.2	4.4	4.7	5.0	4.6	4.5	0.3	0.1	0.2	5.1
Other General Services	2.0	0.9	--	0.7	3.7	4.2	5.1	5.7	3.9	0.8	--	1.0	5.7
Total General Services	28.1	3.1	0.6	11.2	43.0	43.8	48.6	53.1	37.8	3.0	2.8	13.5	57.1
GOVERNMENT ENTERPRISES													
Agriculture	--	--	-0.1	--	-0.1	-0.2	-0.1	-0.3	-0.1	--	0.3	--	0.2
Forestry	1.0	--	--	--	1.0	1.1	1.1	1.4	1.6	--	--	--	1.6
Manufacturing	0.5	4.0	0.7	0.1	5.3	5.8	6.1	6.2	1.1	4.9	0.8	0.1	6.8
Construction	1.8	1.6	--	0.3	3.6	3.3	4.2	5.1	3.4	1.0	--	1.0	5.4
Electricity and Water	0.4	--	0.4	0.8	1.6	1.7	1.7	2.1	0.5	--	0.4	1.2	2.2
Transport and Communications	0.3	17.5	--	--	17.8	20.0	22.5	22.8	0.4	23.1	0.3	--	23.8
Wholesale and Retail Trade	--	--	0.4	--	0.4	0.6	1.1	1.1	--	--	2.0	--	2.0
Banking and Insurance	--	--	2.8	--	2.8	3.4	3.6	4.1	--	--	4.5	--	4.5
Ownership of Dwellings	2.3	1.4	--	0.1	3.8	3.8	3.8	3.8	2.3	1.4	--	0.1	3.8
Total Enterprises	6.3	24.5	4.2	1.3	36.2	37.5	44.0	46.3	9.2	30.4	8.3	2.4	50.3
TOTAL PUBLIC SECTOR	34.4	27.6	4.8	12.5	79.2	83.3	92.6	99.4	47.0	33.4	11.1	15.9	107.4

a/ Including E.A.A., E.A.P. & T. and E.A.R. & H.
b/ Including Government Banks, and Public Enterprises.

Source: Statistical Abstract, 1968

Table 34: SUMMARY OF CENTRAL GOVERNMENT ACCOUNTS, (ECONOMIC ANALYSIS), 1962/63 - 1967/68 a/

K£ million

	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68 e/
Current Revenue b/	43.78	47.63	50.65	55.71	65.16	73.78
Current Expenditure b/	47.83	50.37	53.41	56.76	61.39	66.68
Current Surplus/Deficit	-4.05	-2.74	-2.76	-1.05	3.77	7.10
Capital Revenue c/	6.39	9.81	10.37	5.90	4.55	5.42
Balance	2.34	7.07	7.61	4.85	8.32	12.52
Capital Expenditure d/	-9.91	-17.75	-17.13	-20.76	-23.50	-27.30
Overall Surplus/Deficit	-7.57	-10.67	-9.52	-15.91	-15.18	-14.78
Financed by:						
Internal - Grants	-	-	0.05	0.06	0.03	-
- Loans	-	0.03	1.03	2.01	7.82	8.56
- Total	-	0.03	1.08	2.07	7.85	8.56
External - Grants	1.05	0.64	0.23	0.37	0.14	0.04
- Loans	7.00	10.74	10.70	9.43	7.84	7.83
- Total	8.05	11.38	10.93	9.80	7.98	7.87
Increase/decrease in Assets/reserves	0.48	0.74	2.49	4.04	0.65	1.65
External Financing						
Current f/	5.58	9.32	9.51	4.73	3.34	1.86
Capital	8.05	11.41	12.01	11.87	15.83	16.17
Total	13.63	20.73	21.52	16.60	19.17	18.03

a/ Including appropriations-in-aid, eliminating double counting in the published Government accounts and rearranged to conform with national income accounting concepts.

b/ Excluding transfers from or to "Rest of World"

c/ Loan repayments from other sectors, transfers from "Rest of World and sale of capital assets.

d/ Transfers to "Rest of World," gross capital formation, loans to other sectors and loan repayment to other sectors.

e/ Provisional

f/ Transfers from "Rest of World"

Sources: Statistical Abstracts, Economic Surveys

Table 35: ECONOMIC ANALYSIS OF CURRENT AND CAPITAL REVENUES, 1962/63 - 1967/68 a/

K£ million

	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68 b/
Current Revenue						
Direct Taxes	12.42	13.70	14.57	16.80	20.08	23.87
Indirect Taxes	22.42	23.40	25.70	27.13	32.90	34.90
Income from Property	0.92	0.92	1.04	1.06	1.33	1.37
Interest, dividends and profits	1.34	1.59	2.00	1.73	2.41	2.73
Transfers	1.55	2.86	1.70	3.29	1.54	2.41
Sale of Goods and Services	4.03	3.92	4.47	4.86	5.32	6.54
Reimbursement of Expenditure	1.11	1.25	1.18	0.84	1.58	1.96
Total Current Revenue	43.78	47.63	50.65	55.71	65.16	73.78
Capital Revenue						
Loan Repayments from other sectors	0.81	0.48	0.86	1.16	1.19	3.56
Transfers from Rest of World	5.58	9.32	9.51	4.73	3.34	1.86
Sale of Capital Assets	-	0.01	-	0.01	0.02	-
Total Capital Revenue	6.39	9.81	10.37	5.90	4.55	5.42
Total Revenue	50.18	57.44	61.02	61.61	69.71	79.20
Capital Grants and Loans	8.05	11.39	12.01	11.87	15.83	16.17
Total Revenue and Finance	58.23	68.83	73.03	73.48	85.54	95.37

a/ See footnotes to Table 34

b/ Provisional

Sources: Statistical Abstracts
Economic Surveys

Table 36: ECONOMIC ANALYSIS OF CURRENT AND DEVELOPMENT EXPENDITURES, 1963/64-1967/68a/

K £ Million

	1963/64	1964/65	1965/66	1966/67	1967/68
Current Expenditures					
Consumption	29.33	34.76	37.53	41.76	44.01
Subsidies	0.41	0.28	0.78	0.62	2.47
Interest	4.05	4.41	4.73	5.25	5.40
Transfers	16.57	13.96	13.72	13.76	14.80
Total Current	50.37	53.41	56.77	61.39	66.68
Capital Expenditures					
Gross Capital Formation	3.15	4.43	6.43	10.01	14.38
Transfers to Rest of World	5.95	3.49	3.97	3.40	2.64
Loan Repayments	2.27	3.13	4.68	3.47	2.72
Loans to Other Sectors	6.38	6.08	5.68	6.61	7.56
Total Capital	17.75	17.13	20.76	23.49	27.30
Total Current and Capital	68.12	70.54	77.53	84.88	93.98

a/ See footnotes to Table 34

Sources: Statistical Abstracts
Economic Surveys

Table 37: FUNCTIONAL ANALYSIS OF CURRENT REVENUE, 1963/64 - 1969/70 (Estimates)

K £ million

	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69 Revised Estimates	1969/70 b/ Estimates
Taxes on Income & Capital							
Income Tax a/	13.38	13.46	15.89	18.79	23.09	24.90	26.97
Export Duties	-	0.45	0.65	0.99	0.41	0.40	0.40
Estate Duties & Land Premia	0.03	0.05	0.30	0.44	0.49	0.40	0.35
Total	13.41	13.96	16.84	20.22	23.99	25.70	27.72
Taxes on Consumption & Production							
Import Duties	13.69	15.89	17.20	20.08	19.76	21.55	21.23
Excise Duties	6.02	6.24	6.30	8.47	10.35	11.86	12.25
Stamp Duty	0.78	0.72	0.70	0.80	0.79	0.80	0.82
Petrol & Diesel Tax	1.07	1.15	1.18	1.56	1.68	1.45	1.80
Traffic Licenses & [illegible] Fees	0.80	0.84	0.97	1.31	1.40	1.40	1.42
Other	1.00	0.93	1.13	0.97	1.30	1.18	0.61
Total	23.36	25.77	27.48	33.19	35.28	38.24	38.87
Provision of Goods & Services	4.54	5.14	5.16	6.19	7.18	8.21	9.59
Loan Charges	2.03	2.67	2.72	3.59	5.85	3.71	3.43
Reimbursement from Other Administrations	1.08	0.95	0.62	1.20	1.40	1.63	1.63
Miscellaneous	2.08	1.04	4.80	1.58	2.78	3.60	3.35
Aid from U.K. Govt.							
O.S.A.S.	4.53	3.55	2.38	2.71	1.58	0.66	-
Grants-in-Aid	0.57	1.31	0.05	0.04	0.03	0.05	0.02
Other Loans	3.87	2.72	2.17	2.22	1.27	-	-
Other Foreign Loans & Grants	0.10	0.08	0.14	0.10	0.09	0.12	0.09
Total	9.07	7.66	4.74	5.07	2.97	0.83	0.11
Total Current Revenue	55.57	57.19	62.36	71.05	79.45	81.91	84.70

a/ Including Graduated Personal Tax
b/ Uncorrected figures containing errors in addition.
Sources: Statistical Abstracts
Economic Surveys
Statistics Division of the Ministry of Economic Planning and Development

Table 38: FUNCTIONAL ANALYSIS OF DEVELOPMENT REVENUE
1963/64 - 1969/70 (Estimates)

K£ million

	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69 Estimates	1969/70 Estimates
Grants Received							
United Kingdom	4.41	3.47	2.43	0.51	0.17	0.26	0.13
US AID	0.27	0.17	0.02	0.02	-	-	-
Peoples Republic of China	-	1.07	-	-	-	-	-
Other External Grants	0.06	0.04	0.08	0.07	0.04	0.24	0.30
Local Grants	0.07	0.04	0.06	0.04	-	-	0.03
Total Grants	4.80	4.80	2.58	0.64	0.21	0.50	0.46
Loans Raised							
U.K. Government	5.86	6.20	3.95	2.28	3.17	3.62	4.33
Commonwealth Dev. Corp.	-	0.14	0.07	0.10	0.12	-	-
Barclays Dev. Corp.	-	0.11	-	-	-	-	-
US AID	-	-	2.22	0.70	0.61	0.33	0.35
IBRD	0.27	0.27	0.14	0.36	0.08	0.22	-
IDA	-	0.03	0.51	1.42	1.47	4.32	5.31
Federal Republic of Germany	0.73	1.22	0.20	0.53	0.54	0.55	1.00
Other External	-	0.01	0.17	0.23	0.30	0.84	2.17
Total External	6.86	7.98	7.26	5.62	6.29	9.88	13.15
EA Market Issues	-	1.03	0.56	7.49	7.95	8.20	11.00
EA Other	0.03	-	0.18	0.33	0.61	-	-
Total EA	0.03	1.03	0.74	7.82	8.56	8.20	11.00
Total Loans	6.89	9.01	8.00	13.44	14.85	18.08	24.15
Miscellaneous	1.55	1.99	0.53	0.40	0.85	0.12	0.23
Total Development Revenue	13.25	15.80	11.11	14.48	15.93	18.70	24.84

Sources: Statistical Abstracts
Economic Surveys

Table 39: FUNCTIONAL ANALYSIS OF CURRENT EXPENDITURE 1963/64 - 1969/70 (Estimates)

K £ million

	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69 Estimates	1969/70 a/ Estimates
General Services							
Administration	3.33	4.65	4.46	4.53	4.56	4.88	5.94
Defense, Law & Order	9.02	10.93	12.43	14.55	16.29	15.97	16.37
Other	1.44	1.64	1.74	2.38	1.32	2.28	2.52
Total	13.79	17.22	18.63	21.47	22.17	23.13	24.83
Economic Services							
Agriculture & Veterinary	3.98	4.25	5.55	4.84	6.78	7.75	6.21
Forestry, Game & Fisheries	1.00	1.22	1.26	0.97	1.41	1.57	1.66
National Parks & Tourism	0.11	0.09	0.13	0.14	0.14	0.15	0.15
Commerce & Industry	0.11	0.33	0.28	0.85	3.12	1.12	1.23
Other	0.98	1.14	1.08	1.60	1.25	1.43	1.39
Total	6.18	7.03	8.30	8.40	12.70	12.02	10.64
Social Services							
Education	6.96	6.21	5.85	7.16	7.87	8.86	10.14
Health	2.90	3.03	3.55	3.84	4.26	4.58	4.97
Housing	0.04	0.03	0.04	0.07	0.08	0.10	0.11
Other	0.90	1.72	1.91	2.29	2.36	2.51	2.05
Total	10.80	10.99	11.31	13.36	14.57	16.05	17.57
Community Services							
Roads	1.60	1.34	1.78	1.86	2.00	2.46	2.66
Water	0.75	1.05	1.16	1.61	1.32	1.50	1.73
Other	0.08	0.05	0.03	0.05	0.06	0.09	0.11
Total	2.42	2.44	2.97	3.53	3.38	4.05	4.50
Recurrent Financial Obligations							
Public Debt	5.20	6.36	7.70	8.32	8.09	9.03	9.88
Pensions, Gratuities & Compensation	10.95	8.12	7.64	7.42	6.47	4.12	4.03
Transfers to Local Authorities, n.e.s.	0.63	2.00	3.36	2.88	3.86	5.61	5.43
Other	1.06	0.01	0.71	0.37	0.27	0.28	0.11
Total	17.84	16.49	19.41	18.99	18.69	19.04	19.45
Unallocable	3.01	2.75	2.64	2.79	2.91	3.18	3.21
Total	54.04	56.92	63.27	68.53	74.41	77.47	80.19

Sources: Statistical Abstracts, Economic Surveys, Ministry of Economic Planning and Development.

a/ containing certain errors in addition

Table 40: FUNCTIONAL ANALYSIS OF DEVELOPMENT EXPENDITURE
1963/64 - 1969/70 (Estimates)

K £ million

	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69 Revised Estimates	1969/70 Estimates
General Services	0.82	0.61	0.72	0.78	1.77	1.73	2.18
Economic Services							
Agriculture & Veterinary	9.48	8.49	5.54	5.65	4.92	4.84	4.99
Forestry	0.09	0.12	0.20	0.79	0.64	0.50	0.69
Game & Fisheries	0.02	0.01	0.15	0.11	0.19	0.23	0.50
National Parks & Tourism	0.04	0.13	0.05	0.32	0.70	0.41	0.65
Commerce & Industry	-	0.03	0.06	0.53	0.73	0.64	1.18
Other	0.03	0.44	0.47	0.57	0.77	1.08	1.23
Total	9.66	9.22	6.47	7.97	7.96	7.69	9.24
Social Services							
Education	0.43	0.60	1.04	0.76	1.97	2.87	2.17
Health	0.16	0.14	0.17	0.23	0.87	1.30	2.06
Housing	0.13	0.51	0.47	1.34	0.82	2.00	2.26
Other	0.04	0.10	0.44	0.48	0.31	0.31	0.47
Total	0.76	1.35	2.12	2.81	3.97	6.48	6.96
Community Services							
Roads	1.88	1.62	3.40	3.90	4.57	6.31	8.01
Water	0.47	0.20	0.48	0.56	0.79	0.61	0.85
Other	0.01	0.04	0.02	-	-	-	-
Total	2.36	1.86	3.90	4.47	5.36	6.92	8.86
Financial Obligations	0.29	0.47	0.78	-	0.12	0.40	0.90
Unallocable Expenditure	0.18	0.11	0.26	0.32	0.39	0.47	0.33
Total Development	14.08	13.62	14.25	16.36	19.57	23.69	28.47

Sources: Statistical Abstracts
Economic Surveys

Table 41: ECONOMIC ANALYSIS OF EAST AFRICAN COMMUNITY EXPENDITURE IN KENYA, 1963/64 - 1967/68
(General Fund Services)

K £ Million

	1963/64	1964/65	1965/66	1966/67	1967/68
Recurrent Expenditure					
Consumption					
Wages & Salaries	2.69	3.05	2.96	3.17	3.25
Other Goods & Services	0.57	0.62	0.68	0.78	0.97
Total Consumption	3.25	3.67	3.63	3.95	4.22
Interest on Internal Debt	0.03	0.04	0.04	0.04	0.03
Transfers	0.67	0.63	0.77	0.87	1.32
Total Current Expenditure	3.95	4.34	4.44	4.86	5.57
Capital Expenditure					
Gross Capital Formation					
Residential Building	0.01	0.04	0.06	0.04	0.03
Non-Residential Buildings	-	0.02	0.01	0.01	0.02
Construction & Works	-	-	0.01	-	-
Plant, Machinery, & Equipment	0.07	0.08	0.07	0.15	0.10
Vehicles	-	0.01	0.01	0.01	0.04
Total Capital Formation	0.08	0.15	0.16	0.21	0.19
Loan Repayments to Other Sectors	0.05	0.03	0.04	0.05	0.01
Total Capital Expenditure	0.13	0.18	0.19	0.26	0.20
Total Expenditure	4.08	4.52	4.63	5.13	5.77

Source: Economic Surveys

Table 42: FUNCTIONAL ANALYSIS OF EAST AFRICAN COMMUNITY EXPENDITURE IN KENYA, 1963/64 - 1967/68 (General Fund Services)

K £ million

	1963/64	1964/65	1965/66	1966/67	1967/68
General Services					
Central Administration	0.31	0.33	0.38	0.47	0.32
Law and Order	0.09	0.11	0.12	0.11	0.09
Revenue Collection & Financial Control	1.41	1.75	1.75	1.81	2.06
Total General Services	1.82	2.19	2.25	2.38	2.47
Social Services					
Education	0.17	0.19	0.23	0.26	0.38
Health	0.02	0.03	0.02	0.02	0.02
Total Social Services	0.19	0.21	0.24	0.28	0.40
Economic Services					
Agriculture & Veterinary	0.39	0.41	0.41	0.52	0.58
Commerce & Industry	0.09	0.08	0.08	0.09	0.07
Transportation (excluding roads)	0.55	0.67	0.66	0.77	0.83
Meteorology	0.33	0.33	0.33	0.33	0.38
Total Economic Services	1.35	1.49	1.48	1.71	1.86
Financial Obligations					
Public Debt	0.08	0.07	0.08	0.14	0.30
Pensions & Gratuities	0.23	0.21	0.23	0.25	0.30
Compensation Payments	0.37	0.33	0.32	0.34	0.05
Total Financial Obligations	0.68	0.61	0.63	0.73	0.65
Unallocable Expenditure	0.05	0.02	0.03	0.03	0.39
Total Expenditure	4.08	4.52	4.63	5.13	5.77

Source: Economic Surveys

Table 43: REVENUES AND EXPENDITURES OF MUNICIPALITIES AND LOCAL AUTHORITIES, 1964 - 1968

K £ thousand

	1964[a/]	1965[a/]	1966[a/]	1967[b/]	1968[b/]
Revenue					
Graduated Personal Tax	4,150	4,907	5,338	5,682	6,103
Rates	2,392	2,257	2,302	2,360	2,506
Indirect Taxes (Licenses & Cesses)	613	481	585	904	763
Sale of Goods & Services	5,271	5,580	7,118	7,023	7,546
Income from Property	1,160	1,238	1,281	1,384	1,473
Government Grants	2,235	2,874	3,459	3,835	4,163
Loans Raised	810	433	626	1,356	1,437
Miscellaneous	800	1,191	586	899	964
Deficit	106	-	-	364	1,370
Total Revenue	17,537	18,961	21,295	23,807	26,325
Expenditure					
Administration	1,834	1,644	1,881	2,041	2,258
Community Services					
Roads	2,083	1,946	2,666	2,344	2,591
Sanitary Services	1,075	1,208	1,173	1,287	1,416
Other	431	457	427	322	355
Total Community Services	3,589	3,611	4,267	3,953	4,362
Social Services					
Health	1,547	1,747	1,916	2,310	2,554
Education	6,138	7,024	7,999	9,311	10,325
Housing	395	226	217	688	757
Community Development	-	-	1	151	166
Other	605	690	653	665	733
Total Social Services	8,685	9,687	10,786	13,125	14,535
Trading & Economic Services	3,017	2,978	3,867	3,639	4,007
Unallocable	412	317	554	692	766
Surplus	-	724	60	-	-
	17,537	18,961	21,295	23,807	26,325

a/ Includes Urban Area and Rural District Councils.
b/ Provisional ; includes Urban Area Councils

Source: Economic Surveys

Table 44: ENROLLMENT IN PRIMARY AND SECONDARY SCHOOLS, 1964-1968[a/]

thousands

	1964	1965	1966	1967	1968
Primary Schools					
Standard 1	180.3	195.7	193.9	228.8	250.8
Standard 2	144.8	165.8	166.1	183.6	207.7
Standard 3	139.7	139.3	152.9	165.6	178.5
Standard 4	145.0	135.1	130.3	146.9	158.9
Standard 5	134.0	126.4	120.9	123.8	132.7
Standard 6	122.6	122.5	132.7	136.8	134.2
Standard 7	114.4	121.3	146.2	147.5	146.8
Standard 8[b/]	33.9	36.0	0.4	-	-
Total Primary	1,014.7	1,042.1	1,043.4	1,133.2	1,209.6
Secondary Schools					
Form 1	12.7	19.0	24.1	31.8	35.6
Form 2	9.1	12.6	18.5	26.6	28.5
Form 3	7.0	7.8	11.2	16.9	19.5
Form 4	5.6	6.8	7.1	10.8	14.6
Form 5	0.9	1.1	1.4	1.6	1.8
Form 6	0.6	0.7	0.9	1.1	1.4
Total Secondary	35.9	48.0	63.2	88.8	101.4

a/ Excluding "Harambee" Secondary Schools

b/ Standard 8 no longer exists in primary schools

Source: Statistical Abstracts
Economic Survey, 1968

Table 45: UNIVERSITY COLLEGE, NAIROBI - ENROLMENT OF KENYAN STUDENTS 1964/65 - 1968/69

Numbers

	1964/65	1965/66	1966/67	1967/68	1968/69
Undergraduates					
Arts	70	132	187	276	319
Science	43	65	97	138	142
Commerce	22	41	51	86	108
Architecture	12	16	17	32	27
Engineering	71	94	105	117	133
Veterinary Science	17	27	32	39	42
Medicine	-	-	-	19	52
Building & Land Economics	-	-	-	-	36
Total Undergraduates	235	375	489	707	859
Post-Graduate Students	27	35	44	44	25
Diploma Courses					
Domestic Science	28	28	27	27	38
Art/Design	17	21	23	22	12
Architecture	7	4	1	1	-
Land Development	25	16	17	16	-
Land Survey	2	-	-	-	-
Advanced Nursing	-	-	-	-	10
Total Diploma	79	69	68	66	60
Other Courses	8	-	-	5	3
All Kenya Students	349	479	601	822	947
Students from Other Countries	302	447	550	698	832
Total all Students	651	926	1,151	1,520	1,779

Source: Economic Survey, 1969

Table 46: HOSPITAL BEDS AVAILABLE AND NUMBER OF MEDICAL PRACTITIONERS AND DENTISTS, 1964 - 1968

Numbers

	1964	1965	1966	1967	1968
Type of Hospital					
Government	6,931	7,334	7,550	7,928	...
Private	1,589	1,617	1,600	1,590	...
Mission	3,091	3,232	3,288	4,090	...
Total	11,611	12,183	12,438	13,608	13,615
Medical Practitioners					
Registered Doctors	635	699	820	870	930
Licensed Doctors	75	...	90	100	146
Total	710	...	910	970	1,076
Dentists	26	39	49	42	55

Source: Economic Survey, 1968

Table 47: COMPARISON OF 1964-70 PLANNED TARGETS (ADJUSTED) AGAINST PERFORMANCE ACHIEVED 1964-68 AT CONSTANT 1964 PRICES

	Published Plan			Adjusted Plan			Growth Rates	
	GDP Old Series			GDP New Series				
	1964 Old Series K£m	Target 1970 K£m	Growth Rate %	1964 K£m	1968 K£m	Target 1970 K£m	Adjusted Plan 1964-70 %	Actual 1964-68 %
Monetary Sector								
Agriculture and Livestock	46.22	66.25	6.2	51.97	61.91	74.00	6.2	4.5
Forestry	0.92	1.65	10.2	1.88	2.53	3.37	10.2	7.7
Fishing	0.87	2.95	22.6	0.85	1.14	2.92	22.6	7.6
Mining	0.75	1.20	8.2	1.46	1.44	2.34	8.2	-0.3
Manufacturing	29.38	46.60	8.0	33.74	42.11	53.64	8.0	5.7
Building and Construction	4.38	12.00	18.3	6.82	10.25	18.69	18.3	10.8
Electricity and Water	3.47	5.10	6.7	4.84	5.70	7.15	6.7	4.2
Transport etc.	26.30	39.50	7.0	25.14	38.66	37.71	7.0	11.3
Trade	34.06	48.30	6.0	32.98	42.63	46.83	6.0	6.6
Banking etc.	4.49	7.10	8.0	11.60	16.17	18.44	8.0	8.6
Ownership Dwellings	9.54	11.70	3.5	13.34	13.88	16.41	3.5	1.0
Other Services	18.30	28.20	7.5	11.90	17.34	18.39	7.5	9.9
Economic Enterprises	178.68	270.55	7.1	196.52	253.76	298.99	7.2	6.6
Domestic Services	-	-	-	2.94	3.73	3.31	2.0	6.1
General Government	34.11	51.20	7.0	43.00	59.48	64.50	7.0	8.4
Total Monetary Sector	212.79	321.75	7.1	242.46	316.87	367.70	7.2	6.9
Non Monetary Sector								
Agriculture)	68.53	83.10	3.2	73.36	87.14	-	-	4.3
Other)				15.53	17.96	-	-	3.6
Total	68.53	83.10	3.2	88.89	105.10	107.56	3.2	4.2
TOTAL GDP	281.32	404.85	6.3	331.35	422.07	475.26	6.2	6.3

Source: Statistics Division, Ministry of Economic Planning and Development.

Table 48: **PROPOSED PUBLIC SECTOR DEVELOPMENT EXPENDITURE 1969/70 To 1973/74**

	69/70	70/71	71/72	72/73	73/74	Total
			KL Millions			
AGRICULTURE						
Agriculture, livestock, irrigation	4.30	4.83	4.33	5.10	6.11	24.67
Land Settlement, transfer and registration	3.75	3.12	3.33	2.60	2.12	14.92
TOTAL	8.05	7.95	7.66	7.70	8.23	39.59
NATURAL RESOURCES						
Forestry	1.06	1.17	1.19	1.26	1.26	5.93
Fisheries	0.31	0.30	0.21	0.27	0.27	1.36
Mines and geology	0.03	0.03	0.03	0.03	0.03	0.15
TOTAL	1.40	1.50	1.43	1.56	1.56	7.44
TOURISM						
Tourism	0.40	0.69	0.79	0.45	0.35	2.68
Game and National Parks	0.38	0.29	0.29	0.27	0.25	1.48
TOTAL	0.78	0.98	1.08	0.72	0.60	4.16
COMMERCE, INDUSTRY AND CONSTRUCTION						
Commerce and industry	1.53	1.89	2.24	2.58	2.92	11.16
National Construction Corporation	0.29	0.12	0.07	0.08	0.09	0.66
TOTAL	1.82	2.01	2.31	2.66	3.01	11.82
SOCIAL SERVICES						
Education	2.07	3.72	4.08	3.61	3.00	16.48
Housing	2.26	2.47	2.87	3.32	3.97	14.89
Health	2.35	2.98	3.10	3.13	3.20	14.76
Local authorities	0.30	0.60	0.90	1.20	1.50	4.50
Information services	0.30	0.32	0.41	0.39	0.38	1.80
National Social Security Fund	0.50	0.50	-	-	-	1.00
Social.Cultural Programs 1/	0.23	0.29	0.39	0.25	0.21	1.37
TOTAL	8.02	10.88	11.75	11.89	12.26	54.80
RURAL DEVELOPMENT						
TOTAL	0.25	0.25	0.50	0.50	1.00	2.50
BASIC SERVICES						
Roads	8.08	8.93	7.70	8.79	9.54	43.04
East African Railways	4.14	4.69	4.47	4.40	3.59	21.29
East African Harbours	1.20	2.21	2.77	2.77	2.63	11.58
Government buildings	1.54	1.87	1.81	1.86	2.05	9.12
Airports	0.49	0.72	1.36	2.34	2.53	7.43
Water supplies	0.85	1.28	1.58	1.90	2.35	7.96
Posts and telecommunications	1.37	1.71	1.33	1.14	1.24	6.81
East African Airways	1.38	1.39	1.42	1.27	0.86	6.30
Miscellaneous	0.14	-	-	-	-	0.14
TOTAL	19.20	22.81	22.43	24.46	24.77	113.67
INTERNAL SECURITY AND DEFENSE						
Police	0.30	0.92	0.71	0.74	0.51	3.17
Defense	0.34	0.30	0.30	0.30	0.30	1.54
Prisons	0.29	0.24	0.23	0.24	0.24	1.24
Other	0.08	0.07	0.06	-	-	0.22
TOTAL	1.01	1.53	1.30	1.28	1.05	6.17
FINANCIAL INSTITUTIONS						
East Africa Development Bank	0.60	0.60	-	-	-	1.20
Kenyan institutions	0.65	0.50	0.18	0.10	0.10	1.53
TOTAL	1.25	1.10	0.18	0.10	0.10	2.73
TOTAL PUBLIC SECTOR	41.78	49.01	48.64	50.87	52.58	242.87
Less planned expenditure not financed by central government	9.37	11.18	10.62	10.07	8.80	50.04
Planned expenditure by Central Government	32.41	37.82	38.02	40.80	43.78	192.82
Less estimated under-expenditure	1.41	4.82	2.52	2.30	1.78	12.82
TOTAL ESTIMATED EXPENDITURE	31.00	33.00	35.50	38.50	42.00	180.00

1/ community development, social welfare, adult education, National Youth Service, library service, museums, archives, theatres and sports.

Table 49: PLAN PROJECTION OF TOTAL SUPPLY AND USE OF RESOURCES, 1967-74 AT CONSTANT (1967) PRICES

KL Millions

	1967	1974	Average Annual Increase 1967-74
Available Resources			
GDP at factor cost	406.7	640.4	6.7
+ Indirect taxes - subsidies	33.1	56.7	-
= GDP at market prices	439.8	697.1	6.8
+ Import surplus	9.7	26.9	-
= Total available resources	449.5	724.0	7.0
Use of Resources			
Fixed Investment	87.3	158.5	8.9
+ Increase in stocks	6.7	11.8	8.4
= Gross Capital Formation	94.0	170.3	8.8
Public consumption	64.4	114.0	8.5
+ Private consumption	291.1	439.7	6.1
= Total Consumption	355.5	553.7	6.5
= Total use of resources	449.5	724.0	7.0
Domestic Savings			
Gross capital formation	94.0	170.3	8.8
- Import surplus	9.7	26.9	-
= Gross domestic savings	84.3	143.4	7.9
- Factor payments abroad	8.6	8.3	-
= Gross national savings	75.7	135.1	8.6

Table 50: PLAN PROJECTIONS OF THE BALANCE OF PAYMENTS, CURRENT ACCOUNT, 1967-74
(K£ millions at current prices)

	1967	1968	1974	1970-74	Average Annual % Increase 1967-74
Merchandise exports, f.o.b.	79.3	84.2	119.3	532.4	6.0
Merchandise imports, c.i.f.	-116.6	-120.2	-206.9	-883.1	8.5
Trade balance	- 37.3	- 36.0	- 87.6	-350.7	-
Exports of services:					
Freight and insurance	9.6	10.0	15.0	-	6.6
Other transportation	16.0	14.9	23.5	-	5.6
Foreign travel	14.7	16.4	37.0	-	14.1
Other services	10.3	9.3	10.6	-	0.4
Total	50.6	50.6	86.1	366.2	7.9
Imports of services:					
Freight and insurance) Other transportation)	-7.9	-8.9	-12.4	-	6.6
Foreign travel	-7.0	-7.6	-9.5	-	4.5
Other services	-8.2	-12.8	-17.1	-	11.1
Total	-23.1	-29.3	-39.0	-176.1	7.8
Balance of Services	27.5	21.3	47.1	190.1	-
Balance of goods and services	-9.7	-14.7	-40.5	-160.6	-
Net factor payments	-8.6	-4.3	-8.3	-34.4	-
Current Balance 1/	-18.3	-19.0	-48.8	-195.0	-

1/ excluding net general government interest and transfers.

Table 51: RECENT AND PROJECTED GROWTH OF EMPLOYMENT AND PRODUCTIVITY IN MANUFACTURING

A. Employment

ISIC	Industry	Employment Actual 1963	Employment Actual 1967	Employment Projected 1974	Growth Rate Actual 1963-67 %	Growth Rate Projected 1967-74 %
20	Food Processing	10,171	11,980	15,420	4.2	3.7
21 & 22						
21 & 22	Beverages & Tobacco	4,052	3,534	4,555	Negative	3.7
23	Textiles	4,056	5,787	8,386	9.4	6.4
24	Footwear & Clothing	2,936	4,902	6,100	13.7	3.1
25, 26, 27, 28	Timber, Wood Products Pulp & Paper printing and Publishing	10,721	10,703	14,565	Negative	4.5
29	Leather & Leather Products	357	474	900	7.4	9.6
30, 31 & 32	Rubber, Chemicals & Petroleum	3,825	3,599	4,808	Negative	4.3
33	Clay, Glass, Pottery Cement and Non-Metallic Minerals	1,800	2,056	2,600	3.3	3.4
35, 36, 37, 38	Metal Working, Machinery Vehicles & Repairs	19,631	21,573	25,412	2.4	2.4
39	Miscellaneous	715	1,039	1,754	9.7	7.8
	Total	58,264	65,647	85,000	3.1	3.7

B. Productivity

ISIC	Industry	Productivity[a] Actual 1963	Productivity[a] Actual 1967	Productivity[a] Projected 1974	Growth Rate Actual 1963-67	Growth Rate Projected 1967-74
20	Food Processing	476	526	748	2.5	5.1
21 & 22	Beverages & Tobacco	964	1,489	1,734	11.4	2.1
23	Textiles	236	311	542	7.2	8.2
24	Footwear & Clothing	432	381	456	Negative	2.6
25, 26, 27, 28	Timber, Wood Products, Pulp & Paper Printing and Publishing	341	511	788	10.7	6.4
29	Leather & Leather Products	363	412	576	3.1	4.9
30, 31 & 32	Rubber, Chemicals & Petroleum	575	1,611	2,503	29.4[b]	6.5
33	Clay, Glass, Pottery, Cement and Non-Metallic Minerals	789	1,190	1,721	10.9	5.5
35, 36, 37, 38	Metal Working, Machinery Vehicles & Repairs	435	587	821	7.8	4.9
39	Miscellaneous	346	579	570	13.7	Negative
	Total	466	646	911	8.6	5.0

a/ Value Added per employee.

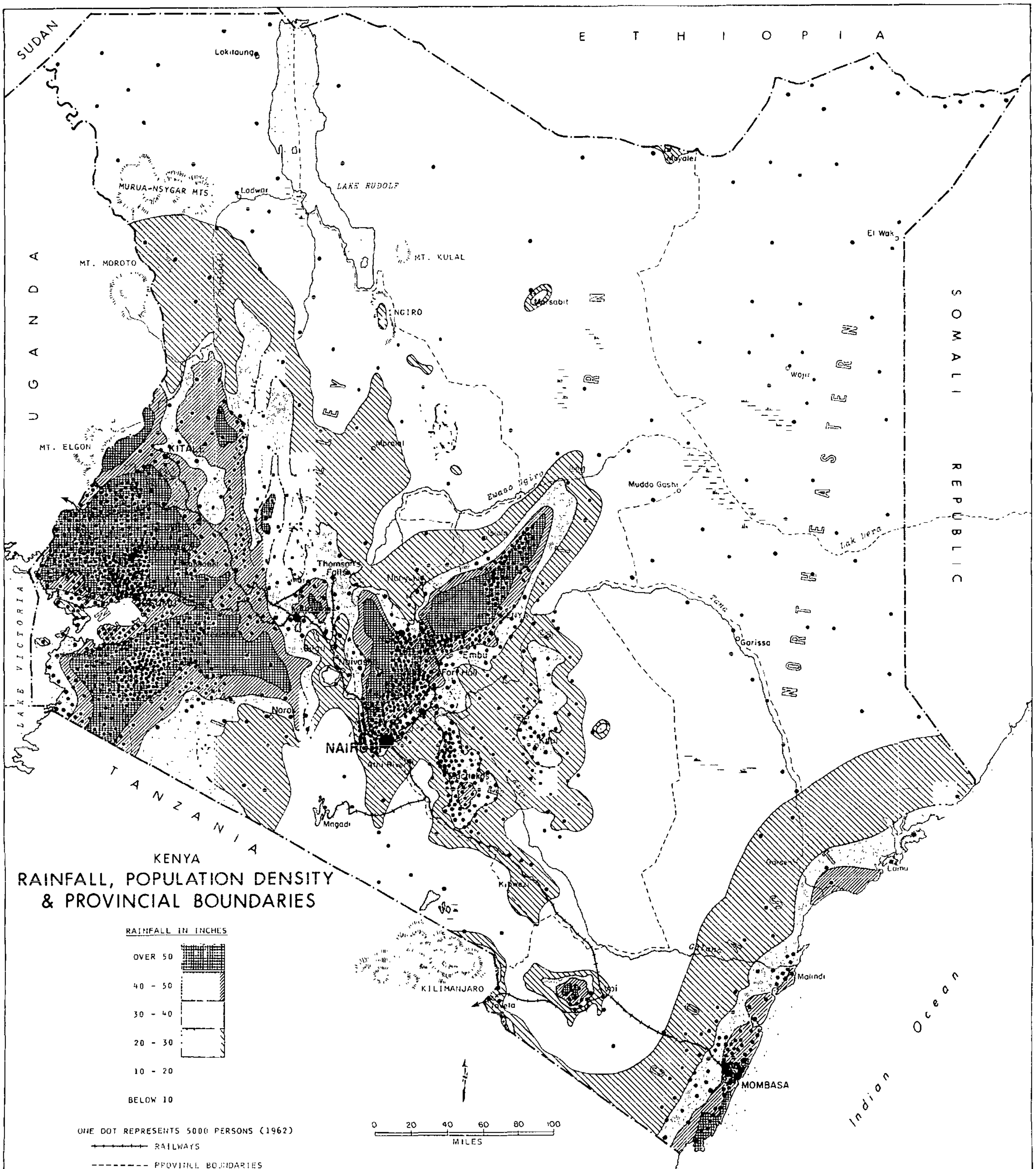
b/ Caused by the timing of the Oil Refinery.

Source: Statistical Abstract 1968, and Ministry of Planning & Development.

Table 52: VALUE ADDED RATIO AND GROWTH IN PRODUCTIVITY, 1963-67

ISIC	Industry	Ratio of Value Added to Gross Value of Output (Percentages) 1963	1967	Change	Growth of Value Added per Worker (K£ Per Unit) 1963-67
20	Food Processing	21.5	17.2	-4.2	2.5
21 & 22	Beverages & Tobacco	42.5	46.6	+4.1	11.4
23	Textiles	35.5	29.1	-6.4	7.2
24	Footwear & Clothing	33.0	26.9	-6.1	negative
25, 26, 27, 28	Timber, Wood Products, Pulp & Paper Printing & Publishing	42.3	37.3	-5.0	10.7
29	Leather & Leather Products	22.9	21.5	-1.4	3.1
30, 31, 32	Rubber, Chemicals, & Petroleum	21.6	34.2	+12.6	29.4
33	Clay, Glass, Pottery, Cement, & Non-mettalic minerals	44.2	41.4	-2.8	10.9
35, 36 37, 38	Metal Working, Machinery Vehicles & Repairs	44.7	49.2	+4.5	7.8
39	Miscellaneous	31.2	33.3	+2.1	negative
	Total	33.6	33.4	-0.2	5.0

Source: Computed from data provided by Ministry of Planning and Development.



JULY 1969
IBRD-2029