DEVELOPMENT PLAN

For the Period 1984 to 1988

This Plan—Kenya's Fifth—covers the projected growth of the economy over the five calender years 1984–1988 and, more specifically, the investment programme of the Government in the five financial years 1983/84 to 1987/88.

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INTRODUCTION

by

HIS EXCELLENCY THE PRESIDENT
HON. DANIEL ARAP MOI

It is fitting that this, the Fifth, Development Plan should be published on the twentieth anniversary of *Uhuru*. The Plan serves a dual purpose. On the one hand, it summarises the achievements of the last twenty years and the difficulties we have encountered, and for the most part overcome, on the way. On the other hand, it lights our way forward by confirming our long-term objectives and establishing a development strategy for making significant progress toward them over the course of the next five years.

The progress of the last twenty years is reflected in the higher incomes and living standards of the people and the stronger resource base on which to build future progress. Perhaps even more important, our accomplishments since Independence are truly a result of the will and energy of the people as a nation and that record should instil confidence in all Kenyans that future obstacles to progress will yield to persistent effort.

One lesson we have all learned is that development requires dedication and hard work. That kind of continuing commitment is explicitly stated in the theme of the Plan—**"mobilising domestic resources for equitable development."** Put bluntly, we must work harder, especially where incomes are lowest, and we must all save more of our incomes to build an even stronger base for future development.

This Plan requires of all of us greater participation in the nation's development effort in order to ensure that all of us share in the benefits that emerge with successful development. With your dedicated effort and co-operation, I have no doubt that the challenging targets including the new employment opportunities established in this Plan will be realized and our nation will make significant progress in improving the well-being of all of our citizens. I call upon all Kenyans to implement this Plan in the spirit of our national motto *Harambee* and in accordance with the *Nyayo* philosophy of Peace, Love and Unity.

President

PREFACE

by

THE MINISTER FOR FINANCE AND PLANNING

This Plan, our fifth since Independence, outlines the objectives, policies and programmes for the nation's development efforts in the next five years. The long-term objectives of the nation, namely the improvement of the well-being of the people, have remained substantially unchanged since Independence. The country has developed fairly rapidly and we can look back over 20 years of progress with some satisfaction.

The country has had to absorb a number of international and local shocks such as the oil crises of 1973 and 1979, the world recession of the early 1980s and the droughts like those of 1979 and 1980. But there have also been some good years: the years of the coffee boom in 1977 and 1978, and Kenya's spectacular price stability throughout the 1960s and early 1970s.

We have seen the success of the Kenyanization programme—now a very small section of management of the economy is in the hands of non-citizens. And we have seen the expansion of the monetary economy spreading prosperity even to the remote regions of the country. But the current Plan has had to be made against the background of a world recession which has spilt over into Kenya in terms of our balance of payments crisis and serious debt service ratio. From 1976/77 when Kenya's debts service ratio was merely 2.8 per cent it has now risen to over 13 per cent of Gross Domestic Product. This presents a major strain on the economy and has led to the theme of the **mobilization of domestic resources for equitable development** which underlies this Plan. We must undertake many measures during the next five years to ensure that the economy recovers from this setback.

In this period, the Government is undertaking to improve the infrastructure of the economy so as to make it more attractive for private investors. We will aim to keep interest rates at levels which ensure real returns to encourage savings and a Monopolies and Prices Commission will be erected to protect the Wananchi from being exploited.

In line with the President's many exhortations, we are implementing the policy of making the **district the focus for development** thereby bringing the people into the forefront in *their own provision* of things for *their own welfare.*

There is also proposed a multi-pronged strategy for the mobilization of domestic resoures. We wish to remove the slack from the economy and increase the efficient utilization of resources specifically manpower, capital and land.

Another main area in which we are asking the people to co-operate in our strategies is that of cost sharing. The small sums that they will be asked to pay will enable the Government to expand the facilities which have enhanced the citizen's welfare such as education and health services, to the less favoured areas.

In this Plan will be found many references to modifications in the focus of education. The aim is to provide people with income earning professions. It is realized that a man's dignity is to be found in his self-realization, through his professional work, in his care for his family and for himself while building the nation. Some of these professions may appear humble but it is on them, as on the individual bricks in a building, that we will build a Kenya in which all prosper.

We will continue to pursue policies endorsing our traditional stand as a mixed economy but many of the targets that are proposed in this Plan are heavily dependent on the response of businessmen throughout the land. It is assumed that they will take advantage of the opportunities to enter the export markets which are being created and in this way produce the foreign exchange that is presupposed in our development targets.

The individuals and businesses of Kenya are also being looked to to increase their savings to finance the domestic element of the Plan strategies, both in the private and public spheres. It is assumed that many of those funds will be chanelled through financial institutions and not merely be re-invested directly by the savers. And as one crucial element of this, the Government will rationalise its own involvement in the parastatals. It will divest itself of some while others will be made to operate more efficiently.

Although Kenya has suffered in the recent past from the world recession, we do not now intend to isolate ourselves but rather we turn to our many friends abroad who have understood our quest for economic sovereignty and have not made their financial aid and technical assistance an insufferable burden.

But, in the end, the success or failure of this Plan must depend on our efforts, our sacrifices, our industry and our ingenuity. It is these characteristics, and our confidence in ourselves, that justify our pride and make tangible our faith in the future.

CHAPTER 1

PROGRESS SINCE INDEPENDENCE

1.1. This Plan, the fifth since Independence, covers the five-year periods spanned by calendar years 1984–88 and Financial Years 1983/84 to 1987/88, inclusive. The long-term objectives of the nation have remained substantially unchanged since Independence, but the framework of policies and programmes making up the development strategy has necessarily changed over time. This is because the strategy must be geared to emerging trends in the world and national economies. This chapter reviews Kenya's development experience since Independence. The progress achieved over this period has generated the basis for future development along the lines described in Chapter 2.

1.2. In this Chapter, we present data covering the period 1964 to 1981. Apart from reviewing developments over the entire period (1964–81), we shall also look at the comparative performance of the economy over the sub-periods 1964 to 1972 and 1972 to 1981, which may be loosely referred to as the two decades since Independence. In many respects, the economy was unable to maintain the tempo of development that was recorded in the first decade. The reasons for this are also discussed in this Chapter.

Economic Growth and Income Distribution

1.3. Realization of a high and growing *per capita* income is everywhere a central objective of economic planning. An equally important objective in Kenya is that of greater equality in the distribution of this income. It is in general easier to bring about improvements in the distribution of income if *per capita* income is rising rapidly. Success in achieving the second objective is thus dependent in part on success with respect to the first objective.

Growth Trends

1.4. Table 1.1 presents summary information about the growth of real Gross Domestic Product (GDP) for the entire period and various sub-periods.

1.5. The growth of the economy over the entire period 1964–81 was at an average annual rate of 5.2 per cent. Given an average population growth rate of 3.6 per cent for the period as a whole, *per capita* income has grown at an average annual rate of 1.5 per cent. Modest though this growth is, it compares well with rates of growth registered in neighbouring African countries, the countries of South Asia and China. However, as is shown in paragraph 1.54, the record in recent years has been one of declining *per capita* incomes, when adjustment is made for the adverse effects of the worsening in the country's terms of trade.

1.6. Production of Government services was the fastest growing sector during 1964–81, followed by industry, other services and agriculture, in that order. The relatively rapid growth of Government services has been in keeping with the objective of promoting African socialism through increasing state control and direction of the nation's resources. While this policy of increasing the Government's share in economic activities was right at that time and has served its purpose, it is now felt that there is a need to restrain further expansion of this share, as is explained in Chapter 2.

Growth of GDP at Factor Cost in Constant (1976) Prices

Table 1.1 (*Per cent per annum*)

Sector	1964–81	1964–72	1972–81
(i)	(ii)	(iii)	(iv)
GDP	5·2	6·2	4·4
Monetary	5·3	6·3	4·5
Agriculture[1]	3·7	4·7	2·9
Industry[2]	7·2	8·8	5·9
Government Services	8·1	10·2	6·3
Others	5·3	5·9	4·8
GDP per capita	1·5	2·7	0·6

1. Including forestry and fishing.
2. Comprising the four sectors mining and quarrying, manufacturing, building and construction, and electricity and water.

1.7. Columns (iii) and (iv) of Table 1.1 show that growth of the economy in all sectors slowed down perceptibly in the second "decade" compared to the first. This is a result of the oil crisis of this period and the subsequent prolonged recession in industrial countries, especially in the latter half of the seventies. Exports of goods and services constituted 29 per cent of Kenya's GDP in 1981, while imports amounted to 39 per cent in the same year. With this degree of participation in external trade, the worsening in the world environment hit Kenya hard. Indeed, the disruption and deterioration would have been more severe but for the fortuitous coffee boom of 1976–77 which led to a temporary improvement in the terms of trade.

Variation in Growth

1.8. During 1972–81 there were considerable fluctuations in the year-to-year rates of growth in different sectors of the economy. This is brought out in Table 1.2. Looking at the last row in this table, one finds that the rate of growth of total GDP fell markedly for the period 1973–76, mainly due to the oil price shock and its aftermath. There was also a drought affecting agricultural output in 1974. The coffee boom of 1976/77 explains the sharp recovery during 1976–78. The sluggish growth during 1978–80 was due to

Growth Rates in Sectoral GDP

Table 1.2

(*Per cent per annum*)

Sector	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
Agriculture	3·3	0·6	3·4	1·9	9·1	4·8	−0·9	−1·3	6·3
Industry	9·6	0·6	0·2	−0·8	13·4	13·0	7·1	4·7	5·7
Government Services	6·3	6·8	8·6	5·1	5·1	6·4	7·1	5·6	5·3
Others	2·1	4·0	0·7	3·3	7·9	5·7	6·8	5·2	5·2
TOTAL GDP	4·3	2·5	2·6	2·4	8·8	6·7	4·2	3·0	5·5

the petering out of the coffee boom, together with droughts in 1979 and 1980, and also a further sharp rise in oil prices towards the end of 1979. The growth rate recovered somewhat in 1981, thanks largely to a significant recovery in agriculture from the depression of the previous two years. These few explanatory comments highlight again the extent to which Kenya's economic performance is dependent on factors outside her own control.

Per Capita Income and Income Distribution

1.9. Table 1.1 shows that *per capita* income grew at the very satisfactory rate of 2.7 per cent per year during 1964 to 1972. Between 1972 and 1981, however, the growth slowed down to less than 1 per cent per year. These overall averages do not reveal disparities in the growth of income as between various groups such as Kenyans vs. non-Kenyans, rural vs. urban income earners, and low income earners vs. those at the top. Reliable quantitative information on trends in income distribution are not yet available. However, there are indications that income distribution has been changing over time in the direction of greater equality.

Kenyanization

1.10. The transfer of economic power to citizens and the removal of racial discrimination—has been a primary objective of Government policy since Independence. This objective has been promoted through various policy measures in the fields of employment, ownership of land and businesses, investment in parastatals, expenditure on education and training and strengthening of the co-operative form of organization.

1.11. In the area of employment, the process of Kenyanization has made rapid progress. The percentage of non-citizens in modern sector wage employment fell rapidly from 8.3 per cent in 1967 to 3.6 per cent in 1972. By 1982, this figure had fallen to a negligible 1.3 per cent. In the Civil Service, Kenyanization was virtually complete by the mid-sixties. To promote employment of Kenyans and Africans in top and middle-level jobs in the private sector, several surveys of high-level manpower were conducted to establish the prevailing situation and the development needs. Private investors were encouraged to train and promote Kenyans and a training levy was introduced to finance Government Training Programmes. Large investments were made in creating higher education and training facilities for Kenyan citizens. A Kenyanization of Personnel Bureau was created to monitor the progress made in the private sector in replacing non-citizens with qualified citizens and to advise the Department of Immigration with respect to the issuance of work permits for non-citizens. As a result of these measures, there has been considerable progress in Kenyanization of top-and middle-level positions in the private sector.

1.12. Another aspect of the Kenyanization programme has been to ensure that businesses are owned by citizens except when some over-riding national advantage for keeping it in the hands of non-citizens can be demonstrated. Majority shareholding in companies by foreigners has been allowed only in cases where the required volume of capital, or the technology and skills that capital has brought with it, would not be available locally. Many smaller businesses in retail trade, importation, restaurants, services etc. have been Kenyanized through transfer of existing businesses to Kenyans and through the creation of new enterprises owned by Kenyans. Parastatal bodies inherited at the time of independence have been reorganized and new parastatals have been created in part as a means of promoting Government participation in these activities until citizens could assume direct participation in the ownership and management of such enterprises.

1.13. In agriculture, Kenyanization has taken the form of transfer of ownership of former European-owned farms to Kenyans. In the first four years after Independence, over 2.3 million acres were transferred to Africans and somewhat less than half of this land was sub-divided for the settlement of about 46,000 families. The small family farm has demonstrated higher productivity and employment intensity per hectare and it has been Government policy to encourage small-holder production wherever feasible. The programme of land adjudication and registration is being vigorously pursued and less than 40 per cent of registrable land remains to be dealt with. Consequent on Government policy of creation and encouragement of small farms, small-holder production made rapid progress. The percentage of marketed production coming from small farms rose sharply from a figure of about 35 per cent at Independence to above 50 by 1967 and has stayed at about that level since. The productivity of small farms has been materially supported by marketing co-operatives. At the time of Independence, there were 693 agricultural co-operative societies. By the early 1980's this number had almost doubled and the total membership had grown five-fold.

Population, Labour Force and Employment

Population

1.14. Kenya's population has been growing very rapidly. According to adjusted Census figures and various demographic studies, the average annual growth rate between 1962 and 1969 was 3.4 per cent rising to about 3.8 per cent between 1969 and 1979, which has been used for projections in this Plan. It is of interest to note that the *World Development Report*, 1982 of the World Bank forecasts a higher growth rate (4.1 per cent) for Kenya's population for 1980–2000, which is the second highest projected population growth rate in the world, the only country exceeding this rate being Zimbabwe (4.3 per cent).

1.15. The distribution of population by race shows that the proportion of non-African population in the total fell steadily from 3.1 per cent in 1962 to 1.5 per cent in 1979. The sharpest relative decline occurred among Asians, who declined from 2.0 per cent of total population in 1962 to 0.5 per cent in 1979.

Labour Force and Employment

1.16. A large and growing population is both a liability and an asset. The nation's output of goods and services has to grow at a rate faster than the population if there is to be any improvement in the average standard of living, which is a central objective of planning for development. At the same time, a growing population means a growing labour force, which is an economic resource. The crucial question, therefore, is whether the country is able to absorb this growing labour force in productive employment. The qualification "productive" in this context signifies that, taking a long-run view, the average output of the new entrants in the labour force should not be less than the already existing average. Table 1.3 and 1.4 present data on labour force and employment in Kenya for some benchmark years.

1.17. Table 1.3 shows that in 1981 the output of about 40 per cent of the population had to support the remaining 60 per cent, made up of those who were either very young or very old, and those not in the labour force even though they were in the working age group. This high dependency ratio is, of course, a consequence of the high population growth rate. The age-distribution of the population according to the 1979 Census shows that about 60 per cent of the population were under the age of 20 years. Population in the primary school age group 6–14 was more than a quarter of the total. Besides education, the young need access to specialized health care and the right kinds of food for healthy growth. So high population growth rates impose special burdens on the society. That burden becomes even more onerous when society is unable to offer productive employment to a part of its labour force. This has been true for Kenya, as data on employment presented in Table 1.4 show.

1.18. Employment has grown over the period 1976 to 1981 at an annual average rate of 3 per cent, which is lower than the growth rates of population and labour force. This has meant a growing proportion of the labour force remaining unemployed, as shown by the last row of Table 1.4. It should be noted, however, that in the Kenyan context, as elsewhere in the developing world, there are difficulties in the use of the concept of an unemployed person as one who is without a job and is seeking one. In rural areas, most adults are employed in agriculture for at least part of the year and there is hardly any alternative employment which one might actively seek. The residual in Table 1.4 is thus an estimate of underemployment as well as open unemployment. Underemployment presses down average productivity or income per head, thus swelling the numbers of the working poor.

1.19. The last column in Table 1.4 shows the Fourth Plan *target* growth rates of sectoral and total employment, together with the expected rate of growth of the labour force during 1976 to 1983. Comparison with the estimated actual growth for 1976 to 1981 indicates that, on the one hand, the labour force has grown faster and, on the other, employment has grown at a slower rate. Instead of coming down, the percentage shown as "unemployed" therefore went up during 1976–81. Detailed comparisons show that the growth of employment has been slower than targetted in most sectors. One reason is that the growth of GDP over the period was slower than was expected—an average of 5.6 per cent in 1976–81 compared to 6.3 per cent expected in the Fourth Plan. Another reason is that policies aimed at increasing employment in the different sectors were not implemented early and vigorously enough.

Total Population, Population of Working Age and Dependency Ratios

Table 1.3 (*Millions and ratios*)

	1964	1972	1981
Total Population[1]	9·104	12·067	16·514
Population of Working Age[2]	4·461	5·551	7·762
Labour Force[3]	3·792	4·718	6·598
Dependency Ratio[4]	1·04:1	1·17:1	1·3:1
Alternative Concept of Dependency Ratio[5] ..	1·40:1	1·56:1	1·50:1

Footnotes to Table 1.3

1 The 1964 and 1972 figures are taken from Statistical Abstract for the years 1972 and 1974. The 1981 figure is estimated applying the annual growth rate of 3.8 per cent to 1979 Census figure.

2 Population in age-group 15–59. The age distribution of 1962, 1969 and 1979 Censuses respectively, have been used for 1964, 1972 and 1979.

3 Taken as 85 per cent of Population of Working Age (c.f. *Development Plan*, 1979–83, p. 34).

4 Ratio of dependents to population of working age. Dependent population defined as total population *minus* population of working age.

5 Ratio of dependent population to labour force. Dependent population defined as total population *minus* labour force.

Employment and Imputed Unemployment

Table 1.4 (*Millions*)

	1976[1]	1981	Growth Rate 1976–81	Target Growth Rate 1976–83 (Fourth Plan)
Labour Force	5·473	6·598	3·8	3·5
Fmployment				
Small Scale Agriculture ..	2·665	3·040	2·7	2·7
Pastoralists	0·390	0·445	2·7	2·7
Modern Sector	0·915	1·086	3·5	4·6
Rural Non-Farm	0·990	1·180	3·6	5·7
Urban Informal	0·125	0·157	4·7	6·5
Total Employment	5·085	5·908	3·0	3·8
Residual	0·388	0·690	12·2	0·1
Residual as % of Labour Force	7·1	10·5	—	—

Footnote[1] The figures in this column have been taken from *Development Plan*, 1979–83 Table 2.1, p. 34. However, the estimate of the labour force given there has been revised in the light of 1979 Census data on total population and its age distribution.

Productivity in the Modern Sector

1.20. The average productivity of labour may be measured as the gross product (value added) per head of workers employed in an enterprise. The level of this productivity depends mainly on the technique of production employed, in particular on the amount of capital employed per worker. The higher the ratio of capital employed to labour the higher, in general, is the average productivity of labour, assuming normal rates of utilization of the capital stock. High and growing labour productivity is desirable in that it tends to have a positive effect on the surplus available for reinvestment. However, it is important to consider the average productivity of the entire labour force and not just those with jobs. If production techniques are capital-intensive, so that the persons employed have a high average productivity, but there is substantial unemployment or underemployment, the economy-wide average labour productivity may be lower than if production techniques were more labour intensive, reducing average productivity per worker but permitting fuller employment of the labour force.

1.21. The average productivity of labour in different sectors of the economy may be measured by dividing the sectoral GDP figures by the number of people in wage employment in the respective sectors. These measures will not be accurate in that the GDP estimates cover both formal and informal activities, whereas the employment figures are given for the modern sector only. However, to the extent that the proportion between formal and informal activities and employment remains unchanged, the labour productivity estimated in the above manner will give a "wrong" (upward-biased) measure of the level, but a "right" measure of the rate of change over time. Such rates of change of sectoral labour productivity were measured from data on GDP and modern sector wage employment over 1968 to 1979. The estimated growth rates of labour productivity were as follows:

Growth Rates of Sectoral Labour Productivity

Table 1.5 (1968—1979) (*Per cent per year*)

Sector	Growth Rate	Sector	Growth Rate
Agriculture, Forestry, Fishing	1·1	Transport and Communication	3·4
Mining and Quarrying ..	7·9	Trade	—3·1
Manufacturing	1·5	Finance	—3·4
Building and Construction ..	—3·6	Other Services	2·1
Electricity and Water	0·0	Government Services	1·1

1.22. In three of these sectors, the average annual growth was negative. This must have been a consequence of falling levels of capacity utilization in these sectors together with changes in the composition of activities within them. It should be noted that the productivity of labour varies a great deal between activities within the same sector. Making use of 1977 Census of

Industrial Production data, for example, it was found that value added per person in manufacturing varied in that year from K£358 per year in the clothing industry to K£4,128 in the beverages and tobacco industry. The weighted average of the labour productivity growth rates given in Table 1.5, using 1981 sector shares in GDP as weights, works out to 0.4, which is fairly low.

Employment of Women

1.23. The vast majority of Kenyan women, some 88 per cent of the total, reside in rural areas and most of them are economically active. According to the 1977/78 Labour Force Survey, 87 per cent of the entire adult female population reported as being employed. Women traditionally contribute most of the labour required for cultivation of food crops on family holdings. Increasingly, they also contribute much of the labour used on small and medium sized holdings in the production of cash crops. Even when women are not busy with outside economic activities, they are occupied in household duties which also contribute to the living standards of the households.

1.24. In contrast to the situation in rural Kenya, female representation in modern sector wage employment has remained low, despite a rising trend. The percentage of women in total modern sector wage employment was 12.2 in 1964, rising to 14.8 in 1972 and to 18.0 in 1981. Within the wage labour force, women's representation has traditionally been relatively high in three subsectors, viz. agriculture and forestry; finance, insurance, real estate and business services; and community, social and personal services. Of the major occupational groups, secretarial services is the only one in which the majority of workers are women. Women's representation is also substantial and rising in the broader occupational groups of professionals, and executive and managerial personnel. However, with rapid population growth, increasing scarcity of land for cultivation, growing migration of women to urban areas, and rising rates of participation of women in the educational system, the percentage of unemployed among job-seekers in the modern sector has been higher among women than among men. Special policy measures will be required to correct this imbalance.

Use of Resources in Current Price

Table 1.6 (*K£ million*)

	1964	1968	1972	1978	1981
GDP at factor cost ..	330·1	442·5	688·8	1,788·4	2,597·2
GDP at market price ..	356·7	483·0	752·6	2,058·2	3,038·6
Import Surplus	—17·3	3·2	16·1	199·9	272·0
Total Available Resources	339·3	486·2	768·6	2,258·1	3,310·6
Gross Investment ..	46·6	91·9	168·0	610·6	858·8
Total Consumption ..	292·7	394·3	600·6	1,647·5	2,451·8
Private Consumption ..	(243·3)	(320·7)	(467·9)	(1,248·9)	(1,875·4)
Public Consumption ..	(49·4)	(73·5)	(132·7)	(398·6)	(576·4)

Use of Resources

1.25. Table 1.6 presents data on use of resources at current prices for selected years over the period since Independence.

1.26. Table 1.7 gives percentage shares of consumption, investment and import surplus in GDP at market price computed from data presented in Table 1.6. There are two noticeable trends in this table.

Percentage Shares in GDP at Market Prices

Table 1.7

	1964	1968	1972	1978	1981
Consumption: ..	82·1	81·6	79·8	80·0	80·7
of which: Private ..	(68·2)	(66·4)	(62·2)	(60·7)	(61·7)
Public ..	(13·9)	(15·2)	(17·6)	(19·3)	(19·0)
Investment	13·1	19·0	22·3	29·7	28·3
Less Import Surplus ..	—4·8	0·6	2·1	9·7	9·0
Total	100·0	100·0	100·0	100·0	100·0

First, while consumption as a percentage of GDP remained fairly stable, despite occasional fluctuations, the share of the private component in consumption shows a downward trend, accompanied by an upward trend in the share of public consumption. This is a consequence of the growing share of the public sector in economic activities already noted. Secondly, the percentage share of investment in GDP rose sharply from 13.1 in 1964 to 28.3 in 1981. This is a welcome trend, since investment is a prime determinant of growth. Two points have to be noted in this context, however. Some of the apparent recorded growth in the investment ratio is merely a consequence of greater increases in prices of investment goods compared to goods and services in general. Second, some of the rise in the share of investment in GDP has been possible through a rising import surplus, i.e. a deteriorating current deficit on the balance of payments. The aggregate import surplus was an average of 1.1 per cent of GDP for 1964–72, while the comparable figure for 1972–81 was 6.8 per cent. Third, some of the investments made during this period have been uneconomic, so the figures given overstate the amount of effective investment.

Capital Formation

1.27. Table 1.8 presents data on gross domestic fixed capital formation in constant prices, together with their percentage shares in total GDP. These investment ratios are, in general, quite high although there are considerable year-to-year fluctuations, with peaks in 1971 and 1978. The average ratio for 1973–81 is slightly lower at 24.4 per cent, than 1964–72 at 26.2 per cent. The table also shows that the investment ratio registered a return in 1978 to a more normal level and then stabilized.

Gross Fixed Capital Formation, 1964–1981, at Constant (1976) Prices

Table 1.8 *(K£ million)*

Year	Total Gross Fixed Capital Formation	% Share in GPD at factor cost	Year	Total Gross Fixed Capital Formation	% Share in GDP at factor cost
1964	136·88	19·4	1973	318·35	26·8
1965	n.a.	n.a.	1974	289·96	23·8
1966	170·09	21·5	1975	293·24	23·5
1967	211·09	25·3	1976	290·43	22·7
1968	232·13	25·9	1977	351·96	25·3
1969	235·11	24·7	1978	411·20	27·7
1970	284·69	28·1	1979	384·74	24·9
1971	341·80	32·2	1980	395·16	24·8
1972	325·81	28·7	1981	410·92	24·5
Average 64–72	242·20	26·2	Average 73–81	349·55	24·8

1.28. Table 1.9 below gives information of the relative shares in investment of different sectors of the economy and of changes since 1964. Sectors have been aggregated into four major groups and values reported for five selected years during the period covered.

1.29. The share of agriculture in total fixed investment has fallen noticeably over the period. This is an expected trend in a developing economy because the share of agriculture in GDP is expected to fall. The share of industry went up sharply during the first decade, but has tended to come down again in recent years, reaching a peak in 1976 to 1978. The share of the Government services sector more than doubled during the first decade, and tended to fall thereafter, but recovered noticeably in 1980 and 1981. The combined share of the agricultural and industrial sectors reached a peak value of 41 per cent in 1978, but has registered a steady fall since. This, coupled with the fact that the real value of total fixed investment has been falling since 1978 indicates a significant weakening of the forces of growth in the productive sectors.

Percentage Shares of Sectors in Gross Fixed Capital Formation, Selected Years

Table 1.9

Sector	1964	1968	1972	1978	1981
Agriculture and Forestry	13·9	11·9	9·0	10·1	7·7
Industry	19·5	21·7	29·1	31·0	26·2
Government Services ..	9·1	15·6	19·4	14·2	21·7
Others	57·5	50·8	42·5	44·7	44·4
TOTAL	100·0	100·0	100·0	100·0	100·0

Prices and Inflation

1.30. Table 1.10 presents data on two separate price indices over 1964 to 1981: the implicit GDP deflator and the consumer price index. The consumer price index is based on data for Nairobi only and is an average of the three income groups for which separate index series are constructed. For years before 1976, the upper income index was not available and the averages reported are based on indices for the two other income groups only.

Price Index Numbers, 1976 = 100

Table 1.10

Year	GDP Deflator	Consumer Price Index	Year	GDP Deflator	Consumer Price Index
1964	46·8	47·7	1973	62·4	64·0
1965	46·6	49·2	1974	77·2	75·7
1966	48·1	50·9	1975	84·7	89·0
1967	48·6	51·3	1976	100·0	100·0
1968	49·3	52·6	1977	118·0	112·5
1969	50·0	52·7	1978	120·6	126·7
1970	51·2	54·4	1979	128·2	137·3
1971	53·7	57·8	1980	140·1	154·9
1972	57·9	59·3	1981	154·9	174·4

1.31. As expected, movements in the two price series shown in Table 1.10 are very similar. However, the rate of inflation measured in terms of the consumer price index has been slightly higher than that measured in terms of the GDP deflator, with a significant relative difference for the period 1972–81, as is indicated by the following statistics:

Period	*GDP Deflator*	*Consumer Price Index*
1964–1972	2.70	2.76
1972–1981	11.55	12.73

1.32. The marked contrast in the average rates of inflation between the two periods 1964 to 1972 and 1972 to 1981 is largely due to similar differences in international price experience during these two periods. Kenya has a very open economy and the course of domestic prices is strongly influenced by prices of exports and imports. Being a small country, Kenya has little influence on these latter prices, apart from changes in the exchange rate which translates foreign currency prices into domestic shilling prices. Taking the whole period 1964–1981 a strong statistical correlation exists between changes in Kenya's foreign trade prices and changes in the rate of domestic inflation, as measured by the GDP deflator. This suggests that domestic fiscal and monetary policies have, on the whole, been passive, although we point out below that during several years in the latter part of the period fiscal and credit policies were expansionary. However, while these policies may well have helped sustain the inflationary process in particular years, in the main price developments have been governed by forces originating in the international sphere.

1.33. Another aspect of price changes to which attention is often given is the difference in inflation rates experienced by households in different income groups. Table 1.11 presents a comparative picture for 1976 to 1981, based on Nairobi consumer prices only. As the last row of the table indicates, the average rate of inflation suffered during this period was higher for the lower income group than for the higher and middle income groups. The 1981 inflation rates were different in this regard, being lowest for the lower income group. This is a change in the right direction and may continue to hold in view of the relative easing of pressure on prices of foodstuffs which have a large weight in the lower income consumer price index.

Inflation Rates for Different Income Classes, Nairobi

Table 1.11 (*Percentage*)

Year	Lower Income Group	Middle Income Group	Upper Income Group
1976	11·4	8·3	10·0
1977	14·8	11·5	8·7
1978	17·0	10·3	9·6
1979	8·0	7·2	10·1
1980	13·8	11·6	13·0
1981	11·7	13·8	12·3
Average 1976–1981	12·2	10·2	10·5

Government Finance

1.34. Table 1.12 presents data on Government revenues, expenditures and deficits for the fiscal years 1964/65 to 1980/81. Figures for alternate years only have been presented for the sake of brevity but these provide adequate indication of the trends. Both Government revenues and expenditures have increased appreciably over the period, in absolute terms and as percentages of GDP. The percentage share of recurrent revenue (including Appropriations in Aid) in total GDP went up from 14.5 in 1964/65 to 24.9 in 1980/81. This was a remarkable growth in the space of sixteen years, achieved through growth in both direct and indirect taxation. However, expenditures by ministries, i.e. Government expenditure including consolidated fund services, increased even faster, rising to 32.9 per cent of GDP in 1980/81, compared to 16.4 per cent in 1964/65.

Comparing the terminal years only, total revenue grew by 1269 per cent, as is seen in the last column of Table 1.12. Since consolidated fund service payments grew less rapidly, revenue available for the expenditures of ministries, or *disposable revenue*, grew by 1389 per cent. However, total expenditures rose by 1490 per cent over the same period. As a result of this faster growth of expenditures, the budget deficit grew over

Table 1.12

Outturns of Government Revenue and Expenditures 1964/65 to 1980/81

K£ million and percentage

	1964/65	1966/67	1968/69	1970/71	1972/73	1974/75	1976/79	1978/79	1980/81	Percentage Growth 1964/65 to 1980/81
Recurrent Revenue (including Appropriations in Aid)	51·6	66·4	85·4	124·4	149·6	226·6	320·6	510·6	706·3	1269
	(14·5)	(15·5)	17·00	(20·6)	(19·3)	(20·1)	(19·3)	(23·6)	(24·9)	
Consolidated Fund (including Loan Repayments) ..	11·9	13·6	13·3	23·0	21·6	29·5	48·8	75·1	116·9	878
Resourse Available to Ministries ..	39·6	52·8	72·1	101·3	128·0	197·1	271·8	435·5	589·0	1389
Total Expenditure by Ministries ..	58·6	71·3	91·7	133·8	179·8	272·1	361·0	622·5	931·6	1490
	(16·4)	(16·6)	(18·3)	(22·1)	(23·2)	(24·1)	(21·8)	(28·7)	(32·9)	
Overall Deficit ..	19·0	18·5	19·6	32·4	51·8	74·9	89·2	187·0	342·0	1702
	(5·3)	(4·3)	(3·9)	(5·4)	(6·7)	(6·6)	(5·4)	(8·6)	(12·1)	

NOTE: Figures in parentheses are percentages of GDP at market prices.

the period, in both absolute and relative terms. The overall deficit (including total consolidated fund payments) as a percentage of GDP more than doubled, from 5.3 in 1964/65 to 12.1 in 1980/81.

Composition of Revenue and Expenditure

1.35. Table 1.13 presents major items of revenue and expenditure as percentage shares of the respective totals. Again, data for every other year only have been given. Considering first the composition of revenue, one distinct trend revealed is a decline in the relative contribution of import duties. From a level of little above 30 per cent of total revenues in the early years after Independence, this contribution had come down to a little over 20 per cent by 1980/81. This decline was a consequence of a fall in imports relative to GDP, especially after the oil crisis of the early seventies. It should also be noted that the import duty figures used are net of export compensation payments which have gone up, although they are still not very large. The fall in the contribution of import duties was offset mainly by increased revenues from income tax and excise duties prior to 1972/73. After 1972/73, the compensating increases occurred mainly in the income tax and collections from the newly-introduced sales tax.

Considering the period as a whole, the contribution of income tax, averaging a little over 30 per cent, showed a slight upward trend until the last two years. The sales tax proved to be the most buoyant of revenue sources.

1.36. On the side of expenditures, it is seen that the share of recurrent expenditure in total Government spending has come down slightly, with a corresponding rise in the share of development expenditure. The total of these, i.e. the total expenditure of ministries, has remained fairly stable as a percentage of total Government expenditures, barring the first few years, when it was rather low. The remainder of total expenditure is made up of the consolidated fund service charges. External and internal debt service payments are shown separately in the table. The share of total debt service payments in total government expenditure fluctuated between 8 and 12 per cent, with a distinct upward trend during the latter part of the period, rising from 7.9 per cent in 1973/74 to 11.2 per cent in 1980/81.

1.37. The somewhat faster growth of development expenditure may be regarded as a favourable trend in a developing economy. However, not all the capacity built up through development expenditures has been adequately utilized, often due to inadequate provision of funds for recurrent expenses. About a third of development expenditure represents loans to and equity participation in other sectors, mostly in parastatal organizations and their subsidiaries. Apart from direct loans and equity participation, parastatals also secured substantial amounts of Government-guaranteed external loans. The recent Report of the Working Party on Government Expenditures noted that the overall return to Government from these substantial investments has been negligible.

Table 1.13

Composition of Government Revenues and Expenditures, 1964–65 TO 1980–81

(Percentage of total)

	1964/65	1966/67	1968/69	1970/71	1972/73	1974/75	1976/77	1978/79	1980/81
Revenue									
Income Tax	26·1	28·3	27·7	30·4	33·6	33·3	33·5	29·6	27·6
Excise Duty	12·1	12·8	13·8	12·3	11·3	10·0	8·8	9·6	8·4
Sales Tax	—	—	—	—	1·8	20·7	20·4	19·5	25·0
Import Duty	30·8	30·2	25·6	23·1	18·0	18·6	16·5	19·8	20·4
Expenditure									
Recurrent	63·7	64·7	61·2	55·4	58·6	59·0	57·7	57·3	59·8
Development (including loans and investments)	19·3	19·3	26·2	29·4	30·7	31·2	30·4	31·9	29·1
of which loans and equities in enterprises	(1·5)	(4·8)	(3·8)	(9·0)	(4·0)	(7·6)	(7·0)	(9·7)	(5·2)
Total Expenditure of Ministries	83·1	84·0	87·3	84·8	89·3	90·2	88·1	89·2	89·0
Debt Service									
External	7·5	8·1	5·4	3·7	4·5	3·4	3·6	4·5	6·4
Internal	3·2	2·2	3·2	7·8	3·8	4·5	5·3	4·9	4·8

1.38. Although Government fiscal operations have grown more or less continuously over the period, it is possible to identify a distinct upward step in the *average* magnitude of revenue, expenditure, deficits, et cetera in relation to GDP between the periods 1964/65 to 1971/72 and 1972/73 to 1980/81. This is brought out in data presented in Table 1.14. Revenue as a proportion of GDP increased significantly from 17.7 per cent during the first period to 22.7 per cent during the second. At the same time, total expenditure of ministries rose more sharply in relation to GDP from 19.3 per cent to 26.9 per cent. Within this total expenditure, development expenditure grew significantly faster than recurrent expenditure. More detailed data show that this trend in relative growth of recurrent and development expenditure became noticeable from the Budget of 1970/71, which marked a shift in fiscal policy towards faster growth of total expenditure as well as of development expenditure within total expenditure, financed through large domestic and external borrowing.

1.39. Despite the high buoyancy of revenue in relation to GDP, the overall deficit, defined to exclude foreign grants from revenue and to include loan repayments in expenditure, rose during the second period to 7.7 per cent of GDP compared to 4.7 per cent in the first period. External financing of deficit as a proportion of GDP increased sizeably between the two periods from 2.5 per cent to 3.8 per cent, although the proportion of total deficit financed externally fell slightly from 53.7 per cent to 49.4 per cent. The foreign grants component of external financing as a ratio of GDP remained at the same level, which meant that the share of total deficit covered by grants came down between the two periods. Recourse to domestic borrowing for financing the deficit increased over the period both as a proportion of GDP and as a proportion of total deficit.

1.40. One factor explaining the significant rise in revenue in relation to GDP during the second period is the introduction of the sales tax in 1973 which has proved a highly productive source of revenue. The considerable rise in expenditure as a proportion of GDP is explained by factors such as (i) the oil price rise and the consequent rise in the inflation rate, (ii) the coffee boom which generated unwarranted optimism about development prospects, (iii) the break-up of the East African Community and Government take-over of Community assets and expenditures, (iv) the second sharp oil price rise in 1979, (v) fall in domestic agricultural output in 1979 and 1980 requiring special food imports and (vi) rise in defence expenditure.

1.41. A substantial part of the rapidly rising Government deficit in the second period, especially during the last few years of that period, was financed through external borrowing and resulted in sharp increase in external debt servicing obligations relative to the country's export earnings. The ratio of total external debt servicing, i.e. interest payments plus repayments of principal, to total exports of goods and services was as low as 2.8 per cent in 1976/77. It had risen threefold to 9.4 per cent by 1980/81. These figures relate to Central Government borrowing only. Including debt service obligations arising out of publicly-guaranteed debt the ratio in 1980/81 was 13.6 per cent. Not all the rise, of course, was accounted for by new borrowings over the period. Other factors pushing up debt servicing were the rise in world interest rates, delayed disbursements from earlier loans and expiry of the grace period in respect of some earlier loans.

Government Finances Relative to GDP, Selected Periods

Table 1.14 *(percentages of GDP)*

	1964/65 to 1971/72	1971/72 to 1980/81
Recurrent Revenue (including Appropriations in Aid)	17·7	22·7
Recurrent Expenditure (excluding Consolidated Fund Services)	13·7	17·6
Development Expenditure	5·6	9·4
Total Expenditure of Ministries	19·3	27·0
Overall Deficit (Gross of Repayments)	4·7	7·7
Financing		
Foreign Grants	0·6	0·6
Gross External Borrowing	1·9	3·2
Gross Domestic Borrowing	2·2	3·9

1.42. The various tables presented above make it clear that the last few years of the period covered, especially 1980/81, stand out as a period of exceptionally high levels of Government taxation, expenditure, deficit, internal and external borrowing. These were recognized as unsustainable and Government fiscal policy has since been revised in the direction of more caution. Determined efforts have been made to bring down the budget deficit through greater restraints on expenditure. Preliminary figures indicate that the ratio of deficit to GDP was reduced in 1981/82 to 6.6 per cent*. The 1982/83 Budget provided for an even smaller deficit.

External Trade and Payments

Balance of Trade

1.43. Table 1.15 shows our balance of external trade from 1964 to 1981. Figures for only some years have been presented, but they indicate the overall trend as well as the major swings in them. It will be noted that the balance of merchandise trade has always been negative, starting from a small deficit of K£8.5 million in 1964 and rising to K£423.5 million in 1981. The growth in this deficit was also substantial as a percentage of GDP, from 2.6 per cent in 1964 to 16.3 per cent in 1981. While these figures compare the terminal years shown in the table, Table 1.16 below presents comparisons of the *average* performance over the two periods 1964–72 and 1972–81.

*Compared to 9.5 per cent in 1980/81. This concept of deficit *excludes* loan repayment from expenditure. The concept used in Table 1.12 *includes* them.

Merchandise Balance of Trade, Selected Years

Table 1.15

(*K£ million*)

	1964	1968	1971	1972	1974	1977	1978	1980	1981
Imports									
From outside East Africa ..	76·6	114·8	184·1	177·6	353·0	529·2	658·8	958·6	954·8
From Uganda and Tanzania ..	11·3	12·3	16·0	13·5	13·3	2·2	2·3	1·5	1·1
Total	87·9	127·1	200·1	191·1	366·4	531·4	661·2	960·1	955·9
% of GPD at factor cost ..	26·8	28·7	34·8	29·0	40·9	32·4	37·0	43·0	36·8
Exports									
To markets outside East Africa	47·1	57·8	73·2	90·6	162·9	428·9	336·7	428·6	457·5
To Uganda and Tanzania ..	25·9	26·3	33·9	32·8	48·3	61·9	41·2	71·6	58·9
Re-exports	6·4	5·1	5·2	4·9	7·2	11·0	17·8	15·5	15·9
Total	79·4	89·3	112·2	128·2	218·4	501·8	395·7	515·7	532·4
% of GPD at factor cost ..	24·2	20·2	19·5	19·5	24·4	30·6	22·1	23·1	20·5
Balance									
Overseas Trade	−23·0	−51·8	−105·8	−82·2	−199·3	−89·3	−304·3	−514·5	−481·4
Trade with Uganda and Tanzania	14·5	14·0	17·9	19·3	51·4	59·7	38·9	70·1	57·8
Total	−8·5	−37·8	−87·8	62·9	−148·2	−29·6	−265·4	−444·4	−423·5
% of GPD at factor cost	−2·6	−8·5	−15·3	−9·6	−16·6	−1·8	−14·8	−19·9	−16·3
Total Volume of Trade ..	167·3	216·4	313·3	319·3	584·8	1033·2	1056·9	1475·8	1488·3
% of GDP at factor cost ..	50·9	48·9	54·3	48·5	65·3	63·0	59·1	66·0	57·33

1.44. Table 1.15 also reveals that the balance of our trade with Uganda and Tanzania was positive throughout the period. Our exports to these countries (mainly Uganda) have generally been maintained at a fairly high level, while our imports have shrunk, especially after the break-up of the Community. As a result, our trade surplus with Uganda and Tanzania has had a rising trend over the period. The deficit on the remainder of our trade therefore grew faster than is indicated by the overall deficit.

1.45. Table 1.16 provides comparisons between two periods 1964–72 and 1972–81, based on averages calculated from period totals, or annual average rates of change. The value of imports as a percentage of GDP is shown as having risen significantly in the second period compared to the first. However, this is a consequence of the more rapid rise in import prices than in the GDP deflator. In the earlier period, the *volume* of imports grew at an average annual rate of 7.8 per cent, compared to a 6.2 per cent growth in real GDP. In contrast, in the latter period the volume of imports *fell* at a rate of 2.2 per cent, compared with average *growth* of constant price GDP at 4.3 per cent. Table 1.16 makes it very clear that the external trade situation deteriorated in all respects in the second period. That we were able to sustain some continuing growth in GDP in the face of a shrinking volume of imports indicates that significant structural transformation had been taking place in the economy. In this respect, as in others, Kenya did better in the seventies than many other oil-importing developing economies.

Direction and Composition of Trade

1.46. Table 1.17 shows trends in the direction of our trade during 1964 to 1981. The main points revealed in regard to exports are that:

Comparison of Foreign Trade Indicators. 1964–72 and 1972–81

Table 1.16 (*Percentages*)

	1964–72	1972–81
Value of Imports as % of GPD in current prices	30·1	35·5
Value of Exports as % of GDP in current prices	21·2	23·2
Balance of Trade Deficit as % of GDP in current prices ..	−8·8	−12·2
Current Account Deficit as % of GDP in current prices ..	−2·7	−9·5
Annual Rate of Growth of Volume of Imports	7·4	−2·2
Annual Rate of Growth of Volume of Exports	7·8	−0·1
Annual Rate of Growth of Price Index of Imports	3·0	21·5
Average Rate of Growth of Price Index of Exports	0·9	16·8
Average Rate of Change in Terms of Trade	−2·3	−3·9

(i) Western Europe has accounted for a third to two-fifths of total exports, with a mildly rising trend in the share of this region.

(ii) Uganda and Tanzania accounted for about 30 per cent of total exports up to the end of the sixties, but then their share began to decline with a sharp fall after the break-up of the Community. While Uganda still accounts for about 10 per cent of our total exports, exports to Tanzania fell to a trickle from 1977.

(iii) Our exports to the U.S.A. have remained low at 4 to 6 per cent of the total with a mildly declining trend.

(iv) Exports to rest of the world have varied between 30 and 40 per cent, with a rising trend over time.

1.47. Turning to imports, Table 1.17 shows that Western Europe has traditionally accounted for about half of the country's total imports. A declining trend in this share is noticeable in the seventies, however, especially after the rise in oil prices. Imports from the U.S. remained low and steady at 5 to 7 per cent of the total. Uganda and Tanzania accounted for 10 to 12 per cent of total imports in the sixties, with some decline from the early seventies and a steep fall after the break-up of the Community. Imports from the rest of the world remained about a third of total imports up to 1972 and then began to go up with the rise in the price of oil imported from the Middle East. The share of imports from the Middle East climbed from 9.1 per cent in 1973 to 34.5 per cent in 1981. As these statistics imply, imports from countries other than the Middle East in this group declined sharply, from 33.9 per cent in 1973 to 18.4 per cent in 1981.

1.48. The commodity composition of Kenya's external trade (Table 1.18) has undergone changes over the period since Independence, mainly in response to changes in relative prices. The three major foreign exchange earners of the country, viz. coffee, tea and petroleum products, traditionally accounted for 45 to 50 per cent of total exports. This situation changed from the mid-seventies on account of the rise in price of crude oil and hence of petroleum products in 1973/74 and, secondly, on account of the coffee and tea boom of 1976/77. Between 1973 and 1974, the share of petroleum products in our total exports nearly doubled, from 10 to 18 per cent. A similar swing occurred in coffee export earnings which rose from 16.4 per cent in 1975 (not shown in Table 1.18) to 29.3 per cent in 1976 and 42.5 per cent in 1977, after which its relative share began to decline. Tea prices were also buoyant and the share of tea in total export earnings also increased considerably, from 10.0 per cent in 1976 to 17.9 per cent in 1980. By 1981, the total relative contribution of coffee and tea to our export earnings had returned to the levels obtaining in the sixties. The contribution from petroleum product exports has gone up, reaching about 31 per cent in 1980 and 1981.

1.49. The commodity composition of imports has also changed and here too the rise in the price of oil was a major factor. Fuels and lubricants accounted for about a tenth of total imports until the oil price shock of 1973. Between 1973 and 1974 oil imports shot up from 9.8 per cent to 21.2 per cent of total imports. The second major oil price rise of 1979/80 increased the percentage again from 23.7 in 1979 to 38.7 in 1981. This increase occurred chiefly at the expense of food, beverages and other consumer goods. The share of these had already been falling in the sixties as a result of import substitution and to make room for increases in imports of machinery, transport and other capital equipment. From a percentage share of 30.1 in 1964, it had shrunk to 20.5

Table 1.17

Direction of Merchandise Trade, 1964–1981

(*Percentages of total*)

	1964	1966	1968	1970	1972	1973	1974	1977	1979	1981
Exports										
Western Europe ..	33·4	34·5	34·0	32·8	38·7	37·5	35·0	51·5	48·3	36·7
U.S.A.	6·1	5·9	4·7	6·2	4·6	4·5	3·7	5·5	4·1	3·6
Uganda	15·8	17·1	14·9	15·2	12·9	13·1	18·2	10·0	9·1	9·8
Tanzania ..	17·3	14·6	14·6	13·5	12·7	10·1	11·9	2·0	1·0	1·2
Others	27·3	27·9	31·8	32·3	31·5	34·9	31·1	30·7	37·6	48·7
of which Middle East	—	—	—	—	—	(2·0)	(2·0)	(2·5)	(3·5)	(4·4)
Imports										
Western Europe ..	45·9	50·0	49·3	48·8	53·3	50·8	46·8	48·4	51·5	40·2
U.S.A.	5·5	9·1	6·2	7·5	6·3	7·7	5·6	5·7	5·6	6·8
Uganda	8·2	5·9	6·8	6·4	4·0	2·1	1·0	0·1	0·1	0·1
Tanzania	4·8	3·1	3·1	3·8	3·1	3·5	2·8	0·3	0·0	0·0
Others	35·6	31·8	34·5	33·5	33·4	35·9	43·9	45·4	42·7	52·9
of which Middle East	—	—	—	—	—	(9·1)	(18·6)	(17·0)	(22·0)	(34·5)

in 1973. The growth in the oil import bill led to further squeeze in the share of these commodities, which fell to 9.8 per cent in 1981, less than half of the 1973 proportion. The share of industrial inputs, machinery, transport and other equipment also fell, though less markedly than for consumer goods. In 1972, these latter categories of goods together constituted 68.0 per cent of total imports but their share had fallen to 51.4 by 1981.

Volumes, Prices and Terms of Trade

1.50. It is clear from the above that the country's trade has been greatly influenced by changes in export and import prices. Movements in the terms of trade, i.e. the ratio of export prices to import prices, were generally unfavourable for Kenya during the seventies, except for the coffee boom years. The extent of the adverse effect of this on the balance of trade has been contained to some extent through larger quantities of exports and smaller volumes of imports, as can be seen in Table 1.19.

1.51. The volume of imports registered a substantial growth from 1964 to 1972, at 7.4 per cent per year, which was well above the real growth of GDP during this period. In fact, if 1972—when imports were subjected to rigorous control following the foreign exchange crisis of 1971—is left out, the growth rate over 1964 to 1971 works out at 10.4 per cent. In contrast, during 1972 to 1981, the volume of imports *declined* by an average of 2.2 per cent per year. This decline would probably have been sharper but for the intervention of the coffee boom. In fact, over 1978 to 1981, the volume of imports declined at the extraordinary rate of 10 per cent per year even though the real GDP grew at 4.2 per cent during the same period.

1.52. Turning to exports, one finds a similar situation of very satisfactory growth in the volume of exports during 1964–73, followed by stagnation during 1973–81. The average rate of volume growth during 1964–72 was 7.8 per cent, marginally higher than the growth in the volume of imports. Between 1972 and 1981, however, there is no growth at all. It should be remembered, however, that petroleum products constitute an important component of total exports, and that with the fall in the volume of imports of crude oil, this category of exports also went down. In fact, the index of non-oil export volumes in Table 1.19 shows a small average growth of 1 per cent per year during 1972–81. Modest though this is, it was achieved during a period when the industrialized countries were suffering from economic recession. Demand for primary products was weak and the industrialized countries were raising higher protectionist barriers against exports of manufactured products from developing countries.

1.53. The price index of imports remained fairly stable until 1970. The rate of import inflation picked up from 1971, with a steep acceleration in 1974 and 1975. Even though export prices were also rising during this period, faster rise of import prices led to a falling trend in the terms of trade, which went below 100 in 1974. This declining trend in the terms of trade was arrested in 1976 and 1977 due to the coffee boom, and it rose in the latter year to the record figure of 131. But coffee prices began to fall during 1978 and the terms of trade resumed their downward course to reach the low figure of 77 in 1981, marking a 34 per cent fall in the foreign purchasing power of a unit of our exports since the more "normal" period 1970–72.

1.54. A fall in the terms of trade index implies that the nation is getting a smaller quantity of goods and services from abroad in exchange for a given quantity of its exports and this implies a reduction in the real income of the country. Table 1.20 shows the impact of the variations in terms of trade on real *per capita* GDP from 1964 to 1981. In the earlier period up to 1973, the adjusted figure was higher than the unadjusted one because the terms of trade index was above the base level of 100 for 1976. The reverse was the case for 1974–81, apart from the two years 1977 and 1978. However, the terms of trade had already begun to deteriorate from after 1970, so that while the unadjusted *per capita* GDP increased by 2.6 per cent p.a. during 1964–72, the adjusted GDP rose at a slower rate of 2.2 per cent. As for the latter period, while there was a small growth of about 1 per cent per year in the unadjusted *per capita* GDP, the adjusted figure declined at a rate of 0.7 per cent per year. Since 1977, adjusted GDP *per capita* has *declined* at a high rate of 5.3 per cent per year, while the unadjusted figure shows an average annual increase of about 1 per cent.

Balance of Payments

1.55. Table 1.21 indicates developments in Kenya's balance of payments during 1964 to 1981. As already noted, the balance of merchandise trade has always been negative; this was also true of the current account (defined to include net transfers), except for the two initial years 1964/65 and the coffee boom year, 1977. However, the basic balance (which includes long-term capital movements and is generally used as the single most appropriate indicator of the health of a country's balance of payments) was positive until the onset of the oil crisis with two exceptions. (*See* Table 1.21).

There was a small deficit of K£6.3 million in 1967 which was met through special financing and a much larger deficit of K£23.2 million in 1971, absorbed mainly by drawing down the foreign exchange reserves. Long-term capital inflow was generally insufficient to finance the current account deficit from 1974, requiring net positive short-term financing, fall in reserves and recourse to special international financing, e.g. from the International Monetary Fund. Again the coffee boom years were the exception, when there were large net additions to foreign exchange reserves. Another minor exception was 1979, when imports were restricted drastically following the sharp deterioration in the trade balance during the previous year. By the end of 1981, the foreign exchange reserves had fallen to a level equivalent to only 1.6 months-worth of imports.

Commondity Composition of Trade, Selected Years

Table 1.18 *(Percentages of total)*

	1964	1967	1970	1972	1973	1974	1976	1977	1979	1980	1981
Exports											
Coffee	32·7	29·3	21·6	20·1	22·2	18·2	29·3	42·5	28·7	22·2	21·3
Tea	12·9	13·8	12·8	13·4	10·5	9·2	10·0	14·9	16·3	17·9	11·9
Petroleum Products ..	4·6	13·8	13·4	12·4	10·0	18·0	17·9	15·1	17·7	31·1	30·7
Others	49·8	43·1	52·2	54·1	57·3	54·6	42·8	27·5	37·3	34·8	36·1
Imports											
Consumer Goods	30·1	22·8	23·2	21·5	20·5	16·1	15·4	14·0	11·8	10·4	9·8
Industrial Supplies	34·7	31·5	36·0	34·6	38·9	39·9	30·5	30·3	29·0	27·3	24·9
Fuels and Lubricants ..	9·9	10·4	9·3	10·6	9·8	21·2	25·5	22·0	23·7	33·6	38·7
Machinery, Capital and Transport Equipment ..	25·3	35·3	31·4	33·4	30·8	22·8	28·6	33·7	35·5	28·7	26·5

Price and Quantum Indices and Terms of Trade, Selected Years, 1964–1981

Table 1.19 (1976=100)

	Quantum Index of Imports	Quantum Index of Exports	Quantum Index of Non-oil Exports	Price Index of Imports	Price Index of Exports	Terms of Trade
1964	72	51	n.a.	30	39	133
1966	103	65	n.a.	30	37	122
1968	104	66	n.a.	31	37	122
1970	122	83	n.a.	32	41	128
1971	144	81	n.a.	35	40	113
1972	127	93	89	38	42	110
1973	123	109	107	46	48	104
1974	138	104	101	68	64	94
1975	83	94	93	86	74	85
1976	100	100	100	100	100	100
1977	122	104	102	108	142	131
1978	142	96	96	114	120	105
1979	116	94	97	132	128	97
1980	133	97	95	173	154	89
1981	104	92	97	220	170	77

Terms of Trade Effects on Per Capita GDP

Table 1.20 (*K£ per Year*)

Year	Per Capita real GDP	Per Capita real GDP adjusted for terms of trade changes	Year	Per Capita real GDP	Per Capita real GDP adjusted for terms of trade changes
1964	76·3	80·6	1973	94·7	95·5
1965	73·5	77·4	1974	93·9	92·3
1966	80·2	83·4	1975	93·2	88·9
1967	81·6	89·6	1976	92·3	92·3
1968	84·9	87·9	1977	97·0	111·8
1969	87·1	90·3	1978	99·8	101·8
1970	89·5	93·9	1979	100·8	99·2
1971	90·7	92·8	1980	100·0	94·4
1972	93·9	95·7	1981	101·0	90·1

Monetary Trends

Money and Credit

1.56. Table 1.22 presents data on money supply and some related variables over the period 1966 to 1981. During these fifteen years, the total supply of money (defined widely to include currency and bank deposits of all kinds, but excluding deposits of Central Government and non-resident banks) grew at an average annual rate of 16.7 per cent. This compares with a 14.4 per cent rate for GDP at current market prices. The ratio of GDP to the quantity of money—the so-called income velocity of money—therefore fell at an annual rate of about 2 per cent. Such a trend is expected in a developing economy as a result of monetization of economic activities.

Table 1.21

Balance of Payments, 1964–1981

(K£ million

	1964	1965	1967	1969	1971	1972	1974	1976	1977	1978	1979	1980	1981
Balance of Trade	−9·4	−19·4	−37·5	−31·6	−91·4	−65·5	−157·8	−77·3	−61·3	−355·5	−299·4	−526·6	−495·4
Net Services	14·4	13·9	15·3	20·1	30·7	27·6	38·9	19·3	45·2	65·0	79·0	143·2	126·3
Net Transfers	12·5	5·8	1·0	8·1	20·8	13·6	6·9	6·1	27·5	35·2	34·1	54·7	42·9
Current Account Balance ..	17·5	0·2	−21·2	−2·9	−39·9	−24·3	−122·0	−51·9	11·4	−255·3	−186·3	−328·7	−326·2
Private Long-Term Capital (including Government Corporations (Net)	−14·9	1·5	11·6	13·5	19·8	15·2	49·2	61·0	47·5	53·4	76·4	56·7	89·1
Government Long-Term Capital (Net)	−0·7	6·6	3·3	6·2	−3·1	15·3	21·8	29·7	36·4	114·6	113·1	146·4	92·6
Basic Balance	1·9	8·3	−6·3	16·8	−23·2	6·2	−51·0	38·8	95·3	−87·3	3·2	−125·6	−144·5
Short-Term Capital	−0·3	−0·6	−3·5	0·8	−1·3	4·1	14·8	−2·1	18·5	6·8	64·3	49·7	43·3
Change in Reserves (increase = −)	2·7	−0·9	−12·1	−25·1	18·1	−9·6	7·5	−43·4	−94·6	75·3	−101·2	47·6	60·5
Special Financing and Errors and Omissions	−4·3	−6·8	21·9	7·5	6·4	−0·7	28·7	6·7	−92·2	5·2	33·7	28·3	40·7

NOTE: The balance of trade figures in this table do not agree with those in table 1.15 due to differences in classification between the merchandise and services accounts.

Money Supply, Nominal GDP and Related Variables, 1966–1981

Table 1.22

Year	Supply of Money (End of Year) (K£ million)	Nominal GDP at Market Prices (a) (Financial Years) (K£ million)	Income Velocity of Money	Percentage Growth over Pevious Year		
				Money Supply	GDP Deflator	GD Pat Constant Prices
1966 ..	90·3	428·06	4·74	—	—	—
1968 ..	115·0	502·09	4·37	14·9	1·4	7·6
1970 ..	175·3	603·90	3·45	27·6	2·5	6·3
1972 ..	214·8	775·66	3·61	14·0	7·8	7·1
1974 ..	291·0	1128·68	3·88	8·7	23·7	2·5
1976 ..	422·7	1656·74	3·92	24·1	18·1	2·4
1977 ..	620·7	1959·04	3·16	46·8	18·0	8·7
1979 ..	819·8	2452·15	2·99	16·1	6·3	4·1
1980 ..	810·4	2835·52	3·50	–1·1	9·3	2·9
1981 ..	918·2	3229·43	3·52	13·3	10·5	5·5

Footnote: (*a*) Financial year data are given for the calendar year in which the financial year commences, e.g. Financial Year 1981/82 is presented against 1981.

1.57. Comparison of the trends in income velocity during the two periods 1966–72 and 1972–81 reveals that during 1966–72, money supply grew at an annual rate of 15.5 per cent, while nominal GDP increased at 10.4 per cent, implying a 4.4 per cent annual decline in the income velocity of money. In the second period, on the other hand, average annual growth rates of money supply and GDP were nearly equal (17.5 and 17.2), implying that the income velocity remained virtually constant. It is notable, however, that the income velocity fell from 3.6 in 1972 to 3.0 in 1979. Then in 1980, the value of income velocity of money swung back to 3.5 and remained at about that level in 1981. It is possible that this was a consequence of the rise in interest rates and an absolute fall in the supply of money in 1980. In 1981, the quantity of money grew but by a smaller percentage than nominal GDP and interest rates were raised still further.

1.58. It is usual to look for an association between changes in the supply of money and in the rate of inflation. However a variety of factors prevent any simple relationship from holding and statistical attempts to find a single relationship suggested only a very weak relationship. Stronger results would probably result from tests that took into account time lags, changes in the income velocity of circulation, interest rates and other relevant variables. Controls exercised over the supply of money will undoubtedly be important in determining whether the price level targets of this Plan are attained.

1.59. As regards the components of the monetary base, the foreign exchange reserves have been affected by powerful external forces beyond the control of domestic monetary authorities. A significant loss of reserves should, other things remaining equal, lead to a fall in the quantity of money and liquidity in the system. Since this would be expected to lead, in turn, to a fall in imports, there would be some automatic mechanism at work to correct balance of payments deficits. However, the adjustment mechanism does not come into effect if the Government's borrowing is also high during such times. Other control measures (e.g. import quotas and tariffs, changes in exchange rate, export compensation) have to be used in this situation to correct the deficits in the balance of payments.

1.60. Table 1.23 presents data on the distribution of domestic credit between the Government and the private sector (defined to include "other public sector"). These years can be divided into three distinct sub-periods. During the first of these, 1968–1971, Government's share in total domestic credit was very low, averaging only 2.2 per cent of the total. During the second period, from 1972 to 1980, a number of factors—an expansionary fiscal policy, the oil crisis, the coffee boom, combined to result in substantially larger Government borrowing from the banking system. The Government's share rose into double-digit figures and the average share for the entire period 1972–80 works out to 20.9 per cent. The year 1981 stands apart from the rest of the period, with the share reaching into the thirties for the first time.

Distribution of Domestic/Credit from the Banking System

Table 1.23 *(K£ million and percentages)*

End of Year	Net Credit to Government	Net Credit to Private Sector (including other public sector)	Total	Percentage share of Government in Total
1968	−1·1	65·4	64·3	−1·7
1969	2·3	68·5	70·8	3·2
1970	1·5	92·0	93·5	1·6
1971	5·1	119·8	124·9	4·1
1972	17·3	133·6	150·9	11·5
1973	23·9	169·0	192·9	12·4
1974	45·0	202·2	247·7	18·4
1975	72·1	236·1	308·2	23·4
1976	88·0	279·6	367·6	23·9
1977	80·8	373·1	453·9	17·8
1978	145·5	468·2	613·7	23·7
1979	156·1	535·6	691·7	22·6
1980	166·7	613·3	780·0	21·4
1981	293·9	675·0	968·9	30·3

Non-Bank Financial Institutions

1.61. While total money supply has grown somewhat faster than GDP, an even faster growth has taken place in the assets/liabilities of non-bank financial institutions. From the data presented in Table 1.24, the average annual rate of growth of assets/liabilities of these institutions during 1971–81 was 28.3 per cent, which is much faster than the growth of commercial banks' assets/liabilities. The rate of growth of commercial banks' business fell markedly during 1978–81, following the years of the coffee boom. While the average growth rate was 21.3 per cent per year during 1971–78, it was only 12.9 per cent for the post-coffee boom years. The growth of business of the non-bank institutions, however, was maintained at nearly the same level, being 28.7 and 27.4 per cent respectively. Thus, the trend of relative expansion of non-bank institutions has been accentuated in recent years. The total liabilities of non-bank financial institutions was equivalent to 14.6 per cent of liabilities of commercial banks in 1971 but by 1978 this figure had risen to 21.6 per cent, and to 31.1 per cent by 1981. The growth of non-bank institutions was also much faster than the growth of GDP at current prices. It is relevant also to note that commercial banks have throughout held liquid assets in excess of the minimum requirements. This suggests that the economy as a whole has not, at any time, suffered from a shortage of liquidity, although there have been a number of times when the private sector has suffered from inadequate access to credit.

Growth of Non-Bank Financial Institutions

Table 1.24 (*K£ million*)

End of Year	Total Assets/Liabilities: Non-bank Financial Institutions	Total Assets/Liabilities: Commercial Banks	End of Year	Total Assets/Liabilities: Non-bank Financial Institutions	Total Assets/Liabilities: Commercial Banks
1971	32·22	225·61	1976	97·17	554·54
1972	39·67	252·58	1977	138·82	807·41
1973	50·41	334·20	1978	188·74	873·59
1974	56·93	410·93	1979	246·74	1,050·25
1975	82·16	453·37	1980	319·44	1,115·73
			1981	390·05	1,255·79

Interest Rates

1.62. The post-oil crisis period has been marked by generally high and rising world interest rates, even though lowering of interest rates has been tried intermittently to aid economic recovery. Interest rates were revised upwards in Kenya in 1975 in view of the inflation and the high interest rates prevailing internationally. But the increase in rates was only moderate (Table 1.25). Real interest rates in Kenya remained negative and well below international rates. It was only from the beginning of 1980 that a policy of higher and more flexible interest rates was put into effect, with quite sharp upward adjustments in the rate structure. This is expected to help increase domestic savings, discriminate more efficiently in favour of investments with high prospective rates of return, encourage labour intensive techniques of production and induce the private sector to seek foreign loan finance, which will help the balance of payments. While inflation and interest rates have tended to come down internationally since 1981, this has not happened in Kenya. Indeed, because of the recent rapid price rise, real interest rates have remained lower (and negative) in Kenya than in the industrial economies.

Exchange Rates

1.63. Thanks to the basically healthy balance of payments situation, the external value of the Kenya Shilling was stable during 1964–72. The shilling remained pegged at K.Sh. 7.143 to the U.S. dollar throughout this period. There was a 19 per cent appreciation of the Kenya Shilling vis-a-vis the pound sterling, primarily because the 1967 devaluation of sterling was not followed by any adjustment of the value of the shilling. The balance of payments difficulties consequent upon the oil crisis led to some fall in the value of the shilling in 1974. In October 1975, after a devaluation, the shilling was pegged to the SDR. In response to acute and growing balance of payments deficits since 1978, Kenya has adopted a flexible exchange rate policy as an integral component of a programme of structual adjustment of the economy. Accordingly there were two devaluations in 1981, amounting to 23.7 per cent rise in the value of SDR in terms of shillings. A further adjustment took place in December, 1982.

Interest Rates, 1969–81

Table 1.25 (*Percentages*)

As at mid-year	Central Bank of Kenya Discount Rate for Treasury Bills	Commercial Bank Saving Deposits	Commercial Bank Loan Rates		Central Bank Discount Rate (End of Year)	
			Maximum	Minimum	U.K.	U.S.A.
1969 ..	4·5	3·0	Free	7·0	—	—
1972 ..	4·0	3·0	Free	7·0	9·0	4·5
1974 ..	2·8	3·0	Free	7·0	11·50	7·75
1975 ..	6·0	5·0	Free	8·0	11·25	6·0
1977 ..	3·6	5·0	10·0	Free	7·00	6·0
1979 ..	6·8	5·0	10·0	Free	17·0	12·0
1980 ..	6·1	5·0	11·0	Free	14·0	13·0
1981 ..	7·7	8·0	13·0	Free	12·0	12·0
1981 (Dec.)	10·1	8·0	14·0	Free	—	—

Exchange Rates, 1964–81

Table 1.26 (*Shillings*

End of Year	U.K.£	U.S.$	End of Year	U.K.£	U.S.$	SDR
1964	19·929	7·143	1975	16·700	8·250	9·658
1966	19·930	7·143	1977	15·207	7·947	9·653
1968	17·032	7·143	1978	15·059	7·404	9·660
1970	17·098	7·143	1979	16·355	7·328	9·660
1972	16·772	7·143	1980	18·081	7·568	9·660
1974	16·754	7·143	1981	19·677	10·286	11·950

Basic Needs

1.64. As stated in the 1979–83 Plan, the alleviation of poverty and the fulfilment of basic needs have always been a major concern of Kenyan development efforts. In major respects there has been significant progress. For example, the death rate has been cut and life expectancy has risen sharply. Total public spending on basic needs grew at a rate of 19.2 per cent per year during the 1970s. Expenditure on education grew fastest (20.2 per cent per year), followed by expenditure on health (18.4 per cent) and on other welfare services (17.1 per cent). While much of the benefit from these public services failed to reach the target groups, continuous efforts have been made to improve performance in this regard. The following paragraphs give a brief review of the progress since Independence in several areas of basic needs.

Food and Nutrition

1.65. Food and nutrition are undoubtedly the most fundamental of all basic needs. Since Independence, production of major food items in Kenya has grown considerably, although in some cases it failed to keep pace with population. Table 1.27 shows changes in availability of some major items over the period 1965 to 1980. Availability has been estimated by taking into account exports, imports, seed and livestock feed requirements, and storage losses.

1.66. There have been improvements over the years in the availability of some major food items, such as maize, rice, beef, mutton, eggs, sugar, fats and oils, and potatoes. The *per capita* availability of milk and fish was lower during 1976–80 compared with 1965–70, but higher compared with 1971–75. The declining trend in the availability of pulses seen in the Table has been corrected in more recent years through upward adjustments in their prices. There have also been significant falls in availability of cassava and sorghum/millet. On the whole, however, growth in *per capita* availabilities has been satisfactory, particularly considering the rapid population growth.

1.67. This impression is confirmed when one looks at Table 1.28 showing changes in *per capita* availability of nutrients. Despite periodic fluctuations, the average availability has always been higher than the FAO/WHO recommended minimum standards. The Integrated Rural Survey (1974/75) and the Urban Food Purchasing Survey (1977) revealed that both the rural and urban population receive adequate nutrients from the food they consume. Nutrition surveys conducted in 1977 and 1979 also indicated a small improvement in nutritional status between these years.

1.68. A satisfactory overall average does not, of course, imply that every family is adequately fed. There are many families in which nutrient intake is below the required standard. The problem of nutritional deficiency is, of course, closely associated with the general problem of poverty out there are other contributory factors, including inefficiency in food production and food habits; marketing weaknesses; lack of environmental sanitation; and lack of adequate understanding of the nutritional values of different food items. It is estimated that about one-third of Kenya's population is exposed to the risk of deficient nutrition. This includes the five identified poverty groups, especially pregnant mothers and children among those groups. In May, 1979 the Government introduced a programme of free milk distribution for all primary school children in the country as a means of fighting the problem of malnutrition among them.

Housing

1.69. The objective of the Government's housing policy since Independence has been to provide adequate shelter for all, both in urban and rural areas. Rapid urbanization since Independence has resulted in the

Per Capita Availability of Selected Food Items

Table 1.27 (*Kilograms per year, period Average*)

	1965–70	1971–75	1976–80
Milk	74·8	56·0	62·5
Beef	—	12·5	13·5
Mutton	—	2·5	3·6
Pork	—	0·5	0·3
Eggs	1·4	1·4	1·6
Poultry	—	—	1·9
Fish	3·1	2·5	2·8
Maize	95·1	97·4	100·1
Wheat	17·0	15·7	13·6
Rice	1·3	1·9	2·0
Pulses	25·9	22·6	17·2
Sugar	12·2	15·9	19·1
Fats/Oils	4·2	6·4	7·3
Potatoes	19·2	27·0	24·8
Cassava	59·8	53·3	49·9
Sorghum/Millet ..	8·0	6·7	5·6

Daily per Capita Nutrient Availability, 1965–1981

Table 1.28

	Period	Calories	Protein (gm.)
	1965–70	2,412	62·9
	1971–75	2,453	65·6
	1976–80	2,385	64·6
	1981	2,428	72·6
Average ..	1965–81	2,428	64·8
FAO/WHO recommended Average ..		2,362	46·0

problem of the proliferation of unplanned urban settlements lacking in essential services such as potable water and sanitation. During the First Plan period (1966–70), the public sector produced a total of 9,500 homes and service sites. Most of these, however, were of the middle and high cost categories. In the subsequent Plans, the emphasis was shifted away from the construction of conventional homes and towards implementation of site and service programmes, as well as the upgrading of sub-standard urban settlements. Most of the public funding earmarked for housing has, in fact, been devoted to the provision and improvement of shelter for the urban poor. However, during each of the three Plan periods, performance lagged substantially behind Plan targets. As a result, the accumulated shortfall in dwelling units for the urban poor by 1983 was very large. The Government has encouraged co-operative housing as an important means of mobilizing domestic resources. It has also provided housing for civil servants through pool housing, mortgage housing and institutional housing programmes.

1.70. In rural housing, the main problem has been quality rather than quantity. Government loans to both individuals and co-operative societies in rural areas, technical assistance in the form of house-type plans, construction of model houses using locally available materials and dissemination of results of research into improved construction and design standards for rural dwellings, have contributed to some improvement in the quality of rural housing.

Health

1.71. Considerable progress has been achieved since Independence in the provision of health services. The death rate is estimated to have dropped from 20 per thousand of the population in 1963 to 14 in 1982, while the infant mortality rate dropped from 120 to 86. Life expectancy at birth has, as a result, improved from 40 years in 1963 to 54 years in 1982. At the time of Independence, there were 148 hospitals, 56 of which were Government-owned, with others owned by missionary organizations. By 1982, the number of hospitals had gone up to 218, out of which 84 were run by the Government. Even faster growth has been achieved in the number of dispensaries and health centres, which provide health services in the rural areas. From a little less than 160 in 1963, the number of health centres had gone up in 1982 to 274. There were only a few dispensaries in 1963. The number had gone up to 400 by the end of the first decade since Independence (1972) and by 1982 had risen to 1,184. Table 1.29 provides information on available health facilities in 1982.

Health Facilities, 1982

Table 1.29 (*number and per cent*)

Operating Agency	Hospitals	Health Centres	Dispensaries (Sub-Health Centres)	Total	Percentage of Ownership
Central Government ..	84	233	802	1,109	66·6
Municipalities	2	2	19	23	1·4
Missionary Organizations	84	38	232	354	21·3
Private	48	1	130	179	10·7
TOTAL	218	264	1,183	1,665	100·0

1.72. With this growth in the number of medical institutions, there was a parallel growth in the number of medical personnel. The number of fully qualified doctors increased from 339 in 1963 to 787 in 1982. During the same period, the total number of health workers (including paramedical staff) increased from 6,303 to 30,752. In regard to medical training, almost complete Kenyanization has been achieved among teaching staff, while examinations and curricula have been reoriented to cater for local needs. The number of training institutions, which stood at 40 in 1972, had gone up to 72 by 1982. Out of these 49 were owned by the Government.

Water

1.73. The supply of water, of good quality, in sufficient quantity and in close proximity to the population is one of the long-term objectives of the Government. In recognition of the great importance of water in the promotion of health, sanitation and economic growth in general, a separate Ministry of Water Development was set up in 1974. This has become the principal agency responsible for management, development, operation and maintenance of water supplies, sewage disposal and pollution control. Water supply schemes have made some progress since Independence, about 128 schemes having been completed to date under this programme. The present coverage varies widely between provinces, ranging from as low as 4 per cent of the population in North-Eastern Province to 20 per cent in Central Province. A 1975 survey indicated that women in rural areas spent a fifth of their time collecting water. Latest figures show that water supplies have now moved closer towards rural households. For most regions, the average distance has been nearly halved, and no region is now more than 1.8 kilometres away from a water point in the dry season, compared with 3.4 kilometres in 1974.

1.74. The objective in the urban water supply sector is to provide all urban centres with a potable, reticulated water supply and to equip such centres with means of effluent disposal. Over the years, major improvements have been made in the water supply systems for Kisumu, Eldoret, Kitale, Embu, Mombasa, Nakuru, Thika, Nyahururu and other district headquarters. It is estimated that by 1982, about 75 per cent of the total urban population in Kenya had access to an improved water supply.

Education

1.75. During the period since Independence, there has been a remarkable improvement in Kenya's educational system, thanks to large Government expenditures. Another contributory factor has been a change in the attitude of parents towards education, as indicated by greater willingness to bear the cost of school fees and to contribute to self-help projects such as Harambee schools and Institutes of Technology. Schools and colleges have grown at all levels of education. The ratio of boys to girls, which stood at 3 : 1 at Indepen-dece had declined to 1.5 : 1 by 1982, which is a clear indicator of the value that Kenyan parents attach to education of all their children. Within the first ten years of Independence, education became fully integrated and all schools operated with one national curriculum. In addition, some of the secondary schools were converted into national schools, thereby bringing together students of different ethnic origin into the same learning process.

1.76. At Independence, primary school enrolment was 891,553, which was less than 60 per cent of the primary school age population. Within 20 years, there was a remarkable improvement, helped by the elimination of school fees in stages which was completed by 1980. It is estimated that in 1982, the percentage of primary school age population enrolled was 92 per cent, thus falling only a little short of universal primary education. The number of primary schools had gone up over this period from 6,058 to 11,497. The number of nursery schools, village polytechnics and adult education centres has also registered remarkable growth.

1.77. Expansion of secondary and higher education has been equally impressive. Enrolment in secondary schools, which was estimated at 27,000 in 1963 had increased to about 465,000 by 1981. Enrolment in secondary technical education rose from approximately 1,500 in 1963 to slightly more than 9,000 in 1981. The full-time equivalent of enrolment in polytechnics increased from 650 in 1963 to 4,400 in 1981, as a result of the expansion of the Kenya Polytechnic, the establishment of Mombasa Polytechnic and the recently opened Jomo Kenyatta College of Agriculture and Technology. University enrolment rose from slightly over 600 in 1965 to about 8,000 in 1981.

1.78. Overall growth in the number of teachers was somewhat slower than the growth in the number of students, resulting in a rise in the student/teacher ratio from 19.7 in 1963 to 27.9 in 1981. Of more serious concern is the trend in the student/trained teacher ratio, which rose from 24.1. in 1964 to 54.0 in 1981. The percentage of untrained teachers almost doubled between 1964 and 1981, from 26 per cent to 48 per cent.

CHAPTER 2

STRATEGY FOR FUTURE DEVELOPMENT

2.1. An important line of continuity between past achievements and future development strategy is to be found in the nation's long-term objectives. These have remained basically unchanged since Independence and continue to provide valuable guidelines for the formulation of plan strategy. These objectives include political equality, religious freedom, social justice, freedom from want, ignorance and disease, human dignity including freedom of conscience, equal opportunity for all citizens, and a high and growing national income equitably distributed among the nation's families.

2.2. The development process in Kenya is intended to promote these objectives through the African tradition of mutual social responsibility. That tradition was described in *Sessional Paper No.* 10 *of* 1965 *on African Socialism and Its Application to Planning in Kenya* as "a mutual responsibility by society and its members to do their very best for each other with the full knowledge and understanding that if society prospers its members will share in that prosperity and that society cannot prosper without the full co-operation of its members".

2.3. Translated into principles for development, Kenya seeks growth and modernization without loss of the feeling of kinship and the concern for the welfare of others. Pride in progress, individual or national, can only be justified if it is achieved in ways which benefit all. Hence, all Kenyans must contribute to the development process as well as share in its benefits. Creating opportunities for widespread participation in development is a major aim of development strategy. In order to encourage such participation, many forms of ownership and organization of production are permitted and promoted. The conduct of economic and social affairs can be organized by individuals, partnerships, companies, co-operatives, statutory boards and corporations, voluntary agencies and the state. The critical question is the effectiveness of the organizational form in mobilizing resources for effective and equitable development.

2.4. In addition to providing essential services and basic needs, it is the responsibility of Government:

(i) to enable Kenyans to help themselves individually and collectively,

(ii) to improve the quality and distribution of its services by sharing the cost of existing services with those who benefit,

(iii) to provide suitable incentives for production and investment,

(iv) to ensure that all Kenyans share in the benefits of development,

(v) to share the costs of development through an equitable system of taxation, and

(vi) to regulate, as required, activities in the private sector.

In pursuing its obligations, Government will ensure that the scope for private sector activities is protected and expanded, and that access to credit and foreign exchange is adequate to sustain private sector growth.

2.5. Growth in the private sector is the core of the development process. Family farm and pastoral activities engage most of the nation's labour, produce most of the nation's food and earn much of the nation's foreign exchange. Large farms, plantations and ranches, whether organized individually, co-operatively or as companies, are also essential to the balanced development of the nation. Finally, most activities in trade, road transport, manufacturing, construction, and finance are privately organized. Without growth in the private sector, there can be no effective or widespread development in Kenya.

2.6. Our long-term objectives and principles of development have provided a firm structure for the formulation of every development plan since Independence. Changing circumstances have necessitated changes in shorter-term development strategies but these changes have always been made in a manner consistent with the established long-term structure. Progress itself has disclosed new problems, such as the effect of modernization on cultural and family traditions, or required changes in emphasis, such as the higher priority accorded rural development following progress in urban development. Similarly, as resources are depleted during the course of development, other sources must be found, measures of conservation introduced, and priorities modified. Finally, experience may reveal points of weakness in prior strategies for which remedial measures are required.

2.7. The strategy for this Plan reflects these considerations. Progress with import substitution now requires renewed emphasis on the realization of our export potential. The industrialization of Nairobi and its environs suggests the need to improve regional balance in development. Improvements in the education and skills of the labour force raise the priority to be attached to the creation of income-earning opportunities. Success in reducing mortality rates puts a much higher premium on effective family planning in order to improve the quality of life for the nation's children.

2.8. Plans for coping with emerging problems such as these are recorded throughout this document. But the critical problem which must be addressed successfully during this Plan period is "mobilizing domestic resources for equitable development". That is the theme of this Plan and the strategy for development presented in this chapter is built around that issue. It has two parts—"mobilizing domestic resources" and "equitable development". Each is discussed in turn.

2.9. Why is this a critical matter at this stage in Kenya's development? The obvious reason can be simply stated. Ever since Independence Kenya has fostered domestic development by supplementing its domestic resources with substantial amounts of external resources. Some of those external resources have reached Kenya in the form of grants but most have been purchased with foreign exchange borrowed on both commercial and concessionary terms. It was certainly right to use the nation's borrowing capacity to promote development but that capacity is limited by the ability of the nation to service its debt. As principal and interest payments rise, a larger share of new borrowing must be used to service outstanding debt and a smaller share is available for the purchase of external resources. Unless domestic resources, including earnings of foreign exchange, can be marshalled to support a larger part of the cost of development, the pace of development must slow.

2.10. That critical juncture has now been reached in Kenya. Currently, external debt service amounts to about two-thirds of new external borrowing. Viewed in another way, about 22 per cent of foreign exchange earnings from the export of goods and services is now required for debt service. Taking 25 per cent as a limit, Kenya's capacity to borrow has been nearly exhausted. Further increases in external debt must be more closely related to increases in Gross Domestic Product than has been the case in the past. Hence, in the future, a larger proportion of development resources must be marshalled from domestic sources.

2.11. This conclusion is clear and unmistakable, but its direct cause—high debt service costs—obscures two important underlying and persistent forces, one external, the other domestic.

External Forces

2.12. The amount of borrowing required to maintain the pace of development over the years since Independence has been substantially larger because Kenya's terms of external trade have fallen so sharply over those years. Since 1964, the international purchasing power of a tonne of coffee has fallen by 50 per cent and that of a tonne of tea by 68 per cent. Hence, despite a fourfold increase in the production of tea since 1964, tea exports in 1981 could finance only 7.7 per cent of imports as compared with 9.6 per cent in 1964.

2.13. The decline has been sharper, except for the years of the coffee boom, since oil prices stated their dramatic rise in 1973. In 1981, an average unit of Kenya's exports would buy only 66 per cent of the imports it could buy in 1972. Indeed, if the terms of trade had remained constant over that period, Kenya's exports in 1981 would have financed 70 per cent of its imports as compared with the actual figure of 46 per cent. Viewed in another way, if the terms of trade had remained constant over the period, Kenya's exports would have earned K£234.5 million more than was actually realized and external borrowing could have been that much less in that year alone.

2.14. The adjustment of the economy to the deterioration in the terms ot trade has taken several forms. First, it has been necessary to constrain imports. As a consequence the rate of economic growth has been reduced and Government revenues have been adversely affected. Second, measures to promote export earnings, particularly the export compensation scheme, have been introduced. Hence, the additional borrowing required to fill the remaining gap has been less than it otherwise would have been. Nevertheless, the amount of borrowing required has been substantial, especially in recent years, and debt service payments have soared.

2.15. The adverse effect on the balance of payments of these longer-term considerations has recently been aggravated by the international recession which has retarded the growth in demand for Kenya's exports and limited the availability of both commercial and concessionary external finance. Increasing protectionism in the industrialized nations has restricted exports even further.

2.16. Finally, Kenya's efforts to reduce quantitative restrictions on imports as part of the larger structural adjustment programme described most recently in *Sessional Paper No.* 4 *of* 1982 have been undermined by shortfalls in the external finance required to finance less restricted imports. Hence, while the demand for imports does not seem to have been excessive in terms of development needs, rapidly falling foreign exchange reserves in 1982 forced a suspension of the unrestricted importation of the high priority items on Schedule I.

2.17. There are signs of some moderation in these external forces. First, the high rates of international inflation are subsiding. This has come about partly because of the tight monetary policies pursued in recent years by the industrialized nations. As these policies are relaxed, international recovery can begin, but the process is likely to be slow, gradual and sectorally uneven. The principal problem appears to be continuing high and rising real rates of interest in the world's major capital markets. Nominal interest rates are falling more slowly than inflation rates. High real rates of interest will slow the pace of recovery and bias it in favour of those sectors which can afford to borrow. The recent tendency in industrial countries for a growing share of loanable funds to go to the financing of Government deficits, defence industries, public utilities and state-owned enterprises—all of whom can pay high interest rates—threatens to become a trend. Investment in economically productive and competitive sectors will certainly be dampened by high real rates of interest and as a consequence international recovery is likely to be sluggish.

2.18. The most positive factor internationally is the drop in oil prices, recognized by OPEC in early 1983. Considering the effect of the price fall from $34 to $29 per barrel on both Kenya's imports and exports of oil and oil products, about K£40 million in foreign exchange should be saved annually. Equally important, the fall in oil prices together with some recovery in international economic activity offers hope that the deterioration in Kenya's terms of trade will be much milder during this Plan period than would otherwise be the case.

Domestic Considerations

2.19. The unfavourable nature of the external events impinging on Kenya, particularly in recent years, has had a major impact on Kenya's present debt position. It must also be recognized that, as reported by the Working Party on Government Expenditures, the domestic adjustment to changing circumstances has often been slow and incomplete. Government expenditures have outrun revenues; some of those expenditures have been unproductive, failing to earn enough to service the debt incurred; and the reliance on external resources to develop the nation has been increasing rather than diminishing.

2.20. External events have depressed economic growth in Kenya and the growth of Government revenues as well. Nevertheless, Government revenues (including grants) have grown more rapidly than the economy as a whole so that in 1980/81 revenues amounted to nearly 27 per cent of GDP, as compared with 20 per cent in 19766/77.

2.21. Over this same period expenditures have grown even more rapidly than revenues. The growth in expenditures reflects the following principal factors:

(i) the rapid growth of debt service charges from 1.6 per cent of GDP in 1977 to 5.2 per cent in 1981,

(ii) the growth in demand for Government services stemming largely from a population growth rate of 3.8 per cent,

(iii) the rapid rise in defence spending,

(iv) substantial increases in public sector employment, particularly following the Tripartite Agreement of 1979, and

(v) special food imports occasioned by drought.

As a consequence, total Government expenditure as a percentage of GDP increased from 24.7 per cent in 1976/77 to 35.5 per cent 1980/81. The deficit as a percentage of GDP reached 9.5 per cent in 1980/81, an intolerable level which necessitated further extensive borrowing.

2.22. These pressures on the Government budget were aggravated throughout the seventies by two other important trends, both of which must be reversed during this Plan period. First, Government made a concerted effort to provide more and better services to the people while reducing the share of the costs falling on the beneficiaries. This approach necessarily put the budget under great strain and thus reduced the ability of Government to extend its services to others in great need.

2.23. Second, Government investments in commercial enterprises grew disproportionately during the seventies. Direct equity and loan investments by Government, which amounted to K£15.8 million in 1970/71, reached K£52.1 million in 1975/76, absorbing 41.8 per cent of total civil development expenditures. These investments peaked at K£76.0 million in 1978/79 and then fell to K£67.3 million in 1980/81 as Government initiated a conscious effort to contain them. The scale of Government involvement is understated by these figures because they exclude guaranteed loans which amounted to K£332.9 million at the end of 1981.

2.24. These investments have had two unfortunate features. First, many of them have been unproductive. Indeed, the average return on its direct investments alone amounted to only 0.5 per cent in 1978/79. Hence, much Government borrowing has been incurred for commercial activities that do not increase the productivity of the nation or earn enough to pay their own debt service. They are a net burden on society. Second, the management of these enterprises has required talent that might be more productively employed within Government proper, or within the private sector. Moreover, many of those remaining in the Civil Service have had to divert their energies to the reorganization and refinancing of problems of parastatals from more important tasks.

2.25. Most Government investments in development projects have been productive, however, and most investments by the private sector have also increased national output and income. The nation has grown, often quite dramatically, since Independence. Despite that growth, the nation has chosen to finance a growing share of its gross investment from foreign sources—external borrowing. From a figure of 16.6 per cent in 1966, external capital inflows accounted for 20.8 per cent of gross investment in 1970, 34.1 per cent in 1975 and 42.9 per cent in 1979. These figures demonstrate how heavily the nation has relied on external borrowing to finance its growth. They also suggest that increases in national income might have reduced our dependence on foreign capital if a larger share of those increases had been channelled into investment instead of into public and private consumption.

2.26. Now the easy choice of continuing to borrow heavily from external sources is no longer feasible. The nation's external debt service burden is approaching its prudent limit. Now the nation faces a much harder choice—to accept a much lower rate of growth than is needed for development or to make every conceivable effort to mobilize the nation's resources in a major domestic development effort. The Government has chosen the second course of action. The remainder of this section is devoted to a discussion of the principal policies that have been adopted to marshall domestic resources for development and of the burdens that the people of the nation are being asked to bear. During the course of this Plan period, our dependence on external resources for development must be substantially diminished.

Management of Government Responsibilities

2.27. Government will play a leading ro'e in reducing the nation's dependence on external sources of finance. This is not a simple task because two of the obvious means of doing so—raising taxes and increasing domestic borrowing—are not promising in present circumstances.

2.28. The assessment and collection of tax revenues are the principal means by which Government diverts national resources to its own use. The larger that diversion the smaller the scope for private sector development by tax-payers. Tax and non-tax revenues (excluding appropriations in aid and grants) currently amount to about 22.4 per cent of GDP. The Working Party on Government Expenditures has recommended an eventual target of 20 per cent but that is not likely to be achieved during this Plan period. There is some room for broadening the tax base and Government is examining ways of doing so. As such measures are introduced, some existing taxes can be modified in order to make the tax structure more equitable and to reduce some of the disincentive effects of taxation.

2.29. The Government diverts additional resources to its own use by borrowing domestically. Recent high levels of Government borrowing have unduly restricted the private sector's access to credit and at the same time increased the debt service obligations of Government. To increase domestic borrowing in order to reduce external borrowing would reduce dependence on external finance but it would also crowd out the private sector even more and would not bring the debt service problem under control. For these reasons, the scale of total Government borrowing—the budget deficit—must be progressively reduced relative to GDP.

2.30. In addressing these fiscal responsibilities, Government cannot shirk its development obligations. The demand for essential services, development projects and basic needs will expand with the growth of population. In addition, services must be extended to new areas and the quality of Government services must be up-graded. The challenge of this Plan period is to make progress on these several fronts within the limits of fiscal responsibility. The Government is responding to this problem in the following several ways:

(i) non-essential Government investments and services will be sharply curtailed and in some cases left entirely to the private sector;

(ii) voluntary agencies and the individual and collective efforts of the people will be marshalled to supplement Government's provision of selected essential services and basic needs;

(iii) in order to assist and guide collective efforts more effectively, the Government is making the district the management centre for rural development;

(iv) efficiency within Government for planning and delivering services, and appraising and implementing projects will be improved; the productivity and discipline of the civil service will be enhanced; and

(v) those who benefit from the provision of Government services will be required to share more in the cost of those services through fees and other charges.

Through these measures the Government will reduce the cost to the budget of its services, and mobilize domestic resources in various supporting and complementary roles.

2.31. *Non-essential activities.*—During the years when revenues could be readily increased and borrowing was easy, Government activities proliferated almost as quickly as opportunities arose. Indeed, many of these opportunities were created by willing lenders, machinery suppliers and management specialists. The Government initially fostered participation in commercial activities in order to accelerate decolonization of the economy, promote regional balance, and provide management opportunities and experience for Kenyans. Substantial progress has been made on these fronts but the cost has been high in that the expected earnings have not materialized.

2.32. It is now the position of Government that it should reduce the scope of such investments and its exposure to risk in activities that are more appropriately undertaken by private investors. The reduction of investments in non-essential activities and the divestiture to Kenyans of some existing investments will release revenues for essential purposes. The Government will continue to encourage Kenyans to establish enterprises either alone or through joint ventures with foreign partners.

2.33. *Participation in providing essential services.*—Excluding defence, internal security, and the regulatory functions of Government, the provision of essential services and basic needs by voluntary agencies, the collective efforts of the people, and private enterprises as a supplement to Government programmes has always been encouraged. Voluntary agencies have been especially helpful with education, health, family planning, nutrition, welfare of women, and opportunities for the handicapped. Collective efforts have played a major role in providing health and education facilities, community centres, access to water, cattle dips, minor irrigation schemes, and other improvements in infrastructure. Private enterprises provide educational opportunities, health services, and important extension services to farmers and other suppliers.

2.34. These activities will continue to be encouraged and should be expanded during this Plan period. In particular, community organizations, cooperatives and other forms of collective effort should take on responsibilities for the management, operation and maintenance of many of the facilities they have helped to construct, such as water and sewerage systems, schools, roads and bridges, and drainage and irrigation systems. Drawing collective efforts and other private sector services more fully into the system will ease the burden on Government and increase the services available to the people.

2.35. *The district focus.*—The bulk of the work of development takes place in local communities and rural areas. Eighty per cent of the people earn their living there either as farmers, pastoralists or suppliers of goods and services. The rural areas are also the source of most of the nation's food and export commodities. It is in those locations that most of the nation's resources must be mobilized for effective development. It is, indeed, for these reasons that the Government has over the years since Independence established provincial and district development committees and extended many of its activities to divisions and locations.

2.36. Extensive as this effort has been, it has lacked a sharp focus and sufficient delegation of authority to be completely effective. The Government has therefore accepted the recommendation of the Working Party on Government Expenditures to make the district the focal point for the management of rural development and to increase the planning, budgeting and management responsibilities of both district commissioners and district development committees accordingly. This shift of responsibility will require careful planning and scheduling in its implementation if the transition is to be managed effectively. The first steps have been taken in the 1983/84 Budget and in this Plan document. A tentative schedule for the full implementation of the transition to district management is contained in Chapter 4.

2.37. With better direction and management of district development, the resources of the district will be more effectively mobilized and co-ordinated for the development of the district. The greater involvement of the people in planning, organizing, constructing and operating their own facilities will enhance both the pace of development and the sense of participation. A less costly and more efficient management organization will not only conserve resources but also increase the multiplier effect of Government inputs. Finally, by directing more of its own resources to the needier areas of the nation, the regional balance of national development will be improved.

2.38. *Improving efficiency throughout Government.*—Clearly, during a period of financial austerity, a premium must be placed on higher efficiency. Services must be delivered and projects implemented at the lowest possible cost. To this end, every ministry has been instructed to undertake a study of its essential functions and the internal organization and personnel appropriate to their efficient performance. Non-essential services will be eliminated and the inputs required for the performance of essential services will be reduced to the minimum through improvements in organization and the elimination of waste, misuse and idle time.

2.39. A project evaluation handbook has recently been published to assist in this task. Appraisal methodologies will be strengthened and standardized. Firm procedures for the evaluation and presentation of projects have been established. No project or financing agreement will be authorized until the established procedures and criteria have been fully satisfied.

2.40. Improvements in efficiency throughout Government will require that the productivity and discipline of the Civil Service be significantly enhanced both on the average and in each individual post. The Directorate of Personnel Management is conducting a review of all established posts to identify both essential needs and overstaffing. Overstaffing will gradually be eliminated by limiting the recruitment of replacements for those leaving the Civil Service to posts identified as essential. While some additional professional and technical staff will be recruited during the Plan period, the overall size of the Civil Service should not increase materially. As underemployment, which now characterizes the lower grades of the Civil Service is decreased, the average productivity of the Civil Service will be considerably improved.

2.41. *Cost sharing with beneficiaries.*—Since Independence the infrastructure of the nation—its roads, ports, airports, pipelines, power facilities, railways, posts and telecommunications—has been rapidly expanded. In addition, social and economic services, such as education, health care, water, and extension services, have been brought to millions of people in most parts of the country. But the task ahead is even greater because many districts and regions remain poorly served, many people still do not have access to basic needs and essential infrastructure, the population is continuing to grow at a rapid rate, and the quality of many services must be improved.

2.42. This vital task of Government is never ending. Yet at a time when education alone takes 30 per cent of the recurrent budget and external borrowing must be limited to financially prudent levels, essential progress in extending infrastructure and basic services to needy areas and more people can only be made by drawing additional domestic resources to the task. In these circumstances, it is both necessary and equitable to expect those who are fortunate enough to benefit from Government services and infrastructure to bear a larger share of their cost so that similar services can be further extended to others.

2.43. Charges for infrastructural services, such as postal and telephone rates, rail tariffs, and power charges, should normally cover full costs. The most obvious shortfall in such charges is the fact that those who benefit from the use of the nation's roads pay only a small part of the cost of building and maintaining them. The determination of appropriate charges is currently under intensive study. Similarly, families who have access to health care, especially as in-patients, agricultural and veterinary services, secondary, technical and higher education, and water should be expected to meet a larger share of the cost of such services. In designing systems of charges, incentive effects on family size will be considered and in all cases provision for the remission of fees will be made for those whose need can be demonstrated. The Ministry of Finance and Planning is working with the several ministries directly concerned in the design of more equitable systems of cost sharing.

2.44. There is also a form of reverse cost sharing which must be eliminated. Those who borrow from Government but fail to repay deprive others of access to credit and so retard the development of the nation. Credit to the nation's farmers is a case in point. It is indispensible to the development process and its repayment to Government is an important means of conserving domestic resources. Unfortunately, the experience with repayments by farmers of seasonal credit has been discouraging. The Seasonal Credit Scheme should be a revolving fund. Repayments of old loans should finance new seasonal credit. But currently only about one-third of original loans are being repaid and Government is hard pressed to find the money required for the next season's advances. Those who are privileged to receive agricultural credit must accept and respect the obligation to repay, thus providing the bulk of the financial resources required for another agricultural season. The credit system is being restructured to improve the repayment record.

2.45. These several policies of Government will bring the budget deficit under firm control while at the same time promoting greater independence in the development of the nation. Government borrowing should diminish in relation to national output and by the end of the Plan period the debt service ratio should also show improvement. The renewed focus of Government on essential services and district development will enhance efficiency and enable a more highly trained Civil Service to manage Government activities more effectively. In these ways Government will ensure that the resources diverted to public use through taxes and borrowing will contribute more to development in public hands than they would if left with the private sector. It is the responsibility of every civil servant to ensure that this is true of his own work.

The Promotion of Private Domestic Saving

2.46. If Kenya's dependence on external resources is to be noticeably diminished during this Plan period, effective management of the Government budget alone will not be enough. Every household and business enterprise must share in the task. In order to reduce dependence on external capital, a larger share of domestic production must be exported to earn foreign exchange, and imports of goods and services to supplement domestic production must be limited. But exporting more and importing less relative to domestic production also means that the total goods and services available for domestic use must grow more slowly than domestic production. Hence, a high premium must be placed on increasing domestic production. For this purpose, a relatively high level of investment must be maintained and the brunt of the slower growth of available goods and services must fall on public and private consumption. Households must allocate a smaller proportion of their incomes to consumption and a larger proportion to saving; business enterprises must retain a larger proportion of their earnings for investment and pay a smaller proportion to owners. With somewhat lower rates of income growth and an expanding population, the achievement of required levels of private domestic saving will not be a simple task.

2.47. A very high priority must now be given to creating both opportunities and effective incentives for Kenyans to save. Cost sharing and self help are both important forms of national saving which will reduce national dependence on external sources of finance. Collective efforts often marshall resources, particularly labour, which would otherwise be idle. Hence, when effectively organized and managed as the district focus will do, collective efforts will not only increase domestic saving but national output as well. When owners of farms, homes and enterprises undertake improvements with family labour that would otherwise be idle, this same double effect is realized. This dual effect is most valuable and urgently needed.

2.48. It is equally important to stimulate financial saving by Kenyans out of their cash incomes. The several programmes of the Post Office Savings Bank and its large network of offices represent effective opportunities for the private saver. The commercial banking system, insurance companies and building and co-operative societies will also be encouraged to extend saving opportunities to the rural areas. Positive interest rates will provide incentives for saving and they will be adjusted as required to ensure that rates for savers remain above the rate of inflation. In addition, savings instruments for larger savers will be diversified and rates set at levels which encourage the retention of savings in Kenya rather than their transfer to other countries.

2.49. A particularly important and often neglected means of mobilizing domestic resources for effective development is the conservation of those resources available for development. The conservation of soil and water is essential to maintain the productive capacity of the nation and the quality of life of the people. The nation's wildlife is an important national asset whose preservation will enhance tourism and the earning of essential foreign exchange. The effective conservation of energy is mandatory if we are to reduce our dependence on foreign sources, principally oil, and to ensure an adequate supply of fuel wood and charcoal for the families who require it. The preservation of our environment is essential if the quality of life is not to be sacrificed to air and water pollution and overcrowding in our cities and towns. An effective and well co-ordinated set of conservation policies is for all of these reasons an essential ingredient of the nation's development strategy.

The Utilization of Productive Capacity

2.50. The productive capacity of the nation, whether in the public or private sector, is a resource whose potential must be more fully realized than at present if the pace of development is to be improved. The existence of idle capacity represents an opportunity to expand output without substantial investments in land, plant and equipment, and training. Usually, the application of selected supplementary resources will enable output to be substantially increased with very little additional cost. Such opportunities must of course, be pursued selectively. There is no point, for example, in expanding the output of a factory with idle capacity if the demand for its produce is depressed, or in providing teaching materials for forty students in a classroom if only twenty are attending. But when there is an unsatisfied demand a major effort is certainly in order to draw idle capacity into the task of satisfying it.

2.51. Within the public sector there are many opportunities for the better utilization of existing capacity. Many training and community facilities are underutilized in that opportunities to use such facilities for night courses, vacation period seminars, correspondence courses, and adult training are not being systematically organized. Inadequate repair and maintenance, reflecting shortages and inefficient uses of funds, shows up in idle vehicles, poor roads, and dispensaries, cattle dips and water supplies that are unable to provide needed services. In some instances, progress has outmoded other facilities. The completion of the Coast Water Supply Project made many of the previous sources of water obsolete. The development of district hospitals has led people to bypass health centres and dispensaries where initial diagnoses and simple treatments are available. The anomaly of overcrowding in hospitals while lower level facilities are underutilized has been aggravated by the sporadic availability of supplies and personnel at the lower levels.

2.52. These and other problems of underutilized capacity in the public sector are being addressed in this Plan through an improved allocation of Government expenditure between recurrent and development needs and the articulation of better policies in the sectoral chapters of the Plan and in the District Plans themselves. The district focus will serve to bring such needs more quickly to the attention of Government.

2.53. In the private sector, a major and continuing problem is the underutilization of land in many parts of the country. This takes several forms. Some land is idle because its owners are absent. Other land is simply being held for speculation. Some land is underutilized because its ownership is in dispute or clear titles have yet to be issued. Much land under cultivation or used for pasture is less productive than it should be because of poor farm management practices. There is also land that is underutilized because of a lack of access to markets or essential inputs, including credit.

2.54. Chapter 6 spells out in considerable details Government's response to the underutilization of land. There are clearly unsatisfied demands for Kenya's agricultural outputs in export markets, in agricultural processing industries and for family consumption. Using land more fully and productively is probably the best single way to promote the development of the nation and the welfare of the people.

2.55. The small family farm is the main source of agricultural output and will continue to be encouraged and supported because it is more productive, more labour intensive and serves subsistence needs as well as producing cash crops. The land adjudication and registration programme is the principal means for establishing family farms and providing them, through clear titles, with the credit essential to their development and effective operation. Moreover, the *de facto* subdivision of many large farms has been recognized by Government and means for legalizing such subdivisions are being actively pursued. A land tax continues to be studied as a possible source of revenue in those districts where land registration has been completed. A penalty tax on idle land is also under consideration. The programme to develop arid and semi-arid lands will be accelerated further during the planning period. These and other policies described in Chapter 6 will increase both agricultural output and employment through the more intensive and efficient use of land, the nation's most important natural resource.

2.56. Considerable idle capacity also exists in the commerce, industry and tourism sectors. This is less easily redressed from the supply side because it reflects primarily a deficiency of demand domestically, in neighbouring countries and in more distant export markets. The Government is actively engaged in improving external demand for Kenya's products through measures discussed in the next section. As demand improves, a study will be made in co-operation with the private sector and the newly established Investment Advisory Centre to determine and alleviate those infrastructure bottlenecks, such as street lighting, power, security, and transport services, which presently inhibit two and three shift uses of the nation's industrial capacity.

2.57. An important effect of drawing the nation's underutilized capital stock more fully into the mainstream of national development is that many additional employment opportunities will be created in the process. Indeed, manpower itself is, together with land, among the most important of the nation's underutilized resources. Moreover, the fuller and more productive employment of labour not only increases national output but also contributes directly to the well-being of the nation's families. Productive employment is truly a basic need.

Promoting External Trade

2.58. By selling more of our goods and services abroad and earning more foreign exchange, a larger proportion of the cost of essential imports can be financed from our own resources. This is another important means of mobilizing domestic resources for development. The Government's several programmes for generating more foreign exchange are described further in Chapter 6. The problem is being addressed on three fronts.

2.59. First, the Government is initiating discussions with many of its trading partners, who assisted Kenya with special balance of payments support during 1982 and 1983, to facilitate the export of Kenya's goods and services at reasonable prices. The Kenya External Trade Authority is examining the factors which now limit Kenya's access to markets in Japan, Europe and the United States and the results of these studies will provide substance for these trade discussions. The objective is to promote the external demand for Kenyan products and establish a sound basis for improving the balance of payments and diminishing the need for special support.

2.60. Second, the Government is actively participating in efforts to expand trade among African nations because mutual development can be effectively supported in that way. In this regard the Government is engaged, in co-operation with neighbouring countries, especially Uganda, the Sudan and Ethiopia in improving road connections and other inter-connecting transport facilities. In addition, Kenya has been assisting Uganda with its recovery efforts. Kenya has also been actively engaged with Uganda and Tanzania in negotiations to settle the distribution of Community assets and liabilities and to improve trading relations with those countries. On a larger scale, Kenya is a signatory to the Preferential Trade Area Treaty which is dedicated to the promotion of trade among the countries of Eastern Africa.

2.61. Finally, the Government is seeking means to stimulate non-traditional exports through incentives to exporters and improvements in the competitiveness of Kenya's producers. Such quantitative restrictions on imports as bans and letters of no objection have been virtually eliminated and a programme to reduce excessive protection through high import duties has been initiated. These actions will encourage producers to improve their efficiency and to seek out profitable export markets. The Export Compensation Scheme provides a further incentive to export and its administration has recently been streamlined to ensure prompt payment to exporters on all qualifying exports. In addition, exporters have been given preference for both bank credit and import licences. Firms will also be encouraged to apply during the Plan period for the privilege of manufacturing in bond. Finally, it is intended to maintain an exchange rate which will enable exporters to compete effectively and profitably. Continuing studies of the adequacy of export incentives and the effectiveness of export administration will ensure that, as experience accumulates, improvements will be quickly initiated.

Private Foreign Investment

2.62. While not strictly speaking a domestic resource, much private foreign investment derives from retained earnings which are in fact generated in

Kenya. Moreover, fresh inflows usually meet tests of productivity and profitability and hence are an important supplement to domestic savings. Since Independence, the Government has welcomed and encouraged private foreign investment and will continue to do so.

2.63. The recently established Investment Advisory Centre will be an important vehicle for promoting private foreign investment, particularly in partnership with domestic investors. The Government intends to limit its participation in new commercial ventures and instead to encourage wholly private initiatives. The Government's role will be to provide appropriate incentives, information on opportunities, and suitable regulation to protect consumers, customers, suppliers and competitors against unfair business practices. The nature of these incentives and regulations is discussed in more detail later in this chapter.

2.64. As indicated in the foregoing paragraphs, the mobilization of domestic resources is a major component of the development strategy being pursued in the Fifth Development Plan. Kenya, as a nation, must increase its reliance on its own resources and become more self sufficient in the pursuit of economic development. In order to succeed in this task, the families of the nation must, in turn, become more self sufficient and exercise greater initiative in helping themselves through individual and collective efforts. The Government will focus its efforts on establishing a favourable setting within which Kenyans can help themselves through their self-help and other private sector activities, and making the districts effective management centres for development activities. The resources marshalled in these several ways must, however, be directed to the effective and equitable development of the nation. That is the second major component of our development strategy.

Equitable Development: The Public Sector

2.65. The focus on the mobilization of domestic resources should not be regarded as a panacea. The fruits of that effort will be realized slowly. As changes in institutional practices and incentive systems are introduced, the behavioural patterns of families, farms and firms will gradually be modified toward greater self sufficiency and individual initiative. This represents an essential and fundamental change in which development will be based increasingly on domestic resources with external resources playing a supplementary role. Nevertheless, the nation and the Government will continue to draw into the development process external concessionary resources to the extent that it is financially prudent to do so because, if used efficiently, those resources will enhance development.

The Efficient Use of Resources

2.66. That the nation uses its domestic and external resources efficiently is a primary concern of the Government. Borrowing, properly conceived and realistically assessed, has an important and essential role to play in the development process. When funds are productively used, additional revenues are generated which should cover the required debt service. Commercial borrowing in the private sector normally meets this criterion although occasional errors in judgement about business risks may result in business failures. Private borrowing from Government, whether in the form of industrial loans or seasonal agricultural credit, may not meet this test if borrowers feel that political and social pressures will make it difficult for Government to enforce the repayment of loans. Conditions of such loans will be vigourously enforced in the future.

2.67. Borrowing by parastatals should for the most part meet the same commercial productivity test confronted by private borrowers. The frequent resort in the past to Government guarantees suggests, however, that often lenders have not been convinced that increases in productivity as a result of parastatal borrowing would be sufficient to service the debt. The fact that many of these debts have had to be rescheduled, refinanced or directly assumed by Government bears out the judgement of lenders in these cases. Borrowing by parastatals for non-productive purposes in an unjustified use of the nation's borrowing capacity and only serves to retard development. Such borrowing will be strictly limited during this Plan period.

2.68. Borrowing by Government for specific development projects should also be economically productive. There is, however, a serious timing problem. Because many of Government's development projects in health, education and various forms of infrastructure have long gestation periods before benefits emerge, interest and repayments on borrowing must usually be financed for many years without immediate increases in revenue. These investments, while ultimately productive, must be carefully scrutinized during periods of financial stringency.

2.69. The Government is addressing these problems in several ways. First, with respect to commercial activities, the Government is giving the private sector both greater opportunities and greater responsibilities. The direct involvement of Government in commercial activities will be reduced through divestiture of some parastatals and participation in fewer new ventures. Second, when loans or loan guarantees are extended by Government, whether to farmers, local authorities or parastatals, the terms and conditions established will be strictly observed. Finally, with respect to all Government and parastatal projects and programmes, the recently published *"Guidelines for the Preparation, Appraisal and Approval of New Public Sector Investment Projects"* will govern the selection of all new projects and programmes.

Public Sector Resource Use

2.70. While decisions on how to use the bulk of the nation's resources are made privately by households, farmers, traders and industrialists, the Government plays a leading role in determining the pattern of national development in two ways. First, the Government determines directly how much of the nation's resources to divert to its own use and how those resources should be allocated in order to protect, serve and develop the nation. Second, it exercises a profound influence over the allocation of private sector resources by establishing both incentives and regulatory measures. In both of these ways the Government sets the pattern of development in the pursuit of economic growth and social equity.

2.71. The Government diverts national resources to its own direct use through taxes, cost sharing and borrowing. The diversion of domestic resources to the public sector automatically reduces the resources available to those Kenyans and residents who pay taxes and other charges or lend money to the Government. As the Working Party on Government Expenditures has noted the Government must ensure that its use of resources will contribute more to national development than the use of those resources by Kenyans in their private development activities. While judgements on this issue are difficult to make, the Government does feel that the nearly 29 per cent of gross domestic product which was diverted to Government use as recently as 1980/81 is excessive. During this Plan period the Government plans to hold this ratio to approximately 25 per cent, thus leaving more resources for direct use by Kenyans.

2.72. Because the provision of essential services by Government depends primarily on recurrent expenditures by ministries, such expenditures normally have a high degree of stability. When a recession strikes as in 1982/83, the brunt of the impact must fall on development expenditures. Such abnormal fluctuations cannot be anticipated over the planning period. However, because commercial investments by Government will moderate in the future, the ratio of recurrent expenditures by ministries to their development expenditures will be somewhat higher than the ratio expected in the last Plan. Hence, during the Plan period approximately 30 per cent of the resources made available to ministries will be allocated to development.

The Alleviation of Poverty

2.73. Poverty is a national phenomenon. It exists in the cities and in the rural areas, and to varying degrees in every district throughout the nation. Its alleviation must claim, as in the last Plan, the highest priority in the allocation of public sector resources. In Kenya, it is through the extended family system that most of those in need receive help and support. The Government, given its limited share of national resources, seeks to assist in ways which will improve the incomes of the poor by engaging them more productively in the development of the nation. The principal means for advancing toward this end is by improving the access of the poor to income-earning opportunities.

2.74. The Government has identified five target groups among the nation's poor, namely the pastoralists, the small farmers, the landless rural workers, the urban poor, and the handicapped. Most of the projects and programmes included in this Plan will improve the development prospects of these groups directly or indirectly and the full scope of the Government's effort in this regard can only be understood by reading the entire Plan document.

2.75. The pastoralists derive a meagre livelihood from the care of livestock in dry areas requiring a nomadic existence. The Government seeks to improve their income-earning opportunities in several ways. It provides holding grounds and marketing facilities for their cattle; it is increasing the number of watering points and places with year-round water supplies; and it provides extension services on the care, improvement and management of livestock, the cultivation of selected animal and food crops, and the production of handicrafts. On wider front, the Government is developing "gateway towns" through which pastoralists will have better access to markets for livestock, essential inputs and consumer goods. It is experimenting with crops suitable for semi-arid areas and with wind, solar and biogas sources of energy, and sharing revenues from local tourists facilities. Finally, through training and education, it is preparing many of the younger generation in arid and semi-arid areas to improve the productivity of their nomadic style or to seek income-earning opportunities elsewhere in the nation.

2.76. Those farm families who work on small plots of land must usually supplement their income through off-farm activities. This may take the form of family members working full time away from home and remitting income to the family, women marketing occasional surpluses, or family members working on a casual basis on nearby farms or in shops. The improvement of their basic incomes depends, however, on improvements in yields and better selection of crops. Government programmes with these effects are discussed in Chapter 6. They include extension services, the strengthening of the co-operative movement, pricing policies and the terms of trade for farmers, rural access roads, crop research, agricultural credit. access to yield-increasing inputs, and rural water supplies and electrification. Indeed, improving small farm yields is as essential to national development as it is to every affected family. There is no closer identity.

2.77. The urban poor survive largely through casual self or wage employment. The Government's policies include rural development—to reduce the rate of migration to the cities—support for informal self employment—to expand income-earning opportunities for the urban poor—and more realistic housing standards—so that the poor can live without undue harassment. Too often, established urban enterprises have urged municipalities to harass informal sector activities. So long as such activities meet minimum sanitary and safety standards, they should be supported with appropriate access to water and sewage facilities.

2.78. The handicapped are only in special cases totally disabled requiring continuous care. Most have or can be given productive skills through which they can earn incomes, take pride in their work and serve the nation. The terms of reference for their employment may have to be written to match their abilities but in most cases there is no reason why both private and public enterprises should not offer gainful employment to the handicapped. The Government will provide suitable training opportunities and establish fair employment opportunities as an example to the private sector. The Government's concern for the handicapped was firmly expressed in 1980, the Year of the Handicapped in Kenya. In a major Harambee effort conducted by His Excellency the President in August of that year, over Sh. 21 million was raised on their behalf.

The Provision of Basic Needs

2.79. The opportunity to earn an adequate income is probably the most basic of all the basic human needs. Nevertheless, other basic needs, such as education, food, security, nutrition, water, health care, housing, and law and order require a fair allocation of nationl resources, both public and private. The appropriate balance between investing in the creation of income-earning opportunities and providing other basic needs is difficult to determine but the nature of the allocation problem can be outlined.

2.80. Consider investment in education, which increases the skills and employability of the labour force, on the one hand, and investment in the creation of employment opportunities, which increases the demand for labour, on the other. A nation that invests too much in education and too little in jobs will produce many school-leavers who will remain unemployed. If, on the other hand, too much is invested in iob creation and too little in education, there will not be enough qualified people to take up the jobs available. The growing numbers of unemployed school-leavers in Kenya suggests that a larger share of investment should now be allocated to the creation of income-earning opportunities.

2.81. The direct investments by Government in the provision of basic needs, food, security and internal security are described in Chapter 6. But the provision of many basic needs is shared with the private sector. Hence, the national availability of basic need services cannot be adequately assessed without reference to the important role played by the private sector. The continuing role of the extended family system has already been noted. Voluntary agencies and harambee efforts provide significant supplementary services in health, education and training, family planning, and the care of the needy and the handicapped. Profit making activities also contribute by providing health care, education and training, and private security arrangements for those who choose to pay, thus easing the burden on other facilities.

2.82. During this period of continuing financial austerity in the public sector, a greater share of the responsibility for providing basic needs to the people must be borne by the private sector and those who benefit from the services avai'able. Hence, the extended family system, self-help efforts, the work voluntary agencies and related private sector activities will continue to receive Government support and encouragement. Moreover, as noted earlier, the sharing of the costs of Government services with those who benefit will enable the Government to extend these services to others without requiring imprudent escalation in budgetary allocations.

2.83. All of these efforts to provide basic needs are undertaken to enhance the well-being of the nation's families and the future well-being of their children. But the fundamental responsibility for ensuring that the nation's children are well provided for and able to share in the future growth of the nation falls on the parents themselves. It is parents who plan the size of their families and it is they who must ensure that the children they have will be assured of the basic needs to which they are entitled. It is also to assist parents in planning their families that the Government established in 1965 a nation-wide Family Planning Programme and in 1982 the National Council for Population and Development. Improving family welfare and the quality of life of children depends very much on parental decisions in favour of smaller families.

2.84. As is shown in Chapter 1, from a national point of view, the rapid growth of population increases the demand for basic needs, puts added pressure on arable land and creates a large, non-producing, dependent population. Both the family and the nation must in that situation devote more resources to the care of larger numbers and fewer resources to improving the quality of life. This allocation of resources must gradually be shifted in favour of promoting the quality of life.

The Rural-Urban Balance

2.85. The greatest potential for increasing national output lies in the rural areas where over 80 per cent of the nation's population is located. Morever, effective rural development is an antidote for excessive migration to the urban centres and hence serves indirectly to alleviate poverty in the cities.

2.86. But rural development depends critically on linkages between the rural areas and the urban centres. The latter provide markets for rural production and are the sources of inputs for rural activities and consumer goods for rural households. Hence, rural development requires ready access to urban markets because without that access the rural people cannot aspire to more than a pure subsistence livelihood. There is simply no sense in producing more than a family requires without access to markets.

2.87. In Kenya, the development of rural-urban linkages has been systematically pursued since the late sixties with the establishment of the Designated Service Centre hierarchy. This hierarchy extends from the municipalities of Nairobi, Mombasa and Kisumu through urban centres, having populations over 2,000, to rural centres, market centres and local centres. As these centres and their transportation and communication linkages are developed, the access of the rural areas to markets will be steadily improved. During this Plan the orderly development of service centres will be given a higher priority by all ministries and District Development Committees concerned. The spatial planning guidelines implicit in the Designated Service Centre policy will serve as the basic criteria for siting public sector investments. The Physical Planning Department will review all investment locations proposed by Ministries.

Regional Balance

2.88. Now that a basic network of Designated Service Centres has been established throughout the nation, greater emphasis can be given to promoting a better balance of development among the various regions of the country. The development of selected urban centres is central to this task because they provide direct services to their catchment populations and intermediate services to the many non-urban centres within their service areas.

2.89. The first priority in this regard must be given to those centres designated as "gateway towns" in the last Plan. These towns, namely, Garissa, Isiolo, Narok and Kapenguria, are the major urban outposts serving vast areas of the country which are as yet virtually undeveloped. These are sparsely settled arid and semi-arid areas whose future development, limited though it may be, depends upon closer and firmer links to the monetary economy located along the axis between Mombasa and Kisumu. The construction of major roads to neighbouring countries, particularly to Ethiopia and the Sudan, will pass through the areas being served by the gateway towns and will create further development opportunities in these needy areas. The growth of these gateway towns and their ability to provide resources and markets to their service areas will depend in turn on the effectiveness with which their own needs are met by such backstopping municipalities as Kitale, Eldoret, Nakuru, Nyeri, Embu and Meru.

2.90. Somewhat greater emphasis will continue to be given to urban and rural development in western Kenya including all of Western and Nyanza Provinces and the Districts of Kericho, Nandi, Trans-Nzoia and Uasin Gishu in the Rift Valley Province. This area has great agricultural potential and a large population but has lagged behind the development of other areas. The key cities marked for concerted effort are Kisumu and Eldoret, both lying on the main East-West axis. As these municipalities grow, they will provide a base for the development of related metropolitan centres, such as

Kakamega, Kitale, Bungoma, Kericho and Kisii. As the social and economic infrastructure in and around these centres develops, the opportunities for rural development in the areas they serve will also expand. Indeed, rural and urban development are interdependent.

2.91. Finally, in order to relieve pressures of population and industrial growth on the largest municipalities of Nairobi and Mombasa, alternative sites for industrial production will be supported with essential infrastructure in Machakos and Malindi.

2.92. These priorities will guide ministries in allocating funds for the construction of social and economic infrastructure, in the siting of new industries and in distributing money from the Rural Development Fund. All projects must, however, satisfy the guidelines established in the project evaluation handbook.

Equitable Development: The Private Sector

2.93. The resource and management talents of Kenyans are most easily mobilized for development when it is clearly in their self interest to do so. Moreover, most of the nation's resources, including land, are in private hands. Hence, the Government seeks to stimulate private sector activities by providing suitable incentives and to ensure, through its regulatory powers, that those activities promote equitable development and the public interest.

Incentive Systems

2.94. Perhaps the most important incentive is opportunity. This entails the knowledge that private sector activities are welcome and that the conditions for participation are not onerous. In Kenya, aside from illegal activities and essential state functions, private sector initiatives are encouraged. Whether undertaken by individuals, families, companies, co-operatives, Harambee efforts or voluntary agencies, the private sector is the most important development force in the productive system. In some cases, parastatals and other forms of state participation may provide competition for the private sector but not normally to its exclusion. Hence, the Government has welcomed such activities as private slaughter houses, matatus and air charter services. It would also welcome greater competition from the private sector in such areas as creameries, the marketing of agricultural crops and community water supplies.

2.95. In agriculture, the conditions for private participation by Kenyans are not onerous, but most forms of private foreign investment in agriculture are subject to Government approval. In some other areas, Government is aware that the procedures for obtaining approval, licences, imports and various other clearances have become needlessly uncertain and complex.

With the assistance of the Investment Advisory Centre and the Attorney-General's Office the Government will during this Plan period review these several procedures to determine whether any can be eliminated or simplified. It will also prepare uniform guidelines for potential investors specifying clearly the procedures which are retained and must be followed. Needless red tape will be eliminated.

2.96. Incentives to farmers and pastoralists are most significant for national development because they produce the nation's food, most of its exports, and many of the raw materials needed by its industries. First, prices paid for the produce of the land must be high enough to make it profitable to use the land fully rather than allow it to lie idle. This means that prices must cover the costs of production and allow adequate profit margins so that families can improve their holdings, educate their children and secure a reasonable standard of living. Indeed, farmers must be encouraged to use more yield-increasing inputs, such as fertilizer, insecticides, and labour for weeding and harvesting, and this will inevitably raise production costs per hectare. Similarly, pastoralists must be encouraged to value livestock by the aggregate weight of a herd rather than by the number of animals it contains. Output prices that improve with respect to the prices of inputs are the signals that will stimulate higher yields and the fuller use of land.

2.97. The Government is aware that in order to reward farmers and pastoralists properly, domestic consumers must be expected to pay prices that cover profitable farm gate prices plus the costs of transport and marketing. These off-farm costs will be kept as low as possible by encouraging competition in the transport, storage and marketing of food crops, meat and dairy products. The Government is prepared to license in a racially balanced manner more marketing specialists and to assist them to obtain the credit they may require for investment and working capital. It is clearly recognized by Government that the small farmer cannot be expected to subsidize the consumer.

2.98. Prices to farmers play another role as well. They exercise a major influence on how farmers choose to use their land—whether for pasture, maize or sugar-cane, whether for export crops or food crops. Within limits established by border prices and the exchange rate (farmers cannot be paid more for export crops than their fair share of export earnings or more than the normal cost of importing food crops), changes in relative prices will affect the composition of agricultural output by making some crops more profitable. The Government's annual price review reassesses farm prices each year with these considerations in mind and announces new prices well in advance of planting. In addition, the exchange rate is kept under constant review to ensure that farmers receive a reasonable return for export crops relative to the returns that can be earned on food crops.

2.99. Prices without prompt payment will not provide effective incentives. To the extent that the Government or its parastatals buy produce directly from farmers, prompt payment is guaranteed. That guarantee has occasionally been abrogated in the past; it will not be abrogated in the future. Moreover, the Government is considering various means for securing prompt payment to farmers by co-operatives and other private sector buyers. These means include mandatory interest and penalty payments when payments are unduly delayed. Finally, credit to farmers will be arranged in time for planting. It must be noted again, however, that the amount of credit that the Government can provide in any season is heavily dependent on the repayment record of farmers who have borrowed previously.

2.100. Approximately half of the nation's population is of productive age, namely between the ages of 15 and 60, and about 85 per cent of those in this age group are in the labour force. As the labour force is growing as rapidly as the population, approximately 275,000 jobs will be needed during each year of the Plan period. While some of those seeking work will find employment with Government and its parastatals, most must look for income-earning opportunities in the private sector. Hence, incentives to employ more labour in the private sector are a central feature of the Government's development strategy.

2.101. Improving the domestic terms of trade of farmers is a strong incentive for increasing rural employment as well as output. Increases in agricultural output through using more land and increasing yields also increase the demand for labour. Using more land obviously requires more labour and if that land is under irrigation the amount of additional labour required is substantial. Increasing yields also normally requires more labour for applying increased inputs of fertilizer and insecticides, for weeding, for harvesting and for the construction of storage facilities. As farm output increases, more off farm rural activities will be needed. The transport and delivery of inputs must grow, opportunities for repair and maintenance will increase, and facilities for the transport, storage and marketing of produce must expand. The majority of new jobs must be created in the rural areas.

2.102. The Government is also considering a number of other incentives which may stimulate employment. These include relating the size of the investment allowance to the labour intensity of the project, financing industrial training through levies on capital rather than levies on the wage bill, and limiting private activities of civil servants. Early retirement will also be encouraged in both the private and public sectors.

2.103. In its continuing effort to disperse industry more widely throughout the country, the Government continues to rely on two principal approaches which have been effective in the past. The first of these is the investment allowance, which is nil for investors who choose either Mombasa or Nairobi as the site for new investment. In order to qualify for the investment allowance other locations must be selected. In addition, the Government influences the private choice of location through its own allocation of public funds for the development of infrastructure. In assigning priorities to the development of selected urban centres and municipalities, industrial growth is encouraged in those cities.

2.104. The rate of growth of the economy is directly related to the share of output that is allocated to investment, as opposed to public and private consumption. That share has increased from 14 per cent in 1964 to 21 per cent in 1982. Effective incentives to invest have played a major part in bringing about this increase, but rapid growth in public investment, which has often been less productive than private investment, has also played a role. In the future greater emphasis will be placed on incentives for private investment.

2.105. The decision of the Government to divest itself of selected commercial activities which can be better managed privately will directly create new opportunities for private investors. The array of export incentives described earlier should stimulate additional private investment directed towards production for export. The investment allowance gives all investors who choose locations other than Mombasa and Nairobi a substantial further incentive to expand existing industries and to initiate new ones. In addition, the Government is prepared to offer special tariff protection for periods of up to eight years for investments in selected infant industries.

The Control Structure

2.106. The Government's effort to encourage private initiatives throughout the economy should not be interpreted as a *laissez-faire* policy. Private sector activities must promote and support the public interest and foster development in a spirit of mutual social responsibility. Irresponsible profiteering, exploitation, smuggling, hoarding and speculation are not in the public interest. Control of illegal activities will be strengthened and those who venture into them will do so at very substantial risk. But control and regulation of the private sector must also deal effectively with more subtle issues if the full potential of the private sector in promoting development is to be realized. The growing of crops or the grazing of land without replenishing and conserving the soil is not socially responsible even though it may be profitable in the short-term. Cutting forests without a regeneration programme limits the nation's future. Speculating in land and crops threatens food security and price stabilization. And unfair business practices restrict economic growth in order to enhance immediate profits at the expense of others. The Government's control structure must deal effectively with these undesirable side effects of unregulated private sector activities.

2.107. The Government recognizes that private businesses requires a substantial degree of price flexibility in order to function effectively. They must adjust to changing costs and be free to engage in price competition with others. The Government's principal concerns in this regard are to control the general rate of domestic inflation, to ensure that essential consumer goods are fairly priced, to encourage effective competition as a natural regulator of other prices, and to monitor closely those prices that are set in monopolistic conditions.

2.108. The Government will rely primarily and increasingly on fiscal and monetary policies to control the general rate of domestic inflation. These are described in considerable detail in Chapters 4 and 5.

2.109. Essential consumer goods will remain subject to specific price controls as at present. Those that are related to domestic agricultural production, such as bread, wheat flour, maize meal and rice will reflect fully the farm prices considered necessary to stimulate food production.

2.110. The prices of many other domestically produced goods are subject to effective and increasing domestic competition and can be considered to be priced fairly. In other cases, however, monopolistic industries have grown up behind very substantial tariff barriers and are able to charge unnecessarily high prices. The Government initiated in the budget message of June 1983, a policy of gradually reducing high tariffs in order to eliminate excessive protection, stimulate efficiency in production and make tariffs more uniform. As tariffs are reduced, more domestic industries will become subject to external competition and their scope for charging exorbitant prices will gradually be reduced and eliminated.

2.111. Even with these policies there will still be some firms and industries for which neither domestic nor external competition will provide reasonable limits to price discretion. The Government will monitor such prices carefully. In order to do so more effectively than in the past, the Government will establish a Monopolies and Prices Commission. In addition to monitoring prices, the Commission will be empowered to collect financial information, to investigate unfair business practices and to impose sanctions as defined in the legislation. Business practices which mislead or limit the choices of customers, suppliers, or competitors will be the main focus of the Commission's work.

2.112. The Kenya Bureau of Standards will continue to establish and monitor standards of product quality to ensure that both domestic and external customers receive goods that adhere to the quality standards promised.

2.113. In principle, the Government seeks to control the volume of imports by maintaining a realistic exchange rate and, if required, by manipulating the level of tariffs. These tools cannot, however, deal effectively with short-term or strong cyclical fluctuations in demand and terms of the trade. Given present and prospective shortages of foreign exchange, it is expected that

3.31. In calculating the total exports and imports of goods and non-factor services, the simplifying assumption has been made that the whole of the item "other services (including Government n.e.s.)" represents transactions in non-factor services. While this is clearly wrong, the error in the import surplus line will hopefully be negligible because of the netting out involved in getting the surplus. The contribution of this item to the import surplus is also very small.

3.32. Total consumption in Table 3.11 has been obtained as a residual by deducting total gross investment from total available resources. This total consumption has been broken up into public and private consumption components by estimating public consumption from a statistical relationship connecting public consumption with Government current expenditure (excluding interest payments) (Table 3.10). Private consumption is thus the final residual element in the Table. It is a measure of the resources available for private consumption, as opposed to what may be called the desired private consumption expenditure.

3.33. Desired private consumption depends on total disposable income of households, the distribution of this income among various classes and the rate of interest on saving. There are difficulties in estimating disposable income because the information on depreciation allowances is unsatisfactory and virtually no information is available on undistributed business profits. Some estimates of disposable income were, nevertheless, made and the relationship between disposable income and private consumption expenditure, taking account of other factors, was explored for the period 1972 to 1981. Projections from such relationships for the period of the Fifth Development Plan suggest that, without policy measures, desired private consumption will be somewhat higher than the available consumption shown in Table 3.11. The gap between these two will be closed by policy measures aimed at raising private savings, discussed in Chapter 2. The intent is to stimulate families to use a larger part of their incomes to increase their savings and hence their wealth and to use a smaller part for immediate consumption.

3.34. Several of the targets established in this chapter will require dedicated efforts by all Kenyans if they are to be realized. Those that seem especially difficult and hence merit special efforts by all of those concerned are the rapid growth of exports and the essential reorientation of industrial firms to export markets, the economies required in the use of imports, the generation of productive employment opportunities, and the increase in the savings rate of households. But all of these targets are feasible if the nation's resources are marshalled effectively and directed to their achievement. Certainly the resources of Government will be allocated among Ministries, projects, programmes and districts so as to contribute directly and through the efforts of others to the achievement of the nation's development objectives.

CHAPTER 4

FISCAL POLICY AND THE DISTRICT FOCUS

4.1. The successful mobilization of domestic resources will make the nation more self sufficient. With respect to the balance of payments, greater reliance on domestic resources means more rapid growth of exports and slower growth of imports. As the economy grows and diversifies, a larger share of the nation's production can be exported and a smaller share will need to be imported. As a consequence, the trade balance and the current account deficit in the balance of payments should both fall in relation to gross domestic product over the Plan period. As the current account deficit and essential increases in foreign exchange reserves must be financed completely through private and public sector external borrowing, the current account deficit is a good indicator of the nation's dependence on external resources for its continued development. It is expected that over the Plan period the account deficit as a percentage of gross domestic product will fall from over 9 per cent in 1982 to less than 5 per cent in 1988. Most of this adjustment will occur early in the Plan period.

4.2. Because so much of the borrowing required for the balance of payments must be arranged by the Government directly or through the Central Bank, the Government's fiscal policies are intimately related to balance of payments financing. Borrowing by the Central Bank, primarily from the International Monetary Fund, does not flow through to the Government budget but merely increases foreign exchange reserves which the Central Bank can sell to either the public or private sector. But as Central Bank borrowing diminishes over the Plan period as it must, an increasing share of balance of payments financing must be found through direct external borrowing by the Government. This borrowing provides direct finance for the Government budget. Hence, in order to meet balance of payments financing requirements, the Government will automatically finance much of its budget deficit through external borrowing.

4.3. By exercising firm control over its budget deficit, however, the Government will need to borrow less from domestic sources. Hence, a growing share of the domestic resources mobilized during the course of the plan period will be available for use by the private sector.

4.4. This chapter describes the revenue, expenditure and deficit targets of Government, the forward budgets for both recurrent and development expenditures, and the principal elements of public sector development, particularly the district focus.

Budget Targets

4.5. External borrowing for the balance of payments that flows through to the budget has a major effect on the composition of Government borrowing, as discussed in the next chapter, but the scale of Government borrowing, the deficit, is determined primarily by two considerations. First, the Government is responsible for ensuring that the private sector in agriculture, finance, tourism, commerce and industry has ample access to domestic credit. While the private sector is responsible for over 70 per cent of the nation's output, it received only 32 per cent of domestic bank credit in Financial Year 1980/81 and 46 per cent in Financial Year 1981/82. The situation was considerably improved in Financial Year 1982/83 and it is the intention of Government to ensure that the private sector has access to a share of bank credit throughout the Plan period at least equal to its share in national output.

4.6. Second, interest and principal repayment on Government debt, both domestic and external, in Financial Year 1983/84 will amount to 33 per cent of Government's recurrent revenues. Because debt service has a first claim of Government revenues only 67 per cent of those revenues are available to finance other expenditures of Government. In order eventually to increase the share of revenues available to finance essential recurrent and development expenditures of ministries, a major effort will be made during this Plan period to reduce total annual Government borrowing as percentages of both revenues and Gross Domestic Product. These targets for the Budget deficit, together with revenue and expenditure targets, are shown in Table 4.1. The deficit is expected to fall from 20.3 per cent of revenues in Financial Year 1983/84 to 15.0 per cent in Financial Year 1987/88. The fall with respect to gross domestic product will be from 4.3 to 3.6 per cent.

Target Budget Outturns for the Period of the Development Plan 1983/84 to 1987/88

Table 4.1 (*K£ million*)

Year	1982/83**	1983/84	1984/85	1985/86	1986/87	1987/88
Recurrent Revenue (including A-in-A)* ..	826	911	1,060	1,183	1,333	1,502
Recurrent Expenditure of Ministries* ..	611	645	714	792	895	999
(83/84 prices)		(645)	(690)	(729)	(780)	(825)
Consolidated Fund Service (Interest + Pensions etc.)	149	239	257	288	311	335
Current Surplus	66	27	89	103	127	168
Development Expenditure of Ministries ..	260	283	342	367	411	411
(83/84 prices)		(283)	(330)	(338)	(358)	(385)
Foreign Grants	68	71	59	63	67	71
Deficit	126	185	194	201	217	225
Financing:						
Net External Long-term Borrowing ..	65	60	89	105	114	123
Net Domestic Borrowing Long-term ..	−2	35	40	41	45	47
Short-term, Non-Bank	69	30	35	30	33	30
Short-term, Bank	−6	60	30	25	25	25
Memorandum Items:						
GDP at Current Market Prices (Fiscal year)	3,765	4,243	4,578	5,039	5,592	6,225
Deficit as % of GDP at Market Prices ..	3·3	4·4	4·2	4·0	3·9	3·6
Deficit as % of Revenue	15·2	20·3	18·3	17·0	16·3	15·0
GDP deflator (1983/84 = 1·000)		1·000	1·035	1·087	1·148	1·211

*Excluding Export Compensation and Special A-in-A Adjustment.
**Provisional.

4.7. The need for financial prudence, as exemplified by the adjustment of the Government deficit, must be carefully balanced against the development needs of the nation. If the adjustment is implemented too rapidly, the growth of the economy will be reduced because the private sector will be unable to make productive use of the resources released by the Government. The adjustment in Financial Year 1982/83, for example, was somewhat greater than expected because some grants and loans were delayed until the end of the year and the expenditures they were intended to finance had to be postponed. Hence, comparisons with that exceptional year can be misleading.

4.8. The financial crisis of Financial Year 1982/83 had its origin in a serious shortfall in recurrent revenue. Whereas these revenues had been running at between 23 and 26 per cent of GDP at market prices for the previous five years, they fell to 21.6 per cent in Financial Year 1982/83. This fall in revenue reflected the severe impact of the international recession and the related need to curtail imports as foreign exchange reserves diminished. Recurrent revenue will remain sluggish through Financial Year 1983/84 and then will begin to improve as a percentage of GDP at market prices reflecting improvements in the growth rate of the economy. The recovery will not be spectacular but recurrent revenue will reach about 24 per cent of GDP at market prices at the end of the Plan period. That percentage remains the long term target of the Government. During the Plan period, the buoyancy of recurrent revenue will be improved through the introduction of cost sharing measures but these should be fully effective by the end of the Plan period.

4.9. Recurrent expenditures of the ministries are expected to rise at about the same rate as gross domestic product. Development expenditures will rise a little faster reflecting primarily the low base established in Financial Year 1982/83 and 1983/84. As there will be some savings realized on commercial investments and divestitures, funds available for other development projects should increase even more rapidly.

4.10. Altogether, total expenditure of Government should rise between Financial Year 1983/84 and Financial Year 1987/88 a little less rapidly than GDP at market prices. Because recurrent revenue will grow more rapidly than expenditure, the deficit will grow more slowly and be adjusted to a more reasonable relationship with gross domestic product by the end of the Plan period.

4.11. The fiscal programme established for the Plan period is intended to achieve a manageable fiscal structure within a reasonable period of time. Through improvements in the allocation of expenditures between debt service and expenditures of ministries and within development budget, the pace and equity of national development should be enhanced and the scope for individual and collective efforts in support of development will be considerably increased.

The Forward Budget

4.12. The Forward Budget is the critical link between the Development Plan and the annual budgets of the Government which translate the public sector components of the Plan into constructive action. It is through the mechanism of the Forward Budget that development priorities are identified in terms of the specific projects and programmes whose implementation will bring the development strategy to life.

4.13. When a Plan is being prepared, the Forward Budget covers the five fiscal years spanned by the Plan. It is revised annually and is extended as necessary to ensure that it always encompasses at least three forward years. Because planning, finance and operating ministry personnel are all involved in the exercise, it is a powerful instrument for co-ordinating planning and budgetary procedures, for introducing modern management techniques into Government activities, and for improving the effectiveness of financial control.

4.14. It is expected that, during this Plan period, the Forward Budget will be strengthened in two principal ways. First, the budgets of parastatal organizations will be incorporated into the process to ensure that their plans for expanding operations, generating and retaining revenues, and drawing on Government for funds and loans guarantees are fully consistent with the nation's development strategy and the Government allocation of its own resources. This improvement is essential if, within the public sector investment programme, the intent of Government to limit its investments in commercial activities is to be fully realized.

4.15. Second, greater initiative in identifying and implementing projects and programmes and greater responsibility for budgeting and financial control will devolve to the districts as district teams are strengthened to serve as focal points for the management of rural development. During this Plan period the District Commissioner and the District Development Committee will come to play an integral role in the Forward Budget process. Increasingly, the projects and programmes of ministries will be identified by districts and the public investment programme will be disclosed by both district and functional content.

4.16. The Forward Budget prepared in association with this Plan reflects projections of revenues and other sources of finance and estimates of both development and recurrent expenditures by vote. These are discussed in this chapter. Project and programme allocations within the development forward budget are shown in the relevant sectoral chapters.

Revenues and Development Finance

4.17. As already noted, recurrent revenue is expected to grow more rapidly than gross domestic product over the Plan period as economic recovery strengthens. There will be, however, two significant changes in the composition of those revenues, both reflecting major policy decisions of the Government.

4.18. The first of these decisions relates to the Government's effort to stimulate industrial efficiency and competitiveness in export markets. As announced in the budget message of June 1983, this will take the form of reducing high tariffs and excessive protection for domestic industries so that competitive efficiency improves and profits in export markets become more initiated in the Financial Year 1983/84 Budget, will have the effect of reducing the share of recurrent revenue derived from customs duties and increasing the share derived from sales taxes. The policy of exempting from sales tax both essential, domestically consumed commodities and goods sold in export markets will continue.

4.19. The second of these decisions is the decision to rely more heavily in the future on cost sharing as a means of financing many Government services. As these measures are introduced during the plan period, a larger share of recurrent revenue will be reflected in Appropriation-in-Aid.

4.20. As shown in Table 4.1, the growth in recurrent revenue combined with a more limited growth in recurrent expenditure will generate an increase in the current surplus excluding debt repayment available to finance development from K£66 million in Financial Year 1982/83 to K£168 million in Financial Year 1978/88. This, together with a moderate increase in borrowing, will make it possible to reduce the share of development expenditure financed by external loans and grants from 51 per cent in Financial Year 1982/83 to 42 per cent in Financial Year 1987/88 despite a substantial increase in development spending.

Development Expenditure

4.21. On the expenditure side, the forward budgets of ministries are constructed in constant 1983/84 prices. This is because estimates of price changes over a five-year period are hazardous at best and the degree of uncertainty increases considerably when projections are disaggregated to ministry level and thence, to programmes and projects. Hence, Tables 4.2 and 4.3 on the development and recurrent forward budgets are presented in constant 1983/84 prices.

4.22. During the five years of this Development Plan, 32 per cent of the resources allocated to ministries to finance their expenditures will be used for development and 68 per cent will be needed for recurrent expenditure. This is in mild contrast to the actual allocations over the previous Plan period in which 34 per cent was reserved for development and 66 per cent for recurrent. This reflects in part the austerity budgets at the beginning of the Plan period in which, necessarily, development expenditure have been curtailed in order to finance essential services in the recurrent budget. Moreover, throughout the Plan period a larger share of Government revenue will be required to service the debt and again in order to maintain essential services, some savings must be found in development.

4.23. Nevertheless, over the Plan period development expenditure should grow more rapidly than recurrent expenditure. Moreover, although the structure of the development forward budget does not disclose it, investments in parastatals should require a diminishing share of the budget releasing a growing share for the financing of ministry projects.

4.24. The Development Forward Budget is presented by ministry in Table 4.2. There are flaws in this form of presentation which will be remedied over the Plan period. First, a breakdown of development expenditure by type cannot be composed because such things as housing, buildings, construction, transfers, equity purchases, and loans appear under and are relevant to the work of many ministries. Second, the end use of intermediate expenditures of Central Government, such as transfers to local authorities and parastatals, equity purchases and loans, cannot be analyzed with this form of presentation. Work is already underway to formulate and computerize the investment programme of Government in such a way that alternative presentations by ministry, type and end use will be possible in the future.

4.25. Table 4.2 does diso'ose the functional breakdown of the development forward budget by ministries and other expenditure control units of Government. Because of substantial changes in the allocation of functions among ministries since the last development plan, comparisons of the expenditure pattern of this Plan with that of earlier ones is not feasible. The shares allocated to different votes do indicate and reflect the development priorities adopted for this, the Fifth Development Plan.

4.26. These shares indicate that over the Plan period four ministries will account for 59.3 per cent of total development spending. These are the Ministries of Transport and Communication (22.6 per cent), Energy and Regional Development (15.5 per cent), Agriculture and Livestock Development (11.5 per cent), and Water Development (9.7 per cent). These allocations indicate the continuing high priority attached to basic infrastructure in the form of ports and road, rail and pipeline transport. Within this vote, rural access roads will continue to receive a large and growing allocation of funds. The large allocation to Vote D30 indicates the high priority now accorded to energy. The Bura Irrigation Scheme is also included in this vote. If allocations to the Ministries of Works, Housing and Physical Planning and Environment and Natural Resources are added to these two votes, it can be seen that 45.4 per cent of the Forward Development Budget is being invested in basic infrastructure.

Forward Development Budget Expenditure Ceilings—1983/84–1987/88

Table 4.2

(*K£000's in* 1983/84 *Prices*)

Vote	1983/84	1984/85	1985/86	1986/87	1987/88	Total	% Share
D1. Office of the President	11,855	20,797	19,973	16,034	17,578	86,235	5·1
D2. The State House	323	266	276	262	172	1,299	0·1
D3. The Directorate of Personnel Management	1,219	1,396	969	1,269	1,244	6,097	0·4
D4. Ministry of Foreign Affairs	839	1,798	475	2,105	2,205	7,422	0·4
D5. Office of the Vice-President and Ministry of Home Affairs	3,023	2,970	2,811	2,711	3,109	14,624	0·9
D7. Ministry of Finance and Planning	12,808	11,225	9,988	12,701	14,356	61,078	3·6
D8. Department of Defence	9,402	9,701	9,339	10,780	11,298	50,520	3·0
D10. Ministry of Agriculture and Livestock Development ..	33,303	40,937	42,132	39,036	38,857	194,265	11·5
D11. Ministry of Health	14,280	17,743	18,153	16,466	16,094	82,736	4·9
D12. Ministry of Local Government	4,390	4,600	5,600	5,385	6,400	26,375	1·6
D13. Ministry of Works, Housing and Physical Planning ..	11,694	12,697	13,060	14,743	14,992	67,186	4·0
D14. Ministry of Transport and Communications	76,383	82,016	73,905	74,014	76,257	382,575	22·6
D15. Ministry of Labour..	814	1,247	1,110	840	1,240	5,251	0·3
D16. Ministry of Tourism and Wildlife	3,666	2,932	2,553	2,135	1,978	13,264	0·8
D17. Ministry of Lands and Settlement	3,589	3,098	1,493	1,138	1,244	10,562	0·6
D18. Ministry of Culture and Social Services	7,626	12,712	14,634	15,326	18,261	68,559	4·0
D19. Ministry of Information and Broadcasting	2,762	2,719	2,027	3,177	4,356	15,041	0·9
D20. Ministry of Water Development	26,561	33,368	34,468	34,447	35,770	164,614	9·7
D21. Ministry of Environment and Natural Resources ..	9,709	10,543	11,160	11,736	12,177	55,325	3·3
D22. Ministry of Co-operative Development	3,948	4,344	4,905	5,295	5,280	23,772	1·4
D23. Ministry of Commerce and Industry	3,421	3,096	3,061	2,986	2,986	15,550	0·9
D24. Ministry of Education, Science and Technology ..	10,800	11,896	10,851	12,536	13,735	59,818	3·5
D25. Office of the Attorney-General	35	51	27	2	2	117	0·0
D26. Judicial Department	500	479	500	600	700	2,779	0·2
D30. Ministry of Energy and Regional Development ..	13,412	37,123	54,245	72,774	84,503	262,057	15·5
Contingency	16,638	—	—	—	—	16,638	1·0
TOTAL GROSS DEVELOPMENT EXPENDITURE .. K£	283,000	329,752	337,715	358,498	384,794	1,693,759	100·0

4.27. The two economic ministries dealing with agriculture, livestock and water development receive together 21.2 per cent of the budget. Adding the Ministries of Tourism and Wildlife, Co-operative Development, Commerce and Industry, and Lands and Settlement brings the total allocation to economic ministries to 24.9 per cent.

4.28. Following the four ministries with the largest allocations are the Ministries of Health and Culture and Social Services with 4.9 and 4.0 per cent respectively. Because of the importance of self-help efforts in providing health and education facilities, Government expenditures in these areas greatly understate the nation's development spending on both health and education. The larger than usual allocation to the Ministry of Culture and Social Services reflects the construction of the National Sports Complex during this Plan period.

4.29. The analysis of development spending by shares is the best indication of the Government's development priorities. Growth rates often reflect special circumstances and the phasing of large projects.

Recurrent Expenditure

4.30. The recurrent Forward Budget is shown in Table 4.3. It provides for an increase over the Plan period of approximately K£180 million. In a rough way, this increase can be regarded as the operating costs of the new facilities put in place during the Plan period through implementation of the Development Forward Budget. The ratio of the increase in recurrent expenditure to total development spending is 0.11, suggesting that for each K£9 spent on development K£1 must be provided for recurrent cost. The comparable ratio in the last plan was 0.09. The higher ratio in this Plan reflects the austerity of the Financial Year 1983/84 Budget and the emphasis in this Plan on rehabilitation, repair and maintenance, and the absorption of idle capacity, all of which require heavier than usual allocations to recurrent spending.

4.31. While shares of the recurrent budget indicate the relative total cost of providing different Government services, rates of growth are a better indication of directions of change and hence of Government priorities. Of the seven ministries receiving over K£100 million for recurrent spending over the Plan period and accounting for over 79 per cent of the total recurrent budget, spending by the Ministries of Works, Housing and Physical Planning and Transport and Communications show the largest rates of growth. This reflects the high priority accorded in this Plan to the rehabilitation and maintenance of the nation's building and rail systems. Next, in terms of rates of growth, is the Ministry of Education, Science and Technology in which provision is made for adding an eighth year to the primary system. Fourth is the Ministry of Agriculture and Livestock Development followed closely by the Ministry of Health. In order, following these ministries are Office of the President and Department of Defence. Four of these largest

Forward Recurrent Budget Expenditure Ceilings—1983/84–1987/88

Table 4.3 (*K£000's in* 1983/84 *Prices*)

Vote	1983/84	1984/85	1985/86	1986/87	1987/88	Total	Average Annual Percentage Growth
R1. Office of the President	67,970	64,733	67,758	72,535	76,722	349,718	3·1
R2. The State House	916	949	1,032	1,017	1,089	5,003	4·4
R3. Directorate of Personnel Management	3,781	4,092	4,366	4,539	4,655	21,433	5·3
R4. Ministry of Foreign Affairs	13,855	16,214	16,502	16,836	17,382	80,789	5·8
R5. Office of the Vice-President and Ministry of Home Affairs	15,718	17,304	18,341	19,450	20,506	91,319	6·9
R7. Ministry of Finance and Planning	13,486	13,986	14,702	15,476	16,349	73,999	4·9
R8. Department of Defence	131,247	101,583	104,797	111,162	117,576	566,365	−2·7
R10. Ministry of Agriculture and Livestock Development	44,379	49,652	52,359	55,332	58,639	260,361	7·2
R11. Ministry of Health	59,877	65,231	68,442	72,047	75,662	341,259	6·0
R12. Ministry of Local Government	6,836	13,018	13,502	13,986	14,501	61,843	20·7
R13. Ministry of Works, Housing and Physical Planning	14,898	21,553	24,048	25,000	26,102	111,601	15·0
R14. Ministry of Transport and Communications	31,296	38,907	41,805	45,314	49,376	206,698	12·1
R15. Ministry of Labour	4,102	4,737	5,102	5,418	5,753	25,112	8·8
R16. Ministry of Tourism and Wildlife	9,545	11,316	11,714	12,142	12,510	57,227	7·0
R17. Ministry of Lands and Settlement	9,774	10,060	10,260	11,370	10,575	52,039	2·0
R18. Ministry of Culture and Social Services	8,068	9,434	9,897	11,167	10,472	49,038	6·7
R19. Ministry of Information and Broadcasting	6,062	6,633	6,815	7,116	7,554	34,180	1·1
R20. Ministry of Water Development	12,985	14,279	15,513	16,515	18,278	77,570	8·9
R21. Ministry of Environment and Natural Resources	2,637	2,765	2,841	2,868	2,937	14,048	2·7
R22. Ministry of Co-operative Development	3,049	3,267	3,411	3,537	3,672	16,936	4·8
R23. Ministry of Commerce and Industry	4,420	4,659	4,873	5,169	5,387	24,508	5·1
R24. Ministry of Education, Science and Technology	172,589	205,291	219,656	239,737	256,302	1,093,575	10·4
R25. Office of the Attorney-General	2,247	1,731	1,694	1,782	2,252	9,706	0·1
R26. Judicial Department	2,409	2,709	2,891	3,048	3,157	14,254	7·3
R27. Public Service Commission	200	228	247	262	264	1,201	7·2
R28. Office of the Controller and Auditor-General	1,105	1,550	1,739	1,819	1,907	8,120	14·6
R29. National Assembly	2,087	2,165	2,203	2,281	2,249	10,985	1·9
R30. Ministry of Energy and Regional Development	1,912	2,391	2,400	2,711	2,866	12,280	10·6
Contingency less Prior Year Adjustments	−2,450	—	—	—	—	−2,450	
TOTAL GROSS RECURRENT EXPENDITURE K£	645,000	690,437	728,910	779,636	824,734	3,668,717	6·3

votes will grow faster than recurrent expenditure as a whole, the other three more slowly. These reflect the main directions of change in the recurrent forward budget.

4.32. The development and recurrent forward budgets by ministries fail to disclose changes in priorities within ministries as between investments and direct project support and as between quantity and quality of services provided. These matters are discussed in relevant sections of Chapter 6. These budgets also cannot disclose the regional allocation of resources or the efforts of Government to bring its operational focus closer to the people. Both of these matters are closely related to the new emphasis on the district as the focus of rural development. The nature and prospective development of the district focus is described in the following section.

District Focus for Rural Development

4.33. The responsibility for planning and implementing rural development is being shifted from the headquarters of ministries to the districts. This organizational strategy has become known as the "District Focus for Rural Development". It is based on the principle of a complementary relationship between the ministries, representing a sectoral approach to development, and the districts where the various sectors are joined in common support of rural development activities. Responsibility for the operational aspects of district-specific rural development projects is being delegated to the districts. Responsibility for broad policy, and the planning and implementation of multi-district and national programmes will remain with the ministries. The objective is to broaden the base of rural development and encourage local initiatives that will complement the ministries' role in order to improve problem identification, resource mobilization, and project implementation at the local level.

4.34. The ministries will work with the districts both on local projects and on multi-district and national programmes. Projects (or local components of larger programmes) that are primarily intended to serve one district, or part of a district, are referred to as "district-specific", and are to be chosen, planned, and implemented at the district level. Activities that cover more than one district, or serve national purposes, are the responsibility of the relevant ministry, although district-specific sub-components of these activities will be implemented, if not totally planned, at the district level.

District Responsibilities

4.35. Each district, through its District Development Committee (DDC), will be responsible for rural development planning and co-ordination, project implementation, management of development resources, and overseeing local procurement of goods and services. The District Commissioner will be the Chief Executive Officer for rural development activities in the district. He will ensure that the various officers responsible for the planning, co-ordination and implementation of projects execute their obligations in an effective and efficient manner. The role of department heads will expand from the current focus on the direct provision of development and recurrent services to a much broader mandate of ensuring that their ministry's work is integrated with other development activities in the district.

4.36. *Planning and Co-ordination.*—The district, through the DDC, will be responsible for the planning of district-specific rural development, and for the co-ordination of plans among the relevant bodies—particularly the ministries. This responsibility covers Government projects and projects initiated through Harambee efforts or by local authorities. Long range planning will involve the identification and analysis of local development needs and the establishment of district development priorities. This process will be the basis for the preparation of the District Development Plan.

4.37. In the past, the District Development Plans have tended to be unconstrained lists of all the projects wanted in the district. In the future, however, they will document priorities, and those priorities will be used to identify projects that can be funded with resources available. Each district will have an integrated annual Work Programme co-ordinating the implementation of projects, particularly those that require inter-departmental co-operation.

4.38. *Financial Management.*—As the district becomes the operational centre for rural development, it will also become an important unit of accountability for financial resource management. There are several potential sources of project support, both government and non-government, which may be available to districts. It will be important to co-ordinate not only the projects themselves, but also their sources of finance. Funds from any given source may be available only for certain types of activities. The challenge facing the DDC will be to manage their combined use in a manner that maximizes the benefit to district residents.

4.39. *Implementation.*—The districts will be responsible for co-ordinating project implementation. Depending on the nature and the complexity of a project, the work may be done with labour and equipment attached to the various ministries represented in the district, under contract with a private enterprise, through Harambee efforts, or in co-operation with the provincial office of the appropriate ministry. The district, however, remains responsible for co-ordination of the inputs. The annual Work Programme will identify all the implementation activities (including multi-district and national projects) planned for the year and schedule them in a manner that makes efficient use of labour and equipment.

4.40. *Local Procurement.*—The procedures for obtaining supplies and services have been amended to provide greater flexibility in local procurement. The authority of the District Tender Board has been enhanced substantially.

This increase in authority will shift much of the responsibility for procurement from the national to the district level. It is expected that most of the inputs for district-specific projects will be purchased locally by the district managers (AIE holders) of the relevant ministries.

Ministry Responsibilities

4.41. The ministries, like the districts, will have important tasks to fulfil. The ministry responsibilities complement the district responsibilities so that together they form an integrated system for managing rural development.

4.42. *Sectoral Policy and Strategic Planning*.—The ministries will continue to be responsible for proposing and directing national policy for their respective sectors of development activity. This will be done through their contributions to the preparation of the National Development Plan and through the preparation of special policy discussion papers. The ministries will also do strategic planning and manage all multi-district and national programmes.

4.43. In choosing and designing multi-district and national programmes, the ministries will use the district priorities as a guide in determining the types of programmes needed. They will also make use of local knowledge by involving district representatives in site selection, monitoring, and other project implementation responsibilities.

4.44. *Making the Budget Process District Responsive*.—The financial resources of each ministry will continue to be allocated through the system of forward budgets and annual estimates. The process will be improved, however. In particular, each ministry will disaggregate its Budget on a district-by-district basis so that each DDC can anticipate the resources available for district-specific activities as well as the multi-district projects which will have local impact. This procedure will facilitate the preparation of local plans and the co-ordination of implementation efforts at all levels.

4.45. *Technical Support for District Development*.—With the delegation to the districts of the operational responsibility for rural development, it will be necessary for the ministries to strengthen the professional capabilities of their district staff. This strengthening will require both the training of staff members already in the districts and the redeployment to the districts of some senior technical staff from Nairobi and the provincial office. Staff redeployment will necessitate the up-grading of district job group classifications and the establishment of incentives that will attract capable officers to district posts.

4.46. The provincial staff of each ministry will be organized to provide specialized technical assistance to the districts. This will give the districts access to a larger pool of professional skills than could be provided on a local basis.

4.47. *Adapting Accounting Procedures to the District Focus.*—With the district being the centre for rural development activity, it will be necessary for the ministries to organize the flow of resources so that the Authorities to Incur Expenditure (AIEs) are issued directly to their district representatives. Each Permanent Secretary will remain the officer ultimately responsible for the ministry's resources, and the ministry will retain full control over its resources. With suitable new procedures, however, operational responsibility for the use of these resources can be effectively delegated to the districts.

4.48. The District Treasury is being strengthened to ensure that AIEs can be efficiently serviced in the district. Servicing the AIEs through the District Treasury will require adjustments in the expenditure control procedures. When the new system is fully implemented, the expenditures from the District Treasury will be reimbursed directly from the Pay Master General (PMG) at the national Treasury rather than routing vouchers through provincial offices and the individual ministries. The PMG will debit the appropriate ministry's Budget allocation and pay the District Treasury directly. This new system, by having many fewer procedural steps than the old system, is expected to increase efficiency significantly.

Resources for Rural Development

4.49. Districts will have increased responsibility for financial resource management. The task, however, will be complicated by the fact that funds will be coming to each district through several different channels, each with its own characteristics. The principle sources are described below.

4.50. *Ministry Funds for District-Specific Projects.*—The principal flow of resources for district-specific DDC-identified rural development projects will come from the individual ministries. Funds earmarked for this purpose will be available for DDC-approved projects that fall within guidelines and district funding ceilings established by the ministries.

4.51. *Multi-District Ministry Programmes.*—The ministries will continue to have large scale multi-district or national programmes that represent potential resources for the rural development programmes of the individual districts involved. By planning complementary district-specific projects (e.g., new rural roads that tie into a new provincial road), the effective resource base available to the district can be expanded and the impact of limited resources for district-specific projects can be enhanced.

4.52. *Local Authority and Town Council Resources.*—The development activities of local authorities and town councils will be co-ordinated by the District Development Committee. The extent of these activities varies considerably from district to district, but they can be a significant component in the portfolio of resources for local development.

4.53. *Local Self-Help.*—The new district-based development policy is intended to facilitate local initiative by creating new opportunities for co-ordination with ministry efforts. Self-help contributions of money, labour, and material can be substantial in the overall context of district-specific rural development, and DDCs should plan their use so that these local resources complement other resources.

4.54. *Rural Development Fund and EEC Micro-Projects.*—The Rural Development Fund programme and the EEC (European Economic Community) Micro-Projects programme will continue to support local development activities. They will be co-ordinated at the district level by the DDC. They thus represent an important source of funding for district-specific projects.

4.55. *Special Programmes.*—Special area programmes (e.g., the Arid and Semi-Arid Land Programme) are available in some districts, and they have been responsible for a substantial flow of resources into selected rural development projects. They represent potential sources of future support. For this reason, area programmes are being incorporated into the system of District Focus for Rural Development. The co-ordinating efforts of the DDC will be particularly critical in their effective management.

4.56. *Additional Potential Resources.*—Looking to the future, it is anticipated that financial resources will be channelled directly to districts by the Ministry of Finance and Planning. These moneys would be under the management supervision of the DDC, and would be intended for DDC-approved development projects. The resources would not be tied to any specific sector, and hence would be particularly important in complementing those ministry allocations that are insufficient to meet local district needs.

District Development Committee

4.57. The DDC is the foundation of the new decentralized rural development strategy. The membership of this body will include the following:

District Commissioner—(*Chairman*).
District Development Officer—(*Secretary*).
Department Heads of development-related ministries.
Members of Parliament.
Chairmen of local authorities.
Clerks of local authorities.
Chairmen of Divisional Development Committees.
Representatives of development-related parastatals.
Invited representatives of non-government development-related organizations.

4.58. The DDC encompasses many views on the development needs of the district, and its approval of project proposals represents a strong mandate of local support. Its role is to establish local development priorities and to monitor the technical work of its Executive Committee and other sub-committees. The DDC will normally meet four times per year to review ongoing progress, consider new proposals submitted by the Divisional Development Committees, establish priorities for future projects, and endorse the district's annual submission of project proposals to the ministries.

4.59. *Executive Committee.*—The technical preparation of plans, management, and implementation responsibilities of the DDC are vested with the Executive Committee. The membership will include the following:

District Commissioner—(*Chairman*).
District Development Officer—(*Secretary*).
Department Heads of development-related ministries.
Clerks of local authorities.
Representatives of development-related parastatals.

4.60. The Executive Committee will meet at least once a month to make operational decisions within the guiding directives of the DDC. It will have a small District Planning Unit serving as its secretariat for day-to-day co-ordination of planning and implementation work.

4.61. *Special Purpose Sub-Committees.*—Each district already has several special purpose development-related committees such as the District Agriculture Committee, District Education Board, District Community Development Committee, and the Joint Loans Board. These will become sub-committees of the DDC, and their work will be co-ordinated through the Executive Committee. From time to time it may be necessary to establish a new special purpose sub-committee, or to merge or abolish old ones. This will be done through the DDC.

Integrating the District Focus into Government Administration

4.62. The District Focus Strategy became officially operational on 1st July, 1983. Since then the ministries and the districts have been working to ensure that the new strategy becomes effective quickly. Realizing the full potential of the District Focus Strategy, however, will be a long-term process. The redeployment of technical staff from the centre and the provinces to the districts has begun, but it cannot be completed overnight. Office space and housing must be found in the districts for the redeployed staff. In most cases, transferred staff members must be given training to prepare them for their new assignments. The new administrative procedures associated with implementing the strategy must be introduced in a manner that minimizes disruption. Finally, the long lead times required for project identification, design, review, approval, funding, and implementation are such that much of the development taking place during the first 18 months after introduction of the District Focus Strategy will reflect decisions and commitments made prior to 1st July, 1983.

4.63. *Ministry Tasks.*—For Financial Year 1983/84 the ministries are being asked to disaggregate the rural development aspects of their budgets on a district-to-district basis indicating how much money is to be spent on each project in each district. This will enable the districts to know what projects are planned, and to prepare the Work Programmes accordingly.

4.64. Early in the process of budget preparation for Financial Year 1984/85, each ministry with rural development activities will inform the Ministry of Finance and Planning and the districts of the funds allocated to each district. Each ministry will also issue a set of guidelines indicating the general types of projects to be financed. These guidelines will be based on district priorities and national policy. Each ministry will receive from each district a list of proposed projects that can be accommodated within the funding ceiling and the guidelines. The individual projects will then be identified in the ministry budget thus ensuring that they can be funded when the budget is approved.

4.65. *District Tasks.*—While the ministries are redeploying staff and establishing new procedures, the districts will organize themselves to assume their new responsibilities under the District Focus Strategy. The annual cycle of Divisional and District Development Committee meetings to identify projects and establish development priorities will be regularized. The DDC Executive Committee must assume responsibility for submitting project proposals to the appropriate ministries.

Personnel Training

4.66. The effectiveness of the district-based rural development strategy depends to a large degree on the capability of the staff involved. Training will be provided to personnel at all levels to assist them in developing the necessary skills. It is expected that some 3,500 people are going to be involved during the early years of the 1984–88 Plan period.

4.67. *General Administration.*—Training on general principles of administration will be offered to those officers having co-ordination roles. Participants will include provincial commissioners, district commissioners, and district heads of ministries. The emphasis will be on the practical aspects of administrative matters essential in carrying out day-to-day management responsibilities. The training will be done through short in-service and on-the-job seminars and workshops.

4.68. *Project Planning.*—Project planning will require special training for both administrators and ministry representatives. Provincial Planning Officers and District Development Officers will receive the most extensive training; their effectiveness is critical to the organization and management of development work in the districts.

4.69. *Budgeting Procedures and Techniques.*—The ministries will work closely with the districts in the preparation of annual budgets and forward estimates. Training will be provided to those involved in this process at both ministry and district levels. New budgetary procedures are being developed to make the District Focus Strategy operational, and these will be the main subject of the training programme.

4.70. *Financial Management.*—The impact of the new budgetary procedures will depend to a large extent on the effectiveness of financial management. With a strengthened District Treasury and an expanded role for the District Tender Board, the level of financial responsibility in the districts will be considerably greater than it has been in the past. Training will be arranged for those in the ministries issuing AIEs and the staff in the field who receive and service them.

CHAPTER 5

FINANCIAL ASPECTS OF DEVELOPMENT

5.1. As the economy has grown and become progressively more complex the financial sector and public policies governing its operation have become increasingly central to the development process. This chapter sets out the financial management objectives which are consistent with the planned development of the economy and the policies required to facilitate domestic savings and capital formation during the coming five years.

5.2. The financial system performs a number of vital functions. It is the principal vehicle for mobilizing domestic resources, intermediating between lenders and borrowers and governing allocation of credit. The banking system, particularly the Central Bank, also provides the primary linkage with the international economy. The composition and growth of the money supply are largely determined by the volume of credit and the balance of international transactions flowing through the banking system.

5.3. The main types of public policy in the financial area are the following:

(i) Fiscal Policy —Conducted by means of taxation measures, adjustments in Government expenditures and public debt management.

(ii) Balance of Payment Policy —Conducted through controls exercised over international trade and payments, including external borrowing arrangements and exchange rate adjustments, which influence the volume of foreign exchange reserves.

(iii) Monetary/Credit Policy —Conducted by regulation of commercial banks and non-bank financial institutions which influences the volume, allocation and cost of credit and thereby the money supply.

Government policies in each of these areas for facilitating financial stabilization and structural adjustment are discussed below.

Financing of Budget Deficits

5.4. During the past three years Government has achieved, under difficult circumstances, a remarkable adjustment in its fiscal accounts. The best indicator of this achievement is the progressive decline in the ratio of the budget deficit to GDP, which fell from 9.5 per cent in Financial Year 1980/81 to 6.6 per cent in Financial Year 1981/82 to 3.3 per cent in Financial Year 1982/83. The forward budget estimates for the Plan period are designed to consolidate these gains.

Table 5.1

Financing of Government Deficits, 1980/81–1987/88

(*K£ million*)

Financial Year	80/81 (Actual)	81/82 (Actual)	82/83 (Target)	82/83 (Out-turn)	83/84 (Projection)	84/85 (Projection)	85/86 (Projection)	86/87 (Projection)	87/88 (Projection)
Budget Deficit	268·3	214·5	183·0	127·2	185·0	194·0	201·0	217·0	225·0
(% of GDP)	(·95)	(6·6)	(4·7)	(3·3)	(4·4)	(4·2)	(4·0)	(3·8)	(3·6)
Domestic Financing	130·1	159·1	90·5	50·3	133·0	105·0	96·0	103·0	102·0
Banking System	(78·7)	(84·7)	(51·3)	(–6·0)	(51·0)	(30·0)	(25·0)	(25·0)	(25·0)
Non-Bank Sources	(51·4)	(74·4)	(39·2)	(56·3)	(82·0)	(75·0)	(71·0)	(78·0)	(77·0)
% Long Term	40·0	21·9	33·1	–3·4	28·6	38·1	42·7	43·7	46·1
External Financing	138·2	55·4	92·5	76·9	52·0	89·0	105·0	114·0	123·0
World Bank SAL	(22·5)	(0)	(46·8)	(43·1)	(32·9)	(75·0)	(82·5)	(90·0)	(45·0)
Other Concessionary ..	(115·7)	(60·9)	(108·2)	(109·2)	(104·0)	(99·2)	(122·2)	(114·9)	(88·0)
Commercial and Misc. ..	(51·9)	(56·6)	(20·9)	(9·0)	(0)	(0)	(0)	(0)	(0)
Less: Repayments	(–36·7)	(–56·5)	(–83·4)	(–83·4)	(–84·9)	(–99·2)	(–90·7)	(–90·9)	(–88·6)
% External	51·5	25·8	50·5	60·5	28·1	45·9	52·2	52·5	54·7

5.5. The revenue and expenditure components of the forward budget estimates have been discussed in preceding chapters. This section is concerned with how the projected budget deficits will be financed and how the sources of such financing will differ from the arrangements made in the recent past. The deficit financing targets indicated in the forward budget projections for the Financial Year 1983/84 to Financial Year 1987/88 period are compared with the actual financing arrangements during the past three years in Table 5.1.

5.6. As shown in the table, the proportions of deficit financing derived from domestic and external sources varied erratically during the 1980/81—1982/83 period. Also indicated is a substantial year-to-year variation within the domestic financing component of reliance on short- and long-term financing. It should be emphasized that the Financial Year 1982/83 Budget deficit out-turn shown in the table reflects the extraordinary expenditure adjustments effected during the second half of the year in order to control the size of the deficit following an unexpected shortfall in revenues. The result was a deficit substantially below the targeted level. The point to be made in this context regarding these matters is that it is more appropriate for planning purposes to consider the deficit and financing *targets* being pursued during Financial Year 1982/83, rather than the actual budget out-turn, as the proper base for the future planning of deficit financing.

5.7. During the Plan period it is intended to reduce gradually the budget deficit as a percentage of GDP and to finance budget deficits with reasonable balances between domestic and external sources and between short- and long-term financing of the domestic component. As shown in Table 5.1, external financing of budget deficits is targeted to increase from 28.1 per cent of the total in Financial Year 1983/84 to 54.7 per cent of the total in Financial Year 1987/88. Within the domestic component, long-term financing is scheduled to increase from 28.6 per cent of the total in Financial Year 1983/84 to 46.1 per cent in Financial Year 1987/88.

5.8. The increasing reliance on external financing of budget deficits is recognized as undesirable. It is a reflection of the unfortunate necessity for further substantial external borrowing to finance the expected balance of payments deficits. However, as indicated by the breakdown of external borrowing shown in the table, a major share is expected to be derived from World Bank loans made available for facilitating continuation of the structural adjustment programme. The balance is expected to be made available on concessional terms by various bilateral and multilateral assistance agencies.

Domestic Borrowing by Government

5.9. A more detailed picture of how Government intends to arrange budget deficit financing from domestic sources during the Plan period is shown in Table 5.2 together with the actual domestic financing arrangements employed during the past three years.

Table 5.2

Deficit Financing from Domestic Sources, 1980/81–1987/88

(*K£ million*)

Financial Year	80/81 (Actual)	81/82 (Actual)	82/83 (Target)	82/83 (Out-turn)	83/84 (Projection)	84/85 (Projection)	85/86 (Projection)	86/87 (Projection)	87/88 (Projection)
Domestic Financing, net ..	130·1	159·1	90·5	50·3	133·0	105·0	96·0	103·0	102·0
Banking System Credit ..	96·8	124·8	51·3	−2·8	51·0	30·0	25·0	25·0	25·0
Direct Advances	(80·7)	(−7·2)	—	(−73·7)	—	—	—	—	—
Treasury Bills	(8·2)	(137·5)	—	(−102·2)	—	—	—	—	—
Government Stocks	(3·6)	(−0·8)	—	(202·6)	—	—	—	—	—
Less: Deposits	(4·3)	(−4·7)	—	(−29·5)	—	—	—	—	—
CSFC Treasury Balance ..	−18·1	−40·1	0	−3·2	0	0	0	0	0
Non-Bank Credit	51·4	74·4	39·2	56·3	82·0	75·0	71·0	78·0	77·0
Tax Reserve Certificates }	−0·6	0		1·3					
Treasury Bills .. }	−4·7	32·8	(20·9)	39·3	44·0	35·0	30·0	33·0	30·0
Government Stocks	56·7	41·6	18·3	15·7	38·0	40·0	41·0	45·0	47·0

The main points illustrated by the figures shown in the table can be summarized as follows:

(i) Credit to Government from the banking system is programmed to decline from 38.3 per cent of total domestic financing in Financial Year 1983/84 to 24.5 per cent in Financial Year 1987/88.

(ii) Credit to Government from non-bank sources is programmed to increase throughout the period from 61.7 per cent of total domestic financing in Financial Year 1983/84 to 75.5 per cent in Financial Year 1987/88.

(iii) The share of non-bank financing mobilized on a long-term basis by means of Government stock issues is expected to increase from 46.3 per cent in Financial Year 1983/84 to 61.0 per cent in Financial Year 1987/88.

5.10. Particular attention will be focussed on possibilities for improving the maturity structure of domestic public debt. A wider spectrum of Government securities will be introduced to fill the gap which presently exists between 90-day Treasury bills and long-dated Government stocks. This will broaden the market for Government securities and also facilitate development of the domestic capital market.

5.11. Sound financial management will be required to place the additional amounts of Government securities that must be issued during the Plan period. As indicated above, the cumulative budget deficit projected for the Financial Year 1983/84 to Financial Year 1987/88 period amounts to K£1,022 million of which K£539 million is expected to be financed by incremental domestic borrowing. Of this latter amount K£156 million is expected to be derived from the banking system and the balance is expected to be derived from non-bank sources by a combination of Treasury bills (K£172 million) and Government stocks (K£211 million). While these targets are feasible, their achievement will require continuous attention by both the Central Bank and Treasury.

5.12. The addition of K£539 million to the domestic public debt during the Plan period will cause the budgetary burden of domestic debt service to increase significantly. Domestic interest payments and debt repayments (exclusive of Treasury bill rollovers) during Financial Year 1982/83 amounted to K£65.2 million and K£19.5 million respectively, the sum of which was 10.1 per cent of total recurrent revenue. Even though the average interest rate on Government securities is assumed to decline by two percentage points during the Plan period, and even though the maturity structure of domestic public debt is to be lengthened, it is estimated that total domestic public debt service payments (interest and repayments) will progressively increase during the coming five years amounting to approximately 14.2 per cent of recurrent revenue in 1987/88.

5.13. As the foregoing discussion suggests, public debt management policies and procedures during the Plan period will warrant high priority attention by both Treasury and Central Bank. Indeed, during the coming five years fiscal and monetary policy objectives cannot be successfully pursued without effective debt management. For this reason the debt management unit in Treasury, which was recently established to develop systematic records and projections of public external indebtedness and debt servicing obligations, will have its mandate extended to include domestic debt management.

Financing Balance of Payments Deficits

5.14. During the past three years Kenya has incurred large balance of payments deficits which resulted in depletion of foreign exchange reserves and necessitated heavy reliance on external borrowing. A primary economic policy objective during the Plan period will be containment of balance of payments deficits to more manageable levels, thereby permitting curtailment of external borrowing and gradual reduction of the external debt service burden on the economy.

5.15. The manner in which the balance of payments deficits on current account were financed during the 1980–82 period is shown in Table 5.3 together with estimates for 1983.

Financing of Balance of Payments Deficits, 1980–83

Table 5.3 (*K£ million*)

	1980	1981	1982	1983 (Estimated)
Current Account Deficit	–328·7	–326·2	–279·6	–192·3
Financed by				
Private Capital, net	110·1	134·5	117·7	112·4
Public Capital, net	146·4	92·6	57·1	55·5
IMF Financing, net	54·8	42·7	112·2	41·5
Net Change in Reserves and Other Items (+ = –)	17·4	56·4	–7·4	–17·1

As indicated, during 1980–82 net external borrowing by Central Government (i.e., public capital, net) and net external borrowing by Central Bank (i.e., IMF financing, net) amounted to K£296.1 million and K£209.7 million, respectively. Additional net external borrowing by the Government amounting to K£55.5 million is estimated to have been required during 1983, together with K£41.5 million in IMF financing.

5.16. In addition to the external borrowing undertaken by the Government and Central Bank, substantial sums have been borrowed by parastatals and local authorities under Government guarantees (the parastatal component of which is included in the table with the private capital figures). It is likely that a significant portion of currently outstanding guaranteed loans will need to be serviced by Government during the Plan period.

5.17. Kenya's outstanding public external debt position (including guaranteed loans) increased during 1980–82 as shown in Table 5.4.

External Public Debt, 1980–83

Table 5.4 *(K£ million; Beginning of Year values)*

	1980	1981	1982	1983
Central Government	453·8	591·7	850·4*	1,160·9
Central Bank	50·5	76·1	108·0	229·4
Government-Guaranteed Loans	227·0	245·0	332·9	404·6
TOTALS	731·3	912·8	1,291·3	1,794·9

These figures, which reflect the exchange rate adjustments during the period, manifest not only new external borrowing arranged during 1980–82 but also disbursements under loan agreements entered into in preceding years. At the beginning of 1980 the undisbursed balances of loans previously contracted for amounted to K£495.4 million, equal to approximately half of the increase in public external indebtedness during the ensuing three years. It should be noted, furthermore, that approximately K£850 million currently remain to be drawn under existing loan agreements with the World Bank and other lenders which, when drawn, will add to the external debt outstanding. Finally, a number of additional commitments are presently under negotiation which, if and when finalized, will further increase external indebtedness.

5.18. Evidence that Kenya's external indebtedness and debt servicing obligations have increased beyond prudent limits is indicated by the ratios shown in Table 5.5.

External Public Debt Servicing Ratios, 1980–83

Table 5.5 *(Percentages)*

Calendar Year	Total Debt Service to GDP.	Total Debt Service to Exports	Financial Year	Total Central Government Debt Service to Recurrent Revenue (incl. Trants)
1980	3·5	12·2	1980/81	9·8
1981	4·6	17·9	1981/82	13·9
1982	5·9	23·6	1982/83	14·7
1983 (est.) ..	6·3*	24·8*	1983/84 (est.) ..	15·3*

*Excluding debt service on external borrowing after June, 1983.

As indicated, the ratio of debt servicing to export earnings has reached an estimated 24.8 per cent by 1983. A ratio of 20 per cent is generally regarded as the prudent limit beyond which lenders become concerned about the credit-worthiness of a country. The other ratios in the table also illustrate the need to establish firm control over external borrowing.

5.19. The rising external debt ratios reflect not only the growth of external indebtedness and debt servicing obligations but also the slower growth of GDP and export earnings—and the associated retardation of revenue growth—experienced in recent years. The disappointing performance of the domestic economy, of course, was related to developments in the global economy beyond Kenya's control. Furthermore, it is clear that had Kenya not resorted to substantial external borrowing, the curtailment of domestic economic growth would have been more severe than was the case. It is also clear in retrospect, however, that some of the loans were not warranted on the basis of cost and productivity considerations, and that the assumptions made at the time commitments were entered into regarding Kenya's debt servicing capability were overly optimistic. Therefore, while further substantial amounts of external borrowing will be required to support the balance of payments during this Plan period, the necessity for basing future commitments on realistic assessments of priorities, absorptive capacity and debt servicing capability is compelling. Unless due caution is exercised Kenya could find itself in the company of the numerous other developing countries that have over-extended their external indebtedness and been forced to seek re-scheduling of debt service payments incurring severe penalties as a consequence. Every effort will be made to avoid such a necessity.

5.20. Analysis of Kenya's external indebtedness reveals that the principal factors which have combined to bring about the debt problems are as follows:

(i) The prevalence of budgetary and balance of payments deficits which required external borrowing at an unprecedented level.

(ii) The decrease in availability of external loans on concessional terms and the resulting necessity on several occasions to resort to borrowing on commercial terms.

(iii) The increase in cost of external borrowing resulting from higher interest rate and shorter repayment requirements by lenders.

(iv) The expiration of grace periods on loans arranged in previous years, and the related bunching of loan maturities.

(v) The increase in the Kenya currency equivalent of external indebtedness and debt servicing obligations resulting from exchange rate adjustments necessitated by balance of payments difficulties.

It should be emphasized in this latter connection, however, that while exchange rate adjustments have caused the Kenya currency value of previously existing external indebtedness to increase proportionately, as well as the cost of interest and amortization payments, they have also served to increase the Kenya currency values of exports and foreign aid.

5.21. While it is clear that the upward trends in Kenya's external debt service ratios cannot be allowed to continue unabated, it is also clear from the balance of payments projections that it will not be possible during the Plan period to reduce the level of external borrowing required to finance the requisite level of imports. Radical curtailment of external borrowing is simply not feasible economically. What must be done instead is to exercise prudent management of external borrowing. The basic objectives to be pursued are:

(i) Containment of additional borrowing under currently existing loan agreements and under new borrowing arrangements to levels consistent with realistic assessment of debt servicing capability.

(ii) Minimization of the interest cost and repayment burden associated with essential external borrowing.

(iii) Maximization of the productivity with which the proceeds from additional borrowing are utilized.

Achievement of these objectives will require careful appraisal of all new borrowing proposals as well as determined efforts to take fullest advantage of external financing availabilities on concessional terms. It also will require that all projects proposed for external financing be analyzed systematically in advance of commitments in order to establish priority rankings based on uniform cost minimization and productivity maximization criteria. Finally, a thorough-going review of outstanding borrowing commitments needs to be undertaken with the purpose of determining whether it would be advantageous and feasible to forego further drawing from the undisbursed balances under certain loan agreements.

5.22. In short, what is needed is careful planning and control of external borrowing consistent with the requirements for balance of payments and budget financing and regular reassessments of external debt servicing capability in the light of changing circumstances and prospects. A comprehensive external borrowing plan was first formulated during 1982/83 and a similar exercise was carried out during the first half of 1983 which specified limits for the several types of external borrowing for 1983/84. What follows is an extension of the 1983/84 external borrowing plan to encompass the entire Plan period.

External Borrowing Plan

5.23. The amounts of external capital inflows estimated to be required during the coming five years for financing projected current account deficits in the balance of payments and to maintain foreign exchange reserves equivalent to approximately two months of imports are shown in Table 5.6.

Prospective External Financing Requirements, 1984–88

Table 5.6 (*K£ millions*)

	1984	1985	1986	1987	1988
Current Account Deficit	197·5	210·0	235·2	249·3	281·4
Increase in Reserves	18·9	21·7	21·3	27·4	4·3
Required Financing	216·4	231·7	256·5	276·7	285·7
Prospective Sources					
Private Capital Inflows, net	119·3	128·0	140·8	154·9	170·5
Public Capital Inflows, net..	97·1	103·7	115·7	121·8	115·2

As indicated, between 40 per cent and 45 per cent of the required external financing each year is expected to be arranged by Central Government. It should be noted, furthermore, that approximately 30 per cent of the amounts shown for "private" capital inflows is expected to take the form of loans to parastatal enterprises under Government-guarantee arrangements.

5.24. It is anticipated that the cumulative total of net external borrowing on public account (including Central Government, Central Bank and Government-guaranteed borrowing) will amount to K£760.9 million over the five-year period. Approximately 75 per cent of the projected increase in the external public debt is expected to be arranged through loans to Central Government, with the balance being reflected in Government-guaranteed loans. Central Bank indebtedness to the IMF is expected to remain virtually unchanged over the period since total gross drawing of IMF credits (projected at K£203.2 million) will be slightly more than entirely offset by required repayments. The cumulative total of gross drawings on external loan availabilities during the period is estimated at K£1,683 million, of which K£922.1 million (54.8 per cent) is expected to be required for meeting repayment obligations pertaining mostly to external debt currently outstanding.

5.25. Debt service payments on the external indebtedness of Central Government alone are projected to decline as a percentage of recurrent revenue from 16.3 per cent in 1983/84 to approximately 10 per cent in 1987/88. The components of external borrowing on public account not reflected in these ratios are credits arranged with IMF by Central Bank and Government-guaranteed loans to parastatals and local authorities for project financing purposes. There is considerable uncertainty about future servicing obligations on these categories of debt because of variable interest rate provisions in many of the loan agreements. However, on reasonable assumptions about interest rates and repayment schedules the consequences of the external borrowing plan outlined above on the principal debt ratios would be as shown in Table 5.7.

Planned External Debt Servicing Ratios, 1984–88

Table 5.7 (*Percentages*)

Calendar Year	Total Debt Service to GDP	Total Debt Service to Exports	Financial Year	Total Central Government Debt Service to Recurrent Revenue (incl. Grants)
1984	6·5	25·6	1983/84	16·3
1985	6·6	25·8	1984/85	14·0
1986	6·0	23·6	1985/86	12·7
1987	5·2	20·3	1986/87	10·0
1988	4·5	17·6	1987/88	9·6

By staying within the quantitative limits on further external borrowing specified in the Plan, and given various assumptions, the burden of Kenya's public external indebtedness is seen to be reduced significantly during the five years. It should be emphasized, however, that the ratios shown in the table are calculated on the assumption that there will be no further adjustments of the exchange rate during the period. If such adjustments become necessary the projected debt servicing ratios will need to be modified.

5.26. The planning of external borrowing involves more than formulation of numerical estimates. Effective planning in this area also requires articulation of sound policy guidelines and establishment of workable control procedures. More specifically, first priority within the limits established for additional external borrowing will be given to adequate financing for the balance of payments. In order to achieve the targeted rates of economic growth during the Plan period, and to continue with structural adjustment of the economy (for which further substantial support is anticipated from the IMF, the World Bank and others), the level of imports required for these purposes must be secured. The second priority reflected in the borrowing plan is provision for the external funding requirements of development projects selected for implementation during the Plan period. Sound projects already underway, and those for which economic and financial feasibility has already been demonstrated, will be given first claim on externally borrowed resources. New projects approved for external funding must promise a rate of return in excess of the cost of capital, productive benefits that will be realized in the near term, a net contribution to foreign exchange receipts (or savings), and eligibility for external financing on concessionary terms. These criteria will be applied in screening development projects proposed by ministries for financing with externally borrowed funds channelled through the budget as well as to projects proposed for implementation by parastatals with external financing to be provided directly under Government-guarantee arrangements.

5.27. Other policy guidelines and control procedures that will govern implementation of the external borrowing plan can be summarized as follows:

(i) Every effort will be made to arrange the required amounts of external loans with the least-cost sources, and to avoid being tied by the terms of loan agreements to high-priced goods and services imports.

(ii) Every effort will also be made to minimize the need for Government to assume responsibility for servicing guaranteed loans by requiring parastatals and local authorities to honour their obligations to the fullest possible extent and by limiting Government's exposure under future loan guarantees extended on behalf of parastatal enterprises to Government's proportionate share in the equity of the enterprises.

(iii) Regular reviews will be made of opportunities for improving the terms and structure of Kenya's outstanding external public debt with reference to interest rates prevailing in international markets, relative movements in foreign exchange rates and possibilities for lengthening or otherwise revising the repayment schedules through renegotiation of selected loan agreements.

(iv) Commencing with the Financial Year 1984/85 Budget, there will be included an up-dated version of the annual external borrowing plan consistent with the budgetary and balance of payments projections for the year. Furthermore, all sessional papers requesting Parliamentary approvals of particular external loans or loan guarantees henceforth will be tabled only after prior scrutiny of the proposed agreements by the Attorney-General's office and full consultation between Treasury, Central Bank and any sponsoring ministries.

The policies and procedures outlined above will serve to ensure that the sophistication and the discipline necessary will be brought to bear on Kenya's external debt management problem.

5.28. The limits on further external borrowing that must be observed during the Plan period clearly imply the need to augment to the fullest extent possible private capital inflows from abroad. Larger amounts of externally financed investment in the private sector will serve to offset the effects on the balance of payments and economic growth of the necessary constraints on the external public debt. Accordingly, it is intended that existing policies governing private foreign investment will be reviewed and appropriately revised as an early order of Government business during the Plan period.

5.29. Finally, it should be emphasized that the external borrowing plan as summarized above is premised on export, import and current account balance targets that could prove to be overly optimistic. The external borrowing plan is particularly vulnerable to the possibility of substantial shortfalls from the targeted levels of export receipts. While any such shortfalls would limit the growth of imports and the over-all growth of the domestic economy, they would also necessitate higher than planned levels of external borrowing.

Growth of the Money Supply and Bank Credit

5.30. The principal objectives of monetary and credit policy during the Plan period will be regulation of the money supply to accord with the requirements for accelerated economic growth with minimal inflation, and allocation of domestic credit to facilitate productive activities in both the private and public sectors. Treasury and Central Bank will exercise co-ordinated supervision and management directed toward containment of inflation, improvement of credit allocation and achievement of a satisfactory rate of economic growth.

5.31. The two components of the total money supply as defined by the Central Bank are:

M1—which includes currency in circulation plus demand deposits and 7-day notice deposits except those of Central Government and non-residents; and,

M2—which includes M1 and quasi-money (defined as savings and other term deposits with the banking system except those of Central Government and non-residents).

While it is the growth rate of M2 which is the principal index of monetary policy, the M1 and quasi-money components of the money supply tend to grow at differential rates both quarterly and year to year.

5.32. The growth rate of the money supply has been erratic during the past several years as a result of wide swings in the volume of bank credit to Government and the private sector and also a progressive decline in the foreign assets of the banking system. During 1980 total money supply declined by 1.2 per cent, while during 1981 and 1982 the money supply increased by 13.3 per cent and 16.1 per cent, respectively. During 1983 the money supply is projected to increase by approximately 10 per cent.

5.33. During the fifth Plan period the basic objective of monetary policy will be to stabilize the annual growth rate of total money supply within the 10 per cent to 13 per cent range, while allowing M1 to grow at between 9 per cent and 12 per cent and quasi-money slightly more. Assuming stability in the velocity of circulation, expansion of the money supply within this band will be consistent with projected growth and inflation rates. The Central Bank will need to employ effectively the various policy instruments available to it (namely discounts and advances, interest rate adjustments, liquidity ratio requirements and selective credit controls) in order to maintain expansion of the money supply within the indicated limits. Close co-ordination with Treasury will be essential, particularly with respect to deficit financing arrangements and public debt management.

5.34. The way in which management of the money supply within the bands specified is expected to be reflected in the consolidated banking system accounts is summarized in the two scenarios shown in table 5.8.

Planned Lower and Upper Limits for Changes in Monetary Variables, 1984–88

Table 5.8 (*K£ million*)

	1984	1985	1986	1987	1988
Lower Band Scenario					
Net Foreign Assets and Domestic Bank Credit ..	1,437	1,581	1,740	1,913	2,105
Money Supply (+10% yr.)	1,311	1,442	1,587	1,745	1,920
MI	(652)	(710)	(774)	(844)	(920)
Quasi-Money	(659)	(732)	(813)	(901)	(1,000)
Other Items, net	126	139	153	168	185
Upper Band Scenario					
Net Foreign Assets and Domestic Bank Credit ..	1,477	1,669	1,886	2,132	2,408
Money Supply (+13% yr.)	1,347	1,522	1,720	1,944	2,196
MI	(670)	(750)	(840)	(941)	(1,054)
Quasi-Money	(677)	(772)	(880)	(1,003)	(1,142)
Other Items, net	130	147	166	188	212

As indicated by this table, maintenance of the money supply within the 10 per cent to 13 per cent growth band will require careful management of the combined total of net foreign assets and domestic bank credit. Because net foreign assets of the banking system are expected to decline thoughout the Plan period, it should be possible to allow domestic bank credit to grow at marginally higher rates (probably between 12 per cent to 15 per cent) than the total money supply. While some quarterly variation in bank credit expansion will undoubtedly occur in response to temporary bulges in demand for credit by Government and private sector borrowers, the objective should be to maintain relative'y stable growth of bank credit both during individual years and from year to year. Not only will this serve to stabilize the growth rate of the money supply but it also will promote the orderly changes in interest rates required to balance the supply of and demand for credit.

5.35. As indicated in Table 5.8, it is anticipated that savings and other term deposits maintained with banks (i.e. quasi-money) will gradually increase relative to the component of the money supply comprised of currency in circulation and demand deposits (i.e. M1). This development will be consistent with the progressively higher real interest rates projected over the Plan period and the effect this is expected to have on savings behaviour. Also implied in the table is a relatively high velocity of circulation of currency and demand deposits (the ratio of GDP at current market prices to M1 is projected to hold steady at around 6.5) which also will be motivated by interest rate considerations.

Allocation of Credit and Interest Rate Policy

5.36. During the past three fiscal years significant changes have occurred in the allocation of banking system credit between Government and the private sector (including parastatal bodies). During Financial Year 1980/81 Government commanded 67.8 per cent of the increase in banking system credit and 54.6 per cent in Financial Year 1981/82. As a consequence the share of total outstanding bank credit allocated to Government increased from 18.3 per cent in June 1980 to 32.5 per cent in June 1982. Clearly the allocation of bank credit to Government during these two years was excessive and severely constrained the access of private sector borrowers to bank credit. During Financial Year 1982/83, however, bank credit to Government actually declined by a small amount. But because growth of total domestic bank credit was severely constrained, private sector credit increased by only 9.9 per cent—well below the 16.7 per cent rate of increase during Financial Year 1981/82.

5.37. An important objective of monetary and fiscal policy throughout the Plan period will be to normalize the allocation of banking system credit between Government and the private sector by progressively limiting the Government's share. The indicative targets for the Plan period are shown in the Table 5.9.

Planned Shares in Increases of Domestic Bank Credit, 1983/84–1987/88

Table 5.9 *(Percentages)*

Financial Year	1983/84	1984/85	1985/86	1986/87	1987/88
Lower Band Scenario					
(+ 12% yr.)					
Government	37·0	19·4	14·5	12·9	11·5
Private Sector	63·0	80·6	85·5	87·1	88·5
Upper Band Scenario					
(+ 15% yr.)					
Government	29·6	15·1	11·0	9·5	8·3
Private Sector	70·4	84·9	89·0	90·5	91·7

As indicated, if total banking system credit expands during the Plan period at the upper 15 per cent per annum limit, the proportion of annual increases required by Government would decline from 29.6 per cent in Financial Year

1983/84 to 8.3 per cent in Financial Year 1987/88. The corresponding decline in the lower 12 per cent per annum credit expansion scenario would be from 37.0 per cent in Financial Year 1983/84 to 11.5 per cent in Financial Year 1987/88. It should be noted, furthermore, that the effect of maintaining bank credit expansion within the 12 per cent to 15 per cent range would be to reduce progressively Government's share of total outstanding banking system credit from the 30.3 per cent figure as at end-June 1983 to between 21.8 per cent and 24.9 per cent by 1988.

5.38. The squeeze during the past several years on credit availability for support of activities in the private sector has been reflected in shifts in the allocation of bank credit as between the various types of activities conducted within this sector. During the 1980–1983 period credit extended by the commercial banks to mining and manufacturing enterprises and parastatal enterprises, and also inter-bank lending to financial institutions, increased relatively to credits made available to agriculture, other businesses and private households. These shifts reflect the effects of rising interest rates during this period on demand for credit from the various types of borrowers as well as bankers' appraisals of the commercial viability in the prevailing circumstances of the proposals submitted to them.

5.39. During the Plan period interest rates will be the primary factor governing allocation of commercial bank credit between alternative activities in the private sector. However, because of the critical importance of agricultural development and because adequate credit is essential for most agricultural activities, the Central Bank will continue to require commercial banks and financial institutions to allocate a prescribed percentage of their deposits to the agricultural sector.

5.40. Treasury and Central Bank also must be concerned to ensure that sufficient amounts of both bank and non-bank credit are made available to Government for financing budget deficits. Treasury's main responsibility in this regard will be to constrain the volume of such financing requirements both by limiting the size of annual budget deficits and by maintaining better balance between revenue and expenditures during the course of each year, thereby moderating the past tendency toward seasonal bulges in Government's financing requirements. The Central Bank will facilitate the financing of Government operations during the Plan period by serving as the agent for placement of Government securities with banks and other financial institutions. It should be mentioned in this context that it will be necessary to maintain in force the existing requirements for non-bank financial institutions to hold a specified percentage of their liquid assets in Treasury bills.

5.41. During the 1980–83 period significant changes occurred in the level and structure of interest rates in the domestic money and capital markets. The minimum rate for commercial bank savings deposits doubled and the maximum commercial bank lending rate increased by five percentage points (or by 45 per cent). Also significant was the substantial increase in rates on Treasury bills and Government stocks. It should be noted, however, that because of the pace of inflation real rates of interest (i.e., nominal rates adjusted for inflation) were negative during most of the period.

5.42. Throughout the Plan period Government intends to pursue a flexible interest rate policy directed toward maintenance of positive real rates of interest. Successful implementation of this policy is essential for achievement of the objectives embodied in the Plan. Not only must deposit rates provide the incentives necessary to induce mobilization of a growing volume of domestic savings for financing of investment, but also lending rates must likewise provide the disincentives necessary to forestall speculative and uneconomic utilization of these savings by borrowers. Furthermore, the level and structure of interest rates in Kenya must be responsive to interest rate changes in international money and capital markets in order to provide protection against adverse movements of funds internationally.

5.43. While it is difficult to predict with any assurance in the current unstable international financial environment, what the external pressures on Kenya's interest rate structure are likely to be during the Plan period, it is nevertheless clear that Government policy must be directed not only toward maintenance of a proper relationship between the domestic and international rates but also toward a gradual widening of the differential between nominal interest rates and the domestic rate of inflation. Assuming that domestic and world-wide inflationary forces will be brought under firm control, and that the potential for distruptive crises in international financial markets can be contained, the policy indicated for Kenya in the near term is marginal adjustments in the level and structure of nominal interest rates while gradually increasing real rates of interest by bringing down domestic inflation. During the Plan period the objective will be to progressively reduce the inflation rate to around 6 per cent by 1987/88 while maintaining the real interest rate on savings deposits in the 2 per cent to 3 per cent range, with adjustments of other borrowing and lending rates in accordance with the operation of competitive market forces.

Domestic Financing for Private and Parastatal Sector Activities

5.44. Between June 1980 and June 1983 total domestic bank credit increased at an average annual rate of 20.8 per cent while bank credit made available for financing activities in the private sector (including parastatal enterprises) increased at an average rate of only 12.8 per cent over the three-year period. As a consequence the share of total bank credit directed to the private sector declined from 81.7 per cent at end-June 1980 to 69.7 per cent at end-June 1983. The demand for bank credit by Government effectively "crowded out" the private sector.

5.45. During the coming five years it is intended to reverse this trend. Furthermore, this will be done within the context of constrained growth in total banking system credit, lower inflation, and gradually increasing real interest rates. In accordance with the lower and upper bands to govern monetary policy during the Plan period and the anticipated requirements of Government for banking system credit, the average annual growth of bank credit to the private sector is projected at between 13.7 per cent and 17.7 per cent. As a consequence of the declining growth of bank credit to Government, the share of total banking system credit allocated to the private sector will increase from 69.7 per cent figure as at June, 1983 to between 75.1 per cent and 78.2 per cent by end-June, 1988.

5.46. Within the growing component of banking system credit to be allocated to the private sector, it is anticipated that the relative share made available for support of agricultural sector activities will increase from the 13.7 per cent level at the end of 1982 to between 17 per cent and 20 per cent during the course of the Plan period. This will be facilitated by the agricultural lending requirement to be administered by the Central Bank. With the exception of this selective credit control, the allocation of bank credit to private and parastatal sector borrowers will be governed by the priorities to be accorded export promotion and the operation of market forces. It should be noted in this latter connection that Government will not, as a matter of policy, seek to intervene on behalf of parastatal applicants for bank credit by provision of loan guarantees or through other means.

5.47. The availability of bank credit for financing private and parastatal activities will, of course, be supplemented by credit made available from the various non-bank financial institutions. The volume of loans and credit from these institutions has been increasing more rapidly than that of commercial banks during the past three years, and probably will continue to do so. With the exception of continued requirements for Treasury bill holdings and agricultural lending it is not intended that non-bank financial institutions will be subject to selective credit controls. Therefore, the allocation of their loans and advances to private sector borrowers also will be determined principally by competitive market forces.

5.48. There are three major problem areas which will require policy and institutional reforms during the plan period, namely agricultural finance, financial management of parastatal enterprises and regulation of non-bank financial intermediaries. Also it is intended to mount a comprehensive programme directed toward accelerated development of financial markets and institutions with the purpose of facilitating mobilization of domestic savings and improving the efficiency with which domestic resources are manifested in capital formation. The plans for dealing with the problem areas are discussed first, followed by brief discussion of money and capital market development.

Agricultural Finance

5.49. Provision of adequate financing for agricultural activities must be accorded high prioritiy during the Plan period. This is essential not only because of the critical importance of credit in the agricultural sector but also because there presently exist some policy and management problems that urgently require solutions. This section does not dwell on the role of credit in fostering efficient utilization of agricultural resources, but rather focuses on the problems that must be addressed in this area.

5.50. There are two principal sources of agricultural finance, namely:

(i) Funds generated by producers, suppliers and distributors from market-oriented activities which are automatically recycled within the agricultural sector; and,

(ii) funds made available as interest-bearing loans and credits by the banking system and parastatal agencies.

The former source of funds is governed largely by cost-price relationships which determine the profitability of agricultural-related endeavours. Government is committed to support producer prices, and also to provide services to agriculturalists, in order to ensure adequate profitability from efficiently-managed farms. Government also attempts to facilitate an adequate flow of credit from banks and parastatal lending agencies to supplement the funds available to producers, suppliers and marketing agencies from their internally-generated resources. It is in this latter area, however, that things have gone badly wrong in recent years. During the Plan period it is intended to correct the deficiencies in public policy and management governing agricultural credit.

5.51. The instrumentality emp'oyed to facilitate the flow of credit to the agricultural sector from the banking system is the agricultural lending requirement administered by the Central Bank. For some years commercial banks have been directed to allocate not less than 17 per cent of their deposit liabilities to agriculture, although a few banks have occasionally been unable to fulfil their targets. Overall, the year-end percentages of total lending by commercial banks going to agriculture were 15.6 per cent in 1980, 15.0 per cent in 1981 and 13.7 per cent in 1982. Non-bank financial institutions likewise have been directed to maintain agricultural sector lending at 10 per cent of their deposits, but full compliance has not always been achieved.

5.52. Early in the Plan period the Central Bank, together with the ministries of Agriculture and Finance, will review experience with the agricultural lending requirements and on the basis of the findings will reformulate its directives to commercial banks and financial institutions. This review will include consideration of possibilities for improving access of small-holders to seasonal credit as well as the advisability of providing preferential discount facilities at the Central Bank for specified types of agricultural paper.

5.53. The most difficult problems regarding agricultural credit relate to the parastatals that have been established over the years to channel funds to producers, to providers of agricultural inputs, and to processors and marketers of agricultural outputs. Because of large accumulations of bad debts several of the major parastatal bodies engaged in agricultural lending are presently in severe financial difficulties. It has been determined that the basic principle to be followed in correcting the situation is that in future subsidies must be clearly distinguished from agricultural credit. Subsidies must be properly budgeted for within the framework of competing priorities for public funds, while credit must be made available in accordance with established banking principles regarding collateral and creditworthiness.

5.54. The instrumentality for applying these principles will be an Agricultural Development Bank (ADB) the planning of which is already at an advanced stage. The ADB is intended to serve as the primary vehicle for facilitating the separation of subsidy and credit elements in agriculture financing, with Government providing necessary subsidies explicitly through the budgets of operating ministries. The ADB will operate under the Banking Act and its principal functions will be:

(i) To mobilize loanable funds for financing agricultural activities from both domestic and external sources.

(ii) To allocate loanable funds at its disposal on commercial terms and generally on a short-term basis to AFC and CBK for on-lending as seasonal production credits; to NCPB and other parastatal agencies engaged in crop purchasing, processing and distribution; and, to other selected parastatal and private agencies engaged in serving the agricultural sector either as providers of inputs or marketers of outputs.

The reform of agricultural credit planned for implementation by means of the ADB will have budgetary and other consequences for the ministries of Agriculture and Co-operatives, and also will necessitate modifications in the operations of CSFC, NCPB, AFC and other parastatal agencies serving the agricultural sector.

Financial Management of Parastatal Enterprises

5.55. During the fifth Plan period it is intended to implement the recommendations regarding financial management of parastatal enterprises contained in the Report and Recommendations of the Working Party on Government Expenditures and the related recommendations contained in the earlier Report of the Ndegwa Committee on Statutory Boards. The pertinence of these recommendations to the financial stabilization, structural adjustment and economic growth objectives of this Plan has become increasingly clear as the financial losses incurred by certain parastatals, and related petitions for re-capitalization and protection from creditors, have seriously jeopardized

Government's ability to manage effectively the country's financial affairs. It is essential to devise better defences to protect the budget from uneconomic drains into the parastatal sector. This will require re-ordering of priorities and reform of operating procedures directed toward clarification of the relative merits of competing petitions for budgetary resources emanating from parastatals. The revised priorities will reflect the opportunity cost considerations that must govern allocations of public funds.

5.56. The major procedural reform to be introduced early in the Plan period is incorporation of parastatal finances into the forward budgeting process. While this will be a major undertaking, it is essential in order to establish the data base and the analytical framework required by Government to properly manage its investments in parastatal enterprises. Although considerable work remains to be done in developing reliable and consistent budgetary projections for the numerous parastatal enterprises it is anticipated that this task can be completed during the 1983/84 Fiscal Year, at least for the major parastatals. Beginning with Financial Year 1984/85, therefore, it should be possible to have established a systematic linkage between budget planning and administration and financial planning and management in the parastatal sector.

5.57. The Investment Division of Treasury will take on a substantially expanded role during the Plan period, assuming responsibility not only for integration of the parastatal sector into the forward budgeting process but also for continuous monitoring of Government's financial interests in parastatal enterprises. This Division will be expected to maintain up-to-date information of Government's equity in and loans to parastatals (including outstanding loan guarantees) and records on past, current and prospective dividends, interest payments and debt repayments. It also will be primarily responsible for representing Government stockholding and creditor interests at parastatal board meetings and, in particular, in decision-making regarding commitments to investment projects. The Investment Division will be expected to have readily available the information required for budgeting and planning purposes as well as the functions of the Parastatal Advisory Committee.

5.58. The intensive effort to establish the requisite financial information concerning parastatal enterprises indicated in the foregoing paragraphs will also serve to facilitate selective divestiture of parastatal investments by Government during the Plan period. The objectives to be pursued and procedures to be followed in this area have recently been proposed by the Divestiture Advisory Committee. While it would be premature to incorporate assumptions regarding proceeds Government might realize from divestiture of selected parastatal investments into financial projections for the Plan period, nevertheless it should be recognized that the stage is set for forceful action in this area.

5.59. Finally, during the Plan period efforts will be made to improve the policies and procedures governing operations of statutory boards and parastatal enterprises, with appropriate distinctions being made between the "entrepreneurial" "development" and "financial intermediary" type of organizations. The focus of these efforts will be on establishment of uniform criteria for investment decision-making, rationalization of subsidies, and reduction of the contingent liabilities stemming from Government guarantees of parastatal loans. Government also will seek to devise better protection from quick-decision "bail-out" petitions from parastatals put forward in crisis situations and, particularly, to avoid repetition of recent costly experiences stemming from poorly conceived joint ventures with private interests. As a general rule Government will not seek to participate in entrepreneurial ventures initiated by private investors by way of venture capital contributions. In these and other areas Government will be guided by the recommendations of the two reports cited in paragraph 5.55 above.

Regulation of Non-Bank Financial Intermediaries

5.60. During the past three years the number of non-bank financial institutions has increased significantly together with a dramatic rise in the volume of financial resources being channelled through these institutions, as illustrated by the following statistics.

End of:	1980	1981	1982	Mid-1983
Number	16	23	32	34
Total Assets (K£ m)	319·5	390·1	512·8	537·4

As a result of the prolifiration and growth of these institutions their relative importance in the operation of the financial system has greatly increased. Furthermore, the amounts of loans and advances extended to non-bank financial institutions by commercial banks have increased substantially during the past three years, reflecting a tendency for some commercial banks to channel funds through affiliated financial institutions for on-lending at interest rates higher than the commercial banks have been allowed to charge. As the non-bank institutions have become progressively more important, and as their operations have become more closely linked with those of commercial banks, it has become increasingly clear that the regulatory framework governing such institutions warrants review.

5.61. It is noteworthy in this connection that an increasing proportion of the deposits and other funds mobilized by non-bank financial institutions has come from the public sector, particularly during 1982 and 1983. The principal factor has been the large increase in parastatal and trust fund deposits with the non-bank institutions, which grew from K£67.5 million in 1980 to K£160.5

million by mid-1983. While the interest rates offered to depositors by these institutions were higher than commercial bank deposit rates, it is questionable whether the management of public funds should be responsible to this differential in view of Government's financing requirements.

5.62. It is also noteworthy that the level of deposits maintained by governmental and other public sector entities with non-bank financial institutions has greatly exceeded the volume of lending by these institutions to Government and other public sector entities. At mid-1983, for example, lending by these institutions to the public sector amounted to K£87.7 million while deposits from public sector entities amounted to K£165.5 million. In effect, therefore, these institutions were functioning as an intermediary for channelling public funds to private sector borrowers, even though the Government was hard pressed financially. This is an aspect that needs to be addressed in reviewing the regulatory framework governing operations of the non-bank institutions.

5.63. Treasury and Central Bank will jointly undertake a thorough study during 1984 of the regulatory framework within which non-bank financial institutions conduct their activities. In addition to the questions indicated in the three preceding paragraphs this study will be focussed on differentials in deposit and lending rates as between commercial banks and non-bank financial institutions, the criteria that should govern the licensing and capitalization requirements for the non-bank institutions, and the policy objectives to be pursued regarding the relative growth of commercial banks and other types of financial intermediaries. In reformulating the regulatory framework care will be exercised not to stifle competition and innovation. While adequate protection must be provided against unsound practices, regulations intended to avoid these things should not prevent improvements in the efficiency with which financial services are made available to society. Indeed, the underlying objective of public policy in this area during the Plan period will be to stimulate development of competitive financial markets and diversified financial institutions within a framework that ensures propriety and security.

Money and Capital Market Development

5.64. During the past decade the number and diversity of banks, financial institutions and insurance companies has increased markedly and the ratio of financial assets to the gross domestic product has grown more rapidly than in most countries at a similar stage of economic development. Furthermore, a sizeable number of foreign banks and finance houses have established branch offices in Kenya during the past decade, both to provide financial services locally and to serve as regional headquarters for operations throughout Africa.

5.65. The growth of the financial sector reflects the increasing role of financial processes in the economy and also indicates that Government policies have been conducive to such growth. Kenya has successfully avoided most of the mistakes that have worked to frustrate financial development in numerous other developing countries such as nationalization or other aggressive actions against banking institutions, allowing the banking function to become too closely intertwined with industrial or other entrepreneurial activities, and prevention of market processes from operating within the financial sector. Governmental policies during this Plan period will continue to encourage growth and diversification in the financial sector and, in particular, will facilitate the further development of money and capital markets serving the private sector of the economy.

5.66. It is recognized that the key elements necessary for encouragement of further financial sector development are:

(i) Control of inflation;

(ii) Positive real rates of interest and competitive financial markets;

(iii) A proper legal framework without excessive governmental regulation.

It is also recognized that in order for Nairobi to develop as a regional financial centre it will be necessary to further enhance confidence in Government's intentions and abilities to administer the foreign exchange rate and exchange controls in a manner that is not prejudicial to international financial activities.

5.67. It is intended to initiate a comprehensive study of the money and capital markets during 1984 which will be directed toward determination of possibilities for improving the operation of these markets and for facilitating their fuller development. This study, which will be carried out by the Central Bank in co-operation with the International Finance Corporation, will be focussed on the following areas:

(i) Scope for improvement in the operation of the money market by introduction of new instruments and procedures.

(ii) Scope for improvement in public debt management that would serve to facilitate development of both the money and capital markets.

(iii) Scope for improvement of corporate debt and equity financing facilities including possibilities for making the Nairobi Stock Exchange into a more dynamic and useful institution.

These explorations will be concerned with the technical factors governing supply of and demand for the various types of financial instruments and also with broader policy objectives such as Kenyanization and the competitiveness and efficiency of financial market processes. The over-riding objective of the study will be to facilitate increased mobilization of domestic savings for financing an accelerated rate of capital formation in both the private and public sectors of the economy.

CHAPTER 6

SECTORAL PATTERNS OF DEVELOPMENT

6.1. The Government's role in establishing the nation's development strategy and adopting policies which will make that strategy feasible and operational has been discussed in preceding chapters. The pattern of Government expenditures on its own projects and programmes must also be designed to promote the established strategy and to facilitate constructive development efforts by all Kenyans in every district and sector of the nation. The distribution of development by district is disclosed in the District Development Plans which are being published separately from this volume.

6.2. This chapter focusses on sectoral patterns of development. In particular, it outlines, in succinct fashion, the nature of Government policies, projects and programmes for expanding the basic economic and social infrastructure on which the development of the productive sectors depends, for supporting primary production throughout the nation, and for promoting the orderly growth and balanced distribution of industry, commerce and tourism.

I. BASIC INFRASTRUCTURE

6.3. Previous development plans have emphasized the importance of infrastructural facilities for all modes of transport and communications, the building and construction industry, and the energy sector. Concerted efforts to improve basic infrastructure in these areas have contributed to development in other sectors, particularly Agriculture, Industry and Commerce. The basic economic criterion applied in the planning of infrastructure development has been optimization of returns on investments of public funds. Also, in planning co-ordination of project implementation and management emphasis has been placed on capacity utilization and facility maintenance. These will continue to be the guiding principles throughout the 1984–88 Plan period.

Transport and Communications

6.4. The Road system and the Railway provide the most important transportation facilities for both freight and passenger traffic. Maintenance and rehabilitation of the infrastructure required for these two modes of transport will be accorded highest priority during the Plan period.

Road Transport

6.5. At present the national road network extends to 54,584 km. of which 6,721 km. are paved. Of the total network, about 12 per cent of the total network are classified as international and trunk roads, 14 per cent as primary roads, 67 per cent as secondary and minor roads (including rural access roads), and about 7 per cent as special purpose roads. The existing road network reflects the emphasis during previous Plan periods initially on up-grading heavily used trunk and primary roads to bitumen and gravel standards, and more recently on extension of feeder and other minor roads. During the 1984–88 Plan period the emphasis will be directed towards strengthening of paved roads, and towards up-grading and maintenance of unpaved roads already in place.

6.6. Development of the road network has stimulated remarkable growth of the road transport industry, both in freight haulage and passenger carrying capacity. The total road vehicle population in the country in 1980 was estimated as 240,435. It is estimated that currently about half of all freight traffic is carried by road transport. According to a recent national traffic survey, an estimated 655 million tons of goods were transported by road, about half of which originated or terminated outside Kenya. Despite the relatively high unit costs, strong user preference has been displayed for road transport. The private sector has played a leading role in the development of this mode of transport as evidenced by the fact that the bulk of the commercial and passenger vehicles are privately owned. The Government has utilized its licensing and regulatory powers to ensure public safety, effective competition and inter-transport co-ordination.

6.7. A recent study of road user charges found that heavy goods vehicles do not cover the cost of the damage they cause to roadways. It was observed that vehicle combinations with more than 3 axles cover only between 67 and 82 per cent of these costs. It is therefore intended that taxation on heavy goods vehicles will be increased during the Plan period, and that the axle load limit will be increased from 8 to 10 tonnes.

Railways

6.8. The most significant achievement of Kenya Railways since Independence has been the gradual dieselization of motive power. During the Fourth Plan Period substantial additions were made to the fleet of locomotives, wagons and coaching stock. Good progress was also made in the on-going programme of re-alignment and up-grading the track and in removal of restrictive gradients and curves. To increase line capacity, six new crossing stations were built between Nairobi and Mombasa, and crossing loops were lengthened in several other stations to facilitate by-passing of longer trains.

6.9. Railway goods traffic increased by 15.2 per cent and passenger traffic by 61 per cent respectively, between 1978 and 1981. However, the trend in both cases reversed after 1981 and the financial results of railway operations have deteriorated significantly in recent years. It is intended that during the 1984–88 Plan period the railways will be operated on the principle of full cost recovery. To the extent that goods or passengers are required to be carried at subsidized rates Government will provide adequate subventions from budgetary appropriations.

6.10. Development activities during the Plan period will be concentrated on equipping the railways workshops for adequate maintenance of rolling stock, completion of the track relaying and renewal programme, building of depots and container terminals, and the up-grading of the telecommunication system.

Air Transport

6.11. The Directorate of Civil Aviation (DCA) is responsible for provision of essential services essential to the air transport industry both in Kenya and neighbouring countries. These services include air traffic control at all major airports, inspection and certification of aircraft for airworthiness, testing of crews, and issuance of licences. The operations at Jomo Kenyatta International Airport at Nairobi and at Moi International Airport at Mombasa are supervised by the DCA. These two facilities are ranked among the best equipped in Africa in telecommunications, radar and other navigational aids.

6.12. By the end of 1981 the DCA had achieved 100 per cent Kenyanization in all its technical departments. This was made possible by the effectiveness of the training programme for technical personnel at the East African School of Aviation. A major development activity recently implemented by the DCA was expansion of East African School of Aviation. This school has ICAO regional status and is intended to cater for the needs of all countries within East and Central Africa.

6.13. The Aerodromes Department is responsible for maintenance and development of the two international airports at Nairobi and Mombasa, the medium-sized aerodromes in Kisumu and Malindi, Wilson Airport in Nairobi and about 160 smaller airstrips throughout the country. In addition to the extensive improvements in the Nairobi, Mombasa and Kisumu facilities in recent years a number of smaller airstrips throughout the country have been up-graded, including the fourteen that are presently capable of handling general aviation traffic.

6.14. The Meteorological Department is responsible for provision of meteorological services to civil aviation and shipping in the Western Indian Ocean. The department is also responsible for surface and upper air meteorological observations and for publication of climatological data. It is intended that during the Plan period a weather broadcasting project will be initiated including presentation by professional meteorologists of daily weather forecasts on VoK television. It is also planned to computerize meteorological data processing, to experiment with data-based weather prediction for Kenya and to equip the instrument workshop with a view to manufacturing most of the simple equipment that has hitherto been purchased abroad at considerable cost in foreign exchange. Assistance to agriculture will be an important objective, and revitalization and further extension of the agrometeorological stations is planned. A station is also being planned for establishment on Mt. Kenya for monitoring air pollutants.

6.15. During the Plan period the DCA will seek to improve co-ordination with other agencies in efforts to harmonize development activities directed towards strengthening of the aviation industry. Equipment and facilities will be modernized and an intensive training programme will be carried out in order to keep the skills of its technical staff in line with international standards and the anticipated growth of air transport in Kenya.

6.16. The Civil Aviation Board (CAB), established in 1977, also plays an important role in the provision of air services. It formulates appropriate civil aviation legislation, negotiates air service rate agreements, and co-ordinates with ICAO, IATA, and other international agencies. The CAB will continue to be charged with the responsibility of ensuring that the country has a healthy airlines industry during the Plan period.

6.17. The international flag carrier, Kenya Airways, has been faced with a number of difficulties since its formation in 1977. These include management deficiencies, sizeable increases in fuel prices and strong competition from better established foreign airlines. The fleet of the airline presently consists of seven owned aircraft augmented by weekend leasing of a plane on the London-Rome-Nairobi-Mombasa route and a joint venture with SAS between Scandinavia and Kenya. The owned craft are relatively old and fuel inefficient, and the ground support equipment and facilities are in poor shape. Kenya Airways operates two subsidiaries namely: Flamingo Airways which provides passenger and freight charter services; and, Kenya Airfreight Handling Ltd. which deals with airfreight imports and airmail at Nairobi Airport.

6.18. In 1980 a comprehensive study of Kenya Airways was carried out covering its staff, organization, fleet, route network, and operations. The study recommended, among other things, that for Kenya Airways to operate profitably it must have—

(i) an integrated route structure;

(ii) total replacement of aircraft and ground facilities;

(iii) more intensified efforts in promoting the country's tourist industry;

(iv) Government protection to ensure a fair and proper operational and regulatory environment, thus enabling it to secure an adequate share of the market.

It is intended that these recommendations will be considered during the Plan period.

Marine Transport

6.19. Kenya Ports Authority, which came into being in 1978, is responsible for operation of the Mombasa port and other minor ports facilities. The Port of Mombasa is a well developed modern facility, and a major national asset, which not only caters for the foreign trade needs of Kenya but also contributes significantly to the needs of several neighbouring countries. The principal objectives for port development will continue to be provision of adequate capacities and prompt services at minimum cost to the users of the facilities, and to augment the volume of port traffic. Pursuit of these objectives during recent years has necessitated major undertakings at Mombasa including dredging of the channel, construction of berth No. 18, and construction of Bandari College.

6.20. One of the problems of long-term planning for port development is uncertainty about future traffic volume. Mombasa port has experienced wide fluctuations in its traffic, and also rapid development in container traffic which required specialized handling. One of the major factors contributing to the traffic fluctuation has been the political/economic problems in Uganda. Other factors have been the rise in oil prices which contributed to the economic recession and necessitated import restrictions, and the swings in imports of foodstuffs due to variable weather conditions.

6.21. Containerized traffic is expected to continue growing rapidly. In order to cope with this development, the Port Authority has now embarked upon construction of specialized container berths and also in setting up inland container terminals. It is intended that a progressively larger share of the container traffic will be shipped directly to the inland depots by rail. This will facilitate more rapid clearance from Mombasa and increase the capacity of handling and storage facilities.

6.22. As the basis for formulating its strategy for future development, the Port Authority will undertake periodic reviews of traffic trends and liaise with the Kenya Cargo Handling Services, shipping agents, clearing and forwarding firms, and other transport agencies. In order to maintain its financial viability, all services rendered will be reflected in user charges equal to the economic cost of the services provided.

6.23. The need for a second Indian Ocean port will be kept under review, particularly with reference to the requirements for regional development of East Africa. A technical and economic feasibility study of the second port will be undertaken in due course.

6.24. Final'y, it is the firm intention of the Government to establish a national shipping line within the Plan period operating between Kenya and Europe. Initially, the line will be launched with 3 or 4 vessels, with participation of outside investment, experience and expertize. In the formative stages, the company will emphasize training and familiarization with the international shipping business.

Kenya Pipeline Company

6.25. The Government-owned Kenya Pipeline Company started operating the 449 km. Mombasa to Nairobi oil pipeline in 1978. The pipeline is designed to transport up to 5.2 billion litres of oil per annum when all the eight pumping stations have become operational, but it is presently transporting about 1.3 billion litres per year. The oil is transported from the Mombasa oil refinery to the company's depot in Nairobi for subsequent transfer to oil companies for local distribution and onward dispatch to up-country destinations and re-export to neighbouring countries.

6.26. The company has recently completed a number of infrastructure projects including—

(i) improvement of fire fighting facilities at pumping station numbers 3, 5, and 7;

(ii) buildings at the Nairobi terminal;

(iii) staff houses and social halls;

(iv) ethanal blending project.

6.27. The company will continue to look for diversification opportunities and for ways to improve on its existing operations. The following projects have been identified for future consideration—

(i) supply of jet aircraft fuel to Moi Airport;

(ii) extension of the Mombasa-Nairobi Pipeline to an appropriate terminal in Western Kenya;

(iii) construction of a central petroleum depot in Western Kenya.

6.28. The expected performance of the Mombasa-Nairobi Pipeline during the Plan period is as follows:

	1983/84	1985/86	1987/88
Yearly throughput (m^3)	1,431,425	1,415,898	1,446,787
Revenues (KSh. '000) ...	395,784	392,837	410,860

Kenya Post and Telecommunications

6.29. Kenya's post and telecommunications network has been substantially expanded and modernized in recent years. By 1982 the country had 746 post offices, comprising 187 departmental post offices and 559 sub-post offices. There were 60 automatic telephone exchanges and 256 manual telephone exchanges operating in 1982. During the 1974–1982 period automatic and manual telephone exchange capacity increased annually at the rate of 11.4 per cent and 13.0 per cent respectively. Telex service is undergoing a transition from manual to automatic exchanges and telex capacity had expanded to 2,500 lines in 1982. Satellite communication has been the dominant mode of communication between Kenya and the rest of the world since 1969.

6.30. The Kenya Posts and Telecommunications Corporation is committed to further expansion, diversification and modernization of postal and telecommunications services. The over-riding objective is provision of efficient postal and telecommunications services throughout the country. The major constraints on further infrastructure development are scarcity of financial resources, limited availability of materials and vehicles, and underutilization of plant and equipment capacity.

6.31. During the Plan period KPTC will seek to satisfy most of its funding requirements from revenues generated from postal and telecommunications operations. It also will investigate the feasibility of setting up an industry to manufacture locally some of the components required for telecommunications investments, and will give priority to the purchase of locally assembled vehicles. Efforts will also be directed towards optimization of capacity utilization and training of Kenyans to meet skilled manpower requirements.

6.32. Further posts and telecommunications services development include:

(i) Increase in the number of Post Offices to 992 by 1988, 672 of which will be departmental post offices.

(ii) Expansion of telephone exchange capacity to 239,056 automatic lines and to 45,600 manual lines by 1988.

(iii) Telex exchange capacity is anticipated to rise to 6,500 lines by 1988, and the number of international telephone channels is expected to increase to 792.

(iv) The Indian Ocean submarine cable is expected to become operational during the 1984–1988 period.

6.33. Other aspects of the sectoral development strategy to be followed during this Plan period can be summarized as follows:

(i) Emphasis will be placed on promoting accessibility and communications in rural areas through the provision of minor and/or rural access roads, posts and telecommunications.

(ii) The relative advantages between transport modes will be observed when chosing a mode for each haulage requirements. In this regard, special attention will be given to road/rail co-ordination. Effective measures will also be taken to optimise capacity utilisation of existing transport equipment; maintain and rehabilitate existing building, plan and equipment; enhance efficiency in management organization and operation; and to effect co-ordination between this sector and the rest of the economy.

(iii) A complete and up-to-date inventory of infrastructure facilities will be prepared, based on engineering evaluations, and their optimal capacity will be reassessed. Further capacity expansion would only be justified if the existing capacities of all varieties of equipment, plant, workshops, roads and highways are fully economically used.

(iv) In the past, there has been phenomenal growth in the extension of all varieties of roads without adequate maintenance funding. In future, maintenance and rehabilitation of the classified arterial and minor roads network will be accorded highest priority.

(v) Manpower training in various fields and at all levels of management and organization will continue to receive adequate attention. In-service training at all levels will be provided.

(vi) Effective measures will be taken to bring about both inter- and intra-sectoral co-ordination.

(vii) The objective of minimizing transportation costs to the economy will be achieved through a pricing approach based on cost-covering principles. Such a pricing policy will not only result in improved allocation of resources between modes but it also likely to bring about a degree of users' choice and thus healthy competition.

(viii) Evidence shows that returns to investment in rural access roads are very high. There will therefore be need to redirect efforts towards faster completion and extension and continued maintenance of the rural access roads as part of the Minor Roads Rehabilitation and Maintenance Programme.

(ix) Special measures related to simplification of customs and transit procedures will be adopted and the authorities will make full and long-term assessment of the volume of transit traffic.

Building and Construction

6.34. The economic activities relating to the building and construction industry constitute an important component of the national economy. The industry is expected to continue to contribute significantly to GDP, capital formation and gainful employment during the Plan period as well as to the provision of vital services such as housing, hospitals, schools, offices, and protective sea walls.

6.35. The industry has faced a number of constraints in the recent past which will be addressed during the Plan period. These include shortage of technical manpower, limited availability of locally manufactured materials, and various impediments to timely completion of projects. These constraints will be ameliorated by improved organization of implementing Ministry, standardization of building materials and practices, and increased support for training and job-creation programmes.

Role of the Public Sector

6.36. The Government, through the Ministry of Works, Housing and Physical Planning, is responsible for the design, supervision and maintenance of Government buildings. In addition it supervises sea works protection facilities and electrification of public buildings. While the bulk of building activity is done under contracts emanating from Central Government, local authorities and parastatals also are major sources of building activity. In particular, the Nairobi City Council and the municipalities of Mombasa and Kisumu have been instrumental in generating a large share of the low-cost housing construction in recent years and numerous parastatals have carried out major staff housing programmes.

6.37. The National Construction Corporation, established in 1972, is responsible for assisting the development of the local building construction industry. In the course of its operation, the corporation has encountered various problems which have hampered efforts directed toward achievement of its objectives. In particular, inadequacy of equity and working capital, manpower problems, and lack of systematic procedures have limited NCC assistance to indigenous construction firms. During the Plan period it is intended that the corporation will evolve into a specialized development financing institution and that its lending capacity will be unhanced by enlargement of the revolving funds managed by NCC.

Role of the Private Sector

6.38. Roughly half of all building and construction activity has been generated by the private sector in recent years. It is anticipated that the proportion will increase significantly during the Plan period. The Government will encourage this in various ways, particularly by conducive financial policies and by enlargement of the scope for private Kenyan firms to qualify for building construction and maintenance contracts awarded by public sector agencies.

6.39. Other aspects of the sectoral development strategy to be followed during this Plan period can be summarized as follows:

(i) Standardization of building designs will be undertaken which will result in more efficient construction processes.

(ii) Proper maintenance of buildings will be given high priority and maintenance procedures will be streamlined by establishing a system of information monitoring on the state of buildings and the maintenance work that gets carried out.

(iii) Government will continue to give assistance directed toward establishment of a strong and viable construction industry manned by the indigenous contractors through the National Construction Corporation, and efforts to extend the required incentives for private participation.

(iv) While import substitution of building materials will be encouraged, the Government will keep close watch on the quality of goods produced and the prices at which they are sold.

(v) Research activities will be rationalized and co-ordinated to ensure saving of the available manpower resources and to achieve set targets.

Energy

6.40. Conventional and non-conventional forms of energy play important role in accelerating the pace of Kenya's economic and social development. Traditionally the vast majority of our population has depended on fuelwood and charcoal. Because of this heavy dependence, the nation's wood resources are rapidly declining due to the combined effects of the unprecedented population growth rate and low conversion and end use efficiency. Only 70 per cent of woodfuel demand (some 14 million tons) is being satisfied from yields, the remaining 30 per cent is met through depletion of wood stock. This level of deforestation has a number of negative effects such as lowering of the water table in catchment areas and the early siltation of dams.

6.41. The country's indigenous known commercial energy resources are basically hydro and geothermal for electricity which should be adequate to provide most of the country's needs over the next two decades. The modern sector of the economy is totally dependent on the imported fossil fuels. Before 1973, the oil import bill averaged around 8 per cent of the total imports but after exporting the refined products the foreign exchange component was recouped and therefore importation of crude oil did not pose any balance of payments problems. Since then the prices have increased over 14 times and export market have shrunk considerably. Oil import is now the largest single drain of foreign exchange earnings. The refinery at Mombasa aggravates these problems even further because it is of a simple hydro-skimming type that produces about 40-50 per cent of residual fuel oil from the crude oil throughput. About half the output of this product is consumed locally mostly by local industries. The surplus is exported overseas at prices which are substantially below cost. Refined white products are consumed locally and exported to neighbouring land-locked countries.

6.42. Currently, all imported coal requirements are used for commercial purposes and accounts for about 3.7 per cent of the total commercial energy use. Major obstacles encountered in utilization of this form of energy in industry are lack of incentives and inadequate marketing infrastructure. Studies are now under way to examine the possibility of increasing the use of coal in the country.

Electricity and Geothermal Energy

6.43. Most of the Electricity is supplied by Kenya Power and Lighting Company Limited (KP&L) and its associated companies, namely the Kenya Power Company, the Tana River Development Company and Tana and Athi Rivers Development Authority.

The country's total potential for hydro-generation is estimated at 30,150 million kwh per annum, however not all of it can be economically exploited. Much of the hydro potential is at the Tana River which is estimated at 15,350 million kwh per annum. Towards the end of the Plan period, Kiambere hydro-electric power project will be commissioned. This will add 140 MW to the national grid system. Turkwell gorge with a capacity of 120 MW will be completed in the next Development Plan. The country has also good potential for geothermal energy which is conservatively estimated at 7,000 million kwh per annum. Already two units of 15 MW each capable of generating 200 million kwh per annum have been commissioned and the third of the same capacity is due for completion in the middle of 1985. Exploration for this form of energy will be intensified during the Plan period.

6.44. The Government's objective has been to provide electricity to as many parts of the country as possible. This has been effected through the efforts of both Kenya Power and Lighting Company Limited (through commercial extensions as well as amenity schemes) and Government financed Rural Electrification Programme. Under the amenity scheme, the Company sets aside one per cent of its gross revenue for providing electricity in rural areas. The scheme is running parallel to the Rural Electrification Programme with similar objectives introduced in 1974 and contained in the last two Development Plans. Twenty-one schemes have been completed and a further nine are under construction.

Energy Demand and Supply Projections

6.45. The energy demand and supply projections for the Plan period are shown in Tables 6.1 and 6.2. Several important trends are reflected in these projections. First, residential demand for petroleum-based energy is expected to grow relatively rapidly as urbanization and high rates of population growth continue. This growth in residential demand will be as a result of greater use of kerosene for illumination and cooking, and gasoline and diesel for transportation. Second, industrial demand for petroleum products is expected to show a relative decline as several large users shift to coal and as conservation measures become more effective. Third, electricity consumption is expected to grow at aproximately 6 per cent per annum between 1983 and 1988 mainly because of population growth and the pace of urbanization. Fourth, substantial growth in woodfuel demand is expected to average about 4.1 per cent in the case of fuel-wood and 8.5 per cent in case of charcoal in rural area and 10.2 per cent in urban areas. The projected tariff increases during the period, the primary purpose of which will be to generate the revenues required for financing development expenditures in the electric power sector, are not expected to diminish significantly consumer demand for electric power.

Energy Strategies and Policies

Petroleum

6.46. To cope with the worsening balance of payment situation and to maintain regular supplies of petroleum products, the Government is considering the following measures:

Domestic Petroleum Demand Projected by Sector, 1983–88

Table 6.1 (Thousand MT)

	1983	1984	1985	1986	1987	1988
Residential ..	82	88	94	101	108	116
Commercial ..	113	117	120	124	128	131
Industrial ..	1,028	1,063	1,100	1,140	1,181	1,224
Agriculture ..	82	85	88	92	100	105
Total	1,305	1,353	1,403	1,457	1,517	1,576

Projection of Electricity Consumption, 1983–88

Table 6.2 (GWH)

Year	1983	1984	1985	1986	1987	1988
Units Generated	—	2,176	2,307	2,446	2,592	2,748
Units sold ..	1,760	1,865	1,977	2,096	2,221	2,355

(i) To continue to recover the full cost of oil imports through consumer pricing.

(ii) To continue to use the price mechanism to discourage wasteful consumption and thereby stimulate conservation. Gasoline will continue to bear heavier taxes than other petroleum products since it is mostly used for private transportation. In order to encourage industries to shift from oil to coal, a progressive tax on fuel oil will be considered. In addition the import duty on coal will be reviewed.

(iii) To manage, at established prices, supplies of essential petroleum products, particularly diesel, dual purpose kerosene and cooking gas and ensure that shortfalls are met through direct imports.

(iv) To enhance the recovery of white petroleum products from the refinery.

(v) To ensure the reliability of supply, the country will diversify its sources of crude oil through the National Oil Corporation of Kenya.

(vi) To ensure adequate storage capacity at Mombasa.

Electricity

The Government intends to undertake electrical power development over the Plan period with the following policy objectives:

(i) There will be an expanded role for Regional Development Authorities in electrical facility planning, development and generation. The KP&L Co. will have transmission and distribution responsibilities, while the Ministry of Energy and Regional Development will provide policy guidance.

(ii) Geothermal explorations will be accelerated in order to determine the total commercially viable potential.

(iii) In order to meet projected power demand growth, exploitation of proven commercially viable geothermal wells will be accelerated.

(iv) The country's hydro-power potential assessment study carried out in late 70's will be reviewed and updated.

(v) Electric tariffs will be maintained at levels sufficient to meet generation and transmission costs, while protecting low-income users from the full burden through graduated rates.

(vi) Rural Electrification Programme will be stepped up so as to provide greater source of lighting energy to the rural population and to stimulate industrial and agricultural development in rural areas.

Woodfuel

The Government woodfuel supply strategy is based on a combination of options to meet medium-and long-term supply requirements. They include:

(i) *Agroforestry.*—The Agroforestry strategy does not require any diversion of land from present use, it involves the inter-cropping of selected tree species with traditional crops on the same land in a manner that mitigates competition from land use, soil nutrients or light. Over the Plan period there will be an intensification of current efforts to spread the Agroforestry concept in the rural areas through the Ministry of Energy and Regional Development woodfuel and agroforestry programme, in co-operation with the extension and training services in the Ministry of Agriculture and Livestock Development and the Rural Afforestation and Extension scheme of the Ministry of Environment and Natural Resources.

(ii) *Periurban Plantation.*—Stragety aims to develop under-utilised land near towns and cities to provide fuel charcoal to meet the demand of the population nearby. Periurban plantations are part of a longer term wood supply strategy and once fully implemented are expected to suply urban dwellers with the bulk of their wood energy needs, thus reducing the cost of transportating charcoal over long distances.

(iii) *Industrial Woodfuel Plantation.*—Several industries are known to use wood to provide energy for processing, for example, tea, coffee, tobacco, sugar and brick industries consume about 1.2 million tonnes of wood per year. Over the Plan period efforts will be made to develop industrial woodfuel plantations to supply these industries at or near the point of consumption.

(iv) *Rural Afforestation and Soil Conservation Programme.*—Since wood is a multi-purpose commodity, the Ministry will participate in this programme. The programme's goal is to produce 200 million seedlings per year.

Energy Conservation

6.47. It is widely recognised that energy conservation is the fastest, cheapest and least disruptive means of cutting the high costs of oil imports. It is also recognised that conservation in woodfuel will have major social and economic benefits for the majority of our people. The strategy to improve energy efficiency in Kenya, therefore, must have two parts: first—to reduce the high cost of oil imports by reducing oil use and, second—to increase the efficiency of wood and charcoal production and use. The National Energy Conservation strategy will be based on co-operative effort between Government and private sector. Government will provide policy advice and incentives, and the private sector will implement improvements in products and energy use practices. In the case of woodfuel and charcoal conservation, the development and improved reforestation approaches, charcoal production methods, stove designs and cooking methods will receive greater attention. Much of the technical information to bring success in these activities now exist, and the Government will therefore co-ordinate, promote and diseminate this information across the country.

Fuel Substitution.—Given the significance of the industrial sector as an energy consumer in Kenya (using some 24 per cent of oil), substitution of alternative fuels for imported oil by industry is considered a major opportunity for mitigating the high cost of oil imports and meet the overall energy conservation policy.

The use of imported coal as an alternative to fuel oil presents one major option for saving foreign exchange in the industrial sector. While coal prices have risen considerably since 1973/74, the price is much less than oil in equivalent energy terms. Studies for use of coal in major industries will be carried out with a view to promoting such use in addition to providing infrastructure for coal supply.

The National Oil Corporation of Kenya

6.48. This corporation was established to ensure a stable and reliable supply of crude oil to the country. Its primary objective is not to displace the existing oil marketing companies but to complement their efforts in securing oil at favourable prices in the world markets. The corporation will import and process crude oil at the Mombasa refinery and sell the products ex-refinery to oil companies. In addition, it will selectively sell finished products in bulk to large consumers. The corporation is expected to participate in policy decisions regarding operations at the refinery on behalf of the Government. As the economy diversifies its energy base, the corporation will import coal to meet the country's requirements. It will undertake to explore for fossil fuel deposits.

6.49. The main concern with environment at th
is to control human behaviour so as to achieve a b
ment needs of the nation and the enhancement an
ment. Since the economic environment during
characterised by shortages of financial resources,
ble on a large enough scale to rehabilitate areas
damage. Instead, the thrust will be to strengthe
for the assessment and monitoring of environme
to be harmful in the future.

Programmes of Action

6.50. The programme of action for the Nation
Settlements Secretariat during the Plan period w
projects and programmes.

6.51. *Environmental Monitoring and Assessn*
will continue the activities started under the G
on Environment and Development. It will consi
to fill in the gaps and update the information for
and providing data necessary for planning and
Government. Regional environmenta' studies wil
Victoria Basin area, the Kerio Valley and the T
be followed by seminars and workshops.

6.52. *District Environmental Assessment Pr*
attempts will be made to complete the district e
districts not covered during the Fourth Developm

6.53. *Desertification Monitoring Project.*—Th
map areas which are threatened with desert e
experiments to identify land use practices neces
the desert. It will be conducted in conjunction w
ture, the UNESCO Integrated Project on Arid L
Department.

6.54. *Pollution Control and Environmenta*
collaboration with the Ministry of Water Deve
ment Authorities, the Government Chemist anc
and Industry, the Secretariat will undertake a re
water, air and land pollution to determine what
the present state of knowledge. Industries will b
affluents they emit. The Secretariat will esta
chemicals used in agriculture and industry that
animals. This will be followed up with guidelin
portation, distribution and handling of these ch

6.55. *Human Settlements, Shelter and Service of Programmes.*—This programme will include the co-ordination of research to provide information on materials and technologies for the construction of cheap and safe housing. Demonstration houses suitable for different human environments will be constructed. The Secretariat will undertake research on lighting arrestors, cheap ways of solid waste disposal, and recycling of waste to generate energy in the form of biogas. Four main urban areas will be identified for the studies.

6.56. *Environmental Education and Information Programmes.*—The aim of environmental education and information is to inculcate awareness and commitment on the part of the general public for the need to preserve the environment and to appreciate the interrelationship between environment and man in his socio-economic setting. The Secretariat will organize lectures in the secondary schools at the rate of 25 lectures per year. Other seminars will be organized for the Teacher Training Colleges, mainly for 22 primary and secondary teacher training colleges. In addition, the Secretariat will continue to organize radio and television programmes covering topics such as soil, water, air, environment and development, energy and human settlements problems. Other informal contracts will be maintained with the non-governmental organizations interested in environmental matters. Finally, the Secretariat will update the Environment Information Register in the form introduced by UNEP known as INFOTERRA, and library services will be expanded.

6.57. While the programme described above will form the main thrust of the Secretariat's environmental action, there will be many other activities for which it will provide liaison and co-ordination. These will include participation with the relevant agencies in the monitoring of terrestrial and marine resources, weather and climatic studies, natural resource assessment and monitoring and the review of laws and regulations pertaining to the enhancement and protection of the environment.

KREMU Programmes

6.58. The Kenya Rangeland Ecological Monitoring Unit (KREMU) will be involved in four broad inter-related activities during the Plan period—

(i) the general monitoring of natural resources;

(ii) the acquisition of base line data where these were not completed during the Fourth Plan Period;

(iii) the implementation of projects requested by various government agencies, mainly the Ministries of Agriculture and Livestock Development, Environment and Natural Resources, Water Development and Tourism and Wildlife;

(iv) the improvement of methodologies used for natural resources assessment and monitoring through special studies, seminars and conferences.

6.59. The Aerial Section will devote its attention to detailed herbivore species studies and their habitats which will clarify the effects of over- or under-stocking of the different habitats and the effects of the abiotic environment on range productivity. Contributions will be made to the woodfuel studies and national forest cover. There will be an up-date of the land carrying capacity maps to a scale of 1:25,000 for every district. The study will yield information on crops mix, hectarage and yield, livestock production, soil types, potential erosion areas, vegetative cover and wildlife distributions.

Science and Technology

6.60. In the coming Plan period efforts will be intensified to undertake Research and Development (R&D) activities in all major sectors of the economy, namely agriculture and livestock, manufacturing (industry) and health etc. Efforts will be directed to the development of appropriate technologies by assisting institutions including schools which indicate an ability for innovation, improvisation and investiveness. Some of the funds of the National Council for Science and Technology (NCST) will be used for this purpose.

6.61. The National Council for Science and Technology (NCST) will continue to oversee the implementation of the National Science Policy and will in particular seek—

(i) to encourage both the public and private sectors to participate more in research activities, particularly by identifying and utilizing a wider range of local natural resources for development;

(ii) to build up The National Documentation and Information Centre (NADIC) for dissemination of S&T information to the nation and to promote the acquisition of such information from the outside world;

(iii) to work closely with appropriate authorities in the establishment of a patenting system as affects S&T in the country;

(iv) to encourage the development and use of local consultancies in the design of development projects with technological inputs.

Major Research Sectors

6.62. *The Agricultural S&T Sector* will provide information on improved technology required for development within the animal, crop and forestry sub-sectors.

6.63. *Animal Production Research.*—Research in this area will be intensified during the Plan period. In particular—

(i) the role of agro and industrial by-products feeding in small-holdings will be studied and methods of improving their utilization investigated;

(ii) studies will be intensified to determine factors that limit milk production in systems based on napier grass feeding;

(iii) studies will be undertaken to identify suitable breeds (cross breeds) for milk and beef production over and above the subsistence requirements in the semi-arid areas.

6.64. *Veterinary Research.*— This research will put special emphasis on understanding the nature and behaviour of disease-causing agents with a view to developing the necessary scientific techniques for control'ing them. The programmes will also develop a methodology for mass production of proven drugs or vaccines for national practical application such as has been done in the control of rinderpest, etc. Efforts will also be intensified to find solutions to such diseases as East Coast Fever and brucellosis with a view to developing therapeutic and prophylactic material against them.

6.65. *Forestry Research.*—This research will be centred on the forest production and management. It will endeavour to provide appropriate formulae and standard procedures to make forest management more effective. New and alternative technologies, appropriate silvicultural practices and new products will be explored.

6.66. Studies will be carried out to define the role of indigenous forests in national development and describe a sustained yield management programme. Studies will go into tree regeneration potential, ecology of commercial species in the forest succession and the entire ecosystem including bamboo and mangrove forests.

6.67. Forest research will also address itself to dryland afforestation, tree seed production, pests, tree diseases, forest products and various aspects of production and processing of Euphobia as a renewable source of energy.

6.68. *Crop Research.*—Studies on aetiology and ecology of viruses of important field crops wil! be continued. Activities in the semi-arid areas will be strengthened and directed to identification of food crop varieties suitable for prevailing environment, agronomy and cultural practices necessary to stabilize yields. It is also proposed to establish a gene bank for conservation of existing plant resources before they become extinct. An attempt will be made during the Plan period to expand the farming systems research as a tool for identifying purpose-oriented research projects and to improve the delivery system of new technology to facilitate higher adoption rate of recommendations.

6.69. Research on agricu'tural engineering will be directed to various aspects of mechanization particularly, the low cost technologies utilizing locally available materials, in small scale agricultural production systems. Research programmes will be carried out in c'ose co-operation with the University of Nairobi, Kenyatta University College and Agricultural Research Stations.

6.70. *Health Research Sector.*—Both Kenya Medical Research (KEMRI) and Kenya Trypanosomiasis Research (KETRI) institutes will maintain viable research programmes with a view to seeking a continous method of combating a wide host of pathogens and bodily disorders. In particular, the sector's research programmes will focus on:

maternal and child health, environmental health, communicable diseases, vector and vector-borne diseases, improvement of health care delivery, dental health, occupational health, nutrition, psychosocial medicine such as alcholism, drug abuse and traditional medicines.

6.71. *The Manufacturing Reseach Sector.*—The key institute in this sector is Kenya Industrial Research and Development Institute (KIRDI). Its research programmes will attempt to provide services to other research institutions and industry on technology related subjects.

6.72. *The Marine Fisheries Research Sector.*—The Kenya Marine Fisheries Research Institute (KEMFRI) will intensify its activities in the following areas—

(i) appropriate gear design and choice of vessel;

(ii) expanding fishing grounds by identifying new commercial fishes;

(iii) evaluating and assessing the fish stock;

(iv) monitoring, on regular basis, the physical and chemical characteristics of lake waters, rivers, estuaries, coastal waters for chemical pollutants, etc., with a view to averting any bad effects on the flora and fauna on which fisheries depend;

(v) the techniques of fish farming and the appropriate species and their diseases.

6.73. *Energy Research Sector.*—During the Plan period, research efforts will be directed towards—

(i) developing and promoting appropriate technologies to exploit local sources of energy and developing the manufacturing infrastructure for them;

(ii) promoting efficient use of wood fuel by developing efficient conversion systems and substituting its use with other sources of energy.

6.74. *Scientific Information Sector.*—During the Plan period, a National Scientific Information and Documentation Centre will be established by NCST to co-ordinate the development of scientific/technological information system and services. It will also initiate and co-ordinate the compilation of union catalogues and national bibliographies, the last two being major information reference tools which are non-existent in Kenya today. Archivists, documentalists and librarians will be trained so as to staff this sector.

6.75. *Programme Budget for S&T Institutes.*—Table 1 gives a summary of the forward budget for each of the Sciences and Technology Research Institutes over the Plan period.

Programme Budget for S and T Institutes

Table 6.3

K£

		1983/84	1984/85	1985/86	1986/87	1987/88
NCST:	Recurrent	176,730	203,293	219,190	231,270	242,999
	Development	260,010	275,000	285,000	285,000	305,000
Kari:	Recurrent	2,121,540	2,637,540	2,769,520	2,807,690	3,056,754
	Development	318,120	725,770	619,780	1,171,630	747,180
Ketri:	Recurrent	1,020,112	1,282,101	1,356,601	1,420,601	1,532,601
	Development	652,010	2,800,092	2,874,394	1,223,000	478,000
Kemri:	Recurrent	298,910	359,231	269,915	389,915	413,525
	Development	903,095	1,789,265	1,023,798	225,010	100,000
Kirdi:	Recurrent	359,307	433,670	454,480	476,850	500,120
	Development	325,030	300,000	300,000	200,000	225,000
Kemfri:	Recurrent	639,024	778,440	753,370	783,600	803,480
	Development	38,010	258,000	240,000	213,500	213,500
TOTAL	Recurrent	4,615,623	5,694,275	5,822,691	6,109,926	6,549,479
	Development	2,496,275	6,148,127	5,342,972	3,318,140	2,068,680

II. SOCIAL INFRASTRUCTURE

Population, Employment and Manpower

6.76. Human resources are the greatest development resources Kenya has. Kenya's goal is that the labour force obtains gainful employment but most modern economic activities require sophisticated technology and manpower with middle and high level education and training which require a long lead time and heavy investment in education and training. Kenya's manpower planning will therefore integrate education and training with the manpower needs of social and economic development to minimize unemployment and remove manpower bottlenecks and provide the skills for self-employment.

Population

6.77. Kenya's population in 1983 was estimated at 18.8 million and the 1979 Population Census gave a natural rate of increase of 3.8 per cent. This population growth rate is a consequence of an increasing fertility rate as well as declining mortality rate. Total fertility rate, an estimate of the average number of children born to women during their reproductive years, increased from 6.8 in 1962 to 7.6 in 1969 and to 7.9 in 1979. During the same period, mortality declined subsequently from a crude death rate of 20 per thousand population in 1962 to 17 in 1969 and to 14 in 1979. Infant mortality rate declined from 118 per thousand live births in 1969 to 113 in 1979. The dramatic declines in mortality rate are mostly attributed to extensive improvements in public health measures as well as the general rise in the standard of living throughout the country since Independence.

6.78. The projected population and its structure under various assumptions which are shown in the Table 6.4 below, have a range of socio-economic effects. It increases pressure on land and other natural resources. Dependency burden increases as the proportion aged under 15 years increases. The resulting high rate of growth of labour force complicates problem of unemployment. The increasing population requires more resources to meet basic needs such as food, education, health care, water supply and housing.

6.79. The national population density in 1979 was 27 persons per square kilometre. Provinces that recorded high densities were Nairobi (1,210), Western (222), Nyanza (211) and Central (178), while provinces with low densities were Coast (16), Eastern (17), Rift Valley (19) and North-Eastern (2). Under our present level of technology, only about 17.5 per cent of the total land is cultivable. The urban population has increased rapidly as a result of the natural increase and rural-urban migration. There were about 2.3 million people living in 91 urban centres throughout the country in 1979. The urban

Table 6.4

Projected Population in Kenya 1988 AND 2000 ('000)

	Base Year 1980		Constant Birth Rate 1988		Constant Birth Rate 2000		Declining Birth Rate 1988		Declining Birth Rate 200	
	Number	%	Number	%	Number	%	Number	%	Number	%
Total Population	16,667	100·0	23,032	100·0	38,499	100·0	22,657	100·0	34,792	100·0
Children (0–14)	8,579	51·5	11,826	51·3	20,039	52·2	11,451	50·5	16,538	47·5
Productive age (15–59) ..	7,495	45·0	10,431	45·3	17,176	44·7	10,431	46·0	17,065	49·0
Persons aged 60+	593	3·5	775	3·4	1,194	3·1	775	3·5	1,189	3·5
Pre-school age (0–5)	4,140	24·8	5,719	24·8	9,602	25·0	5,359	23·7	8,141	23·4
Primary School age (6–12) ..	3,607	21·8	4,921	21·4	8,181	21·3	4,907	21·7	7,480	21·5
Secondary school age (13–16)..	1,567	9·4	2,266	9·8	3,764	9·8	2,266	10·0	2,505	7·2
Potential Labour force ..	6,371	38·2	8,866	38·5	14,560	38·0	8,866	38·5	14,505	41·7
Dependency ratio	1·22:1		1·21:1		1·24:1		1·17:1		1·04:1	

SOURCE:—Central Bureau of Statistics.

NOTE:—1. In the two alternatives a decline in mortality from a crude death rate of 12 per thousand in 1980 to 9 in the year 2000 is assumed.

2. In the alternative 'constant birth rate', it is further assumed that TFR will remain constant throughout at 7.9.

3. In the alternative 'Declining Birth rate', it is further assumed that TFR will decline from 7.9 in 1980 to 5.6 in the year 2000.

4. Potential labour force is defined as 85 per cent of population aged 15–59 years.

5. Dependency ratio is defined as: $\dfrac{\text{Population aged 0-14 years} + \text{Population aged 60+ years}}{\text{Population aged 15-59 years}}$

population was estimated to be growing at the rate of 7.6 per cent per annum during 1969/79 period and was also estimated at 2.8 million in 1983. The development of infrastructural services such as water, sewerage, housing, schools and health facilities have not kept pace with the demand in most urban centres.

6.80. The Government, in the past plan periods has applied its population policy through the Maternal Child Health/Family Planning Programme (launched in 1967). Although the family planning component of the programme has had little success, the Maternal Child Health, component has considerably improved the health of mothers and children.

6.81. *Population Policy, Strategy and Programme.*—Since the rate of population growth is mainly determined by decisions taken by parents on family size, during this Plan period the Government, in co-operation with non-Government organizations will intensify its programme of informing and educating actual and potential parents regarding the benefits of smaller family sizes particularly since the fertility of less educated women is found to be higher. Family planning services will be made available mainly in the rural areas, by increasing the number of health facilities offering family planning services and also the number of trained personnel to provide these services.

6.82. During this Plan period, population policy development and other related matters will be centralized in the National Council for Population and Development (NCPD) already established and based in the Office of the Vice-President and Ministry of Home Affairs. The Council will also set population policy goals to guide the Integrated Rural Health and Family Planning programme which the Government launched in mid 1982. This is a six-year programme which consists of two components, one on Rural Health and Family Planning and the other on Population Information and Education. The progromme is scheduled to continue throughout the Plan period.

Employment

6.83. Nearly 85 per cent of Kenya's population lives and works in the rural areas. About 75 per cent of the rural labour force is engaged in farming and pastoralism and the rest in rural non-farm activities. The growth in modern sector employment during the Plan period, is shown in Table 3.5 in Chapter 3. It will not solve much of the problems facing unskilled rural men and women and the numerous school leavers entering the labour market every year. The bulk of these will be expected to find work on the basis of the trades and skills taught in technical schools.

6.84. Many of the policies and guidelines for combating unemployment and underemployment were dealt with in the 1983 Presidential Commission on the Unemployment Report and the Government will deal with them in detail in a Sessional Paper. From among those strategies it is proposed to pursue the following in order to increase employment opportunities in the economy during this Plan period:

(i) Increasing the labour absorptive capacity of the land.

(ii) Expansion and intensification of emergency and specialized employment programmes such as public works, rural industrialization and other rural development programmes.

(iii) Better management of regional labour markets through the new district focus approach to development which will also make better use of the district development committees, district administrative machinery and the employment services network of the Ministry of Labour.

(iv) Strict project monitoring will be undertaken to ensure that development projects are promptly implemented. Problems of inefficiency and lack of manpower for new projects will be reviewed on a regular basis so as to avoid bottlenecks in project implementation.

(v) More labour-intensive production processes will be encouraged through specific incentives to manufacturers who opt for capital saving, labour use techniques.

(vi) Education reforms will be pursued with increased vigour in order to produce school leavers who are more suited to and willing to take existing job opportunities, especially in the rural areas. Such reforms will be supplemented with expanded career guidance and placement services spread throughout the country.

(vii) The Government will continue to support the urban and rural informal sector by provision of support services such as water, simpler licensing procedures, refuse collection, etc., by the revelant local authorities. In particular regular inspection of the sector will be undertaken to prevent harassment from certain local interests.

(viii) The Government will review the various credit schemes and loan systems with a view to making them more readily accessible to women, and disadvantaged groups to facilitate their self-employment activities. The Government through the Women's Bureau will conduct a feasibility study in collaboration with the Ministries of Co-operative Development, and Commerce and Industry to determine possibilities of women's groups and disadvantaged groups coming to be registered as co-operative societies in order to create employment and income earning opportunities. Further, all Government financial rural development projects, e.g. rural areas roads, re-afforestation, etc., will ensure that women are employed and renumerated on the basis of equality with men.

6.85. *Wages and Income Policy.*—Important aspects of Kenya's income policy objectives include the reduction of income inequalities geographically, sectorally and vertically (the gap between the high and low income groups). Special attention will be paid to enhancing the incomes of small farmers, pastoralists, landless rural workers, the urban poor and the handicapped. Government strategies on income distribution will include broadening the tax base, progressive taxation and intensified rural development and investment.

6.86. Wage determination for different occupations in various industries, enterprises and geographical regions will continue to be influenced not only by free collective bargaining between employers and workers but also by Government wages guidelines which ensure fair minimum wages and which are not inflationary in nature. The Industrial Court and other related Government machineries will continue to apply wages guidelines which are issued from time to time according to the prevailing economic situation. Through regulation of minimum wages and through price control the earnings of lower income workers will be protected against inflation.

Manpower

6.87. The majority of primary school-leavers who do not find places in secondary schools enter the labour market poorly equipped to take up opportunities for meaningful self-employment due to the inadequate quality and quantity of vocational training institutions. In line with the Government policy of making districts centres of development, village polytechnics and institutes of technology will be encouraged to expand and offer more realistic and meaningful training in all skills needed to promote and implement economic activities within the village or district. Graduates from these institutions will be given preference in public tenders as well as in the marketing of products of their self-employment activities.

6.88. Development demands people trained in science/maths based occupations and manual skills much more than arts based occupations. Hence more effort will be put in teaching maths and sciences so as to graduate adequate numbers and to making the syllabus provide more functional skills to assist the majority of school-leavers obtain self-employment in the economy.

6.89. The Government will continue its policy of making self-employment more attractive by expanding training facilities in manual and commercial skills throughout the country and making the returns from the practice of such skills relatively more rewarding than from wage employment generally and from white collar wage employment in particular.

6.90. The parastatals and the private sectors lag behind the Civil Service in Kenyanization. In addition to the training levy, to try and accelerate the up-grading of Kenyans in these sectors, the Government will look into the possibilities of using Government contracts and access to foreign exchange as other means to attain these ends.

6.91. Government will discourage labour saving technology and restrict the employment of non-citizens to those jobs that truly no citizen has the education and training to do while demanding that citizens are trained to fill all identified vacancies, both current and forseable. Data collection will be improved so that the stock and deployment, by occupation, of high and middle level manpower in the country is known at any given time, together with the demand for skills and the supply of citizens with those skills or in the process of acquiring them both here and abroad through time.

Education

6.92. Education continues to be a dominant sector in the economy, accounting for nearly 7.2 per cent of GDP in 1981. Its objectives have been identified as the provision of equal educational opportunities for all, the enrichment of the heritage, the production of skilled manpower to meet the growing and changing demands of the economy.

6.93. To achieve these objectives the Government has concentrated on the provision of universal free primary education, the expansion of the secondary system to accommodate the increasing numbers of primary school-leavers and of teacher training at all levels to improve the quality of the teaching force. At the same time, vocational, technical, agricultural and higher educational institutions have been expanded to meet the demands of the economy for technically and professionally qualified personnel. As shown in Chapter 1 the achievements have been impressive.

6.94. A number of large institutions were established during the period, including Nairobi University, Kenyatta University College, Kenya Science Teachers' College, Kenya Technical Teachers College, and the Jomo Kenyatta College of Agriculture and Technology. The University of Nairobi itself has produced some 17,000 graduates, thus playing an important role in the country's development. To cope with this expansion of facilities, the Kenya Institute of Education and Inspectorial services were set up to meet the demands of curriculum development and to check on qualitative improvements.

6.95. Government spending on formal education rose from K£6 million in 1963 to K£194 million, a rise from 18 per cent of the national recurrent budget at Independence to around 30 per cent in 1983. Private sector resources devoted to both the recurrent and development costs of education, including harambee, private and mission sponsored programmes and the private support of Kenyan studies overseas, constitute substantial additional investment have constituted a substantial outlay.

6.96. It has not been possible for the educational system to cater fully for the educational needs of an expanding population. Thus, 34 per cent of the primary teachers and most of the harambee secondary school teachers are still untrained; only about 12 per cent of primary school-leavers find places in maintained secondary schools and another 23 per cent in harambee or private schools; only 5 per cent of Form IV leavers enter Form V and in consequence less than 0.5 per cent of those entering standard I have any real hope of gaining admission to University courses.

6.97. A number of important factors which are likely to persist through the Plan period must be recognized:

(i) That a seven, eight or even nine year basic education programme cannot produce school-leavers who possess the maturity and skills to enable them to enter modern sector employment without further training.

(ii) The attitudes of both parents and students to formal education as a route to modern sector employment need to be changed since many school-leavers will be forced to look for employment in the informal sector, non-urban activities, especially small-scale agriculture and rural non-farm activities.

(iii) That scarce Government resources cannot support unrestricted expansion of the education system without having an adverse effect on its quality. Moreover, these resources might be used for programmes which either directly or indirectly create jobs and training opportunities outside the formal education system.

(iv) That a greater share of the cost of post-primary education, particulary university education must be borne by the privileged few who receive it. However, the Government will provide some bursaries for poor students so that they can profit from education.

6.98. This Development Plan derives its policy parameters on education from a number of major studies undertaken recently by the Government which provide the Government with a framework to assess efficiency while helping to inform the public of the constraints in financing education.

6.99. To ensure that the momentum of educational growth continues during the Plan period without sacrificing quality or relevance the following strategies will be followed:

(i) A full 8 year basic education programme will be established commencing 1985, as the first phase in the introduction of the 8–4–4 system of formal education.

(ii) Curriculum development will be used to influence those changes needed to make education more relevant to the needs of the majority of school-leavers.

(iii) At secondary level physical expansion will continue in the assisted and harambee schools but will be restricted within the maintained system to the opening of a limited number of Forms I and V classes in disadvantaged areas. There will be no further Form V expansion under the 8–4–4 system.

(iv) The emphasis of development will shift from physical expansion to the provision at both post-primary and post-secondary levels of greater training opportunities for those who are not able to proceed for further formal education. These opportunities will include youth training schemes, teacher training at all levels, paramedical and agricultural training and other Government artisan and craft level training schemes.

(v) In a move to maximise the social benefit from the use of expensive resources, a phased programme will be introduced to convert existing technical schools into post-secondary technical training institutes to meet the national requirements for middle-level manpower.

(vi) Because the cost of these ambitious programmes, particularly the 8–4–4 programme and the on-going school-milk programme, will strain the available financial resources, ways and means will be found for passing on a larger share of the cost of post-primary education and training through "cost sharing" schemes to those who benefit from them and seeking the support of local communities.

(vii) Measures will also be taken to make the use of existing human and physical resources more efficient.

Pre-Primary Education

6.100. Around 65 per cent of the pre-primary teachers are untrained. During the Plan period the Government aims at increasing the number of trainees at this level from 230 to 540 per year. Local communities will also be encouraged to continue and expand their participation in the development of pre-primary schools.

Primary Education

6.101. In 1983 primary school enrolment was estimated to be 4.3 million. This implies that nearly 93 per cent of the primary school-age population was in school. However, this seemingly high enrolment ratio understates the problem of extensive repetition and drop-out which constitutes a drain of resources. The introduction of standard 8 will inflate enrolments at this level. By 1988, it is projected that enrolments will rise to nearly 6.6. million. Since primary education will be terminal for the majority, its curriculum will be restructured and diversified.

Primary Teacher Education

6.102. The pupil-trained teacher ratio in primary schools has been worsening and the introduction of 8–4–4 will aggravate this situation. Hence, the 16 existing colleges will be required to increase their intakes and stengthen the in-service programmes. Emphasis will be laid on the teaching of agriculture, technical and business education; making them important subjects at the primary level. Projected enrolments in primary teacher education are expected to increase from 10,425 in 1983 to 11,296 by 1988; requiring a total tutor force of 755.

Secondary Education

6.103. With the restructuring of Education, there will be no Form I intake in 1985 and subsequently in Forms II, III and IV during the following three years.

6.104. The increase in demand for secondary education places is expected to be met by harambee and private schools while the development of physical facilities and all boarding costs will be the responsibility of local communities and parents. Emphasis will be on day schools as they are less expensive to operate. The curriculum should also enable the students to continue with further formal education, enter vocational training and direct employment.

Technical Education

6.105. The existing 15 Government technical schools offer a curriculum which has nearly 60 per cent academic content. They therefore need to be restructured so as to produce graduates with marketable skills and/or prepare them for further skill training in higher institutions of technical training. Enrolments are projected to rise from 8,800 in 1983 to 10,200 in 1988 with classes increasing from 236 to 273.

Polytechnic Education

6.106. In 1982 the Nairobi and Mombasa Polytechnics had an enrolment of 4,800, training middle and high level technicians and business administrators. In that year the Jomo Kenyatta College of Agriculture and Technology also opened. During the Plan period, these are expected to up-grade the training of science and technology graduates and researchers to university level. Furthermore the Eldoret Polytechnic will operate during 1986/87 and have an initial enrolment of 90 rising to 210 students in the second year.

Institutes of Technology

6.107. There are 12 operational Institutes of Technology which were established by local communities. The Government has, since 1977, financed about 40 per cent of their recurrent costs. This Plan period will see the number of courses they provide extended from 14 to 20 and efforts will be made to increase private sponsorship and expand work opportunities.

Secondary Teacher Education

6.108. New secondary education teacher training facilities will especially cater for requirements in specialized subjects while the B.Ed. programme at KUC will increase in quality and quantity. By 1988, more than 1,500 diploma teachers will graduate from existing and new colleges including Kisii Teachers' College and the Moi Teachers' College which will open in 1986. Considering the high wastage rate of graduate teachers leaving the teaching profession, Government will bond teachers for a certain period.

Special Education

6.109. A sample survey in 1977 identified one handicapped in every 8 households. The Government will intensify the integration of the disabled children into the regular school system, peripatetic services and community based programmes with greater parental involvement. It will encourage the interest of voluntary agencies in financing a secondary school for the physically disabled in Mombasa and a Deaf/Blind School in Baringo. Enrolment in various types of special schools is projected to increase from 6,125 to 10,625.

University Education

6.110. Less than 20 per cent of those who qualify have obtained places at university in Kenya. In 1983 it was estimated that 9,000 Kenyans were studying abroad with consequent substantial foreign exchange remittances.

6.111. The level of undergraduate enrolment at the University of Nairobi will be limited to 6,000 while post-graduate training will be accelerated to meet the requirements for Kenyanization and the Second University which is planned for Eldoret. Enrolment at Kenyatta University College will be enlarged by 15 per cent accompanied by diversification of courses to enable the college to meet the ever growing requirements for qualified high school teachers. Those who benefit will be required to pay for the cost of their studies but the Government will consider assisting needy students with bursaries and/or scholarships. Finally, the Government will also encourage the private sector to establish additional private colleges and universities but will ensure that they conform to the educational objectives stipulated by the proposed Council for Higher Education.

Health

6.112. Good health is obviously of direct benefit to the individual and the family. From a national point of view, a healthy nation will learn more rapidly, work more steadily and productively and manage its tasks more efficiently. Effective medical care, particularly when preventive in nature and directed to the rural areas, contributes significantly to national development. This has been well demonstrated through the cumulative experiences of the past twenty years. Those experiences have been a source of guidance in establishing health policies for the Fifth Development Plan.

Major Health Policies

6.113. *Increase coverage and accessibility of health services in rural areas.*— Development of rural health infrastructure has lagged behind, in part, because of budgetary constraints. Public spending to maintain and extend costly urban-based hospitals will be contained, and the bulk of savings from the slowdown of capital projects in urban areas will be redirected towards smaller-scale projects at the district and sub-district levels.

6.114. Preventive and promotive health programmes, if adequately supported, can be cost-effective. Savings thus derived will also be re-applied to the support of preventive and promotive programmes and further investment in rural health infrastructure. In real terms, the strengthening of rural health services will require further improvement in services delivery methods; increased efficiency in logistical support and increase in the number and quality of trained manpower..

6.115. *Further consolidate urban, rural, curative, and preventive/promotive services.*—Experience suggests that a complementary rather than competitive approach in allocation of resources and management of these various service components, will serve to strengthen the overall health care system. The rural to urban patient referral system which is now in place has worked well in the past, and will continue to be strengthened. Increased emphasis will be placed on training of all health cadre in preventive and promotive methods, and personnel located at hospitals and other static facilities will be encouraged to include health education as a routine component of patient care.

6.116. *Increase emphasis on Maternal/Child Health and Family Planning services in order to reduce morbidity, mortality and fertility.*—The country's fertility, infant and maternal morbidity and mortality rates continue to be an area of major concern. MCH/FP programmes have made a modest impact in the past and will continue to be strengthened and expanded. Related public information programmes will also receive increased visibility.

6.117. *Strengthen Ministry of Health management capabilities with emphasis at the district level.*—Training related to strengthening the management capabilities (including planning, administration evaluation and information systems), at the national, provincial and district levels, have shown good results. Recent experience suggests that the majority of administrative problems (including facilities management, drug supply, transport and equipment maintenance) can be improved upon by increasing management responsibility and capability at the district level. These efforts will continue to receive considerable emphasis during the next five years.

6.118. *Increase interministerial co-ordination.*—Lessons to be learned from the past point clearly to the fact that health as a basic need, cannot be treated in isolation from the overall development strategies of the Government. The Ministry of Health has thus adopted an active policy of co-ordination with other Ministries. This approach will continue to be strengthened and expanded upon.

6.119. *Increase alternative financing mechanisms.*—Over the past two decades the demand for medical services has substantially increased, and the cost of providing these services has more than doubled over the same period. In view of the rising cost of providing good quality medical care, a variety of approaches have emerged as having the potential for directly or indirectly extending the Government's financial capacity to provide services. Noteable among these are:

(i) Maintenance of health facilities through harambee efforts.

(ii) Community based health care.

(iii) Establishment and improvement of amenity wards.

(iv) Selective charges for hospital out-patient and in-patient medical services.

Programmes and Budgets

6.120. These policies are reflected in the Ministry's allocation of funds (excluding research) in both its recurrent and development forward budgets. The development budget summarized in Table 6.5 reveals that rural medical facilities will be allocated a larger amount over the Plan period than curative facilities. Moreover, in the recurrent budget, shown in Table 6.5, expenditures for rural services will grow at 15.6 per cent per annum, much faster than any other category. Recurrent expenditure on preventive/promotive health will grow at 4.5 per cent but, of course, related expenditures on water, education, school milk and nutrition appear in the votes of other ministries. Further description of medical services follows.

6.121. *Preventive and Promotive Health Services.*—Services under this category include six sub-programmes, i.e. communicable and vector-borne disease control, environmental health, maternal child hea'th/family planning, health education, nutrition and National Public Health Laboratories. All these sub-programmes are part of the Integrated Rural Health and Family Planning Programme (IRH/FP) which has the major aims of reducing mortality, morbidity, and fertility rates.

6.122. Control of communicable diseases will continue to be emphasized, with concentration on such diseases, as: Cholera, diphtheria, dysentries, influenza, leprosy, measles, meningococcal meningitis, whooping cough, rabies, tetanus, tranchoma, malaria and anthrax. Research and training in vector-borne diseases will be intensified and supported by the Kenya Medical Research Institute.

6.123. Activities in environmental health will be directed towards improving small-scale water supply, water quality control refuse and sewage disposal, food premises, housing, proper disposal of domestic and industrial waste and maintaining survillance at the ports of entry.

6.124. The National Family Welfare Centre (NFWC) established in 1979 to co-ordinate MCH/FP programme will expand its roles in training of MCH/FP staff, the flow of information and education, strengthening its monitoring and evaluation capacity, improving the contraceptive distribution system and increasing the number of family planning acceptors. During the next five years service delivery points (SDPs) will be organized to offer services on a daily basis. In addition, Family Planning issues and practices will be brought to public attention.

Estimates of Recurrent Expenditure
(Excluding Research)

(K£'000)

Table 6.5

	1983/84 (Revised)	1984/85	1985/86	1986/87	1987/88	Total	Annual Growth (Per cent)
A. Administration and Planning							
Headquarters Administrative Services	2,713·2	2,846·2	2,983·7	3,109·8	3,252·8	14,905·7	
Headquarters Professional Administrative Services ..	236·5	249·3	258·9	272·4	278·9	1,296·0	
Provincial Professional	463·9	482·1	501·6	523·9	545·3	2,516·8	
TOTAL	3,413·6	3,577·6	3,744·2	3,906·1	4,077·0	18,718·5	4·5
B. Preventive, Promotive Services							
Communicable and Vector Borne Disease Control ..	839·7	868·7	897·7	835·2	968·6	4,509·9	
Nutrition	949·5	722·3	751·5	784·2	814·9	3,769·4	
Environmental Health (P.H. Control)	184·0	190·5	197·8	204·7	211·9	988·9	
Maternal Child Health and Family Planning ..	979·8	1,024·0	1,090·0	1,120·9	1,169·7	5,384·4	
Health Education	197·6	210·3	220·0	246·7	238·7	1,113·3	
National Public Health Laboratories, Radiation Control	675·4	738·3	722·0	806·7	840·6	3,833·0	
Radiation Control Inspectorate	64·3	76·4	80·9	85·4	89·7	396·7	
TOTAL	3,637·3	3,830·5	4,009·9	4,183·8	4,334·1	19,995·6	4·5
C. Rural Health Services							
Rural Health Centres and Dispensaries	5,041·6	5,759·0	6,448·4	7,252·9	9,011·1	33,503·0	15·6

Estimates of Recurrent Expenditure
(Excluding Research)

Table 6.5—(*Contd.*)

K£'000

	1983/84 (Revised)	1984/85	1985/86	1986/87	1987/88	Total	Annual Growth (Per cent
D. Curative Services							
Kenyatta National Hospital	7,407·5	7,854·6	8,202·7	8,890·0	8,890·0	40,932·6	
Provincial Hospitals	9,918·0	10,489·1	10,409·3	11,409·4	11,915·4	54,541·0	
District Hospitals	19,404·0	20,402·0	21,403·0	22,098·02	23,451·0	106,848·0	
Psychiatric Services	1,737·8	11,918·6	1,986·0	2,062·0	2,126·1	9,930·5	
Church Hospitals (NGO'S)	2,048·01	2,116·0	2,166·0	2,216·0	1,266·0	9,812·0	
National Spinal Injury Hospital	164·0	173·0	181·2	190·0	198·4	906·6	
TOTAL	40,578·3	42,953·3	44,849·1	46,553·1	47,936·9	222,870·7	4·3
E. Training							
Medical Training Centre (Nairobi)	1,875·7	1,932·3	1,997·6	2,059·4	2,133·2	9,998·2	
Field Medical Training Centres	2,166·3	2,235·9	2,297·5	2,356·1	2,419·5	11,475·3	
Rural Health Training and Demonstration Centres	1,595·3	1,671·3	1,750·0	1,827·5	1,908·5	8,752·6	
Other Training Institutions	201·4	216·7	229·1	244·8	258·8	1,150·8	
TOTAL	5,838·7	6,056·2	6,274·2	6,487·8	6,720·0	31,376·9	3·6
F. Equipment and Supplies							
Central Medical Stores, Provincial Medical Stores and Equipment Maintenance	630·5	666·6	711·4	762·1	803·5	3,574·1	
Drug Quality Control and Drug Control Inspectorate	64·7	69·2	72·5	76·6	81·9	364·9	
National Hospital Insurance Fund	385·5	414·8	429·6	451·5	476·2	2,148·6	
TOTAL	1,080·7	1,150·6	1,213·5	1,290·2	1,352·6	6,087·6	5·8
TOTAL EXPENDITURE	59,590·2	63,327·2	66,539·1	69,946·7	73,412/7	332,825·1	5·4

Table 6.6

Estimates of Development Expenditure

(K£'000)

	1983/84 (Revised) Tentative	1984/85	1985/86	1986/87	1987/88	Total	Share (Per cent)
A. Administration and Planning	81·0	61·0				142·0	0·2
B. Preventive/Promotive Services							
Communicable and Vector Borne Disease Control ..	704·5	782·8	797·5	797·0	300·0	3,423·6	
Environmental Health	80·0	181·0	184·0	189·0	833·0	833·0	
TOTAL	784·5	963·8	1,022·8	986·5	499·6	4,256·6	5·9
C. Rural Health Services							
Rural Health Centres and Dispensaries	5,554·0	6,642·1	5,451·9	4,412·5	7,427·3	29,487·8	41·0
Non Governmental Organizations (IRP)	586·0					586·0	0·8
D. Curative Services							
Kenyatta National Hospital	175·0	3·0	303·0	503·0	803·0	1,787·0	
Provincial Hospitals	1,890·0	1,146·0	1,334·3	2,011·0	1,121·0	7,492·3	
District Hospitals	3,644·5	2,523·1	3,013·0	3,233·0	3,008·0	15,421·6	
Psychiatric Services	105·0	50·0	4,400·0	800·0	1,100·0	2,455·0	
Church Hospitals (NGO'S)	250·0	250·0	250·0	250·0	250·0	1,250·0	
TOTAL	6,064·5	3,972·1	5,290·3	6,797·0	6,282·0	28,405·9	39·6
E. Training							
Rural Health Demonstration Centres..	180·0	410·0	420·0	170·0	150·0	1,330·0	
National Institute of Health	—	—	—	500·0	150·0	200·0	
Rural Maintenance and Training Schools	355·0	520·0	1,100·0	1,122·0	—	3,097·0	
Community Nurses Training School	190·0	65·0	50·0	550·0	325·0	1,180·0	
TOTAL	725·0	995·0	1,570·0	1,892·0	625·0	5,807·0	8·2

Table 6.6—(*Contd.*)

Estimates of Development Expenditure

(*K£'000*)

	1983/84 (Revised) Tentative	1984/85	1985/86	1986/87	1987/88	Total	Share (Per cent)
F. Equipment and Supplies							
Central Medical Stores ..	—	400·0	800·0	900·0	682·7	2,782·7	
Provincial Medical Stores	—	120·0	120·0	30·0	—	270·0	
TOTAL ..	—	520·0	920·0	930·0	682·7	3,052·7	4·3
TOTAL EXPENDITURE ..	13,795·0	13,154·0	14,255·0	15,018·0	15,516·0	71,738·0	100·0

6.125. The Ministry's health education programmes will increase the public awareness and involvement in preventive health practices. The health education unit will continue its public campaigns using mass media, barazas and audio-visual aids, and improve its learning materials and material production and dissemination capabilities. Community Health workers and health committees at local level will be trained in selected rural health activities. At the same time Health Education curricular will be introduced into schools in collaboration with the Kenya Institute of Education.

6.126. With respect to nutrition, specific activities include identification, production and dissemination of appropriate nutrition education materials, improving infant feeding practices, monitoring and evaluation, and research. Emphasis will be placed on use of local food sources and new food technologies appropriate to local communities.

6.127. The National Public Health Laboratory provides diagnostic facilities for curative and preventive medicine, medicolegal services, and teaching in laboratory medicine in conjunction with the Medical Training Centre and the University of Nairobi. On-going construction of provincial laboratories will be completed at Mombasa, Machakos, Kisumu and Kakamega. Laboratories will be expanded at district hospitals and the blood donor service will be improved.

6.128. *Rural Health Service.*—Rural health services have been and will continue to form the backbone of the health care delivery system. Co-ordination of rural health services will be accomplished through the Integrated Rural Health and Family Planning (IRH/FP) Programme. Emphasis will be given to improvement, up-grading and consolidation of the existing health infrastructure in order to optimize utilization and provide more cost effective services.

6.129. In order to reduce pressure on existing static health facilities in rural areas, the approach of Community Based Health Care (CBHC) will be strengthened and expanded. Existing rural health units will be the centre of operation for these CBHC programmes.

6.130. *Curative Services.*—Provincial and district hospitals will continue in their important function as referral points for health centres and dispensaries, co-ordinating community based health services, serving and teaching hospitals and administrative centres for rural health services. Out-patient departments will be redesigned to improve cost-effectiveness and efficiency. The quality of care in the wards will also be improved.

6.131. In particular, Mathari Hospital will be developed as a referral and teaching psychiatric hospitals sterile preparation units will be established at Nyeri, Mombasa, Embu, Kakamega, Garissa and Nakuru, and a plant will be constructed in Nairobi for disposal of radio-active substances. In addition, the management capability of pharmaceutical personnel will be up-graded and a well co-ordinated storage and supply system for drug, will be established. The Ministry of Health in collaboration with other Government and non-Government agencies, will facilitate early detection and management of the disabled. Finally, the number of mobile units dealing with the prevention of blindness will be increased from the current 12 to 30.

6.132. *Manpower Training and Development.*—During this Plan period, improved career development paths will be supported through continuing education, on-the-job training, and residential training in the field. In addition to new and expanded facilities for training of nurses, new schools for clinical officers will be built in various provinces.

6.133. *Administrative and Planning.*—Emphasis will be given in this Plan to improving the Ministry's planning, monitoring and evaluation processes and its systems of data collection, reporting and analysis. District level management and planning capability will be strengthened through short- and long-term training. Management training will be introduced as part of the basic curricula of the Medical Training Centre of Nairobi.

Water

6.134. The provision of water supplies to all urban and rural areas has been one of the most important strategies for rural and urban development since the country attained political independence in 1963. It was recognized that the supply of water in sufficient quality and quantity and in close proximity to dwelling units results in considerable benefits to the economic, social and health status of the people. The development of sewerage has also been recognized as being part and parcel of the development of water facilities. Such development will reduce the risk of health hazards associated with uncontrolled sewerage disposal systems which if otherwise not taken care of, would result in environmental pollution particularly of Kenya's water resources.

Development Objectives

6.135. The main objectives for water development during the Plan period will remain essentially the same as those for the Fourth Development Plan. That is:

(i) to provide potable water supplies, to all rural and urban populations balancing these supplies between human needs, requirements for livestock development and the needs of the industrial sector.

(ii) the management and development of water resources to achieve multi-purpose development goals such as flood mitigation, hydro-power developments, irrigation and drainage, recreation and wildlife conservation whilst minimising deleterious environmental effects.

(iii) development of technologically appropriate waste water treatment facilities to deal with liquid wastes, and to monitor the possible pollution effects of the disposal of waste water in the rivers and lakes while informing the general public about the need to safeguard the quality of our water resources.

(iv) the adoption of water distributive practices and water pricing policies which will ensure that social objectives are not ignored.

(v) the provision of incentives for efficient water use and penalizing wasteful or environmentally harmful water use practices, and

(vi) recognition of the principle of "cost sharing" so that the people make contribution towards the provision and maintenance of water services consistent with the overall theme of the Plan of "Mobilising Domestic Resources for Equitable Development".

Strategies and Policies

6.136. In the urban areas, the development strategy for water is to work towards the provision of individual metre connections to all properties and to develop adequate water-borne sewerage disposal facilities.

6.137. On the other hand the strategies to be adopted for the rural areas will be:

(i) to provide water facilities within reasonable distance, i.e. 1 Km in the high and medium potential land areas, and 5 km in the low potential areas. Those that will require connections to private homesteads will meet the cost of such connections. Within the self-help water programmes, priority will be given to those projects that have been approved by District Development Committees in accordance with the "District Focus" approach to rural development.

(ii) the provision, operation and maintenance of water supply facilities will be undertaken primarily through joint efforts between the Government and the beneficiaries. This will require that the communities contribute significantly towards the construction and maintenance of facilities. In order to minimise the cost of providing water to the people in their homesteads individual farmers will be encouraged to employ cost-effective technologies such as roof catchments, wells and the construction of small rural dams and pans.

(iii) the current design standards for both urban and rural water supplies appear to be too high in relation to the needs and the costs. The Government will undertake a review of these standards aiming at cost-effectiveness and large coverage with the available resources.

(iv) cost recovery will be an essential element in the water supply programmes. Pricing policy for water is critical in this respect. In the rural areas generally, water rates should cover at least the direct operation and maintenance costs of the water supply. Prices should on the other hand cover both the maintenance and capital investment costs in the urban areas. The results of the on-going tariff review will provide guidelines for the appropriate fees to be charged.

The Action Programmes

6.138. The action programmes to be followed during the Plan period are summarized as follows:

6.139. *Rural Water Supplies.*—Over 87 per cent of the people live in the rural areas and, therefore, the provision of water facilities to the rural communities will be an important component of Government's deve'opment strategy. Programmes addressed to the problem of supplying water to the rural areas include the construction, operation and maintenance of new rural supplies; replanning and reconstruction of water schemes that have ceased to function in accordance with design standards; the construction, operation and maintenance of schemes incorporated in an integrated livestock development programme of the Ministry of Agriculture and Livestock Development the progressive takeover by the ministry of schemes now operated by county councils and a programme of assistance in design and supervision of construction, operation and maintenance of self-help scheme. By the end of the Plan period, 30 per cent of the rural areas should have access to improved water supplies. In 1983 around 3.5 million were served, this should grow to 5.5 million by 1988.

6.140. The Rural Water Supply Programme which was started in 1970 will continue to be one of the most important activities of the Ministry during the Plan period. Priority will be given to the implementation of over 200 schemes which are under various stages of design and construction. A total of K£62 million has been set aside for the implementation of the programme over the Plan period. The rehabilitation of Rural Water Supply projects is planned to cover over 40 schemes at an estimated cost of K£3.1 million.

6.141. In many areas of Kenya, there exists a strong sense of community spirit which manifests itself in voluntary efforts to marshal resources for the construction of communal health, education and water facilities. The Government will continue to give technical advice, material and financial support to such self-help endeavours. The resources allocated for the self-help Water Supply programme in the forward development budget will be K£18.1 million.

6.142. *Urban Water Supplies Programme.*—The rapid growth of the major towns in the country has led to the need to expand water facilities in these centres. During past development plans, augmentations and expansions have taken place in Kisumu, Eldoret, Kitale, Embu, Mombasa, Nakuru, Thika, Nyahuru and other district headquarters. During this Plan period, the Ministry will undertake to complete 24 minor Urban Water projects as compared to 15 completed during the 1979–83 period. Other projects to be commenced will include the Greater Nakuru Water Supply Project as well as further construction work for District and Divisional headquarters. A total of K£32.3 million has been set aside for the urban water supplies programme. It is expected that by 1990 the water coverage of the urban population will be about 4.5 million people compared to 2.8 million people of 1983.

6.143. *Sewerage Development Programme.*—The inter-relationship between sewerage or waste water and the supply of clean water is of critical importance in water resources management. Since the creation of the Sewerage Division in the Ministry, the Government has actively promoted sewerage development particularly in the urban areas. Since 1974, a total of 41 urban sewerage schemes have been undertaken by the Ministry on behalf of the Municipalities and urban centres in terms of design construction supervision and actual construction. The majority of these are under different stages of planning and construction. During the Plan period, the Ministry will give priority to the implementation of about 17 schemes. The total development expenditure required for this programme is K£7.8 million.

6.144. *Water Quality and Pollution Control Programme.*—Since the establishment of the Ministry in 1974, it has constructed 120 river monitoring stations and 7 global environmental impact assessment stations. During the Plan period, emphasis will be placed upon strengthening the Water Quality and Pollution Control Division of the Ministry in terms of pollution control equipment and personnel. The Government will also establish a Water Quality Research Centre within Nairobi to help in the co-ordination of research activities.

6.145. *Minor Irrigation, Drainage and Flood Protection Programme.*—Irrigation and drainage programmes are essential to development. This is so because taking account of the high rate of population growth vis-a-vis the limited high potential agricultural land, the development of agriculture through irrigation will become increasingly necessary. A total of ten potential sites for minor irrigation development involving 17,400 hectares at a possible cost of K£6.0 million have been identified. Not all these can be undertaken during the Plan period due to shortage of funds. The ministry intends to have the Yatta Furrow in Machakos and the Njoro Kubwa in the Taveta District enlarged. Flood protection activities will be centred in and around the Kano Plains in Nyanza Province.

6.146. *Livestock Water Supply Programme.*—The Livestock Water Supply Programme is an integral part of a comprehensive programme for livestock industry development in the range herding and ranching areas of the country. The Water Supply component of the programme is being undertaken by the Ministry of Water Development and the on-going projects in North-Eastern and Rift Valley Provinces will be continued during the Plan period. New programmes are planned to start in Marsabit, Tana River and districts covered under the Ranch Water Development Phase III. K£7.2 million will be required for the implementation of the programme.

6.147. *Water Conservation Programme.*—The primary objectives of the Water Conservation Projects are to create new water sources and resevoirs in order to increase reliability of existing water supplies. The water conservation measures will be mainly concentrated in the arid and semi-arid parts of the country. During the Plan period development expenditure is expected to be K£4.8 million.

6.148. *Integrated ASAL Development Programme.*—During the Plan period further contributions will be made to integrated development in the ASAL areas and in particular to the completion of projects already started in Machakos, Baringo, Turkana, Laikipia, Samburu and new programmes in Embu/Meru/Isiolo and the Kwale/Kilifi projects.

6.149. *Water Resources Assessment, Surveys and Planning.*—Kenya is served by five main drainage areas—Lake Victoria, the Rift Valley, the Athi-Tsavo-Sabaki river systems, the Tana River and the Ewaso-Nyiro river systems. In order for the Government to have accurate data on water resources in the country, continuous assessments must be made to determine the water development potential in the country. A'though the first phase of the Kenya National Master Water Plan Study has been completed, more work will have to be done during the Plan period to bring up-to-date the information on water resource potentials. The water resources assessment programmes will include water exploration through hydrogeological, hydrological, hydro-mentreological surveys and water balance assessment studies.

Housing Development

6.150. Well planned housing of a reasonable standard when combined with essential services affords dignity, a sense of security and proper status in society for the individual. Housing is also a significant investment with considerable linkages in the economy. In recognition of this the Government has continued to seek ways and means of solving the housing problems relating to essential services.

Housing Policies and Objectives

6.151. Considering the problems that have faced the Government shelter delivery efforts in the past and the need to mobilize domestic resources for equitable development, among the main specific housing policies and objectives are:

(i) To formulate and adopt realistic and performance oriented building standards especially in the area of low-cost housing.

(ii) To encourage tenants and landlords protection by strengthening and publicizing the role played by rent control tribunals.

(iii) To promote self-help in housing construction both in urban and rural areas so as to increase housing stock at a reduced construction cost.

(iv) To intensify research on and use of local building materials and construction techniques.

(v) To promote development of flats for sale through legislation for the registration of titles to individual flats.

(vi) To explore the feasibility of instituting a housing levy whereby employers contribute towards a Consolidated Housing Fund.

Housing Strategies

6.152. The estimated accumulated shortfall of dwelling units needed to be built has increased phenomenally over the past four Plan periods. Although most of the public funding earmarked for housing has been devoted to provision of shelter for the urban poor the actual number of units added to the housing stock remains significantly inadequate for the growing population in our urban centres.

Urban Low-Cost Housing

6.153. The new low-cost building by-law study recommendations will be implemented by initiating the necessary legislation to permit construction of low-cost housing units within urban centres using non-conventional but functional locally produced building materials. Appropriate demonstration units will be provided at first phase of every new housing project to demonstrate research findings on low-cost building techniques. Government strategies to produce low-cost urban housing for the benefit of low-income earners will be:

(i) *Site and Service Programme.*—Site and service projects will be continued. They are those in which residential plots or land are provided with basic services like water sanitation, roads, surface drainage, street-lighting and allocated to eligible applicants so that they can gradually develop the houses with permanent materials over a period of time using self-help efforts. Materials loan and technical assistance are offered to plot allottees.

(ii) *Settlement Up-grading.*—Large unplanned settlements or slum areas of temporary materials without proper sanitation posing a fire and health hazard have sprung up in major towns. An estimated 30 per cent of our urban population live in them. To up-grade these dwellings will involve the preparation of physical layout plans, regularization of land tenure by issuing titles and the provision of basic services to encourage beneficiaries to improve their housing structures and the environment through self-help efforts. Assistance will be offered through materials loan, technical advise, provision of water points and toilets blocks. Since it is the policy of the Government not to demolish urban housing without giving alternative accommodation those households displaced during settlement up-grading will be relocated in re-settlement plots.

Co-operative Housing

6.154. A significant proportion of undeveloped urban land is currently held by co-operative societies. To promote the development of this land, the newly formed National Co-operative Housing Union (NACHU) will be supported in order to provide technical, financial and management assistance to both existing and new housing co-operatives as a means of accelerating housing provision through the medium of co-operative societies.

Civil Servants Housing

6.155. The civil service comprises a large part of the urban labour force. A single strategy for providing it with housing is therefore inadequate. A combination of mortgage, pool and institutional housing strategies will continue to be adopted for this target group. Through mortgage housing, civil servants will be encouraged to own houses, care being exercised to avoid hidden or direct subsidies. The bulk of civil servants' housing will remain the pool housing programme, which provides rental accommodation to Government employees. By increasing the stock of pool housing, the currently large budget spent in renting housing in the open market for this programme will be gradually reduced. House allowance will continue to be paid to those civil servants who seek accommodation in the open rental market. Institutional housing will remain the responsibility of those Government Departments whose nature and place of work require the employees to be housed within or near their institutions.

Private Sector Participation

6.156. In the past, the private sector has for various reasons concentrated its efforts on medium and high cost housing. While Government does not wish to closely direct private sector investment in housing, there is ample justification for involvement of the formal private sector in the implementation of low- to medium-cost housing. Since enormous financial, land, and management resources are held at the domestic level by the private sector, the following incentives will underpin a strategy for mobilizing these latent resources and enhancing the participation of this sector in housing development:

(i) Co-operating in the opening up of either private or public land for urban development, thus curbing land speculation.

(ii) Undertaking joint ventures between approved local authorities and private developers to achieve speedy low/medium cost housing development.

(iii) Injecting long-term money into the mortgages market to stimulate and back up increased private investment into housing.

(iv) Promoting the development of a secondary mortgage market in the economy.

(v) Providing technical assistance to such housing agencies as co-operatives and land companies in the planning, design and building of housing.

(vi) Enacting the Estate Agents Bill to regulate the activities of estate agents.

Rural Housing

6.157. There is generally inadequate data on the state of rural housing. During the Plan period, a housing survey/census will be conducted to provide base line data for use in the design of a suitable strategy for intervening in this area. The primary responsibility for rural shelter improvement will, however, continue to lie with the rural households themselves. Subject to availability of funds, Government will continue to provide rural home improvement loans and also intensify the promotion of appropriate environmental enhancement measures within the rural habitat.

The Housing Programme

6.158. The National Housing Programme for this Plan period is more fully described in the tables below. It is envisaged that the public sector will spend K£90.6 million and the private sector with K£73.8 million during the Plan period.

6.159. The following institutions will participate in the implementation of this programme as set out below:

(i) *Housing Department*

—Formulating, reviewing and modifying policy and programme implementation guidelines for shelter and urban development projects.

—Preparing the National Housing Programme, designing guidelines for its implementation, and co-ordinating the activities of all implementing agencies.

—Financial and physical programming of housing and urban development investment.

(ii) *National Housing Corporation*

—On lending development funds to the local authorities, co-operative, etc.

—Executing projects in those local authorities that lack project implementation capability.

—Providing technical assistance to local authorities.

(iii) *Housing Research and Development Unit*

—Initiating undertaking research projects on low-cost housing, urban improvement programmes, building materials construction techniques, house plan designs, training and community development aspects of housing and urban development programmes.

(iv) *Local Authorities*

—Identifying housing and urban investment needs.

—Project planning, preparation and implementation at grassroot level.

(v) *Housing Finance Institutions*

—Mobilizing financial resources for housing development.
Participating in the proposed secondary mortgage market.

(vi) *Private Developers*

—Mobilizing land, financial, technical and management resources for low and medium cost housing.

—Packaging suitable housing projects jointly with specific local authorities.

(vii) *National Co-operative Housing Union*

—Participating in the shelter delivery process.

—Promoting increased housing delivery by co-operative societies.

Planned Physical Housing Output 1983/4–1987/88

Table 6.7

	Serviced Plots	Rental	Upgrading	Mortgage/ Tenant Purchase or owner Builder	Total
Nairobi..	7,000	400	200	1,150	8,750
Mombasa	2,300	—	1,200	—	3,500
Kisumu	1,500	100	3,500	—	5,100
Other Municipalities	1,300	200	500	—	2,000
Other Towns ..	664	210	—	—	874
Rural Housing	—	—	—	4,200	4,200
Third Urban ..	3,700	—	6,300	500	10,500
USAID Project	1,500	400	1,500	—	3,400
Mortgage Housing	—	—	—	100	100
Project (NHC)	—	—	—	1,800	1,800
Staff Mortgage (Govt.)	—	—	—	80	80
Urban Pool Housing (Govt.)	—	500	—	—	500
Institutional Housing	—	4,000	—	—	4,000
Local Authority Housing	—	4,000	—	—	4,000
Private Sector Development	—	4,300	—	6,400	10,700
TOTAL	17,964	14,110	13,200	14,230	59,504

Planned Allocation of Housing Development Funds—1983/84–1987/88

Table 6.8

K£'000

	1983/84 (Printed)	1983/84 (Revised)	1984/85	1985/86	1986/87	1987/88
Planning and Research						
Grant to H.R.D.U.	10·0	—	30·0	30·0	30·0	30·0
Forward Planning	200·0	—	200·0	200·0	200·0	200·0
NET EXPENDITURE	210·0	—	230·0	230·0	230·00	230·0
Loans to N.H.C. and Other Municipalities						
NAIROBI CITY						
Loans to Nairobi City	0·10	—	—	—	—	—
First Urban Project (Dandora)	300·0	100·0	0·01	0·01	0·01	0·01
Second Urban Project	1,600·00	—	1,580·0	1,680·0	2,800·0	2,850·0
MOMBASA MUNICIPALITY						
Loans to Mombasa Municipality	0·01	—	0·01	0·01	0·01	0·01
Second Urban Project	1,200·0	—	600·0	700·0	—	—
KISUMU MUNICIPALITY						
Loans to Kisumu Municipality	0·01	—	0·01	0·01	0·01	0·01
Second Urban Project (Kisumu)	1,200·0	—	1,280·0	900·0	—	—
MUNICIPALITIES AND TOWNS						
Loans to Municipalities	400·0	—	400·0	400·0	400·0	400·0
Other Towns	400·0	—	400·0	450·0	500·0	550·0
Loans to Rural Housing	500·0	—	550·0	560·0	1,000·0	1,050·0
Third Urban Project for Secondary Towns	500·0	—	750·0	800·0	1,000·0	1,150·0
DA Housing Programme for Secondary Towns ..	0·01	—	0·01	0·01	0·01	0·01
USAID Housing Project for Secondary Towns ..	0·01	—	300·0	350.0	500·0	500·0
Mortgage Housing Project	250·0	—	250·0	250·0	0·01	0·01
NET EXPENDITURE	6,350·05	—	6,310·04	6,090·04	6,300·05	6,500·05

Planned Allocation of Housing Development Funds—1983/84–1987/88—(*Contd.*)

Table 6.8 (*Contd.*)

K£'000

	1983/84 (Printed)	1983/84 (Revised)	1984/85	1985/86	1986/87	1987/88
Loans to H.F.C.K. (Loans)	0·01	—	0·01	0·01	0·01	0·01
NET EXPENDITURE	0·01	—	0·01	0·01	0·01	0·01
STAFF MORTGAGE HOUSING						
Construction of Houses	0·01	—	300·0	300·0	300·0	300·0
URBAN STAFF POOL HOUSING						
Construction of Houses	1,300·0	—	1,200·0	1,200·0	1,700·0	1,700·0
TOTAL EXPENDITURE	7,860·07	—	8,040·05	7,820·05	8,530·06	8,730·06
Institutional Housing	7,680·0	—	8,000·05	8,100·05	8,200·06	8,300·06
Total Central Government	14,540·0	—	16,040·05	15,920·05	16,730·06	17,030·06
Local Authority Housing	1,900·0	—	2,000·0	2,100·0	2,200·0	2,300·0
TOTAL PUBLIC SECTOR	16,440·0	—	18,040·05	18,020·05	18,930·06	19,330·06
TOTAL PRIVATE SECTOR	13,500·0	—	14,750·0	15,000·0	15,200·0	15,400·0
GRAND TOTAL	29,940·0	—	32,790·05	33,020·05	34,130·06	34,730·06

Social Development

6.160. Social development embraces those programmes of Government that are intended to enhance directly the quality of life of many of the nation's families. These Government programmes are complemented by the activities of many voluntary agencies and self-help efforts. The efforts of Government are focussed upon adult education, social services, culture, library services, national archives and museums.

Adult Education

6.161. The objective of adult education is to provide the knowledge, skills and attitudes adults require to participate more meaningfully in social and economic development. The campaign to eradicate illiteracy through reading programmes in both other tongues and Kiswahili will be reinforced with post-literature and continuing education programmes organized around the themes of family life and health, good citizenry and rural development. The Department of Adult Education will increase its training centres from 4 to 12.

Social Services

6.162. *Sports.*—In addition to providing a constructive use of leisure time for both participants and spectators, sports serve to improve health, social cohesion and a sense of co-operation. The Government is putting up a National Sports Complex at Kasarani and a sports centre at Nairobi West to cater for both international and national sporting activities. Development of sports in the rural areas and other urban centres will be assisted by providing essential sports facilities and equipment.

6.163. *Vocational Rehabilitation.*—The main objectives of this programme are to identify, rehabilitate, train and resettle disabled persons. The Government will expand its Rehabilitation Centres and training and counselling programmes so that more disabled persons can be prepared for gainful employment.

6.164. *Community Development.*—The main objective of this programme is to help local communities to become self reliant and to involve them in the planning process so as to sustain self-help efforts directed especially to rural development.

6.165. *Youth Development.*—The intent of this programme is to equip school-leavers for gainful wage and self employment through systematic training carried out in the village polytechnics and the Centre for Research and Training at Karen.

6.166. *Women's Bureau Programme.*—This programme seeks to promote and improve the position and lives of women and hence the welfare of the entire family. The programme involves women in income-generating activities and in decision making at many levels. The Bureau participates with voluntary organizations in systematic training, research studies and surveys.

6.167. *Family Life Training Programme.*—The main objective of FLTP is to rehabilitate malnourished children and to train mothers in proper family nutrition, preventive health measures and child care. This training is done through twelve Family Life Training Centres.

6.168. *Social Welfare.*—The main objectives of this programme are to rehabilitate maladjusted or socially disorganized individuals and to reduce and prevent social problems. The programme works directly with distressed people and families and supports the efforts of voluntary agencies to maintain old age homes and orphanages.

Department of Culture

6.169. The Department is responsible for the revival and promotion of our culture through development of visual arts, performing arts, and oral traditions and national languages. The department undertakes research, promotes and popularises Kiswahili and other national languages, encourages cultural exchange and enhances national identity and pride.

Kenya National Library Services

6.170. The Kenya National Library Service supports permanent and mobile libraries. Its main objectives are to supplement formal and non-formal education and to provide further education and research opportunities for personal and national development. So far eight provincial libraries, four district libraries and seven mobile libraries are in operation.

Kenya National Archives

6.171. The Kenya National Archives appraises, seleots and conserves records earmarked for permanent preservation. The archives will continue to search for, acquire and preserve documents of national importance.

National Museums of Kenya

6.172. National Museums of Kenya serve as national repositories as well as research centres in all fields of scientific, cultural, technological and human interests. The National Museums of Kenya will acquire new museums, extend existing museums programmes to the districts, protect and conserve pre-historic sites, historic monuments and buildings, and provide a nation-wide programme to preserve and record traditional elements of the nation's culture.

Local Government

6.173. Local authorities were established to encourage participation of people in their local affairs and to enable the Government to become more responsive to the needs and wishes of the people either directly or through their elected representatives. Since Independence the main objective of the

Government has been to make local authorities effective and viable institutions for national development. The Ministry of Local Government is charged with the responsibilities of guiding and co-ordinating the activities and functions of local authorities. There are presently 20 municipalities, 7 town councils, 39 county councils and 17 urban councils.

6.174. To safeguard the future of local authorities the Government will clearly define the functions to be undertaken by each category of local authorities and provide them with reliable sources of income to enable the councils to discharge those responsibilities and play an effective role in the economic and social development of their communities. In accordance with the above recommendation, all municipal councils will be required to be responsible for primary education, health services and water supplies in addition to other functions. Town councils will be required to undertake the provision of water supplies, and all municipal and town councils will be required to form planning units and integrate their planning functions with those of the Ministry of Finance and Planning.

Revenue Sources

6.175. Rates, licences and cesses have contributed an average of 43.2 per cent of the total revenues of local authorities for the past ten years. County Councils which do not have access to a good base of agricultural cesses are chronically deficient in revenues since they are heavily dependent on them.

6.176. Fees and charges have contributed an average 17 per cent of total revenues since 1973. Because fees and charges are payments for services which directly benefit residents they should cover a substantial share of the costs of providing services. Therefore—

(i) all trading activities including markets must be made to operate economically;

(ii) any future trading activities in which councils may wish to participate should be carefully evaluated to reflect a profit; and

(iii) councils should evaluate and monitor the costs of services they provide and adjust fees and charges accordingly.

6.177. Grants from the Government to local authorities account for 37.4 per cent of their revenues. The total Government contribution in form of grants will decrease from K£9.9 million in 1983/84 to K£8.56 million at the end of the Plan period. In addition, the Government will contribute a total of K£25.0 million during the Plan period as a contribution in lieu of rates.

Capital Development

6.178. Capital expenditures of local authorities are met from internal cash generation and loans, mainly from the Local Government Loans Authority (LGLA) and the National Housing Corporation (NHC). During the Plan period, local authorities will spend a total of K£221.59 million for development of various infrastructure facilities. Of this amount K£127.15 million or 57.4 per cent will be devoted to the provision of shelter. Water supply projects will consume a total of K£46.69 million or 21.1 per cent of the development expenditure. Sewerage projects will take approximately K£18.9 million; roads, markets and slaughter houses will account for K£17.5 million and a total of K£11.5 million will be spent on other infrastructure investments.

6.179. Nairobi takes the lions share of the development expenditure of local authorities. It will account for K£93.3 million which is 42.1 per cent of the total development expenditure. Mombasa will account for K£25.3 million and the remaining 18 municipalities will share K£70.23 million. Urban and county councils will spend K£28.36 million or 12.8 per cent of the total expenditure. The major source of development funds of local authorities is the Central Government which will contribute a total of £122.95 million or 55.5 per cent of the total development expenditure. The private sector will contribute K£73.85 million all of which will go into the provision of housing. Local authorities will contribute the remaining 11.2 per cent of the total budget from their own funds.

6.180. The Government has made the district the focal point for organization of rural development activities and District Development Committees have been given the responsibility of co-ordinating district development. With this new approach, all projects of every local authority are subject to DDC's decisions and to ensure sound financial management, local authorities will be required to produce forward budgets and five year Development Plans similar to the Central Government.

6.181. In order to achieve proper co-ordination between the work of the District Development Committees and the work already being undertaken by Local Authorities and to ensure that Local Authorities' budgeting programmes fall within the Five Year Development Plans, comprehensive studies of the institution of Local Government will be undertaken by the Ministry of Local Government. Such studies will concentrate on issues such as local government finances, emphasising measures to increase the elasticity of local authority revenues, improvements in revenue collection procedures, and methods of measuring the productivity of and demand for local authority services; employment creation and general proposals on local authorities investment strategies, urban transportation and the need to have a forward budget.

Physical Planning

6.182. Physical planning in its broadest sense is concerned with the organization of land use, distribution of activities and the movement of people and goods in space in order to achieve a sound and harmonious spatial system. Specifically the main objectives of physical planning are—

(i) to establish a more even geographical spread of development in order to promote a more balanced economic growth and an equitable standard of social services throughout the nation;

(ii) to encourage the expansion of several large towns in addition to Nairobi and Mombasa, thereby providing more alternatives for the absorption of the migrant population;

(iii) to develop a network of communication, so as to link centres of economic and social development;

(iv) to establish a national population distribution to reflect a balance between population and resource utilization while ensuring a sound physical environment; and in the urban areas—

(v) to regulate the relationship between industrial, commercial, residential and public land use areas so as to minimize the cost of providing services;

(vi) to facilitate the movement of people from home to work, schools and shops and other facilities;

(vii) to reserve areas of land for commercial facilities, open space, recreational activities, residential and other public facilities, and prevent wasteful encroachment on agricultural land; and

(viii) to ensure that the use of land does not result in deterioration of the environment through improper use of land.

6.183. The service centre strategy, establish in the Second Development Plan, contains a hierarchy of four levels of service needed by the population. The four levels of centres are Urban Centres, Rural Centres, Market Centres and Local Centres. The Urban Centres are intended to serve a catchment area of 120,000 people, Rural Centres 40,000 people, Market Centres 15,000 people and Local Centres 5,000 people. Within the service centre strategy a number of urban centres were selected as growth centres on the basis of their administrative, agricultural, tourist and industrial potential, proximity to population concentrations, levels of existing infrastructure and accessibility. Nine centres, Kakamega, Nyeri, Kisumu, Nakuru, Eldoret, Thika, Kitale, Embu and Meru, were selected for priority consideration in the provision of infrastructure and other inputs to enable them to develop at a faster pace.

6.184. The urban development strategy has produced detailed physical development plans for each of the growth centres and urban centres identified in the service centre strategy. A total of about 842 development plans and 5,245 partial development plans have been prepared and approved for various centres throughout the country. In addition, 207 settlement scheme plans and 333 development plans for settlement scheme townships have been prepared.

6.185. This Development Plan places greater emphasis on the improvement of balances in regional development by increasing the productivity and market access of pastoralists and small farmers, developing their commercial and industrial activities, and enhancing the provision of basic needs. To meet these objectives development will be directed into a scheduled network of centres.

Regional Balance

6.186. The population in urban towns, defined as those centres with populations of 2,000 and above, will grow at an average of 5.0 per cent per annum. It is estimated that the urban population will be about 3.58 million by the end of the Plan period, doubling the 1979 urban population. The number of towns will reach 130 as new towns emerge to meet the needs of rural areas.

6.187. In order to improve the regional development balance in the arid and semi-arid lands, the Government has formed regional development authorities to plan and implement projects and programmes in these areas. These regional authorities are Kerio Valley Development Authority which encompasses Baringo, Turkana, Elgeyo/Marakwet and West Pokot districts; the Tana and Athi River Development Authority encompassing Coast Province, parts of Central Province, Rift Valley, Eastern and North-Eastern provinces; and the Lake Basin Authority made up of the Nyanza and Western provinces and parts of the Rift Valley Province. To supplement these authorities, the Government will implement integrated development programmes, on the same line as the Machakos Integrated Development Programme.

6.188. In order to support regional balance, the Government will seek to develop 17 towns including the gateway towns identified in Chapter 2. These towns are Lodwar, Kapenguria, Maralal, and Kitilu in the Kerio Valley region, Mandera, Wajir, Moyale, Marsabit, Garissa, Isiolo and El Wak in the North-Eastern Kenya, and Kitui, Bura, Kajiado, Lamu, Narok and Voi in the Southern region. These towns have been selected because of the strong relationship they have with their region. These towns should bring about better utilization of the resources available in these regions.

6.189. In order to improve the physical planning machinery the department will open ten district offices at the rate of two offices in each financial year. The offices will be opened in the following centres: Kisii, Kilifi, Machakos, Kitale, Kabarnet, Wundanyi, Rumuruti, Narok and Homa Bay in that order. By the end of the Plan period there will be 42 professional officers, 28 technicians, and 112 supporting staff at the district level serving in 14 districts. A total of K£120,000 has been budgeted for the construction of 14 district offices.

III. PRIMARY PRODUCTION

Agriculture and Livestock

6.190. Kenya's agriculture is at a crossroads. Until the early 1970's it was extremely successful, with a rapidly growing and increasingly monetized smallholder base backed by a well-developed physical infrastructure, a dynamic commercial network and a well-staffed system of governmental agricultural services. However, the drought related reduction in food production and the unprecedented large food imports in 1979–1981, have caused policy makers to become acutely aware of the incipient imbalance between food supply and demand caused by the pressure of a rapidly increasing population on Kenya's limited area of high-potential arable land.

Objectives and Strategy

6.191. The sectoral objectives of the Fifth Development Plan, 1984 to 1988, include increased food production, growth in agricultural employment, expansion of agricultural exports, resources conservation, and poverty alleviation. These objectives are basically the same as those outlined in the Fourth Development Plan, 1979–83.

6.192. Most of the nation's food requirements must continue to be met from domestic supplies and, therefore, a major strategy of the Fifth Plan is to maintain broad self-sufficiency in basic foodstuffs. At the same time, agricultural export earnings will be expanded by promoting exports of fruits, livestock and horticultural products, and by increasing yields and improving the quality of livestock products, coffee and tea exports. Agricultural employment will be increased through more intensive husbandry, including zero grazing for dairy cattle, and a greater proportion of labour-intensive crops and an expansion in agro-industrial processing activities. Resource conservation will be given a high priority through self-help efforts, better management of the rangelands and promotion of labour-intensive techniques. Poverty alleviation will be approached through the pursuit of employment, production, and export objectives rather than by concentrating on direct Government action.

6.193. Agricultural production is targetted to grow 4.5 per cent annually for the first four years of the Plan, rising to 5.0 per cent in 1988, for an average annual growth rate of 4.6 per cent. With growth in purchased inputs of 4.3 per cent, net *per capita* agricultural income is estimated to increase slightly faster than one per cent per annum, given that rapid urbanization will cause rural population to grow less rapidly than the national average rate of 3.8 per cent. Of the total planned increase in agricultural output, just over a third is expected to result from increased crop area. Much of this will come from grazing lands in the drier zones where yields are below the national average. The remaining two-thirds of the increase is expected to result from higher yields, reflecting the emphasis in this Plan on intensification of land use.

6.194. Maize production is expected to keep pace with domestic demand and be sufficient to build-up reserve stocks that will obviate the need for imports except at times of severe crop failures. Wheat production will not grow as fast as consumption and, therefore, large wheat imports are anticipated. Rapidly expanded rice production will substitute for imports. The extent of rice imports will be determined largely by the level at which consumer prices are set and degree of unsatisfied demand that is deemed acceptable. Large production increases are targetted for vegetable oils, but they will continue to be imported in large quantities and will remain a major import item in the early years of the Plan.

6.195. Milk production is expected to keep up with domestic demand and no milk imports are anticipated during the Plan period. Beef production is projected to remain at current levels, leading to reduction in *per capita* consumption. However, increased poultry and pig production are expected to fill up demand for meat left by constant beef production.

6.196. Three major thrusts to facilitate the achievement of Plan objectives are:

(i) The establishment of a framework of policies that will—

—optimize the allocation of resources to their most productive use through the setting of product price levels that reflect changes in import and export parities;

—enable markets to function as orderly and efficient channels for purchases and sales of inputs and products;

—channel credit where it is most needed and where it provides a high return; and

—guarantee reasonable security of tenure and access to land for those able to make the most efficient use of this resource.

(ii) The provision of agricultural and livestock services that will—

—supply relevant new technologies for crop and livestock production together with a mechanism which will transfer the necessary knowledge and skills to enable small farmers to adopt the new technology;

—insure the timely availability of necessary inputs at prices that make their use profitable;

—create efficient channels to market outputs at competitive prices with prompt payment to producers, depending upon the commercial sector to the maximum extent feasible;

—ensure that the farming community pays a fair share of costs whenever appropriate; and

—make more efficient use of existing levels of recurrent expenditures.

(iii) The preparation and implementation of specific programmes and projects, consonant with the basic sectoral strategy, that will also reflect the new district—level focus.

Policies and Programmes

6.197. Policies and projects will be formulated and developed to give special attention to the following areas—

(i) small farm focus;

(ii) more intensive resource use through improved crop and livestock husbandry practices;

(iii) technology improvement through an increased research and extension effort;

(iv) market incentives that not only provide fair prices but also insures prompt payment for deliveries of produce to parastatal bodies;

(v) increased emphasis on arid and semi-arid lands by providing improved services, including output increasing technology; and

(vi) improved management and administrative procedures to insure that resources are used efficiently.

6.198. *The co-ordination of agricultural policy* with the whole national development policy will be improved through regular briefs to the Cabinet on the state of agricultural industry. To facilitate these reforms, current efforts to streamline the financial and budgetary system of the Ministry of Agriculture and Livestock will be accelerated and the Development Planning Division of the Ministry will be strengthened, especially in relation to its capacity to carry out policy analysis and long-term planning.

6.199. As a response to *the need for institutional reforms and higher standards of management*, all aspects of the project cycle will be improved. Projects identification will be more closely related to plan progress and will be accompanied by better monitoring of the achievement of plan targets. The identification process will also become more decentralized as a result of the district level focus. Implementation procedures will be improved through a new project monitoring system, and the programme of evaluation re-enforced. Parastatal appropriations and information flows as well as district budgeting will be streamlined.

6.200. *Price policy* is of extreme importance as farmers in Kenya have shown themselves to be highly responsive to changes in the relative prices of agricultural products. Therefore, prices received by farmers are an important part of the incentive system. Prices not only are a major determinant of farmers' income, but they also affect how resources are used, patterns of consumption and the rationing of product use over time. Farm prices must be high enough to make it profitable for farmers to fully utilize land and other resources instead of having them lie idle.

6.201. Increased attention will be given to the Annual Price Review by incorporating more background information and analysis into the price determination exercise. The principles that will guide this review include: a fair return to investments in farming; import-export parity; and the terms of trade between agriculture and other sectors of the Kenyan economy. Those commodities which are sold both locally and abroad will have the prices to the producer set at levels that reflect export value minus marketing costs, levies and taxes. For the majority of export crops, however, domestic producer price automatically reflects export parity. The number of commodities that will come under the price review will be progressively reduced to cover only those that are considered strategic to the country. In the process, increased reliance will be placed on the market mechanism as the major price setting force. The Plan recognizes that prices without prompt payment do not provide effective incentives. The Government, therefore, guarantees prompt payment for all the commodities it or its parastatals purchase from farmers.

6.202. *Improvements in marketing* will continue to be accorded high priority. There is a need to improve farmers' access to markets, for better and more efficient distribution countrywide, the elimination of local food shortages and improved national food security. Some of the programmes and areas of concern are the following:

(i) The marketing arrangements for maize and other grains will be revised with a view to removing existing restrictions on inter-district movements. The National Cereals and Produce Board (NCPB) will be strengthened as a buyer and seller of last resort. Parallel with this effort, grain storage, including on-farm storage, will be implemented to improve storage efficiency and provide additional storage capacity for a national grain reserve.

(ii) The Government will maintain a national reserve for maize and other stable foods. This will be replenished from domestic surpluses and occasional imports, and used during periods of crop failure or other emergency situations. The routine management of the reserve will be delegated to the NCPB, but the Government will assume responsibility for its finance and for any major decisions concerning its utilization.

(iii) Grain milling to meet the demands of the urban population will be left to the private sector; priority being accorded to small-scale mills by producer and consumer co-operatives, as well as by individual entrepreneurs. Since whole maize meal has a higher nutritional value than the sifted, hammer mills in the main maize consuming areas will be encouraged to promote increased consumption of whole maize meal.

(iv) For Kenya to fully dispose of its planned 1988 exportable out-put of coffee in quota markets, its current ICO quota would need to be expanded 13 per cent per annum beyond 1983. Future negotiations will take this situation into account, but the country may well be forced to sell a progressively higher proportion of total output in non-quota markets. Developments in world markets will be monitored closely, and an integrated production and marketing policy will be developed to ensure an optimal combination of annual national stock holdings and sales to non-quota markets.

(v) There will be no restrictions of Kenyan tea production or exports. Kenyan tea is of a uniformly high standard and all exportable production will be disposed of on world markets. The trend towards selling via the Mombasa auction will continue, and efforts will be increased to develop exports of packetted tea to non-traditional markets.

(vi) The marketing system for livestock will be revised to allow more private sector participation. There will be movement towards allowing the market to set prices. However, there will be a guaranteed minimum price for cattle in order to protect producers in the case of drought.

(vii) A healthy competition has developed between the Uplands Bacon Factory and private pig processors. This has increased market channels for producers and the trend will be encouraged in future with respect to other types of livestock.

(viii) In beef marketing, the private sector has already taken over more than 85 per cent of the market for slaughter stock. The trend is likely to continue with the Kenya Meat Commission (KMC) playing the role of buyer of last resort and the Livestock Marketing Division (LMD) intervening in the market to supply immatures to developing ranches.

(ix) An important start in the diversification of milk marketing has been made with the establishment of the Meru Central Co-operative Plant. More similar plants are planned particularly in the smallholder dairy areas of Western Kenya to be operated by co-operatives or private entrepreneurs.

(x) Honey refinery is at present almost exclusively a private sector business. This trend will be encouraged during the Plan period.

(xi) Studies will be undertaken to determine the feasibility of two broiler plants, one in Western Kenya and the other in the Coast Province.

(xii) Domestic leather processing will be encouraged to increase value added and create employment.

(xiii) A comprehensive early warning system on crop and livestock conditions which could lead to shortages or surpluses will be developed during the early years of the Plan.

6.203. *Land use policy* is orientated towards the efficient utilization and development of agricultural lands and in ensuring greater equality of access to this basic resource. Action has already been taken to formalize the spontaneous subdivision of large group-owned farms. The new communities of smallholders which emerge as a result of subdivision will be provided with physical infrastructure, social facilities and agricultural services of the same standard as those already in traditional smallholder areas. To the extent possible, land now being used for experimentation, livestock breeding, as holding grounds in livestock marketing or for fodder bulking will be preserved as large units. A review of land use policies has been undertaken by a special Task Force. Among the recommendations of the Task Force are measures to: invest Government with greater control of land; abolish freehold tenure in favour of a system of leasehold; lease to individuals or companies any large tracts of Government land not being put to productive use; give top priority to land adjudication; establish a Land Laws Review Commission; and address the problem of underutilization of land.

6.204. *The National Extension Project* will revitalize agricultural extension by introducing a new extension management system based upon regular visits to contact farmers and the fortnightly in-service training of frontline staff. The long-term success of the project is dependent on a flow of suitable technology, and research staff will be closely involved in the monthly workshops and in designing, supervising and analysing a comprehensive series of farm-level trials. The project will be re-oriented in the first year of this Plan to include livestock extension in addition to crops.

6.205. *Research Programme* is the major source of the new technology that is vital for the continued success of the National Extension Programme. Extension-research linkages will be strengthened by the establishment of liasion units on all major research stations. Agricultural research policy will focus on development of technologies appropriate to the arid and semi-arid lands and on development of labour-intensive technologies appropriate to smallholder food production. This will be achieved through work on the introduction of new crop varieties, livestock types and husbandry methods that exploit complementaries between crops—livestock mix within the system. Previous research has generated findings and recommendations on a broad areas basis. Efforts will now focus on developing more specific advice for given agro-ecological zones and for specific size groups within each agro-ecological zone. Current farm management research also will be expanded in order to generate recommendations suited to specific socio-economic conditions. This type of research is needed to ensure the continuous adaptation of extension recommendations to changing price ratios, market conditions and input supply situations.

6.206. *Crop Development Programme.*—While the main emphasis of the Plan is on increasing food production on small farms, attention is also given to other crops. Production of industrial and export crops will be raised through crop-specific projects. Production of oil seeds will be promoted through projects involving the private sector, such as the project currently being implemented by East African Industries. The Bura Irrigation Project and the Cotton Processing and Marketing Project will facilitate increased cotton production. Production of fruits and vegetables will be stimulated through a new horticultural programme. The National Sorghum and Millet Development Project will continue to improve production, processing and marketing of these crops. A Desert Crop Promotion Project will aim at cultivating, testing and improving desert crop species.

6.207. *The smallholder mechanization project* emphasizes the use of locally-manufactured hand and ox-tools to ease labour bottlenecks and facilitate the introduction of improved husbandry practices for small farms. Training is provided in the use of the equipment which is provided to farmers on a trial basis. Initial contracts will cover 1,000 sets of an ox-drawn tools bar for maize production, 500 similar sets for potato production, 200 ox-art wheel and bearing sets and 2,000 hand pushed wheel hoes.

6.208. *A low cost approach to irrigation* will be emphasized. Preference will be given to rehabilitation of existing schemes and to encouragement of small-scale projects where water is available through gravity flow. Of the larger schemes, only Mwea is self-supporting. The other five establish-ed schemes continue to depend on Government subventions. The Board has incurred deficits on each of these five schemes in every year since they were established, or were taken over by the Board. In order to improve this situation and to prevent similar occurrences in the future, a detailed Irrigation Development Programme will be formulated in the first year of the Plan period. The Bura Irrigation Scheme will be limited to 4,000 hectares instead of the original 6,700 hectares, but will still impose a considerable burden on the Ministry's development budget.

6.209. Livestock Production will be promoted and increased through a National Livestock Development Programme already identified. Specific projects include:

(i) *Dairy Development.*—The main thrust will be in removing major constraints affecting dairy production in the major producing high and middle potential zones. These includes timely availability of quality fodder and feeds; breed improvement through A.I. and bull schemes; proper and efficient use of multiplication centres; improvement in milk collection, cooling and marketing. Efforts will be made to isolate problem as related to specific areas. Expanded milk collection in the marginal areas will be encouraged so as to tap the excess supply during the wet months.

(ii) *Beef development.*—This will involve both ranch and range developments. Emphasis will be put on the rehabilitation of the on-going company ranches, grazing blocks and group ranches through improved management, better marketing, strengthening of supporting services such as credit, extension and fodder conservation. A project aimed at finishing bull calves from the dairy herd will be promoted during the Plan period.

(iii) *Small stock development.*—Small stock—poultry pigs, sheep, goats and rabbits will increasingly continue to play a prominent part in supplementing beef in the diets of the people. This category of livestock are the most efficient converters of agricultural by-products to meat. The Ministry will promote this sub-sector through improved extension, research, credit, consumption promoting and availability of inputs supplies. A feasibility study on National Bee Keeping Project, with emphasis on research and streamlined marketing of honey and honey products, will be carried out during the Plan period.

(iv) *Other livestock projects* will include the integration of the camel into the national livestock development efforts, the development and improvement of modern slaughtering facilities, the creation of livestock market information services, hides and skins improvement, and a pilot project on animal by-products utilization will be established.

6.210. *Livestock Census* has not been done in Kenya since 1960's. It is intended that a total livestock survey be carried out during the Plan period. Disease control and prevention will continue to play an important role in the livestock sector. Programmes in eradication of prominent diseases such as foot and mouth, tick-borne diseases, helmisthic infestations, etc., will continue to receive emphasis. Existing disease control programme will be strengthened through improved mobility, rehabilitation of depreciated disease control facilities and timely provision of services.

6.211. *Crop inputs.*—Programmes are designed to ensure that adequate supplies of inputs reach farmers on time at reasonable prices. The Kenya Seed Company will expand its operations to achieve a target rate of growth of sales of improved maize and wheat seeds of 10 per cent per annum. Efforts to co-ordinate and demonstrate the benefits that accrue from the use of fertilizers will be channelled through the National Extension Project, with priority attention going to small-scale farmers. The ministry will ensure that adequate amounts of fertilizer of the appropriate quality is imported and distributed to farmers on time.

6.212. *Livestock inputs.*—Special attention will be given to the availability of adequate supplies of livestock feeds and fodder. A feeds quality control laboratory will be established during the Plan period. Kenya will continue to produce the high quality drugs and vaccines that she has developed for domestic and expert use. The artificial insemination programme will be properly priced and expanded to cover a larger area. Where this programme can not operate efficiently due to low demand, bull camps will be encouraged. Availability of good breeding stock is a problem at the moment. Some of the larger Government farms will be converted into breeding centres to increase availability of breeding animals. Water for livestock is an essential input in the arid areas and emphasis will be placed on developing such water at economic rates for livestock production.

6.213. *The supply of credit,* particularly to smallholders, is likely to be severely constrained during the Plan period. To make the best possible use of limited resources, measures to improve financial discipline in the agricultural credit system, especially repayment rates, a New Seasonal Credit Scheme will be introduced. Attention will be focussed on means to expand the funds available for agricultural credit from the commercial sector. Credit packages that recognize the long gestation period of livestock enterprises will be developed, and seasonal credit made available for drugs, vaccines, feeds, and other short-term inputs. The feasibility of introducing a system of crop and livestock insurance, which would be administered separately from the credit system will be examined, and the institutional base and feasibility of establishing national development planning process, though most of them either depend an Agricultural Development Bank reviewed.

6.214. *Arid and Semi-Arid Lands programmes* encompass the actions of several ministries with the role of the Ministry of Agriculture and Livestock Development central to their success. Much of the ASAL areas is poorly managed and over-utilization of some areas has resulted in soil erosion and range degradation. Research will emphasize the evaluation of mixed farming systems that will incorporate forage and water conservation techniques. The stratification programme for moving immature cattle from ASAL areas to higher rainfall areas for fattening will be expanded and the present guarantine system wil' be reviewed to ease these movements. Attention will also be given to camel production. Existing ASAL programmes in Baringo, Machakos, Embu/Meru/Isiolo, Turkana, Kitui, West Pokot/ Elgeyo/Marakwet and Ndeya-Karai will be continued. Additional ASAL programmes are planned for Laikipia, Taita-Taveta and Kwale/Kilifi.

6.215. *The manpower requirements* of the Ministry of Agriculture and Livestock Development will be reviewed in order to adjust the future supply of qualified graduates to the Government's employment capacity. It is anticipated that this process will lead to fundamental changes in the scope and scale of current agricultural education programmes. It is already clear that the rapid rise in the proportion of the ministry's recurrent budget spent on salaries and allowances must be checked.

6.216. Besides increasing output, the agricultural plans are intended to mobilize and conserve agricultural resources and to create significant additional employment in rural areas.

6.217. In addition to the activities that are carried out by the ministries and Departments of Government, there are several semi-statutory agencies that also play a crucial role in development of the agricultural sector. In the past, the programmes of these boards were not properly brought into the national development planning process, though most of them either depend directly on Government budgetary support or raise funding through Government guarantees. During the Plan period, the activities of these boards will be brought closely in line with the Government planning process and their financial and capital requirements will become part of the public investment programme.

6.218. *Food and Nutrition.*—Protein-Energy Malnutrition (PEM) is the principal nutritional problem in Kenya and results primarily from inadequate levels of food consumption. It is fairly widespread in mild form, particularly among children, but severe cases are rather infrequent. About 24 per cent of pre-school age children suffer from mild PEM, while only about 1.7 per cent of pre-school age children have severe PEM. The major food and nutrition policy objective is to create conditions which will enable every individual to have a diet which provides the required nutritional level for full development of his/her physical and mental potential. The target goal is for a *per capita* average of 2,557 calories daily by 1988. Since many people consume less than the average, an additional target is for each adult to have at least 2,360 calories daily.

6.219. One of the causes of poor nutrition is a lack of knowledge about the nutritional value of different foods and how to utilize them effectively. The Government policy will be to introduce nutritional education at all levels, including nursery, primary, high school and universities. At the same time, non-formal nutritional education will be provided to communities through the mass media and community level organizations. During the last Plan period, considerable progress was made in establishing institutional arrangements for integrating nutritional considerations into the formulation, design and execution of agricultural and rural development projects. During the current Plan, special efforts will be made to strengthen the Food and Nutrition Planning Unit (FNPU) in the Ministry of Finance and Planning so that it can effectively monitor the overall development strategies for attaining nutrition targets.

6.220. Strategies to achieve food and nutrition objectives have two main prongs; one, increased food availability which will be achieved through the agricultural programmes; and two, food intervention programmes to improve the nutritional status of vulnerable groups. Intervention programmes will include complementary feeding activities, school milk programmes, food for work programmes and rehabilitation of malnourished children.

6.221. A comprehensive food information and reporting system will be developed in the near future. The system will be co-ordinated by the Inter-Ministerial Crop Forecasting Committee. It will provide an early warning of emerging crop and livestock conditions that could lead to food shortages or surpluses. It will also provide timely and reliable information on the availability and use of agricultural inputs. This information will go into an information bank which will include data on the socio-economic situation of the population, food production and supply estimates, and food processing, marketing and storage. These data will provide the basis for determining the nutritional status of the population.

Lands and Settlement

6.222. Since Independence, about 1.5 million titles have been issued, over 6 million hectares adjudicated and 5.5 million hectares surveyed for adjudication and registration. Government land policy is aimed at achieving optimum land utilization and equitable land distribution. This policy has been pursued with programmes to transform customary land tenure to statutory freehold tenure through land consolidation and registration and, in the former scheduled areas, by transferring ownership from foreigners to landless Kenyans through settlement schemes. The Government has also made urban lands available to prospective developers for industrial, commercial and public amenity development purposes.

6.223. Plan objectives are to provide service infrastructure on alienated government land; accelerate land adjudication and registration of titles; expand existing Land Registries and open new-ones in various parts of the country; purchase additional land for various development projects; and establish a Land Bank.

6.224. With increasing demand for subdivision of large farms, *de-facto* subdivision of these farms for settlement will be given legal recognition and the process of granting individual freehold titles to shareholders will be accelerated. Registration of titles will also continue in the Trustland Areas where land adjudication has been completed and in settlement schemes after completion of title mapping. Conversion of titles in urban areas will be done under the simple and cheaper Registered Land Act.

6.225. Activity will occur in 11 settlement schemes during the Plan period:

(i) Haraka Settlement Scheme will be implemented in Kilifi, Kwale, Murang'a, Kiambu and Machakos (Yatta) districts.

(ii) One Million Acre Scheme will be completely intergrated into general administration after the completion of collecting outstanding loans and issuing land title certificates to individuals.

(iii) Shirika Settlement Schemes will be phased out during the Plan period. Efforts will be made to provide basic infrastructures to improve accessibility of farm inputs into the plots and surplus produce to market. The project is to end in 1984/85.

(iv) Expanded Settlement Schemes and General—Titles will be issued by 1985 and the project terminated in 1985/86 with the administration of the scheme passing to the normal operating ministries. Attempts will be made to recover all outstanding loans by time of completion.

(v) Stateland Settlement Schemes cater for Lake Kenyatta Settlement Schemes in Lamu District. Intensive developments will continue for another three years after which period the project will be handed over to the operational ministries.

(vi) Coast Settlement Project Magarini, a joint project between the Government of Kenya and Australia, is considered a pilot project of farm development and related infrastructure with supplementary activities in agricultural research, forestry and social infrastructure.

(vii) Shirika Conventional Settlement Schemes has five settlement schemes already identified on which 21,000 families will be settled on 137,198 hectares. These schemes will involve intensive development programmes with limited expenditures for infrastructural improvements and maintenance. As part of cost sharing, settlers will be required to contribute part of development resources and to mobilize and use local resources as much as possible.

(viii) Hindi Settlement Scheme includes an area of about 20,000 hectares of medium to high potential land in Lamu District. In Phase I, 1,000 families will be settled in the highest potential areas, giving a plot size of 5 hectares per family. Settlers will include 150 families already squatting in the area. Phase II will settle 1,500 to 1,700 settlers on less productive land for an average size plot of 6 to 7 hectares. The scheme is in its preparatory phase and it is envisaged that the feasibility study will be completed during the Plan period.

(ix) Expanded Stateland Schemes are proposed to open up new settlement schemes in Lamu and Tana River districts. These areas have potential of settling up to 2,000 families in an area of 7,000 hectares. Studies will be undertaken during the Plan period to determine viability of the proposed schemes in these districts.

(x) Small Scale Ranches in Coast Province are to be established as family holdings in marginal areas. Although initial government investments are necessary for basic services, families will be expected to contribute substantially from their own resources in terms of labour and local technology. Extensive studies will have to be done to determine the feasibility of such investments. It is envisaged that this project will commence towards the end of the current Plan period.

(xi New settlements in Kilifi, Kwale and Taita/Taveta have been identified for future settlements on available state land in these districts. The largest portion is located in Taita/Taveta with 15,000 hectares at Mwachobo. Additional settlement potential exists in underutilized trustland which is not adjudicated. It is proposed to carry out investigations during the Plan period to determine possibilities of establishing settlements in these areas.

Natural Resources

Forestry

Policy Objectives and Constraints

6.226. The traditional role of forests in Kenya has been to provide the people with fuelwood and raw materials for buildings, tools and implements. However, technical and industrial development has resulted in forests being used extensively as raw material for mechanical and chemical wood-based industries producing, e.g., sawn timber, panels, boards, pulp and paper. In addition, the Nation's forests contribute to well-being of the people through their protective impact on an environment.

6.227. At the end of 1982, the nation's natural and man-made forests was approximately 3 per cent of the total land in Kenya. This is about 2.4 mill. ha. of which 1.5 mill. ha. is gazetted and 0.8 mill. ha. ungazetted forests land. Indigenous forests are approximately 0.94 mill. ha. of the gazetted forests land and plantation forests are 0.15 mill. ha., Indigenous forests have a production potential on a sustained yield basis of about 130,000m^3 of wood annually, while plantations produce about 1,700,000m^3 per annum.

6.228. The tenets of the Forestry Policy objectives during the Fifth Plan period will include: reservation of land for forestry purposes; protection of forests resources; conservation and management of forests; development of agro-forestry; continued establishment of forest estates; promotion of forestry and tree planting on identified trust as well as on private lands; promotion of forestry for public amenities and wildlife; ensuring continuing research in forestry; and conducting mass public education on the value of forestry.

6.229. The constraints that will increasingly affect the future developments in the forestry sector, include: conflict in land use between forestry and other alternative uses particularly agriculture and grazing; demand and supply imbalance of forestry products particularly in woodfuel; uncontrollable depletion of forests for domestic and industrial uses, reflecting lack of legislation which would enable the Forest Department to control and protect forests on trust and private lands; poor technical and financial state of saw-milling industry; inadequate finance for forestry development; scarcity of trained manpower and lack of a long-term Master Plan for integrated development of forestry and forest industries.

Strategies

6.230. The following strategies will be adopted for the Fifth Development Plan: the objectives within the Forests Policy:

(i) New planting will be focussed on private and communal lands because the availability of state owned lands is becoming a constraint.

(ii) Planting on private and communal lands will serve multipurpose uses such as fuelwood, wood for other domestic uses and the prevention of environment degradation.

(iii) Because arid and semi-arid regions are the most vulnerable to depletion of fuelwood, these will be given a special emphasis in allocation of resources.

(iv) In order to cope with the increasing demand for commercial wood, industrial plantations will be increased and the use of the existing plantations and indigenous forests will be intensified.

(v) For the better control of exploitation of the existing forest resources field staff will be increased and infrastructure in forest areas improved.

(vi) Overall long-range planting in the forestry sector will be improved.

(vii) Resources for forest research will be increased in order to cope with the increased demand in planting marginal lands.

Demand—Supply Balance of Forestry Products

6.231. In planning for forestry development, a distinction needs to be made between forest resources for industrial purposes and those for woodfuel and other domestic uses. During the Plan period Kenya still will have considerable surpluses for industrial purposes, ranging from 0.7 mill. m^3 in 1982 to 1.2 mill. m^3 in 1988 in roundwood equivalent. In the long run, say, by the year 2005, the country might face a deficit in availability of pulplogs. However, the pulp and paper industry still can expand considerably its raw material base by using increasingly thinnings from sawlog plantations. The national demand for woodfuel and other wood products for domestic uses, on the other hand, starts gradually to outstrip supply and this shortage is already acute in some districts. The fuelwood crisis can be partly resolved by increased planting of trees, especially on private and communal lands and by a more efficient use of woodfuel for different purposes.

6.232. The programme of action is drawn up on the basis of the above objectives and strategies. Its aim components are as follows:

(i) *Forestry Plantation Development* has hitherto been the biggest Forestry Programme. During the Plan period the Forest Department will maintain an annual planting programme of 8,500 ha. of which 5,500 ha. will be new planting. This will raise the total plantation area from the current 154,000 ha. to 1981,500 ha. by 1988. Government will also strengthen the Forest Economics Section and establish a Management Information Systems Section.

(ii) *Rural Afforestation and Extension Scheme* will become the main vehicle of afforestation in the country as more and more emphasis is focussed on individual farm and communal lands especially in semi-arid and arid areas. The Government has set a target of 200 million seedlings to be raised annually. The bulk of this amount will be raised through this scheme. The department plans to open tree nurseries in all administrative divisions in the country. The concept of agro-forestry will be tested, and made to work so that the individual farmers may come to appreciate and plant tree species that will be of multiple use, especially as a source of fuelwood, building poles, fodder for animals and possibly fruit for human consumption.

(iii) *Local Afforestation Scheme* will emphasize soil conservation activities, and trees grown in these forests will be available to the local population primarily as fuelwood and building poles.

(iv) *The Chiefs' Nurseries.*—In an effort to make it easy for the rural population to obtain tree seedlings within walking distance, the Government launched the Chiefs' Tree Nursery Scheme in 1981. The intention was to start at least one tree nursery in every location in the country. It is expected that over 700 such nurseries will be opened by the time the scheme is fully operational, of which 600 nurseries are expected to be operational by the end of the Plan period. The department will continue to give technical advice, free seeds and minimal personnel mostly in form of nursery headmen.

(v) *Machakos Integrated Development Project* will continue into the next Plan although the planting programme will be reduced from 200 to 150 ha. per year.

(vi) *Product Development Promotion and Marketing Unit* is intended to provide intensive industrial extension services to the primary and secondary wood-using industries in conjunction with the Forest Industrial Training Centre (FITC) at Nakuru.

(vii) *Forest Research and Development Programmes* will strive to provide appropriate formulae and standard procedures to make forest management more effective. New alternative skills, appropriate silvicultural practices and new products will be explored. The main activities of the expanded research programme during the Plan period will be: species and provenance trials and plantation management studies, afforestation research for arid and semi-arid lands, silviculture of natural forests, forest protection research (forest pests and diseases), forest products research, community forestry, agroforestry, tree germplasm conservation, forest mensuration and economics, tree improvement, and tree seed technology.

6.233. *Arid and Semi-arid Lands Development* will continue with added vigour during the Plan period. The Turkana Integrated Development Project, assisted by the Norwegian Agency for Development, will continue to research on and to establish drought resident fuelwood species suitable for the area. Other projects include the Magarini Project, the Embu/Meru/Isiolo Integrated Development Project, and in Baringo District the Baringo Pilot Semi-Arid Area Project, FAO/GOK/Australian Fuelwood/Afforestation Extention Project and the Belgium aided Euphorbia Hydrocarbon Research Project.

Construction of Forest Roads

6.234. Forest roads are essential for ease of access into both indigenous and plantation forests for patrolling, planting, extraction and fire fighting among other reasons. During the previous Plan period, there were two road units at Londiani and Nyeri. Due to an expanding forest plantation area, it has now been felt that the two units are too far apart as a result of which the demand for new roads construction has not been met adequately. Consequently, during the Fifth Plan period, the Department will open-up two more road units in Eldoret and Kitale.

Education and Training

6.235. The Forest Department will require an additional 145 Foresters and 559 Forest Assistants in order to bring the established positions to 322 Foresters and 1,167 Forest Assistants. The University of Nairobi will continue to meet most of the staff requirements particularly that of Assistant Conservators of Forests, whereas Londiani and Egerton Colleges train Foresters and Forest Guards. During the Plan period the Forest Industrial Training Centre (FITC) through Finnish technical aid, will resume its old role of training sawmill personnel in technical aspects.

Mineral Resources

6.236. At Independence, about 70 per cent of Kenya had been geologically surveyed at a reconnaissance scale. By the year 1982 the area geologically surveyed stood at 78 per cent and the remaining area of 22 per cent not yet surveyed is confined to very remote parts of the country. The slow pace realized in geological survey coverage was due to the fact that immediately after Independence priority was given to mineral exploration. About 25 per cent of the country has also been covered at various degrees by airborne geophysical surveys.

6.237. At Independence, mineral production contributed K£2.5 million which was then about 0.3 per cent of the GDP. By 1981 mineral production had risen to K£11.5 million and this showed an average annual growth rate of 5.3 per cent with about 75 per cent of the minerals produced being mainly non-metallic.

6.238. The overall goal in mineral resources development during the Plan period will be to maximize the benefit accruing from the exploitation of mineral resources through careful and systematic exploration and exploitation. Exploration will be undertaken both by the Mines and Geological Department and the private sector. In order to encourage exploration and exploitation participation by the private sector, the Department will undertake a review of Mineral Policy and mining legislation in order to streamline all the laws which impinge on mineral resources development to provide for the necessary incentives for attracting investment in the mineral sector. Effective administration and management of mineral laws will continue to be undertaken in order to promote domestic mineral production.

6.239. The Department will carry out geological mapping and mineral exploration programmes of the remaining 20 per cent of the unmapped parts of the country and systematic mineral exploration with remapping of high rated mineral potential areas. Geological mapping at a regional level will be conducted in the unmapped parts of Northern Central Kenya to produce geological maps at a scale of quarter million (1:250,000) and the accompanying reports will be published. Revision of geological mapping will produce reports and maps at a scale of 1:50,000, these will cover areas previously mapped at reconnaissance scale particularly in Western Kenya and the Coast.

6.240. Geophysical and geochemical prospecting programmes will be conducted to supplement detailed geological programmes in order to identify mineral deposits. Geophysical surveys utilizing both airborne and ground methods will be conducted to map and identify "target" areas for investigation of mineral occurrences.

6.241. Mineral development activities will cover exploration and evaluation of both metallic and non-metallic minerals. In particular, evaluation of base metals will be undertaken in areas which show high potential such as the Coast Province for lead-silver and rare earth, while in Western Kenya chromite, copper, lead, gold, nickel, and iron will be investigated. A comprehensive mineral inventory with reports will be prepared for non-metallic minerals and this will cover most parts of the country that have been reported to have non-metallic minerals. In order to care for the environment and avoid soil erosion and ground subsidence, the Department will undertake the rehabilitation of disused mines and quarries which also pose hazards to both life and property.

Fisheries

6.242. Great progress has been made in the fisheries sectors since Independence resulting in increased fish production. Total fish landed in 1963 was about 19,700 tons valued at K£1.1 million. This increased to 80,000 tons in 1982 and was valued at K£11 million.

6.243. Because of the very specialized nature of coastal and marine fishing and the low level of technology used, the amount of fish landed at the Coast increased very little—from 5,000 tons in 1962 to 6,000 tons in 1982. In contrast, there has been a rapid development in fish farming which is now capable of producing 550 tons per year.

6.244. Target level of fish production to be reached by 1988 will be 120,000 metric tons broken down as follows:

Lake Victoria, 50,000 tons; Marine Fisheries, 20,000 tons; Coastal Aquaculture, 6,000 tons; Lake Turkana, 15,000 tons; Lake Naivasha, 1,250 tons; Lake Baringo, 750 tons; other lakes, dams and rivers, 7,000 tons.

6.245. Activities to achieve these targets include the following programmes:

(i) Emphasis will be given to fish farming as this contributes more to the improvement of the nutritional status of local communities, earns money to fish farmers and fits well in waterlogged soils and mangrove swamps. Shrimp farming will be intensified to earn more foreign exchange.

(ii) Specialized extension services of fishermen will be given to strengthen fishing and fish handling capabilities of small-scale fishermen.

(iii) Introduction of new fishing gear and improvement in transport facilities as steps to increase production of inland waters.

(iv) Restocking of Lake Victoria, Lake Turkana and Lake Naivasha. Planting trees and grass around Lake Baringo in order to curtail the siltation process.

(v) Better exploitation of the ocean and lakes will be achieved by the intensive use of vessels belonging to the Kenya Fishing Industries and the use of appropriate boats and better fishing techniques. Boat making will be given more attention.

(vi) The establishment in Mombasa of a fish canning plant will be encouraged.

(vii) Encouragement will be given to the establishment of ice making plants at Mukue in North Coast, Shimoni, in South Coast, Kisumu and Homa Bay to provide ice for preservation of fish and fishery.

(viii) Formation of Fish Development Authority is planned to develop and exploit fish resources including processing, marketing and distribution of fish and fishery products.

6.246. The Fisheries Department is establishing fishing stations within the major fisheries to facilitate the smooth administration of fishing activities and provide the necessary extension services to fishermen.

6.247. Fisheries research has provided new, better yielding species along with new methods for fish propagation, control of fish diseases and development of appropriate fishing gear suitable for Kenya conditions. The Kenya Marine and Fisheries Research Institutes will conduct research work in both inland and coastal areas aimed at maximizing on sustainable basis, fish production in the country. The Kisumu research station will deal with problems arising from freshwater fisheries while the Mombasa station will deal with problems of all research matters relating to the Marine Fisheries. The Kiganjo Station will supply trout fingerlings to coldwater fish farmers while Sagana Station will provide fingerlings to warmwater fish farmers. Both Kiganjo and Sagana will conduct research aimed at improving fish farming techniques for both cold water and warm water fish. The Department will receive specialized personnel from the university and from abroad to cater for the professional staff requirements, while 800 staff members will be trained at the newly established Wildlife and Fisheries Training Institute at Naivasha.

IV. MANUFACTURING, COMMERCE AND TOURISM

Manufacturing

6.248. Industrial development has its own long-term goals of socio economic significance as distinguishable from immediate priorities for Plan period. Long-term goals include: diversification of national economy, accomplishment of rapid rate of economic growth, improvement in export performance, production of supplies required to support development in the primary sectors of economy, employment generation, production of goods and services to meet the basic human needs, development of a diversified technological base, dispersion of industry and equitable distribution of the fruits of industrialization.

6.249. The main thrust of this Plan will be on the consolidation of the existing industrial base, mobilization of domestic investment resource, establishment of continued confidence of foreign investors in the national economy, and expansion of the Kenyan entrepreneurship and industrial management base. Investment of public funds in equity will be restricted to new industrial projects of national significance. Priorities in the field of industrial consolidation will include balancing, modernization and expansion of existing enterprise so as to gain maximum production efficiency, product diversification, improvements in the capacity to export and establishment of backward linkages required to replace imported inputs.

6.250. So as to diversify the geographical location of industries, investors and promoters will be encouraged to locate new industrial projects outside Nairobi and Mombasa. Emphasis during this Plan period will be on export-oriented, resource based and labour intensive industries. Promotion and development of producer's goods industries will be encouraged where the replacement of imported inputs is possible and economically viable. In the field of small and cottage industries, the emphasis will shift from capital intensive modern industries to skill based industries. Special attention will be paid to the selection and development of industries typical to the rural areas.

6.251. The following order of priorities has been established to guide the operations of Development Financing Institutions, the Import Licensing Authority, the existing industrial enterprises and new investors in the private sector for industrial development during this Plan period—

(*a*) resources based, export oriented industries;

(*b*) export oriented industries based on imported inputs provided net value added is 25 per cent or more;

(*c*) balancing, modernization and expansion projects of existing individual enterprises;

(*d*) industries needed to support development in other sectors of economy;

(*e*) producer goods industries needed to reduce the import liability of existing industry;

(*f*) import substitution industries based on domestic inputs; and

(*g*) assembly industries based on CKD kits with 10 per cent or more local content.

Development Strategy

6.252. Private enterprises will continue to perform a key role in the field of industrial development. Decisions in the private sector will however be influenced and guided by Government policies relating to tariff, imports, exports and price designed to make a skilful use of these measures and means to achieve the objectives already mentioned.

6.253. To ensure *optimum utilization of installed capacity*, industrial materials and spares will be listed on the import schedule which permits automatic licensing free from quota of ceiling. To remove market constraint, foreign exchange facility will be provided for export market research and participation in the international exhibitions. Prospects of replacing the sales tax on turnover by a capacity tax will be assessed. Taxable capacity, if this tax is applied, will be raised gradually to the assessed capacity of a plant.

6.254. To ensure *improvement in the capacity to export*, the import of plant and machinery equivalent to 20 per cent in value of the export earnings of an industrial enterprise will be allowed free from any restriction. Exporting enterprises will be allowed room for manoeuvrability in export pricing. The scope of Export Compensation Scheme will be expanded to cover carcass meat, meat cuts and certain dairy products. Export Credit Guarantee Scheme, production under bond and the establishment of export processing zones will be considered as additional export promotion measures.

6.255. To *reduce import liability of the Manufacturing Sector*, existing enterprises will be guided to develop projects to achieve backward linkages where economically feasible. New projects will be developed to manufacture producer's goods such as steel, caustic soda, sulphuric acid, PVC, polyethylene, polyester chips, distilled alcohol, bamboo pulp, fertilizers, active ingredients of insecticides, machine tools, farm machinery and spares of industrial machinery. These projects when developed will be distributed world wide to attract investment for realization.

6.256. The public will be encouraged to participate in industry through the purchase of shares.

6.257. *Mobilization of domestic resources for investment* will be assigned a high priority. To mobilize common man's savings, the prospects of establishing an Industrial Investment Trust of Kenya will be considered. Co-operatives will be permitted and encouraged to promote, establish and run manufacturing enterprises in their related fields.

6.258. Construction companies will be facilitated to invest in building materials industries. Similarly companies engaged in the tourist business could be persuaded to establish handicraft emporia at Nairobi, Mombasa and other tourist resorts.

6.259. The existing policy to attract *direct foreign investment* will be continued and reinforced by offering investment allowance at a higher rate and credit assistance on a preferential basis to those foreign investors who are willing to promote and establish joint ventures with Kenyan private enterprises.

6.260. *Kenya entrepreneurship will be developed* by providing training and advisory assistance. An Industrial Extension Service will be established to assist Kenyans in the selection, formulation, and implementation of industrial projects. Through training Kenyan entrepreneurs will be equipped with skills to mobilize common man's savings and to acquire and maintain a credit rating required for project financing. Existing regulations related to the employment of expatriates on top managerial positions will be made more effective.

6.261. *Manpower development* activity will be re-organized. A national scheme of industrial training will be developed in conjuction with other relevant ministries.

6.262. *Employment generation* will be achieved by laying emphasis on further growth and diversification of industries with high labour intensity, viz. sugar, textiles, wood working, rubber and certain industries in sub-sectors like chemicals and metal and engineering. In the field of small industries, intermediate technology will be promoted. To generate employment in the rural areas, typical rural industries will be chosen and developed. Handicraft sub-sector will be expanded and diversified. Self-employed units to provide repair and servicing facilities will be supported.

6.263. The problem of *industrial dispersion* is basically a problem of area development planning. Now when "District" has been chosen as a "development unit", success seems to be assured. In the Manufacturing Sector, this is a task assigned to the Industrial Extension Service which will undertake pre-investment studies by districts.

Small and Cottage Industries Sector.

6.264. A full fledged Small Industries Division will be established in the Ministry of Commerce and Industry to monitor the implementation of small industries development programme and to provide assistance to the Industrial Extension Service in collaboration with the Project Studies Division. This Division will further investigate the prospects of promoting ancillary industries required to feed the assembly plants and to replace the import of spares.

6.265. The following definitions of Small and Cottage Industries will be adopted at the national level. Small industries are units engaged in processing, manufacturing, assembling and/or servicing activities having total fixed investment ranging from K.Sh. 50,000 and K.Sh. 500,000 if the cost of land, buildings and civil works are included and between K.Sh. 50,000 and K.Sh. 300,000 if the above mentioned costs are excluded; or in which employment varies between 6 and 49 persons and the plant is run partly or wholly with motive power. Cottage industries are those in which the fixed investment is less than K.Sh. 50,000 *or* employment is less than 6 if the plant is run with motive power or any number if no motive power is used.

6.266. Certain areas of industrial production will be reserved for development in the Small Industries Sector. A tentative list of industries developed for this purpose is given in Table X. This will be reviewed from time to time and published in the official Gazette. This will not apply to establishments already engaged in the production of items reserved for small industry.

Initial Tentative List of Items to be Reserved for Future Production in the Small and Cottage Industries Sub-Sector

Agro-Industries

1. Grain-milling (except maize).
2. Bakery.
3. Jaggery.
4. Oil-seed crushing (except coconut and groundnut).
5. Sanitary napkins, surgical bandages, cordage and ropes.
6. Hosiery products.
7. Spices and condiments.
8. Cattle and poultry feed.
9. Hand made sisal products.
10. Fibre brushes.
11. Wooden products like boxes, stationery items, toys, sports goods and building.
12. Handmade footwear.
13. Leather goods like suitcases, bags, belts, straps, garments and sport goods.
14. Rubberized goods like footwear, cloth, gloves, pipes, tubes, toys, sports goods and bushes for automatic equipment.

Chemical Industries

15. Distempers—dry and oil-based.
16. Painting and duplicating inks.

17. Varnishes for wood.
18. Cashew shell oil.
19. Stamp pads.
20. Inks for stamp pads and other.
21. Printing (except books and newspapers) and publishing.
22. Laundry soap.
23. Chlorinated paraffin wax.
24. Cosmetics like talcum powder, hair oils, creams and nail polish.
25. Wax candles.
26. Adhesives based on rubber, gums, starch and adhesive tapes.
27. Stationery products of paper and board.
28. Clay bricks, tiles, cement concrete blocks and hume pipes.

Metal Industries

29. Nails.
30. Bolts, nuts, and rivets (except for high tensile and other special types).
31. Barbed wire.
32. Expanded metal and rolling shutters.
33. Hand-operated numbering and stapling machines.
34. Hand-operated sprayers and dusters.
35. Wire brushes.
36. Greases guns and nipples.
37. Weights.
38. Domestic utensils including bucket (except stainless).
39. Hand-operated agricultural tools and implements.
40. Brushes of gun metal.
41. Drums and barrels.
42. Building elements like shutter doors, window frames, water tanks, grills etc.
43. Pins and clips.

6.267. The Ministry of Commerce and Industry will, in collaboration with the Ministry of Culture and Social Services, prepare a co-ordinated plan for the development of handicrafts and cottage industries with the object of diversifying handicraft production, creation of design development facilities, establishment of common production services and organization of craftsmen to facilitate the procurement of supplies and to render credit assistance.

6.268. KIE will study the prospects of developing typical rural industries like cericulture, resign and turpentine, bamboo and cane-work, clay work, pit tanning, handloom weaving, carpets and like and develop a programme to refine development techniques in the pilot areas to be chosen for this purpose. Once success is achieved, extensive development techniques will be used to spread the benefits to the other rural areas.

Development Targets

6.269. During this Plan period, the Manufacturing Sector is projected to grow at the rate of 3 per cent in 1984, 5.4 per cent in 1985, 6.5 per cent in 1986, 7 per cent in 1987 and 7.5 per cent in 1988. Growth by industry will vary depending upon projected improvement in capacity utilization situation, direction of growth, investment financing programme of Development Financing Institutions and institutional support. Based on these considerations GDP growth by industry has been projected and provided in Table 6. below. Investment targets based on the relationship which hitherto existed between GDP growth capital formation in the Manufacturing Sector already given in Chapter 3 can be shown separately for large, medium and small industries as under:

	Investment Target During 1984–88 (K£ Million)
Large-medium industries sub-sector	619.0
Small and Cottage industries sub-sector	152.9
TOTAL	771.9

6.270. Targets of modern sector employment growth in the manufacturing sector over the Plan period have also been shown in Chapter III. These have been broken down by large, medium and small industries below. Incidentally, the estimate of average investment per job at 1982 constant prices in each sector is also shown:

Particulars	*Large and medium Industries*	*Small and Cottage Industries*
Target of Employment in No.	24,740	14,660
Projected Investment over the Plan period in million of K£	619.0	152.9
Estimated Gross Investment per job at 1982 constant prices in K£	25,020	10,430

Programme for Individual Industries Groups

6.271. Studies carried out to identify the problems and prospects of each Industries Group have led to the identification of industries with promising prospects as well as policies required to remove the constraints inhibiting growth in each case. A brief discussion of some policies to be followed in different cases is given below.

Agrobased Industries

6.272. Government will review and improve the price structure of inputs and outputs and financing structure of the mills in which public funds are invested. Sugar mills will be advised to improve their thermal balance and to develop projects for the use of surplus baggasse. Palm oil will be made expensive by raising the import duty to provide an opportunity to domestic farmers to start sunflower cultivation on an extensive scale. To enable KMC to regain its position in the export market, normal compensation of 10 per cent will be allowed on the export of carcass meat. To promote the export of butter, cheese, ghee and dry milk, the prospects of providing export compensation at a higher rate will be considered. Starch and its products will be brought on the import schedule requiring clearance from the concerned ministry prior to licensing. Particle board plants will be assisted to equip themselves for producing chips from waste wood.

6.273. Growth prospects identified indicate strong prospects for expending the capacity to produce Sugar, Distilled alcohol, Starch, Biscuits, Confectionary, UHT Milk, Plywood, Knockdown furniture both for domestic consumption and export.

6.274. New projects identified or developed include: production of solar salt, banana puree, papain, second pineapple cannery, lime oil, freeze drying of vegetables, aromatics and basic pharmaceutics based on local plants, groundnut processing into oil and protein, coconut processing to produce oil, both edible and for industrial uses, glycerine and oil chemicals.

6.275. A paper mill based on bamboo will be planned and established primarily for export in co-operation with the Lake Basin Development Authority. A pulp mill will be established to produce diversified pulp for promoting the development of small size paper and board mills.

Textile Industries

6.276. A K£75 millions programme for its balancing, modernization and expansion will be implemented during this Plan period. To improve the capacity of the industry to export, a basis will be developed by which differential in the local and international price of cotton consumed in the goods exported, forms a part of its export compensation. The vertically integrated mills will be equipped with 7 units to produce cheap garments from substandard cloth for sale in the domestic market. In addition 9 new garment factories will be established to build up exports. A large size weaving complex will be established to supply export quality cloth to garment factories.

Tanning and Leather goods industries

6.277. A step by step approach as outlined below will be used to develop the tanning industry:

(i) All licenced slaughter houses will be equipped with modern techniques of flaying.

(ii) Export duty on wet blue will be abolished; export compensation and import of tanning machinery equivalent to 10 per cent of the export earnings on wet blue will be allowed.

(iii) Two large size wet blue plants will be established to process the hide turnover of KMC abattoirs.

(iv) Once wet blue capacity is built up, export duty on wet blue will be re-imposed but tanning machinery in value equivalent to 20 per cent of export earning will be allowed to be imported.

(v) Once capacity to produce crust is created, the rate of compensation on the export of finished leather will be raised.

(vi) Subsequent to the creation of finished leather capacity export compensation on leather will revert to normal but that on footwear and leather goods raised.

(vii) Manpower development will start from the very first step. Fellowships will be awarded for degree courses in tanning and diploma courses in specific fields of industry.

Chemical and Allied Industries

6.278. During the Plan period, capacity to produce caustic soda will be raised from 5,000 to 40,000 tons, through the establishment of two new plants, one based on Lake Magadi Soda and the other on Solar Salt. Capacity to produce sulphuric acid will also be raised from 6,000 tons to 16,000 tons per year. In an endeavour to substitute the import of fertilizers, the plant already imported and lying in crates at Mombasa will be established to cater for the needs of ammonium nitrate and phosphates. Pesticides formulation plants will be encouraged to use locally available carriers and fillers by making imports of competing materials expensive. Production of active ingredients for insecticides will be encouraged. Pharmaceutic formulation plants will be encouraged to go into backward linkages. Pharmaceutical plants of Kenya will be processed to produce alkaloids and extracts for export.

6.279. Plastic and rubber are two other major industries in this sub-sector based on imported inputs. Prospects of establishing rubber plantations in the Coast Province have already been established. The Forest Department could develop a large size plantation. The existing industry may be encouraged to establish a rubber reclamation plant. Another tyre plant will be established during this Plan period and the existing plants will be expanded to produce conveyor, transmission and V Belts, automotive rubber components and window channels, weather strips and radiation hoses. As regards plastic, the prospects of producing PVC and polyethylene will be further investigated. It is however possible to produce granulated plastic materials from scrap.

Non-metallic Mineral Products

6.280. This sub-sector is still in the initial stage of development. There are at present two cement factories with an annual capacity of 1.2 million tons. To produce exportable surpluses after meeting domestic demand, another cement plant will be established which will raise the capacity to 1.7 million tons. Present capacity to produce glass bottles will be expanded substantially through the opening of its own plant by Kenya Breweries and expansion of other existing plants. A new project will be set up to produce 16,000 tons of sheet glass. A large size new project is also under consideration to produce 5,100 tons of ceramic goods (viz. Table and sanitary ware and electrical insulators). A new mechanized p'ant will be established in Kisii where suitable clay deposits have been identified for the manufacture of clay bricks.

Metal and Engineering Industries

6.281. To reduce the high import liability of this group, the policy to achieve backward linkage is being pursued actively. Non flat rolling capacity is now surplus to domestic consumption. To achieve backward linkage, steel melting plants were established but capacity is underutilized due to short supply of scrap and import of billets. To correct the situation, import of scrap will be liberalized and duty on the imported billets and its products will be raised. In the area of flat products, a tinning plant will be established during this Plan period to complete sheet coating processes. A hot strip rolling mil! has also been planned and this will be established during this Plan period. Casting, forging, fabrication and sheet metal pressing facilities will be expanded. Projects for the establishment of a foundry and a forge shop will also be developed to attract investment.

Capital Goods Industries

6.282. A project for the establishment of a Machine Tool Factory is already developed and will be circulated for promotional purposes. New projects will be developed to promote the production of Internal Combustion Engines, Pumping Sets and Farming equipment. During the Plan period, the evaluation of the feasibility studies of the integrated iron and steel project will be completed.

6.283. Motor vehicle assembly industry will be consolidated by requiring them to shift from SKD to CKD. Ancillary industries will be developed primarily to rep!ace the import of those motor car parts, the production of which is commercially feasible. The imports of vehicles will be restricted to fewer makes and models to make ancillary production of selected autoparts viable.

6.284. A project has already been developed for the production of Communication Electronics at an estimated cost of K£12 millions. This wil! be implemented by Kenya Posts and Telecommunication Corporation. A Product Design and Development Centre will be established in the Kenya Institute of Research and Development.

Table 6·9

ACTUAL AND PROJECTED GDP IN INDUSTRIES

(K£ Million and Percentages)

Industries	Actual GDP 1981 Current Prices	Projected GDP (1982 Prices) 1983	1988	Percetange Change 1983–1988
I FOOD INDUSTRIES SUB-SECTOR—				
1. Meat and Diary Products including by-products	8,271	9,234	12,532	35·7
2. Canned or processed products of vegetables, fruits, fish, oils and fats	15,745	17,577	23,352	32·9
3. Grain mill products and by-products ..	5,173	5,774	6,993	21·1
4. Bakery products	3,105	3,465	4,196	21·1
5. Sugar and confectionary	15,816	17,554	23,862	35·9
6. Miscellaneous products of food industry ..	25,725	28,821	39,117	35·7
Sub-Total Food Industries Sub-Sector ..	73,835	82,425	110,052	33·5
II.—BEVERAGES AND TOBACCO—				
7. Beverages and tobacco	36,363	40,596	53,932	32·9
Sub-Total of Sub-Sector	36,363	40,596	53,932	32·9
III.—TEXTILE SUB-SECTOR—				
8. Textile (spinning, weaving and finishing) ..	26,948	30,084	42,717	42·0
9. Clothing	9,408	10,503	14,910	42·0
Sub Sector's Total	36,356	40,587	57,629	42·0
IV.—LEATHER—				
10. Leather and leather goods	7,095	7,920	12,568	58·7
Sub-Sector Total	7,095	7,920	12,568	58·7
V.—WOOD AND WOOD PRODUCTS—				
11. Wood and cork products (saw-milling, veneering, plywood, particle and fibre boards)	7,652	8,611	10,069	16·9
12. Furniture, fixtures and crafted products ..	4,019	4,487	6,831	52·2
Sub-Sector's Total	11,671	13,048	16,899	29·0
VI.—PAPER AND PRINTING—				
13. Pupl, paper and their products	16,844	18,804	25,915	37·8
14. Printing and publishing	17,643	19,696	23,031	16·9
Sub-Sector's Total	34,487	38,501	48,946	27·1
VII.—CHEMICAL SUB-SECTOR—				
15. Chemical industries other than those specifically mentioned	10,804	12,061	16,370	35·7
16. Petroleum products and by-products ..	25,082	28,001	32,742	16·9
17. Rubber industry	9,502	10,607	13,289	25·3
18. Plastic industry	5,198	5,852	7,820	33·6
Sub-Sector Total	50,586	56,521	70,226	24·2
VIII.—INDUSTRIES BASED NON-METALLIC MINERALS EXCEPT PETROLEUM—				
19. Pottery and Glass	1,646	1,836	2,684	46·2
20. Cement, clay and other non-metallic mineral products	8,414	10,562	14,555	37·8
Sub-Sector Total	10,060	12,398	17,239	39·0
IX.—METAL AND ENGINEERING INDISTRIES—SUB-SECTOR—				
21. Basic and secondary metal products	23,906	26,688	36,222	35·7
22. Non-electrical machinery appliances and products	2,137	2,385	3,387	42·0
23. Electrical and Electronic appliances/machinery	24,757	27,639	36,720	32·9
24. Automotive industry	24,858	27,416	36,423	32·9
Sub-Sector's Total	75,658	84,129	112,752	34·0
25. Industries not elsewhere specified	3,009	2,526	3,356	32·9
TOTAL	339,120	378,701	503,599	33·0

Internal and External Trade

Internal Trade

6.285. Before Independence commercial activities were unevenly distributed, being centred mainly in urban areas and were largely controlled by non-citizens. In fact, indigenous Kenyans had little involvement in retail business and were concentrated mainly in rural areas. In the last four development plans, considerable emphasis was placed on the expansion of the commercial sector, comprising wholesale and retail trade, hotels and restaurants, together with the ancillary services of transport, storage, communications, banking, insurance, real estate and other related services. At the same time, the increase of citizen participation was also promoted by Government.

6.286. The commerce sector has been going through a recession since 1979 and has only averaged a real growth rate of 1.7 per cent per annum since 1978. The level of trading activities naturally reflects the volume of marketed production from agriculture and industry, and the volume of international trade. A number of developments in those areas have had a particularly adverse effect on commerce such as the drought conditions in 1979–80 which had a particularly severe effect on agriculture. In 1978 and 1982 the volume of exports also went down a little, while manufacturing lost much of its dynamism, partly as a result of severe import restrictions.

6.287. The commercial sector, being relatively labour-intensive, is also an important source of employment. As at 1982 some 75,000 were recorded as in wage employment in trade, restaurants and hotels, with a further 97,000 in transport, communications, finance, etc. In total, this employment accounted for 16.5 per cent of total recorded wage employment in that year; commerce alone accounted for 7.2 per cent. These figures relate only to recorded wage employment. The sector, is in addition, a major source of self-employment and of "informal" employment.

Objectives and Targets

6.288. While the Government does not envisage a comprehensive change in the policies that have hitherto been pursued in the internal trade sector, it will be necessary to take steps to activate increased productivity and further generate employment opportunities. The main objectives of Government policy in this area will be the following—

(i) expansion of the commercial sector, by encouraging more investment. Since the level of Government spending in commercial ventures will be reduced, the private sector will be given incentives to increase their output;

(ii) the participation of all Kenyans, particularly indigenous Kenyans, in the commercial sector. Programmes geared to Kenyanization will be intensified;

(iii) up-grading the business skills of the business community through the provision of extension services;

(iv) co-ordination of the provision of credit facilities for commercial purposes from various quasi-Government and private institutions;

(v) improvement of the collection of information on company operations and market practices and the machinery for regulating product quality, standard and prices.

6.289. The level of activity in the commerce sector is essentially a function of the levels of output of agriculture and industry and of the volume of international trade and tourism. The growth targets for this sector, therefore, have to be set in the light of the overall pattern of development envisaged in this Plan, as set out in Chapter 3. Similarly, the sector's ability to achieve the target set will be to a substantial extent depend upon factors external to it.

6.290. Given the overall pattern of development, and growth targets set out in Chapter 3, it is envisaged that the commerce sector will expand at an average rate of 3.2 per cent annually over the Plan period as a whole. However, it is expected that expansion will be only slow in 1983/84 but will therefore pick up to expand at about 4.3 per cent for the last four years of the Plan. At the same time, the related sector of transport, storage and communications is expected to grow at 4.8 per cent per annum over the Plan period, while finance, insurance, real estate and business services are targetted to expand at 6.4 per cent.

Policies and Programmes

6.291. The achievement of the objectives and targets set out will require Government action on many fronts and the following sets out some of the intended lines of action.

6.292. *Information Services.*—The various units which have been established in a number of Key Ministries will be strengthened and utilized to monitor trends in production, marketing, consumption, varieties and grades of products offered for sale, and at the same time evaluate the existing marketing and storage arrangements for various commodities. Studies will be carried out to determine the feasibility of co-operative distribution of essential commodities with a view to reducing the high trading margins which often prevail particularly in the rural areas.

6.293. *Trade Licensing Machinery.*—The Government intends to review the provisions of the Local Government Act and the Trade Licensing Act with a view to harmonizing the licensing process with regard to fees charged. Trade Licensing Review Committees will be established at district level to provide advisory and consultative machinery for trade licensing decisions.

6.294. *Kenyanization.*—A number of actions will be taken during the Plan period to speed up the progress of Kenyanization. Financial and promotional institutions will be strengthened and guidelines provided to commercial institutions, so that access to credit becomes easier for African enterpreneurs. Adequate training in relevant commercial areas and managerial skills to potential enterpreneurs will be provided with a view to ensuring that the take-over of non-citizen ventures is successful. The use of Quit Notices will be re-introduced to hasten the Kenyanization programme.

6.295. *Rural and Urban Market Development.*—Programmes for the improvement of rural and urban open air markets will continue to be implemented. Further storage and disposal facilities for major agricultural commodities have to be constructed to ensure that these commodities are disposed of at profitable prices, and also to reduce wastage.

6.296. *The Role of KNTC.*—The KNTC will adopt a new strategy aimed at transforming it from routine distributor of price controlled goods to an active and aggressive commercially oriented organization dealing in all classes of business, especially in export-import trade.

6.297. *Price Control.*—The Government is committed to scale down price controls so as to promote industrial and marketing efficiency. However, the process of relaxing price controls on products will continue to be closely monitored to protect the interests of the consumers. As means of protecting consumers against the misuse of monopoly power, the Government will establish a Monopolies and Prices Commission, as already indicated in Chapter 2.

6.298. *Loan Schemes.*—Government has operated a traders loan scheme under ICDC. Means will be sought by which the provision of credit under the commercial wing of ICDC will be harmonized with other financial programmes to provide a better co-ordinated approach to credit provision and administration. KNTC proposes to initiate a scheme to assist small citizen traders to get into the distributive trade.

6.299. *Training.*—To increase the disemination of management skills to the business community which is done mainly by field staff, particularly Trade Development Officers, the Ministry of Commerce and Industry will expand the training for such staff. In pursuit of the Plan's District focus, every district will be manned by qualified trade development officers, depending on the volume of work on these districts. At the same time, the Kenya Institute of Business Training will expand and further decentralize its training facilities.

6.300. *Protection of Consumers*.—The establishment of a Weights and Measure Department in the Ministry of Commerce and Industry and the enactment of various laws and standards on weights, quality, quantity, price, etc., are all intended to provide adequate checks on commercial malpractices. A National Advertising Council will be formed to work out guidelines along which commercial advertising can be controlled for the benefit of consumers. The Government will also continuously review the legislation which governs the marketing of commercial goods to ensure that safety standards and regulations are complied with.

6.301. *Protection of Business Tenants*.—The establishment of the Business Premises Rent Tribunal under the Landlord and Tenant (Shops, Hotels and Catering Establishments) Act of 1965 was intended to facilitate arbitration of tenancy disputes between landlords and tenants. Establishment of provincial offices in Nyeri, Mombasa, Eldoret and Kisumu with full time chairman and the posting of Rent Inspectors in all districts is expected to be completed during the Plan period. The Act will also be amended to give more powers to the tribunal in matters relating to award of distress.

Foreign Trade

Objectives and Targets

6.302. The exports, imports and balance of trade targets given in Chapter 3 show that vigorous promotion of non-traditional exports and a measure of restraint in the use of imports are the two main elements of Government policy relating to foreign trade during this Plan period. Specific policies relating to exports and imports will be required to achieve these objectives and targets, *viz*—

(*a*) promotion of export earnings through encouragement of those productive sectors which are most efficient at turning domestic raw materials, intermediate goods, and labour into internationally competitive products;

(*b*) increased servicing of neighbouring countries' trade requirements through a strong and responsive transportation sector;

(*c*) continued streamlining and reform of the import administration system to assure priority sectors of necessary imports without direct administrative intervention and delay.

6.303. The Plan's targets for exports reflect both the development of higher valued products and the availability of greater production capacity. Greater export earnings are expected to be achieved through the development of such higher valued products as pharmaceuticals, pyrethrum products and insecticides, textiles, leather and paper products, glassware and carving, and also soda ash and fluorspar. Kenyan exports form a small proportion of the world total which gives the country the opportunity to expand its sales without depressing prices or causing other market disruptions.

6.304. Some details of the Plan's export targets are presented in Table 6.10, which illustrates the diversification which is envisaged in the country's exports, away from the traditional reliance on coffee and tea and in favour of manufacturers and other non-traditional items.

Actual and Intended Exports 1982 and 1988

Table 6.10 (*K£ million*)

Item	1982	1988
A—BROAD CATEGORIES	K£. mn	K£. mn
Coffee	144·6	269·4
Tea	78·0	175·1
Petroleum Products	141·6	152·2
Manufactured goods	86·6	327·1
Others	95·5	216·6
TOTAL	546·3	1,140·4
B—SELECTED ITEMS		
Cement	19·3	52·5
Canned fruit and vegetables	14·5	24·3
Sugar and sugar preprations	22·6	50·0
Leather and leather products	3·3	22·9
Insecticides	2·8	25·5
Soaps and cleansing agents	6·3	24·0

6.305. The intended changes in the composition of exports have implications for the geographical distribution of the country's export markets. A search for new, non-traditional markets must accompany the promotion of non-traditional exports, while also taking the fullest possible advantages of the opportunities that exist in the countries that have traditionally purchased a large amount of our exports.

6.306. The effect of the success of PTA on increasing Kenyan exports to the signatory countries will be substantial. Kenya's exports to African countries consist largely of cement, processed petroleum products, processed food products, textiles and paper products.

6.307. The Far East and Australia region is emerging as an important market, with India, Japan and Australia taking significant amounts. The products exported to these markets consist of sisal, wattle extract and cashew-nuts. Shipping services are relatively good and there is no reason why trade with these countries should not increase.

6.308. These are huge potential markets and Kenya will pursue more aggressive strategies to increase its sales. This calls for more sophisticated marketing techniques. During the Plan period Government will seek agreement with these countries on exporting specific products and on the removal of trade barriers. Sales and trade mission to USA and Canada will be increased (especially for handicrafts).

6.309. Middle East is a prosperous and expanding potential market for certain Kenya products, particularly foodstuffs such as meat, fruit and vegetables. Their geographical proximity is partially negated by poor transportation links. During the current Plan period there will be more marketing and sales missions and increased participation in trade fairs. The Government will endeavour to overcome the transportation problems to these areas. At the same time, the Government will promote trade arrangements with these countries to import more products from Kenya in order to partially offset Kenya's large expenditure on imports of crude petroleum from them.

6.310. Trade with socialist countries of Eastern Europe has been small. Exports to these countries have fluctuated around 1 per cent of the total. The Government will negotiate further bilateral trade arrangements with these countries in an effort to promote exports. The new export department introduced in KNTC will be expanded and will play an active role in the co-ordination of this trade and in the implementation of trade agreements.

Programmes and Policies

6.311. The ambitious targets for exports presented earlier will be realized through a variety of incentives and support measures which are already in place or will be introduced during the Plan period. A continuation of the policy of exchange rate flexibility introduced in 1981 will be an essential component of the export effort, providing higher shilling payments to local export producers and thus increasing the attractiveness of devoting marketing and production skills to foreign markets. The following additional export-promotion measures will also be pursued.

6.312. *Export Compensation Scheme.*—This scheme exists to provide for partial compensation for tariffs on imported components of eligible exports. The scheme was reorganized in late 1982 to pay as compensation both a basic rate of 10 per cent of eligible earnings and a bonus of 15 per cent on increases in export earnings. Rapid processing of requests for payment is as important as the rates of compensation themselves, and Government intends to assure that there is prompt payment of all valid claims. During the first year of this Fifth Plan period a review will be undertaken of goods eligible for compensation to ensure that they meet the criterion of a minimum 30 per cent domestic value added. In addition, more flexible methods of adding new products to the eligible list and graduation of well established products from the scheme will be considered, as will the adequacy and appropriateness of the compensation rates themselves.

6.313. *Favourable treatment of Exporters in foreign exchange allocation.*—Rapid processing of import licence requests from export producers and liberal allotments in cases where import demand is limited will increase capacity utilization and build the reputation of Kenyan producers as dependable and high quality suppliers. The Government will also be prompt in allocating foreign exchange for business travel and review the current limits of travel allowances in the light of rising prices abroad.

6.314. *Export Credits.*—Appropriate measures will be undertaken to ensure that commercial banks give higher priority to the requirements of exporters. Possibilities for the establishment of an *Export Credit and Insurance Guarantees Corporation* will be investigated and appropriate action taken.

6.315. *Bonding.*—In specialized cases, where production of a product is exclusively for export market, manufacture under bond is a means of simplifying the process of importing necessary portions of a product which is manufactured using Kenya labour and intermediate goods. Manufactures have already been called upon to register their interest in producing under such conditions.

6.316. *Effects of Tariff Reform.*—The Government's policy of gradually reducing tariff protection will indirectly serve to stimulate export activity. During the Fifth Plan period, domestic producers and investors will find the considerable incentives to export contrasting sharply with the squeeze placed upon production for the increasingly competitive domestic market. Relative opportunities for profit will increasingly and by design reinforce the export strategy of Government.

6.317. *International Negotiation.*—The Government will actively support international efforts to improve the conditions of world trade, particularly as they affect the developing countries. It will also actively participate in the forthcoming negotiations between the ACP and EEC countries for the successor to Lome II, with a view to widening the coverage and increasing the concessions granted by the EEC to ACP exports under the Convention. The Government is a signatory to the Preferential Trade Area Agreement which will assist the growth of trade among Eastern and Central African States. Bilateral trade agreement negotiations with centrally planned countries and those countries experiencing chronic foreign exchange shortages will also be intensified with a view to reaching parallel trade arrangements.

6.318. *Import Licensing.*—A substantial revision and improvement in import administration has already been undertaken. This entails a restructuring of the import schedules as spelt out in Chapter 2, paragraph 2.114. Greater freedom for importers to decide the timing and composition of their supplies will be sustained through careful budgeting of foreign exchange and the ability to shift items off the "free" importation list (Schedule 1A) in a situation of shrinking foreign exchange reserves. Various institutions, e.g. Central Bank, Ministry of Finance and Planning, and the Office of the President will be interlinked to ensure that adequate control of imports and exports is facilitated. The Import Management Committee, the Officials' and Minister's Import Committees, are all intended to guide the successful implementation of import policy.

Co-operative Development

6.319. The Co-operative Movement has had steady growth since Independence. As at Independence in 1963 there were only 655 registered societies as compared to nearly 2,652 in 1982. Strong Government policies on co-operative development have played a major role in the promotion and development of co-operatives throughout the country. As a result co-operative membership grew from 355,000 in 1965 to about 1.6 million in 1981.

6.320. Since Independence, co-operatives have been participating in a large number of economic activities. They firmly established themselves in production, marketing and processing of various agricultural products. The most widely established are those dealing in Coffee, Dairy, Pyrethrum, Cotton and Sugar-cane. The co-operatives dealing in these five agricultural commodities accounted for 73 per cent of total turnover of the co-operatives in 1981. The total co-operatives turnover stood at K£127 million in 1981.

6.321. Besides marketing and processing of crops from smallholder sector, co-operatives have assumed widespread participation in other activities, such as supply of farm inputs, housing development, building and construction, fisheries development, savings and credit, banking activities, etc. Co-operatives have also contributed to the creation of direct and indirect employment opportunities in the country. It is estimated that in 1980 26,700 people were permanently employed in agro-based co-operatives.

Policy Framework and Strategies

6.322. The Government recognises the important role that co-operatives play in fostering the development within the overall national development objectives, especially in the rural areas where majority of co-operative members are. Constraints on the development of co-operatives identified in the previous Plan period still exist. These include inadequate professional manpower with auditing and accounts knowledge, both in the Ministry and in the Movement; deficiency of appropriate co-operative marketing facilities and infrastructure within the movement; and shortage of operational funds in the ministry. These deficiencies will need immediate attention during the Plan period. During this Plan period the Government will continue to tackle these problems and undertake measures which will encourage and support the development of effective, efficient and viable co-operative movement. The ministry will organise and provide such services as training and education as well as undertaking appropriate planning for the Co-operative Sector. The ministry will also ensure that co-operatives are managed as efficient business organizations.

6.323. The Government will assist the agricultural co-operatives to increase the scope of their activities through provision of production credits to co-operative members, for the purchase and construction of storage and transport facilities and agricultural processing industries. However, where there are no viable co-operatives the Government will find other ways of channelling development funds e.g. through District Development Committees, etc. to aid weak co-operatives. In crop marketing, the Government will ensure that co-operatives are represented in the Marketing Boards through KNFC, and strong co-operative unions will be appointed as marketing agents of the National Cereals and Produce Board with authority to buy and sell cereals.

6.324. The Government will continue to encourage co-operatives to diversify into new areas where they can invest their surplus funds during the Plan period with the basic objective of up-lifting the living standards of their members and to supplement national capital formation. The investment proposals by co-operatives will continue to be appraised by the Ministry to ensure that members' funds are invested in economically and commercially viable projects. The Government will, therefore, speed up the establishment of the Co-operative Finance Company as a subsidiary of the Co-operative Bank to offer long-term lending and mortgage facilities for non-agricultural investments.

Co-operative Institutions

6.325. During this Plan period, further expansion in the number of societies will be based on their economic viability. The Government will continue to encourage the formation of multipurpose co-operatives, and to encourage the amalgamation of the single purpose or mono-crop co-operatives where it is feasible to serve members with diverse economic activities. Co-operative institutions which are countrywide and play important roles in promoting production and marketing facilities to farmers include Kenya Planters Co-operative Union (KPCU), Kenya Co-operative Creameries (KCC) and Kenya Farmers Association (KFA). Other co-operative institutions that will increasingly continue to play useful role in co-operative development are the Co-operative Bank of Kenya, the Co-operative College of Kenya and the National Federation of Co-operatives.

6.326. *The Co-operative Bank of Kenya's* main objectives are to give financial assistance to the co-operative movement in the country in the way of loans and overdrafts for various fields of co-operative activities and also to provide banking facilities to its member co-operatives. The major achievement of the Bank in the last fifteen years is reflected in the steady growth of its share capital deposits, increase in its membership and volume of loans granted to the co-operatives. By virtue of its good financial position, the Bank has been able to meet the short-term credit needs, especially of the rapidly expanding agricultural sector. It has also lent its funds under medium-term loans to the co-operatives in various areas of activities ranging from crop production, fisheries, dairy development, purchase of farms, purchase of vehicles and farm machinery; construction of stores, produce buying and loans for general development. The bank has also diversified and expanded its loans facilities into bigger investments such as acquisition of business buildings, timber mills, and agro-industrial enterprises.

6.327. Of special importance is the fact that, the Bank has played a significant role in helping the Government to channel credit funds to small-scale farmers. Through the Bank, substantial amounts of funds have been channelled by the Government to co-operative farmers under various credit schemes. However, the repayment performance by the borrowers has been unsatisfactory. The repayment problems of the co-operative societies are, therefore, being assessed, and during this Plan period the Co-operative Bank will be responsible for project appraisal of individual societies and farmers to determine which ones and who would qualify for new loans on the basis of their repayment capability.

6.328. *The Co-operative College of Kenya* will continue to be the primary institution of training for intermediate and high level personnel of both the ministry and the Movement staff. It will continue to be responsible for developing and implementing co-operative education and training in various areas of business management and administrative skills. An expansion programme will be undertaken during this Plan period to enable the college to accommodate 500 resident students, in place of its existing capacity to accommodate only 220 students. Other institutions which will assist the college to organize and implement Co-operative Education are the Education and Training Division of the Ministry of Co-operative Development and the Kenya National Federation of Co-operatives. This expansion-cum-decentralization exercise is expected to increase the number of co-operative members trained by 15 per cent during this Plan period to cover one million members out of an estimated 1.6 million. For the expansion and improvement of the college facilities, K£180,220 has been allocated.

6.329. *The Kenya National Federation of Co-operative* is the apex organization for Co-operative Movement in the country. Its main objective is to promote the development of co-operative movement in Kenya by uniting all co-operatives under one umbrella. The Federation will continue to promote co-operation between co-operative organizations in Kenya and other organizations in foreign countries as well as with the donor international agencies. During this Plan period, it will strengthen a number of its activities for the benefit of the Co-operative Movement. These activities will include planning and providing management consultancy for the Co-operative Movement;

promoting co-operative education and training; providing co-operative information system and publicity; offering effective audit services to the affiliated societies; and supplying stationery, office equipment and agricultural inputs to Unions and Societies. The KNFC will also take active part in promoting Co-operative Marketing and price monitoring exercise.

Co-operative Development Programmes

6.330. During this Plan period, work will continue on the various services and programmes organized on the co-operative basis. A number of agricultural credit programmes were established during the last Plan period to assist the small-scale co-operative farmers with credit and input resources. One problem encountered by this programme has been the non-repayment of large outstanding loan balances. Adequate measures will be taken during this Plan period to ensure quick and full recovery of loans, which will permit better recirculation of the loans among small-scale farmers. The Smallholder Production Services and Credit Project (SPSCP) which has a large outstanding loan balance of K£1.3 million will be terminated during this Plan period. The loans when recovered will be used to build a revolving fund to assist needy, but well managed co-operative farms. The Co-operative Production Credit Scheme (CPCS) which will be continued will assist small-scale farmers in high potential areas with credit facilities for both cash crops and dairy production. The few Seasonal Credit Scheme will be continued to provide both production and produce buying loans to small-scale farms.

6.331. The Integrated Agricultural Development Programme (IADP) will be restructured during this Plan period into three separate projects administered by the Ministries of Agriculture and Livestock and Co-operative Development. The Smallholder Coffee Improvement Project (SCIP) will aim at rehabilitation of the neglected small-scale coffee farms and at renovating and resting the old coffee factories for better services to farmers. The Farm Input Supply Scheme (FISS) will be directed towards the provision of credit to small farmers for increasing food production in marginal areas. The National Poultry Development Project (NPDP) which at present covers the districts in Rift Valley, Coast, Western, Nyanza and Central Provinces, will be extended to cover all the other areas during this Plan period.

6.332. The Co-operative Small Scale Irrigation Project (CSSIP) which aims at present at providing some minor irrigation schemes in arid and semi-arid lands in the Muka-Mukuu and Mitunguu areas will be extended during this Plan period to other areas, especially the Lake Basin and the Turkwel River Basin areas.

6.333. Housing Co-operative Societies were regarded in the previous Development Plan as one of the institutions in the private sector through which all forms of housing would be developed. The National Co-operative Housing Union (NACHU) was established to sponsor, implement and manage co-operative housing programmes. The Government will continue to provide technical and financial assistance to NACHU during this Plan period, until it becomes self supporting.

6.334. Apart from the above, there exist or are being planned, other programmes of co-operative development, virtually covering all aspects of economic life in Kenya. These will cover such diverse activities as Fisheries, Dairy Development, Horticultural Marketing Development, Development of Agro and Non-agro Industries, Consumer Co-operatives, Handicraft Co-operatives, Building and Construction Co-operatives, Cotton Processing and Marketing Project, and Urban Savings and Credit Programmes. The emphasis during this Plan period will be consolidation, reform, re-organization and expansion of existing programmes rather than the development of new programmes.

Tourism and Wildlife

6.335. Because of its potential to earn vital foreign exchange resources, and to stimulate the growth of other economic activities like agriculture, industry and infrastructural development, the tourism and wildlife sector has continued to be one of the important sectors of the economy. This sector experienced sharp growth during the sixties. However, the 1970's and 1980's were marked by annual variations around a mildy rising trend. This slowing down of growth can be attributed to factors such as the stiff competition in the tourism industry, decline in visitors from African countries and North American, offset only partly by a rise in visitors from Europe, and by the worldwide economic recession.

6.336. Along with increase in the number of tourists since Independence, there has been a remarkable expansion of the capacity of hotels, and game lodges. Total bed capacity has increased from 5,840 beds at Independence to 24,100 beds in 1982, while the corresponding bed occupancy rate has increased from 47 per cent at Independence to 51.4 per cent in 1982. Foreign exchange earnings from the tourist sector have increased steadily since Independence, rising from K£7.9 million at Independence to K£118 million in 1982.

6.337. In recent years the Government has pursued an active policy of involvement in all aspects in the Industry—including planning and policy formulation; the setting up of standards, the creation of infrastructure, direct participation in development of hotel and other facilities, and promotion of Kenyanization. Investments in infrastructures like the new Jomo Kenyatta International Airport; Moi International Airport (Mombasa) and several improvements of airstrips and road networks have greatly improved both the comfort and speed of travel between tourist centres and the year round accessibility of tourist attractions.

6.338. For realizing the potentia! for conference tourism efforts were made to promote the Kenyatta International Conference Centre. In the 10 years that the Centre has been in operation it has recorded a commendable growth in occupancy levels, and consequently contributed to foreign exchange earnings.

Objectives and Targets

6.339. The main objectives of the sector during the Plan period, will be to increase its contribution to the growth of GDP, raise the foreign exchange earning capacity, and create more employment opportunities. Appropriate measures will be undertaken to improve capacity utilization, maintain reasonable balance between development and recurrent expenditures, and promote viable commercial investments. Measures wi'l also be undertaken to conserve, protect and improve environment and wildlife.

6.340. Efforts will be made to double by 1988 the number of foreign tourists from 362,000 in 1982. The total bednights will be increased from 4.6 million to 6.2 million in 1988. The total bed capacity including bed-nights attributable to residents, is expected to increase by about 9.9 per cent. Kenya Tourist Development Corporation is expected to generate about 5 per cent of the total bed capacity, the private sector generating the rest. At the same time foreign exchange earnings are expected to rise steadily to K£213.5 million representing about 10 per cent growth per year during the period 1982–1988. At the same time, this sector is expected to generate about 3,264 additional jobs.

Strategies and Programmes

6.341. In order to achieve the targets set out, selective and resource efficient marketing wil! be formulated and implemented. The marketing strategy to be undertaken will aim at: increasing tourist traffic during low seasons from existing tourist generating countries and from local residents, penetrating into non-metropolitan areas of the generating countries, improving tourist facilities and attractions so as to attract more tourists and make them stay longer and increase conference tourism. In order to promote the latter, the Kenyatta International Conference Centre will intensify its personal contacts with heads of associations, organizations and firms with identified potential with an emphasis towards filling the low season tourism gap. The Centre will also intensify its advertisements and publicity in new markets such as North America.

6.342. Promotional funds provided by the Government will be treated as investments whose returns will be carefully evaluated. Marketing research will them achieve their objectives fully and to reduce their overheads. Joint promotion with private sectors will be done with each party providing funds. Emphasis will be given for promotion of domestic tourism.

6.343. Hotel standards and quality of services will be improved in order to attract more tourists. At the same time, wide-ranging measures aimed at plugging the foreign exchange loopholes will be introduced. The Ministry of Tourism and Wildlife will also consider the development of training and extension services for people who are already participating in the Industry with a view to up-grading their skills. Utalii College will continue to provide training in tourist Hotel management. In order that the potential revenue for wildlife can be realized and at the same time the conflict between wildlife and other land uses can be minimized, some form of consumptive utilization of wildlife will be introduced. Cropping of wild animals will be done to reduce the number to optimum size and to provide meat for domestic and export market. Export of live game will be explored.

6.344. Throughout the Plan period wildlife planning unit (WPU) and Kenya Rangeland Eco'ogical Monitoring Unit (KREMU) will jointly concentrate in providing baseline—data on wildlife resources and their habitats for planning and managament purposes. They will particularly concentrate on: censuses and monitoring of elephant, buffalo and rhino populations in some selected areas, collection of scientific data on endangered wildlife species with a view to devising conservation strategies for increasing their chances of survival, initiating a study on crocodi'e on Tana river and lake Turkana, monitoring herbivore/vegetation interractions in parks and reserves where they threaten to become a management problem. KREMU will also carry out aerial surveys for sourthern and northern Kenya for livestock and wild herbivores; institute a study in woodfuel biomass for high potential areas of Kenya in conjuction with the Ministry of Energy, initiate forage analysis studies and also continue monitoring the vegetation, rainfa'l and soil moisture studies.

6.345. With a view to including a wider representative of fauna and flora within the National Park/Reserve system and in order to encourage further expansion of tourism, more areas wil' be considered for inclusion in the present parks/reserves systems.

6.346. To facilitate the efficient management of the wildlife sector, radio network services will be expanded to include those remote areas that cannot be reached economically by the conventional telephone services.

V. OTHER GOVERNMENT SERVICES

The Office of the President

6.347. The overall direction of economic development and broad guidelines on policy emanate from this Office. The Office ensures through the Armed Forces that the country is protected from external enemies. Internal security, which is a prerequisite for faster economic development, is enhanced through Field Administrative Services, General Administrative Services, Administration Police Services and through the Kenya Police Service.

6.348. The Department of Development Co-ordination and Cabinet Office was established in 1979 as the main thrust for co-ordination and policy analysis on development programmes. Within its functions, it will ensure that development activities of the Government are well co-ordinated for the full realization of the intended objectives.

6.349. The district based rural development policy generally known as the **"District Focus for Rural Development"** came into full operation on 1st July, 1983. Field Administrative Services will be restructured to enable them to undertake development activities in the districts more effectively.

6.350. The Government Press ensures the printing of all Government publications in addition to undertaking private printing from time to time. The Government Press has saved the economy considerable expenditure by producing exercise books for schools. During the Plan period, printing facilities will be expanded and improved in order to produce school text books and provide other services. New technology in printing has developed fast making most of the equipment currently in use obsolete and difficult to obtain spare parts. Most of the equipment will be gradually replaced.

6.351. The Government Chemist ensures that proper standards are maintained for drugs used in the country. New equipment will be obtained for the Nairobi and Mombasa laboratories during the Plan period to ensure that analysis is undertaken efficiently.

6.352. The National Youth Service is a uniformed development force which provides young people with a background of discipline, utilizes their services to carry out projects of national importance and trains them in twenty-four trades and occupations. From its inception in 1964, 36,884 young persons have been recruited into the service. They have carried out some twenty-eight million pounds worth of development work, including the construction of roads, dams, airfields and canals in different parts of Kenya. During the 1984–88 Plan period, the service will build bitumenized road in the Tana River Basin and will develop the ranching and agricultural potential in the Kirimun area, north of Rumuruti; in addition to handling various smaller projects. On the side of vocational training, the service possesses facilities (which it will expand) to train its members in such occupations as General, Automotive and Electrical Engineering, the Building trades, Driving, Plant Operation and repair, Tailoring, Agriculture and Secretarial work. During the previous Plan period, 1979–83, 10,148 youths were admitted to the service. Of those who left, 3,821 moved directly from service into gainful employment in either the public or the private sector.

6.353. The Government appointed an Armed Forces Accommodation Committee in 1982 to study accommodation requirements. The committee has recommended a programme of action starting in the 1983/84 Financial Year. Among the areas for development will be Thika, Eastleigh, Lanet, Kajiado, Karen, Mariakani, Embakasi and Isiolo. The programme will construct both housing units and specialized structures.

6.354. The State House is responsible for maintaining State Houses and Lodges in the country. There are three State Houses at Nairobi, Mombasa and Nakuru and Stage Lodges at Sagana, Eldoret, Kakamega and Kisumu.

6.355. During the Plan period a Social Centre will be constructed in Nairobi, the dining hall and kitchen will be expanded and two blocks of junior staff houses will be constructed.

6.356. The Directorate of Personnel Management is responsible for training, deploying and supervising public employees. The Directorate offers manpower management advice to public agencies and ministries.

6.357. Serving officers benefit from in-service training facilities at the Kenya Institute of Administration, and the Government Training Institutes at Mombasa and Kisumu.

6.358. The Directorate supervises and co-ordinates training of civil servants in overseas institutions. For example, the Government of Canada has pledged (Canadian $15,390,500) K£8,464,775 to be spent during the current Plan period on training. The Swedish International Development Authority has from 1980/81 been assisting in our training needs and some K£1,090,000 is still available for training in 1983/84 and 1984/85. The Government of Netherlands through NORAD has been assisting in our training requirements from 1982/83 with K£175,000 every financial year ending in 1986/87.

Rural Development Fund

6.359. The Rural Development Fund is administered and controlled by the Ministry of Finance and Planning. The programme finances primarily small land and water development projects that are either directly productive or of an infrastructure nature. The most important categories of projects are water development, soil conservation, feeder roads, afforestation, cattle dips, small dams and bridges, and water catchment schemes.

6.360. The programme includes two groups of activities. District Development Grant Projects and Rural Works Programme Projects. The Rural Works Programme is geared towards Government financing of labour intensive projects whereas the District Development Grants Programme is meant to fill gaps in the various development programmes undertaken by the operating ministries which have been identified by the District Development Committees who have then presented requests for funds.

6.361. The objectives of the Rural Development Fund, in collaboration with the District Focus for Rural Development, which is dealt with in Chapter 4. are—

(i) to increase cash incomes of the landless and smallholders in rural areas and small towns, and provide supplementary employment by funding labour intensive public working projects;

(ii) to construct rural infrastructure essential for agriculture, forestry and the processing and marketing of agricultural produce;

(iii) to conserve and improve the basic land and forestry resources of the nation and make the marginal areas less vulnerable to drought;

(iv) to stimulate and strengthen local participation in the planning and implementation of projects;

(v) to fill in gaps left by Government investment programmes financed through the regular votes of the operating ministries; and

(vi) to contribute to greater equality in the standard of services provided by the Government in each district.

6.362. The provisional forward budget for the fund during the Plan period is presented in Table 6.11.

Provisional forward Budget—Rural Development Fund

Table 6.11 (*K£*'000)

1983/84	1984/85	1985/86	1986/87	1987/88	Source of Finance
500	500	500	500	500	GOK
750	750	750	750	750	DANIDA
305	750	750	750	750	NORAD
421	421	421	750	750	SIDA
1,976	2,421	2,421	2,750	2,750	—

Information and Broadcasting

6.363. The Ministry of Information and Broadcasting operates through five departments—

(i) the Department of Information;

(ii) the Department of Broadcasting;

(iii) the Department of Film Production;

(iv) the Kenya Institute of Mass Communications; and

(v) Engineering Services.

6.364. Under the Information Department there are now forty-one District Information offices and eight Sub-District Information offices linked by either telephone or SSB sets to the provincial offices. The Provincial Information offices are themselves linked by telex to the headquarters. The Kenya News Agency, a section of the department, was formed soon after the creation of the Ministry. Its role is to collect, process, and distribute national and international news items. The department also operates mobile cinema services in each province, runs several public libraries in the districts, and publishes four rural newspapers, two periodic magazines, and various pamphlets.

6.365. Under the Department of Broadcasting radio coverage is now available on medium wave to approximately 60 per cent of the population. With the completion of the booster stations, the radio coverage has reached about 85 per cent of the population.

6.366. Television services have also expanded. Sauti House, Mombasa, was established in June 1970 and now transmits programmes for nationwide screening. Other developments include establishment of the Nyeri transmission station, the boosting stations at Limuru, Timboroa and Mazeras, all of which have increased television coverage to 40 per cent of the population.

6.367. The Kenya Institute of Mass Communication offers a variety of 10 courses and has a student intake capacity of 300. It also provides training facilities to other African countries.

6.368. The Film Production Department has 150 professional staff based in Nairobi, Mombasa and various district centres. It also has in stock over 60 documentary film on a wide range of topics.

6.369. In the Plan period among the aims are—

(i) to cover at least 85 per cent of the country's land mass with clear radio signals by putting into full operation the radio booster stations, replacing old transmitters in Nairobi, Kisumu, and Nyali, and constructing a modern broadcasting complex in Kisumu;

(ii) to increase from 40 to 65 the percentage potential areas covered by television signals and also to improve the quality of locally produced television programmes;

(iii) to streamline and centralize its administrative services by constructing a headquarters complex;

(iv) to restructure and revitalize the Kenya News Agency to make it more professional;

(v) to produce more local films that are culturally relevant and to increase news items covered by films.

Home Affairs

6.370. The Ministry of Home Affairs is partly responsible for internal security and also responsible for co-ordinating efforts aimed at reducing the population growth rate through effective family planning so that Development Plan projections can become meaningful. The Ministry's responsibilities for the selection, collection, processing and storage of important public records and archives from the Government ministries and other bodies for immediate reference or for future generations and for protection and conservation of pre-historic sites and historic monuments and buildings as stipulated in the Antiquities and Monuments Acts are covered in the section on Social Development.

6.371. The Ministry carries out its other functions through the following departments:

(i) *Prison's Department.*—The role of which is basically to confine and rehabilitate people with criminal tendencies. Over the Plan period, approximately K£6.9 million will be spent on development. The remand population is growing at 4 per cent per annum and is expected to continue growing at this rate throughout the Plan period. There is need therefore to use a community based method of remanding unconvincted suspects except where custody is essential. A research unit will be set up in the ministry to try to get to the root causes of the increase in crime. It will draw on the assistance of other agencies involved in internal security.

(ii) *Children's Services*—which provides for the protection and discipline of children, juveniles and young persons and related matters. It operates under the provision of an Act of Parliament (Cap. 141). During the Plan period, it is intended to emphasize in-service as well as pre-service training programmes in order to enhance the quality of the services. Furthermore it is proposed to spread the Children's Service to all areas of the country by establishing field offices.

(iii) The *Probation Department* is charged with the responsibility of rehabilitation of criminal offenders within their homes and immediate communities. It is recognized that socio-economic development and rapid urbanization play a definite role in the increase of crime, hence the need to explore carefully the problems inherent in the rehabilitation of offenders by non-custodial treatment. This should be done through opening up new sections of the Probition Service wherever Magistrates Courts have been established. Since Probation Hostels are suitable for offenders whose family situations make it impossible or undesirable to rehabilitate them within their own home or community environment, it is proposed to open new hostels in Eldoret, Nyeri, Kisumu, Kakamega, Embu and Garissa.

(iv) *National Council for Population and Development* was recently established and charged with the responsibility of co-ordinating the activities of all agencies in Family Planning and planned parenthood activities in the country. During the Plan period, approximately K£3.5 million will be spent. The significance of this council is brought out by its role in other parts of this Plan dealing with population and manpower.

(v) *Betting Control and Licensing Board* is responsible for the activities of gambling, gaming and lotteries and control of casinos in the country. During the Plan period it is proposed to construct staff quarters on the north and south coasts since the activities of the Board have expanded in these areas.

Foreign Affairs

6.372. The Ministry of Foreign Affairs is responsible for taking care of Kenyan interests in the rest of the world as well as ensuring that international political and economic developments do not adversely affect our country. At present Kenya has twenty-six diplomatic missions abroad and two in Kenya. In addition to the nineteen that were established prior to 1979 in Washington, New York, London, Paris, Stockholm, Brussels, Bonn, Moscow, New Delhi, Jeddah, Cairo, Addis Ababa, Mogadiscio, Lusaka, Kinshasa, Lagos, Peking, Ottawa, Tokyo and UNEP in Nairobi, seven missions were established between 1979 and 1983 in Rome (FAO), Kampala, Harare, Khartoum, Abu Dhabi, Kigali, Canberra and HABITAT in Nairobi. During the current Plan period, further missions will be established in areas where our representation is desirable. Specifically, Kenya interests in Italy are at present looked after by our Embassy in London so our Mission to Rome (FAO) needs to be up-graded to a full Embassy to care for our significant Italian relations. Our interests in other areas too are catered for by remote Embassies in other lands and as these interests develop the areas covered by our current Missions will be sub-divided.

6.373. Political and economic factors have made it necessary to undertake several development projects. The moving of all Diplomatic missions from Jeddah to Riyadh has necessitated the construction of a Chancery and Ambassador's residence. In Nigeria, a similar development necessitates the movement of our missions from Lagos to Abuja.

6.374. Contributions to all international organizations will from 1983 be undertaken by the Ministry of Foreign Affairs.

6.375. The Ministry will continue to sponsor diplomatic training while increasing its efforts in training in foreign languages such as Arabic, Hindi, Chinese, French, Japanese, German and Spanish.