



REPUBLIC OF KENYA

ECONOMIC SURVEY 1968

Ten Shillings - 1968

ECONOMIC SURVEY

1968

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NOTE.—Figures may not add to totals because of rounding.

ECONOMIC SURVEY, 1968

CHAPTER 1—THE GENERAL ECONOMY

The World Economy

Events in the world economy in 1967 were generally adverse for economic development in Kenya, for the economy is still substantially dependent on the buoyancy of the world economy as a whole. In 1967, Kenya's exports were equivalent to 20 per cent, and its imports 28 per cent, of gross domestic product at market prices. It was a matter of concern, therefore, that the end of 1966 and the first half of 1967 saw the first serious interruption in the expansion of the world economy that has been experienced for nearly a decade. A significant slowdown in the economies of major industrial countries became apparent, largely due to slower growth in the United States, Canada, Germany and Britain. Only two of the larger industrial economies, namely, Japan and Italy, experienced notable expansion in the first half of 1967. However, by the middle of the year, policies were introduced to re-activate economic advance in a number of important centres. Towards the end of 1967, the pace of advance had quickened again, particularly in the United States, Germany and France.

2. The level of total world trade throughout the year grew by only 5 per cent compared with 11 per cent in 1966 but even these statistics obscure the fact that trade in manufactures and base metals continued to expand at a faster rate than other trade. World trade in the commodities exported by Kenya actually turned down in 1967 and serious falls occurred in the prices of a number of Kenya's more important export commodities. This is discussed in more detail in Chapter 3.

3. Apart from the relative economic stagnation in 1967, economic and monetary affairs were dominated by the continuance of substantial imbalances in the overseas payments of the two major reserve currencies—the U.S. dollar and sterling. Attempts to improve their balance of payments position caused both the United States and Britain to follow restrictive economic policies during much of the year. The fact that these were not, at least until the second half of the year, matched by expansionist policies on the part of those countries in balance of payments surplus aggravated the shortage of international liquidity which had been building up over the previous few years. The year was notable, however, for the agreement reached in Rio de Janeiro at the annual meeting of the International Monetary Fund of an outline scheme of "Special Drawing Rights" which, when ratified, will provide for a system of international liquidity over and above the present system based on gold, IMF credit and reserve currencies.

4. The failure of policies designed to correct the imbalance of payments and check speculative pressures eventually led to the devaluation of sterling by 14.7 per cent towards the end of the year. Close links built up over many years with respect to both finance and trade between Britain and Kenya inevitably meant that this decision caused repercussions on the Kenya economy.

5. The decision of the British Government to devalue sterling, followed by similar decisions taken by fifteen other countries shortly afterwards, meant that Kenya was faced with a very difficult situation with regard to the value of its own currency. On the one hand, the value of the Kenya currency was, by token of Britain's decision, raised significantly relative to a number of its important trading partners, which meant that, other things being equal, the cash return received in Kenya shillings for important exports was likely to be lower. On the other hand, the cost of vital imports and other essential outgoings should also be lower. The balance of advantage, it was decided, lay with the favourable movement in the terms of trade, and accepting that increased pressure on the Kenya balance of payments might occur as a result of the likely adverse change in Kenya's competitive position.

6. In the middle of the year, war broke out in the Middle East causing the closure of the Suez Canal, the principal shipping route for Kenya's exports and imports. Additional shipping and insurance costs were incurred in consequence.

7. Like other developing countries Kenya could only watch with concern while unable to influence the decline in the availability of aid finance by 1967. The deceleration of the world economy and the balance of payments difficulties of a number of the principal aid donors meant that the growth of the total value of world aid received a serious setback. The funds of the International Development Association, the principal source of soft credit to the developing world, were largely exhausted and no agreement could be reached for their immediate replenishment. However, it does now appear that agreement on this may be reached shortly although the terms of I.D.A. loans are likely to be very much more restrictive.

8. Taken as a whole, therefore, external trends in 1967 could not be regarded as favourable to economic development in Kenya. Since the beginning of the new year, there have been few signs of improvement. The countries of continental Europe have continued in general to follow more expansionist economic policies favourable to the development of world trade but the determination of the British Government to deploy resources in a manner intended to correct its balance of payments on the basis of the new sterling

value, has led to policies designed to achieve an overall cut in personal consumption in that country. American economic policies are not yet so drastic as to cause an overall reduction in consumption: indeed, at the time of writing, the American economy is moving ahead very rapidly but even a minor check to consumption growth in that country can be reflected significantly in world trade.

9. Pressure on gold markets in February/March underlined the decline in confidence in the continuing ability of the reserve currencies to maintain their value and to meet the liquidity requirements of world trade. For a short period, there was serious risk of a major breakdown of the world's trading system which, if it had occurred, could have had serious consequences for the economies of the developing world. Fortunately, the immediate crisis was averted by agreement to set up a two tier market for gold: one market at \$35 per ounce for gold transactions between participating central banks and a free market for all other transactions. The longer term solution is however more likely to lie with the activation of the proposals for a new source of international liquidity together with the achievement of greater equilibrium in the balance of payments of Britain and the United States.

10. Except in the monetary field, there was little new evidence of world wide integration and co-ordination of economic policies in order to share the rewards of economic progress more equitably between the rich and the poor countries. In East Africa, however, Kenya, Uganda and Tanzania formalized and consolidated economic relations that had existed between them for many years by the inauguration on 1st December 1967, of the East African Community. Indeed, the new arrangements go further to visualize the integration of trade, industrial and, eventually, agricultural development policies. However, in its initial phase, which will last for several years, the Treaty will not lead to a "common market" as this term is conventionally understood. In fact, the system of transfer taxes raises new tariff barriers where none existed before but these are intended to last for a fixed period. A common market in the full sense will exist only when these are removed. This stage is specifically envisaged in the Treaty. The Treaty for East African Co-operation is the product of long negotiation and its full success will only be judged in years to come, after the new mutually agreed system has been tested by time. The desire for closer economic integration among the East African people has so far overcome the considerable administrative difficulties involved in setting up a new Community and the tendency of the partners to interpret some of the clauses of the Treaty in a manner which perhaps emphasizes unilateral advantage more than the spirit of mutual co-operation. Although the Treaty provides a formal framework within which the new system will work, in the last analysis it will be the determination of the East African Governments and people to compromise and make it work which will decide its success or failure. Further discussion on the working of the new Treaty will be found throughout this Survey, particularly in Chapter 3.

The Growth of the Economy

11. In the Economic Survey 1967 two sets of calculations of gross domestic product were presented—"Old" and "New". It was then explained that the revision of the "Old" calculations had been made possible by a significant improvement in the availability of data, with which to assess the size and structure of different industries in the economy. All new data were incorporated in a new set of calculations which, for reasons of comparability over time, could not be incorporated into the earlier series.

12. The gross domestic product calculations included in this chapter are the revised "new" series. No estimates on the old basis are now being made. However, even further data improvements and minor conceptual changes have been incorporated into the new series, though in this case they have been worked back for consistency to 1963. There are, in consequence, a number of amendments to the new series first published last year. These do not, however, involve any significant changes in the estimate of gross domestic product for the economy as a whole for the years 1963-65, although estimates of individual sectors/industries do in some cases show significant amendment. The most significant changes relate to the imputed valuation of the product of the "traditional" or non-monetary sector and to the mining industry where there is change in the conceptual treatment of oil prospecting. Most other minor changes relate to improvements obtained in industrial classifications, particularly with regard to larger mixed activity enterprises.

13. It will, however, be observed from Table 1.1 that the final estimate of gross domestic product for 1966 is higher than provisionally estimated at this time last year. The rate of growth of G.D.P. at market prices for 1966 is now estimated to have been 14.4 per cent: a record year. Apart from the technical factors mentioned above, the main reason for the upward adjustment of the 1966 estimate is that at the time the provisional estimate is made only a limited amount of the data required are available and it is only after detailed annual returns are received from enterprises later in the year that a final estimate can be made. The rate of growth for nearly all industries in 1966 in the final analysis has turned out to be higher than in the provisional estimates.

14. For exactly the same reasons, the estimates of gross domestic product in 1967 set out in Table 1.1 must be regarded as provisional, and subject to amendment when full data are available.

15. The estimate of gross domestic product is the principal measure of economic performance in Kenya, although there are a number of other economic and social criteria which should also be used for this purpose and are used in later chapters of this Survey. Gross domestic product is not, however, an exact measure: it is the best estimate than can be made at any one time on the basis of available data. It will always, therefore, be subject to amendment in the light of statistical improvements and the availability of

data from hundreds of sources. Numerous improvements in statistics have been made in recent years and further improvements can be expected in the future. It would be illogical not to use them to improve the basic system of economic analysis—the national accounts—and not achieve greater precision in economic planning and current economic assessments.

GROSS DOMESTIC PRODUCT, 1963-67

Table 1.1

K£Million

| INDUSTRY | 1963 | 1964 | 1965 | 1966 | 1967* |
|----------------------------------------------------------------|--------|--------|--------|--------|--------|
| GROSS PRODUCT AT FACTOR COST | | | | | |
| <i>A. Outside Monetary Economy:</i> | | | | | |
| Agriculture | 66.61 | 68.44 | 63.97 | 74.64 | 76.93 |
| Forestry | 1.77 | 1.99 | 2.14 | 2.42 | 2.85 |
| Fishing | 0.11 | 0.11 | 0.12 | 0.15 | 0.16 |
| Building and Construction | 4.84 | 5.85 | 6.39 | 7.32 | 8.26 |
| Water | 1.88 | 2.09 | 2.21 | 2.47 | 2.69 |
| Ownership of Dwellings | 4.83 | 5.56 | 6.12 | 7.01 | 8.35 |
| TOTAL PRODUCT OUTSIDE MONETARY ECONOMY | 80.04 | 84.04 | 80.95 | 94.01 | 99.24 |
| <i>Monetary Economy:</i> | | | | | |
| 1. Enterprises and Non-profit Institutions | | | | | |
| Agriculture | 49.78 | 49.94 | 44.30 | 55.27 | 54.75 |
| Forestry | 1.67 | 1.88 | 1.96 | 2.04 | 2.27 |
| Fishing | 0.89 | 0.85 | 1.00 | 1.21 | 1.35 |
| Mining and Quarrying | 1.65 | 1.48 | 1.38 | 1.67 | 1.67 |
| Manufacturing and Repairing | 28.96 | 33.85 | 37.71 | 42.13 | 44.25 |
| Building and Construction | 6.70 | 6.77 | 6.99 | 9.40 | 11.94 |
| Electricity and Water | 4.37 | 4.84 | 5.03 | 5.34 | 5.82 |
| Transport, Storage, Communications | 22.68 | 25.14 | 27.62 | 31.86 | 33.51 |
| Wholesale and Retail Trade | 32.21 | 34.41 | 36.85 | 40.56 | 40.70 |
| Banking, Insurance, Real Estate | 10.31 | 11.96 | 13.19 | 15.8 | 15.48 |
| Ownership of Dwellings | 13.42 | 13.34 | 13.47 | 13.92 | 14.33 |
| Other Services | 13.38 | 14.52 | 14.92 | 17.125 | 20.85 |
| TOTAL ENTERPRISES | 186.02 | 198.98 | 204.42 | 235.83 | 246.92 |
| 2. Private Households (Domestic Services) | 2.76 | 2.94 | 3.28 | 3.54 | 3.73 |
| 3. General Government: | | | | | |
| Public Administration | 15.95 | 16.64 | 17.16 | 17.89 | 18.51 |
| Defence | 1.45 | 2.19 | 2.74 | 3.46 | 3.89 |
| Education | 6.89 | 10.58 | 10.20 | 11.21 | 12.41 |
| Health | 3.86 | 4.08 | 4.51 | 4.83 | 5.08 |
| Agricultural Services | 4.04 | 4.21 | 4.71 | 4.82 | 4.90 |
| Other Services | 3.02 | 3.45 | 4.12 | 4.57 | 4.92 |
| TOTAL GENERAL GOVERNMENT | 35.22 | 41.15 | 43.44 | 46.79 | 49.71 |
| TOTAL PRODUCT—MONETARY ECONOMY | 224.00 | 243.07 | 251.14 | 286.16 | 300.36 |
| TOTAL GROSS PRODUCT AT FACTOR COST (Monetary and Non-monetary) | 304.04 | 327.11 | 332.09 | 380.17 | 399.60 |
| INDIRECT TAXES | 23.29 | 24.99 | 27.00 | 30.77 | 33.62 |
| Minus: SUBSIDIES | 0.59 | 0.35 | 0.53 | 0.70 | 0.263 |
| TOTAL GROSS PRODUCT AT MARKET PRICES | 326.74 | 351.75 | 358.56 | 410.24 | 432.59 |

*Provisional.

GROSS DOMESTIC PRODUCT
PERCENTAGE RATES OF GROWTH, 1963-67

Table 1.2

| INDUSTRY | 1963-64 | 1964-65 | 1965-66 | 1966-67* | 1963-67 Cumula- tive |
|---------------------------------------------------------------------------|---------|---------|---------|----------|----------------------------|
| GROSS PRODUCT AT FACTOR COST— | | | | | |
| A. Outside Monetary Economy: | | | | | |
| Agriculture | + 2.7 | - 6.5 | + 16.7 | + 3.1 | + 3.6 |
| Forestry | + 12.4 | + 7.5 | + 13.1 | + 17.8 | + 12.7 |
| Fishing.. | + - | + 9.1 | + 25.0 | + 6.7 | + 9.8 |
| Building and Construction | + 20.9 | + 9.2 | + 14.6 | + 12.8 | + 14.3 |
| Water | + 11.2 | + 5.7 | + 11.8 | + 8.9 | + 9.4 |
| Ownership of Dwellings | + 15.1 | + 10.1 | + 14.5 | + 19.1 | + 14.7 |
| TOTAL PRODUCT OUTSIDE MONETARY ECONOMY | + 5.0 | - 3.7 | + 16.1 | + 5.6 | + 5.5 |
| B. Monetary Economy: | | | | | |
| 1. Enterprises and Non-profit Institutions: | | | | | |
| Agriculture | + 0.3 | - 11.3 | 124.8 | - 0.9 | + 2.4 |
| Forestry | + 12.6 | + 4.3 | + 4.1 | + 11.3 | + 8.0 |
| Fishing | - 4.5 | + 17.6 | - 21.0 | + 11.6 | + 11.0 |
| Mining and Quarrying | - 10.3 | - 6.8 | + 21.0 | - | + 0.3 |
| Manufacturing and Repairing | + 16.9 | + 11.4 | + 11.7 | + 5.0 | + 11.2 |
| Building and Construction | + 1.0 | + 3.2 | + 34.4 | + 27.1 | + 15.5 |
| Electricity and Water | + 10.8 | + 3.9 | + 6.2 | + 9.0 | + 7.4 |
| Transport, Storage, Communications. . | + 10.8 | + 9.9 | + 15.4 | + 5.2 | + 10.3 |
| Wholesale and Retail Trade | + 6.8 | + 7.1 | + 10.0 | + 0.3 | + 6.1 |
| Banking, Insurance, Real Estate | + 16.0 | + 10.3 | + 15.1 | + 2.0 | + 10.7 |
| Ownership of Dwellings | - 0.6 | + 1.0 | + 3.3 | + 2.9 | + 1.6 |
| Other Services | + 8.5 | + 2.8 | + 15.6 | + 20.9 | + 11.8 |
| TOTAL ENTERPRISES | + 7.0 | + 2.7 | + 15.4 | + 4.7 | + 7.4 |
| 2. Private Household (Domestic Services) .. | + 6-5 | + 11.6 | + 7.9 | + 5.4 | + 7.7 |
| 3. General Government: | | | | | |
| Public Administration | + 4.3 | + 3.1 | + 4.3 | + 3.5 | + 3.8 |
| Defence | + 51.0 | + 25.1 | + 26.3 | + 12.4 | + 27.9 |
| Education | + 53.6 | - 3.6 | 49.9 | + 10.7 | + 15.8 |
| Health | + 5.7 | + 10.5 | + 7.1 | + 5.2 | + 7.1 |
| Agricultural Services | + 4.2 | + 11.9 | + 2.3 | + 1.7 | + 5.0 |
| Other Services | + 14.2 | + 19.4 | + 10.9 | + 7.7 | + 13.0 |
| TOTAL GENERAL GOVERNMENT | + 16.8 | + 5.6 | + 7.7 | + 6.2 | + 9.0 |
| TOTAL PRODUCT—MONETARY ECONOMY | + 8-5 | + 3.3 | + 13.9 | + 5.0 | + 7.6 |
| TOTAL GROSS PRODUCT AT FACTOR COST (Monetary and Non-monetary) . . | + 7-6 | + 1.5 | + 14.5 | + 5.1 | + 7.4 |
| INDIRECT TAXES | + 7.3 | + 8.0 | + 14.0 | + 9.3 | + 9.6 |
| Minus: SUBSIDIES | - 40.7 | + 51.4 | + 32.1 | - 10.0 | + 1.6 |
| TOTAL GROSS PRODUCT AT MARKET PRICES | + 7.7 | + 1.9 | + 14.4 | + 5.4 | + 7.3 |

*Provisional.

16. The provisional estimate of gross domestic product at factor cost for 1967 is K£400 million at current prices, equivalent to nearly K£40 per capita. The rate of growth at current prices was 5.1 per cent—roughly in line with the forecast for the year. Compared with 1966 this represents a year of lower growth and, in fact, 1967 must be regarded as a year of lower than average growth, although not really a bad year. Since 1964, the average rate of growth of the economy as a whole has been 7.4 per cent at current prices compared with a Plan projection (at constant prices) of 6.3 per cent. The monetary sector has grown at 7.6 per cent since 1963 compared with 7.1 per cent since 1964 projected in the Plan.

17. However, when prices are rising, comparisons of actual out-turns with Plan projections are not completely valid. A constant price series of gross domestic product for each sector is now being prepared to provide such a valid comparison but it has not yet been finalized for publication. However, on the basis of a provisional series, growth rates of the economy as a whole at current and constant prices can be compared as follows: —

PERCENTAGE RATES OF GROWTH OF GROSS DOMESTIC PRODUCT (AT FACTOR COST) AT CURRENT AND CONSTANT PRICES

| | 1964 | 1965 | 1966 | 1967 | Cumulative 1963-67 |
|--------------------|------|------|------|------|-----------------------|
| TOTAL PRODUCT— | | | | | |
| At Current Prices | 7.6 | 1.5 | 14.5 | 5.1 | 7.4 |
| At Constant Prices | 5.3 | 0.8 | 10.4 | 4.7 | 5.3 |
| MONETARY PRODUCT— | | | | | |
| At Current Prices | 8.5 | 3.3 | 13.9 | 5.0 | 7.6 |
| At Constant Prices | 5.6 | 3.3 | 10.1 | 4.4 | 5.9 |

18. It would, therefore, appear that the Kenya economy is growing, on average, approximately one percentage point per annum slower than was projected in the plan but that during the Plan period the real value of monetary product per capita has risen by an average of approximately 2.3 per cent per year. Only in 1965 when weather was particularly adverse was there no increase in real product on a per capita basis. However, the fact remains that the economy has lagged behind the planned rate of growth and a real increase comparable to the 10 per cent achieved in 1966 would have been required to keep up in 1967. It is clear that the economy has still not overcome the influence of 1965 when adverse weather factors resulted in virtually no growth at all.

19. After a year of record economic growth in 1966, a year of relatively low expansion was not unexpected. Such a trend was already apparent early in the year and the final outturn was close to expectation. Unfavourable weather conditions reduced tea production while the incidence of coffee berry disease was the most serious experienced yet. These two factors together with low sisal prices caused the plantation industry receipts to fall by K£5.9 million.

Although some other agricultural enterprises had quite a good year, the combined effect of lower production in the plantation industries and seriously reduced agricultural export prices was to cause a small fall in the product of monetary agriculture at current prices. Agriculture is still sufficiently important in the Kenya economy as a whole for such a set-back to influence the rate of growth of the economy as a whole. Years of low agricultural income are years of low economic growth and vice versa. It is interesting to note that in spite of this setback in 1967, since 1964 the real rate of growth in agriculture has been 6.0 per cent, a rate in line with the Plan agricultural target of 6.2 per cent.

20. The economic impetus derived from an advancing industrial and commercial sector was lacking in 1967. This contrasted with 1965 the last poor agricultural year when manufacturing was moving ahead strongly under the lead of the then new oil refinery at Mombasa. In 1967 the main focus of non-agricultural activity came from the building and construction industry which had moved up sharply from a low base in 1966 and continued to advance rapidly in 1967. Taken together, however, since 1964 the industrial sectors—mining, manufacturing, building and construction—have tended to lag behind the growth rates set for them in the Plan.

21. The services industries had another good year in 1967 partly due to the impetus of the continued expansion of tourism and partly due to the continued growth of private educational institutions in the country. This group of industries is becoming one of significant size and one with a very rapid rate of growth.

22. General government moved ahead steadily once again under the impetus of defence and education expenditure. It should be emphasized, however, that the general government sector shown in the product accounts reflects only half of the government activity in the economy. The enterprise activities of government are of similar magnitude to the general government sector and taken together the product of public sector activity in 1967 was equal to nearly K£96 million or 24 per cent of the total. A full breakdown of this is given in Table 9.1 of Chapter 9.

23. Considered as a whole, product in the monetary sector increased by 5.0 per cent at current prices or approximately 4.4 per cent at constant (1964) prices. The non-monetary sector grew by an estimated 5.6 per cent at current prices. Weather conditions favourable for food production were almost general during the year and no serious food shortages were reported. Consumption standards in the non-monetary sector are rising and this is reflected in the calculation of production that does not come on to the market.

24. Factor incomes contributing to domestic product and those paid to or received from abroad, making up gross national product, are set out in Table 1.3. Gross national product is estimated to have risen rather further in 1967—6 per cent—than gross domestic product—5.1 per cent—as a result of lower net payments of factor incomes abroad.

GROSS NATIONAL INCOME (INCLUDING DEPRECIATION) 1963-67

Table 1.3

K£million

| | 1963 | 1964 | 1965 | 1966 | 1967* |
|-----------------------------------------------------|--------|--------|--------|--------|--------|
| GROSS DOMESTIC PRODUCT AT MARKET PRICES— | | | | | |
| A. Outside the Monetary Economy | 80.04 | 84.04 | 80.95 | 94.01 | 99.24 |
| B. Monetary Economy | | | | | |
| 1. Remuneration of Employees: | | | | | |
| Enterprises | 79.22 | 85.78 | 89.96 | 101.08 | 107.95 |
| Private Households | 2.76 | 2.94 | 3.28 | 3.54 | 3.73 |
| General Government | 35.22 | 41.15 | 43.44 | 46.79 | 49.71 |
| TOTAL REMUNERATION OF EMPLOYEES | 117.20 | 129.87 | 136.68 | 151.41 | 161.39 |
| 2. Rental Surplus (including depreciation) | 13.42 | 13.34 | 13.47 | 13.92 | 14.33 |
| 3. Other Operating Surplus (including depreciation) | 93.36 | 99.89 | 101.00 | 120.82 | 124.65 |
| 4. Indirect Taxes | 23.29 | 24.99 | 27.00 | 30.77 | 33.62 |
| 5. Deduct—Subsidies | 0.59 | 0.35 | 0.53 | 0.70 | 0.63 |
| TOTAL MONETARY ECONOMY | 246.70 | 267.71 | 277.61 | 316.23 | 333.35 |
| TOTAL GROSS DOMESTIC PRODUCT | 326.74 | 351.75 | 358.56 | 410.24 | 432.59 |
| Deduct—FACTOR INCOMES PAID ABROAD | 14.82 | 15.26 | 15.46 | 18.60 | 17.71 |
| Add—FACTOR INCOMES RECEIVED FROM ABROAD | 6.70 | 6.22 | 6.03 | 6.09 | 6.77 |
| NATIONAL INCOME | 318.62 | 342.71 | 349.13 | 397.73 | 421.65 |

*Provisional.

25. Remuneration of employees increased by 7 per cent in 1967 whereas "operating surplus" is estimated to have increased by no more than 3 per cent. No separate estimate of profits is available but it is apparent that profits of plantation agriculture were lower as in general were those of manufacturing and commerce. Depreciation included under "operating surplus" will have taken a larger relative share as a result of substantial investments made in the last two years. Since 1963, the total remuneration of employees has risen by 3.8 per cent or 8.3 per cent per annum compared with 5.7 per cent average growth in gross national product. Operating surplus has risen at a compound rate of 7.5 per cent. Rental surplus and income earned outside the monetary sector have risen relatively slowly.

Capital Formation

26. Capital formation estimates in this year's *Economic Survey* have been recalculated in order to obtain consistency with the sectoral and industrial classification adopted for the production accounts. They are not, therefore, comparable with those published in earlier *Economic Surveys*, or, indeed, with projections of capital spending in the Development Plan. The differences between the totals here and the earlier estimates are largely four-fold. Firstly, that part of non-monetary output which is used for traditional house building in the rural areas is now included in the estimates for the first time: this type of capital formation, outside the monetary economy, has been identified as "Traditional Capital Formation". Secondly, as far as capital formation in the monetary economy is concerned, the coverage of different types of assets, i.e. residential buildings, non-residential buildings and other construction projects, has been extended to include more adequately the hitherto unrecorded capital expenditures. Thirdly, capital accumulation in the form of livestock and land improvements has been included, in the first case for the first time and in the second case more comprehensively. Finally, all household expenditures on motor cars, treated as capital formation in the old calculations, have been excluded—the revised capital formation calculations include only expenditures on motor vehicles by enterprises and general government.

27. Table 1.4 sets out the revised estimates of total capital formation for the period 1964-67 by type of asset at current prices. The new calculations have so far been back-dated to 1964 only. Between 1964 and 1965 the growth rate in capital formation was 3.1 per cent—9.2 per cent in the non-monetary economy and 2.3 per cent in the monetary economy. Between 1965 and 1966 the overall growth rate was 31.5 per cent—13.1 per cent in the non-monetary economy and 34.1 per cent in the monetary economy. In 1967 capital formation is estimated to have risen by 32.7 per cent—16.5 per cent in the non-monetary economy and 34.6 per cent in the monetary economy. The cumulative growth rates over this period were 12.9 per cent in the non-

CAPITAL FORMATION BY TYPE OF ASSET, 1964-1967

Table 1.4

K£million

| | 1964 | 1965 | 1966 | 1967* |
|----------------------------------|-------|-------|-------|-------|
| DWELLINGS- | | | | |
| PRIVATE : | | | | |
| (i) Traditional | 5.24 | 5.72 | 6.47 | 7.54 |
| (ii) Modern | 1.23 | 1.06 | 1.66 | 2.47 |
| | 6.47 | 6.78 | 8.12 | 10.01 |
| PUBLIC | 0.75 | 0.94 | 1.09 | 1.94 |
| TOTAL | 7.22 | 7.72 | 9.22 | 11.95 |
| NON-RESIDENTIAL BUILDINGS— | | | | |
| PRIVATE | 3.24 | 2.70 | 2.57 | 3.92 |
| PUBLIC | 1.77 | 2.44 | 3.53 | 5.13 |
| TOTAL | 5.02 | 5.14 | 6.09 | 9.05 |
| CONSTRUCTION AND WORKS— | | | | |
| PRIVATE | 3.55 | 3.95 | 4.79 | 5.71 |
| PUBLIC | 3.44 | 4.17 | 6.77 | 9.82 |
| TOTAL | 6.99 | 8.12 | 11.56 | 15.53 |
| LAND IMPROVEMENT AND PLANTATION | | | | |
| DEVELOPMENT— | | | | |
| PRIVATE | 1.59 | 1.19 | 1.40 | 1.52 |
| TRANSPORT EQUIPMENT- | | | | |
| PRIVATE | 6.01 | 6.33 | 8.02 | 11.17 |
| PUBLIC | 3.68 | 2.55 | 4.56 | 5.79 |
| TOTAL | 9.69 | 8.88 | 12.58 | 16.95 |
| MACHINERY AND OTHER EQUIPMENT- | | | | |
| PRIVATE | 13.58 | 13.44 | 15.60 | 21.76 |
| PUBLIC | 1.44 | 1.79 | 3.42 | 3.24 |
| TOTAL | 15.02 | 15.22 | 19.01 | 25.00 |
| BREEDING STOCK AND DAIRY CATTLE— | | | | |
| PRIVATE | —0.38 | 0.26 | 1.35 | 1.23 |
| TOTAL— | | | | |
| PRIVATE: | | | | |
| (i) Traditional Dwellings | 5.24 | 5.72 | 6.47 | 7.54 |
| (ii) Other | 28.82 | 28.93 | 35.37 | 47.77 |
| | 34.06 | 34.65 | 41.4 | 55.31 |
| PUBLIC | 11.08 | 11.9 | 19.37 | 25.92 |
| TOTAL | 45.14 | 46.54 | 61.21 | 81.23 |

*Provisional.

monetary sector and 22.7 per cent in the monetary sector as a whole, 32.7 per cent in the public sector and 18.4 per cent in the private sector (monetary only).

28. The sharp increase in the value of traditional house-building reflects increased prices of labour and other inputs more than any real increase. This normally moves closely in line with increases in the population.

29. Although the basis of the present estimates is no longer directly comparable with that used in the Development Plan, some comparison of planned capital formation and that actually achieved is still valid if the planned estimates are themselves adjusted. The Plan estimates, however, relate to capital formation in the monetary economy only and are at 1964 prices rather than current prices as in the tables here. Capital formation undertaken in the monetary economy in 1967 was at current prices valued at K£73.7 million compared with K£54.8 million in 1966. The public sector was responsible for K£25.9 million of the 1967 total, compared with K£19.4 million in 1966: this represented an increase by the public sector of 33.5 per cent. On the face of it, therefore, the public sector has achieved a reasonable performance but taken as a whole has still not caught up with the targets set in the Plan even at current prices. The Plan targets, adjusted to compare directly with the classification used for the new estimates, required an expenditure (at 1964 prices), of K£22.7 million in 1966 and K£26.6 million in 1967. There was, therefore, a shortfall in both years, using expenditures calculated at current prices as a basis of comparison. Using the same basis of comparison (no constant price capital formation estimates are yet available), the performance of each public sector agency compared with the Plan proposals was as follows: —

Table 1.5

K£million

| | 1966 | | 1967 | |
|------------------------|---------|----------|---------|----------|
| | Planned | Achieved | Planned | Achieved |
| Central Government | 10.5 | 8.8 | 13.7 | 12.0 |
| E.A.C. General Fund | — | 0.2 | — | 0.2 |
| E A R. & H | 4.7 | 2.6 | 4.0 | 4.2 |
| E.A.P. & T | 0.8 | 0.8 | 0.8 | 1.1 |
| E.A.A | 2.1 | 2.8 | 1.8 | 1.7 |
| University College | 0.4 | 0.3 | 1.0 | 0.4 |
| Other Statutory Boards | 1.1 | 2.0 | 1.5 | 2.7 |
| Local Government | 3.0 | 1.9 | 3.8 | 3.7 |
| TOTAL | 22.6 | 19.4 | 26.6 | 25.9 |

It is therefore clear that a further expansion of public sector capital formation is required in the next few years in order to reach the Plan targets by 1970. A rapid increase has been achieved in the last three years and there is no reason why this cannot yet be achieved. The rate of increase of capital formation by the main public sector agencies can be seen in Table 1.6.

CAPITAL FORMATION, PUBLIC SECTOR, 1964-67

Table 1.6

K£million

| | Central Govt. | E. A. COMMUNITY | | | | | Statutory Boards | Local Authorities | Total |
|-------|---------------|-----------------|-------------|-------------|--------|-------|------------------|-------------------|-------|
| | | General Fund | E.A.R. & H. | E.A.P. & T. | E.A.A. | Total | | | |
| 1964 | 4.23 | 0.11 | 4.01 | 0.49 | 0.20 | 4.82 | 0.60 | 1.44 | 11.08 |
| 1965 | 6.98 | 0.15 | 1.61 | 0.52 | 0.03 | 2.31 | 1.23 | 1.37 | 11.89 |
| 1966 | 8.77 | 0.16 | 2.61 | 0.82 | 2.79 | 6.37 | 2.36 | 1.87 | 19.37 |
| 1967* | 11.97 | 0.21 | 4.17 | 1.13 | 1.65 | 7.17 | 3.07 | 3.70 | 25.92 |

*Provisional.

Although the railway equipment programme was rather slower to get under way than had been supposed when the Plan was drawn up, the East African Community services are by and large keeping up with the capital proposals projected in the Plan. On the other hand, the Central Government has so far failed to achieve the rate of capital formation forecast in the Plan. In 1966, capital formation valued at K£10.5 million was forecast compared K£8.8 million achieved. In 1967, K£13.7 million was planned, and K£12.0 million was achieved.

30. Central Government development spending is discussed in much more detail in Chapter 9. This section is concerned only with that part of development spending that leads directly to the formation of a physical asset. The reasons explained for the shortfall in Chapter 9 in development spending by Central Government, apply *a-fortiori*. The principal delays in development spending have arisen in respect of building and construction projects as a result of the need to obtain agreement with lending organizations on site plans, contracts, etc. In part, this particular shortfall may also be attributed to an over optimistic projection of Government capital spending and perhaps also an overestimate of the share of physical assets in total development spending. Even so, the rate of growth of capital formation by the Central Government must be regarded as falling behind the Plan. The main part of the increase is in fact accounted for by higher trunk road expenditures which were nearly 40 per cent of the total in 1967.

31. Capital formation by local authorities in 1967 increased by about K£1.8 million. Most of this was accounted for by increased capital expenditure by the Nairobi City Council and Mombasa and Thika Municipal Councils. The increase is for the main part on residential and non-residential buildings (Nairobi and Mombasa) and on construction of new water works (Nairobi and Thika). Comparisons of the performance of the private sector (Nairobi and Thika). Comparisons of the performance of the private sector with projected capital spending set out in the Plan are more difficult because of the differences of coverage involved. However, broadly, it would seem that in both 1966 and 1967 the private sector achieved the rate of capital formation set for it in the Plan, although the comparison is at current prices and in real terms there may have been some shortfall.

CAPITAL FORMATION, CONSTRUCTION EXPENDITURE—
CENTRAL GOVERNMENT AND LOCAL AUTHORITIES

Table 1.7

K£'000

| | Roads | Water Works | Soil Conser- vation | Other | Total |
|--------------------|---------|----------------|---------------------------|---------|---------|
| CENTRAL GOVERNMENT | | | | | |
| 1964 | 428.9 | 196.1 | 220.1 | 798.5 | 1,643.5 |
| 1965 | 1,280.2 | 142.7 | 226.8 | 924.3 | 2,574.0 |
| 1966 | 2,898.4 | 115.3 | 236.5 | 1,153.4 | 4,403.6 |
| 1967* | 4,746.4 | 99.0 | 239.4 | 1,327.2 | 6,411.9 |
| LOCAL AUTHORITIES— | | | | | |
| 1964 | 451.5 | 158.1 | — | 112.7 | 722.3 |
| 1965 | 310.8 | 86.1 | — | 184.1 | 581.0 |
| 1966 | 357.6 | 204.9 | — | 494.0 | 1,056.5 |
| 1967* | 500.3 | 978.3 | — | 211.5 | 1,690.1 |

*Provisional.

32. It has been necessary to show comparisons between actual expenditures at current prices and Plan expenditure at constant prices as a constant price series of capital expenditures has not yet been constructed. It is, however, apparent that building and construction costs rose steeply in 1966 and 1967 and the real growth of capital formation must be less than suggested by a series valued at current prices. Imported machinery and equipment prices have also risen in 1966 and 1967 but to a much smaller extent.

33. It is now possible for the first time to set out capital formation estimates by industry, that is, the industry receiving the investment as opposed to the industry making the investment. Of total capital formation in 1967, 85 per cent was undertaken for the benefit of enterprises and non-profit institutions and the remaining 15 per cent for general government. Within the enterprise sector, the transport, storage and communications industry received the largest investment, largely due to the substantial public enterprise expenditures undertaken in respect of railway re-equipment and new aircraft. Manufacturing investment which was approximately doubled in three years, exceeded capital spending by agriculture for the first time. The main direction of manufacturing investment last year was towards machinery and equipment, purchases of which were valued at K£10.0 million compared with K£6.5 million in 1966. Purchases of sugar manufacturing machinery were equivalent to approximately K£1.5 million, mechanical handling equipment approximately K£1 million, textile equipment K£0.8 million, machine tools K£0.4 million, printing machinery K£0.5 million, and grain milling machinery K£0.3 million. The electricity industry recorded a substantial increase in capital spending in 1967—work on the Kindaruma dam accounting for a larger part of the increase. Power generation from the dam is expected to commence in 1968.

34. Construction of residential houses which in national accounts terms is an investment in the ownership of dwellings moved up sharply in 1967, as expected with an increase in completions of buildings.

35. Capital formation in agriculture recorded a rise of 6.6 per cent in 1967. Investment in this sector is perhaps less influenced by major project investments and is therefore less volatile than, say, the transport industry or manufacturing. A large part of recorded investment still takes place in the large farm sector but, increasingly, small farmers are investing in land improvements, including the development of permanent crops such as tea in higher grade livestock, both of which are now reflected in capital formation figures.

36. Investment in the services industries has increased by 106 per cent in the last three years largely as a result of rising capital spending in the hotel industry. A further sharp increase in hotel building in 1968 is expected.

CAPITAL FORMATION, INDUSTRIAL BREAKDOWN, 1964-1967

Table 1.8 *K£million*

| INDUSTRIES | 1964 | 1965 | 1966 | 1967* |
|-------------------------------------------------------|-------|-------|-------|-------|
| A. OUTSIDE MONETARY ECONOMY— Traditional Dwellings | 5.24 | 5.72 | 6.47 | 7.54 |
| B. MONETARY ECONOMY— | | | | |
| 1. <i>Enterprises and Non-Profit Institutions:</i> | | | | |
| Agriculture | 7.92 | 7.70 | 10.22 | 10.89 |
| Forestry | 0.22 | 0.08 | 0.28 | 0.44 |
| Mining and Quarrying | 0.04 | 0.05 | 0.09 | 0.19 |
| Manufacturing and Repairing | 6.95 | 7.55 | 9.51 | 13.45 |
| Building and Construction | 1.37 | 2.09 | 1.66 | 2.07 |
| Electricity and Water | 1.32 | 2.17 | 2.46 | 6.22 |
| Transport, Storage and Communications | 10.85 | 8.21 | 13.35 | 16.52 |
| Wholesale and Retail Trade | 2.53 | 1.88 | 2.35 | 2.80 |
| Banking, Insurance and Real Estate | 0.31 | 0.24 | 0.17 | 0.34 |
| Dwellings | 2.05 | 2.09 | 2.84 | 4.51 |
| Other Services | 1.97 | 1.72 | 2.91 | 4.06 |
| TOTAL 1 | 35.54 | 33.79 | 45.85 | 61.48 |
| 2. <i>General Government:</i> | | | | |
| Public Administration | 0.71 | 0.96 | 1.09 | 2.13 |
| Health | 0.47 | 1.25 | 0.94 | 0.99 |
| Education | 0.59 | 0.62 | 0.91 | 1.16 |
| Agricultural Services | 0.96 | 1.21 | 1.22 | 1.52 |
| Other Services | 1.63 | 3.01 | 4.74 | 6.42 |
| TOTAL 2 | 4.36 | 7.04 | 8.90 | 12.21 |
| C. TOTAL— | | | | |
| Outside Monetary Economy | 5.24 | 5.72 | 6.47 | 7.54 |
| Monetary Economy | 39.90 | 40.83 | 54.75 | 73.69 |
| TOTAL | 45.14 | 46.54 | 61.21 | 81.23 |
| D. PERCENTAGE RATES OF GROWTH— | | | | |
| Outside Monetary Economy | | 9.16 | 13.11 | 16.54 |
| Monetary Economy | | 2.33 | 34.08 | 34.59 |
| TOTAL | | 3.08 | 31.52 | 32.72 |

*Provisional.

CAPITAL FORMATION
ANALYSIS BY INDUSTRY AND TYPE OF ASSET, 1966 AND 1967*

Table 1.9

K£million

| INDUSTRY | Dwellings | | Non-Residential Buildings | | Construction and Works | | Land improvement and Plantation Development | | Transport Equipment | | Machinery and other equipment | | Breeding Stock and Daily Cattle | | TOTAL | |
|---------------------------------------------------------------------------|-----------|------|---------------------------|------|------------------------|------|---------------------------------------------|------|---------------------|-------|-------------------------------|-------|---------------------------------|------|-------|-------|
| | 1966 | 1967 | 1966 | 1967 | 1966 | 1967 | 1966 | 1967 | 1966 | 1967 | 1966 | 1967 | 1966 | 1967 | 1966 | 1967 |
| A. OUTSIDE MONETARY ECONOMY Traditional Dwellings | 6.47 | 7.54 | - | - | - | - | - | - | - | - | - | - | - | - | 6.47 | 7.54 |
| B. MONETARY ECONOMY 1. <i>Enterprises and Non-Profit Institutions:</i> | | | | | | | | | | | | | | | | |
| Agriculture | - | - | 0.28 | 0.31 | 2.50 | 2.23 | 1.40 | 1.52 | 0.72 | 0.77 | 3.98 | 4.82 | 1.35 | 1.23 | 10.22 | 10.89 |
| Forestry... | - | - | 0.03 | 0.04 | 0.10 | 0.12 | - | - | 0.03 | 0.05 | 0.12 | 0.23 | - | - | 0.28 | 0.44 |
| Fishing | - | - | - | - | - | - | - | - | - | - | N/A | N/A | - | - | N/A | N/A |
| Mining and Quarrying | - | - | - | - | 0.03 | 0.01 | - | - | 0.04 | 0.14 | 0.02 | 0.04 | - | - | 0.10 | 0.19 |
| Manufacturing and Repairing | - | - | 1.48 | 1.58 | 0.43 | 0.53 | - | - | 1.08 | 0.39 | 6.51 | 9.95 | - | - | 9.51 | 13.45 |
| Building and Construction | - | - | 1.18 | 0.20 | 0.21 | 0.30 | - | - | 0.16 | 0.15 | 1.11 | 1.41 | - | - | 1.66 | 2.07 |
| Electricity and Water... | - | - | - | 0.05 | 1.64 | 3.75 | - | - | 0.09 | 0.50 | 0.73 | 1.92 | - | - | 2.46 | 6.22 |
| Transport Storage and Communications | - | - | 0.51 | 0.62 | 1.27 | 1.66 | - | - | 9.11 | 12.22 | 2.47 | 2.02 | - | - | 13.35 | 16.52 |
| Wholesale and Retail Trade | - | - | 0.42 | 0.83 | 0.56 | 0.22 | - | - | 0.60 | 0.79 | 0.78 | 0.96 | - | - | 2.35 | 2.80 |
| Banking, Insurance and Real Estate... | - | - | 0.01 | 0.14 | - | - | - | - | 0.01 | - | 0.15 | 0.20 | - | - | 0.17 | 0.34 |
| Dwellings | 2.75 | 4.41 | - | - | - | - | - | - | - | - | 0.09 | 0.09 | - | - | 2.84 | 4.51 |
| Other Services | - | - | 0.94 | 1.95 | 0.04 | 0.17 | - | - | 0.07 | 0.10 | 1.86 | 1.83 | - | - | 2.91 | 4.06 |
| TOTAL 1 | 2.75 | 4.41 | 3.85 | 5.72 | 6.77 | 9.00 | 1.40 | 1.52 | 11.91 | 16.12 | 17.83 | 23.48 | 1.35 | 1.23 | 45.85 | 61.48 |

*Provisional.

Table 1.9

ANALYSIS BY INDUSTRY AND TYPE OF ASSET, 1966 AND 1967*—(Contd.)

K£million

| INDUSTRY | Dwellings | | Non-Residential Buildings | | Construction and Works | | Land improvement and Plantation Development | | Transport Equipment | | Machinery and other equipment | | Breeding Stock and Dairy Cattle | | TOTAL | |
|--------------------------|-----------|-------|---------------------------|------|------------------------|-------|---------------------------------------------|------|---------------------|-------|-------------------------------|-------|---------------------------------|------|-------|-------|
| | 1966 | 1967 | 1966 | 1967 | 1966 | 1967 | 1966 | 1967 | 1966 | 1967 | 1966 | 1967 | 1966 | 1967 | 1966 | 1967 |
| 2. General Government: | | | | | | | | | | | | | | | | |
| Public Administration | — | — | 0.64 | 1.56 | 0.01 | 0.02 | — | — | 0.33 | 0.38 | 0.11 | 0.17 | — | — | 1.09 | 2.13 |
| Education | — | — | 0.78 | 0.95 | 0.03 | 0.05 | — | — | 0.04 | 0.06 | 0.07 | 0.09 | — | — | 0.91 | 1.16 |
| Health | — | — | 0.56 | 0.55 | — | — | — | — | 0.05 | 0.07 | 0.33 | 0.37 | — | — | 0.94 | 0.99 |
| Agricultural Services | — | — | 0.17 | 0.17 | 0.76 | 0.99 | — | — | 0.07 | 0.08 | 0.23 | 0.28 | — | — | 1.22 | 1.52 |
| Other Services | — | — | 0.10 | 0.09 | 4.00 | 5.47 | — | — | 0.19 | 0.24 | 0.45 | 0.61 | — | — | 4.74 | 6.42 |
| TOTAL 2 | — | — | 2.24 | 3.33 | 4.80 | 6.53 | — | — | 0.67 | 0.84 | 1.19 | 1.52 | | | 8.90 | 12.21 |
| C. TOTAL— | | | | | | | | | | | | | | | | |
| Outside Monetary Economy | 6.47 | 7.54 | — | — | — | — | — | — | — | — | — | — | — | — | 6.47 | 7.54 |
| Monetary Economy | 2.75 | 4.41 | 6.09 | 9.05 | 11.56 | 15.53 | 1.40 | 1.52 | 12.58 | 16.95 | 19.01 | 25.00 | 1.35 | 1.23 | 54.75 | 73.69 |
| TOTAL | 9.22 | 11.95 | 6.09 | 9.05 | 11.56 | 15.53 | 1.40 | 1.52 | 12.58 | 16.95 | 19.01 | 25.00 | 1.35 | 1.23 | 61.21 | 81.23 |

*Provisional.

37. Included in the estimates in this Chapter are figures of capital formation undertaken on self-help schemes. They show an impressive increase. Beginning with 1964—the year self-help schemes were launched—the total value of capital formation undertaken was K£0.60 million. Between 1965 and 1967 it more than doubled increasing to K£0.79 million in 1965, K£1.23 million in 1966 and K£1.93 million in 1967. A functional analysis of capital formation on self-help schemes in 1967—by type of projects—is set out below: —

| | |
|------------------------------------------|--------|
| Residential building | K£'000 |
| Schools | 136 |
| Community halls and other social centres | 989 |
| Health centres and dispensaries | 119 |
| Other non-residential buildings | 223 |
| Roads | 181 |
| Waterworks | 53 |
| Other construction projects | 58 |
| | 178 |
| | <hr/> |
| Balance of Payments | 1,937 |

38. At the time this *Survey* is prepared not all the information required to compile the full balance of payments for the previous year is available. Sufficient data are available, however, to give an indication of the main structure of the accounts, although for the reasons described below, estimates of private capital flows must be regarded as tentative.

39. Whereas in 1966, there was a fairly substantial balance of payments surplus and foreign exchange reserve accumulated, in 1967 there was a balance of payments deficit and a net loss of reserves taking into account the monetary sector as a whole. This change in Kenya's balance of payments position was not unexpected, although it had been hoped that the inflow of capital would increase sufficiently to offset the forecast deterioration on current account.

40. It was suggested in last year's *Economic Survey* that the current account might deteriorate from a provisionally estimated adverse balance of K£11 million in 1966 to an adverse balance of K£20 million in 1967. The final 1966 balance on current account is now estimated at K£7 million debit, while in 1967 the provisional adverse balance is estimated at K£13 million. Changes in external trade are discussed in detail in Chapter 3. Suffice it to mention here that imports (adjusted on a balance of payments basis, vide paragraph 7, Chapter 3), did not increase to the extent expected while export income was lower than forecast. Again, on a balance of payments basis, the merchandise account (imports c.i.f., exports f.o.b.) changed from a debit of K£25 million in 1966 to a debit of K£36 million in 1967. The deterioration of the balance of visible trade accounted for the whole of the deterioration of the current account.

Table 1.10

BALANCE OF PAYMENTS, 1965-1967

K£million

| | 1965 | | | 1966 | | | 1967 Provisional | | |
|---------------------------------------------------------------|-------------------|-------------------------|----------------|-------------------|------------------------|----------------|-------------------|-------------------------|----------------|
| | Debits/ Assets | Credits/ Liabilities | Net Credits | Debits/ Assets | Credit/ Liabilities | Net Credits | Debits/ Assets | Credits/ Liabilities | Net Credits |
| A. CURRENT ACCOUNT | | | | | | | | | |
| 1. Merchandise transactions Imports (c.i.f.) Exports (f.o.b.) | 97.4 | 78.0 | Dr. 19.4 | 111.8 | 86.8 | Dr. 25.0 | 115.0 | 79.0 | Dr. 36.0 |
| 2. Non-Monetary Gold Movements | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.3 | 0.2 |
| 3. Freight and Insurance | 0.5 | 8.2 | 7.7 | 0.5 | 9.3 | 8.8 | 0.2 | 8.9 | 8.7 |
| 4. Other Transportation | 5.5 | 11.1 | 5.6 | 6.9 | 12.2 | 5.3 | 8.0 | 16.2 | 8.2 |
| 5. Foreign Travel | 6.4 | 10.9 | 4.5 | 5.6 | 14.4 | 8.8 | 4.9 | 14.7 | 9.8 |
| 6. International Investment Income | 14.8 | 5.8 | Dr. 9.0 | 18.0 | 5.8 | Dr. 12.2 | 17.1 | 6.5 | Dr. 10.6 |
| 7. Government Transactions n.e.s | 1.5 | 4.3 | 2.8 | 4.5 | 8.2 | 3.7 | 4.3 | 7.9 | 3.4 |
| 8. Other Services | 3.6 | 5.8 | 2.2 | 4.7 | 6.9 | 2.2 | 3.9 | 5.2 | 1.3 |
| 9. Private Transfers | 5.9 | 4.4 | Dr. 1.5 | 5.1 | 3.6 | Dr. 1.4 | 3.9 | 3.0 | Dr. 0.9 |
| 10. Government Transfers | 6.2 | 13.5 | 7.3 | 7.6 | 10.8 | 3.2 | 7.3 | 10.0 | 2.7 |
| TOTAL CURRENT ACCOUNT | 141.9 | 142.2 | 0.2 | 164.8 | 158.3 | Dr. 6.6 | 164.8 | 151.8 | Dr. 13.1 |
| Of which Visible Balance | 97.4 | 78.0 | Dr. 19.4 | 111.8 | 86.8 | Dr. 25.0 | 115.0 | 79.0 | Dr. 36.0 |
| 19. Invisible Balance | 44.5 | 64.2 | 19.6 | 53.0 | 71.5 | 18.5 | 49.8 | 72.8 | 22.9 |
| B. LONG TERM CAPITAL MOVEMENTS | | | | | | | | | |
| 11. Private Enterprises | 7.3 | 8.8 | 1.5 | 1.1 | 2.1 | 1.0 | — | 4.0 | 4.0 |
| 12. Government Enterprises | 0.4 | 0.4 | | Cr. 0.5 | 3.1 | 3.6 | 1.0 | 4.5 | 3.5 |
| 13. Local Government | 1.3 | | Dr. 1.3 | Cr. 0.7 | Dr. 1.0 | Dr. 0.3 | 0.1 | Dr. 0.4 | Dr. 0.4 |
| 14. Central Government | 1.3 | 9.2 | 7.9 | Cr. 0.6 | 10.3 | 10.8 | Cr. 0.4 | 3.6 | 4.0 |
| TOTAL LONG TERM CAPITAL MOVEMENTS | 10.3 | 18.4 | 8.1 | Cr. 0.7 | 14.5 | 15.1 | Cr. 0.7 | 11.7 | 11.0 |
| TOTAL CURRENT AND LONG TERM CAPITAL ACCOUNT | 152.2 | 160.6 | 8.3 | 164.1 | 172.8 | 8.6 | 165.5 | 163.5 | Dr. 2.1 |
| C. MONETARY AND SHORT TERM CAPITAL MOVEMENTS | | | | | | | | | |
| 15. Central Monetary Institutions | 0.9 | — | Dr. 0.9 | 7.2 | | Dr. 7.2 | 4.1 | — | Dr. 4.1 |
| 16. Accounts with I.M.F | | | | 10.6 | 10.0 | Dr. 0.6 | — | — | — |
| 17. Other Monetary Institutions | 0.9 | — | Dr. 0.9 | Cr. 4.8 | Dr. 7.2 | Dr. 2.4 | Cr. 6.3 | 3.6 | 9.8 |
| 18. Other Short Term Capital Movements | 1.7 | 1.1 | Dr. 0.6 | 1.0 | Dr. 1.6 | Dr. 2.6 | 0.6 | — | Dr. 0.6 |
| TOTAL MONETARY AND SHORT TERM CAPITAL MOVEMENTS | 3.5 | 1.1 | Dr. 2.4 | 14.0 | 1.2 | Dr. 12.8 | Cr. 1.6 | 3.6 | 5.1 |
| BALANCING ITEM | | | Dr. 5.9 | | | 4.2 | | | Dr. 3.0 |

41. The balance of invisibles is estimated to have improved slightly in 1967. Freight earnings were lower as a result of fewer Uganda and Tanzania trade goods passing through Kenya, but other transport earnings particularly income derived from the bunkering facilities at the port of Mombasa increased significantly, largely as a result of the closure of the Suez Canal. Sales of fuel and stores increased by over K£2 million. This should not, however, be regarded as a net gain from the closure of the canal, for the main part of the costs of the closure are obscured in the merchandise figures when imports are shown, as here, on a c.i.f. basis with exports f.o.b. Increased shipping and insurance costs are reflected in these accounts in higher import, and lower export, values. Gross tourist income is estimated to have increased very slightly from the record level of 1966 but travel expenditures abroad by Kenya residents are estimated lower. The favourable balance on travel account increased by K£1 million. The development of tourism in the year is discussed in Chapter 6.

42. Profits earned by non-resident investors in Kenya were lower in 1967 since the level of profits in the economy was reduced overall. Investment credits are estimated slightly higher although the profits earned abroad by Kenya owned companies and branches are believed to have been lower. The overall increase is largely due to increased investment income earned by the Central Bank. The usual net deficit on investment income account is therefore estimated at a rather lower figure compared with 1966.

43. The net inflow of capital into Kenya was rather lower in 1967 than in 1966, but it is important to appreciate that any estimate of private capital flows for 1967 can be little better than a guess at this stage. Public sector capital flows are available fully and the figures for these can be regarded as firm but few returns of private capital flows are yet available and estimates of these can only be derived as a balancing item in the accounts. In last year's survey it was suggested that there might have been a net private capital inflow of K£10 million in 1966. When the full returns from non-resident firms were available it was discovered that, in fact, although the gross capital inflow was of this order of magnitude substantial repayments of capital liabilities were made during that year and the *net* increase in liabilities was no more than K£2 million. It is, however, believed that there were some capital inflows on private account unrecorded and this is reflected in the positive "errors and omissions" in the accounts for 1966. For 1967, it seems likely that the same situation may have arisen. If private capital movements were shown in the accounts as "unknown", as strictly is the case, the errors and omissions balancing item would be a credit of K£1 million. Private capital credits are known to be much higher than this figure—there was a single capital credit of K£2.8 million for the Tana River Development Company. At the same time, it has already been shown in Table 1.4 that private sector (monetary) capital formation increased from K£35.4 million

in 1966 to K£47.1 million in 1967. Undoubtedly, part of this increase was financed from overseas. A provisional estimate of K£4 million net private capital credit is shown in 1967, causing a small debit balancing item overall.

44. The monetary sector imbalance changes are shown after an adjustment has been made in respect of capital losses arising from the devaluation of sterling. Thus, the value of net assets "owned" by the monetary sector actually fell by K£10.5 million in 1967, but approximately K£4.8 million represented a reduction in the book value of assets which occurred as a result of the change in the exchange rate between the Kenya and British pound. It does not represent the real change in Kenya's foreign flows. These, taking the central and other monetary institutions together, are defined by the reduction in net assets of K£5.7 million shown in Table 1.10. There were also recorded short term capital movements equivalent to a debit of K£0.6 million. It will be noted that the assets of the central monetary institutions—the Central Bank of Kenya and the East African Currency Board (estimated Kenya share) actually increased during 1967 and the reduction of assets overall was caused entirely by a reduction in the assets of "other monetary institutions". The latter are largely represented by the commercial banks operating in Kenya and during 1967 they were required by the Central Bank to reduce their holdings of foreign exchange to the level of working balances. This action is described in more detail in Chapter 2.

45. Considered as a whole, balance of payments trends in 1967 were not unexpected if not entirely satisfactory. Uncertainties over currency values in the latter part of the year are likely to have influenced both current and capital account movements—particularly private capital movements. It is premature to suggest that Kenya's balance of payments situation became a serious constraint on development in 1967 but, undoubtedly, was partly the cause of a tightening of credit particularly towards the end of the year. If Kenya's rate of economic growth is to be maintained at the level of recent years, and even increased, the demand for capital imports will inevitably rise and unless foreign exchange earnings can be expanded simultaneously, by an expansion of exports, increased tourist earnings or a capital inflow, the expansion of liquidity required to finance growth will be unavailable.

CHAPTER 2—MONEY AND BANKING

With the establishment of the Central Bank of Kenya in September 1966, the Kenya Government moved into the position whereby for the first time it could formulate and operate an independent monetary policy. During the first full year of such operations the monetary authorities in Kenya were faced with two important external crises—the nationalization of the banks in Tanzania in February 1967 and the devaluation of the £ Sterling in November 1967.

2. The effects of the former on the existing monetary arrangements in East Africa were considerable. First, the Tanzania Government imposed Exchange Control restrictions against Kenya and Uganda, which meant that new procedures for making and receiving payments had to be evolved. As part of the measures to restrict capital flight from Tanzania the Bank of Tanzania suspended the arrangements whereby Tanzania bank notes are redeemed in Kenya and Uganda. Fortunately the problems created by these measures were short-lived as on the 15th June the Tanzania Government announced the removal of the restrictions. Secondly, as a result of the nationalization of the Tanzania banks, commercial banks in Kenya suddenly found themselves without correspondents in Tanzania and thus they had no channels for remitting funds or sending cheques and bills for collection to Tanzania. It took a little time for new channels to be opened, but by about the middle of the year banking business between Kenya and Tanzania was running fairly smoothly again.

3. The problems created by the devaluation of the £ Sterling in November were more complex. As a result of the devaluation Kenya was immediately faced with the problem of whether to follow or not. The situation had to be assessed in the light of the fact that in the first day or two only a few countries appeared to be following the U.K. into devaluation and that many of these already had balance-of-payments problems in any case. Thus as many of Kenya's potential competitors in the Sterling area had not devalued there was less pressure on Kenya to do so. Furthermore it was estimated that any gain to exports from a devaluation of the Kenya shilling would not be very large since the world demand for many of Kenya's primary products is relatively inelastic or controlled by arrangements like the coffee quota. It was therefore decided that whilst, as a result of the decision not to devalue, Kenya's balance of payments might suffer somewhat, there was no evidence of any fundamental external disequilibrium resulting from the devaluation of Sterling and that in the circumstances the drastic action of devaluing the Kenya shilling was neither appropriate nor necessary. The repercussions of the devaluation of Sterling and the effects of the subsequent stringency in the international credit situation on Kenya's credit market are discussed later.

4. The year 1967 was one of growth and consolidation for the Central Bank of Kenya. The currency in circulation increased from K£14.8 million at end December 1966 to over K£24 million at the end of last year. The latter figures included K£0.95 million of new coin which was first issued by the Central Bank on the 10th April 1967. The bulk of this rise (K£6.8 million) reflects the process of exchanging East African Currency Board notes and coins. By the end of December 1967 the exchange was nearing completion, there being only some £6.5 million of E.A.C.B. currency outstanding in the whole of East Africa at that date.

CENTRAL BANK OF KENYA
Assets and Liabilities

Table 2.1

K£000'S

| | Mar. 1967 | June 1967 | Sep. 1967 | Dec. 1967 | Mar. 1968 |
|-----------------------------------------|---------------|---------------|---------------|---------------|---------------|
| LIABILITIES | | | | | |
| Capital | 667 | 667 | 667 | 667 | 667 |
| Notes in circulation | 17,353 | 17,969 | 21,168 | 23,135 | 23,257 |
| Coin in circulation | — | 640 | 801 | 952 | 1,010 |
| Deposits: | | | | | |
| Government | 8,048 | 6,344 | 5,152 | 2,726 | 8,797 |
| Kenya Banks | 1,542 | 2,214 | 7,886 | 5,135 | 3,420 |
| External Banks | 394 | 190 | 237 | 343 | 208 |
| Others | — | — | — | 462 | 723 |
| Other Liabilities | 519 | 357 | 404 | 368 | 726 |
| Total Assets/Liabilities | 28,523 | 28,381 | 36,315 | 33,788 | 38,808 |
| ASSETS | | | | | |
| Foreign Exchange: | | | | | |
| Balances with Banks | 878 | 6 | 2,121 | 9,765 | 8,830 |
| Treasury Bills | 17,549 | 13,458 | 18,232 | 6,240 | 10,048 |
| Other Investments | 4,793 | 10,412 | 10,762 | 9,275 | 9,990 |
| Kenya Govt. Sees, received from E.A.C.B | 3,510 | 3,226 | 3,226 | 3,226 | 3,226 |
| Other Kenya Govt. Securities | 450 | 450 | 450 | 386 | 386 |
| Securities of Public Entities | — | — | — | — | 987 |
| Advances and Discounts | 198 | — | — | — | 745 |
| Revaluation Account | — | — | — | 3,578 | 3,574 |
| Other Assets | 1,145 | 829 | 1,524 | 1,318 | 1,022 |

5. With the exception of June, the foreign exchange assets of the Central Bank rose steadily until mid-November. The main sources of the increase in the Central Bank's foreign exchange reserves during the ten months to October 1967 were the East African Currency Board, as a result of the currency exchange, and the commercial banks.

6. During the third quarter of 1967 it was decided to centralize the country's foreign exchange reserves within the Central Bank by reducing the commercial banks holdings of foreign exchanges to the level of working balances. The effect of this policy is reflected in the large rise in the Bank's foreign exchange assets but this had no effect on the overall level of the foreign exchange reserves of the country although as the table below shows these rose during the period. It is apparent from the figures that until the devaluation of the £ Sterling the foreign exchange reserves of Kenya were buoyant, and at K£45 million at the end of September 1967 they comfortably exceeded the level of four months imports, but after the middle of November 1967, the situation was changed.

FOREIGN EXCHANGE RESERVES

Table 2.2

K£000's

| HELD BY | Dec. 1966 | March | June | Sept. | Dec. 1967 | March 1968 |
|---------------------------------------|--------------|--------|--------|--------|--------------|---------------|
| Central Bank of Kenya.. | 16,979 | 23,220 | 23,876 | 31,115 | 25,280 | 28,868 |
| Commercial Banks | | | | | | |
| Net balances with banks | 8,260 | 6,071 | 7,706 | 2,153 | -2,190 | -1,352 |
| outside Kenya | 1,925 | 1,798 | 1,849 | 1,831 | 1,886 | 1,904 |
| Other | | | | | | |
| Government* | 1,205 | 2,078 | 1,729 | 2,171 | 1,423 | 1,192 |
| I.M.F. Gold tranche | 1,431 | 1,431 | 1,431 | 1,431 | 1,431 | 1,431 |
| Estimated share of E.A.C.B. Assets | 12,061 | 9,534 | 7,046 | 6,450 | 3,710 | 3,870 |
| TOTAL | 41,861 | 44,132 | 43,637 | 45,151 | 31,540 | 35,913 |

*Includes overseas securities of the Post Office Savings Bank.

7. Apart from the book loss of K£31/2 million in the Central Bank's foreign exchange reserves, the decision not to devalue the Kenya shilling prompted some importers to make payments earlier than usual out of fear that the devaluation of the Kenya shilling was only just around the corner. Thus there was an additional decline in the Bank's foreign exchange assets of K£4.6 million between end-October and end-December. Furthermore, it soon became apparent that the commercial banks were expanding credit at a fairly high rate and that this additional credit was being used to make payments abroad. The effect of this development on the commercial banks' liquidity was considerable and resulted in a running-down of their deposits at the Central Bank and in a rise in their borrowing from banks abroad. This shortage of liquidity was alleviated to some extent by the seasonal end-year fall in Government deposits at the Central Bank which meant a transfer of funds to the private sector.

8. Naturally the problems and developments which affected the Central Bank during 1967 had their impact on the commercial banks in Kenya. The trend towards national banking as opposed to regional banking continued and is reflected in the net position of Kenya banks with banks in Tanzania and Uganda. Until mid-1966 this position usually showed a fairly substantial lending by Kenya banks to banks in Tanzania and Uganda, but since then the level of balances has settled down at a much lower figure and the net position has fluctuated, indicating that these balances are now virtually purely working balances financing transactions between the three countries.

COMMERCIAL BANKS—ASSETS AND LIABILITIES

Table 2.3

K£'000

| ASSETS | 1966 | 1967 | | | | 1968 | |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|
| | Dec. | March | June | Sep. | Dec. + | Jan. + | March + |
| Cash | 3,042 | 2,843 | 2,815 | 3,150 | 3,247 | 3,201 | 3,097 |
| Balances due by | | | | | | | |
| (a) Central Bank | 1,301 | 1,334 | 2,220 | 7,856 | 4,968 | 2,176 | 3,422 |
| (b) Kenya Banks | 17,822 | 19,472 | 17,524 | 19,448 | 2,444 | 2,366 | 1,244 |
| (c) E.A. Banks | 1,920 | 971 | 820 | 1,705 | 1,777 | 1,209 | 1,095 |
| (d) Banks Abroad | 10,043 | 8,920 | 12,573 | 4,279 | 3,244 | 4,812 | 3,493 |
| Bills Discounted, | | | | | | | |
| Loans and Advances | 55,512 | 59,707 | 61,174 | 61,266 | 68,002 | 72,420 | 70,750 |
| Investments | 4,245 | 4,108 | 4,191 | 4,620 | 4,655 | 4,656 | 4,590 |
| Other Assets* | 28,860 | 27,965 | 27,697 | 28,663 | 30,709 | 30,654 | 23,577 |
| Total Assets/ Liabilities | 122,745 | 125,320 | 129,014 | 130,987 | 119,046 | 121,494 | 111,268 |

*The figure for contra items has been included.

+New series.

TABLE 2.3—(Contd.)

| LIABILITIES | Dec. | March | June | Sep. | Dec. + | Jan. + | March + |
|----------------------------------|--------|--------|--------|--------|--------|--------|---------|
| Deposits: | | | | | | | |
| (1) Demand | 49,799 | 45,671 | 50,256 | 47,105 | 51,172 | 50,245 | 49,905 |
| (2) Time | 10,492 | 14,327 | 13,269 | 15,892 | 12,329 | 12,467 | 13,759 |
| (3) Saving | 17,139 | 18,112 | 18,844 | 19,999 | 21,532 | 20,575 | 21,258 |
| Balances due to: | | | | | | | |
| (1) Central Bank | — | 200 | — | — | — | 720 | 546 |
| (2) Kenya Banks | 12,028 | 13,805 | 12,838 | 15,124 | 1,762 | 1,224 | 486 |
| (3) E.A. Banks | 704 | 598 | 1,377 | 1,283 | 1,582 | 2,716 | 1,447 |
| (4) Banks Abroad | 2,999 | 3,222 | 4,310 | 2,548 | 5,629 | 7,455 | 4,493 |
| Bills Payable and Other Loans | 1,866 | 1,353 | 2,230 | 1,388 | 1,659 | 2,000 | 1,687 |
| Other Liabilities* | 27,717 | 28,032 | 25,890 | 27,648 | 23,379 | 24,093 | 17,686 |

*The figure for contra items has been included.

+New series.

COMMERCIAL BANKS—ADVANCES/DEPOSITS AND CASH RATIOS

Table 2.4

| End of | TOTAL ADVANCES/DEPOSITS | | | PRIVATE ADVANCES/DEPOSITS | | | CASH | |
|---------------|----------------------------|----------|-------|------------------------------|----------|-------|------------------------------------------------|--------------------------------------------|
| | Deposits | Advances | Ratio | Deposits | Advances | Ratio | Notes and Coin and Balances at C.B.K. | Ratio (Cash: Total Depo- sits) |
| | K£'000 | K£'000 | % | K£'000 | K£'000 | % | K£'000 | % |
| 1966— Dec. | 77,430 | 55,512 | 71.7 | 64,893 | 53,594 | 82.6 | 4,343 | 5.6 |
| 1967— Mar. | 78,110 | 59,707 | 76.4 | 66,585 | 57,319 | 86.1 | 4,177 | 5.3 |
| June | 82,369 | 61,174 | 74.3 | 68,985 | 59,255 | 85.9 | 5,035 | 6.1 |
| Sept. | 82,996 | 61,266 | 73.8 | 73,562 | 58,957 | 80.1 | 11,006 | 13.3 |
| Dec. | 85,033 | 68,002 | 80.0 | 72,424 | 64,800 | 89.5 | 8,215 | 9.7 |
| 1968— Jan. | 83,287 | 72,420 | 87.0 | 69,873 | 68,768 | 98.4 | 5,377 | 6.5 |
| Mar. | 84,922 | 70,750 | 83.3 | 73,597 | 66,709 | 90.6 | 6,519 | 7.7 |

9. During the year there was a rise in deposits at the commercial banks, especially in the time and savings accounts of the private sector. In spite of this there was a steady rise in the cash ratio during the period, the large fluctuation in the second half of the year reflect the increases in deposits at the Central Bank, but this increase in domestic liquidity was at the expense of the fall in the foreign element of total liquidity (namely balances with banks abroad). Even with the steady decline in these deposits from the October peak of nearly K£10 million the cash ratio at the end of February this year was 1.3 per cent above that prevailing at the end of March 1967. Savings deposits rose by K£4.4 million in 1967 exceeding the increase of K£4.1 million in 1966. The rise reflects the initiative of the commercial banks in opening up agencies and mobile services to serve the more isolated parts of the country. There was little change in the outstanding balances held by the Post Office Savings Bank during 1967 although the decline appears to have been arrested. It remains to be seen if the Government's intention to raise the interest rate payable on deposits by the Savings Bank from 2 1/2 per cent to 3 per cent, which would thereby bring it into line with the commercial banks, will result in the Savings Bank attracting more funds.

10. The rise in deposits in 1967 was more than matched by a rise of K£12 1/2 million in bills discounted, loans and advances which was much greater than the annual average increase of K£2.2 million during the previous six years, and which resulted in an increase in the advances/deposits ratio from 71.7 per cent at the end of December 1966 to 80 per cent at the end

of December 1967. Over half the rise occurred in the last two months of 1967 and it is believed that this was largely the result of the devaluation of the £ Sterling with traders and others taking up existing lines of credit to make early payments in anticipation of a devaluation of the Kenya shilling. There was a further rise in advances in January of over K£4.4 million with the result that the advances/deposits ratio reached 87 per cent the highest since July 1965, but it seems likely that this increase was largely due to the incidence of tax payments. Nevertheless, as mentioned earlier, the rise in advances meant a liquidity problem for the banks, balances at the Central Bank were run down from K£9.7 million at the end of October to K£2.3 million at the end of January and it was necessary in December and January for the banks to resort to borrowing from banks abroad in order to finance the increase. Advances fell slightly in February but at £71.4 million they were still historically high. This downward trend coupled with a rise in deposits and a probable run-down in Government balances at the Central Bank in the period to June should mean an easing of pressures on the banks' liquidity over the next few months.

COMMERCIAL BANKS—BILLS, LOANS AND ADVANCES

Table 2.5

K£'000

| | 1966 | 1967 | | | |
|--------------------------------------------------------------------------|--------|--------|--------|--------|--------|
| | Dec. | March | June | Sept. | Dec. |
| I. Government | | | | | |
| (a) Central Government | 827 | 627 | 651 | 694 | 897 |
| (b) Local Government | 88 | 141 | 152 | 316 | 403 |
| (c) E.A.C.S.O | — | — | 2 | — | — |
| GOVERNMENT TOTAL | 915 | 768 | 805 | 1,010 | 1,300 |
| II. Enterprises (Public and Private) | | | | | |
| (a) Agriculture | 6,276 | 6,329 | 6,452 | 7,350 | 9,325 |
| (b) Mining and Quarrying | 75 | 65 | 73 | 74 | 96 |
| (c) Manufacturing | 8,299 | 9,979 | 9,875 | 10,226 | 10,944 |
| (d) Building and Construction | 1,078 | 1,183 | 1,349 | 1,440 | 1,519 |
| (e) Electricity and Water | 283 | 279 | 281 | 256 | 257 |
| (f) Transport, Storage and Communications | 701 | 853 | 1,523 | 1,358 | 1,117 |
| (g) Oil Companies | 2,198 | 2,418 | 2,662 | 2,558 | 2,732 |
| (h) Wholesale and Retail Trade | 22,953 | 25,050 | 24,274 | 23,894 | 25,728 |
| (i) Real Estate | 489 | 601 | 702 | 723 | 778 |
| (j) Financial Institutions .. | 4,767 | 4,530 | 5,266 | 4,101 | 3,889 |
| (k) Other Businesses | 4,576 | 4,832 | 5,566 | 5,646 | 7,323 |
| TOTAL ENTERPRISES | 51,695 | 56,119 | 58,023 | 57,626 | 63,708 |
| III Private Households Total and non-profit-making organizations) | 2,902 | 2,820 | 2,345 | 2,629 | 2,994 |
| TOTAL BILLS LOANS AND ADVANCES | 55,512 | 59,707 | 61,173 | 61,266 | 68,002 |
| | | | | | |

11. The main sectors accounting for the increase in advances in 1967, were—agriculture, manufacturing, trade and other business. Advances to financial institutions and private households fell during the year.

12. The outlook for the banking industry in Kenya is one of continued expansion of the banking network. During the year preparations were made for the establishment of the Co-operative Bank of Kenya Ltd. to help finance the co-operative movement and the bank opened its doors for business on the 2nd January 1968. The existing commercial banks were also active in expanding their services, opening branches and agencies in the more remote areas of the country. As foreshadowed in the Development Plan the Government is also planning to enter the field of commercial banking by establishing a national commercial bank and if things go according to plan this institution should open its doors before the end of this year.

13. The Nairobi Stock Exchange had a very satisfactory year, although there was a major setback in the plantation section. The overall upward movement in prices was considerably less dramatic than in 1966. A major development during 1967 was the number of new issues, all of which helped to increase the availability of sound equity investments in which local people were able to invest their savings, thus increasing both activity in the market and participation in shareholding in these companies by local people. Most of the new issues were well supported. Issues of locally registered Kenya Government Stock were all fully subscribed before the closing dates. At the beginning of 1967, the "East African Trade and Industry" Nairobi Stock Exchange Ordinary Share Index, stood at 164.57 but following developments in Tanzania it dropped back slightly at the end of February to 159.09. There was increased activity in the market during the second half of the year; the index reaching 179.15 in October. In November activity on the Nairobi Stock Exchange was dominated by the devaluation of the £ Sterling, but the effect of devaluation was comparatively slight with the "East African Trade and Industry", Nairobi Stock Exchange Index dropping only fractionally from 179.15 in October to 178.99 at the end of November. By the end of December however, there was a further fall to 172.97, but even at that level on the year of 47 points in 1966. The Index lost 15.92 points in the first two months of 1968 to stand at 157.05 in February; its lowest since September 1966. However, since then there has been some recovery and by the end of April the Index had risen to around 160.

14. The future of the Nairobi Stock Exchange is, of course, closely connected with the pace of economic development of the country. Although it is expected that the rate of economic growth in 1968 may be somewhat lower than in 1967, nevertheless it is likely that greater use will be made of the local stock market in raising capital for development both by the public and private sectors in the years ahead. Furthermore, this trend should be strengthened by the implementation of the provisions of the East African Community Treaty.

CHAPTER 3—EXTERNAL TRADE

The slowing down in the growth of world trade to a rate of 5 per cent in 1967 has already been noted in Chapter 1 of this *Survey*. During the year there was a basic conflict between the needs of developed countries—mainly Britain and the U.S.—to protect their own balance of payments positions and the awareness on an international scale of the need to reduce the differential in the real growth rate between rich and poor countries. While the conclusion of the Kennedy Round of negotiations on tariffs achieved an average reduction of 35 per cent in the import duty rates of the industrialized countries, the major cuts were made in industrial commodities traded mainly between the developed countries. Duty rates were cut to some extent on primary products, but these reductions were less impressive. Indeed, to some degree, some developing Commonwealth countries such as Kenya lost relative advantage from the Kennedy Round insofar as Commonwealth preferences were reduced.

2. It is always difficult to relate directly events on a world level to effects on trade at the national level. There is no doubt that the decline in world trade, particularly as it affected primary commodities, influenced the prices of Kenya's exports in 1967 and thereby the total value of exports. It is more difficult to say that the quantity of Kenya's exports was reduced generally by the lower level of world trade, although a reduction in export prices in the case of sisal, at least, was the cause of the drop in the production and export sales of this commodity.

3. Kenya's terms of trade in 1967 moved significantly in an adverse direction. Export prices moved nine points lower and import prices one point higher.

Balance and Structure of Trade

4. In 1967, Kenya imported a total of K£106.5 million of goods from outside the East African region, and K£13.5 million from Uganda and Tanzania. This represents an overall fall of K£3.5 million in imports from 1966. Exports and re-exports to the outside world were valued at K£59.4 million while those to Uganda and Tanzania were K£26.4 million, representing an overall fall in exports of K£5.4 million. The overall trading position over the past five years is set out in Table 3.1 It should be noted that trade with Zanzibar, which was previously included in net imports and domestic exports, is now included in East African trade.

5. The overall trade deficit increased slightly in 1967 although the volume of trade—exports and imports taken together—was lower than in the previous year. A fall in exports had been forecast in the last *Economic Survey*, but a fall in overseas imports is at first sight surprising. It is discussed in more detail below, but can be explained in part by the fact that shipping delays at the end of the year occasioned by a dockers' strike in Britain resulted in imports due to arrive in December not in fact being unloaded at Mombasa until January/February 1968.

EXTERNAL AND EAST AFRICAN TRADE, 1963-1967

Table 3.1

K£million

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|------------------------------|--------|--------|--------|--------|--------|
| IMPORTS— | | | | | |
| Net (Overseas) Imports—Total | 73.7 | 76.5 | 89.0 | 112.3 | 106.5 |
| of which | | | | | |
| Commercial | 70.3 | 67.9 | 80.5 | 92.3 | 88.3 |
| Government | 3.4 | 8.6 | 8.5 | 20.0 | 18.2 |
| From Uganda and Tanzania | 9.2 | 11.5 | 11.8 | 11.2 | 13.5 |
| TOTAL | 82.9 | 87.9 | 100.7 | 123.5 | 120.0 |
| EXPORTS— | | | | | |
| Domestic (Overseas) Exports | 43.4 | 46.8 | 47.0 | 57.9 | 53.3 |
| Re-exports | 6.8 | 6.2 | 4.6 | 4.1 | 6.1 |
| To Uganda and Tanzania | 20.5 | 26.4 | 29.9 | 29.2 | 26.5 |
| TOTAL | 70.8 | 79.4 | 81.5 | 91.2 | 85.9 |
| BALANCE OF TRADE— | | | | | |
| External | - 23.5 | - 23.5 | - 37.4 | - 50.3 | - 47.2 |
| With Uganda and Tanzania | + 11.3 | + 15.0 | + 18.1 | + 18.0 | + 13.0 |
| TOTAL | - 12.1 | - 8.5 | - 19.3 | - 32.3 | - 34.3 |

6. It will be observed that the external balance of trade improved marginally and the overall deterioration was in fact caused by a lower trade surplus with Uganda and Tanzania. This is also discussed further below.

7. The overall balance of merchandise trade should be considered in the context of the balance of payments as a whole as set out in Table 1.10. In order to draw up the balance of payments, adjustments are made to the trade balance as shown by the trade statistics and discussed here. These adjustments relate to timing and coverage of which the most significant factor is an adjustment of imports in respect of purchases by the East African Community and an adjustment of exports in respect of sales of fuel and stores at the port of Mombasa. A large proportion—in 1967, 92 per cent—of Community imports are unloaded in Kenya in the first instance and are debited in the trade accounts against Kenya's imports. In fact, these imports are equally "owned" by Tanzania and Uganda and are frequently for use directly in those countries. Other adjustments are made to exports in respect of sales of fuels and stores for bunkering of ships and aircraft. On a balance of payments basis, the merchandise trade deficit was K£36.0 million as opposed to K£34.2 million on a trade accounts basis.

Imports

8. Total imports fell by K£3.5 million or 3 per cent in 1967 but as explained above this was caused in part by delays in deliveries at the end of the year. However, it is evident from Table 3.2 that a major shift took place

in the commodity pattern of imports into Kenya. A markedly smaller proportion of total net imports was accounted for by food, textiles, and other consumer goods, while transport equipment, metals and other capital machinery have increased their shares. This can be seen as a move towards an import structure closer to the ideal for a country in Kenya's present position, where the major types of goods imported are the raw materials and capital equipment which the country—or the East African region—does not yet produce.

TOTAL IMPORTS* BY BROAD ECONOMIC CATEGORY, 1964-1967

Table 3.2

| | IMPORTS K£'000 | | Per cent of Total | |
|----------------------------|----------------|-----------|-------------------|-------|
| | 1964 | 1967 | 1964 | 1967 |
| 1. Food, Drink and Tobacco | 12,090.9 | 10,602.5 | 13.9 | 8.8 |
| 2. Basic Materials | 3,756.0 | 4,739.5 | 4.3 | 3.9 |
| 3. Fuels | 9,692.1 | 12,676.1 | 11.1 | 10.5 |
| 4. Chemicals | 7,116.8 | 8,778.6 | 8.2 | 7.3 |
| 5. Textiles | 9,386.1 | 10,162.0 | 10.8 | 8.5 |
| 6. Semi-manufactures | 5,480.7 | 7,779.0 | 6.3 | 6.5 |
| 7. Metals | 7,570.0 | 11,870.8 | 8.7 | 9.9 |
| 8. Transport equipment | 11,350.2 | 21,037.9 | 13.1 | 17.5 |
| 9. Other capital goods | 13,478.0 | 23,142.7 | 15.5 | 19.3 |
| 10. Consumer goods | 4,408.5 | 4,690.6 | 5.1 | 3.9 |
| 11. Miscellaneous | 3,620.1 | 4,571.1 | 4.2 | 3.8 |
| TOTAL | 87,948.9 | 120,049.4 | 100.0 | 100.0 |

*Overseas and East African imports taken together.

9. Largely because an increasing share of imports has been accounted for by specialized capital equipment, imports from overseas have risen faster than imports from Uganda and Tanzania and the share of the latter in the total was slightly lower in 1967 than in 1964. Increases in imports from other East African countries have tended to be confined to the groups covering "food, drink and tobacco", "basic materials", "textiles" and "consumer goods".

10. Overall, it is notable how little consumer goods and textile imports have risen in recent years with higher levels of income and consumption. There has been increasing substitution of imports by local production. The K£2.5 million fall in textile imports from overseas was associated in part with lower stockholding but also with increased imports from Uganda and higher consumption of local output. The decline in imports of food might also represent the beginning of a trend towards lower imports of all types of food, with higher purchasing from local sources as new sugar production capacity is developed and as long-term maize storage facilities are completed. These two items together account for K£5.6 million of the K£7.6 million

IMPORTS FROM OVERSEAS AND FROM EAST AFRICA BY BROAD ECONOMIC CATEGORY, 1964-1967

Table 3.3

K£'000

| CATEGORY | 1964 | | 1965 | | 1966 | | 1967 | |
|-------------------------|----------|----------|----------|----------|-----------|----------|-----------|----------|
| | Overseas | E. A. | Overseas | E. A. | Overseas | E. A. | Overseas | E. A. |
| 1. Food, drink, tobacco | 6,725.6 | 5,365.3 | 10,400.7 | 4,955.3 | 12,796.6 | 3,425.9 | 5,205.5 | 5,397.0 |
| 2. Basic materials | 2,081.2 | 1,674.8 | 3,400.3 | 1,943.9 | 3,452.4 | 1,736.8 | 2,782.6 | 1,956.9 |
| 3. Fuels | 9,271.7 | 420.4 | 10,280.7 | 420.0 | 11,819.3 | 447.0 | 11,955.2 | 720.9 |
| 4. Chemicals | 6,779.2 | 337.6 | 8,344.8 | 616.1 | 8,817.3 | 865.5 | 8,075.1 | 703.5 |
| 5. Textiles | 7,482.9 | 1,903.2 | 8,910.7 | 1,789.5 | 10,127.0 | 2,451.0 | 7,529.9 | 2,632.1 |
| 6. Semi-manufactures | 5,127.9 | 352.8 | 5,974.7 | 468.6 | 7,197.2 | 589.9 | 7,102.9 | 676.1 |
| 7. Metals | 6,747.3 | 822.7 | 8,588.8 | 1,001.9 | 9,298.6 | 1,054.2 | 11,045.6 | 825.2 |
| 8. Transport equipment | 11,342.7 | 7.5 | 11,626.5 | 2.6 | 20,481.6 | 9.2 | 21,032.2 | 5.7 |
| 9. Other capital goods | 13,472.1 | 5.9 | 13,267.7 | 8.5 | 18,201.3 | 66.6 | 23,024.0 | 118.7 |
| 10. Consumer goods | 3,859.3 | 549.2 | 4,122.6 | 540.4 | 5,302.1 | 554.0 | 4,226.2 | 464.4 |
| 11. Miscellaneous | 3,609.0 | 11.1 | 4,064.8 | 12.5 | 4,810.9 | 14.7 | 4,556.3 | 14.8 |
| TOTAL | 76,498.2 | 11,450.7 | 88,981.6 | 11,759.3 | 112,304.3 | 11,214.8 | 106,534.2 | 13,515.2 |

NOTE.—Overseas imports exclude Zanzibar, which is included in East African imports.

fall in food imports. However, imports of other grains, particularly wheat and rice, were lower as a result of local output. Another major fall recorded is in imports of tea, which have in the past "been shipped in for blending and re-export rather than for local consumption.

11. In contrast to 1966, the private sector accounted for the main part of the rise in machinery imports, except for imports of aircraft engines. The Trade Report does not however include public sector imports of a new airliner in 1967 although one is known to have been delivered. Account is taken of this in balance of payments adjustments. The major increases in private capital imports were in agricultural machinery (K£1.1 million from K£0.7 million), sugar machinery (up by K£1.4 million with capital equipment for the new largely publicly owned Chemelil factory) printing and book-binding machinery and mechanical handling equipment.

12. Imports of transport equipment were up by K£600,000. The division of the total between private and government sectors was very similar to 1966, but the structure (particularly of government imports) shifted, as can be seen from Table 3.4.

IMPORTS OF TRANSPORT EQUIPMENT, 1966-1967

Table 3.4 K£'000

| | 1966 | | 1967 | |
|-----------------------------------------|----------|----------------|----------|----------------|
| | Total | Of Which Govt. | Total | Of Which Govt. |
| Railway rolling stock | 1,947.6 | 1,940.1 | 5,311.6 | 5,300.0 |
| Motor cars | 4,144.5 | 109.2 | 4,743.0 | 126.0 |
| Buses, lorries and chassis for assembly | 3,757.8 | 936.0 | 4,789.8 | 1,024.0 |
| Motor vehicle parts | 1,463.0 | 58.6 | 1,773.2 | 39.3 |
| Aircraft | 6,182.9 | 5,981.9 | 635.9 | 146.0 |
| Aircraft parts | 1,954.7 | 1,633.2 | 2,537.0 | 2,137.8 |
| Aircraft engines | 1,208.1 | 896.2 | 2,675.4 | 2,310.1 |
| TOTAL ABOVE | 20,658.6 | 11,555.2 | 22,465.9 | 11,083.2 |
| TOTAL IMPORTS OF TRANSPORT EQUIPMENT* | 21,689.7 | 11,555.2 | 23,707.6 | 11,083.2 |

*Includes aircraft engines which are not in "Transport Equipment" in tables 3-2 and 3-3.

13. The value of Government imports in this section constitutes in 1966 57 and in 1967 60 per cent of total Government imports. If telecommunications equipment is considered as well, some 65 per cent is covered.

14. The significance of Government imports has a considerable effect on the direction of net imports. Overall, as shown in Table 3.5, Britain continued to be the principal supplier of Kenya's imports, with 32.8 per cent of the total. If Government imports are considered alone, 68 per cent of the total come from Britain, reflecting substantial purchases of capital equipment from that country. Government purchases form 35 per cent of total

net imports from Britain. Overall, the visible trade deficit with Britain narrowed to K£20 million (1966: K£25 million). Government imports also represent a high proportion of total imports from Japan (K£2.8 million out of K£5.8 million) and from Canada, from where out of a total of K£800,000, K£500,000 was machinery and equipment for the government sector. Commercial imports from the E.E.C. have again risen, mainly from West Germany, but imports from France also increased. It is also noted that in 1967 Iran replaced Kuwait as a supplier of crude petroleum. Trade with Eastern Europe fell off.

ORIGIN OF OVERSEAS (NET) IMPORTS, 1964-1967

Table 3.5

K£'000

| | 1964 | 1965 | 1966 | 1967 |
|---------------------------------------|--------|--------|---------|---------|
| REGION/COUNTRY | | | | |
| STERLING AREA— | | | | |
| United Kingdom | 23,551 | 25,164 | 37,752 | 34,989 |
| India | 2,367 | 2,171 | 3,501 | 3,178 |
| Kuwait | 5,043 | 2,887 | 2,291 | 402 |
| Pakistan | 764 | 1,071 | 1,320 | 1,381 |
| Australia | 910 | 1,061 | 1,070 | 1,354 |
| Other* | 2,744 | 2,827 | 3,718 | 3,473 |
| TOTAL | 35,379 | 35,181 | 49,652 | 44,777 |
| U.S.A | 4,837 | 8,511 | 11,275 | 7,764 |
| CANADA | 228 | 551 | 536 | 745 |
| E.E.C.— | | | | |
| West Germany | 6,989 | 6,147 | 8,056 | 10,560 |
| France | 2,028 | 2,486 | 3,555 | 3,850 |
| Other | 5,280 | 6,630 | 9,643 | 8,994 |
| TOTAL | 14,297 | 15,263 | 21,254 | 23,404 |
| E.F.T.A. (excluding U.K.) TOTAL | 3,007 | 3,147 | 3,602 | 3,751 |
| U.S.S.R. and EASTERN EUROPE —TOTAL | 1,750 | 1,870 | 4,347 | 2,084 |
| REST OF WORLD— | | | | |
| Iran | 2,052 | 4,149 | 7,900 | 8,575 |
| Japan | 7,122 | 9,058 | 2,695 | 5,827 |
| China | 696 | 954 | 1,944 | 876 |
| Africa (non-sterling) | 1,128 | 1,125 | 1,275 | 1,160 |
| Other | 2,343 | 5,290 | 3,358 | 3,493 |
| TOTAL | 13,341 | 20,616 | 17,172 | 19,931 |
| Parcel Post and Special Transactions | 3,659 | 3,883 | 4,466 | 4,077 |
| GRAND TOTAL | 76,498 | 88,982 | 112,304 | 106,534 |

*Zanzibar excluded.

EXPORTS TO OVERSEAS AND EAST AFRICA BY BROAD ECONOMIC CATEGORY, 1964-1967

Table 3.6

K£'000

| CATEGORY | 1964 | | 1965 | | 1966 | | 1967 | |
|----------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| | Overseas | E. A. | Overseas | E. A. | Overseas | E. A. | Overseas | E. A. |
| 1. Food, drink and tobacco | 27,155.4 | 9,127.0 | 25,806.5 | 8,014.9 | 33,685.5 | 7,354.5 | 30,753.4 | 7,456.8 |
| 2. Basic materials | 12,719.7 | 336.9 | 10,868.3 | 741.2 | 11,905.0 | 586.1 | 9,127.9 | 780.6 |
| 3. Fuels | 2,154.8 | 2,674.3 | 4,656.4 | 5,232.1 | 5,874.2 | 4,716.6 | 7,336.9 | 4,377.9 |
| 4. Chemicals | 1,840.8 | 3,029.5 | 1,758.2 | 3,260.4 | 2,935.1 | 3,800.7 | 2,416.2 | 3,649.8 |
| 35. 5. Textiles | 211.8 | 1,170.8 | 178.2 | 1,435.4 | 207.3 | 2,448.7 | 281.3 | 1,711.7 |
| 6. Semi-manufactures | 1,407.2 | 2,532.9 | 1,815.1 | 2,925.5 | 1,777.9 | 3,376.9 | 1,885.1 | 3,011.1 |
| 7. Metals | 761.8 | 2,622.1 | 1,203.5 | 2,632.0 | 664.1 | 2,005.8 | 273.8 | 1,615.9 |
| 8. Transport equipment | 18.5 | 80.3 | 0.4 | 140.4 | 0.5 | 94.3 | 0.2 | 60.8 |
| 9. Other capital goods | 106.2 | 115.5 | 56.6 | 185.3 | 85.6 | 335.2 | 116.9 | 432.3 |
| 10. Consumer goods | 211.4 | 4,351.0 | 368.5 | 4,933.7 | 459.1 | 4,292.7 | 646.1 | 3,193.9 |
| 11. Miscellaneous | 245.4 | 121.2 | 240.8 | 145.5 | 259.2 | 109.1 | 375.1 | 102.4 |
| TOTAL | 46,833.1 | 26,161.6 | 46,952.4 | 29,646.3 | 57,853.4 | 29,120.5 | 53,303.1 | 26,393.2 |

NOTE.—Domestic Exports exclude Zanzibar, which is included in East African exports.

Exports

15. As forecast in the last issue of the *Survey*, a fall in "overseas" exports had been expected for 1967. Although the deterioration of export prices went rather beyond that anticipated, higher export quantities for one or two items resulted in the actual fall in the value of overseas exports—5 per cent—being no more than the forecast. On the other hand, it had been hoped that in spite of the tightening restrictions on East African trade prior to the inauguration of the East African Treaty, exports to Uganda and Tanzania would be maintained at their 1966 level. In the event, a fall of K£2.8 million was recorded. This represented quite a sharp fall back to the level of 1964, whereas exports overseas had dropped only to a limited extent from the record level of 1966 and were still significantly higher than in 1964 and 1965.

16. Coffee accounted for 28 per cent of all overseas exports by value in 1967, in spite of the value of shipments falling by over K£3 million. This sum was equivalent to nearly all of the fall in overseas exports overall. The quantity of coffee shipments fell by 7 per cent, but a greater part of the drop in value was caused by a fall in prices by 10 per cent. Except for tea, which recorded a 4 per cent increase in average price, and refined petroleum products for which the quantity exported increased by 31 per cent, the trends for Kenya's other main exports in 1967 were similar to coffee. Nearly all average export prices were lower, a number significantly so: the average export price of hides fell 25 per cent and of sisal 17 per cent.

OVERSEAS EXPORTS, 1966 AND 1967 + . CHANGES IN VALUE, QUANTITY AND PRICE
Table 3.7

| Item | VALUE | | INCREASE IN | | | |
|----------------------------|----------|----------|-------------|---------|---------|---------|
| | 1966 | 1967 | Value | | Qty. | Price |
| | K£'000 | K£'000 | K£'000 | percent | percent | percent |
| Coffee, unroasted | 18,780.1 | 15,675.6 | -3,104.5 | -16.5 | -6.8 | -10.4 |
| Tea | 8,714.1 | 7,395.8 | -1,318.3 | -18.1 | -18.3 | +3.8 |
| Petroleum Products* | 5,678.3 | 7,169.6 | +1,491.3 | +26.3 | +31.4 | -7.4 |
| Pyrethrum extract | 2,396.6 | 2,423.0 | +26.4 | +1.1 | +1.8 | -0.7 |
| Meat and meat products | 2,993.8 | 2,857.1 | -136.7 | -4.6 | -4.6 | +0.2 |
| Sisal | 3,340.1 | 2,064.3 | -1,275.8 | -38.2 | -25.7 | -16.9 |
| Hides and skins, undressed | 2,573.2 | 1,742.0 | -831.2 | -32.3 | -9.8 | -25.0 |
| Maize | — | 1,405.7 | — | — | — | — |
| Soda ash | 1,111.2 | 1,021.8 | -89.4 | -8.0 | -7.9 | -0.5 |
| Cement | 842.7 | 1,005.6 | +162.9 | +19.3 | +30.5 | -8.9 |
| Wattle extract | 1,454.6 | 861.1 | -593.5 | -40.8 | -38.8 | -3.4 |
| Cotton, raw | 868.7 | 628.9 | -239.8 | -27.5 | -25.1 | -2.5 |
| Pineapples, tinned | 535.0 | 545.0 | +10.0 | +1.9 | +1.0 | +0.8 |
| Cashew nuts, raw | 429.3 | 541.2 | +111.9 | +26.1 | +37.7 | -8.5 |
| Wool | 563.5 | 488.8 | -74.7 | -13.3 | -1.4 | -12.0 |
| Animal feed | 396.0 | 463.5 | +67.5 | +17.0 | +35.1 | -13.1 |
| Metal scrap | 436.5 | 392.0 | -44.5 | -10.2 | -3.2 | -7.2 |
| Beans, peas, etc. | 576.7 | 326.6 | -250.1 | -43.4 | -54.7 | +25.1 |
| Wood carvings | 383.9 | 317.4 | -66.5 | -17.3 | — | — |
| Butter and ghee | 391.7 | 253.7 | -138.0 | -35.2 | -27.8 | -10.3 |
| Wattle bark | 141.8 | 63.5 | -78.3 | -55.2 | -54.3 | -1.9 |
| Copper, unwrought | 419.3 | — | — | — | — | — |
| All other items | 5,045.9 | 7,282.1 | +2,236.2 | +44.3 | — | — |
| TOTAL | 58,073.0 | 54,924.3 | -3,148.7 | -5.4 | — | — |

*Excluding by-products.
+ Zanzibar included.

17. Export price trends in 1967 must be regarded as a serious setback for development in Kenya. Weather conditions and coffee berry disease caused a drop in the exportable quantities of some commodities but the effect of these would have been overcome by expansion in other directions if price trends had not been adverse during the year. This represented a sharp reversal of price trends in the last couple of years which had on the whole been favourable.

EXPORT PRICES, 1964-1967

Table 3.8 *K.Sh./unit*

| Item | Unit of Quantity | 1964 | 1965 | 1966 | 1967 |
|----------------------------|------------------|----------|----------|----------|----------|
| Coffee, unroasted | Cwt. | 369.75 | 372.95 | 350.35 | 313.85 |
| Tea | Cwt. | 371.40 | 388.40 | 391.60 | 406.60 |
| Petroleum products | Imp. Gallon | .44 | .62 | .68 | .63 |
| Pyrethrum Extract | lb. | 69.45 | 65.05 | 67.70 | 67.20 |
| Meat and meat products | Cwt. | 347.20 | 364.80 | 349.85 | 350.55 |
| Sisal | Tons | 2,116.00 | 1,343.80 | 1,217.35 | 1,012.20 |
| Hides and Skins, undressed | Cwt. | 234.40 | 240.65 | 343.90 | 258.05 |
| Maize | " | 18.85 | 20.10 | — | 17.90 |
| Soda Ash | " | 11.05 | 10.95 | 10.60 | 10.55 |
| Cement | " | 4.60 | 4.80 | 5.05 | 4.60 |
| Wattle extract | " | 48.60 | 54.10 | 56.40 | 54.50 |
| Cotton, raw | " | 242.40 | 229.00 | 210.75 | 205.40 |
| Pineapples, tinned | " | 85.00 | 86.70 | 89.00 | 89.75 |
| Cashew nuts, raw | " | 54.00 | 72.30 | 77.30 | 70.75 |
| Wool | " | 400.80 | 413.80 | 398.10 | 350.25 |
| Animal feed | " | 18.40 | 20.80 | 21.40 | 18.60 |
| Metal, scrap | " | 18.80 | 38.30 | 54.85 | 50.90 |
| Beans, peas, etc | " | 41.40 | 51.40 | 47.10 | 58.90 |
| Butter and ghee | " | 324.80 | 352.40 | 385.40 | 345.80 |
| Wattle bark .. | " | 30.75 | 30.75 | 28.40 | 27.85 |
| Copper, unwrought | " | 119.80 | 240.90 | 268.20 | — |

VALUE OF OVERSEAS EXPORTS, 1964-1967

Table 3.9 *K£million*

| | 1964 | 1965 | 1966 | 1967 |
|-------------------|------|------|------|------|
| At current prices | 47.1 | 47.2 | 58.1 | 53.5 |
| At 1964 prices | 47.1 | 45.9 | 56.6 | 55.1 |

Although export quantities in 1967 were in a number of important instances lower than in the previous year, it must be remembered that 1966 had been a record year and the setback from those levels was not—except for sisal—substantial. In most cases, quantities were above the 1965 level.

QUANTITIES OF PRINCIPAL OVERSEAS EXPORTS, 1964-1967

Table 3.10

| | Unit | 1964 | 1965 | 1966 | 1967 |
|--------------------|-------------------|---------|---------|---------|---------|
| Coffee | Tons | 41,637 | 37,794 | 53,602 | 49,949 |
| Tea | Tons | 16,305 | 15,666 | 22,252 | 18,189 |
| Petroleum Products | '000 Imp. Gallons | 97,633 | 145,664 | 172,035 | 226,042 |
| Pyrethrum Products | Cwt. | 24,079 | 22,446 | 33,104 | 37,312 |
| Meat Products | Tons | 6,240 | 6,766 | 8,557 | 8,149 |
| Sisal | " | 56,976 | 57,329 | 54,873 | 40,790 |
| Hides and Skins | " | 5,522 | 7,295 | 7,482 | 6,750 |
| Soda Ash | " | 63,997 | 73,500 | 105,065 | 96,777 |
| Cement | " | 171,375 | 196,266 | 166,857 | 217,697 |

18. With the exception of raw cashew nuts and maize, the products that improved their export performances in 1967 were all manufactured one—refined petroleum products, cement and animal feeds. Petroleum exports, which consist largely of residual oils and fuel for aircraft leaving Kenya, were third in the export ranking in 1967. Kenya's purchases of fuel, including crude, cost K£12.7 million in foreign exchange in 1967 while total foreign exchange earnings were K£11.7 million. These figures exclude any allowance for interest or profit payments overseas.

19. No copper exports were recorded in 1967 (for reasons given in Chapter 5) but K£1.4 million worth of maize were shipped—the first maize exports since 1963. Larger maize surpluses are expected to be available for export in the next few years.

20. The continued closure of (he Suez Canal, effectively shutting off Kenya from expanding export markets in the Mediterranean and causing a continuation of the shipping surcharge, must be regarded as unfortunate for export prospects. Over and above this, the devaluation of sterling is bound to affect export returns for the next year or so.

21. Tea is probably the only major export crop to suffer the full price-fall resulting from Sterling devaluation, due to the heavy weight of U.K. influence in the market. However, although the returns to Kenya farmers will now be lower, Kenya's foreign exchange earnings from tea are still expected to increase substantially over the next few years, and the forecast for 1968 is that they will rise above the 1966 total of K£8.7 million, despite the lower price levels.

22. Apart from tea, the commodities most seriously affected by devaluation are probably sisal and horticultural produce. The sisal market, which fell further in 1967, has been weakened yet again by devaluation, through the increase in competitive advantage given to the U.K. as a producer of synthetic fibres. Unless research can find higher yielding varieties or discover some alternative uses, the future profitability of sisal grown in

isolation may be marginal. The competitive position of horticulture—particularly strawberries and dehydrated vegetables—has also been considerably worsened; both by the increased price of our exports to Britain (the main market) and, in the case of dehydrated vegetables, through the increased competition from Israel, which also devalued and is more favourably positioned with regard to transport costs.

23. Coffee, which is less dependent on sterling commodity markets, does not seem to have been adversely affected as regards price by devaluation. It is possible that the revaluation of coffee prices in sterling terms may well have reduced or eliminated growth possibilities for Kenya coffee in the British market, which was looked on as one of the major growth points; but over 80 per cent of coffee exported is normally shipped to non-devaluing countries, such as West Germany, U.S.A., Canada and Sweden. Neither the maize nor the meat markets have yet been affected greatly by devaluation. Contrary to what was feared initially, the price received for corned beef exported to Britain has risen slightly in the earlier part of this year as a result of higher fresh meat prices. The arrival of cheaper Argentine meat in Britain in the next few months may however lead to lower corned meat prices. The price of maize exports since devaluation has only been lower by a small amount. Maize exports are being made at a loss of approximately Sh. 18 per bag; but it is encouraging to note that Kenyan maize enjoys a 5 per cent price preference over South African maize which is its main competitor in world markets.

24. It has been stressed before that it is essential for Kenya to diversify both the range of export products and the number of export markets. It will be necessary here to work on two fronts—to try to gain easier access into the richer countries' markets for primary products, and to expand the market for Kenyan goods in the East and Central African region. Two initiatives have been taken within the past 18 months on an East African basis to try to achieve these aims.

25. In an attempt to achieve the first, negotiations have been re-opened by East Africa to obtain association with the European Economic Community. It is hoped that this may benefit the three countries by giving a new preferential market for exports in an expanding area. In the past, exports to the E.E.C. have grown fairly steadily, although the proportion of total exports going to this market has fallen slightly. Within this market, West Germany has imported the highest value of goods, but coffee accounted for K£6.8 million out of a total K£8.1 million worth of exports in 1966. In 1967, when total exports to the E.E.C. fell by K£4.7 million to K£9.8 million, K£3.2 million of the fall was attributable to exports to West Germany, largely due to reduced coffee exports to that market. The expansion of trade within Africa is discussed further below.

DIRECTION OF FOREIGN EXPORTS,* 1964-1967

Table 3.11

K£'000

| REGION/COUNTRY | 1964 | 1965 | 1966 | 1967 |
|---------------------------------------|--------|--------|--------|--------|
| STERLING AREA— | | | | |
| United Kingdom | 11,272 | 11,079 | 13,511 | 14,781 |
| Zambia | 192 | 457 | 1,735 | 2,623 |
| India | 1,570 | 1,545 | 1,596 | 1,507 |
| Kuwait | 163 | 152 | 118 | 167 |
| Pakistan | 234 | 238 | 330 | 393 |
| Australia | 978 | 726 | 615 | 641 |
| Other+ | 5,130 | 4,849 | 4,307 | 4,240 |
| TOTAL | 19,538 | 19,046 | 22,212 | 24,352 |
| U.S.A | 4,870 | 2,750 | 5,384 | 3,828 |
| CANADA | 1,894 | 1,848 | 2,080 | 2,136 |
| E.E.C.— | | | | |
| West Germany | 7,282 | 7,398 | 8,150 | 4,943 |
| France | 1,000 | 728 | 764 | 559 |
| Other | 3,856 | 3,802 | 5,610 | 4,369 |
| TOTAL | 12,138 | 11,928 | 14,524 | 9,871 |
| E.F.T.A. (excluding U.K.) TOTAL | 2,286 | 2,294 | 2,442 | 2,689 |
| U.S.S.R. and EASTERN EUROPE —TOTAL | 1,540 | 1,005 | 1,549 | 884 |
| REST OF WORLD— | | | | |
| Iran | 117 | 131 | 143 | 223 |
| Japan | 1,648 | 1,730 | 1,794 | 1,247 |
| China | 394 | 633 | 931 | 1,092 |
| Africa (non-sterling) | 4,024 | 3,899 | 3,893 | 2,970 |
| Other | 2,380 | 3,109 | 3,436 | 4,302 |
| TOTAL | 8,563 | 9,502 | 10,197 | 9,834 |
| SHIPS AND AIRCRAFT'S STORES .. | 2,247 | 3,167 | 3,594 | 5,714 |
| GRAND TOTAL | 53,076 | 51,540 | 61,982 | 59,308 |

*Including Re-exports. +Excluding Zanzibar.

26. Changes in the direction of exports are in most cases closely linked with changes in the pattern of goods exported; particular export commodities can usually be connected with particular markets. Exports to Britain, one of the few markets to expand in 1967, are an exception to this and it is difficult to trace a clear relationship. The value of total exports to Britain is normally higher and the range of major products wider than to other markets, while the entrepot functions of British commodity markets make interpretation difficult, for it is impossible to say what proportion of exports to that market were actually consumed there. The rise in exports to Britain in 1967 is, however, largely associated with renewed exports of maize. The sharp rise in the value of exports for ships' and aircraft's stores can be seen partly

as a continuation of existing trends, particularly the ever-growing volume of traffic at Nairobi Airport, and partly also as a direct result of the Suez situation which has increased the importance of Mombasa as the major westward port of call on the India to Europe journey. With the exception of Zambia, most other countries purchased less from Kenya in 1967.

Trade with Africa

27. Expansion of trade with African countries is an important aim in Kenya's attempts to widen the markets for its exports and the sources of its imports. Uganda is still the principal market for Kenya exports but Tanzania dropped from second to third place—behind Britain—in the market ranking in 1967. With one exception Zambia—other African markets cannot be regarded as of first importance and it is disappointing to note that attempts to increase exports to these have not been particularly successful. Exports to African countries except Tanzania, Uganda and Zambia have actually fallen since 1964. In spite of transport difficulties, exports to Zambia have continued to expand and from being insignificant as a Kenya market in 1964 it is now one of importance. The Mauritian market continues to expand but sales to the Sudan and Congo (Kinshasa) have fallen away.

28. On the import side, the position is even less satisfactory. Kenya has found few products of African countries—apart from those from Uganda and Tanzania—that it needs to purchase. However, trade promotion missions from Kenya visited a number of African countries during 1967 with a view to expanding Kenya's purchases as well as to promoting Kenya's exports. Kenya's sales to Zambia have not been matched by sales from Zambia to Kenya.

TRADE WITH COUNTRIES IN AFRICA, 1964-1967

| K£'000 | | | | | | | | |
|---------------------------------------|----------|--------|--------|--------|-------------|--------|--------|--------|
| | EXPORTS* | | | | NET IMPORTS | | | |
| | 1964 | 1965 | 1966 | 1967 | 1964 | 1965 | 1966 | 1967 |
| MAINLAND— | | | | | | | | |
| Uganda | 12,581 | 15,339 | 15,619 | 14,796 | 7,244 | 7,135 | 7,317 | 10,165 |
| Tanzania | 13,771 | 14,589 | 13,608 | 11,663 | 4,207 | 4,624 | 3,898 | 3,350 |
| Zambia | 191 | 457 | 1,735 | 2,623 | 156 | 134 | 156 | 131 |
| Ethiopia | 209 | 180 | 224 | 279 | 26 | 92 | 36 | 18 |
| Burundi | 228 | 340 | 198 | 384 | xxx | xxx | xxx | x |
| Somalia | 966 | 658 | 324 | 7 | 9 | 9 | 10 | — |
| Sudan | 1,393 | 1,446 | 947 | 435 | 9 | 49 | 7 | 5 |
| Rwanda | 152 | 265 | 557 | 467 | 4 | 5 | 26 | 40 |
| Congo (Kinshasa) | 207 | 174 | 646 | 451 | 725 | 314 | 624 | 528 |
| Rhodesia | 405 | 376 | — | — | 268 | 287 | —9 | — |
| Malawi | 98 | 139 | 210 | 126 | 303 | 371 | 203 | 335 |
| Mozambique | 336 | 57 | 128 | 127 | 330 | 638 | 501 | 339 |
| Egypt | 80 | 92 | 88 | 130 | 29 | 12 | 19 | 23 |
| Algeria and Libya | 44 | 39 | 22 | 14 | — | 5 | 52 | 28 |
| Ghana and Nigeria | 47 | 37 | 51 | 76 | 4 | 23 | 4 | 16 |
| INDIAN OCEAN ISLANDS— | | | | | | | | |
| Mauritius | 692 | 679 | 601 | 821 | 9 | 6 | 3 | 3 |
| Reunion | 243 | 412 | 461 | 405 | — | — | — | — |
| Other+ | 343 | 399 | 51 | 513 | 1 | 2 | 8 | 170 |
| TOTAL | 31,986 | 35,678 | 35,867 | 33,317 | 13,324 | 13,707 | 12,855 | 15,151 |
| Percentage of all Exports/ Imports | 40.3 | 43.8 | 39.4 | 38.8 | 15.1 | 13.6 | 10.4 | 12.6 |

*Including Re-exports (except for East African Trade)
+Madagascar and Seychelles.

A further growth in Kenya's exports to Zambia is looked for since Zambia, along with Burundi, Somalia and Ethiopia, has applied for membership of the East African common market. It is Zambia's declared policy to improve communications and expand trade with her north-eastern neighbours. Although that country's exports are now dominated by copper and other minerals (over 95 per cent of the total) and a high proportion of foods and manufactures are imported from southern Africa, the improvement in transport and communications between Kenya and Zambia and the policy of diversifying the economy now adopted by Zambia should lead to a further development of trade on a two-way basis.

29. The main part of Kenya's trade with African countries is with its partners in the East African Community. Since the Community did not come into being until 1st December 1967, very little of the trade during the year was affected by the new arrangements. For the greater part of the year, the development of trade was held back by the full impact of quantitative restrictions imposed by Tanzania and Uganda under the Kampala Agreement before the Treaty system of transfer taxes was introduced. Exports to Uganda were reduced from K£15.6 million to K£14.8 million (a 5 per cent fall) while those to Tanzania were reduced from K£13.3 million to K£11.4 million (a 14 per cent fall).

30. On the import side, Kenya purchased additional goods worth K£2.9 million (or 40 per cent) more from Uganda but some K£0.5 million (or 13 per cent) less from Tanzania. Overall, the volume of trade with Uganda rose by some K£2 million while that with Tanzania fell by K£2.5 million.

31. Virtually the whole range of Kenya's normal exports to Uganda and Tanzania realized lower sales in both countries in 1967, largely due to quota restrictions. The only significant exceptions were that petroleum products exports to Uganda recorded a further rise while Tanzania increased its purchases of Kenya wheat. The same trend towards contraction can be seen with regard to Tanzania's sales to Kenya, for nearly every individual item recorded a fall. Uganda's sales to Kenya were significantly higher, largely due to resumed Kenya purchases of Uganda sugar, together with higher purchases of unmanufactured tobacco, textiles, electricity and vegetable oils.

32. The development of trade between the East African countries in 1967 emphasized again points that have been made in the last two issues of the *Economic Survey*. Trade between two neighbouring countries must be on a two-way basis but attempts to achieve a completely even balance by the use of quotas and other quantitative restrictions are likely to be self-defeating. During the few years of the Kampala Agreement arrangements, the rapid development of East African trade received a severe setback, in part at least as a result of the operation of quantitative restrictions. It is clear that the contraction of trade hit not only the country against which the controls were imposed but, at the same time, the country imposing the controls also achieved lower sales. A direct causal relationship may be difficult

to define in precise terms for the trend may be due to a variety of reasons such as stiffer competition in the country first affected by the restrictions or more expensive transport facilities when there is no return load. The fact remains that the country—Tanzania—which imposed the most severe quantitative controls experienced the most severe contraction in its sales in Kenya. It is, therefore, to be hoped that the reduction of quantitative controls after 1st December 1967 will lead to a renewed expansion of trade amongst all the partner states.

IMPORTS FROM UGANDA AND TANZANIA, (MAINLAND) 1964-1967

Table 3.13

K£'000

| Item | FROM UGANDA | | | | FROM TANZANIA | | | |
|---------------------------------------------|-------------|-------|-------|--------|---------------|-------|-------|-----------------|
| | 1964 | 1965 | 1966 | 1967 | 1964 | 1965 | 1966 | 1967 |
| FOOD— | | | | | | | | |
| Meat and meat preparations | 72 | 4 | — | 23 | 88 | 127 | 113 | 114 |
| Cereals and cereal preparations | 163 | 208 | 276 | 177 | 280 | 340 | 89 | 131 |
| Fruit and vegetables | 76 | 106 | 155 | 286 | 420 | 453 | 353 | 353 |
| Sugar, not refined | 1,961 | 835 | 220 | 1,242 | 5 | 147 | 1 | 51 ² |
| Coffee and tea | 71 | 38 | 22 | 61 | 61 | 41 | 33 | |
| Margarine and shortenings | 313 | 491 | 557 | 888 | 7 | 32 | 20 | 15 |
| Other | 212 | 331 | 337 | 403 | 216 | 261 | 231 | 190 |
| TOTAL | 2,868 | 2,013 | 1,567 | 3,080 | 1,077 | 1,401 | 842 | 856 |
| BEVERAGES AND TOBACCO— | | | | | | | | |
| Beer | 6 | 27 | 153 | 128 | 17 | 1 | 1 | 8 |
| Cigarettes | 517 | 177 | 34 | 51 | 112 | 71 | 34 | 4 |
| Unmanufactured tobacco | 476 | 809 | 407 | 958 | 279 | 409 | 352 | 269 |
| Other | 2 | 33 | 21 | 20 | 4 | 9 | 10 | 4 |
| TOTAL | 1,001 | 1,046 | 615 | 1,157 | 412 | 490 | 397 | 285 |
| BASIC MATERIALS AND FUELS— | | | | | | | | |
| Oil seeds, oil nuts and oil kernels, etc. | 7 | 27 | 50 | 71 | 174 | 121 | 187 | 173 |
| Vegetable oils | 753 | 983 | 678 | 824 | 305 | 480 | 343 | 320 |
| Electricity | 406 | 418 | 440 | 553 | 14 | | | |
| Petroleum products* | | — | 2 | 2 | | 2 | 5 | 166 |
| Other | 131 | 140 | 143 | 267 | 219 | 145 | 251 | 264 |
| TOTAL | 1,297 | 1,568 | 1,314 | 1,717 | 712 | 748 | 786 | 923 |
| MANUFACTURED GOODS— | | | | | | | | |
| Soaps, cleansing and polishing preparations | 229 | 306 | 346 | 267 | 6 | 6 | 4 | 18 |
| Textile fabrics, articles, etc.— | | | | | | | | |
| Cotton piece goods | 1,289 | 1,261 | 1,905 | 2,314 | 187 | 59 | 60 | 43 |
| Other | 54 | 46 | 80 | 68 | 373 | 422 | 406 | 206 |
| Iron and steel | 185 | 186 | 382 | 400 | 80 | 103 | 26 | 1 |
| Aluminium+ | — | — | — | — | 401 | 509 | 341 | 199 |
| Metal manufactures | 85 | 91 | 150 | 99 | 71 | 114 | 155 | 112 |
| Wireless sets, domestic | — | — | — | — | — | — | 55 | 107 |
| Clothing | 17 | 31 | 68 | 101 | 99 | 108 | 38 | 49 |
| Footwear | 15 | 42 | 64 | 72 | 342 | 258 | 247 | 106 |
| Other | 204 | 539 | 819 | 884 | 344 | 346 | 439 | 375 |
| TOTAL | 2,078 | 2,502 | 3,815 | 4,205 | 1,902 | 1,923 | 1,773 | 1,216 |
| MISCELLANEOUS—TOTAL | 4 | 5 | 5 | 6 | 7 | 7 | 10 | 8 |
| GRAND TOTAL | 7,244 | 7,335 | 7,317 | 10,165 | 4,110 | 4,569 | 3,806 | 3,288 |

+Excluding domestic aluminium-ware which is included in metal manufactures.

*Excluding by-products.

EXPORTS TO UGANDA AND TANZANIA, (MAINLAND) 1964-1967

Table 3.14

K£'000

| Item | To UGANDA | | | | To TANZANIA | | | |
|--------------------------------------------|-----------|--------|--------|--------|-------------|--------|--------|--------|
| | 1964 | 1965 | 1966 | 1967 | 1964 | 1965 | 1966 | 1967 |
| FOOD— | | | | | | | | |
| Meat and meat preparations | 139 | 209 | 194 | 161 | 209 | 152 | 162 | 135 |
| Dairy Products | 848 | 1,361 | 1,175 | 1,174 | 346 | 309 | 443 | 566 |
| Cereals and cereal preparations | 1,549 | 1,089 | 1,011 | 1,026 | 1,096 | 1,048 | 387 | 970 |
| Fruit and vegetables | 201 | 209 | 279 | 352 | 276 | 310 | 371 | 411 |
| Coffee and tea | 119 | 99 | 175 | 111 | 332 | 352 | 318 | 383 |
| Other foods | 477 | 494 | 570 | 521 | 540 | 531 | 837 | 340 |
| TOTAL | 3,248 | 3,461 | 3,461 | 3,345 | 2,724 | 2,702 | 2,510 | 2,805 |
| BEVERAGES AND TOBACCO— | | | | | | | | |
| Beer | 156 | 64 | 57 | 82 | 805 | 690 | 438 | 281 |
| Cigarettes | 802 | 452 | 364 | 182 | 823 | 363 | 163 | 194 |
| Other | 310 | 93 | 111 | 90 | 112 | 147 | 249 | 422 |
| TOTAL | 1,268 | 609 | 532 | 354 | 1,740 | 1,200 | 850 | 897 |
| BASIC MATERIALS AND FUELS— | | | | | | | | |
| Petroleum products* | 1,045 | 2,153 | 2,369 | 2,553 | 1,468 | 2,752 | 2,062 | 1,517 |
| Other | 181 | 572 | 437 | 572 | 214 | 369 | 339 | 434 |
| TOTAL | 1,226 | 2,725 | 2,807 | 3,125 | 1,682 | 3,121 | 2,401 | 1,951 |
| MANUFACTURED GOODS— | | | | | | | | |
| Chemicals and products: | | | | | | | | |
| Soap, cleansing and polishing preparations | 549 | 677 | 713 | 1,038 | 971 | 592 | 623 | 332 |
| Other | 790 | 1,044 | 1,144 | 1,322 | 716 | 938 | 1,306 | 942 |
| Bicycle tyres and tubes. . | 181 | 185 | 191 | 123 | 100 | 92 | 77 | 59 |
| Paper, paper board and manufactures | 447 | 569 | 617 | 497 | 418 | 526 | 801 | 858 |
| Textile fabrics, articles, etc.— | | | | | | | | |
| Piece goods of cotton | 89 | 61 | 218 | 108 | 96 | 1 | 1 | 23 |
| Synthetic fabrics | 76 | 128 | 601 | 249 | 4 | | | 103 |
| Sisal bags and sacks | 378 | 478 | 137 | 58 | 118 | 112 | 330 | 111 |
| Other | 259 | 377 | 534 | 552 | 150 | 95 | 122 | 506 |
| Cement | 119 | 68 | 81 | 162 | 764 | 183 | 504 | 526 |
| Iron and steel | 699 | 781 | 175 | 49 | 165 | 880 | 803 | 31 |
| Aluminium+ | 111 | 38 | 6 | 3 | 24 | 25 | 47 | 4 |
| Metal manufactures | 837 | 989 | 974 | 487 | 780 | 41 | 3 | 705 |
| Clothing | 868 | 1,347 | 1,477 | 1,251 | 1,134 | 751 | 776 | 139 |
| Footwear | 605 | 600 | 404 | 281 | 793 | 1,020 | 178 | 301 |
| Other | 797 | 1,160 | 1,548 | 1,433 | 831 | 694 | 607 | 1,046 |
| TOTAL | 6,805 | 8,502 | 8,820 | 7,913 | 7,064 | 6,960 | 7,459 | 5,686 |
| MISCELLANEOUS—TOTAL | 34 | 42 | 56 | 58 | 88 | 104 | 53 | 44 |
| GRAND TOTAL | 12,581 | 15,339 | 15,619 | 14,796 | 13,299 | 14,087 | 13,282 | 11,382 |

*Excluding by-products.

+Excluding domestic aluminium-ware which is included in metal manufactures.

The Treaty for East African Co-operation

33. The new Treaty, which came into operation on 1st December 1967, aims—

"to strengthen and regulate the industrial, commercial and other relations of the Partner States to the end that there shall be accelerated, harmonious and balanced development and sustained expansion of economic activities, the benefits whereof shall be equitably shared."

The most important measure of the Treaty, as far as immediate trade prospects and short-term development are concerned, is the banning of all quantitative restrictions on trade, except for a limited list of agricultural products and certain goods where bilateral contracts exist between a partner state and a foreign organization, and the introduction, as a substitute protective measure, of transfer taxes (intra-East African import duties).

34. Transfer taxes are intended to operate as a means of minimizing the internal imbalance of trade; they are restricted to a list of manufactures and may only be levied by a partner state which is in overall deficit in manufactured goods with the other states. Other principal conditions laid down for the imposition of transfer taxes are— (1) goods of a similar description to those taxed should be made or going to be made within three months of the imposition of the levy in the taxing state; (2) national production capacity for these goods should be not less than 15 per cent of domestic consumption, or not less than K£100,000 ex-factory; (3) the rate of transfer tax on any one good may not be more than half of the rate of external import duty on the same good; (4) imports from another East African country may only be taxed up to the value of the deficit in trade in manufactured goods with the importing country; (5) a levy may not be imposed on a commodity of which 30 per cent or more of production in the state imposing the duty is exported to other partner states.

35. At the outset, Tanzania imposed transfer taxes on a wide range of manufactured goods. It is in some cases difficult to assess the exact value of trade in taxed goods, because the Trade Report definitions are too broad to provide the detail required but transfer taxes cover approximately a quarter of Kenya's total exports to Tanzania. In Uganda's case the range of goods is much smaller and only some 13 per cent of the total export trade is affected. Tables 3.15 and 3.16 summarize the goods taxed at the time of going to Press.

GOODS TRANSFER-TAXED BY TANZANIA

Table 3.15

| Item | Rate of Tax | Kenya-Tanzania Exports 1967 |
|-------------------------------------------------------------------------|------------------|--------------------------------|
| | <i>Per cent</i> | <i>K£'000</i> |
| 1. Ghee | 20 | 16.6 |
| 2. Wheat meal and flour | 15 | — |
| 3. Vegetable ghee | 20 | 8.0 |
| 4. Margarine | 20 | 175.8 |
| 5. Shortening | 20 | |
| 6. Sugar, unrefined and mill white | 10 cents per lb. | 7.7 |
| | <i>Per cent</i> | |
| 7. Sugar confectionery | 20 | 27.8 |
| 8. Biscuits | 18 | 55.5 |
| 9. Ice-cream | 10 | 0.5 |
| 10. Beer (in containers less than 500 imp. gallon) .. | 25 | (280.9) |
| 11. Cigarettes and pipe tobacco | 50 | 207.1 |
| 12. Perfumery, cosmetics | 30 | 66.3 |
| 13. Paints, enamels, lacquers, varnishes, distempers .. | 18 | 20.0 |
| 14. Soaps and detergents.. | 18 | 300.2 |
| 15. Matches | 100 | 15.5 |
| 16. Sheet plastic foam | 15 | (10.2) |
| 17. Plastic tableware | | |
| Plastic beads and necklaces | 10 | (9.0) |
| Polythene bags | | |
| 18. Suitcases and handbags of vulcanized fibre or card-board | 10 | (3.9) |
| 19. Bicycle tyres worth Sh. 8 each or less | 17 | (42.9) |
| 20. Paper bags, except: | 7 | (668.6) |
| (i) Cellophane bags for fats: | | |
| (ii) Multiwall kraft sacks: | | |
| (iii) Self-opening printed bags: | | |
| 21. Writing pads, registers, etc. (except envelopes and albums) | 10 | (105.1) |
| 22. Cotton piece goods (except printed and mineral dyed khaki drill) | 20 | 23.4 |
| 23. Rayon piece goods | 20 | (102.8) |
| 24. Knitted clothing and accessories (except cardigans, sweaters, etc.) | 20 | 51.2 |
| 25. Clothing, not knitted | 20 | 31.5 |
| 26. Stockings and hose | 20 | 5.4 |
| 27. Tents, tarpaulins, etc. | 15 | 24.4 |
| 28. Footwear (except gaiters, etc.) | | |
| 29. Bottles and jars, glass | 15 | (57.6) |
| 30. Glass tumblers | 15 | (1.1) |
| 31. Nails | 10 | (14.7) |
| 32. Iron or steel buckets | 10 | 0.4 |
| 33. Metal louver windows | 15 | (163.8) |
| 34. Aluminium hollow-ware | 10 | 21.5 |
| 35. Metal furniture (except hospital furniture and filing cabinets) | 10 | (69.1) |
| 36. Rubber foam sheet | 15 | (18.4) |
| 37. Mattresses | 15 | (38.4) |
| 38. Chalks, writing | 15 | (0.5) |
| TOTAL | | (2,946.4) |

NOTE.—Figures in brackets show items which are not easily identifiable in the Official Import and Export List. The figures given are those for the closest S.I.T.C. items identifiable.

Table 3.16

GOODS TRANSFER-TAXED BY UGANDA

| Item | Rate of Tax | Kenya-Uganda Exports 1967 |
|----------------------------------------------------------------------------|-------------------------------------------|------------------------------|
| | | <i>K£'000</i> |
| 1. Spirits | Sh. 50 per proof gallon or 60 per cent | 7.7 |
| 2. Paints, enamels, lacquers, varnishes and distempers. | 10 per cent | 211.3 |
| 3. Multi-ply paper bags | 8.75 percent | (275.1) |
| 4. Self-opening printed paper bags | 7.5 per cent | |
| 5. Writing blocks, letter-pads, registers, etc. | 15 per cent | 137.6 |
| 6. Blankets | 40 cents per yd. or 20 per cent | 64.3 |
| 7. Aluminium hollow-ware | 15 per cent | 5.3 |
| 8. Suitcases of vulcanized fibre or cardboard.. | 15 per cent | (24.1) |
| 9. Clothing of textile fabric, knitted or crocheted. | Sh. 1.50 each or 20 per cent | (451.0) |
| 10. Footwear (except hockey boots, rubber boots and industrial boots). | 90 cents a pair or 15 per cent | (280.9) |
| 11. Brooms and brushes (except paint brushes and wire handled brushes). | 15 cents each or 15 per cent | 33.6 |
| 12. Cement | 55 cents per 100 lb. | 161.6 |
| 13. Rayon fabrics | 20 per cent | (249.3) |
| 14. Socks and stockings | 20 per cent | 27.3 |
| 15. Dry cell batteries | 15 per cent | — |
| 16. Drinking straws | 15 per cent | |
| TOTAL | | (1,929.1) |

The coverage and impact of transfer taxes does, of course, vary greatly from one industry to another; but in general, it does not seem to have been as severe as was initially feared. Some Kenya manufacturers are reporting increased sales, particularly in Tanzania. This is to be expected; the previous trading pattern of heavy quantitative restrictions on the movement of goods has been replaced by a system in which, if it operates properly, price considerations should be the only factor preventing one country's goods from selling satisfactorily in another.

36. Some initial down-turn in East African trade occurred in the first months of the new system, when administrative delays and a feeling of insecurity among traders caused a considerable drop in trade. The volume of trade in December fell by 56 per cent from the average volume in the first 11 months. It is, however, now expected that trade will increase steadily, in both directions. There may, on the other hand, be some alteration in the structure of East African trade as the imposition of transfer taxes is likely to vary the profitability of trade as between one commodity and another. Cotton textiles, in particular, is an industry where profitable production in Kenya may be in serious danger as a result of transfer taxes and over-production of cheaper fabrics in East Africa as a whole.

37. Since the Treaty came into effect, frequent meetings have been held on its implementation. Some transfer taxes imposed at the outset have been removed as a result of representations by Kenya on legal and technical

grounds. These grounds were, mainly, that insufficient production capacity existed for the types of goods included on the transfer tax schedules. Uganda has lifted taxes on some brushes, certain types of footwear, and lowered its rate on spirits; while Tanzania has removed taxes on certain types of paper bags, envelopes and albums, and mineral-dyed khaki drill fabrics. New taxes have been imposed by Uganda on rayon fabrics and by Tanzania on tents and tarpaulins.

38. New regulations covering East African transfer traffic are being strictly applied. Only licenced vehicles, sealed by a Customs Officer and travelling on specific routes, may now carry transfer goods. While it is true that with new national immigration regulations and transfer taxes, the intra-regional borders have to be more strictly policed than before, this does represent a trend contrary to what one would normally expect in a developing economic community. There is a danger that too strict and inflexible application of the transfer traffic rules will both create a problem of smuggling and cause uneconomic use of transport, increasing the costs of trading within the East African region. At the present time, vehicles licensed to carry transfer traffic are required to collect and deliver goods at a limited number of locations only. They are not allowed to carry non-transfer traffic. Since, in the past, deliveries to Uganda have frequently been made by transport supplying other parts of Western Kenya, the effect of this control is likely to raise distribution costs in Uganda significantly.

39. Although import licensing restrictions on intra-East African trade should have been lifted when the Treaty came into effect, both Tanzania and Uganda re-imposed such licensing on a wide range of goods "for statistical reasons" or for reasons associated with the distribution of goods through state trading organizations. Subsequently, Kenya also imposed import licensing. It would seem, however, that licences are being issued freely and are not acting as a restriction on trade although the cost of clerical work for traders and delays must act as some impediment to the growth of trade. It is to be hoped, therefore, that alternative means of obtaining the administrative ends of the present licensing can be found. Agreement on this issue is expected to be announced shortly.

40. The inauguration of the Treaty has involved a substantial reorganization of the administration of trade between the East African countries. It has coincided with the moving of the Community Headquarters from Nairobi to Arusha which has inevitably caused a number of administrative delays. A number of the Community organizations, in particular the East African Community Tribunal, are not yet set up. It is, therefore, too early to make a full judgement on the longer term effect on trade of the new arrangements. Provided the Treaty is implemented in a manner most likely to achieve the economic purposes involved at the lowest cost to all, it should lead to a substantial expansion in both directions. The next year is, however, likely to be one of readjustment and for some industries in Kenya this adjustment could be quite costly unless new profitable markets can be found overseas.

CHAPTER 4—AGRICULTURE AND FORESTRY

While 1967 was, on the whole, a year of satisfactory weather, local variations adversely affected some crops which are concentrated in particular geographical areas. Delayed short rains towards the end of 1966 and subsequent hailstorms reduced tea production; despite a return to higher levels of output later in 1967, production was 11 per cent below that in 1966. The satisfactory levels of precipitation which helped other crops also had the unfortunate effect of giving a further impetus to the spread and intensity of coffee berry disease (C.B.D.). The incidence of this disease tends to get worse when high moisture conditions prevail. As a result, the coffee harvest during 1967 was 8,732 tons below that of the previous year. However, because of the decline in production, only a relatively small amount of coffee had to be exported to non-quota markets—exports during 1967 were 49,950 tons and the quota (on a calendar year basis) 42,330 tons. The fact that exports exceeded production was due to a part of the 1966 crop being exported in 1967. Lower levels of production, together with lower prices for some of Kenya's major export crops, had the effect of reducing farmers' cash incomes to slightly below the level of 1966.

2. As far as food production was concerned, the favourable rainfall conditions assured satisfactory supplies and no abnormal imports of food were necessary. The good harvests from 1966 were sufficient to feed the population during 1967. The maize and wheat crops from 1967 plantings, now harvested, are expected to reach 3.2* and 2.6 million bags respectively, well above domestic requirements. Livestock production also responded favourably to good weather and liquid milk sales reached a record level. Problems experienced in the supply of one or two other livestock products were related to factors other than weather.

3. Gross farm revenue from marketed production and its distribution between large and small farms are set out in Table 4.1. The figures for the small farm sector differ substantially in an upward direction from those published in the past. Given the relatively less extensive statistical coverage of this sector in the past, livestock output was to a large extent based on estimation which tended to be quite conservative as more recent evidence suggests.

4. Actual sales of dairy products were about twice the levels estimated in the past. The results of an economic survey of the Central Province carried out during 1963/64 show that farmers' income from dairying in that year in one province alone (and without the settlement areas in which intensive dairying is practised) was almost as high as the old estimates for the whole country two years later. Other surveys confirm that small-holders

* This refers only to that proportion of the crop sold to the Maize and Produce Board.
A much larger quantity is retained by small farmers for self-consumption.

tend to market a higher proportion of dairy output than had been realized in the past. Sales of cattle for slaughter are also well above levels previously estimated. Although the methodology for such estimation remains basically unaltered, it is clear that the proportion of off-take going into sales as opposed to self-consumption by farmers is much higher. Recognition of these considerations has had the effect of trebling the estimates of cash income from livestock in the small-holder sector.

GROSS VALUE OF MARKETED PRODUCE, 1963-1967

Table 4.1

| | LARGE FARM SECTOR | | SMALL FARM SECTOR | | TOTAL | | SHARE OF SMALL FARM SECTOR |
|-------|-------------------|---------------|-------------------|---------------|--------|---------------|----------------------------|
| | K£'000 | Annual change | K£'000 | Annual change | K£'000 | Annual change | |
| | | % | | % | | % | % |
| 1963 | 36,537 | — | 19,339 | — | 55,876 | — | 34.6 |
| 1964 | 36,052 | -1.3 | 21,920 | +13.3 | 57,972 | +3.8 | 37.8 |
| 1965 | 33,182 | -5.3 | 20,742 | -5.4 | 53,924 | -7.0 | 38.5 |
| 1966 | 36,079 | +8.7 | 30,334 | +46.2 | 66,413 | +23.1 | 45.7 |
| 1967* | 34,054 | -5.6 | 32,153 | +6.0 | 66,207 | -0.3 | 48.6 |

*Provisional.

5. While total cash incomes declined by a fraction of one per cent, small-holders increased their incomes by 6 per cent to maintain what has been a steady upward trend over the past decade. The share of this sector in the total is now just under 49 per cent. If to this is added the output of African large-scale farms, African farmers would for the first time easily account for more than half of all gross farm revenue. It must, however, be kept in mind that the decline in tea production affected the large farm sector much more than the small. Also, the brunt of the sharp fall in sisal prices over the last few years has been borne by the large estates.

6. But there can be no doubt that even without these considerations, the small farm sector would have continued to demonstrate its growing importance in the economy. This would have followed inevitably from the sustained development effort implemented by the Government to raise the incomes of small-holders by land reform, better and more intensive extension, the introduction of new crops and improved communications and marketing facilities. This has brought small-holder farming very close to the point of producing the bulk of the country's marketed output in addition to meeting the subsistence requirements of the rural population. The momentum built up in this process will consolidate and enhance its importance further; the priority the Government is continuing to give to rural development will accelerate this trend. In many areas, small-holders are now alert and responsive to new techniques. This will lead to greater demands on the extension services, both in their intensity and quality.

7. The depressing effects of the drop in prices received for some of Kenya's main export crops have already been mentioned. Prices received by producers for major agricultural commodities during the last few years are set out in Table 4.2. Coffee earnings per ton in 1967 were over K£26 less than in 1966. (For the second half of 1967, however, farmers benefited from a reduction of £10 per ton in the coffee export tax). Tea prices were steady but sisal fell another K£8 per ton to reach a level at which many estates could not cover operating expenses and certainly not finance re-planting. The net effect of price changes was that, at 1964 prices, gross farm revenue in 1967 was K£230,000 less than in 1966. The drop in incomes due to price changes would have been considerably higher but for the higher prices received for wheat, meat and dairy products.

8. During the current coffee season, however, there has been a considerable improvement in prices. The overall average price of coffee until early in April, 1968 was nearly K£40 per ton higher than the corresponding level in 1967. But it remains to be seen whether this will be maintained for the rest of the year. Tea prices are less encouraging—at the end of March 1968, farmers were receiving 18 per cent less on sales in the London tea auctions. In addition, growers are now experiencing further falls in income from the effect of the devaluation of sterling late last year*.

9. However, as far as beef is concerned, the figures in Table 4.2 do not fully reveal the problems faced by the industry in 1967. Serious difficulties occurred in marketing canned beef products in Britain (where almost all of these go) so that the Kenya Meat Commission was confronted with the prospect of a substantial loss on its operations which are normally geared to an expectation of profits from exports of canned beef. In fact, such a loss did take place during 1967. Also, sales in the Middle East and the Mediterranean of frozen and chilled beef were affected by the closure of the Suez Canal and the withdrawal of British troops from Aden. As a result, producer prices fixed for beef in 1968 have had to be reduced. Prospects for exports to Britain improved in the early months of 1968 but this was largely due to restrictions on the import of meat into Britain from Argentina. It seems that supplies of Argentine beef into Britain will be resumed soon and exports from Kenya are therefore likely to feel the consequences of renewed competition more severely. In the meantime, steps have been taken to re-organize the management of the Kenya Meat Commission with the objective of reducing administrative costs and also strengthening its management capabilities.

10. The pyrethrum industry continues to face the twin threats from world over-production of the natural product itself and competition from synthetics. In Kenya, output during 1966/67 exceeded the quotas allocated to growers by 400 tons. Output above quota during the current season is

* The consequences of sterling devaluation do not work in one direction only—farmers also benefit in so far as some imported inputs are cheaper than before.

AVERAGE PRICE TO THE PRODUCER FOR SELECTED COMMODITIES, 1963-1967**

Table 4.2

| Year | Coffee per ton | Tea per lb. | Sisal per ton | Pyrethrum Extract per lb. | Maize per bag | Wheat per bag | Beef per lb. | Butterfat per lb. | Wholemilk per Gallon |
|-------|-------------------|----------------|------------------|---------------------------------|------------------|------------------|-----------------|----------------------|-------------------------|
| | <i>K£</i> | <i>KSh.</i> | <i>K£</i> | <i>KSh.</i> | <i>KSh.</i> | <i>KSh.</i> | <i>KSh.</i> | <i>KSh.</i> | <i>KSh.</i> |
| 1963 | 290.5 | 3.52 | 113.1 | 129.03 | 29.86 | 48.44 | 1.04 | 2.87 | 2.16 |
| 1964 | 355.6 | 3.27 | 100.5 | 144.86 | 32.90 | 47.52 | 1.10 | 2.88 | 2.29 |
| 1965 | 338.9 | 3.36 | 62.2 | 172.22 | 32.30 | 47.27 | 1.19 | 2.95 | 2.23 |
| 1966 | 322.6 | 3.54 | 54.8 | 188.59 | 36.43 | 49.17 | 1.30 | 3.20 | 2.49 |
| 1967* | (296.2) | 3.55 | (47.0) | (188.59) | 32.05 | 51.17 | 1.37 | 3.24 | 2.68 |

**All prices refer to sales made in calendar years and thus differ from prices for crop seasons.

+ For F.A.Q. Grade. Relative changes in prices paid over this period for other grades have been similar.

*Figures in brackets are provisional.

expected to be even higher. Almost all other producing countries have been trying to push up their output with varying degrees of success. Sales in the United States, the major market for pyrethrum, are expected to fall as a result of the licensing for marketing there of a Japanese synthetic substitute. The final producer price paid for 1967 is therefore likely to be less than the estimate indicated in Table 4.2. Efforts are being made to improve Kenya's competitive position by the dissemination of planting material of higher pyrethrin content and the intensification of sales effort in the major markets as well as the search for new ones.

11. In cereals production, a serious problem of disposal of output surplus to domestic requirements is arising. While maize and wheat output during the last two years has completely overcome the shortages of 1965, production has reached levels which are well above domestic needs. As a result, it has become necessary to export large quantities of maize. However, these exports fetch prices which are well below actual cost at present producer prices. It is expected that by the end of July in current year, 2.4 million bags of maize which are in excess of domestic consumption and the requirements of a long-term strategic reserve will be exported. Consequently, the accumulated losses of the Maize and Produce Board will probably stand at K£2.3 million. The necessity of exporting large surpluses will continue to add further to the accumulated losses. The gains from the differential between the prices paid to the producer and the prices paid by the consumer are simply not sufficient to reduce these losses—and the "subsidy", operating through this differential from the consumer to the producer is already K£750,000 a year. There is little reason to believe that, given normal weather conditions, maize production from the 1968 plantings will not also exceed requirements and add further to losses sustained on exports. Apart from any other reasons, it is doubtful if such losses can continue to be accumulated by the existing method of reliance on short term finance.

12. The present price structure not only leads to large losses on exports but because the consumer price is so high, it encourages black-market dealings outside the official channels. The good harvest itself has reduced demand for supplies from the Maize and Produce Board in the traditional deficit areas outside the main towns and sales for human consumption are running considerably below normal levels. This augments the surplus for export and, at the same time, reduces the cess contributions from local sales which would go towards meeting a part of the losses on exports. In wheat production also, for the first time, production from 1967 plantings exceeded East African requirements and an exportable surplus of 200,000 bags has emerged. As with maize, this can only be exported at a loss. While the wheat surplus is still fairly modest, it will rise sharply if the output from 1968 plantings is similar to that for 1967.

13. The losses on surpluses of cereals can only be met from three sources—the public purse, higher consumer prices or reduced producer prices. Public subsidies on current production can only mean a reduction in

the resources available for development. For maize, the consumer is already paying for a substantial part of the losses. The logic of the situation suggests that producers must accept a reduction in the price per bag of both crops. This need not necessarily mean a reduction in producer incomes from these crops. A quite striking technical break-through has been realized during the last few years from the development and widespread cultivation of hybrid maize. This has led to a large increase in yield per acre and the gains from higher yields outstrip the marginal increase in costs. Further research suggests that a continued substantial increase in yields can be expected. In wheat also, there has been a significant increase in yields from improved varieties of seed, although less dramatic than the gains in maize. Cereals pricing policy has not been sufficiently adjusted in the light of these technological advances but such adjustment cannot be delayed without the continued accumulation of losses on surpluses and the distortion of agricultural production patterns. The world market for maize is almost unlimited and the yields now being realized make it possible to grow and export large quantities of this crop at competitive prices. Given the fact that most of Kenya's other export crops face serious marketing problems, there is every reason to develop maize production for export and processing into new products at home rather than having to incur losses on enforced disposal of surpluses.

14. It has often been suggested that a reduction in the prices of cereals would adversely affect the "new" farmers, because of their reliance on these two crops (maize and wheat) and the fact that they have not acquired sufficient experience in large-scale farming. There is evidence to suggest that this is an exaggerated view which perhaps gives too much credit to the predecessors of the new farmers. A recent survey of production costs undertaken among those farmers shows that, excluding their amortization commitments, they make quite satisfactory profits from the cultivation of maize and wheat.

15. The important point is that prices received by producers should reflect export parity levels, particularly with respect to crops which are being exported or are likely to be exported in substantial quantities. Maize and wheat are not the only commodities affected—the (it is hoped temporary) problems of the beef industry have already been mentioned; cotton is also confronted with a similar situation; growing production of rice under irrigation might produce surpluses above domestic needs in future but the present producer price is well above the export parity level. In dairying, this situation does not exist at present only because East African consumption of Kenya's dairy products has risen at a time when the growth of output has been held back by shortages of suitable livestock.

16. It is not suggested that the producer prices of all these commodities should be determined entirely by export prices because for wheat, for instance, costs of production in Kenya are such that export outside East Africa is

hardly worth considering. For such commodities occasional "accidental" surpluses can probably be taken care of through "export cesses" although it would perhaps be desirable that producers should be clearly aware of the real price they are likely to receive rather than one disguised by the inclusion of an export cess element. But for crops which are grown primarily for export (cotton) or those in which growing production capacity is likely to generate exportable surpluses (rice) or those for which large exports can be developed (maize), the price received by the producer should reflect what they can fetch in export markets. Price policy as a means to secure a more rational allocation of resources can be used much more effectively than it has been in the past.

The Large Farm Sector

17. With relatively few purchases of farms for settlement taking place, the area under large farms has remained at about the same level during the last two years, 6.5 million acres. However, the Stamp Land Purchase Programme, outlined in the *Economic Survey 1967*, has continued. The number of large farms under African management has been rising and Africans now own or manage 900,000 acres or 14 per cent of the total area under large farms. (If transfers for land settlement are also taken into account, 26 per cent of all the former "scheduled areas" and 59 per cent of the mixed farm land in these are now in African hands).

18. While it has been suggested earlier in this chapter that many of the new farmers are doing fairly well, it has always been accepted by the Government that special measures to establish them successfully are necessary. The intake at the Thomson's Falls Large Farmers' Training College for such farmers has been stepped up to one hundred. Half the students at the College are sponsored by large-scale farms run by individuals, partnerships and co-operatives while the other half are sponsored by the Agricultural Development Corporation. More intensive extension services continue to be provided for the new farmers. In addition to the West German and Peace Corps teams which have been operating in Trans Nzoia and Kitale districts for some time, a group of Dutch extension workers completed their first full year of extension in Uasin Gishu during 1967. Thus the vast majority of African large-scale farmers are now covered by a scheme of intensive extension effort.

19. The Agricultural Development Corporation now has several national farms in operation. The Government's basic objective in operating national farms through the Corporation is to produce critical farm inputs which cannot or are not adequately supplied by the private sector. These include high quality livestock and seed. The Corporation is already breeding cattle, sheep and pigs and plans to establish a poultry hatchery. It has purchased pedigree herds which were in danger of being broken up through sale by the previous owners to more than one person.

20. The Corporation's other activities include purchase of "Stamp" farms on behalf of the Government. It is intended that productivity on such farms should continue to be maintained until they are transferred intact to suitably qualified African farmers. The Corporation is also the channel through which the Government undertakes equity participation in some other enterprises such as sugar producing firms.

21. The quantities of the major crops marketed from the large farm sector are shown in Table 4.3. Bigger harvests of maize and wheat in 1967 show clearly in the table. Sugar cane output has responded to meet the requirements of new factory development and there was an increase in the area under cane on large farms of 12,000 acres during 1967. This has been achieved by putting under cane land formerly devoted to other crops, particularly in the Songhor area. The reverses suffered in coffee and tea production in 1967 are apparent—production during 1967 was respectively 25 and 16 per cent less compared with the previous year. The decline in sisal output reflects the very low prices received for this crop. While total pyrethrum output in 1967 was higher than in 1966, the share of large farms in this crop declined further, to 14 per cent. It is not unlikely that production of this crop will be left almost entirely to small-holders within a few years. Wattle production remained high during 1967, maintaining the level achieved in 1966 following the sharp rise in world prices in that year and which continued in 1967.

LARGE FARM AREAS—PRINCIPAL CROPS MARKETING, 1964-1967

Table 4.3

'000 Tons

| | 1964 | 1965 | 1966 | 1967 |
|---------------------|-------|-------|-------|-------|
| Wheat | 128.0 | 153.0 | 124.6 | 143.7 |
| Maize | 53.7 | 56.6 | 53.6 | 160.1 |
| Sugar Cane | 518.7 | 447.4 | 401.2 | 553.9 |
| Coffee—clean | 24.8 | 23.4 | 25.2 | 18.8 |
| Tea—manufactured | 19.0 | 18.0 | 23.5 | 19.7 |
| Sisal—fibre and Tow | 58.5 | 59.8 | 55.1 | 50.6 |
| Wattle—green bark | 20.0 | 16.0 | 25.5 | 25.6 |
| Wattle—stick bark | 3.1 | 3.8 | 4.3 | 4.5 |
| Pyrethrum flowers | 2.2 | 2.9 | 2.5 | 1.5 |

22. Figures of the numbers of various types of livestock are set down in Table 4.4. The slight recovery in numbers of dairy cattle in 1966 has not been maintained in 1967. On the contrary, the downward trend since 1961 has continued to persist. It is known that the large farm areas have been and still are the principal source of dairy stock for small-holders. However, the numbers of such sales have also declined, as shown in Table 4.5. The prices being paid for dairy cattle are still high and breeding for sale should be a profitable activity for large-scale farmers—there is room for growth in this field.

LARGE SCALE FARMS—LIVESTOCK NUMBERS, 1961-1967

Table 4.4.

'000 head

| | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 |
|--------------|-------|-------|-------|-------|-------|-------|-------|
| Dairy Cattle | 392.7 | 355.7 | 332.0 | 284.6 | 260.1 | 261.7 | 245.2 |
| Beef Cattle | 549.1 | 530.4 | 480.7 | 451.1 | 446.3 | 469.8 | 484.5 |
| Sheep | 580.2 | 510.9 | 501.8 | 409.8 | 399.8 | 433.8 | 469.8 |
| Pigs | 41.5 | 34.6 | 35.5 | 36.6 | 36.2 | 30.9 | 25.6 |
| Poultry | 280.6 | 287.7 | 255.7 | 203.3 | 213.1 | 200.9 | 207.6 |

SALES OF DAIRY CATTLE FROM LARGE FARM AREAS

Table 4.5

1964/65-1966/67

Numbers

| | 1964/65 | 1965/66 | 1966/67 |
|----------------------------------|---------|---------|---------|
| Sales to— | | | |
| Other large farms | 7,840 | 8,059 | 5,480 |
| Settlement Schemes | 6,342 | 10,415 | 5,228 |
| Small-holders outside settlement | 3,787 | 3,239 | 3,545 |
| TOTAL | 17,969 | 21,711 | 14,253 |

23. The numbers of beef cattle and sheep have continued to show the upward growth observed in 1966 after several years of decline. Poultry flocks also increased in 1967. But numbers of pigs continued to fall. This decline can be attributed to the serious difficulties experienced in 1965 in obtaining feed supplies. Many farmers who were unable to secure feed sold their breeding stock for slaughter. It is hoped that the plentiful and cheaper feeds now available will help to make pig production a more attractive economic proposition again.

24. Livestock production on large farms is shown in Table 4.6. All the items in the table show some growth. Liquid milk sales particularly were well up on the 1965/66 level—17 per cent. The clip from each wool sheep was higher, 6.19 lb. compared with 6.15 lb. in 1965/66.

LARGE FARM AREAS—LIVESTOCK PRODUCTION, 1964-65-1966/67

Table 4.6

| | | 1964/65 | 1965/66 | 1966/67 |
|------------------------------------|-----------|---------|---------|---------|
| SALES OF LIVESTOCK FOR SLAUGHTER — | | | | |
| Cattle and Calves | '000 head | 91.8 | 85.6 | 88.5 |
| Sheep and Lambs | '000 head | 76.0 | 65.5 | 68.2 |
| Poultry | '000 head | 200.5 | 210.7 | 235.4 |
| Wholemilk | '000 gal. | 15,675 | 18,416 | 22,954 |
| Wool | '000 lb. | 2,285 | 2,629 | 2,957 |
| Eggs | '000 doz. | 1,419 | 1,200 | 1,203 |

25. A breakdown of gross farm revenue by commodity is shown in Table 4.7. Total revenue in 1967 was K£2 million less than in 1966. But revenue accruing from coffee, tea and sisal declined by K£5.7 million or 26 per cent. About K£1.1 million of this fall was accounted for by the fall in

coffee and sisal prices. The rest was due to reduced output from the prevalence of coffee berry disease and the inclement weather conditions experienced by tea estates. The sharp reduction in income from permanent crops was partially compensated by the rise of K£2.6 million from the production of cereals and K£1.1 million from livestock.

LARGE FARM AREAS—ANALYSIS OF GROSS FARM REVENUE, 1964-1967

Table 4.7.

K£'000

| | 1964 | 1965 | 1966 | 1967* |
|------------------------------------|--------|--------|--------|--------|
| CEREALS— | | | | |
| Wheat | 3,406 | 4,051 | 3,168 | 4,082 |
| Maize | 982 | 1,028 | 1,240 | 2,872 |
| Barley | 407 | 427 | 278 | 242 |
| Oats and others | 59 | 65 | 43 | 58 |
| TOTAL | 4,854 | 5,569 | 4,720 | 7,254 |
| OTHER TEMPORARY CROPS— | | | | |
| Pyrethrum | 485 | 757 | 741 | 424 |
| Sugar cane and jaggery | 1,281 | 1,300 | 882 | 1,032 |
| Others | 185 | 176 | 196 | 277 |
| TOTAL | 1,951 | 2,233 | 1,819 | 1,733 |
| PERMANENT CROPS— | | | | |
| Coffee | 8,685 | 7,709 | 9,284 | 5,586 |
| Sisal | 5,895 | 3,720 | 3,025 | 2,376 |
| Tea | 7,424 | 6,789 | 9,152 | 7,846 |
| Fruit | 150 | 174 | 141 | 131 |
| Wattle and others | 442 | 444 | 850 | 626 |
| TOTAL | 22,594 | 18,835 | 22,152 | 16,565 |
| TOTAL CROPS | 29,398 | 26,637 | 28,700 | 25,551 |
| LIVESTOCK— | | | | |
| Cattle and calves for slaughter | 2,340 | 2,100 | 2,183 | 2,156 |
| Sheep and lambs | 174 | 193 | 191 | 223 |
| Pigs for slaughter | 475 | 470 | 538 | 436 |
| Poultry and eggs | 253 | 222 | 195 | 200 |
| Wool | 340 | 404 | 440 | 457 |
| Hides and skins | | | | |
| TOTAL | 3,582 | 3,395 | 3,547 | 3,472 |
| DAIRY PRODUCTS— | | | | |
| Wholemilk | 1,782 | 1,918 | 2,704 | 2,884 |
| Butterfat | 1,156 | 1,102 | 1,010 | 2,027 |
| Butter, cheese and cream | 14 | 17 | 17 | 18 |
| TOTAL | 3,074 | 3,151 | 3,829 | 5,031 |
| TOTAL LIVESTOCK AND DAIRY PRODUCTS | 6,655 | 6,546 | 7,376 | 8,503 |
| TOTAL GROSS FARM REVENUE | 36,052 | 33,182 | 36,076 | 34,045 |

*Provisional.

26. Capital expenditures undertaken by large-scale farms, including the Agricultural Development Corporation, continue to rise although the increase in 1966/67 was probably not as high as the figures in Table 4.8 suggest due to the inclusion under "plantation development" of a specific item related to land reclamation which was not included in the past. However, even without this new item, most of the other categories of expenditure show an upward movement which is particularly marked in vehicles and mechanical equipment.

Table 4.8 LARGE FARM AREAS—GROSS CAPITAL EXPENDITURE BY TYPE OF EXPENDITURE, 1963/64-1966/67 K £'000

| | 1963/64 | 1964/65 | 1965/66 | 1966/67 |
|-------------------------------------------|---------|---------|---------|---------|
| Residential buildings | 396 | 606 | 672 | 608 |
| Non-residential buildings | 399 | 266 | 267 | 306 |
| Roads, dams, water supplies etc. | 205 | 249 | 402 | 308 |
| Fencing | 115 | 132 | 177 | 185 |
| Plantation Development* | 713 | 595 | 738 | 1,069 |
| Vehicles (excluding tractors) | 657 | 660 | 679 | 784 |
| Mechanical Equipment (including tractors) | 1,040 | 1,306 | 1,149 | 1,325 |
| Other | 164 | 257 | 274 | 357 |
| TOTAL | 3,690 | 4,072 | 4,358 | 4,943 |

* The figure for 1966/67 is the sum for expenditure on "land reclamation" from forest or scrub and "establishment of long-term crops". For previous years expenditure on land reclamation was not included.

The Small Farm Areas

27. The quantities of the major crops marketed by small farmers and pastoralists are shown in Table 4.9. Sales of maize refer only to deliveries to the Maize and Produce Board and do not include what are probably substantial direct sales outside organized marketing channels. Unrecorded transactions on a considerable scale probably take place in other food crops such as rice and pulses also, so that, for food crops, actual marketings are higher than the levels shown in the table.

28. Output of coffee on small-holdings in 1967 was 13 per cent higher despite coffee berry disease. This does not, however, mean that small-holder coffee was unaffected by the disease. The growth of output was due entirely to new acreage reaching maturity but it would have been considerably higher without the loss of crop attributable to C.B.D. However, given the cessation of new plantings during the last three years, future increases in production from trees reaching maturity will come to an end during the current year when 94 per cent of all small-holder coffee should reach maturity—the corresponding percentages during 1967 and 1966 were 55 and 36 respectively. But the lead now established by small-holders as the producers of the bulk of the country's coffee crop can be regarded as permanent. However, it is quite likely that the effect on small-holder coffee of C.B.D. will be greater than on estates because few small-holders can afford the expensive treatments necessary to control damage inflicted by the disease.

SMALL FARMS—PRINCIPAL CROPS MARKETED, 1964-1967

Table 4.9

'000 tons

| | 1964 | 1965 | 1966 | 1967 |
|---------------------|------|------|------|------|
| Maize | 33.2 | 47.9 | 71.9 | 75.0 |
| Rice Paddy | 12.3 | 13.8 | 16.8 | 15.7 |
| Pulses | 10.1 | 12.9 | 19.2 | 11.5 |
| Castor Seed | 4.1 | 5.1 | 7.0 | 3.2 |
| Coffee—clean | 16.0 | 15.3 | 25.1 | 28.5 |
| Tea—manufactured. | 0.9 | 1.4 | 1.9 | 2.7 |
| Sisal fibre and tow | 8.5 | 3.2 | 1.2 | 0.3 |
| Seed Cotton | 10.8 | 12.2 | 14.2 | 12.5 |
| Wattle Bark | 26.1 | 16.7 | 28.8 | 23.9 |
| Cashew Nuts | 5.9 | 8.9 | 8.1 | 10.5 |
| Pyrethrum flowers | 2.1 | 3.3 | 6.8 | 9.6 |

29. A deterioration in the quality of small-holder coffee has been a cause for concern for several years. A major contributory factor in declining quality had been the severe shortage of adequate processing capacity in the society factories. A Coffee Authority was set up in 1967 to tackle this problem. After completing a rapid survey of new capacity required, the Authority started to issue loans to societies for the development of new facilities. So far, 44 new factories have been added to the 347 which were operating during mid-1966 and another 28 have been enlarged. It is intended to enlarge a further 56 factories to cope with the expected increase in production. The quality of management in the society factories also has not always been adequate. Intensive courses to improve the capabilities of factory managers have been organized and steps taken to replace those unable to perform their functions efficiently. Although the full effect of these measures is not yet apparent, a noticeable improvement in the quality of small-holder coffee has already been observed.

30. Tea production from small-holdings rose rather more slowly than expected due to the weather factors mentioned earlier in this chapter. However, the small-holder tea development programme of the Kenya Tea Development Authority continued to move forward at a rapid pace. The acreage in the ground and the number of growers is shown in Table 4.10.

THE DEVELOPMENT OF SMALL-HOLDER TEA

Table 4.10

| | Total Acreage at end of year | Number of Growers at end of year |
|---------|---------------------------------|-------------------------------------|
| 1962/63 | 8,430 | 18,278 |
| 1963/64 | 10,659 | 19,775 |
| 1964/65 | 12,683 | 22,343 |
| 1965/66 | 16,010 | 26,693 |
| 1966/67 | 20,816 | 32,599 |

31. The predominance of small-holders in pyrethrum production has already been mentioned. In Kisii District particularly, farmers have been highly responsive to exhortations to grow more pyrethrum. On many settlement schemes, it is the principal cash crop and a major factor in farm budgetting on such schemes. Indeed, after some tardiness in taking up their quotas, settlement farmers are now liable to exceed these. Due to likely marketing difficulties which will arise if output exceeds quotas, the price paid to growers may have to be reduced. The incentive of high prices has been a conspicuous factor in promoting small-holder production during the last two years and a reduction might enable output to be held at a more desirable level.

32. Cotton production in 1967 showed a marked increase in Nyanza and Western Provinces but other producing areas suffered setbacks. Production at the Coast fell by nearly 50 per cent, partly due to drought and partly because farmers left large quantities unpicked. In Eastern and Central Provinces, the cotton crop was ravaged by severe insect infestation. Of the expected national crop of 32,000 bales, only about 20,000 were therefore realized. It is now estimated that the 1967/68 crop will amount to 35,000 bales. Preliminary reports from the field indicate that plantings have been good, but excessive rain in most of the growing areas could well cause a reduction. In view of the rather slow pace of the cotton expansion programme, it is unlikely that the Development Plan target of 95,000 bales by 1970 will be met. Given the level of throughput in the ginneries, the prices paid to growers during the last few years have had to be subsidized from the reserves accumulated in the past, but these reserves are now exhausted. With a larger crop, it should be possible to achieve economies in ginning costs which in turn should make it possible to maintain producer prices at the present level (48 cents per lb. of A.R. cotton) or very near this amount and also finance some of the services the costs of which have in the past been met from accumulated reserves. The difficult position now exists in which a further reduction in price would probably reduce output and therefore not enable the desirable level of throughput in the existing ginneries to be reached. At the same time, to maintain the price and services to growers at their present level will inevitably require finance no longer available from the resources of the Cotton Lint and Seed Marketing Board.

33. Figures of gross farm revenue accruing to small-holders are set out in Table 4.11. The factors affecting the levels attained in the value of the various commodities sold by small-holders in 1967 have been in large part discussed in the preceding paragraphs. Although coffee production was 13 per cent higher than in 1966, receipts from this crop were 9 per cent less due to the fall in price. An addition has been made to the table to show the estimated earnings from sales of unrecorded monetary output. Such sales are largely made up of produce sold within the producing areas and had not been covered in the past because only sales out of districts were recorded.

SMALL FARM AREAS—ANALYSIS OF GROSS FARM REVENUE, 1964-1967

Table 4.11

K£'000

| | 1964 | 1965 | 1966 | 1967* |
|----------------------------------------|--------|--------|--------|--------|
| CEREALS— | | | | |
| Maize | 619 | 862 | 1,446 | 1,347 |
| Rice | 276 | 311 | 375 | 384 |
| Others | 200 | 265 | 441 | 669 |
| TOTAL | 1,095 | 1,438 | 2,262 | 2,399 |
| TEMPORARY INDUSTRIAL CROPS— | | | | |
| Cotton | 573 | 646 | 676 | 603 |
| Tobacco | 80 | 27 | 30 | 10 |
| Pyrethrum | 423 | 798 | 1,821 | 2,271 |
| Sugar Cane | 209 | 244 | 109 | 534 |
| Castor and other oil seeds | 222 | 216 | 359 | 349 |
| TOTAL | 1,507 | 1,929 | 2,995 | 3,767 |
| OTHER TEMPORARY CROPS— | | | | |
| Pulses | 263 | 308 | 629 | 438 |
| Potatoes | 147 | 66 | 180 | 190 |
| Vegetables and others | 139 | 112 | 156 | 203 |
| TOTAL | 549 | 486 | 965 | 831 |
| PERMANENT CROPS— | | | | |
| Coffee | 5,808 | 5,398 | 9,339 | 8,513 |
| Tea | 366 | 542 | 754 | 1,081 |
| Sisal | 857 | 197 | 67 | 15 |
| Wattle | 281 | 218 | 329 | 344 |
| Coconuts and products | 324 | 403 | 449 | 450 |
| TOTAL | 7,636 | 6,758 | 10,938 | 10,403 |
| FRUIT AND MISCELLANEOUS CROPS— | | | | |
| Cashew Nuts | 156 | 393 | 395 | 392 |
| Fruit | 317 | 315 | 278 | 392 |
| Miscellaneous crops | 125 | 176 | 209 | 233 |
| TOTAL | 598 | 884 | 882 | 1,017 |
| TOTAL CROPS | 11,383 | 11,494 | 18,042 | 18,415 |
| LIVESTOCK AND DAIRY PRODUCTS— | | | | |
| Cattle and Calves for slaughter.. | 6,489 | 6,572 | 7,263 | 7,709 |
| Sheep and Goats for slaughter and Wool | 251 | 277 | 283 | 244 |
| Pigs for slaughter.. | 21 | 84 | 61 | 61 |
| Poultry and eggs | 85 | 8 | 80 | 100 |
| Hides and Skins | 472 | 470 | 592 | 630 |
| Dairy products | 1,190 | 1,330 | 1,880 | 2,700 |
| TOTAL | 8,506 | 8,741 | 10,160 | 11,444 |
| ESTIMATED UNRECORDED MONETARY OUT-PUT | 2,029 | 507 | 2,132 | 2,294 |
| TOTAL GROSS FARM REVENUE | 21,920 | 20,742 | 30,334 | 32,153 |

*Provisional.

34. The growth in the sales of sugar cane is attributable to the intensive development of this industry promoted by the Government during the last few years. By the end of 1967, nearly 15,000 acres out of an eventual target of 26,000 acres had been planted on small-holdings in and outside settlement schemes to supply cane to factories in Central Nyanza. At the Coast also, 2,000 acres have been planted on small holdings. Increasing quantities of cane from small farms are now beginning to flow into the factories and the value of deliveries can be expected to rise rapidly in future. Some difficulties have been experienced in transporting the cane to factories but steps are being taken to overcome these. The programme of "sugar" roads in Central Nyanza is now well under way. The need for an efficient system of transport will be even more apparent when another new factory commences production this year. At the Coast also, the problem of transport facilities for small-holder cane will require attention.

35. Although paddy production at the Mwea irrigation scheme in 1967 declined a little, (the small increase in the value of paddy sales in 1967, apparent in Table 4.11, was due to an increase in the price paid) progress on this scheme continues to be satisfactory. Statistics of the acreage cropped, the number of plot-holders and the output and value of crops at Mwea and the other irrigation schemes are set out in Table 4.14. The acreage cropped at Mwea rose by 9 per cent during 1966/67. For the current crop year, 8,550 acres are expected to be cropped. Arrangements were recently completed to secure finance for a further expansion of 3,000 acres. In order to process the growing paddy crop, a modern rice mill was erected as a joint venture between the National Irrigation Board and the Mwea plot-holders in 1967. The mill also incorporates parboiling facilities, the first in Kenya.

36. Onion production at Perkerra has been affected by severe competition from production in other parts of the country and experiments have been started on other crops in order to help reduce the growers' dependence on onions. On the Tana River Scheme, the National Irrigation Board took steps to rehabilitate the scheme and transform it into a pilot project within the studies that have been in progress for some time now for feasibility work towards a major irrigation scheme on the Lower Tana River.

37. The Board also initiated in what was in fact its first full year of operations, pilot projects for two other irrigation schemes, at Ahero and Bunyala. At Ahero work on the pilot area of 2,000 acres is well advanced. The Ahero scheme differs from all previous irrigation projects in Kenya in that there is already a dense population resident on the site. Despite this, very rapid progress in the preparation of the site was made during 1967. At Bunyala swamp in Western Province, work on the diversion canal to drain the swamp is now under way but is expected to take longer than originally envisaged due to difficulties of terrain and weather.

PROGRESS OF IRRIGATION AND PRODUCTION AT THE MAJOR IRRIGATION SCHEMES,
1963/64-1966/67

Table 4.12

| | 1963/64 | 1964/65 | 1965/66 | 1966/67 |
|-------------------------------|---------|---------|---------|---------|
| MWEA— | | | | |
| Acres cropped ⁴ | 5,458 | 5,541 | 6,407 | 6,992 |
| Number of plot-holders | 1,340 | 1,340 | 1,484 | 1,588 |
| Paddy yield (tons) | 11,847 | 11,193 | 14,226 | 13,636 |
| Gross value of crop (K£) | 265,373 | 250,723 | 318,662 | 336,766 |
| Payments to plot-holders (K£) | 166,361 | 155,574 | 189,136 | 208,310 |
| TANA RIVER— | | | | |
| Acres cropped* | 1,179 | 1,179 | 1,233 | 1,220 |
| Number of plot-holders | 292 | 257 | 276 | 278 |
| Seed cotton yield (tons) | 546 | 553 | 809 | 585 |
| Gross value of crop | 30,595 | 34,663 | 45,312 | 31,476 |
| Payments to plot-holders | 18,630 | 17,142 | 26,813 | 14,859 |
| PERKERRA— | | | | |
| Acres irrigated | 1,200 | 1,200 | 1,200 | 1,440 |
| Acres cropped with onions | 410 | 390 | 570 | 665 |
| Number of plot-holders | 334 | 332 | 403 | 502 |
| Onion yield (tons) | 1,100 | 772 | 2,460 | 2,567 |
| Gross value of crop (K£) | 29,771 | 17,639 | 70,837 | 83,384 |
| Payments to plot-holders | | | | |
| ALL SCHEMES— | | | | |
| Acreage cropped | 7,045 | 7,110 | 8,210 | 8,877 |
| Number of plot-holders | 1,966 | 1,929 | 2,163 | 2,368 |
| Gross value of produce (K£) | 325,739 | 303,025 | 366,434 | 451,626 |

*For Mwea and Tana River, the acreage irrigated is equal to the acreage cropped.

38. The development effort in the small farm areas embraces not only crop production but also animal husbandry. In 1967, important organizational changes were made in the livestock side of Government extension services leading to the separation of purely clinical functions and the setting up of a new Animal Husbandry Division. The new division will serve all farmers, of course, but it has been apparent for some time that much greater attention requires to be paid to animal husbandry on small-holdings and in the ranching areas. Extension officers with specific animal husbandry functions are now operating in the districts. Two former establishments have been taken over and converted into a National Animal Husbandry Station and a Beef Research Station respectively.

39. In addition to the provision of extension advice, the Animal Husbandry Division regards as an important part of its work the generation of interest among farmers in the desirability of improvements in husbandry practices, to demonstrate that the mere possession of a grade cow, without sufficient attention to husbandry, is not in itself enough to ensure a continuous flow of milk.

40. An important aspect of dairy cattle productivity is the availability of artificial insemination services, particularly on small-holdings which are unable to keep bulls. With the increasing population of grade dairy cows on small farms, in and outside settlement schemes, it has become increasingly important to ensure that A.I. services are available at the right time to all farmers who need them. The national A.I. service has been expanded and reorganized during the last two or three years with assistance from the Swedish Government. During 1967, the number of inseminations reached 180,000, of which 125,000 were administered to small-holder cows.

41. An important new element in the service is its extension to include zebu cattle in order to produce half-bred grade animals by crossing with semen from exotic breeds. Apart from ensuring that unduly wide gaps in lactations and the consequent loss of productivity are minimized, the improvements in the A.I. service are also intended to enhance the ability of small-holders to augment numbers of dairy stock in their areas without relying entirely on large-scale breeders. There are indications that the extent and quality of livestock breeding on small-holdings are improving. A recording and follow-up effort to assess efficiency is now part of the A.I. service.

42. In the range areas, the major development has been the finalization of arrangements for a large credit for range development. The bulk of this credit will be expended in the pastoral areas to build up group and individual ranches, provide water facilities and develop stock routes and holding grounds and other ancillary services. The funds, K£2.6 million, are to be supplied as loans from the International Development Association and the Swedish Government. The project, to be phased over five years, will be launched from the middle of this year. Legislation to allow for the issue of title to representatives of groups is in its final stages. This will help to overcome what was a serious legal hurdle in the setting up of group ranches in the pastoral areas. The increasing output of trained personnel has now placed the Range Management Division in a firm position to embark on the development of the country's enormous potential for beef production. At the end of 1967, it had already set up group and individual ranches covering 1.7 million acres. However, almost all of them are still at the early stages of development and their output in terms of cattle sold for slaughter is still relatively low.

43. An interesting new development affecting small-holders has been the setting up of Government tractor units in eight districts. The service was started late in 1966 and built up to its present level of 50 tractor units during last year. These tractors ploughed 7,000 acres for wheat and 4,000 for cotton for planting in 1967. Several thousand additional acres were ploughed for planting in the current year. Present plans envisage consolidation of the scheme at its existing level and a careful study of its operations. It is felt, and experience in other countries underlines this, that large-scale tractor operations on small-holdings are not an economic proposition unless undertaken

on sufficiently large continuous tracts of land. In Kenya, the Masai wheat scheme provides such conditions and it is, in fact, more akin to cereals production on a large scale. Moreover, adequately trained staff are not at present available for the expansion of the scheme.

44. In an interesting departure from conventional practice, farmers are charged on the basis of ploughing time rather than the area ploughed. This promotes more efficient use of the machines. The results of operations undertaken so far suggest that, at its present level, the scheme will be able to cover its current costs as well as amortization charges. A larger scheme with its machinery units spread over a wider area, using less proficient staff and more difficult to manage, may not be able to do this.

45. There can be little doubt that operations by private contractors are probably a more suitable means of extending farm mechanization. There are already about 400 small-holder tractor owners, some of whom operate more than one machine. Under the small-holder credit project, financed by a loan from the International Development Association (discussed in more detail later in this chapter), loans are also being issued for the purchase of tractors to carefully selected small-holders. Some ability on their part in tractor operations is a necessary qualification. Additional training in tractor operations and maintenance and in the business side of such activities is being given at the Narosurra Farm Mechanization Training Scheme. It is also intended to set up in some districts a service of Mechanization Extension Officers who will endeavour to ensure the best use of tractors purchased under the programme.

46. There is some danger that the glamour of farm mechanization with conventional tractors might overshadow the need for the development and extension of more modest implements (including simple machines). Indeed, there is some evidence to suggest that many small-holders are relatively uninterested in such implements because they have come to feel, without good reason, that only conventional tractor-based mechanization is desirable. This is dangerous and undesirable. There is great scope for the introduction of animal drawn implements of improved design and cheap simple machines which are more suitable for the economic and technical conditions of small-holder farming.

47. The provision of credit to small-holders and pastoralists is an essential part of the Government's efforts to promote agricultural development. A range of schemes exists to provide credit for more general purposes and for specific projects or commodities. Credit for range development has already been mentioned. The Kenya Tea Development Authority makes advances to tea growers to meet a variety of costs related to the planting and production of the crop. Cane-growers outside the settlement schemes receive credit through the Chemelil Sugar Scheme in Nyanza and through the Agricultural Finance Corporation (A.F.C.) at the Coast. Growers on settlement schemes are covered by the extensive credit arrangements which are part of

the settlement programme. Cotton growers have also received loans. A sum of K£40,000 was disbursed in 1967 under a special scheme to develop pineapple production.

48. In the field of credit for general farm development, perhaps the most important development last year was the beginning of issues of loans from funds obtained from the International Development Association (I.D.A.). It is intended to issue K£900,000 over four years to 2,000 farmers in fourteen districts. The loans are only being issued to farmers who have at least five acres of land, hold a title to the land and are known to be capable husbandmen. The credit is available for development only and may be used to break new land or effect farm improvements. It is expected that farmers who receive credit will be capable of eventually producing a cash surplus of K£70-K£100 per annum. Adequate extension services to back the scheme are an integral part of it. Arrangements for loans to purchase tractors within this scheme have already been discussed.

49. A West German loan of K£90,000 has also been negotiated to finance a similar credit project in two other districts. Except for the fact that title will not be an essential qualification, other conditions for the issue of loans under this scheme will be similar to those of the I.D.A. loans. However, an additional aspect of this scheme is that the West German Government will supply extension staff, some dairy cattle and probably fertilizer also for the credit areas.

50. These two projects reflect the new approach to small-holder credit which is now being more widely adopted—the need to ensure careful selection, to provide follow-up extension services which also include budgeting and farm planning. This approach has been prompted by the poor payment record on previous loan schemes—debts due but unpaid on previous "agrarian loans" now stand at 52 per cent. In its normal loans programme in districts other than those covered under these two schemes, the Agricultural Finance Corporation is trying to establish a more systematic approach to credit although without always insisting on title. The A.F.C.'s own resources are now being concentrated in areas not included in the schemes discussed above. The I.D.A. and West German loans are also being administered by the A.F.C.

51. Farmers also receive short-term crop finance through the arrangements known as "minimum financial returns" or M.F.R. Although the bulk of such short-term finance goes to large farmers, an increasing amount is being taken by small-holders who may have the minimum sized holding stipulated as a necessary condition. However, most of the credit thus issued has not been repaid. Credit is also available from commercial banks and it is estimated that K£0.5 million of such credit, mostly of a medium term nature, is outstanding to small-holders.

52. The establishment recently of a Co-operative Bank is likely to have far-reaching implications for small-holder credit. The bank will operate through co-operative societies which are responsible for marketing the members' produce. Credit issued through societies which will be able to recover from the proceeds of members' crops will considerably improve recovery prospects. It will have to be ensured, of course, that recipients of credit do not, for this reason, by-pass co-operative marketing channels, as has happened with cotton loans.

53. A large part of agricultural credit goes into capital formation. Unfortunately, reliable estimates of the full extent of capital formation on small-holdings are not yet available although surveys which will yield such information are now being undertaken. Agricultural credit is not, of course, the only source of capital formation in small-holder agriculture. In addition to investments from the farmers' own resources, there is a major contribution made from self-help projects, particularly in dam construction, well-digging, terracing, drainage schemes, etc.

Land Settlement

54. Many aspects of production on settlement schemes have already been discussed in previous chapters. Settlement on the original "million-acre scheme" (which in fact exceeded a million acres) is now almost completed. The few thousand acres remaining to be purchased are being acquired. During 1966/67 there was no increase in the number of schemes but existing ones were enlarged and new settlers placed. This is illustrated in Table 4.13.

THE PROGRESS OF LAND SETTLEMENT

Table 4.13

| | Total Acreage Purchased | Total Number of Planned Schemes | Total Number of Settled Schemes | Total Number of families settled |
|-------------------------|----------------------------|---------------------------------------|---------------------------------------|----------------------------------------|
| Up to June 30th 1963 | 429,497 | 32 | 29 | 5,200 |
| 1963/64 | 736,770 | 85 | 68 | 15,682 |
| 1964/65 | 956,443 | 102 | 86 | 23,917 |
| 1965/66 | 1,037,165 | 135 | 135 | 28,260 |
| 1966/67 | 1,071,027 | 135 | 135 | 29,931 |

55. Preparations are now under way for a new but much smaller settlement project under which "*Harambee Schemes*" will be developed at the rate of 20,000 acres per annum to a total of 60,000 acres by the middle of 1970. The project will include only relatively low-density schemes.

56. The major task on existing schemes now is to consolidate the effort so far made and to raise productivity. As more and more schemes "settle down," output, shown in Table 4.14 continues to increase. It is, however, significant that the bulk of the growth in sales (only figures of sales through co-operatives are shown) in 1966/67 was contributed by pyrethrum, a crop which already faces international marketing difficulties. Sugar cane will become much more important in future but more attention will also have to be paid to other crops.

SALES FROM SETTLEMENT SCHEMES THROUGH CO-OPERATIVES, 1963/64-1966/67

Table 4.14

K£

| | 1963/64 | 1964/65 | 1965/66 | 1966/67 |
|------------|---------|---------|-----------|-----------|
| Milk | 117,871 | 284,857 | 424,362 | 519,011 |
| Butterfat | 57,492 | 65,925 | 95,178 | 105,765 |
| Pyrethrum | 22,624 | 109,921 | 425,344 | 796,884 |
| Beef | 25,181 | 58,368 | 53,329 | 37,778 |
| Wheat | 3,213 | 32,220 | 31,196 | 68,111 |
| Maize | 1,280 | 6,198 | 33,703 | 96,330 |
| Coffee | 3,240 | 10,570 | 23,958 | 25,331 |
| Sugar-cane | ** | ** | ** | 85,292 |
| Wool | 1,597 | 9,685 | 32,543 | 32,749 |
| Others* | 16,161 | 36,121 | 44,291 | 15,700 |
| TOTAL | 248,659 | 613,865 | 1,163,904 | 1,782,951 |

*Denotes that sales of cane were negligible in these years.

**"Others" include a number of such minor products as hides, manure, oats, potatoes, peas and beans, sisal, sunflower, vegetables, fruit, pigs, lambs and goats, and poultry.

Land Registration in the Small Farm Areas

57. As shown in Table 4.15, land registration has been completed or started in 19 districts. During 1966/67, 348,300 acres were brought on to the register, 102,000 more than in 1965/66. A revised accelerated programme was drawn up and launched in 1967 although its effects are not apparent in Table 4.15 because it only includes land that has already been registered but not that in the adjudication and survey stages. The actual number of holdings on the register in each district is set out in Table 4.16.

THE AREA OF LAND REGISTERED IN EACH DISTRICT, 1956/57 TO 1967

Table 4.15

'000 acre

| | Total during 1956/57 to 1961/62 | 1962/63 | 1963/64 | 1964/65 | 1965/66 | 1966/67 | 1967/68 (6 mths.) | Total to 31-12-67 |
|----------------------|------------------------------------------|---------|---------|---------|---------|---------|----------------------|----------------------|
| CENTRAL PROVINCE— | | | | | | | | |
| Nyeri | 196.7 | + | + | + | + | + | + | 196.7 |
| Fort-Hall | (285.3) | 65.7 | 51.9 | 56.4 | 40.7 | 25.8 | ** | 310.8 |
| Kiambu | 238.2 | + | + | + | + | + | + | 238.2 |
| Kirinyaga | 188.4 | + | + | + | + | + | + | 188.4 |
| TOTAL | (908.6) | 65.7 | 51.9 | 56.4 | 40.7 | 25.8 | ** | 933.9 |
| EASTERN PROVINCE— | | | | | | | | |
| Meru | 96.6 | 24.4 | 21.6 | * | 43.7 | 69.5 | ** | 255.8 |
| Embu | 125.2 | + | + | + | + | + | + | 125.2 |
| Machakos | * | * | * | ** | 85.2 | ** | ** | 85.2 |
| TOTAL | 221.8 | 24.4 | 21.6 | ** | 128.9 | 69.5 | ** | 466.2 |
| RIFT VALLEY PROVINCE | | | | | | | | |
| Nandi | 13.9 | 9.2 | 3.2 | 13.9 | 13.9 | 9.9 | ** | 64.0 |
| Elgeyo/Marakwet | 17.4 | ** | 3*6 | 27.4 | * | 5.2 | ** | 53.6 |
| Baringo | 74.4 | 14.8 | 1.8 | 13.7 | 28.8 | 11.0 | ** | 154.4 |
| Kajiado | * | ** | 9.9 | 4.0 | 4.0 | ** | ** | 17.9 |
| Kericho | * | * | * | * | 4.5 | 12.4 | 3.3 | 20.2 |
| TOTAL | 105.7 | 24.0 | 18.5 | 58.9 | 51.2 | 38.5 | 3.3 | 300.1 |
| WESTERN PROVINCE— | | | | | | | | |
| Kakamega | ** | ** | 24.0 | 41.8 | 61.3 | 91.8 | 36.6 | 255.5 |
| Bungoma | ** | ** | 21.4 | 32.4 | 45.3 | 44.7 | ** | 143.8 |
| Busia | * | * | * | * | * | 24.4 | 5.9 | 30.3 |
| TOTAL | ** | ** | 45.4 | 74.2 | 106.6 | 160.9 | 42.5 | 429.6 |

Table 4.15—(Contd.)

| | Total during 1956/57 to 1961/62 | 1962/63 | 1963/64 | 1964/65 | 1965/66 | 1966/67 | 1967/68 (6 mths.) | Total to 31-12-67 |
|----------------------------|------------------------------------------|---------|---------|---------|---------|---------|----------------------|----------------------|
| NYANZA PROVINCE— | | | | | | | | |
| Central Nyanza | * | * | ** | ** | 0.9 | 8.4 | *** | 9.3 |
| Kisii | * | ** | * | 7.0 | 14.6 | 27.4 | *** | 49.0 |
| South Nyanza | | | | | 19.2 | 16.0 | | 35.2 |
| TOTAL | * | ** | ** | 7.0 | 34.7 | 51.8 | ** | 93.5 |
| COAST PROVINCE— | | | | | | | | |
| Taita | * | * | ** | ** | 3.6 | 1.8 | 1.4 | 6.8 |
| TOTAL | * | * | * | ** | 3.6 | 1.8 | 1.4 | 6.8 |
| TOTAL ALL PROVINCES | 1,236.1 | 114.1 | 137.4 | 196.6 | 365.7 | 348.3 | 47.2 | 2,230.5 |

+Denotes that registration work in the district has been completed.

*Denotes that registration work in the district had not begun at the end of the year.

**Denotes that work was in progress during the year, but no new land was actually brought on to the register.

+in Fort Hall District the registration of 215 000 acres was cancelled in 1960. This area is included in the bracketed figures in the "total during 1956/57 to 1961/62" but is not included in the "total to 31-12-1967".

TOTAL OF AGRICULTURAL HOLDINGS ON THE REGISTER IN EACH DISTRICT

Table 4.16

Numbers

| DISTRICT | Up to 31-12-65 | Up to 31-12-66 | Up to 31-12-67 |
|-----------------|-------------------|-------------------|-------------------|
| Nyeri | 43,593 | 43,593 | 43,593 |
| Murang'a | 62,126 | 74,987 | 74,987 |
| Kiambu | 37,408 | 37,408 | 37,408 |
| Embu/Kirinyaga* | 43,302 | 43,302 | 43,302 |
| Meru | 25,242 | 32,059 | 38,080 |
| Machakos | — | 2,460 | 2,460 |
| Nandi | 2,419 | 3,161 | 3,161 |
| Elgeyo/Marakwet | 3,166 | 3,628 | 3,852 |
| Baringo | 2,096 | 2,397 | 2,766 |
| Kajiado | 651 | 651 | 651 |
| Kericho | — | 1,344 | 1,652 |
| Kakamega | 33,276 | 41,565 | 53,735 |
| Bungoma | 5,803 | 8,325 | 10,943 |
| Busia | — | 2,481 | 6,440 |
| Kisumu | 164 | 621 | 621 |
| Siaya | 725 | 3,392 | 3,392 |
| Kisii | 1,074 | 6,737 | 10,294 |
| South Nyanza | 2,909 | 2,909 | 6,888 |
| Taita | 777 | 1,912 | 3,255 |
| TOTAL | 264,731 | 312,932 | 347,480 |

*When the land was first registered, Kirinyaga was part of Embu District. Since the creation of the new district, land-owners from both continue to use the land registry in Embu, and no count has yet been made of the number of registered holdings in each district separately.

58. The existing Land Adjudication Act is being replaced to adjust legal requirements to the need for an accelerated registration programme. The staffing position of the Land Consolidation Department is being improved to enable it to reach an annual registration rate of one million acres by 1970. The land registration programme is regarded by the Government as a basic element in its approach to rural development. The process does not stop with registration—follow-up with intensified agricultural extension services and credit programmes is instituted. Registration is a means to facilitate development and to enhance the returns from investment in agricultural development.

Forestry

59. The major efforts of the Forest Department during the last seven years have been directed towards the Government's main afforestation programme which aims at a target in 1980 of 350,000 acres of coniferous plantation forests of pine and cypress. It is expected that when this target is met, Kenya will be able to meet the balance of its requirements for saw and veneer-logs and have a surplus of about seven million cubic feet of timber for export.

60. The progress of afforestation is shown in Table 4.17. The area under exotic softwoods has increased by 30,000 acres (net of felling) since 1964, to reach 197,000 acres at the end of 1967. At the present afforestation rate of 12,000 acres a year set by the Forest Department, the target of 350,000 acres will be met in 14 years, or in 1981. There is, however, a possibility that the target may be reached a little earlier if weather conditions favourable to the planting and growth of seedlings prevail and if experienced personnel continue to be available in growing numbers.

FOREST PLANTATION AREA*, 1964-1967

Table 1.17

'000 acres

| | Up to 1964 | 1965 | 1966 | 1967** |
|----------------------|---------------|------|------|--------|
| Indigenous Softwoods | 12 | 12 | 11 | 12 |
| Indigenous Hardwoods | 9 | 9 | 9 | 9 |
| Exotic Softwoods— | | | | |
| Cypress | 77 | 82 | 87 | 94 |
| Pines | 90 | 94 | 98 | 103 |
| TOTAL | 167 | 176 | 185 | 197 |
| Exotic Hardwoods— | | | | |
| Timber | 7 | 7 | 7 | 7 |
| Fuel | 16 | 16 | 16 | 16 |
| TOTAL | 23 | 23 | 23 | 23 |
| TOTAL AFFORESTATION | 211 | 220 | 228 | 241 |

*Total area of Forest Department plantations, net of felling.

**Provisional.

61. The Turbo Afforestation Scheme which was started in 1966 as a source of timber for the proposed pulp and paper factory at Broderick Falls already has 1,800 acres of pines and it is intended to plant a further 3,000 acres during 1968. The scheme is based on a 15-year rotation programme and should be completed in 16 years. When completed, it will cover between 50 and 60 thousand acres of combined agricultural and forestry enterprises.

62. Sales of forest products during the last few years are set out in Table 4.18. Timber sales have risen, partly due to rising demand from the building and construction industry. Fuel sales, however, indicate that demand for fuels fluctuates considerably, being determined by, among other things, the availability of wood from the non-forest areas. The rising sales of forest products, especially timber, reflect in part the increasing attention being given to forestry industries.

SALES OF FOREST PRODUCTS, 1964-1967

Table 4.18

| | 1964 | 1965 | 1966 | 1967 |
|------------------------------------|-------|--------|-------|--------|
| Timber ('000 true cu.ft.)— | | | | |
| Soft-wood | 4,449 | 6,929 | 5,512 | 7,289 |
| Hard-wood | 577 | 602 | 487 | 524 |
| TOTAL | 5,026 | 7,531 | 5,999 | 6,822 |
| Fuel ('000 stacked cu.ft.)— | | | | |
| Fuel-wood | 3,336 | 4,130 | 3,771 | 3,215 |
| Chacroal | 2,525 | 2,595 | 5,195 | 2,249 |
| TOTAL | 5,849 | 6,725 | 8,966 | 5,464 |
| Power and Telegraph Poles (number) | 9,426 | 10,871 | 7,000 | (n.a.) |

CHAPTER 5—INDUSTRIAL PRODUCTION

Manufacturing

In 1967, a new quantity index of manufacturing was prepared to replace the old index published in last year's *Survey*. Two major considerations affected the abandonment of the old index. Firstly, it did not fully take into account the impact of new industries started after 1961, the base year in the previous index. The relative structure of the weights of the various industries in the total has changed significantly since 1961 and distortions related to the use of the old base weights were becoming quite apparent. Secondly, much more reliable and detailed information on industrial production has become available over the last few years. This has made it possible to develop an index showing a finer grouping of industrial sub-sectors. The new index, shown in Table 5.1, includes 17 sub-sectors whereas the former index had only eight.

2. Overall physical output rose 4 per cent in 1967 but there was wide variation in the performance of individual sub-sectors. The industrial groups which were the major contributors to the overall growth of 3.8 per cent were food, textiles and petroleum products. These groups, apart from achieving substantial rates of growth, also have a relatively large weight in the index because of their size.

3. The most important factor in the growth of food production was an increase of 70 per cent in the output of sugar, from 34,993 tons in 1966 to 59,463 in 1967. A large part of this growth was contributed by output from a new sugar factory commissioned late in 1966. But output from the two older factories also rose. Another new sugar factory is expected to start operations in the current year, so that a substantial increase in output can be

QUANTITY INDEX OF MANUFACTURING PRODUCTION, 1963-1967

(Base Year: 1964 = 100)

Table 5.1

| INDUSTRIAL GROUP | 1963 | 1964 | 1965 | 1966 | 1967* | Percentage change, 1966 to 1967 |
|--------------------------|-------|-------|-------|-------|-------|---------------------------------|
| Food | 93.3 | 100.0 | 99.5 | 102.8 | 109.0 | +6.0 |
| Beverages and Tobacco | 97.3 | 100.0 | 97.1 | 101.4 | 101.2 | -0.2 |
| Textiles | 91.1 | 100.0 | 111.1 | 135.4 | 149.4 | +10.3 |
| Footwear and Clothing | 106.7 | 100.0 | 118.9 | 132.6 | 125.2 | -5.6 |
| Wood | 86.1 | 100.0 | 110.0 | 135.6 | 125.7 | -7.3 |
| Furniture and Fixtures | 95.0 | 100.0 | 105.0 | 110.0 | 110.0 | — |
| Paper and Printing | 91.9 | 100.0 | 125.6 | 140.6 | 148.2 | +5.4 |
| Leather | 96.7 | 100.0 | 96.7 | 110.0 | 100.0 | -9.1 |
| Rubber | 98.0 | 100.0 | 104.0 | 132.0 | 134.0 | +1.5 |
| Chemicals | 97.3 | 100.0 | 100.6 | 112.4 | 109.7 | -2.4 |
| Petroleum Products | 8.8 | 100.0 | 118.8 | 119.3 | 128.4 | +7.6 |
| Non-metallic minerals | 81.0 | 100.0 | 109.8 | 112.2 | 117.7 | +4.9 |
| Metal products | 88.8 | 100.0 | 101.6 | 94.6 | 99.6 | +5.3 |
| Non-electrical Machinery | 91.4 | 100.0 | 122.9 | 167.1 | 180.0 | +7.7 |
| Electrical Machinery | 97.0 | 100.0 | 103.7 | 107.9 | 112.3 | +4.1 |
| Transport Equipment | 98.6 | 100.0 | 103.2 | 108.5 | 114.9 | +5.9 |
| Miscellaneous. | 83.3 | 100.0 | 108.9 | 123.3 | 131.1 | +6.3 |
| TOTAL | 87.1 | 100.0 | 105.4 | 111.9 | 116.1 | +3.8 |

*Provisional.

expected again in 1968. As production in the new factories builds up, the bulk of domestic requirements of sugar will be met from Kenya's own production. The programme of cane development to supply these factories with raw material was discussed in Chapter 4.

4. Two other industries in the food group, maize milling and meat production, showed an increase. Grain milling activity in 1966 had been restricted by the shortage of maize and also the unpopularity of imported yellow maize. In 1967, however, supplies of the local grain were plentiful. In addition to a rise in human consumption, more maize was also used in the manufacture of livestock feeds.

5. The meat industry had a difficult year in 1967. Some of its problems have already been discussed in Chapter 4. Although the physical output of meat rose because of higher slaughterings of cattle, the value of sales was below that for 1966 due to marketing difficulties.

6. The improvement in textile production in 1967 can be attributed almost entirely to the fact that the mill opened at Kisumu in 1966, had its first full year of production in 1967. A new factory to manufacture towels (which are made in the Kisumu mill as well) was also opened.

7. Despite the growth of textile production, the industry went through a difficult period last year and its difficulties are likely to continue. The stocks that dealers had built up in 1965 and 1966 were run down in 1967 and purchases from manufacturers were relatively low as a result of this. This difficulty came on top of problems arising from restrictions on sales in Uganda and Tanzania—sales of Kenya textiles (piece goods and synthetic fabrics only) to these countries declined from K£1.2 million in 1966 to K£0.5 million in 1967. A great deal of new textile production capacity has been licensed in East Africa during the last few years and a degree of competition which can only be described as "fierce" has developed in East Africa. While overall demand for textiles exceeds production, the range of items produced in East Africa is limited and tends to be very much the same in each country. In woven fabrics, the major item of production is grey cloth

8. Kenya manufacturers are now trying to diversify into production of higher quality cloth and expanding bleaching and dyeing operations. While diversification is a desirable and necessary solution, it does mean that manufacturers are able to achieve only small runs in a wider range of goods, thus losing the benefits of large-scale production, ultimately reflected in higher prices.

9. Another factor which is causing anxiety in the textile industry is the growing activity of state trading corporations in this field. Experience suggests that textile sales are subject to unforeseen fluctuations, the reasons for which are not always apparent. Moreover, to raise textile sales a serious effort of promotion which is not necessary for such basic food items as maize meal or sugar has to be made. These factors require careful consideration in the development of state trading in textiles. Otherwise, considerable damage could be done to the prospects of an industry trying to establish itself in the conditions of a high degree of competition and marketing difficulties which now prevail in East Africa. It would be in the interests of all three East African countries to agree on practical co-operation in both the production and marketing of textiles.

10. Despite these difficulties, diversification of production in existing firms and by the development of new enterprises is continuing. Manufacture of a cotton/terylene mixture is likely to start soon. Knitting wool is now being made in Kenya and woollen cloth is to be produced. Cotton cloth of higher counts and more bleaching and dyeing have already been mentioned. Proposals have been made to establish a sewing thread factory, on the basis of local supplies of long staple cotton grown at the Galole Irrigation Scheme. However, these proposals have run into difficulties owing to the manner in which textile production is licensed on an East African basis—objections have been raised by other licencees (none of whom actually makes sewing

thread) on the grounds that this item is already included in their licences. It is unfortunate that the licensing system should operate in such a way as to preclude the manufacture of an item not made anywhere in East Africa while new capacity continues to be licensed to turn out items which already face grave marketing difficulties.

11. After remaining stagnant over 1965 and 1966, output at the oil refinery in Mombasa moved forward in 1967, rising by 9 points. Throughput of crude oil rose from 468.5 million gallons in 1966 to 504.4 million gallons in 1967, or by 8 per cent. A continued growth in internal consumption of petroleum products as well as an increase in exports have helped to raise output in the industry. Production in 1966 stagnated following the opening of the refinery in Dar es Salaam which not only began to supply Tanzania's requirements but also, to some extent, those of Zambia. In both these markets the Mombasa refinery had previously met a large part of the needs. In 1967, however, the closure of the Suez Canal increased demand for bunkering at Mombasa, providing new export outlets. The growth in export sales is set out in the following table.

EXPORTS OF PETROLEUM PRODUCTS, 1964-1967

Table 5.2.

K£million.

| | 1964 | 1965 | 1966 | 1967 |
|--------------------|------|------|------|------|
| To Uganda | 1.0 | 2.2 | 2.4 | 2.6 |
| To Tanzania | 1.5 | 2.8 | 2.1 | 1.5 |
| To Other countries | 2.1 | 4.5 | 5.7 | 7.2 |
| TOTAL EXPORTS | 4.6 | 9.5 | 10.2 | 11.3 |

12. The growth of the non-metallic minerals sub-sector can be attributed entirely to the growth of cement production. Statistics of the production and disposal of cement are presented in Table 5.3. These show a steady upward trend in output since 1963. While internal consumption rose sharply (27 per cent) in 1967, sales to Uganda and Tanzania declined following the opening of a new cement factory in Dar es Salaam (a factory has been operating in Uganda for several years). However, overseas exports went up by 30 per cent and, in fact, absorbed a larger share of output than either domestic consumption or sales to Uganda and Tanzania. In 1967, the industry acquired a third specially equipped ship to promote bulk exports. The cement industry does demonstrate that export-based growth is not impossible for Kenya industries. Recently completed further extensions will increase the capacity of the cement factory at the Coast to 700,000 tons per annum.

CEMENT PRODUCTION AND UTILIZATION, 1963-1967

Table 5.3

| | '000 TONS | | | | EXPORTS AS PER CENT OF TOTAL PRODUCTION | |
|------|------------|-------------|--------------------------------------|------------------|-----------------------------------------|------------------|
| | Production | Consumption | Net transfers to Uganda and Tanzania | Domestic Exports | All Exports | Domestic Exports |
| | | | | | | |
| 1963 | 338.3 | 115.6 | 113.8 | 108.9 | 65.8 | 32.2 |
| 1964 | 415.4 | 82.7 | 161.3 | 171.4 | 80.1 | 41.3 |
| 1965 | 476.2 | 96.6 | 183.3 | 196.3 | 79.7 | 41.2 |
| 1966 | 462.9 | 143.5 | 152.5 | 166.9 | 69.0 | 36.1 |
| 1967 | 485.8 | 182.2 | 85.9 | 217.7 | 62.5 | 44.8 |

13. Production in the beverages and tobacco sub-group declined by a fraction of one per cent. With exports to Uganda and Tanzania of these commodities reduced to a very low level over the last few years, since the development in these countries of similar industries, this sub-group now depends almost entirely on the Kenya market. The production and consumption of beer, cigarettes and cigars and mineral waters are shown in Table 5.4.

PRODUCTION AND CONSUMPTION OF BEER, CIGARETTES AND CIGARS AND MINERAL WATERS, 1963-1967

Table 5.4

| | BEER (<i>'000 Imperial Gallons</i>) | | CIGARETTES AND CIGARS (<i>'000 lb.</i>) | | MINERAL WATERS (<i>'000 Imperial Gallons</i>) | |
|------|------------------------------------------|-------------|----------------------------------------------|-------------|----------------------------------------------------|-------------|
| | Production | Consumption | Production | Consumption | Production | Consumption |
| | | | | | | |
| 1963 | 9,681 | 7,637 | 4,630 | 3,547 | n.a. | n.a. |
| 1964 | 10,659 | 7,676 | 4,255 | 3,508 | n.a. | n.a. |
| 1965 | 10,880 | 8,473 | 3,681 | 3,350 | 3,806 | 3,558 |
| 1966 | 11,018 | 9,959 | 3,888 | 3,648 | 4,417 | 4,180 |
| 1967 | 10,985 | 10,484 | 3,903 | 3,734 | 4,579 | 4,318 |

14. Among industries the production of which declined, the footwear and clothing sub-sector showed a fall in physical output of over 7 points. In clothing, this was largely a result of a fall in exports to Uganda and Tanzania—these fell by K£265,000 in 1967. Footwear sales to these two

countries also declined. New production capacity in both these industries has been built up in the other two members of the East African Community and is receiving protection against similar Kenya industries. The decline in footwear output was also a factor in the fall of leather production.

15. New manufacturing enterprises which started production in 1967 include firms making razor blades, dry cell batteries, PVA adhesives and emulsions and other plastics items, cables, steel wool, hydraulic and pneumatic equipment and jewellery (mass produced, mainly for export). Additions to cement production capacity and new textile production have already been mentioned.

16. The most important single enterprise on which construction started in 1967 and what will be one of the largest manufacturing establishments in Kenya when completed is the fertilizer factory being built at Mombasa and expected to cost K£5 million. On completion, the factory will supply all of Kenya's needs and probably export a surplus. Capacity has already been established, at Nakuru, to blend fertilizers for the production of compound fertilizer.

17. Other manufacturing enterprises under construction include a plywood factory, plant for the assembly of load carriers, extensions to an existing bag and cordage factory and a new factory to manufacture jute bags. The plywood factory will make tea chests to meet the growing demand for these as tea production expands.

18. Two more major projects under negotiation include a paper mill at Broderick Falls and a K£1 million steel strip rolling mill in Mombasa. Work on the latter project is in fact expected to start soon. The steel will be fabricated into wire, nails, rivets, rods and angles. Discussions are also taking place on the possibility of establishing a factory to make rubber tyres.

19. Public sector participation in manufacturing enterprises is effected through the Development Finance Company of Kenya (D.F.C.K.) and the Industrial and Commercial Development Corporation (I.C.D.C.). The D.F.C.K. is more concerned with larger scale enterprises and undertakes equity participation in a variety of these. Of the seven new investments and one commitment it undertook in 1967, manufacturing establishments included the Mombasa fertilizer factory, jute bag production, plywood, load carrier assembly and furniture making.

20. The I.C.D.C. is more concerned with the promotion of small-scale industrial and commercial enterprise and in particular the establishment of African entrepreneurs in these activities. Its most important achievement in this field is the completion recently of the first phase of an industrial estate in which African entrepreneurs will be assisted to establish small manufacturing enterprises. This first phase has buildings for twenty-five enterprises. While construction of the estate was in progress, steps were taken to

select suitable entrepreneurs who would be established in the estate. So far, ten out of 200 applicants have been selected. Of the 90 items for which market surveys were undertaken in order to select suitable items for manufacture, 11 have been approved. These include plastic raincoats and handbags, paper pins, staple pins, hinges, zip fasteners, wire nails, shoe eyelets, bicycle spokes, metal buckets, generator re-winding and paper clips.

21. While entrepreneurs will also receive loan assistance, they are expected to have some capital of their own and to demonstrate an ability to undertake enterprise of this nature. Selections of entrepreneurs so far made suggest that suitable persons are in short supply. Even after selection, entrepreneurs will not be left to themselves—the Estate incorporates a Technical Centre which will provide workshop facilities, technical assistance and market study reports. These services will be manned by experts secured from the United Nations and the Government of India while local officers are being trained to take over these functions.

22. While industrial development continues at a pace which is not unsatisfactory, the operation of the Treaty for East African Co-operation is raising new problems which have significance for existing firms and potential new industries. The imposition of transfer taxes is clearly affecting production in some sectors, particularly textiles. However, this is only to be expected and the firms concerned will have to make greater efforts to seek new markets. But it is important that, as far as public policy in Kenya is concerned, any decisions taken which might affect these firms should be considered most carefully to ensure that no unanticipated adverse consequences arise.

23. Perhaps a more important factor in the long run is the lack of practical agreement among the member Governments on the distribution within East Africa of industries which require the whole of the East African market for their viability. Without the rational distribution of such plants the benefits of complementary industrial growth, which are referred to in the Treaty, will not be secured. Many large projects are being pursued "in triplicate". This will create lop-sided competitive development with high overhead and capital costs which will not benefit member countries. It is in the interests of all three member states to devise practical means to overcome this situation. In fact, the Economic Consultative and Planning Council to be set up under the Treaty is intended to deal with such problems and its early effective operation would benefit all member countries.

Electricity

24. Generation, imports and consumption of electricity are shown in Table 5.5. Net sales in 1967 went up by just over 4 per cent but energy generated in Kenya fell slightly and requirements were met by an increase of 19 per cent in imports from Uganda.

GENERATION, IMPORTS AND CONSUMPTION OF ELECTRICITY, 1964-1967

Table 5.5

'000kwh

| | 1964 | 1965 | 1966 | 1967 |
|-------------------------------------------------------------|---------|---------|---------|---------|
| Domestically generated | 323,179 | 327,503 | 346,800 | 339,365 |
| Imported | 183,286 | 190,484 | 203,000 | 241,982 |
| TOTAL AVAILABLE | 506,456 | 517,987 | 549,800 | 581,347 |
| Power station use and trans- mission+distribution losses | 80,780 | 83,969 | 84,800 | 95,784 |
| NET SALES | 425,676 | 434,018 | 465,000 | 485,562 |

25. Sales of electricity by type of user are set out in Table 5.6. Some of the growth in purchases by consumers of "large power supplies" in 1967 was the result of the transfer of part of the "special contracts" to this category. However, taken together, consumption by these two groups was 4.7 per cent higher. The greatest increase occurred in the "commercial" sector—11 per cent. The decrease in usage for street lighting was due to a re-assessment of the street lighting load in Nairobi which is un-metered. The slightly higher consumption for domestic use was the result of more domestic premises being connected to the supply.

SALES OF ELECTRICITY BY TYPE OF USER, 1964-1967

Table 5.6

'000 kwh

| | 1964 | 1965 | 1966 | 1967 |
|-----------------------------------------|---------|---------|---------|---------|
| Domestic | 89,670 | 87,395 | 93,126 | 94,996 |
| Off-peak water heating and pum- ping | 70,735 | 73,814 | 74,648 | 77,965 |
| Small power supplies | 20,395 | 20,801 | 21,728 | 21,477 |
| Large power supplies | 95,410 | 81,296 | 92,821 | 103,148 |
| Commercial | 67,999 | 63,698 | 71,170 | 79,109 |
| Lighting (small consumers) | 5,369 | 5,633 | 6,082 | 6,206 |
| Street Lighting | 8,301 | 8,438 | 8,797 | 8,135 |
| Special contracts | 65,558 | 90,628 | 93,467 | 91,833 |
| Staff quarters | 2,230 | 2,415 | 2,723 | 2,693 |
| TOTAL SALES | 425,676 | 434,018 | 464,562 | 485,562 |

26. The extension of supplies to new areas was continued during the year. Mweiga, Kapsabet, Kwale, Molo and Githunguri townships were connected to the supply and a thermal station was commissioned at Homa Bay from which Kisii will also be supplied by the end of the current year. Supplies to Lamu and Kitui will also be made late this year or early next year.

27. The first stage of the hydro-electric project at Kindaruma, on the Tana River, has been completed and the station made ready to be commissioned. A transmission line from Kindaruma to Nairobi was completed during 1967, in readiness for the commissioning of this large project. When power generation at Kindaruma begins, there will be a reduction in purchases from Uganda. The installation at Kindaruma is the first phase of development of the hydro-electric potential of the Tana River and a National Power Development Plan has been prepared for the full development of this potential over an extended period.

Mining and Quarrying

28. Movements in the physical output of the mining and quarrying industry are shown in the quantity index of production for the sector in Table 5.7.

QUANTITY INDEX OF MINING AND QUARRYING PRODUCTION, 1963-1967
Table 5.7 (1964 = 100)

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|--------------------------|-------|-------|-------|-------|--------|
| Metal Mining | 103.0 | 100.0 | 94.1 | 49.6 | 54.3 |
| Non-metallic mining | 102.8 | 100.0 | 98.0 | 123.0 | 112.6 |
| Quarrying | 114.3 | 100.0 | 103.3 | 132.7 | 168.8* |
| ALL MINING AND QUARRYING | 103.8 | 100.0 | 96.9 | 94.5 | 94.0* |

*Provisional.

The production of metals, never of much significance in Kenya, declined sharply in 1966 when the only known copper deposit was exhausted. Non-metallic mining did not show much change in 1967. As may be expected, the growth in building activity gave an impetus to quarry production.

29. The value of production for all minerals except quarry products is set out in Table 5.8.

THE VALUE OF MINERAL OUTPUT, 1964-1967
Table 5.8 K£'000

| | 1964 | 1965 | 1966 | 1967 |
|--------------------------|---------|---------|---------|---------|
| Soda | 19.3 | 22.7 | 21.9 | 28.7 |
| Soda Ash | 887.9 | 895.9 | 1,183.7 | 1,093.5 |
| Copper | 654.7 | 868.3 | 426.3 | 5.5 |
| Salt | 420.3 | 528.0 | 555.1 | 494.6 |
| Gold | 168.6 | 142.9 | 149.5 | 420.1 |
| Limestone products | 94.4 | 109.9 | 127.0 | 124.9 |
| Diatomite | 71.9 | 49.2 | 33.8 | 27.8 |
| Carbon dioxide (natural) | 59.2 | 60.5 | 68.8 | 70.1 |
| Silver | 22.3 | 9.6 | 8.6 | 1.8 |
| All Other Minerals | 13.5 | 10.9 | 45.7 | 51.6 |
| TOTAL | 2,412.1 | 2,697.9 | 2,620.4 | 2,318.1 |

Perhaps the most outstanding feature of the table is the increase in the value of gold production, from K£149,500 in 1966 to K£420,100 in 1967. This was the result of the extension of operations in an existing mine. Like copper, silver production is on the point of disappearing.

30. While the value of mineral production in 1967 remained modest, new developments took place which are likely to increase it significantly in future. In the last issue of the *Survey*, reference was made to studies undertaken by the Mines and Geological Department of a nobium deposit at Mrima Hill in Coast Province and of wollastonite in Kajiado. The wollastonite deposit has been licensed for production and Mrima Hill is expected to be similarly licensed in the very near future. Nobium is a rare metal used in the production of high temperature steel alloys. Wollastonite, a ceramic material, is employed in glazing and as a "filler", to harder materials such as rubber, soap, etc. Progress has also been made with respect to the gaylussite deposit in Amboseli. It is planned to establish in the current year a pilot plant to derive caustic soda from the mineral. The pilot plant is intended to determine whether caustic soda can be derived economically on an industrial scale. Some assistance in this project has been received from the United Nations Industrial Development Organization.

31. The Mines and Geological Department has prepared a new monograph on a manganese deposit in the vicinity of Kiwara, in the Coast Province. However, the nature of the deposit is such that exploitation in the relatively near future is not expected. The conclusion of the study is that "manganese ore is a low-priced commodity and it is difficult to envisage the exploitation of Kiwara material for export. However, the deposits constitute a mineral resource which may be of domestic value in the long term".

32. In the field of exploration, petroleum prospecting has been stepped up following the improvement in the security situation in the North-East. Work has also been extended off-shore, not to explore for oil under the ocean but to help speed up the gathering of geological data on shore by the use of specially equipped vessels to assess where it would be worth putting in land crews for further exploration. On land, special vehicles to undertake drilling and transport in marshy conditions have been added to the equipment being used.

33. The mineral survey of Nyanza and Western Provinces, undertaken with United Nations assistance and originally scheduled to come to an end this year, is to be continued on a reduced scale but extended into the West Pokot and Elgeyo-Marakwet Districts of Rift Valley Province as well. The Mines and Geological Department's own exploration work has been concentrated in the Coast Province.

Building and Construction

34. Statistics of the number and estimated cost of new private buildings completed in the main towns are shown in Table 5.9. It was noted in last

year's *Survey* that the effect of the rapid growth of building activity in 1966 would be more apparent in the statistics for 1967. The number and value of new residential buildings completed last year was twice as much as in the previous year. Non-residential building activity, however, does not appear to have expanded as rapidly. But the figures for this sector should be interpreted carefully as these are for completed buildings only and do not show, therefore, the very notable growth in such activity which did occur but still consists of projects under construction. This fact is clearly apparent in Table 5.11.

REPORTED COMPLETION OF NEW PRIVATE BUILDINGS IN MAIN TOWNS, 1961-1967

Table 5.9

| | NUMBER | | ESTIMATED COST (K£MILLION) | | |
|-------|-------------|-----------------|----------------------------|-----------------|-------|
| | Residential | Non-Residential | Residential | Non-Residential | Total |
| | | | | | |
| 1961 | 123 | 93 | 0.80 | 1.64 | 2.44 |
| 1962 | 57 | 100 | 0.33 | 1.48 | 1.81 |
| 1963 | 86 | 102 | 0.41 | 0.87 | 1.28 |
| 1964 | 98 | 98 | 0.48 | 2.25 | 2.73 |
| 1965 | 44 | 77 | 0.26 | 1.10 | 1.36 |
| 1966 | 121 | 69 | 0.62 | 1.15 | 1.77 |
| 1967* | 238 | 104 | 1.29 | 1.37 | 2.66 |

*Provisional

35. The cost shown in Table 5.9 refers only to completed new buildings. The value of all private building work completed, including extensions, for each of the main towns is set out in Table 5.10. In 1967, this was well in excess of the value of new buildings completed. Over 74 per cent of the total was in Nairobi. Except for Thika, private building activity in most other towns appears to have been relatively stagnant.

VALUE OF ALL PRIVATE BUILDING WORK COMPLETED IN MAIN TOWNS, 1961-1967

Table 5.10

K£million

| | Nairobi | Mombasa | Nakuru | Kisumu | Kitale | Eldoret | Thika | Total |
|-------|---------|---------|--------|--------|--------|---------|-------|-------|
| 1961 | 2.24 | 0.50 | 0.05 | 0.07 | 0.01 | 0.02 | — | 2.88 |
| 1962 | 1.66 | 0.47 | 0.02 | 0.07 | 0.01 | 0.06 | — | 2.28 |
| 1963 | 1.09 | 0.42 | 0.04 | 0.07 | — | 0.01 | — | 1.63 |
| 1964 | 2.95 | 0.32 | 0.02 | 0.05 | 0.01 | — | 0.04 | 3.40 |
| 1965 | 1.43 | 0.16 | 0.02 | 0.04 | 0.01 | 0.01 | 0.15 | 1.82 |
| 1966 | 1.70 | 0.52 | 0.02 | 0.03 | 0.01 | — | 0.02 | 2.30 |
| 1967* | 2.72 | 0.59 | 0.06 | 0.02 | 0.03 | 0.03 | 0.16 | 3.61 |

*Provisional

PRIVATE AND PUBLIC PLANS APPROVED BY THE NAIROBI CITY COUNCIL, 1963-1968

Table 5.11

| | NUMBER OF PLANS | | | | | | ESTIMATED COST K£'000 | | | | | | |
|---------|-----------------|------------------|-------|--------------|------------------|-------|-----------------------|------------------|-------|--------------|------------------|-------|----------------|
| | PRIVATE | | | PUBLIC | | | PRIVATE | | | PUBLIC | | | All Build-ings |
| | Resi-dential | Non-Resi-dential | Total | Resi-dential | Non-Resi-dential | Total | Resi-dential | Non-Resi-dential | Total | Resi-dential | Non-Resi-dential | Total | |
| 1963 | 357 | 328 | 685 | 14 | 25 | 39 | 465 | 1,381 | 1,846 | 316 | 84 | 400 | 2,246 |
| 1964 | 321 | 367 | 688 | 11 | 32 | 43 | 542 | 1,397 | 1,939 | 37 | 518 | 558 | 2,495 |
| 1965 | 266 | 420 | 636 | 10 | 32 | 42 | 504 | 1,599 | 2,103 | 367 | 1,203 | 1,570 | 3,673 |
| 1966 | 610 | 486 | 1,096 | 13 | 32 | 45 | 1,714 | 2,450 | 4,164 | 80 | 1,242 | 1,322 | 5,486 |
| 1967 | 774 | 520 | 1,294 | 66 | 72 | 138 | 2,408 | 6,366 | 8,774 | 1,612 | 505 | 2,117 | 10,891 |
| 1965— | | | | | | | | | | | | | |
| 4th Qr. | 62 | 80 | 142 | 1 | 7 | 8 | 159 | 344 | 503 | — | 1,023 | 1,023 | 1,526 |
| 1966— | | | | | | | | | | | | | |
| 1st Qr. | 99 | 109 | 208 | 5 | 8 | 13 | 235 | 324 | 559 | 6 | 126 | 132 | 691 |
| 2nd Qr. | 142 | 101 | 243 | 3 | 14 | 17 | 493 | 637 | 1,312 | 142 | 38 | 180 | 1492 |
| 3rd Qr. | 181 | 104 | 285 | 1 | 6 | 7 | 515 | 730 | 1,245 | — | 11 | 11 | 1,256 |
| 4th Qr. | 188 | 172 | 360 | 4 | 4 | 8 | 471 | 759 | 1,230 | 34 | 334 | 368 | 1,598 |
| 1967— | | | | | | | | | | | | | |
| 1st Qr. | 226 | 125 | 351 | 43 | 7 | 50 | 655 | 657 | 1,312 | 142 | 38 | 180 | 1,492 |
| 2nd Qr. | 194 | 117 | 311 | 6 | 32 | 38 | 577 | 1,987 | 2,563 | 1,169 | 177 | 1,346 | 3,909 |
| 3rd Qr. | 186 | 142 | 328 | 10 | 26 | 36 | 600 | 1,724 | 2,324 | 66 | 243 | 309 | 2,633 |
| 4th Qr. | 168 | 136 | 304 | 7 | 7 | 14 | 576 | 1,099 | 2,574 | 235 | 46 | 281 | 2,855 |
| 1968— | | | | | | | | | | | | | |
| 1st Qr. | 246 | 146 | 392 | 5 | 18 | 23 | 1,050 | 744 | 1,794 | 80 | 68 | 148 | 1,942 |

36. The growth of building activity in Nairobi emerges more clearly from the figures in Table 5.11 which shows building plans approved for private and public residential and non-residential buildings. The value of all building plans approved in 1967 was twice that for 1966. The private sector accounted for 81 per cent of total approvals (in value terms). Within the private sector, residential buildings approved increased by 40 per cent but non-residential projects went up very sharply, 160 per cent. This large increase in the value of non-residential buildings is attributable mainly to a second big hotel and one or two office blocks involving large investments. The relatively slower growth in plans approved for residential buildings was the reverse of what had taken place in 1966 but the fact does remain that more residential buildings were approved for construction than for any single year since 1960. Housing projects of local authorities and the National Housing Corporation are discussed in greater detail in Chapter 10.

37 Figures of plans approved by the Nairobi City Council for the first quarter of 1968 are also contained in Table 5.11. At K£1.9 million, these are K£0.5 million higher than in the corresponding quarter of 1967. It is noteworthy that the bulk of this increase is in private residential building plans. Despite the considerable amount of residential building completed in Nairobi in 1967, pressure on the supply of housing remains severe and rents continue to be very high—there is clearly room for a lot more profitable investment in housing.

38. As shown in Chapter 1, construction activity in 1967 was well above the level of 1966, in both the public and private sectors. The largest increase was in electricity and water supplies. The virtual completion of the hydro-electric dam at Kindaruma and extensive development of transmission lines involved large investments. Widespread development of water supplies in many parts of the country, including work on the raising of the Sasumua dam which supplies Nairobi and new pipelines to carry water north and south of Mombasa, was also a major factor in raising construction expenditure in this sector. The most important single item in construction is road-building which is discussed in greater detail in Chapter 7.

39. While the value of building and construction activity in 1967 continued to rise, part of the growth was due to price increases. The prices of quarry materials particularly rose sharply. Costs of selected materials and labour set out in Table 5.12 in the form of an index, give some idea of this. However, these figures should be interpreted carefully. The costs of materials shown are for Government term contracts which are tendered for annually and placed to coincide with the financial year so that the prices offered in 1967 are still current for 1968 but do not represent contracts signed in 1968. Moreover, Government purchases by this method tend to be in small lots

and it is likely that the prices for bulk purchases might have been lower. Another factor which should be kept in mind is that private builders probably "shop around" more and thus secure their purchases at lower prices. The wages shown are statutory rates controlled by the Ministry of Labour.

COSTS OF BUILDING MATERIALS AND LABOUR, 1966-1968

Table 5.12

| | Unit | 1966 | 1967 | 1968 |
|---------------------|----------|-------|-------|-------|
| Ballast | 100 c.f. | 1000 | 186.7 | 222.2 |
| Stone | 100 l.f. | 1000 | 158.8 | 188.2 |
| | 9"x9" | | | |
| Sand | 100 c.f. | 100 0 | 156.5 | 198.7 |
| Cement | ton | 1000 | 102.1 | 103.3 |
| Skilled labour | Per day | 1000 | 128.0 | 144.0 |
| Semi-skilled labour | Per hour | 1000 | 107.4 | 107.4 |
| Unskilled labour | Per hour | 1000 | 124.1 | 124.1 |

CHAPTER 6—TOURISM

During 1967, tourism maintained its position as one of the most rapidly developing major industries in the country. A high rate of growth continued to be maintained, although the increase in the number of visitors was lower than during the two previous years. The total number of external visitors increased by 23 per cent, compared with 41 and 30 per cent in 1966 and 1965 respectively. Changes in numbers of visitors and the annual growth since 1962 for each category are shown in Table 6.1 *a*, *b* and *c*.

VISITORS DEPARTING OVERSEAS BY TYPE OF VISITOR, 1963-1967

Table 6.1 *a*

| | Numbers | | | | | '000s |
|----------------------|---------|------|------|-------|-------|-------|
| | 1963 | 1964 | 1965 | 1966 | 1967 | |
| Visitors in Transit | 21.6 | 24.0 | 30.0 | 38.2 | 54.4 | |
| Visitors on Holiday | 21.9 | 21.9 | 32.3 | 50.8 | 59.6 | |
| Visitors on Business | 10.5 | 10.4 | 11.1 | 14.5 | 11.0 | |
| Other Visitors | 0.2 | — | — | — | 2.8 | |
| TOTAL | 54.2 | 56.4 | 73.4 | 103.6 | 127.8 | |

VISITORS DEPARTING OVERSEAS BY TYPE OF VISITOR, 1963-1967

Table 6.1 b

Percentages of Total

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|----------------------|-------|-------|-------|-------|-------|
| Visitors in Transit | 39.8 | 42.6 | 40.8 | 37.0 | 42.6 |
| Visitors on Holiday | 40.4 | 38.8 | 43.9 | 49.0 | 46.6 |
| Visitors on Business | 19.4 | 18.4 | 15.2 | 14.0 | 8.6 |
| Other Visitors | 0.4 | 0.1 | 0.1 | — | 2.2 |
| TOTAL | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

VISITORS DEPARTING OVERSEAS BY TYPE OF VISITOR, 1963-1967

Table 6.1C

Annual Percentage Increases

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|----------------------|-------|--------|-------|-------|-------|
| Visitors in Transit | + 5.0 | + 11.4 | +24.7 | +27.8 | +42.1 |
| Visitors on Holiday | +49.4 | — | +47.2 | +57.5 | +17.2 |
| Visitors on Business | +53.5 | - 0.7 | +6.7 | +30.2 | -24.3 |
| TOTAL | +26.2 | +4.1 | +30.1 | +41.1 | +23.3 |

2. The figures in Table 6.1 represent visitors departing from Kenya to destinations outside East Africa. In the past, assessment of the number of visitors was based on statistics of those entering the country. For several years a discrepancy has been observed to exist between figures of arrivals and departures, the former being higher by a few thousand each year. In 1967, however, this discrepancy shifted significantly in favour of departures, as a comparison of Tables 6.1 and 6.2 indicates. It is felt that the larger number of departures in 1967 was due to the fact that an increasing number of visitors from outside East Africa visited Tanzania and Uganda first but left East Africa through Kenya. Each of the departing visitors shown in Table 6.1 declared that they stayed in Kenya for a specific number of days.

VISITORS ARRIVING IN KENYA FROM OVERSEAS, 1963-1967

Table 6.2a

Numbers

'000

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|----------------------|------|------|------|-------|-------|
| Visitors in Transit | 27.4 | 31.2 | 35.1 | 39.2 | 50.8 |
| Visitors on Holiday | 21.8 | 22.4 | 32.4 | 49.1 | 51.1 |
| Visitors on Business | 9.6 | 9.2 | 11.1 | 15.1 | 11.4 |
| Other Visitors | 2.5 | 2.6 | 2.8 | 3.2 | 3.8 |
| TOTAL | 61.4 | 65.4 | 81.4 | 106.5 | 117.1 |

VISITORS ARRIVING IN KENYA FROM OVERSEAS, 1963-1967

Table 6.2.b

Percentages of Total

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|----------------------|-------|-------|-------|-------|-------|
| Visitors in Transit | 44.6 | 47.7 | 43.1 | 36.8 | 43.3 |
| Visitors on Holiday | 35.5 | 34.2 | 39.7 | 46.1 | 43.6 |
| Visitors on Business | 15.6 | 14.1 | 13.7 | 14.1 | 9.8 |
| Other Visitors | 4.1 | 4.0 | 3.5 | 3.0 | 3.3 |
| TOTAL | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

VISITORS ARRIVING IN KENYA FROM OVERSEAS, 1963-1967

Table 6.2.c

Annual Percentage Increases

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|----------------------|------|------|------|------|------|
| Visitors in Transit | + 11 | + 14 | + 13 | + 12 | +30 |
| Visitors on Holiday | +39 | +2 | +45 | +52 | +4 |
| Visitors on Business | +32 | - 4 | +21 | +35 | -24 |
| Other Visitors | +4 | +4 | +8 | +13 | +19 |
| TOTAL | +29 | +7 | +25 | +31 | + 10 |

3. The growth of 23.3 per cent in the number of external visitors in 1967 was entirely satisfactory and well above the annual target in the Development Plan. Not surprisingly though the rate of growth was considerably below the very high rate of 1966. There were several reasons for this. It was noted in the *Economic Survey 1967* that severe pressure existed on some categories of accommodation and that the time-lag between initiation of development on and the availability of new accommodation would probably slow down the rate of growth in the number of visitors. As shown later in this chapter, the constraint of hotel accommodation continues to be a real one, particularly in Nairobi.

4. Events outside Kenya probably also had an effect on the flow of visitors. The Middle East War, the Nigerian crisis, and the troubles in the Congo probably all had an adverse effect. The recession in the West German economy in 1967 is also felt to have held back what might have been an even larger growth in the number of visitors from that country. Moreover, with the closing down of the British base in Aden, the flow of military personnel who made extensive use of Kenya as a holiday resort, ceased. The measures taken by the United States Government more recently to restrict travel abroad by Americans are likely to have an effect on the flow of visitors from that country in the current year.

5. While the total number of visitors (on the basis of Table 6.1) rose substantially, the proportion in the total of those "on holiday" declined from

49 per cent in 1966 to under 47 per cent last year. The numbers of those coming on business also declined. The fall in the proportion for these categories was absorbed by the growth of persons in transit and "other" visitors who stay in the country for shorter periods.

VISITORS DEPARTING OVERSEAS BY NATIONALITY, 1966 AND 1967

Table 6.3

| COUNTRY OF NATIONALITY | VISITORS ON HOLIDAY | | | ALL VISITORS | | |
|---------------------------|---------------------|------------|--------------------|--------------|------------|--------------------|
| | 1966 | 1967 | Per cent + or — | 1966 | 1967 | Per cent + or — |
| | <i>No.</i> | <i>No.</i> | <i>Per cent</i> | <i>No.</i> | <i>No.</i> | <i>Per cent</i> |
| EUROPE— | | | | | | |
| United Kingdom | 18,501 | 18,652 | + 0.8 | 39,204 | 43,516 | + 11.0 |
| West Germany | 6,124 | 8,408 | + 37.3 | 8,203 | 11,400 | + 39.0 |
| Italy | 1,718 | 1,782 | + 3.7 | 3,878 | 4,955 | + 27.8 |
| France | 1,851 | 2,408 | + 30.1 | 3,547 | 3,990 | + 12.5 |
| Switzerland | 3,524 | 2,990 | — 15.2 | 4,084 | 3,729 | - 8.7 |
| Other | 3,407 | 4,546 | + 33.4 | 6,721 | 9,387 | + 39.7 |
| TOTAL | 35,125 | 38,786 | + 10.4 | 65,637 | 76,977 | + 17.3 |
| U.S.A | 10,484 | 14,472 | + 38.0 | 17,050 | 24,168 | + 41.7 |
| Canada | 715 | 876 | + 22.5 | 1,633 | 2,085 | + 27.7 |
| ASIA— | | | | | | |
| India | 1,379 | 1,648 | + 19.5 | 3,877 | 6,029 | + 55.5 |
| Israel | 414 | 351 | — 15.2 | 1,638 | 1,803 | + 10.1 |
| Japan | 276 | 396 | + 43.5 | 1,026 | 1,298 | + 26.5 |
| Pakistan | 275 | 364 | + 32.4 | 737 | 1,054 | + 43.0 |
| Other | 330 | 373 | + 13.0 | 1,094 | 1,487 | + 35.9 |
| TOTAL | 2,674 | 3,132 | + 17.1 | 8,372 | 11,671 | + 39.4 |
| AFRICA— | | | | | | |
| South Africa | 405 | 215 | - 46.9 | 3,594 | 3,186 | — 11.4 |
| Zambia | 115 | 211 | + 83.5 | 1,269 | 1,663 | + 31.0 |
| Other | 671 | 1,012 | + 50.8 | 4,354 | 5,540 | + 27.0 |
| TOTAL | 1,191 | 1,438 | + 20.7 | 9,217 | 10,389 | + 12.7 |
| Australia and New Zealand | 383 | 585 | + 52.7 | 1,022 | 1,623 | + 58.8 |
| All Other Countries | 230 | 270 | + 17.4 | 652 | 851 | + 30.5 |
| ALL VISITORS | 50,802 | 59,559 | + 17.2 | 103,583 | 127,764 | + 23.3 |

.6 "Package tourists" who arrive by charter aircraft continue to increase in numbers. In addition to charter flights which have been operating from Frankfurt and Zurich, two British firms have been licensed to operate such charters from the United Kingdom but the first flights only started in 1968. The total number of visitors arriving by charter flights was nearly 17,000 in 1967. Of this number, 3,300 disembarked at Mombasa to go direct to beach resorts at the Coast.

7. In terms of nationality, British visitors continue to be the largest single group, accounting for one-third of the total. However, their share of the total has declined—the corresponding proportion in 1966 was 38 per cent. This is probably due to the factors mentioned earlier in this chapter. A very notable increase of nearly 42 per cent is apparent among visitors of American nationality and Americans remain the second largest national group. Among other Europeans, West Germans again recorded a large increase in 1967 but continental visitors are now more diversified with larger numbers of Italian, French and "Other European" nationalities. This suggests that the holiday attractions of Kenya are becoming better known among continental Europeans. While the number of visitors of all other nationalities was only 21 per cent of the total, most showed a steady growth over the previous year.

8. It is an interesting fact that over a third of the total number of visitors arriving in Kenya came from other African countries (excluding Uganda and Tanzania) although only a small proportion of these were nationals of African States. About half the British visitors and a much larger proportion of the Americans came via other African countries. It is quite likely that a substantial number of such visitors were tourists who had planned to visit more than one African country. However, while we must obviously look to the wealthy industrial nations for a continued rapid expansion of tourism, the fact that a large number of visitors are nationals of such countries but resident in Africa should not be ignored in planning publicity of Kenya's tourist attractions.

VISITORS ARRIVING BY CONTINENT OF DEPARTURE AND CONTINENT OF ORIGIN, 1965 AND 1966

Table 6.4

'000s

| COUNTRY OF DEPARTURE/ORIGIN | CONTINENT OF DEPARTURE | | | CONTINENT OF ORIGIN | | |
|--------------------------------|------------------------|-------|-------|---------------------|-------|-------|
| | 1965 | 1966 | 1967 | 1965 | 1966 | 1967 |
| Africa* | 32.7 | 43.7 | 44.1 | 11.2 | 9.2 | 9.8 |
| Europe | 27.6 | 38.2 | 47.0 | 44.8 | 68.2 | 71.5 |
| America | 4.7 | 2.4 | 3.8 | 14.8 | 18.4 | 22.2 |
| Asia | 15.7 | 21.9 | 21.6 | 8.7 | 8.9 | 11.3 |
| Other | 0.9 | 0.3 | 0.6 | 1.9 | 1.8 | 2.3 |
| TOTAL | 81.4 | 106.5 | 117.1 | 81.4 | 106.5 | 117.1 |

*Excluding Uganda and Tanzania.

9. Although more visitors came to Kenya in 1967, the duration of their stay dropped from 14.5 days in 1966 to 12.5 days. Holiday visitors stayed for much the same time—20.4 days in 1967 compared with 20.7 days in 1966. but the duration of stay of business visitors fell from 25.7 days to 20.3 days. An increase of a fraction of a day in the stay of persons in transit,

2.5 days compared with 1.8 days in 1966, failed to compensate for the increased weight of in-transit visitors in the total. The overall effect was that while the number of overseas visitors rose 23.3 per cent, the number of overseas tourist days in Kenya only went up 6.2 per cent.

10. Assessments of the number of visitors have in the past been based only on the number of visitors from outside East Africa. This was unavoidable since no migration data were available for movements within East Africa. However, following new immigration controls introduced in the recent past, it has become possible to obtain at least an idea of the number of Uganda and Tanzania residents visiting Kenya. In Table 6.5, the statistics of external visitors (as shown in Table 6.1) and statistics of departures from Kenya to Uganda and Tanzania are combined to show the total number of visitors to Kenya in 1967.

ALL DEPARTING VISITORS, 1967

Table 6.5. '000s

| | Departures to outside E.A. | Departures to Uganda and Tanzania | Total |
|------------------|-------------------------------|-----------------------------------------|-------|
| TYPE OF VISITOR— | | | |
| Transit | 54.4 | 31.7 | 86.1 |
| Holiday | 59.6 | 42.1 | 101.7 |
| Business | 11.0 | 6.0 | 16.9 |
| Other | 2.8 | 20.8 | 23.6 |
| TOTAL | 127.8 | 100.5 | 228.3 |

11. It should, however, be kept in mind that the departures to Uganda and Tanzania also include visitors from outside East Africa who have first come to Kenya and then gone on to Uganda or Tanzania. It is, however, felt that they constitute only a small part of the departures to Uganda and Tanzania and that the bulk of those in this category are, in fact, residents of Uganda and Tanzania. The important point is that, in terms of tourism, Kenya receives a large number of visitors from Uganda and Tanzania also.* Obviously, these figures must be taken into account in assessing the real magnitude of tourism in Kenya and in making projections for purposes of planning the future growth of this sector and of the number of visitors likely to come to Kenya. In terms of expenditure in the country, visitors from Uganda and Tanzania spend less than other visitors in so far as more of them tend to stay in private homes. Their average stay is also shorter—6.2 days as compared with 12.5 days for other visitors.

* This is, of course, a large reciprocal movement of Kenya residents visiting Uganda and Tanzania for holiday and other purposes.

12. Utilization of various categories of hotel accommodation is set out in Table 6.6. The number of beds occupied during 1967 rose by 9.2 per cent over the previous year; as in 1966 this represented a higher rate of growth than that of "total tourist days". Total occupancy was evenly split between foreign visitors and East African residents and almost the entire growth was due to foreign visitors.

Table 6.6 HOTEL BEDS AVAILABLE AND OCCUPIED, 1965-1967 '000 Bed-Nights

| YEAR/QUARTER | NAIROBI INTER- NATIONAL | | GAME LODGES | | COASTAL HOTELS | | OTHER | | Total Beds Occu- pied | Total Beds avai- lable |
|----------------------|--------------------------------|------------------------|--------------------------------|------------------------|--------------------------------|------------------------|--------------------------------|------------------------|--------------------------------|---------------------------------|
| | Beds Occupied | | Beds Occupied | | Beds Occupied | | Beds Occupied | | | |
| | For- eign Resi- dents | E.A. Resi- dents | For- eign Resi- dents | E.A. Resi- dents | For- eign Resi- dents | E.A. Resi- dents | For- eign Resi- dents | E.A. Resi- dents | | |
| 1965 | 194.6 | 52.4 | 32.8 | 19.1 | 81.3 | 188.2 | 83.1 | 346.7 | 998.2 | 2,123.4 |
| 1466 | 223.2 | 50.7 | 53.6 | 16.7 | 163.9 | 200.4 | 121.7 | 360.0 | 1,190.2 | 2,152.7 |
| 1967 | 241.5 | 46.8 | 61.8 | 18.9 | 202.2 | 202.4 | 138.1 | 386.7 | 1,298.7 | 2,496.9 |
| 1965— 4th Quarter | 50.8 | 14.0 | 8.1 | 4.6 | 21.5 | 49.9 | 20.9 | 91.2 | 260.9 | 540.0 |
| 1966— 1st Quarter | 60.0 | 11.3 | 16.3 | 3.7 | 46.2 | 46.9 | 28.9 | 94.0 | 307.3 | 529.6 |
| 2nd Quarter | 47.1 | 11.5 | 8.3 | 3.5 | 24.9 | 39.2 | 22.0 | 86.4 | 242.8 | 515.4 |
| 3rd Quarter | 58.3 | 14.1 | 15.6 | 5.4 | 46.1 | 61.9 | 36.7 | 90.7 | 328.8 | 550.2 |
| 4th Quarter | 57.8 | 13.8 | 13.4 | 4.1 | 46.7 | 52.4 | 34.1 | 89.0 | 311.3 | 557.4 |
| 1967— 1st Quarter | 67.5 | 11.8 | 21.0 | 4.5 | 68.0 | 46.7 | 48.3 | 87.5 | 355.4 | 587.0 |
| 2nd Quarter | 51.6 | 11.6 | 7.8 | 2.3 | 32.8 | 34.1 | 25.4 | 87.3 | 252.9 | 592.7 |
| 3rd Quarter | 63.8 | 11.7 | 17.0 | 5.4 | 52.1 | 61.7 | 32.2 | 99.3 | 343.3 | 642.1 |
| 4th Quarter | 58.6 | 11.7 | 16.0 | 6.7 | 49.9 | 59.9 | 32.2 | 112.6 | 347.1 | 675.1 |
| 1968— 1st Quarter | 68.2 | 9.9 | 22.8 | 8.5 | 87.1 | 55.1 | 48.3 | 111.9 | 412.0 | 686.4 |

*"Nairobi International" hotels are defined as those for which over 50 per cent of the beds are occupied by foreign visitors.

13. The overall bed occupancy rate declined from 55 per cent in 1966 to 52 per cent in 1967. This is illustrated in Table 6.7. This decline in the occupancy rate was, however, a relative one and can be explained by the growth of capacity. The number of hotel beds available rose by 15.9 per cent during 1967. But the increase was unevenly distributed over the various categories of hotels. The largest growth took place at the Coast where the rate of occupancy declined as a result. It is, however, felt that this is a temporary situation. Demand for hotel accommodation by visitors is growing most rapidly at the Coast and projections of requirements indicate that all new capacity likely to be created there over the next few years will be easily taken up.

14. In other categories of accommodation, capacity in 1967 increased quite rapidly in game lodges also, by 17.1 per cent. However, the occupancy rate remained unchanged. Up-country and the "Nairobi Other" hotels showed

a more modest growth. In "Nairobi International" hotels, however, there was no growth while the bed occupancy rate rose to 74 per cent and the room occupancy rate to 89 per cent. There is severe pressure now on this type of accommodation. For all important categories of hotels, there is clearly not enough room for manoeuvre and short periods of very high pressure on accommodation remain.

15. Some projects which will help to alleviate the situation are well advanced. Extensions to an existing hotel which will make another 72 beds available in Nairobi are to be completed by the end of the year. Construction work on two new large international hotels in the capital with 1,000 beds between them should go a long way towards easing the position when these are completed in 1969 and 1970 respectively.

16. In the game parks also, new construction now being undertaken should make a significant addition to capacity. Of the two new lodges being built in Tsavo National Park, one should be completed before the end of this year and the other early next year. Two hundred new beds will thus become available. Although outside a national park, the opening of a lodge in 1967 at Baringo added 40 beds to accommodation in the game-viewing areas.

HOTELS ROOMS AND BEDS AVAILABLE AND OCCUPIED, 1965-1967

Table 6.7

| | NAIROBI | | Coastal | Up-country | Game Lodges | All Hotels |
|-----------------------------|----------------|-------|---------|------------|-------------|------------|
| | Inter-National | Other | | | | |
| 1965- | | | | | | |
| Rooms available ('000) | 246 | 367 | 311 | 276 | 63 | 1,263 |
| Occupancy rate (per cent) | 78 | 63 | 56 | 38 | 47 | 58 |
| Beds available ('000) .. | 388 | 550 | 589 | 459 | 136 | 2,123 |
| Occupancy rate (per cent) | 64 | 53 | 48 | 30 | 38 | 47 |
| 1966— | | | | | | |
| Rooms available ('000) | 242 | 362 | 342 | 259 | 71 | 1,276 |
| Occupancy rate (per cent) | 87 | 72 | 69 | 43 | 56 | 67 |
| Beds available ('000).. | 388 | 540 | 626 | 441 | 158 | 2153 |
| Occupancy rate (per cent) | 70 | 62 | 58 | 34 | 44 | 55 |
| 1967— | | | | | | |
| Rooms available ('000) | 242 | 371 | 473 | 275 | 85 | 1,447 |
| Occupancy rate (per cent) | 89 | 69 | 55 | 47 | 56 | 64 |
| Beds available ('000) .. | 389 | 569 | 862 | 491 | 185 | 2,496 |
| Occupancy rate (per cent).. | 74 | 63 | 47 | 34 | 44 | 52 |

17. Despite the continued growth of hotel capacity, projections of the number of external visitors likely to come to Kenya over the next few years indicate that a much larger effort to build new accommodation will be necessary, particularly at the Coast and in the game-viewing areas. Detailed plans to meet requirements are now being drawn up, to include not only accommodation but also such "infra-structure" as airport facilities, roads, transport services and water supplies.

18. As far as investment in new tourist facilities is concerned, the Government and its agencies are directly involved. The principal agency concerned is the Kenya Tourist Development Corporation which was established towards the end of 1965. The Corporation participates financially with private enterprise in a variety of projects. At present, it has interests in most of the new hotels and game lodges being built in the country. Its investment activities are intended to include other aspects of tourism also and it acquired an interest in a private air charter firm in 1967. The Corporation's terms of reference allow it to participate in almost all economic activities related to tourism. It is, however, clear that its major effort will be in the development of new hotel accommodation.

19. Another public agency performing a vital role in the industry is, of course, the national parks administration. During 1967, several new parks were gazetted. These include Donyo Sabuk, Lake Nakuru and Meru. The unique ornithological facilities of Lake Nakuru had in the past been uncontrolled. Gazettement of the area as a national park will be followed by the improvement of roads, the provision of other public amenities and the guardianship of parks officials. Meru had in the past been administered by the Meru County Council but has now been handed over to the National Parks Trustees. Donyo Sabuk is an entirely new park. An interesting recent innovation is the declaration of two small areas of ocean off the coast as marine parks in order to protect the marine life in these and also to improve access from the tourism point of view. In order to meet the growing cost of maintaining existing facilities and adding new ones, the national parks last year increased the entrance fees charged to visitors not resident in Kenya. The growth in the number of visitors to the national parks is set out in Table 6.8.

20. In its continuing effort to develop tourism, the Government last year introduced a major innovation by opening Kenya tourist offices in London, New York and Frankfurt. These are expected to play an important part in inducing more people to visit Kenya. These promotional activities are being backed up with research work in Kenya to determine more precisely the nature of the preferences of tourists and their background. Such studies will enable greater precision in planning tourist facilities and in mounting promotional campaigns.

THE NUMBER OF VISITORS TO NATIONAL PARKS, 1963/64-1966/67

Table 6.8

Numbers

| PARKS | 1963/64 | 1964/65 | 1965/66 | 1966/67 |
|----------------------------|---------|---------|---------|---------|
| Nairobi National Park | 112,870 | 104,695 | 111,920 | 116,531 |
| Tsavo National Park (East) | 12,759 | 16,346 | 23,754 | 25,146 |
| Tsavo National Park (West) | 19,862 | 23,597 | 28,030 | 36,624 |
| Meru National Park | | | | 50 |
| Marsabit National Reserve | 86 | | | |
| Mountain National Parks | 7,050 | 5,609 | 5,735 | 8,835 |
| Gedi National Park | 9,050 | 9,185 | 11,354 | 12,424 |
| Fort Jesus National Park | 22,134 | 27,609 | 44,246 | 45,834 |
| TOTAL | 183,811 | 187,041 | 225,039 | 245,444 |

21. Some of the road projects mentioned in Chapter 7 will directly assist tourism by facilitating access to the parks. A road linking Amboseli with Malindi via the Tsavo National Park will create a new "circuit" to join beach resorts with game-viewing areas and also enable a direct connexion between the game parks in southern Kenya and northern Tanzania.

22. The economic importance of tourism is felt primarily in two ways. Firstly, tourist expenditures benefit those industries of the economy that provide the goods and services purchased. In the main, these are the service industries—hotels, transport etc. but other industries also benefit indirectly—agriculture from the butter, meat, bread and fruit consumed by tourists, while manufacturing and commerce benefit by the tourists' consumption of processed products, handicrafts, etc. Secondly, there is the very considerable balance-of-payments benefit derived from the foreign exchange brought by tourists to finance their holidays. It is true that a large proportion of tourist expenditures are syphoned off by foreign carriers and travel agents but gross expenditures by tourists in Kenya are of the order of K£15.2 million. This estimate is included in the Kenya balance of payments.

CHAPTER 7—TRANSPORT AND COMMUNICATIONS

A breakdown of the output or value of sales by the transport, storage and communications sector is shown in Table 7.1 to indicate the relative magnitude of each subsector within the total for the sector. The public sector is dominant and accounted for about two-thirds of total sales during the years shown. Given the size of the public sector enterprises in this sector—the Railways and Harbours, the Posts and Telecommunications Administration and East African Airways—this is not surprising. It should be pointed out that only the transport and communications operations of the enterprises concerned are included in the figures— the auxiliary output of workshops and construction units operated by the enterprises is included in the appropriate sectors—manufacturing and repairs and building and construction.

TRANSPORT STORAGE AND COMMUNICATIONS—VALUE OF SALES, 1963-1967

Table 7.1

K£'000

| | 1963 | | | 1964 | | | 1965 | | |
|-----------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | Public | Private | Total | Public | Private | Total | Public | Private | Total |
| Railway Transport | 13,714.7 | — | 13,714.7 | 14,182.7 | — | 14,182.7 | 15,066.0 | — | 15,066.0 |
| Road Passenger Transport | — | 4,313.9 | 4,313.9 | — | 5,391.2 | 5,391.2 | — | 4,870.6 | 4,870.6 |
| Road Freight Transport | 20.2 | 5,957.5 | 5,977.7 | 20.9 | 6,568.3 | 6,589.2 | 19.3 | 7,284.9 | 7,304.2 |
| Water Transport | 7,531.1 | 718.7 | 8,249.8 | 8,713.9 | 698.3 | 9,412.1 | 10,302.7 | 710.9 | 11,013.6 |
| Air Transport | 3,782.7 | 951.7 | 4,734.4 | 4,154.9 | 1,032.6 | 5,187.6 | 4,540.0 | 1,066.3 | 5,606.3 |
| Services incidental to Transport, including storage | 137.8 | 1,658.1 | 1,795.9 | 152.8 | 1,829.0 | 1,981.8 | 158.8 | 2,393.6 | 2,552.4 |
| TOTAL TRANSPORT AND STORAGE | 25,186.5 | 13,599.9 | 38,786.4 | 27,225.2 | 15,519.4 | 42,744.6 | 30,086.8 | 16,326.3 | 46,413.1 |
| Communications | 5,033.7 | 542.7 | 5,576.4 | 4,876.2 | 884.7 | 5,760.9 | 5,165.5 | 808.8 | 5,974.3 |
| TOTAL TRANSPORT, STORAGE AND COMMUNICATIONS | 30,220.2 | 14,142.6 | 44,362.8 | 32,101.4 | 16,404.1 | 48,505.5 | 35,252.3 | 17,135.1 | 52,387.4 |

TRANSPORT STORAGE AND COMMUNICATIONS—VALUE OF SALES, 1963-1967—(Contd.)

Table 7.1—(Contd.)

K£'000

| | 1966 | | | 1967 (Estimates) | | |
|-----------------------------------------------------|----------|----------|----------|------------------|----------|----------|
| | Public | Private | Total | Public | Private | Total |
| Railway Transport | 16,977.0 | — | 16,977.0 | 16,635.6 | — | 16,635.6 |
| Road Passenger Transport | — | 6,473.9 | 6,473.9 | — | 7,376.1 | 7,376.1 |
| Road Freight Transport | — | 6,900.5 | 6,900.5 | — | 7,303.5 | 7,303.5 |
| Water Transport | 11,896.6 | 1,032.9 | 12,929.5 | 12,171.0 | 1,121.1 | 13,292.1 |
| Air Transport | 5,329.0 | 1,338.3 | 6,667.3 | 7,016.3 | 1,610.3 | 8,626.6 |
| Services incidental to Transport, including storage | 135.2 | 3,134.8 | 3,269.9 | 151.7 | 3,314.7 | 3,466.4 |
| TOTAL TRANSPORT AND STORAGE | 34,337.8 | 18,880.4 | 53,218.1 | 35,974.6 | 20,725.7 | 56,700.3 |
| Communications | 5,322.9 | 1,213.1 | 6,536.0 | 5,349.5 | 1,335.0 | 6,684.5 |
| TOTAL TRANSPORT, STORAGE AND COMMUNICATIONS | 39,660.7 | 20,093.5 | 59,754.1 | 41,324.1 | 22,060.7 | 63,384.8 |

2. Within the sector, the most rapid growth has been in "services incidental to transport, including storage". This subsector includes, *inter alia*, travel agency services which have developed as tourism has grown. Rapid development has also taken place in air transport, following the growth of East African Airways during the last few years and the increasing use of privately-owned small aircraft.

Railways and Harbours

3. As may be seen from Table 7.1, railway transport is the largest item within the transport and communications sector, accounting for 26 per cent of total output in 1967. A breakdown of the total sales of the railways (excluding harbour operations) is set out in Table 7.2. While receipts from passenger traffic show no marked overall decline over the years 1964-67, their share in total receipts declined over this period. The growth of passenger movements in the country during the last few years has gone almost entirely to air and road transport. Freight receipts in 1967 fell slightly, largely due to the fall in trade (discussed in Chapter 3). This is clearly apparent in Table 7.3 which shows freight handled at Mombasa harbour.

RAILWAY RECEIPTS, 1963-1967

Table 7.2 K£'000

| | Passenger Traffic | Freight Haulage | Total |
|-------------|-------------------|-----------------|----------|
| 1963 | n.a. | n.a. | 13,714.7 |
| 1964 | 1,174.4 | 13,008.4 | 14,182.7 |
| 1965 | 1,075.8 | 13,990.3 | 15,066.6 |
| 1966 | 1,123.5 | 15,853.5 | 16,977.0 |
| 1967 (est.) | 1,143.9 | 15,491.7 | 16,635.6 |

FREIGHT HANDLED AT MOMBASA HARBOUR, 1963-1967

Table 7.3

| | LANDED | | LOADED | | TOTAL | |
|-------------|-----------|-------------------|-----------|-------------------|-----------|-------------------|
| | '000 Tons | Per cent Increase | '000 Tons | Per cent Increase | '000 Tons | Per cent Increase |
| | | | | | | |
| 1963 | 1,969 | 8.2 | 1,302 | 12.6 | 3,271 | 9.9 |
| 1964 | 2,415 | 22.7 | 1,645 | 26.3 | 4,060 | 24.1 |
| 1965 | 2,635 | 9.1 | 1,710 | 4.0 | 4,345 | 7.0 |
| 1966 | 3,135 | 19.0 | 1,877 | 9.8 | 5,012 | 15.4 |
| 1967 (est.) | 2,834 | —9.6 | 2,071 | 10.3 | 4,905 | —2.1 |

4. It was noted in last year's *Survey* that the Railways and Harbours Administration intended to spend a large amount on the purchase of new locomotives and rolling stock for use in Kenya (in addition to similar outlays for operations in the other East African countries). Capital expenditure on transport equipment did in fact increase sharply during the year, from K£1.1

million in 1966 to K£3.0 million last year. A further amount of K£3.9 million has been ear-marked for new locomotives and rolling stock for the year 1968/69. Apart from transport equipment, other expenditure by the railways in Kenya during 1968/69 will include K£2.9 million for capital improvements to existing lines and new buildings. These expenditures are part of a plan to undertake capital expenditure amounting to K£22.8 million in Kenya up to 1972/73.

5. Until the inauguration of the East African Community in December last year, harbours were integrated with railways in a single organization. Under the new arrangements, however, harbours are intended to be separated from the railways and will be administered from new headquarters in Dar es Salaam (the head office of the railways will remain in Nairobi). Large development expenditures for Mombasa harbour are also contemplated for the period 1968/69-1971/72. Of a total of K£8.8 million to be spent, K£1.7 million will be in 1968/69.

6. The East African Shipping Line which was established at the end of 1966 had one vessel operating in 1967. A second has now been acquired. It is intended to purchase another three ships before the end of next year, making a total of five vessel and gross tonnage of 42,000. Forty per cent of the share-holding in the line is private and the rest divided equally between the Governments of Kenya, Uganda, Tanzania and Zambia. A fleet of five vessels before the end of next year is not intended to be the limit of growth for the line and it is hoped to add more vessels to its flag later.

Road Transport

7. After rising rapidly during 1965 and 1966, registrations of new vehicles, shown in Table 7.4, slowed down in 1967. However, this slowing down was attributable largely to a fall in the rate of new motor-cars registered—registration of other types of vehicles remained high.

NEW MOTOR VEHICLE REGISTRATIONS, 1963-1967

| Table 7.4 | | | | | Numbers |
|----------------------------|-------|-------|--------|--------|----------------|
| | 1963 | 1964 | 1965 | 1966 | 1967 (est.) |
| Motor cars | 4,466 | 4,058 | 5,031 | 5,579 | 6,014 |
| Utilities | 2,542 | 2,974 | 3,402 | 3,636 | 4,211 |
| Lorries | 799 | 658 | 785 | 1,231 | 1,621 |
| Buses | 289 | 281 | 252 | 239 | 339 |
| Motor cycles | 602 | 650 | 729 | 871 | 977 |
| Other | 753 | 980 | 850 | 1,301 | 1,187 |
| TOTAL | 9,451 | 9,601 | 11,049 | 12,857 | 14,350 |
| Percentage Annual Increase | 9.3 | 1.6 | 15.1 | 16.4 | 11.6 |

8. Licences for passenger service and freight transport vehicles for hire are shown in Table 7.5. These are lower than total registrations because vehicles not for hire are excluded. The decline in 1967 in the number of freight transport vehicles licensed for hire can perhaps be explained by the fact that trade within East Africa, a large part of which moves by road, had slowed down.

LICENCES ISSUED FOR VEHICLES ON HIRE, 1963-1967

Table 7.5 Numbers

| | Passenger Service Vehicles | Freight Transport Vehicles | Total |
|-------------|----------------------------------|----------------------------------|-------|
| 1963 | 2,509 | 2,400 | 4,909 |
| 1964 | 2,878 | 2,501 | 5,379 |
| 1965 | 3,152 | 2,700 | 5,852 |
| 1966 (Est.) | 3,358 | 2,662 | 6,020 |
| 1967 (Est.) | 3,720 | 2,625 | 6,345 |

9. The consumption of fuel (set out in Table 7.6) by road vehicles continued to rise and Government revenues from taxes on fuel benefited correspondingly.

CONSUMPTION OF PETROL AND LIGHT DIESEL FUEL, 1963-1967

Table 7.6 '000 Gallons

| | Petrol | Light Diesel Fuel |
|------|--------|----------------------|
| 1963 | 35,037 | 23,477 |
| 1964 | 35,582 | 25,090 |
| 1965 | 35,560 | 26,124 |
| 1966 | 37,395 | 29,637 |
| 1967 | 39,385 | 32,641 |

10. Steps were taken last year by the Transport Licensing Board to promote Kenyanization in the road transport sector by giving preferential treatment to citizens in the issue of licences. Citizens, particularly Africans, are already strongly established in passenger transport and it is hoped they will also be able to provide a growing proportion of freight services.

11. An important development towards the end of 1966 was the acquisition by the Government of a majority interest in a transport co-operative—KENATCO. Originally, this investment was made partly to assist the organization which was in difficulties. During 1967, however, expansion of the organization was pushed forward to develop it into a major road transport undertaking. The firm now has a fleet of 127 vehicles, consisting of heavy transport trucks, tankers, taxis and other passenger service vehicles. Most of the freight lorries and taxis were acquired in 1967 by expenditure of

K£255,000 on new vehicles. Freight transport is now being undertaken throughout East Africa and to Zambia. The company has set up its own maintenance workshops in Nairobi and is now expanding its operations in the field of transport for tourists.

12. Investment in road development continued to run at a high level during 1967. During the financial year 1966/67, the Government spent K£3.9 million on roads. Of this amount, K£1.2 million went to trunk roads, involving new construction or up-grading of 194 miles of road and the re-building of seven bridges. The greater part of the rest of road expenditure was devoted to the Nairobi-Mombasa road, "sugar" roads in the Chemelil/Muhoroni area, "tea" roads and the construction of the Nairobi-Addis Ababa road. For the financial year 1967/68 the Government has provided K£5.5 million. The major projects being undertaken or continued are as follows:

| | |
|------------------------------------------------|----------|
| 1. Nairobi-Mombasa road | K£0.6 m. |
| 2. Eldoret/Tororo and Athi River/Namanga roads | K£0.9 m. |
| 3. Tea roads | K£0.8 m. |
| 4. Sugar roads | K£1.1 m. |
| 5. Roads for tourist development | K£0.4 m. |
| 6. Nairobi-Addis Ababa road | K£0.3 m. |

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13. Statistics of commercial air traffic at Nairobi and Mombasa airports are shown in Table 7.7. The number of passengers handled continued to rise in 1967 but freight movements were slightly less. East African Airways continued to expand their international operations and acquired a fourth Super VC 10 jet airliner during 1967. Of the K£5 million of expenditure undertaken during the year by the Corporation on new aircraft and engines, one-third is regarded as capital formation made in Kenya, according to the system followed in the allocation among the three East African countries of the capital expenditure of the Corporation. (See Chapter 1.)

COMMERCIAL AIR TRAFFIC AT NAIROBI AND MOMBASA AIRPORTS, 1963-1967

Table 7.7

| | 1963 | 1964 | 1965 | 1966 | 1967 (est.) |
|--------------------|-------|-------|--------|--------|----------------|
| PASSENGERS F000) — | | | | | |
| Landed | 168 | 187 | 190 | 235 | 267 |
| Embarked | 174 | 203 | 210 | 243 | 277 |
| In-transit | 254 | 218 | 266 | 270 | 247 |
| TOTAL | 596 | 608 | 675 | 748 | 791 |
| FREIGHT (tons) — | | | | | |
| Landed | 2,827 | 3,556 | 3,751 | 3,861 | 4,011 |
| Loaded | 4,779 | 5,696 | 6,280 | 6,411 | 6,231 |
| | 7,606 | 9,252 | 10,021 | 10,272 | 10,242 |

14. As shown in Table 7.1, the private sector accounts for about 15 per cent of the sales in air transport. Most of the civil aviation business of private firms is in the field of charter hire to tourists and businessmen. Wilson Airport in Nairobi, from which most of the small privately-owned planes operate, is regarded as the busiest airport in Africa, in terms of air movements. Statistics of air traffic at this airport are shown in Table 7.8. The fact that the number of air movements in 1967 rose sharply with little change in the number of passengers handled suggests that a large number of the flights are of a purely "local" nature, for recreation or training.

AIR TRAFFIC AT WILSON AIRPORT, 1963-1967

Table 7.8 Numbers

| | AIR MOVEMENTS | | PASSENGERS | |
|-------------|---------------|------------|------------|------------|
| | Arrivals | Departures | Arrivals | Departures |
| | | | | |
| 1963 | 43,815 | 43,817 | 4,397 | 4,069 |
| 1964 | 48,223 | 48,240 | 5,108 | 5,118 |
| 1965 | 52,411 | 52,381 | 5,642 | 6,118 |
| 1966 | 54,464 | 54,522 | 6,729 | 7,042 |
| 1967 (est.) | 74,639 | 74,667 | 7,339 | 7,257 |

15. Plans are now being discussed to increase the capacity of Nairobi and Mombasa airports. For Nairobi, the more immediate problem is the inadequacy of passenger handling facilities although a second run-way might be required in the not too distant future. The existing terminal building is designed to handle a much smaller number than the 800,000 passengers who now pass through it. Forecasts suggest that these will rise to 1.2 million by 1972. A sum of about K£3 million would be required for extensions to cope with this number. At Mombasa, the principal problem is the inability of the runway to take large jet aircraft. With the rapid growth of tourism at the Coast, it is felt that enlargement and modernization of the airport at Port Reitz will be essential. It is estimated that the capital cost of this might be as high as K£4.3 million of which more than half would be required for a new 9,000 ft. runway.

Posts and Telecommunications

16. The East African Posts and Telecommunications Administration undertakes all the communications operations in the country, apart from external telecommunications which are handled by a private company. The extension of postal and telecommunications services in Kenya for the last few years is indicated in Table 7.9.

Table 7.9

Numbers

| | Post Offices | Private Boxes | Subscribers' Lines | Public Call Offices |
|-------------|-----------------|------------------|-----------------------|---------------------------|
| 1964 | 249 | 34,788 | 26,134 | 206 |
| 1965 | 268 | 36,098 | 27,153 | 218 |
| 1966 | 304 | 37,348 | 27,946 | 219 |
| 1967 (est.) | 332 | 40,188 | 29,401 | 231 |

17. It is hoped that when the new capacity currently being installed to extend telephone services becomes operational, the number of subscribers' lines will be extended further. In 1967, out of a total of 29,401 subscribers' lines, 5,339 were on automatic exchanges. Comparable figures for 1965 and 1966 were 4,955 and 5,111 respectively. The total number of exchanges in operation in Kenya in 1967 was 164 of which 76 were manual. However, it is hoped that an automatic exchange being installed in Kisumu will become operational in the course of this year. Apart from telephone exchanges there were at the end of 1967 in Kenya six radio Call Offices as well.

CHAPTER 8—EMPLOYMENT, EARNINGS AND CONSUMER PRICES

Problems of coverage and other difficulties in the collection of employment statistics have been discussed in previous issues of the *Survey*. However, efforts to extend coverage of these have continued to be made over the last few years and, for the first time, it is possible to set out a much more complete picture of wage employment in the country. But because such information is available only for 1967, it is not possible to present comparative data as a time series. Therefore, when such time series are presented in this chapter, figures for 1967 are on the basis of narrower coverage, comparable with the data shown in previous *Surveys*. The more complete picture for 1967 alone is presented in a separate table.

2. The data included in the comparable series are limited to the information obtained from the annual enumeration of labour which covers the urban sector, large-scale farms, co-operatives (for employment in co-operative enterprises such as coffee factories) and other large enterprises in the rural areas, such as tea factories processing leaf grown by small-holders. The entire public sector is included in this coverage. In addition, information on employment on settlement schemes, obtained from separate surveys for

several years, is incorporated. In previous issues of the *Survey*, the data presented also included estimates made on the basis of a limited survey of employment in small non-agricultural rural enterprises other than those covered by the annual enumeration of labour. A more comprehensive survey of these in 1967 showed that previous estimates seriously under-reported the true situation. These previous estimates are therefore excluded from the comparable series shown here.

3. Growth of employment on the restricted coverage basis is shown in Table 8.1. Total employment in 1967 rose by 3.4 per cent over 1966. This has been the highest rate of growth in employment for several years and can be considered satisfactory. However, employment in agriculture (excluding forestry but including agricultural services) declined by nearly 12,000. During the years 1962-66, declining employment on large farms could be attributed to a reduction in the number and area of these farms by the transfer of land for small-holder settlement. But this factor was of little or no significance during 1967 for very little land was purchased for settlement during the year. The fall in employment can be attributed largely to the difficulties of the coffee and sisal industries (discussed in Chapter 4).

EMPLOYMENT BY MAJOR SECTOR, 1964-1967

Table 8.1

K£'000

| | 1964 | 1965 | 1966 | 1967 + |
|-------------------------------|-------|-------|-------|--------|
| Agriculture* and Forestry | 208.7 | 204.6 | 206.4 | 196.9 |
| Private Industry and Commerce | 178.3 | 177.9 | 183.4 | 202.5 |
| Public Sector | 176.7 | 181.7 | 187.7 | 198.0 |
| TOTAL | 563.6 | 564.2 | 577.5 | 597.4 |

+All figures for 1967 in this Chapter are provisional.

*Including the public sector element in agriculture.

4. While employment on large farms declined by nearly 16,000, this was not the case with farmers' co-operatives and the settlement schemes, the other major segments in the agricultural sector as presented above. This is underlined in the following figures:

Employment in Agriculture ('000s)

| | 1966 | 1967 |
|------------------------|-------|-------|
| Large farms | 174.8 | 159.2 |
| Farmers' co-operatives | 9.6 | 12.5 |
| Settlement schemes | 16.8 | 18.3 |

The last two categories refer to small-holder agriculture and are perhaps an indication of the continued growth of small farming. They do not, however, represent total employment in small-holder agriculture—this is discussed further below.

5. The growth of employment in private industry and commerce, by 19,100, set out by sector in Table 8.2, was unevenly spread—in fact, employment in commerce and transport and communications declined. The most significant increase was in building and construction employment which nearly doubled.

Table 8.2 EMPLOYMENT IN THE PRIVATE SECTOR, 1964-1967 '000s

| | 1964 | 1965 | 1966 | 1967 |
|------------------------------|-------|-------|-------|-------|
| Agriculture and forestry | 208.7 | 204.6 | 206.4 | 196.9 |
| Mining and quarrying | 2.3 | 2.3 | 2.4 | 2.4 |
| Manufacturing and repairs | 50.6 | 53.6 | 53.0 | 58.1 |
| Building and construction | 9.3 | 9.0 | 10.4 | 21.4 |
| Electricity and water | 2.5 | 2.5 | 2.7 | 3.8 |
| Commerce | 47.3 | 46.6 | 47.1 | 43.6 |
| Transport and communications | 16.1 | 17.4 | 20.5 | 21.5 |
| Other services* | 50.1 | 46.4 | 47.4 | 51.7 |
| TOTAL | 387.0 | 382.5 | 389.8 | 399.4 |

+Including the public sector element in agriculture.

*Including a few employees in "activities not adequately described".

6. The race, sex and age composition of employees is set out in Table 8.3. Although the bulk of the growth in employment during 1967 was among Africans, the decline in agricultural employment was also confined almost entirely to Africans and in particular to African women who are employed largely in agriculture, particularly as coffee pickers. This was the reason for the significant drop in the numbers of African women in wage employment. Among Asians, on the other hand, most of the small increase in employment was among women. Asian employment might have been expected to fall in view of the considerable emigration by members of that community. However, this emigration did not intensify until the later months of the year and the early part of 1968 and is not therefore apparent from the figures shown here which are based on employment in June. Overall, although the number of women in wage employment declined, the number of men rose by 6 per cent.

7. Earlier in this chapter, it was indicated that a more complete picture of wage employment for the entire country can be presented for 1967. This is done in Table 8.4, which includes employment as shown in Table 8.1, employment in non-agricultural occupations in rural areas not covered under the annual enumeration of labour and employment on small holdings outside the settlement areas. An addition is also made to allow for known under-reporting of employees who should have been included in the annual enumeration of labour but were not. This addition consists largely of unrecorded domestic servants. The estimates of small farm employment were obtained from a survey undertaken last year and should perhaps be treated cautiously until a more complete analysis of the data is available.

REPORTED EMPLOYMENT BY RACE, SEX AND AGE, 1964-1967

Table 8.3

'000's

| | 1964 | 1965 | 1966 | 1967 |
|---------------|-------|-------|-------|-------|
| AFRICANS— | | | | |
| Adult males | 436.1 | 434.6 | 440.3 | 468.5 |
| Adult females | 67.0 | 71.9 | 76.6 | 65.3 |
| Juveniles | 7.8 | 6.3 | 8.4 | 9.9 |
| TOTAL | 510.9 | 512.8 | 525.4 | 543.7 |
| ASIANS— | | | | |
| Adult males | 31.7 | 30.7 | 30.8 | 31.5 |
| Adult females | 4.9 | 5.3 | 6.0 | 6.7 |
| Juveniles | 0.1 | 0.2 | 0.4 | 0.2 |
| TOTAL | 36.7 | 36.2 | 37.2 | 38.4 |
| EUROPEANS—* | | | | |
| Adult males | 10.5 | 10.1 | 9.9 | 10.3 |
| Adult females | 5.5 | 5.1 | 5.0 | 5.2 |
| TOTAL | 16.0 | 15.2 | 14.9 | 15.5 |
| ALL RACES— | | | | |
| Adult males | 478.5 | 476.4 | 484.0 | 513.9 |
| Adult females | 77.4 | 82.3 | 87.6 | 75.8 |
| Juveniles | 7.9 | 6.5 | 8.8 | 10.1 |
| TOTAL | 563.6 | 564.2 | 577.5 | 597.4 |

*No European juvenile employees have been recorded.

8. It must be emphasized that all figures refer to employment on the day of enumeration so that, particularly with respect to employment in the rural areas, there is a likelihood of seasonal factors influencing the overall level. There is as yet no information available to determine the quantitative significance of seasonal factors in either direction. Also, it is important to bear in mind the fact that many employees in agriculture and in non-agricultural rural jobs are employees for only part of the year, being self-employed on their own holdings for the rest of the year. In fact, outside the large farms, the majority of employees in the rural areas probably fall into this category. The figures presented in Table 8.4 should not therefore be taken to represent that part of the labour force which is normally in wage employment.

TOTAL WAGE EMPLOYMENT IN 1967

| | Thousands |
|----------------------------------------------|-----------|
| 1. Transferred from Table 8.1 | 597.4 |
| 2. Addition for under-enumeration | 33.9 |
| 3. Rural non-agricultural | 60.6 |
| 4. Small-holdings outside settlement schemes | 284.7 |
| Total | 976.6 |
| 5. Of which African | 922.5 |

9. A breakdown of the results of the survey of non-agricultural occupations in the rural areas by industry and province is set out in Tables 8.5 and 8.6. The preponderance of commerce and services in the total is not surprising but the figures do underline the degree to which such non-agricultural activities have developed spontaneously to supply rural needs in an environment of rising incomes from agriculture and also a growing awareness of new opportunities. In manufacturing, a narrow range of activities—milling, tailoring and shoe-making, bicycle repairs and handicrafts—accounted for 90 per cent of total employment in this sector. While this limited range of occupations is not surprising, it does suggest that considerable scope exists for the expansion of rural employment outside "traditional" fields.

WAGE EMPLOYMENT IN NON-AGRICULTURAL RURAL
OCCUPATIONS, 1967

Table 8.5

| | '000's | Per cent of Total |
|-------------------------------|--------|----------------------|
| Forestry and charcoal burning | 1.4* | 2.3 |
| Fishing | 6.1 | 10.1 |
| Quarrying | 1.6 | 2.6 |
| Manufacturing | 11.8 | 19.5 |
| Building and construction | 2.4 | 4.0 |
| Commerce | 22.6 | 37.3 |
| Transport | 1.4 | 2.3 |
| Other services | 13.3 | 21.9 |
| Total | 60.6 | 100.0 |

*Due to difficulties of access to areas of forestry and charcoal burning, there was probably a high degree of under enumeration in these occupations.

PROVINCIAL DISTRIBUTION OF WAGE EMPLOYMENT IN NON-
AGRICULTURAL RURAL OCCUPATIONS, 1967

Table 8.6

| | '000's | Per cent of Total |
|---------|--------|----------------------|
| Nyanza | 14.2 | 23.4 |
| Western | 5.4 | 8.9 |
| Rift | 6.5 | 10.7 |
| Central | 10.1 | 16.6 |
| Eastern | 18.5 | 30.5 |
| Coast | 6.0 | 9.9 |
| Total | 60.6 | 100.0 |

10. It is perhaps of interest to note that in the 55,000 establishments which were found to be engaged in business activities in the rural areas, there were over 105,000 self-employed and family workers. A majority of the owners of businesses (nearly 37,000) also owned agricultural holdings. Although no questions were asked about land ownership by employees, there can be little doubt that many of them also possessed farms. This factor does perhaps underline the difficulties in defining the nature of employment in the rural areas.

11. On the basis of the comparable series presented in Table 8.1, the growth in employment in 1967 was 3.4 per cent. But for the drop in employment on large farms, it would have been higher. Excluding the large farms, the growth in other sectors was 8.9 per cent. However, other segments of agriculture such as settlement schemes and small-holder co-operatives showed an increase during the year. Given the continued growth of small-holder agriculture, there is a strong likelihood that, had the statistical evidence been available, items 3 and 4 in Table 8.4 would also have shown an increase during the year so that the overall growth would have been higher than 3.4 per cent probably below 8.9 per cent.

Earnings*

12. The total earnings of employees, set out in Table 8.7, have continued to rise. While employment (as shown in Table 8.1) rose by 3.4 per cent, the wage bill went up by 7.6 per cent in both the public and the private sectors but within the private sector earnings in agriculture and forestry declined by K£800,000 due to the fall in agricultural employment noted earlier.

EARNINGS BY MAJOR SECTOR, 1964-1967

| Table 8.7 | K£million | | | |
|-------------------------------|-----------|-------|-------|-------|
| | 1964 | 1965 | 1966 | 1967 |
| Agriculture* and Forestry | 12.7 | 12.4 | 13.6 | 12.8 |
| Private Industry and Commerce | 48.2 | 51.9 | 58.8 | 62.9 |
| Public Sector | 43.4 | 48.4 | 54.7 | 61.1 |
| TOTAL | 104.2 | 112.7 | 127.1 | 136.8 |

*See note to Table 8.1

* The figures of earnings as shown in this chapter are not strictly comparable with the wages shown in Table 1.3 in Chapter 1 which are higher. The bulk of the difference between them is due to the inclusion in the latter of wages for the armed forces and pensions, gratuities, passages and items such as uniforms for employees. There are also differences arising out of the method of calculation. Earnings as estimated in this chapter are derived from data for the month of enumeration which is then grossed up to obtain annual data. For national accounts purposes, however, to a considerable extent, statistics of emoluments are obtained from employers for the full year. It seems that the latter figures tend to be higher.

13. In the more detailed analysis of earnings in the private sector, shown in Table 8.8, commerce has the largest share although in terms of numbers employed agriculture, manufacturing and services are larger. This is attributable to the relatively high average earnings in distribution activities, as shown in Table 8.9.

EARNINGS IN THE PRIVATE SECTOR, 1964-1967

Table 8.8

K£million

| | 1964 | 1965 | 1966 | 1967 |
|------------------------------|------|------|------|------|
| Agriculture* and forestry | 12.7 | 12.7 | 13.6 | 12.8 |
| Mining and quarrying | 0.4 | 0.4 | 0.6 | 0.7 |
| Manufacturing and repairs | 12.2 | 13.5 | 15.3 | 17.2 |
| Building and construction | 1.8 | 1.9 | 2.7 | 4.0 |
| Electricity and water | 0.9 | 1.1 | 1.2 | 1.4 |
| Commerce | 18.0 | 18.7 | 20.3 | 21.6 |
| Transport and communications | 4.9 | 6.0 | 8.1 | 7.2 |
| Other services* | 10.0 | 10.0 | 10.6 | 11.8 |
| TOTAL | 60.9 | 64.3 | 72.4 | 75.7 |

*See note to Table 8.1

AVERAGE EARNINGS PER EMPLOYEE, 1964-1967

Table 8.9

K£

| | 1964 | 1965 | 1966 | 1967 |
|------------------------------|-------|-------|-------|-------|
| THE PRIVATE SECTOR— | | | | |
| Agriculture and forestry | 60.9 | 62.0 | 65.7 | 66.5 |
| Mining and quarrying | 171.4 | 157.6 | 233.2 | 291.7 |
| Manufacturing and repairs | 240.1 | 252.8 | 288.8 | 296.0 |
| Building and construction | 193.3 | 207.1 | 258.1 | 141.2 |
| Electricity and water | 373.8 | 422.5 | 443.4 | 368.9 |
| Commerce | 379.2 | 402.0 | 430.9 | 495.4 |
| Transport and communications | 304.3 | 344.8 | 395.1 | 334.9 |
| Other services | 200.3 | 216.8 | 224.6 | 228.2 |
| PUBLIC SERVICE | 245.6 | 266.4 | 291.4 | 308.6 |
| TOTAL | 184.9 | 200.0 | 220.8 | 229.0 |

14. A comparison of relative changes in employment and average earnings is set out in Table 8.10. The relative magnitudes of changes in each reveal a disturbing situation—since 1964 average earnings have risen nearly four times faster than the growth in employment. The sharpest increase in average wages was in the relatively small mining and quarrying sector due to some rather special factors which prevailed in this sector. In building and construction, the decline in average earnings can be attributed to the large influx of low wage unskilled workers into the industry in 1967—employment nearly doubled at a time when there was almost no increase in the supply of

better paid skilled workers. Apart from the particular circumstances affecting these two sectors and excluding electricity and water, average earnings in all other sectors rose faster than employment, in some cases despite a fall in the level of employment. The rising level of earnings in the public sector has been due to wage increases not in Central Government employment but in the rest of the public sector which also includes local authorities and the "general fund" and self-contained services of the East African Community.

CHANGES IN EMPLOYMENT AND EARNINGS, 1965-1967

Table 8.10

Percentages

| | 1965-66 | | 1966-67 | | 1964-67 | |
|------------------------------|------------|------------------|------------|------------------|------------|------------------|
| | Employment | Average Earnings | Employment | Average Earnings | Employment | Average Earnings |
| THE PRIVATE SECTOR— | | | | | | |
| Agriculture and forestry | 0.8 | 6.0 | -4.6 | 1.2 | -5.7 | 9.2 |
| Mining and quarrying | 4.3 | 48.0 | Nil | 25.0 | 4.3 | 70.1 |
| Manufacturing and repairs | -0.8 | 14.2 | 9.6 | 2.5 | 14.8 | 23.2 |
| Building and construction | 15.4 | 24.6 | 105.8 | -45.3 | 130.1 | -27.0 |
| Electricity and water | 6.7 | 4.9 | 40.7 | -16.9 | 52.0 | -1.4 |
| Commerce | 1.1 | 7.1 | -7.4 | 15.0 | -7.8 | 30.6 |
| Transport and communications | 17.8 | 11.5 | 4.9 | -15.2 | 33.5 | 10.0 |
| Other services | 2.0 | 3.6 | 9.1 | 1.6 | 3.2 | 13.9 |
| PUBLIC SERVICES | 3.0 | 9.4 | 5.5 | 5.9 | 12.1 | 25.7 |
| TOTAL | 2.4 | 10.4 | 3.4 | 3.7 | 6.0 | 23.9 |

15. There can be little doubt that the very fact of wages rising rapidly has been primarily responsible for the very slow growth of employment in the country. Apart from slowing down the growth of employment (an increase in which is one of the major objectives of the Development Plan), rapid increases in wages also have other consequences which can in fact slow down the overall rate of growth in the economy. In a country heavily dependent on exports of primary products, a disproportionate increase in wages can only have the effect of weakening its competitive ability in international markets and therefore slow down the growth of such exports. An additional new factor which will become increasingly important is the operation of transfer taxes on manufactured goods exported from Kenya to Uganda and Tanzania. These taxes, by raising the prices of Kenya's goods in these two countries, make it even more important that the factors (including wages) which affect the country's ability to sell in the East African market should be influenced in such a way as to ensure that levels of trade which are vital to the economy are not reduced.

16. Because of the profound effects on employment, on the distribution of incomes and on the growth of the economy of unrestrained wage increases, the Government intends to introduce an incomes policy which will attempt to

relate changes in wage levels to real increases in productivity and, at the same time, incorporate measures to prevent undue increases in consumer prices.

17. An attempt is made in Table 8.11 to show for 1957 total earnings comparable to total employment as estimated in Table 8.4.

TOTAL EARNINGS IN WAGE EMPLOYMENT, 1967

| <i>Table 8.11</i> | <i>K£million</i> |
|----------------------------------------------|------------------|
| 1. Transferred from Table 8.7 | 136.8 |
| 2. Additions for under enumeration | 3.6 |
| 3. Rural non-agricultural | 2.7 |
| 4. Small-holdings outside settlement schemes | 5.1 |
| TOTAL | 148.2 |

Consumer Prices

18. A gradual upward movement in consumer prices which began in the middle of 1966 continued into the first half of 1967. Since then, however, the general level of consumer prices has remained virtually unchanged, increases in the prices of some items being neutralized by falls elsewhere. Movements in the Index of Wage Earners' incomes and the Index of Middle Incomes are set out in Table 8.12. The Wage Earners' or low income index is based on the expenditure and consumption patterns in Nairobi of African workers with a monthly income of less than KSh. 300 per month or K£120 per annum and the middle income index on similar patterns for African middle class residents of Nairobi with an annual income varying from K£200-K£750. During 1967, the former index rose by 2 points and the latter by 3.

RELATIVE CHANGES IN CONSUMER PRICE INDICES, DECEMBER 1964 TO APRIL, 1968
(JULY 1964=100)

Table 8.12

| | Dec. 1964 | Dec. 1965 | Dec. 1966 | June 1967 | Dec. 1967 | April 1968 |
|-----------------------------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Low Income Index (Nairobi Wage-Earners Index) | 101 | 107 | 110 | 113 | 112 | 112 |
| Middle Income Index (Nairobi) | 100 | 102 | 107 | 110 | 110 | 110 |

19. The main reason for the rise in the price level from the middle of 1966 was increases in the prices of food items such as maize, rice and some vegetables. However, abundant supplies and tighter price control for maize

led to a drop in its price. Later on, cheaper beef and rice (also following tighter price control) accounted for further drops in the food sub-group. The effects of new duties imposed in the 1967 budget on textiles and beverages were counter-balanced by lower food prices. Changes in the major sub-groups within each index are set out in Tables 8.13 and 8.14.

NAIROBI WAGE EARNER'S INDEX OF CONSUMER PRICES
(Base: July 1964 = 100)

Table 8.13

| Year/Month | Food | Beverages and Tobacco | Clothing and Footwear | Fuel and Light | Household Operation | Personal Care and Health | Recreation and Entertainment | Transport | Miscellaneous | Group |
|---------------|------|-----------------------|-----------------------|----------------|---------------------|--------------------------|------------------------------|-----------|---------------|-------|
| 1964—December | 100 | 100 | 100 | 99 | 105 | 100 | 100 | 100 | 100 | 100.6 |
| 1965—December | 114 | 106 | 103 | 100 | 115 | 35 | 100 | 100 | 100 | 107.2 |
| 1966—December | 116 | 107 | 103 | 101 | 128 | 37 | 100 | 100 | 100 | 109.7 |
| 1967— | | | | | | | | | | |
| March .. | 116 | 107 | 102 | 107 | 128 | 37 | 100 | 100 | 100 | 110.3 |
| June .. | 122 | 107 | 104 | 104 | 127 | 37 | 100 | 100 | 100 | 113.3 |
| September | 119 | 110 | 104 | 105 | 132 | 39 | 117 | 100 | 100 | 111.9 |
| December | 119 | 110 | 102 | 103 | 131 | 40 | 117 | 100 | 100 | 111.8 |
| 1968— | | | | | | | | | | |
| January. . | 119 | 110 | 103 | 104 | 129 | 40 | 117 | 100 | 100 | 111.8 |
| February | 117 | 110 | 103 | 104 | 130 | 40 | 117 | 100 | 100 | 110.8 |
| March .. | 118 | 110 | 103 | 104 | 130 | 40 | 117 | 100 | 100 | 111.6 |
| April | 118 | 110 | 104 | 104 | 130 | 40 | 117 | 100 | 100 | 111.6 |

NAIROBI MIDDLE INCOME INDEX OF CONSUMER PRICES
(Base: July 1964=100)

Table 8.14

| Year/ Month | Food | Beverages and Tobacco | Clothing and Footwear | Furniture and Utensils | Fuel, Light and Water | Household Operation | Personal Care and Health | Recreation and Entertainment | Transport and Travel | Miscellaneous | All Groups |
|-------------|------|-----------------------|-----------------------|------------------------|-----------------------|---------------------|--------------------------|------------------------------|----------------------|---------------|------------|
| 1964— | | | | | | | | | | | |
| Dec. | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100.0 |
| 1965— | | | | | | | | | | | |
| Dec. | 108 | 105 | 102 | 100 | 100 | 101 | 48 | 100 | 104 | 99 | 102.4 |
| 1966— | | | | | | | | | | | |
| Dec. | 112 | 104 | 107 | 109 | 102 | 108 | 50 | 111 | 112 | 99 | 106.7 |
| 1967— | | | | | | | | | | | |
| March | 113 | 104 | 106 | 109 | 106 | 108 | 50 | 111 | 111 | 99 | 107.1 |
| June | 116 | 109 | 110 | 108 | 106 | 105 | 50 | 111 | 112 | 99 | 109.6 |
| Sept. | 115 | 109 | 110 | 101 | 106 | 105 | 51 | 111 | 113 | 99 | 108.6 |
| Dec. | 116 | 109 | 113 | 103 | 108 | 106 | 53 | 111 | 113 | 99 | 109.6 |
| 1968— | | | | | | | | | | | |
| Jan. | 116 | 109 | 113 | 103 | 109 | 106 | 54 | 111 | 113 | 99 | 109.9 |
| Feb. | 116 | 109 | 113 | 103 | 109 | 106 | 54 | 111 | 113 | 99 | 109.6 |
| March | 116 | 109 | 115 | 104 | 109 | 106 | 54 | 111 | 113 | 99 | 109.8 |
| April | 116 | 109 | 115 | 104 | 109 | 105 | 54 | 111 | 113 | 99 | 109.7 |

CHAPTER 9—PUBLIC FINANCE IN THE ECONOMY

Since Independence, the Government has pursued its economic and social policies through the national Development Plan covering the period 1964-70. The administrative machine and important publicly-owned organizations existed from the outset and it has been largely by an extension of the activities of these and the creation of new public institutions that the Government has influenced the direction and pace of economic events in the economy as a whole. The private sector is by definition in large measure independent although even there the direction and pace of events has been influenced by Government's policies towards business licensing, staffing, and by the exercise of indirect control through its investment agencies. The implementation of programmes designed to accelerate the growth of the private sector and to promote greater participation by Kenya citizens are only now bearing strongly on events.

2. The acceleration of economic growth and the re-shaping of the economy since Independence has therefore rested quite heavily on the development of public sector institutions and the influence Government wields on the economy through both the development and recurrent budget. This chapter is concerned with the impact on the economy of what is described in the national accounts as "General Government", covering in the main the administrative and social functions of central and local government, the East African Community and Statutory Boards. The "enterprise" functions of Government are discussed in the relevant sector chapters of this *Survey*, depending on their classification for national accounts purposes. However, in order to put the public sector of the economy into perspective as a whole, the contribution of all public sector activities to gross domestic product is set out in Table 9.1. The rate of growth of the public sector since 1963 has been equivalent to 8.7 per cent per annum compared with 7.6 per cent for total monetary GDP. This means that the public sector contributed 30.7 per cent of the total in 1963 and 31.9 per cent in 1967. It is, perhaps, significant that the central government proper accounts for 13.6 per cent of total monetary G.D.P. in 1967, the East African Community (through its Kenya activities only) contributes as much as 12.2 per cent. Local authorities are responsible for 2.4 per cent and statutory boards and organizations account for the remainder.

In so far as the central government is able to determine the level and direction of its own total expenditure, and, within the limits set by taxation capacity, its own revenue, its influence on the economy can be very much greater than its share of GDP might suggest. Central Government activities can influence the level of demand in the economy through the proportion of total resources it takes out in the form of taxes or releases to pay for government services. Its influence can be inflationary or deflationary depending on the surplus or deficit policies followed, its methods of financing government activities and the wage policy it adopts towards its own employees.

CONTRIBUTION OF THE PUBLIC SECTOR TO GROSS DOMESTIC PRODUCT

Table 9.1

£million

| | 1963 | | | | | 1967 (Provisional) | | | | |
|--------------------------------------|---------------|----------------|-------------------|-------------------|-------|--------------------|----------------|-------------------|-------------------|-------|
| | Central Govt. | E.A. Community | Statutory +Boards | Local Authorities | Total | Central Govt. | E.A. Community | Statutory +Boards | Local Authorities | Total |
| GENERAL GOVT. SECTOR | | | | | | | | | | |
| General Administration | 4.0 | 1.6 | — | 1.5 | 7.1 | 5.0 | 2.0 | — | 1.8 | 8.9 |
| Justice and Police | 8.7 | — | — | — | 8.8 | 9.5 | 0.1 | — | — | 9.6 |
| Defence | 1.4 | — | — | — | 1.4 | 3.9 | — | — | — | 3.9 |
| Education | 3.3 | — | 0.5 | 3.1 | 6.9 | 3.9 | — | 0.8 | 7.7 | 12.4 |
| Health services | 2.4 | — | — | 1.4 | 3.9 | 3.3 | — | — | 1.8 | 5.1 |
| Agricultural and Veterinary services | 3.6 | 0.3 | 0.1 | 0.1 | 4.0 | 4.2 | 0.4 | 0.1 | 0.2 | 4.9 |
| Other General services | 1.5 | 0.8 | — | 0.7 | 3.0 | 3.2 | 0.9 | — | 0.8 | 4.9 |
| Total General Government | 25.0 | 2.8 | 0.5 | 6.9 | 35.3 | 33.0 | 3.5 | 0.9 | 12.2 | 49.7 |
| ENTERPRISE SECTOR | | | | | | | | | | |
| Agriculture | — | — | — | — | — | — | — | 0.1 | — | 0.1 |
| Forestry | 0.9 | — | — | — | 0.9 | 1.2 | — | — | — | 1.2 |
| Manufacturing | 0.6 | 3.8 | 1.1 | 0.1 | 5.5 | 0.7 | 4.9 | 1.4 | 0.1 | 7.2 |
| Construction | 1.4 | 0.9 | — | 0.5 | 2.9 | 2.9 | 1.1 | — | 0.7 | 4.7 |
| Electricity and Water | 0.4 | — | 0.3 | 0.8 | 1.4 | 0.5 | — | 0.4 | 0.9 | 1.8 |
| Transport and Communications | 0.3 | 16.3 | — | — | 16.7 | 0.4 | 22.7 | — | — | 23.1 |
| Wholesale and Retail Trade | — | — | 0.1 | — | 0.1 | — | — | 0.6 | — | 0.6 |
| Banking and Insurance | — | — | 2.4 | — | 2.4 | — | — | 3.9 | — | 3.9 |
| Ownership of Dwellings | 2.3 | 1.4 | — | 0.1 | 3.8 | 2.3 | 1.4 | — | 0.1 | 3.8 |
| Total Enterprises | 5.8 | 22.5 | 3.8 | 1.4 | 33.5 | 8.0 | 30.2 | 6.4 | 1.7 | 46.2 |
| TOTAL PUBLIC SECTOR | 30.8 | 25.3 | 4.4 | 8.3 | 68.8 | 41.0 | 33.7 | 7.3 | 14.0 | 95.9 |

*Including E.A.A., E.A.P. and T., E.A.R. & H.

+Including Government Banks, and Public Enterprises.

3. The out-turn of Central Government expenditure and revenue over the last ten years is set out in Table 9.2. The current year's (1967/68) out-turn must be regarded as tentative at this stage and an approximate balance for the year may be achieved rather than a deficit of K£1.3 million as shown. The reason for this is that although revenues have been forecast on the basis of the likely actual receipts of taxes in the year, the expenditure estimates are based largely on the estimates of expenditure put before Parliament. Development expenditures have been reduced to a level that seems likely. Experience of previous years suggest that these approved expenditures will not be achieved in total. At this time last year, the *Economic Survey* showed an estimated deficit of K£4.2 million although it noted that the final out-turn was more likely to be a small surplus such as was actually achieved.

OUT-TURN OF CENTRAL GOVERNMENT REVENUE AND EXPENDITURE,
1958/59-1967/68

Table 9.2

K£million

| | REVENUE | | | EXPENDITURE | | | Surplus Deficit |
|----------------|----------------|------------------|-------|----------------|------------------|-------|--------------------|
| | Re- current | Develop- ment | Total | Re- current | Develop- ment | Total | |
| 1958-59 | 38.27 | 6.15 | 44.42 | 38.09 | 8.02 | 46.11 | -1.69 |
| 1959-60 | 38.51 | 7.57 | 46.08 | 38.25 | 8.11 | 46.36 | -0.28 |
| 1960-61 | 41.36 | 9.18 | 50.54 | 43.27 | 7.68 | 50.94 | -0.40 |
| 1961-62 | 44.41 | 9.26 | 53.67 | 45.22 | 71.6 | 52.37 | +1.29 |
| 1962-63 | 46.82 | 11.40 | 58.21 | 48.34 | 9.40 | 57.73 | +0.48 |
| 1963-64 | 55.57 | 13.26 | 68.83 | 54.04 | 14.08 | 68.13 | +0.70 |
| 1964-65 | 57.20 | 15.83 | 73.02 | 56.92 | 13.62 | 70.54 | +2.49 |
| 1965-66 | 62.36 | 11.11 | 73.47 | 63.26 | 14.25 | 77.52 | -4.06 |
| 1966-67 | 71.05 | 14.49 | 85.54 | 68.53 | 16.35 | 84.88 | +0.66 |
| 1967-68 (Est.) | 76.72 | 18.01 | 94.73 | 76.06 | 19.99 | 96.05 | -1.32 |

4. As in previous issues of the *Economic Survey*, it is perhaps necessary to emphasize that there are differences between the totals of revenue and expenditure of Central Government as shown in the tables in this chapter, and those appearing in the Government Appropriation Accounts and Estimates. The principal reasons for these are: —

- (a) The division of the Estimates into Recurrent and Development Accounts causes transfers of various expenditure items from one account to the other. The figures included in this chapter eliminate any resultant double counting.
- (b) Both revenue and expenditure are given here gross of collection costs for income tax and customs and excise taxes, and Appropriation-in-Aid (the revenue earned by Departments by the provision of goods and services and appropriated to meet their own expenditure) instead of net as voted in the Budget.
- (c) All regional expenditure incurred in 1963/64 and 1964/65 before the constitution was amended, has been included in the Central Government expenditure so as to maintain comparability over time.
- (d) All expenditure in Kenya undertaken through the Overseas Aid Scheme for British expatriate civil servants (O.S.A.S.) is included; and also statutory expenditure (on pensions, public debt, etc.) from the Consolidated Fund.

5. As last year, the actual expenditures on both Recurrent and Development account may be less than shown for 1967/68. The shortfall in expenditure compared with the estimates is, however, likely to be less than occurred last year as a result of some success in tightening up in plan implementation procedures and also because development expenditures have been adjusted

down to the level likely to be achieved. A substantial part of development expenditures consists of individual projects which can only be initiated after funds are provided *ad hoc*. When this happens, the normal impetus built up by day to day services is lacking and delays in obtaining sites, drawing up plans, obtaining agreement to plans, often with external donors, inevitably cause shortfalls in development expenditure when budgeting is on a year to year basis. Too much should not therefore be made of this shortfall although the Government continued to seek ways to improve the efficiency of plan implementation during the year and there is no doubt that further room for such improvement still exists.

6. Over the last ten years, recurrent expenditure grew by 8.0 per cent per annum, development expenditure 10.9 per cent per annum and total expenditure 8.5 per cent per annum. Since 1962/63, the last full financial year before independence, recurrent expenditure has risen by 9.5 per cent per annum, development expenditure by 16.2 per cent per annum and total expenditure by 10.8 per cent per annum. These rates of growth do not take into account the likely under-expenditure against the estimates in 1967/68 but neither do they take into account the fact that the expenditure totals since 1962/63 include expenditures under the British Overseas Aid Scheme for expatriate civil servants, the costs of which are fully recovered from the British Government. The expenditures under the scheme passing through the Kenya Government accounts over the last five years are shown in Table 9.3. These can be subtracted from total expenditure in each year: it is not possible to allocate as between the recurrent and development budgets.

PAYMENTS UNDER THE OVERSEAS SERVICE AID SCHEME

Table 9.3

K£'000

| | 1963/64 | 1964/65 | 1965/66 | 1966/67 | 1967/68 Estimates |
|-------------------------|---------|---------|---------|---------|----------------------|
| Overseas addition | 1,456 | 1,572 | 1,436 | 1,076 | 324 |
| Education allowances.. | 109 | 88 | 109 | 66 | 3 |
| Pensions and gratuities | 262 | 232 | 225 | 259 | 270 |
| Compensation | 2,782 | 1,800 | 1,629 | 1,505 | 1,500 |
| Passages | 349 | 292 | 145 | 184 | 207 |
| TOTAL | 4,958 | 3,982 | 3,544 | 3,087 | 2,304 |

It will be observed that O.S.A.S. expenditures have fallen quite rapidly over this period and they will fall further in 1968/69. If these expenditures are subtracted from total government expenditure in each year, the rate of growth since 1962/63 is shown to be 11.4 per cent per annum.

7. The rapid acceleration of Government spending since Independence, particularly on the Development Account, is well brought out by these figures.

They underline the importance of Government spending on the overall level and direction of economic activity. In so far as Government spending is financed by unutilised domestic resources or by attracting external resources, the overall level of economic activity is higher. In so far as this spending is financed by taxation or by drawing off domestic resources in the form of local loans, its effect is to change the direction and structure of the economy. It will be apparent from later sections of this chapter that the influence of Central Government spending has been to raise the overall level of economic activity while making significant changes in its direction.

8. In the Development Plan, the Government set itself a rule to restrain the expansion of the recurrent budget to an annual growth rate of 7 per cent. It has become clear that in its efforts to hold to this target the Government itself was imposing a restraint on development since many if not all development projects carry implications for recurrent expenditure: there is no point in building a new school if there is no money to pay teachers to teach in it. It has been necessary, therefore, to relax the limit on recurrent expenditure growth in order to remove this constraint. But the actual rate of growth since 1963/64 has been within reasonable limits of the plan objective and cannot be regarded as inflationary or as a serious diversion of development resources, particularly as there were no significant changes in Government wage rates until the early part of 1968.

9. Table 9.4 sets out a functional analysis of all Central Government expenditures over the period since 1962/63. Since that year, expenditures have increased as follows:—

| | <i>percentage</i> |
|---------------------------------|-------------------|
| General Services | 91 |
| Financial obligations | 81 |
| Economic and community services | 60 |
| Social Services | 51 |
| | <hr/> |
| TOTAL EXPENDITURE | 66 |
| | <hr/> |

General services which include mainly administration, law and order and defence have gone up faster than all other expenditures. The reason for this is mainly the sharp increase in defence costs. Prior to Independence virtually all defence costs were borne by the British Government and it has been necessary to take up all these expenditures since. Over and above this, the security situation in North Eastern Province meant that the rapid build-up of defence forces was inescapable. Recent agreements with the Somali Republic should allow a levelling off in defence costs in future years. If defence expenditures are excluded, the cost of General Services increased by only 42 per cent over this period.

RECURRENT AND DEVELOPMENT EXPENDITURE ON MAIN SERVICES, 1962/1963-1967/1968

Table 9.4

K£million

| | 1962/63 | 1963/64 | 1964/65 | 1965/66 | 1966/67 | 1967/68 Estimate |
|------------------------------------------------------|---------|---------|---------|---------|---------|---------------------|
| GENERAL SERVICES— | | | | | | |
| Administration and Foreign Affairs | 3.34 | 3.82 | 4.98 | 4.73 | 4.76 | 5.45 |
| Law and Order | 8.22 | 8.17 | 8.16 | 8.83 | 9.81 | 10.95 |
| Defence | 0.17 | 1.16 | 3.04 | 4.03 | 5.29 | 6.80 |
| Revenue Collection and Financial Control | 1.59 | 1.46 | 1.66 | 1.76 | 2.39 | 2.28 |
| TOTAL | 13.31 | 14.61 | 17.83 | 19.35 | 22.25 | 25.48 |
| FINANCIAL OBLIGATIONS— | | | | | | |
| Public Debt | 4.66 | 5.20 | 6.36 | 7.71 | 8.33 | 8.53 |
| International Monetary Organization Subscriptions | — | 1.05 | — | 0.71 | 0.37 | 0.22 |
| Pensions and Gratuities | 2.59 | 4.41 | 3.86 | 3.77 | 3.93 | 4.02 |
| Compensation Payments | 1.65 | 5.59 | 3.60 | 3.25 | 2.98 | 2.89 |
| Passages and leave expenses. | 0.82 | 0.95 | 0.66 | 0.62 | 0.51 | 0.58 |
| Transfers to local authorities | 1.53 | 0.92 | 2.47 | 4.14 | 2.89 | 4.08 |
| TOTAL | 11.24 | 18.14 | 16.96 | 20.19 | 19.00 | 20.32 |
| ECONOMIC AND COMMUNITY SERVICES— | | | | | | |
| Agriculture and Veterinary | 10.53 | 13.46 | 12.74 | 11.09 | 10.49 | 11.80 |
| Forestry | 0.88 | 0.92 | 1.11 | 1.19 | 1.76 | 1.60 |
| Game and National Parks | 0.34 | 0.35 | 0.47 | 0.59 | 0.93 | 1.07 |
| Transport and roads | 3.75 | 3.82 | 3.41 | 5.65 | 6.39 | 7.57 |
| Other (including water supplies) | 1.72 | 2.09 | 2.82 | 3.27 | 4.78 | 5.52 |
| TOTAL | 17.22 | 20.63 | 20.55 | 21.79 | 24.36 | 27.56 |
| SOCIAL SERVICES— | | | | | | |
| Education | 7.96 | 7.39 | 6.81 | 6.89 | 7.92 | 10.25 |
| Health | 3.41 | 3.05 | 3.16 | 3.72 | 4.07 | 5.82 |
| Other (Labour, Community Development, Housing, etc.) | 1.50 | 1.11 | 2.35 | 2.82 | 4.17 | |
| TOTAL | 12.87 | 11.55 | 12.33 | 13.44 | 16.17 | 19.50 |
| UNALLOCABLE | 3.09 | 3.19 | 2.86 | 2.75 | 3.11 | 3.18 |
| TOTAL EXPENDITURE | 57.73 | 68.13 | 70.54 | 77.52 | 84.88 | 96.05 |

| Year as at 30th June | TOTAL DEBT* | | | Total Sinking Fund at Market Value | Gross Annual Debt Servicing Charges** | Interest and Loan Repay- ments Receipts | Net Cost of Servicing Charges |
|-------------------------|-------------|----------|--------|------------------------------------------------|---------------------------------------------------|-----------------------------------------------------|----------------------------------------|
| | External | Internal | Total | | | | |
| 1958 | 40.64 | 13.86 | 54.51 | 3.75 | 2.45(1.99) | 0.69 | 1.76 |
| 1959 | 39.81 | 17.61 | 57.42 | 4.39 | 2.60(2.09) | 1.24 | 1.36 |
| 1960 | 44.26 | 18.64 | 62.90 | 4.72 | 2.83(2.34) | 1.13 | 1.70 |
| 1961 | 51.32 | 17.85 | 69.17 | 5.33 | 3.40(2.73) | 1.51 | 1.89 |
| 1962 | 57.24 | 18.20 | 75.44 | 5.28 | 4.14(3.29) | 1.75 | 2.39 |
| 1963 | 64.95 | 18.04 | 82.99 | 6.67 | 4.66(3.66) | 1.83 | 2.83 |
| 1964 | 68.12 | 17.99 | 86.11 | 7.88 | 5.21(4.05) | 2.04 | 3.17 |
| 1965 | 76.91 | 18.53 | 95.44 | 9.05 | 6.36(4.41) | 2.82 | 3.54 |
| 1966 | 86.10 | 19.34 | 105.44 | 9.99 | 7.71(4.73) | 2.89 | 4.81 |
| 1967 | 91.11 | 27.49 | 118.60 | 11.22 | 8.33(5.25) | 3.60 | 4.73 |

*Excluding short term borrowing.

**Interest payments shown in brackets.

12. During the early years of the nineteen-sixties, market conditions in Kenya did not allow increases in internal debt and all new loans were obtained from external sources. In the last two years, this position has changed and total loans of K£9.1 million have been raised locally. Of this total, K£3.9

million was taken up by the National Social Security Fund up to the end of 1967. The Fund is not only providing a means of saving and social security for the wage earners—frequently for the first time—but also an important source of development finance for the Plan.

13. Total external public debt has continued to grow—it has increased by 124 per cent over the last ten years. In 1966/67, however, the Development Exchequer received a lower total of external loans than in any year since 1962/63. Apart from the obvious additionality to funds for development, loans raised from external sources have the further significant advantage at this stage of Kenya's development in that they provide foreign exchange to ease the balance of payments problem arising from higher levels of imported development equipment inevitably required to accelerate economic growth. It is clear from the balance of payments statistics set out in Chapter 1 that Kenya would have had to face the difficult choice between an adverse balance of payments or a cut in development expenditure if these external loans had not been available. To a certain extent, of course, the lower level of development spending would have been almost inevitable since most external loans are provided for specific projects. However, although external loans have facilitated the increase in development spending in recent years, the problem of public debt servicing would become quite serious in the next few years if it were not for the possibility that stocks can normally be converted.

14. Economic and community services are estimated at K£27.6 million in 1967/68 compared with K£17.2 in 1962/63, a rise of 60 per cent. However, if agricultural expenditures, which are discussed separately below, are excluded, the cost of these services is seen to have risen by 136 per cent. Over this period, expenditure on forestry have nearly doubled, on game and national parks nearly quadrupled while those on roads and transport have more than doubled.

15. The trunk roads programme which in absolute terms has taken a significant share of the increase in development expenditure is now well under way and expenditures are now likely to level out after 1970. Road development is discussed further in Chapter 7. Expenditures on water supplies have risen from K£0.92 million in 1962/63 to K£2.34 million in 1967/68. These expenditures should, however, be seen in conjunction with similar expenditures of local authorities and the efforts being made by self-help groups to improve water facilities in the rural areas.

16. Having regard to the importance of agriculture in the Kenya economy and the emphasis placed by the Government on agricultural development in the Plan, the trend of agricultural expenditures might seem surprising. For many years, expenditures on agricultural services have been higher than those on other services. In 1967/68 it is expected (on the basis of the estimates) that expenditures on educational services will exceed those on agriculture

for the first time, since the latter have changed little over the last five years. The reasons for this are two-fold. Firstly, agricultural development in the first few years after Independence was dominated by the land resettlement programme, the expenditures for which reached a peak in 1963/64. The share of settlement expenditures in the total is shown in Table 9.6 and it is clear that when the cost of the land purchase programme is subtracted from the total, agricultural development expenditures have in fact been rising. Expenditures on land settlement have now levelled off at a lower level and an increasing share of agricultural services should be devoted to raising the level of agricultural efficiency, although in the current year K£2 million has to be spent to meet losses on maize exports.

CENTRAL GOVERNMENT EXPENDITURE ON AGRICULTURE AND SETTLEMENT
1962/63-1967/68

| MINISTRY OF SETTLEMENT | | | | | Other Agricultural and Veterinary Expenditure | Total |
|------------------------|------------------|---------------------------|-------|------|-----------------------------------------------------------|-------|
| Recurrent | Development | | Total | | | |
| | Land Purchase | Other Develop- ment | | | | |
| 1962/63 | 0.31 | 2.35 | 1.25 | 3.91 | 6.62 | 10.53 |
| 1963/64 | 0.37 | 4.26 | 2.98 | 7.61 | 5.85 | 13.46 |
| 1964/65 | 0.23 | 3.73 | 2.86 | 6.82 | 5.92 | 12.74 |
| 1965/66 | 0.67 | 1.19 | 1.90 | 3.76 | 7.33 | 11.09 |
| 1966/67 | 0.42 | 0.39 | 1.57 | 2.38 | 8.11 | 10.49 |
| 1967/68 (Est.) | 0.33 | 0.16 | 1.58 | 2.07 | 9.73 | 11.80 |

17. Education and health expenditures have started to rise steeply, in both cases due to higher capital spending. Central Government spending on education fell after Independence as a result of the transfer of responsibility for primary education to local authorities—the education expenditure of which can be seen in tables 9.16 and 9.20. The Central Government remains responsible for secondary education and in 1967/68 the estimated level of expenditure on this rose by 29 per cent. This steep rise was occasioned by the initiation of a new programme of secondary school building financed under an agreement with the International Development Association. Expenditures on this programme are likely to move higher in the coming year.

18. The rise in health spending was also the result of rising capital spending, particularly to provide medical training facilities in Kenya for the first time. The first in-take of students at the new Nairobi Medical School was in 1967.

CENTRAL GOVERNMENT
ECONOMIC ANALYSIS OF EXPENDITURE, 1962/63-1966/67

Table 9.7

K£million

| | 1962/63 | 1963/64 | 1964/65 | 1965/66 | 1966/67 |
|-----------------------------------------------------------|---------|---------|---------|---------|---------|
| RECURRENT EXPENDITURE | | | | | |
| CONSUMPTION EXPENDITURE ON GOODS AND SERVICES— | | | | | |
| <i>Wages and Salaries:</i> | | | | | |
| Personal Emoluments | 18.14 | 18.29 | 20.04 | 20.53 | 22.99 |
| House Allowances | 0.74 | 0.71 | 0.72 | 0.81 | 0.83 |
| Passages and Leave Expenses | 0.82 | 0.95 | 0.66 | 0.62 | 0.51 |
| Contribution to Pensions Fund | 0.41 | 0.57 | 0.45 | 0.45 | 0.45 |
| Pay and allowances to Armed Forces: | | | | | |
| Military | 0.12 | 0.71 | 1.96 | 2.38 | 3.14 |
| Pensions and Gratuities | 0.08 | 0.07 | 0.07 | 0.07 | 0.09 |
| Total | 20.30 | 21.30 | 23.92 | 24.87 | 28.01 |
| <i>Other Goods and Services:</i> | | | | | |
| Rent of Fixed Assets:— | | | | | |
| (a) Residential | 0.15 | 0.16 | 0.17 | 0.19 | 0.25 |
| (b) Non-residential and other | 0.15 | 0.17 | 0.20 | 0.21 | 0.29 |
| Maintenance and repairs | 0.90 | 0.86 | 1.73 | 2.13 | 1.83 |
| Travelling expenses | 0.92 | 1.18 | 1.73 | 1.98 | 2.35 |
| Collection costs of income tax, customs and excise duties | 0.76 | 0.74 | 0.75 | 0.90 | 1.04 |
| Miscellaneous other goods and services .. | 4.10 | 4.91 | 6.26 | 7.23 | 8.02 |
| Total | 6.99 | 8.02 | 10.84 | 12.64 | 13.78 |
| SUBSIDIES— | | | | | |
| To agriculture | 0.64 | 0.33 | 0.27 | 0.75 | 0.53 |
| To other sectors | 0.12 | 0.08 | 0.01 | 0.03 | 0.09 |
| Total | 0.76 | 0.41 | 0.28 | 0.78 | 0.62 |
| INTEREST— | | | | | |
| External Debt | 2.66 | 2.94 | 3.26 | 3.46 | 3.74 |
| Internal Debt | 1.00 | 1.11 | 1.14 | 1.27 | 1.51 |
| Total | 3.66 | 4.05 | 4.41 | 4.73 | 5.25 |
| OTHER TRANSFERS— | | | | | |
| To Household and Unincorporated Enterprises | | | | | |
| (a) Persons (including pensions) | 4.00 | 5.13 | 4.24 | 4.13 | 4.36 |
| (b) Private non-profit educational institutions | 4.78 | 4.46 | 4.09 | 4.56 | 3.62 |
| (c) Other private non-profit institutions | 0.21 | 0.13 | 0.32 | 0.22 | 0.25 |
| To rest of the world | 1.39 | 5.94 | 3.49 | 3.97 | 3.40 |
| To Other General Government | | | | | |
| Agencies: Local Government | 1.71 | 1.03 | 2.42 | 3.45 | 2.99 |
| E.A. Community | 0.22 | 0.13 | 0.13 | 0.21 | 0.12 |
| Land Settlement | 1.94 | 2.81 | 2.29 | 0.93 | 0.69 |
| Miscellaneous including Road Authority | 3.26 | 2.89 | 0.47 | 0.22 | 1.73 |
| Total | 17.50 | 22.53 | 17.45 | 17.69 | 17.16 |
| TOTAL RECURRENT EXPENDITURE | 49.21 | 56.32 | 56.90 | 60.73 | 64.79 |

CENTRAL GOVERNMENT
ECONOMIC ANALYSIS OF EXPENDITURE, 1962/63-1966/67—(Contd.)

Table 9.7 *K£million*

| | 1962/63 | 1963/64 | 1964/65 | 1965/66 | 1966/67 |
|---------------------------------------------|---------|---------|---------|---------|---------|
| CAPITAL EXPENDITURE | | | | | |
| GROSS CAPITAL FORMATION— | | | | | |
| Residential buildings | 0.29 | 0.29 | 0.25 | 0.46 | 0.49 |
| Non-residential buildings | 0.74 | 0.80 | 0.99 | 1.25 | 1.62 |
| Construction and works | 2.00 | 1.06 | 2.12 | 3.11 | 5.42 |
| Plant, machinery and equipment | 0.58 | 0.48 | 0.52 | 0.88 | 1.42 |
| Vehicles | 0.41 | 0.49 | 0.50 | 0.69 | 0.86 |
| Land | — | 0.02 | 0.05 | 0.04 | 0.21 |
| TOTAL | 4.03 | 3.15 | 4.43 | 6.43 | 10.01 |
| LOANS TO OTHER SECTORS— | | | | | |
| To Household and Unincorporated Enterprises | 0.48 | 0.32 | 0.21 | — | — |
| To Corporations | 0.55 | 1.27 | 1.05 | 2.87 | 3.75 |
| To Other General Government Agencies | 2.47 | 4.79 | 4.82 | 2.81 | 2.86 |
| Total | 3.50 | 6.38 | 6.08 | 5.68 | 6.61 |
| LOAN REPAYMENTS— | | | | | |
| External Debt | 0.48 | 1.75 | 1.79 | 2.86 | 2.84 |
| Internal Debt | 0.01 | 0.01 | 0.84 | 1.31 | 0.09 |
| Sinking Fund | 0.53 | 0.51 | 0.51 | 0.51 | 0.55 |
| Total | 1.00 | 2.27 | 3.13 | 4.68 | 3.47 |
| TOTAL CAPITAL EXPENDITURE .. | 8.52 | 11.80 | 13.64 | 16.78 | 20.10 |
| TOTAL EXPENDITURE | 57.3 | 68.13 | 70.54 | 77.52 | 84.88 |

19. So far, the discussion in this chapter has been confined to trends in expenditure relating to the various functions of the Central Government. It is also relevant to consider an economic analysis of these expenditures showing on what the Government actually spends its money. In 1966/67, K£28 million or 33 per cent of the total expenditure was used for the payment of wages and salaries. Four years previously, in 1962/63, wages and salaries accounted for slightly more of the total, nearly 35 per cent. Over the same period, capital expenditures increased by 136 per cent, accounting for 15 per cent of the total in 1962/63 and 24 per cent in 1966/67. Direct capital formation by Government has risen by 148 per cent over the period.

20. These increases in capital expenditures have been achieved in part at least as a result of applying strict control over the level of salaries the Government pays to its employees. If it had conceded to pressures for wage increases over this period, it would not have been able to advance development expenditures in the way it has while at the same time it would have released inflationary forces throughout the economy and lowered the real development effort in consequence.

21. To complete the picture of Government spending a detailed cross functional/economic analysis for 1966/67 is set out in Table 9.8. For reasons of space it is only possible to set out this table for one year.

CENTRAL GOVERNMENT
CROSS ECONOMIC AND FUNCTIONAL ANALYSIS OF 1966/67 ACCOUNTS

Table 9.8

K£'000

| ECONOMIC CLASSIFICATION FUNCTIONAL CLASSIFICATION | RECURRENT EXPENDITURE | | | | | | | | CAPITAL EXPENDITURE | | | Total Recurrent and Capital Expenditure |
|----------------------------------------------------------|---------------------------|--------------|-----------|-------------------------------|-------------------------|--------------------------------|-----------------|-----------------------------|-------------------------|------------------------------------------------|---------------------------------|-----------------------------------------|
| | CONSUMPTION EXPENDITURE | | Subsidies | Transfers to Local Government | Transfers to Households | Transfers to Rest of the World | Other Transfers | Total Recurrent Expenditure | Gross Capital Formation | Loans and Investment in Government Enterprises | Loan Repayment to Other Sectors | |
| | (a) Wages and Salaries | (b) Other | | | | | | | | | | |
| GENERAL SERVICES— | | | | | | | | | | | | |
| Administration—Central .. | 1,386 | 411 | — | — | 1 | 2 | — | 1,801 | 187 | — | — | 1,988 |
| Administration—Provincial | 1,726 | 318 | — | — | — | — | — | 2,044 | 104 | — | — | 2,148 |
| Conduct of Foreign Affairs | 286 | 252 | — | 3 | 2 | 70 | — | 613 | 7 | — | — | 620 |
| Law and Order | 6,623 | 2,470 | — | — | 12 | — | — | 9,105 | 708 | — | — | 9,813 |
| Defence | 3,234 | 1,946 | — | — | 18 | — | — | 5,199 | 88 | — | — | 5,287 |
| Revenue Collection and Financial Control | 485 | 1,206 | 58 | — | 8 | 8 | 620 | 2,385 | 10 | — | — | 2,395 |
| COMMUNITY SERVICES— | | | | | | | | | | | | |
| Roads | 738 | 470 | 19 | 72 | — | — | — | 1,299 | 4,062 | — | 400 | 5,761 |
| Water Works | 455 | 797 | 8 | — | 23 | — | — | 1,283 | 140 | 753 | — | 2,176 |
| Other | 36 | 18 | — | — | — | — | — | 55 | — | — | — | 55 |
| SOCIAL SERVICES— | | | | | | | | | | | | |
| Education | 2,800 | 297 | — | — | 4,243 | 27 | — | 7,367 | 557 | — | — | 7,924 |
| Health | 2,230 | 1,200 | — | 9 | 136 | 8 | — | 3,583 | 487 | — | — | 4,070 |
| Labour | 177 | 58 | — | — | 42 | 10 | — | 287 | 20 | — | — | 308 |
| Housing | 31 | 41 | — | — | 5 | — | — | 77 | 51 | 1,286 | — | 1,414 |
| Other, including Community Development | 780 | 706 | — | — | 249 | — | 206 | 1,941 | 512 | — | — | 2,453 |
| ECONOMIC SERVICES— | | | | | | | | | | | | |
| Agriculture | 1,983 | 849 | 532 | — | 2 | 18 | 1,430 | 4,814 | 609 | 3,686 | — | 9,109 |
| Veterinary | 818 | 436 | — | — | 4 | — | 1 | 1,259 | 123 | — | — | 1,382 |
| Forestry | 375 | 153 | 8 | — | — | 1 | — | 537 | 1,142 | 84 | — | 1,763 |
| Game and Fisheries | 215 | 113 | — | — | — | — | 23 | 351 | 91 | 32 | — | 473 |
| National Parks and Tourism | — | 1 | — | 18 | — | — | 217 | 236 | — | 224 | — | 460 |
| Lands, Mines, Surveys and Geology | 874 | 209 | — | — | 1 | — | 1 | 1,084 | 91 | — | — | 1,175 |
| Commerce and Industry | 296 | 505 | — | — | — | 3 | 17 | 822 | 12 | 539 | — | 1,373 |
| Transport, Excluding Roads | 244 | 232 | — | — | — | 3 | 16 | 495 | 126 | 10 | — | 630 |

—(Contd)—

CENTRAL GOVERNMENT
CROSS ECONOMIC AND FUNCTIONAL ANALYSIS OF 1966/67 ACCOUNTS— (Contd.)

Table 9.8

K£'000

| ECONOMIC CLASSIFICATION | RECURRENT EXPENDITURE | | | | | | | | CAPITAL EXPENDITURE | | | Total Recurrent and Capital Expenditure |
|-----------------------------------------------------------|-------------------------|-----------|-----------|-------------------------------|-------------------------|--------------------------------|-----------------|-----------------------------|-------------------------|------------------------------------------------|----------------------------------|-----------------------------------------|
| | CONSUMPTION EXPENDITURE | | Subsidies | Transfers to Local Government | Transfers to Households | Transfers to Rest of the World | Other Transfers | Total Recurrent Expenditure | Gross Capital Formation | Loans and Investment in Government Enterprises | Loan Repayments to Other Sectors | |
| | (a) Wages and Salaries | (b) Other | | | | | | | | | | |
| RECURRENT FINANCIAL OBLIGATIONS— | | | | | | | | | | | | |
| Interest | — | — | — | — | — | — | — | 5,252* | — | — | — | 5,252* |
| Sinking Fund | — | — | — | — | — | — | — | — | — | — | 548 | 548 |
| Redemption | — | — | — | — | — | — | — | — | — | — | 2,523 | 2,523 |
| Compensation Payment to Designated Officers | — | — | — | 100 | — | 2,883 | — | 2,982 | — | — | — | 2,982 |
| Pensions and Gratuities | 539 | — | — | — | 3,388 | — | — | 3,926 | — | — | — | 3,926 |
| Subscriptions to International and Monetary Organizations | — | — | — | — | — | 365 | — | 365 | — | — | — | 365 |
| Passages and Leave Expenses | 511 | — | — | — | — | — | — | 511 | — | — | — | 511 |
| Transfers to Local Authorities, n.e.s. | — | — | — | 2,889 | — | — | — | 2,889 | — | — | — | 2,889 |
| UNALLOCABLE EXPENDITURE— | | | | | | | | | | | | |
| Buildings—Residential | 191 | 236 | — | — | — | — | — | 426 | 60 | — | — | 487 |
| Buildings—Non-Residential | 296 | 198 | — | — | — | — | — | 493 | 175 | — | — | 669 |
| M.O.W.—Unallocable | 513 | 424 | — | — | — | — | — | 938 | 628 | — | — | 1,566 |
| Government Printer | 156 | 177 | — | — | — | — | — | 333 | 23 | — | — | 356 |
| Other Unallocable | 12 | 21 | — | — | — | — | — | 33 | — | — | — | 33 |
| TOTAL | 28,010 | 13,743 | 625 | 2,991 | 8,235 | 3,399 | 2,531 | 64,786* | 10,013 | 6,614 | 3,471 | 84,884* |

*Includes interest on Public Debt (K£5,252,000) which is shown in the functional total only.

22. It has already been noted that the annual average rate of growth of recurrent expenditure over the period since 1962/63 was 9.5 per cent. Over the same period, recurrent revenues are estimated to have risen by an average of 10.4 per cent per annum. Revenues from domestic sources have risen by 10.9 per cent per annum, while tax revenues have risen by nearly 11 per cent. Taxation and other domestic revenues have, therefore, more than kept up with the growth of recurrent expenditure and so enabled a surplus on recurrent account to be transferred to development.

This point is discussed further below.

GROSS RECEIPTS ON RECURRENT ACCOUNT, 1962/1963-1967/1968

Table 9.9

K£million

| | 1962/63 | 1963/64 | 1964/65 | 1965/66 | 1966/67 | 1967/68 Forecast |
|------------------------------------------|---------|---------|---------|---------|---------|---------------------|
| DOMESTIC SOURCES— | | | | | | |
| Taxation | 34.92 | 36.77 | 39.74 | 44.32 | 53.42 | 57.98 |
| Interest and repayment of loans | 1.83 | 2.03 | 2.67 | 2.72 | 3.59 | 3.34 |
| Charges for goods and services | 4.57 | 4.54 | 5.14 | 5.16 | 6.19 | 7.64 |
| Reimbursement from other administrations | 0.89 | 1.08 | 0.95 | 0.62 | 1.20 | 1.61 |
| Miscellaneous | 1.72 | 2.08 | 1.04 | 4.80 | 1.58 | 3.15 |
| Total | 43.93 | 46.50 | 49.54 | 57.63 | 65.98 | 73.72 |
| EXTERNAL SOURCES— | | | | | | |
| Grants under Overseas Service Aid Scheme | 2.59 | 4.53 | 3.55 | 2.38 | 2.71 | 1.58 |
| Other U.K. Grants | 0.06 | 0.57 | 1.31 | 0.05 | 0.04 | 0.05 |
| U.K. Loans | 0.25 | 3.87 | 2.72 | 2.22 | 2.22 | 1.27 |
| Other Foreign Loans and Grants | — | 0.10 | 0.08 | 0.13 | 0.10 | 0.10 |
| Total | 2.89 | 9.07 | 7.66 | 4.78 | 5.07 | 3.00 |
| TOTAL RECEIPTS | 46.82 | 55.57 | 57.20 | 62.36 | 71.05 | 76.72 |

23. In 1963/64, domestic sources contributed 84 per cent to recurrent revenue. By the end of the current financial year it is expected that this figure will have risen to 96 per cent. Tax revenues are now financing 79 per cent of recurrent expenditure excluding O.S.A.S. compared with 75 per cent in 1963/64. The steady increase in this percentage has been a notable feature of recent years.

24. The economy did not move ahead so rapidly in the period 1967/68 as in the previous year and the forecast increase of tax revenues in the current year of 8.4 per cent reflects this. Income tax collections, however, following the higher profits earned in the economy in 1966, are expected to yield approximately 18 per cent more revenue, at K£22.2 million. Collections of

P.A.Y.E. (Pay-as-you-earn income tax) are expected to reach K£4.9 million in response to a higher number of wage earners who are paying income tax for the first time following the reduction in marriage and child allowances. This forecast compares with actual collections of K£3.9 million in 1966/67.

CENTRAL GOVERNMENT

GROSS REVENUE FROM TAXATION FOR RECURRENT EXPENDITURE, 1962/63-1967/68

Table 9.10

K£million

| | 1962/63 | 1963/64 | 1964/65 | 1965/66 | 1966/67 | 1967/68 Forecast |
|--------------------------------------------|---------|---------|---------|---------|---------|---------------------|
| DIRECT TAXATION— | | | | | | |
| Income Tax | 11.12 | 13.23 | 13.46 | 15.89 | 18.79 | 22.20 |
| Graduated Personal Tax | 1.26 | 0.15 | — | — | — | 0.32 |
| Estate Duties | 0.03 | — | — | 0.26 | 0.30 | 0.22 |
| Export Duties | 0.01 | — | 0.45 | 0.65 | 0.99 | 0.35 |
| Total | 12.42 | 13.38 | 13.91 | 16.80 | 20.08 | 23.09 |
| INDIRECT TAXATION— | | | | | | |
| Import Duties | 13.76 | 13.69 | 15.89 | 17.20 | 20.08 | 20.50 |
| Excise Duties | 5.45 | 6.02 | 6.24 | 6.30 | 8.47 | 9.89 |
| Stamp Duties | 0.52 | 0.78 | 0.72 | 0.70 | 0.80 | 0.75 |
| Petrol and Diesel Tax | 1.08 | 1.07 | 1.15 | 1.18 | 1.56 | 1.39 |
| Licences and Fees under the Traffic Act | 0.86 | 0.80 | 0.84 | 0.97 | 1.31 | 1.30 |
| Taxes and Licences, n.e.s. | 0.66 | 0.80 | 0.75 | 0.95 | 0.79 | 0.76 |
| Land Premia and Taxes | 0.03 | 0.03 | 0.06 | 0.04 | 0.14 | 0.10 |
| Royalties | 0.16 | 0.15 | 0.18 | 0.19 | 0.18 | 0.20 |
| TOTAL | 22.52 | 23.39 | 25.83 | 27.53 | 33.33 | 34.89 |
| TOTAL (TAXES AND LICENCES) | 34.92 | 36.77 | 39.74 | 44.32 | 53.42 | 57.98 |
| Percentage contributions of:— | | | | | | |
| Direct Taxes | 36 | 36 | 35 | 38 | 38 | 40 |
| Indirect Taxes | 64 | 64 | 65 | 62 | 62 | 60 |

Some explanation is, perhaps, required for the reappearance in 1967/68 of graduated personal tax as a revenue item, as this has been a local authority revenue since 1963/64. Following Sessional Paper 12 of 1967, the Government is to transfer 50 per cent of the graduated personal tax revenue of Nairobi City Council and Mombasa Municipality to other local authorities. This amount will be paid by the two local authorities concerned to the Central Government and will therefore appear as a revenue item although the money will be paid out to other local authorities and cause a concomitant increase in expenditure,

25. In spite of increased rates of duty imposed in the last budget, it seems unlikely at the time of writing that customs revenues will exceed the

total achieved last year. It has already been observed in Chapter 3 that the level of imports declined in 1967 and the volume of goods charged for duty was therefore less. Textile imports in particular were lower and customs receipts were down by approximately K£2 million on this item alone. Changes over the last five years in customs revenues derived from main import groups are set out in Table 9.11.

IMPORT DUTY COLLECTIONS, 1963-1967*

Table 9.11 K£'000

| END USE CATEGORY | 1963 | 1964 | 1965 | 1966 | 1967 |
|--------------------------------------------|--------|--------|--------|--------|--------|
| Food, drink and tobacco | 2,469 | 2,446 | 3,223 | 4,066 | 2,206 |
| Basic materials | 52 | 55 | 103 | 175 | 216 |
| Fuels | 3,787 | 4,052 | 4,309 | 4,965 | 5,627 |
| Chemicals | 460 | 442 | 524 | 588 | 468 |
| Textiles | 3,324 | 3,329 | 3,635 | 4,798 | 3,537 |
| Semi-manufactures | 796 | 641 | 806 | 1,052 | 995 |
| Metals | 396 | 378 | 521 | 538 | 565 |
| Transport Equipment | 1,501 | 1,478 | 1,885 | 2,564 | 3,162 |
| Machinery | 540 | 567 | 594 | 683 | 748 |
| Miscellaneous manufactured articles | 1,414 | 1,401 | 1,341 | 1,728 | 1,364 |
| Miscellaneous commodities and transactions | 440 | 183 | 168 | 288 | 420 |
| TOTAL | 15,177 | 14,971 | 17,108 | 21,444 | 19,307 |

*This table and 9.12 are set out on a customs year basis and cannot be compared with figures in the Exchequer revenue tables.

26. In spite of the downturn in the economy, excise duties continued to provide increasing amounts of revenue—16.8 per cent more in 1967/68 is forecast. Although a number of excise rates have been increased and new ones introduced, it would appear that increasing incomes and consumption levels of the lower income groups are causing a relatively higher rate of increase in excise revenues than the growth of G.D.P. would suggest. Generally, the products selected to bear excise are those with a high income elasticity of demand which means that the consumption of these items—and of course, the excise revenue from them—will grow at a faster rate than the growth of national income. The expansion of excise revenues is set out in Table 9.12.

EXCISE REVENUE BY COMMODITIES, 1963-1967

Table 9.12

K£'000

| COMMODITY | 1963 | 1964 | 1965 | 1966 | 1967 |
|-----------------------|-------|-------|-------|-------|-------|
| Beer | 2,154 | 2,155 | 2,479 | 3,044 | 3,343 |
| Sugar | 1,452 | 1,407 | 938 | 779 | 1,891 |
| Cigarettes | 2,389 | 2,432 | 2,594 | 3,037 | 3,065 |
| Cigars | - | 1 | 1 | 1 | 1 |
| Tobacco | 44 | 44 | 25 | 36 | 33 |
| Matches | 22 | 25 | 48 | 92 | 96 |
| Spirits | 98 | 102 | 159 | 191 | 176 |
| Wines | - | - | - | - | - |
| Mineral Waters | - | 49 | 141 | 228 | 357 |
| Biscuits | - | - | - | 16 | 32 |
| Soap | - | - | - | 201 | 437 |
| Fabrics, woven | - | - | - | - | 118 |
| Paints and distempers | - | - | - | - | 42 |
| TOTAL | 6,159 | 6,215 | 6,384 | 7,624 | 9,590 |

27. The growth of development expenditure in recent years, discussed above, has required a parallel expansion of development revenues. There has, however, been significant change since Independence in the sources of development finance and whereas in 1962/63, 94 per cent was obtained from external sources, it is likely that in 1967/68 only 51 per cent will come from external sources. On the other hand, grants which accounted for 35 per cent of the total in 1962/63, were negligible in the current year, when 96 per cent of the total was in the form of loans. External loans in 1967/68 are likely to reach a level higher than ever before.

28. Comment has already been made on the fact that an improvement in the local market position in the last few years has enabled significant contributions to be made to development financing from local lending sources. A total of K£17.00 million has been raised locally of which K£3.94 million has been taken up by the National Social Security Fund. It is probably true also that the imposition of exchange control over sterling transactions in July 1965 has had the effect of holding back in Kenya funds seeking profitable outlets. This is, perhaps, the only explanation for the fact that the World Bank is having to pay 6J per cent on loans raised in the world market while Kenya is able to raise loans locally with a 6 per cent coupon and only a small discount.

Table 9.13

K£million

| | 1962/63 | 1963/64 | 1964/65 | 1965/66 | 1966/67 | 1967/68 Estimate |
|------------------------------|---------|---------|---------|---------|---------|---------------------|
| EXTERNAL SOURCES— | | | | | | |
| <i>Grants:</i> | | | | | | |
| British Government | 3.74 | 4.41 | 3.47 | 2.35 | 0.50 | 0-13 |
| Peoples Republic of China | | | 1.07 | | | |
| Others | 0.22 | 0.33 | 0.26 | 0.18 | 0.14 | 0 10 |
| Total | 3.96 | 4.74 | 4.84 | 2.53 | 0.64 | 0-23 |
| <i>Loans:</i> | | | | | | |
| U.K. Exchequer and C.D.C. | 5.39 | 5.86 | 6.34 | 3-95 | 2.38 | 5.02 |
| U.S.A.I.D | | | | 2.22 | 0.70 | 0.01 |
| I B R D | 0.64 | 0.27 | 0.27 | 0.13 | 0.36 | 0.01 |
| West Germany | 0.68 | 0.73 | 1.22 | 0.20 | 0.53 | 0.62 |
| I.D.A | | | 0.03 | 0.51 | 1.42 | 1.16 |
| Other foreign loans | 0.03 | | 0.12 | 0.24 | 0.23 | 2.18 |
| Total | 6.74 | 6.86 | 7.97 | 7.26 | 5.62 | 9.00 |
| Total External Sources | 10.70 | 11.60 | 12.81 | 9.78 | 6.27 | 9.23 |
| INTERNAL SOURCES— | | | | | | |
| <i>Loans:</i> | | | | | | |
| Local Market Issues | — | — | 1.03 | 0.56 | 7.49 | 8.00 |
| Other local loans | — | 0.03 | — | 0.18 | 0.33 | 0.28 |
| Total | - | 0.03 | 1.03 | 0.74 | 7.82 | 8.28 |
| MISCELLANEOUS REVENUES— | | | | | | |
| Taxation | — | 0.32 | 0.64 | — | — | — |
| Development Project Earnings | 0.21 | 0.23 | 0.23 | 0.31 | 0.06 | 0.32 |
| Other | 0.48 | 1.07 | 1.12 | 0.28 | 0.34 | 0.18 |
| TOTAL | 0.69 | 1.62 | 1.99 | 0.59 | 0.40 | 0.50 |
| Total Internal Sources | 0.69 | 1.65 | 3.06 | 1.33 | 8.22 | 8.78 |
| TOTAL REVENUE | 11.40 | 13.26 | 15.82 | 11.11 | 14.49 | 18.01 |

29. In order to avoid double counting, Table 9.13 does not include transfers of revenue from the recurrent exchequer to development. The relatively rapid growth of recurrent revenue compared with recurrent expenditure in recent years has enabled increasing amounts of "tax revenue" to be applied to development. Over the last four years transfers from the recurrent account have been: —

| | |
|---------------------|--------------|
| 1963/64 | K£ 1,500,000 |
| 1964/65 | K£ 1,000,000 |
| 1965/66 | K£2,379,558 |
| 1966/67 | K£4,000,000 |
| 1967/68 (Estimated) | K£4,000,000 |

Although revenue is less buoyant in the current year, it is expected that a further transfer from the recurrent account will be made. The debt burden of development is clearly ameliorated if tax revenues can be applied to development in this way.

30. Mention has already been made in Chapter 1 of the fact that the world outlook for development aid has deteriorated significantly in the last year. The economic difficulties of a number of the major donor countries have caused them to take a more restrictive view towards their aid policies. Although it now appears that the International Development Association may obtain some replenishment of its funds, the extent and flexibility of this replenishment is likely to be much less than had originally been hoped for and proposed by the last President of the World Bank. These uncertainties in the availability of development finance from overseas are, however, only likely to impose themselves on the Development budget of Kenya in a year or so. The immediate prospects of obtaining finance from overseas are quite good and actual disbursement next year in Kenya may reach a new peak. During next year, Kenya expects to receive several substantial credits from the International Development Association and benefits from a continuation of existing aid programmes from Britain, Germany, Italy and other countries. A number of smaller European countries, notably Sweden and Norway, have indicated a willingness to provide quite substantial sums on reasonable terms. In recent years, Kenya has been fortunate in being able to obtain a very fair share of the development finance available in the world having regard to the size of its economy. The Government's policy of diversifying the sources of aid finance has proved sound in the light of the difficulties experienced by the "traditional" donors. Kenya's relative success in this field has rested on its ability to put together bankable projects for consideration by donor organizations but in order to be able to continue to obtain the finance needed for development even more emphasis may have to be placed on this aspect of economic and financial planning.

31. It will be apparent from Table 9.1 that the East African Community (formerly the East African Common Services Organisation) occupies an important position in the Kenya economy. Apart from its enterprise activities which for the purposes of economic analysis are classified with the relevant industry, the Community undertakes administrative and economic services in a similar way to the Kenya Central Government, although on a much smaller scale. In order to put this into perspective, Tables 9.14 and 9.15 are included in this chapter for the first time to cover a functional and economic analysis of the activities of the general fund services, i.e., its non-enterprise activities, in Kenya as opposed to East Africa as a whole.

EAST AFRICAN COMMUNITY
(GENERAL FUND SERVICES)

EXPENDITURE IN KENYA BY MAIN SERVICES, 1962/1963-1966/67

Table 9.14 *K£million*

| | 1962/63 | 1963/64 | 1964/65 | 1965/66 | 1966/67 |
|------------------------------------------|---------|---------|---------|---------|---------|
| GENERAL SERVICES— | | | | | |
| Central Administration | 0.24 | 0.31 | 0.33 | 0.38 | 0.47 |
| Law and Order | | 0.09 | 0.11 | 0.12 | 0.11 |
| Revenue Collection and Financial Control | 0.11 | 1.41 | 1.75 | 1.75 | 1.81 |
| Total (General Services) | 1.69 | 1.82 | 2.19 | 2.25 | 2.38 |
| SOCIAL SERVICES— | | | | | |
| Education | 0.03 | 0.17 | 0.19 | 0.23 | 0.26 |
| Health | 0.03 | 0.02 | 0.03 | 0.02 | 0.02 |
| Total (Social Services) | 0.06 | 0.19 | 0.21 | 0.24 | 0.28 |
| ECONOMIC SERVICES— | | | | | |
| Agriculture and Veterinary | 0.36 | 0.39 | 0.41 | 0.41 | 0.52 |
| Commerce and Industry | 0.07 | 0.09 | 0.08 | 0.08 | 0.09 |
| Transport (excluding roads) | 0.46 | 0.55 | 0.67 | 0.66 | 0.77 |
| Meteorology | 0.29 | 0.33 | 0.33 | 0.33 | 0.33 |
| Total (Economic Services) | 1.19 | 1.35 | 1.49 | 1.48 | 1.71 |
| FINANCIAL OBLIGATIONS— | | | | | |
| Public Debt | 0.08 | 0.08 | 0.07 | 0.08 | 0.14 |
| Pensions and gratuities | 0.27 | 0.23 | 0.21 | 0.23 | 0.25 |
| Compensation Payments | 0.62 | 0.37 | 0.33 | 0.32 | 0.34 |
| Total (Financial Obligations) | 0.97 | 0.68 | 0.61 | 0.63 | 0.73 |
| UNALLOCABLE EXPENDITURE | 0.14 | 0.05 | 0.02 | 0.03 | 0.03 |
| GRAND TOTAL | 4.04 | 4.08 | 4.52 | 4.63 | 5.13 |

*Includes Defence expenditure of K£31,719.

+ includes unallocable Passages and Leave Expenses of K£95,895.

Source: *East African Statistical Department*.

32. It is clear that the general fund services of the Community in Kenya have expanded more slowly than the services of the Central Government. Since 1962/63 total expenditure has risen by 27 per cent or an average of 6.7 per cent per annum. Over East Africa as a whole, the Community's expenditures have risen by 46 per cent or an average of 15 per cent per annum. It is apparent, therefore, that the Community is expanding its services in Uganda and Tanzania at a faster rate than in Kenya, although in 1967/68 approximately 58 per cent of all General Fund expenditures were undertaken in Kenya. This can be compared with 67 per cent in 1962/63. With the movement of Community headquarters to Arusha in 1968, it is to be expected that the Kenya share of the total Community expenditures must continue to decline.

EAST AFRICAN COMMUNITY
(GENERAL FUND SERVICES)

ECONOMIC ANALYSIS OF EXPENDITURE IN KENYA, 1962/63-1966/67

Table 9.15

K£'000

| | 1962/63 | 1963/64 | 1964/65 | 1965/66 | 1966/67 |
|-------------------------------------------------------|---------|---------|---------|---------|---------|
| RECURRENT EXPENDITURE | | | | | |
| CONSUMPTION EXPENDITURE ON GOODS AND SERVICES | | | | | |
| 1. <i>Wages and Salaries:</i> | | | | | |
| (a) Personal Emoluments | 2,152 | 2,354 | 2,658 | 2,531 | 2,797 |
| (b) House Allowance | 243 | 263 | 289 | 297 | 330 |
| (c) Passage and Leave Expenses | 110 | 69 | 74 | 52 | 45 |
| (d) Contribution to Pension Fund | — | — | 30 | 76 | — |
| Total (Wages and Salaries) | 2,506 | 2,688 | 3,051 | 2,956 | 3,173 |
| 2. <i>Other Goods and Services:</i> | | | | | |
| (a) Maintenance and Repairs | 225 | 275 | 132 | 156 | 340 |
| (b) Transport and Travelling | 76 | 70 | 94 | 108 | 117 |
| (c) Equipment, Postal and Incidental Expenses | 88 | 84 | 149 | 158 | 127 |
| (d) Miscellaneous | 105 | 136 | 247 | 254 | 194 |
| Total (Other Goods and Services) | 493 | 565 | 623 | 677 | 778 |
| TOTAL CONSUMPTION EXPENDITURE | 2,999 | 3,253 | 3,674 | 3,634 | 3,950 |
| 3. <i>Interest on Internal Debt</i> | 25 | 25 | 37 | 42 | 43 |
| 4. <i>Transfers to:</i> | | | | | |
| (a) Individuals | — | — | — | 74 | 79 |
| (b) Private non-profit making Educational Institution | — | 149 | 167 | 207 | 237 |
| (c) The Rest of the World | 762 | 512 | 458 | 484 | 555 |
| (d) Kenya Government | 89 | 14 | 8 | — | — |
| Total Transfers | 851 | 674 | 633 | 766 | 871 |
| TOTAL RECURRENT EXPENDITURE | 3,875 | 3,952 | 4,314 | 4,441 | 4,863 |
| CAPITAL EXPENDITURE | | | | | |
| 5. <i>Gross Capital Formation—</i> | | | | | |
| Residential Buildings | 23 | 5 | 37 | 57 | 40 |
| Non-Residential Buildings | 17 | 4 | 23 | 11 | 10 |
| Construction and Works | — | 1 | — | 12 | 4 |
| Plant, Machinery and Equipment | 64 | 70 | 76 | 70 | 149 |
| Vehicles | 14 | 2 | 12 | 8 | 11 |
| Total (gross capital formation) | 118 | 81 | 147 | 158 | 213 |
| 6. <i>Loan Repayments to Other Sectors</i> | 48 | 48 | 28 | 35 | 51 |
| TOTAL CAPITAL EXPENDITURE | 166 | 128 | 176 | 193 | 263 |
| TOTAL EXPENDITURE | 4,041 | 4,080 | 4,520 | 4,634 | 5,127 |

33. Community General Fund Services are financed in part by a fixed share of customs receipts collected on an East African basis and a share of income tax collected from certain East African companies. In addition, the Community receives grants from foreign governments and foundations and is paid for certain services directed by the East African Governments.

34. Since Independence, the Government has placed much emphasis on building up the functions of local government in Kenya which before that time had been developed mainly in the Nairobi City and municipal areas only. As a result of the fact that many local authorities were starting out with little or no experience on which to build, many difficulties, particularly with regard to financial control, have been experienced. It may, perhaps, be some time before all these problems are overcome and it is, therefore, difficult to give a fully reliable picture of local government activities, since final accounts in many cases do not yet exist for a number of county councils over the last few years. It would seem on the surface that most of the problems of county councils in Kenya are a result of inadequate financial control and this situation can only be overcome by a substantial expansion of financial control staff. With existing resources it is sometimes difficult to undertake a full audit of accounts until years after the end of the financial year. Any errors or misappropriations are in consequence only discovered long after the event.

35. Information on the activities of the Nairobi City Council and other municipalities which do not suffer this problem to the same extent are complete up to the year 1966 but are unavailable yet for 1967. Their aggregated expenditures by function are set out in Table 9.16. Between 1963 and 1966 (it should be noted that local government accounts are prepared on a calendar year basis), total municipal expenditures increased by 45 per cent, an average of 15 per cent per annum. A large part of this expansion is, however, represented by the transfer of responsibility for primary education to local authorities. Over this period municipal education expenditures increased from virtually nil to K£1.5 million. Largely as a result of this, expenditures on social services have more than doubled over the same period.

36. Recurrent housing expenditures, although in some ways akin to a social service, are classified here as a trading service since the main activity is municipal housing schemes which are generally required to balance recurrent receipts and recurrent expenditures. Capital expenditures on housing schemes which were low during this period but known to have risen sharply in 1967/68, are however shown as a social service expenditure.

37. Sixty-six per cent of all municipal expenditure in 1966 was accounted for by Nairobi City and another 16 per cent by Mombasa Municipality. The other five municipalities together accounted for only 18 per cent of the total. It is clear, therefore, that local government activity in Kenya is dominated by its two principal Municipalities.

RECURRENT AND CAPITAL EXPENDITURE ON MAIN SERVICES BY MUNICIPAL COUNCILS,

Table 9.16

1963-1966

K£'000

| | 1963 | 1964 | 1965 | 1966 |
|-------------------------------------------|-------|-------|-------|--------|
| ADMINISTRATION | 683 | 885 | 690 | 909 |
| COMMUNITY SERVICES— | | | | |
| Roads | 923 | 1,116 | 989 | 1,425 |
| Sanitary Services | 1,081 | 1,075 | 1,208 | 1,177 |
| Other | 362 | 357 | 437 | 962 |
| Total (Community Services) | 2,366 | 2,548 | 2,634 | 3,564 |
| SOCIAL SERVICES— | | | | |
| Health | 618 | 687 | 758 | 846 |
| Education | 4 | 1,181 | 1,325 | 1,464 |
| Housing | 491 | 395 | 226 | 178 |
| Community Development | — | — | — | — |
| Other | 322 | 329 | 404 | 475 |
| Total (Social Services) | 1,435 | 2,592 | 2,713 | 2,963 |
| TRADING SERVICES— | | | | |
| Water Undertakings | 1,211 | 884 | 833 | 853 |
| Markets | 123 | 143 | 138 | 161 |
| Breweries and Beer shops | 117 | 124 | 151 | 299 |
| Housing Estates (including staff housing) | 882 | 959 | 992 | 1,095 |
| Shops, Catering and Leasing | 70 | 75 | 74 | 81 |
| Hostels | 54 | 72 | 50 | 42 |
| Other | 139 | 161 | 177 | 143 |
| Total (Trading Services) | 2,596 | 2,418 | 2,415 | 2,674 |
| UNALLOCABLE EXPENDITURE | 47 | 124 | 193 | 246 |
| GRAND TOTAL | 7,127 | 8,567 | 8,645 | 10,356 |

EXPENDITURE ON MAIN SERVICES BY MUNICIPAL COUNCILS IN 1965 AND 1966

Table 9.17

K£'million

| | SERVICES | | | | | | | | | | | |
|-------------------------|---------------------|------|-----------|-------|--------|-------|---------|-------|----------------------------|------|----------------|--------|
| | Administra- tion | | Community | | Social | | Trading | | Unallocable Expenditure | | Grand Total | |
| | 1965 | 1966 | 1965 | 1966 | 1965 | 1966 | 1965 | 1966 | 1965 | 1966 | 1965 | 1966 |
| Nairobi | 396 | 449 | 1,759 | 2,658 | 1,950 | 2,041 | 1,542 | 1,573 | 144 | 157 | 3,792 | 6,878 |
| Mombasa | 127 | 272 | 517 | 512 | 426 | 506 | 237 | 333 | 21 | 42 | 1,328 | 1,665 |
| Nakuru | 60 | 62 | 116 | 138 | 108 | 145 | 217 | 328 | 3 | 27 | 504 | 700 |
| Kisumu | 36 | 40 | 103 | 117 | 124 | 134 | 202 | 220 | 1 | 5 | 466 | 516 |
| Hldoret | 26 | 31 | 58 | 54 | 58 | 69 | 94 | 87 | 3 | 3 | 239 | 241 |
| Kitale | 21 | 15 | 36 | 39 | 21 | 25 | 67 | 68 | 4 | 6 | 149 | 153 |
| Thika | 24 | 40 | 45 | 46 | 26 | 43 | 56 | 65 | 17 | 9 | 168 | 203 |
| ALL MUNICI- PALITIES | 690 | 909 | 2,634 | 3,564 | 2,713 | 2,963 | 2,415 | 2,674 | 193 | 246 | 8,645 | 10,356 |

38. Wages and salaries accounted for 38 per cent of all municipal expenditures in 1966 compared with 30 per cent in 1963. The reason for this sharp increase lies mainly with a local authority salary increase that occurred in 1965. Very little change in the level of local authority employment is recorded over this period and it would, therefore, seem that wages and salaries of these authorities have risen proportionately faster than those in Central Government. The Government has, however, announced that it is seeking ways to achieve greater co-ordination as between the pay policies of different local authorities and as between the pay policies of local and Central Government. It proposes to set up a Local Government Service Commission which will include amongst its functions the review of all local government wage agreements and to advise the Minister for Local Government whether they are consistent with the national wages and income policy.

ECONOMIC ANALYSIS OF EXPENDITURE BY MUNICIPALITIES, 1963-1966

Table 9.18

K£'000

| | 1963 | 1964 | 1965 | 1966 |
|--------------------------------------------|--------------|--------------|--------------|---------------|
| EXPENDITURE ON— | | | | |
| Wages, Salaries and Allowances | 2,137 | 3,192 | 3,717 | 3,937 |
| Other Goods and Services | 1,744 | 1,931 | 2,159 | 3,024 |
| Loan Charges | 1,550 | 1,608 | 1,599 | 1,656 |
| Transfers to other authorities and persons | 96 | 512 | 270 | 314 |
| Capital | 1,611 | 1,346 | 957 | 1,667 |
| Net inter-departmental transfers* | —11 | —22 | —57 | —242 |
| GRAND TOTAL | 7,127 | 8,567 | 8,645 | 10,356 |

*Some departmental accounts contain receipts from other accounts within the same municipality. Because of lack of detail it is sometimes impossible to adjust the donor account: net inter-departmental transfers is therefore a balancing item.

39. Apart from revenue derived from the trading services provided—which generally more than covers the cost of those services—municipalities depend mainly on graduated personal tax and rates to finance their services. But whereas revenue from rates has been largely static over the last four years, receipts from graduated personal tax have increased from £2.0 million to £2.6 million in 1966. No such receipts were received in 1963 when G.P.T. was still a Central Government revenue. It is clear that municipalities—particularly Nairobi and Mombasa—were substantially enriched by the allocation of G.P.T. revenues over this period. It is true that at the same time they were required to take over responsibility for primary education in their areas but it will be seen from Table 9.19 that the gross cost of this was approximately K£1 million less than G.P.T. receipts without taking account of fees received. Having regard to the fact that the largest proportion of the richer members of society live in the two largest towns and the fact that a number of county councils in the poorer areas have experienced great difficulty in raising finance

to provide only limited services, the redistribution of G.P.T. revenues from Nairobi and Mombasa to the poorer county councils as described in Sessional Paper No. 12 of 1967 does not appear unreasonable. It will be observed from Table 9.19 that municipalities as a whole had a revenue surplus in these years. Also, municipalities, particularly Nairobi and Mombasa, have a much wider tax base than is available to county councils and this is expanding much more rapidly. They also have sources of revenue unavailable to county councils which could be exploited but have not been so far. The recent measures of the Central Government to reallocate graduated personal tax was a measure to reallocate resources on equity grounds.

ECONOMIC ANALYSIS OF MUNICIPAL COUNCIL REVENUES, 1963-1966

Table 9.19

K£'000

| | 1963 | 1964 | 1965 | 1966 |
|-----------------------------------------------------------------------------------------|-------|-------|-------|--------|
| DIRECT TAXES— | | | | |
| Graduated Personal Tax | — | 2,003 | 2,355 | 2,589 |
| Rates | 1,968 | 2,231 | 2,128 | 2,067 |
| Total | 1,968 | 4,234 | 4,483 | 4,656 |
| Indirect Taxes (Licences and Cesses) | 55 | 61 | 64 | 84 |
| Income from Property (Building and Land rents) | 940 | 1,057 | 1,034 | 1,115 |
| Interest on Investment | 184 | 174 | 305 | 315 |
| Sale of Goods and Services | 2,144 | 2,652 | 2,830 | 3,456 |
| Government Grants | 551 | 323 | 389 | 165 |
| Loans Raised | 2,194 | 810 | 433 | 581 |
| Miscellaneous (including court fines, sale of capital assets and non-government grants) | 115 | 156 | 245 | 90 |
| GRAND TOTAL | 8,151 | 9,467 | 9,783 | 10,462 |

40. As a result of taking up responsibility for primary education, the activities of county councils have expanded rapidly over the period 1963-66 although most of this growth was in the first year. Owing to the unavailability of many of the accounts of county councils the aggregated expenditures on main functions set out in Table 9.20 must necessarily be regarded as tentative estimates only. Even so, it is clear that in 1965, education services accounted for 60 per cent of all expenditures. Among the other items, only administration, public health and roads could otherwise be regarded as significant. Administration expenditures have clearly been rising rapidly and accounting for 12 per cent of the total might be regarded as disproportionately high. Social services in the rural areas of Kenya are still frequently rudimentary and the county councils have much to do to meet the people's needs.

COUNTY COUNCILS
ESTIMATED EXPENDITURE ON MAIN SERVICES, 1963-1966

Table 9.20

| | 1963* | 1964+ | 1965 + | 1966+ |
|-------------------------------|-------|-------|--------|-------|
| ADMINISTRATION | 450 | 949 | 954 | 1,149 |
| COMMUNITY SERVICES— | | | | |
| Roads | 535 | 967 | 957 | 764 |
| Other | 4 | 74 | 20 | 3 |
| Sub-Total | 539 | 1,041 | 977 | 767 |
| SOCIAL SERVICES— | | | | |
| Public Health | 826 | 860 | 989 | 1,075 |
| Education | 2,288 | 4,957 | 5,699 | 5,700 |
| Other | 181 | 276 | 286 | 207 |
| Sub-Total | 3,295 | 6,093 | 6,974 | 6,982 |
| ECONOMIC SERVICES | 583 | 271 | 273 | 168 |
| TRADING SERVICES— | | | | |
| Water undertakings | 11 | 93 | 115 | 117 |
| Markets and slaughterhouses.. | 84 | 96 | 92 | 73 |
| Breweries | 30 | 48 | 37 | 46 |
| Other | 46 | 91 | 46 | 4 |
| Sub-Total | 171 | 328 | 290 | 240 |
| UNALLOCABLE EXPENDITURE | 322 | 288 | 124 | 121 |
| GRAND TOTAL | 5,360 | 8,970 | 9,592 | 9,427 |

*African District Councils only,

+Includes urban areas and rural councils.

41. For the same reasons as described above, estimates of county council revenues must be regarded as tentative. There are three principal sources of revenue—graduated personal tax, Central Government grants and school fees. Difficulties in obtaining an efficient collection of graduated personal tax have been an important contributing factor to county council financial instability and the Central Government has had to step in to assist in assessment and collection. Collection of school fees has also frequently not been easy in areas where the average income is insufficiently high to allow many families to meet the fees for their children at school without considerable sacrifice. Insistence on full payment before a child can receive schooling has, however, had a salutary effect overall.

42. Having regard to the tenuous nature of the revenue estimates set out in Table 9.21, no definite statements can be made concerning the overall surplus or deficit of county councils. There are some indications, however, that the position was bad in 1964 and 1965 but improved significantly in 1966.

COUNTY COUNCILS

ECONOMIC ANALYSIS OF ESTIMATED REVENUES, 1963-1966

Table 9.21

KE'000

| | 1963* | 1964+ | 1965+ | 1966+ |
|---------------------------------------------------------------|--------|--------------|--------------|--------------|
| DIRECT TAXES— | | | | |
| Graduated Personal Tax Rates | 1,474# | 2,147 161 | 2,552 129 | 2,649 450 |
| Indirect Taxes (Licences and cesses) | 1,474# | 2,308 | 2,681 | 3,099 |
| Income from Property | 443 | 552 | 417 | 511 |
| Sale of Goods and Services .. | — | 103 | 204 | 165 |
| Government Grants | 732 | 2,619 | 2,750 | 2,939 |
| Miscellaneous (including interest and sale of capital assets) | 2,511 | 1,912 | 2,485 | 2,477 |
| | 289 | 470 | 641 | 394 |
| TOTAL | 5,449 | 7,964 | 9,178 | 9,585 |

*African District Councils only.

+Includes urban area, and rural councils.

#Mainly poll tax.

CHAPTER 10—EDUCATION AND OTHER SOCIAL SERVICES

Education

The expansion of educational facilities, particularly at the post-primary level, continues to be a major preoccupation of the Government. Apart from their desirability for social reasons and relevance to economic development, educational programmes are also a key element in the promotion of Kenyanization within the country. The Central Government's expenditure on education, shown in Table 9.4, in Chapter 9, went up by 14 per cent between 1966/67 and 1967/68.

2. While the emphasis in development is on post-primary school education, elementary schooling which accounts for much the greater part of recurrent expenditure in education, is not being neglected. Enrolments of pupils in primary schools, set out in Table 10.1, show a rise of 9 per cent in 1967. The number of primary schools increased from 5,699 in 1966 to 5,959 in 1967. The growth in the intake of children is well ahead of the growth in

the number of children reaching school age and the proportion of these in primary schools was the equivalent of 64 per cent of the age group, as against 59 per cent in 1966.

ENROLMENT IN PRIMARY SCHOOLS BY CLASSES, 1966 AND 1967

Table 10.1

| | 1966 | 1967 | Percentage Increase, 1966-1967 |
|-------------|-----------|-----------|--------------------------------|
| Standard 1 | 193,909 | 228,769 | 18 |
| Standard 2 | 166,110 | 183,634 | 11 |
| Standard 3 | 152,919 | 165,640 | 8 |
| Standard 4 | 130,282 | 146,912 | 13 |
| Standard 5 | 120,850 | 123,832 | 2 |
| Standard 6 | 132,714 | 136,848 | 3 |
| Standard 7 | 146,192 | 147,544 | 1 |
| Standard 8* | 440 | — | — |
| TOTAL | 1,043,416 | 1,133,179 | 9 |

*Standard 8 no longer exists in primary schools.

3. It is in the development of secondary education that the most striking achievements can be recorded. As shown in Table 10.2, enrolments in 1967 were 41 per cent higher than in the previous year. Enrolments have nearly trebled since 1963 and the number of schools has more than trebled. (The figures for 1967 include about 10,000 pupils in private "tutorial" colleges taking full-time secondary education but figures for previous years exclude this category of pupils). Geographically also, although development has been uneven, all provinces have shared in the growth. Of the new schools opened in 1967, all but seven were unaided. The major thrust of Government development policy was concentrated on building up existing schools to double and triple stream size. Thirty-one new Form I streams were initiated in aided schools in 1967 and a further 30 have opened this year. To some extent, the Government's policy on secondary school development in the later years of the 1964-70 Development Plan reverses the policy during the earlier years of concentrating development on larger schools. Whereas less than a quarter of the streams added in 1965-67 were located in one stream schools, 90 per cent of new development in the period 1968-70 will be for these schools. This new policy is in line with the Government's intention of emphasizing rural development and distributing services more widely throughout the country and it will also economize on capital, since many of the new aided streams will be placed in existing unaided schools. It will, however, also bring the associated problems of administering and maintaining quality in the greater number of one stream schools and the task of broadening the curriculum will prove more complicated in schools which contain only four classes and six teachers when fully developed.

ENROLMENT IN SECONDARY SCHOOLS BY CLASSES, 1963-1967

Table 10.2

| | NUMBERS | | | | | Percentage Increase, | Percentage Increase, |
|-------------------|---------|--------|--------|--------|--------|----------------------|----------------------|
| | 1963 | 1964 | 1965 | 1966 | 1967 | 1963—1967 | 1966—1967 |
| Form 1 | 10,214 | 12,712 | 19,015 | 24,108 | 31,805 | 211 | 32 |
| Form 2 | 8,174 | 9,122 | 12,566 | 18,503 | 26,592 | 225 | 44 |
| Form 3 | 5,829 | 7,035 | 7,760 | 11,210 | 16,880 | 190 | 51 |
| Form 4 | 3,791 | 5,625 | 6,784 | 7,068 | 10,756 | 184 | 52 |
| Form 5 | 667 | 864 | 1,130 | 1,356 | 1,622 | 143 | 20 |
| Form 6 | 445 | 563 | 721 | 948 | 1,124 | 153 | 19 |
| TOTAL | 30,120 | 35,921 | 47,976 | 63,193 | 88,779 | 195 | 41 |
| Number of schools | 165 | 244 | 367 | 465 | 542 | 228 | 17 |

4. The remarkable growth of *Harambee* secondary schools built by self-help effort which was noted in last year's *Survey*, continued in 1967. *Harambee* schools now constitute about 70 per cent of all unaided secondary schools. Given the methods of organizing and financing such schools, the weakness observed in their capabilities to maintain desirable standards is not surprising. As a first step in a programme designed to integrate these schools fully into the national school system, the Government has announced its intention of taking some 80 of these schools into financial aid over the period 1968-70.

5. Physical development of secondary schools within the International Development Associations credit of K£2.5 million for education at last got under way during the year, much later than originally hoped since the credit was intended to finance school building in only the earlier years of the current Development Plan. The total cost of the completed project which also includes teacher education and technical education projects will be over K£3.5 million, the balance of over K£1 million to be provided from Kenya's own resources. It is a condition of the I.D.A. loan that the secondary schools financed from its funds should have at least three streams in order to help reduce unit operating costs and to make possible the provision of a broader curriculum which only the large staff and extensive range of facilities of the bigger school can sustain. The I.D.A. credit is financing buildings to accommodate 78 Forms 1-4 streams in 35 schools and 13 Forms 5 and 6 streams. Building for the other 50 Form 1 and 11 Form 5 streams included in the first phase of the Development Plan is being financed by the Kenya Government. Construction is expected to be completed by 1970. Meanwhile, the streams for which the buildings were intended have had to be admitted temporarily in such buildings as could be found.

6. Enrolment per class, set out in Tables 10.3a and 10.36, improved in 1967. At primary level, despite a slight overall improvement, wide variations between districts remain—whereas some districts have an average of over 40 pupils per class, others have less than 20. At secondary level it must be expected, of course, that in a situation of rapid development the size of classes would take a little time to build up. But even allowing for this, there is clearly room for fuller use of existing facilities, particularly at Forms 5 and 6 level.

ENROLMENT PER CLASS IN PRIMARY SCHOOLS, 1966 AND 1967

| <i>Table 10.3a</i> | <i>Average Numbers</i> | |
|--------------------|------------------------|------|
| | 1966 | 1967 |
| Standard 1 | 31 | 34 |
| Standard 2 | 28 | 29 |
| Standard 3 | 28 | 29 |
| Standard 4 | 27 | 28 |
| Standard 5 | 28 | 28 |
| Standard 6 | 32 | 33 |
| Standard 7 | 39 | 36 |
| Standard 8 | 28 | — |
| ALL CLASSES | 30 | 31 |

ENROLMENT PER CLASS IN SECONDARY SCHOOLS, 1966 AND 1967

| <i>Table 10.36</i> | <i>Average Numbers</i> | |
|--------------------|------------------------|------|
| | 1966 | 1967 |
| Form 1 | 36 | 34 |
| Form 2 | 34 | 35 |
| Form 3 | 31 | 33 |
| Form 4 | 26 | 30 |
| Form 5 | 19 | 20 |
| Form 6 | 15 | 17 |
| ALL CLASSES | 32 | 33 |

7. The Government has continued to implement successfully steps to ensure that secondary schools in particular are made more accessible to African children. Of all pupils in secondary schools in 1967, 87 per cent were Kenya citizens and 81 per cent of the total, Africans. Details of the distribution of citizens and non-citizens are set out in Table 10.4. The proportion of citizens and in particular of Africans is specially high among Form 1 pupils. This will be reflected inevitably in the composition of other forms also as these pupils advance in their secondary school careers. Also, the fact that

most of the new secondary schools are being built outside the large towns, automatically strengthens the numbers of Africans in the total secondary school population.

CITIZENSHIP OF PUPILS ENROLLED IN SECONDARY SCHOOLS, 1967

Table 10.4

| | KENYA CITIZENS | | | Non-Citizens | All Pupils |
|--------|----------------|-------------|--------|--------------|------------|
| | African | Non-African | Total | | |
| Form 1 | 27,307 | 1,375 | 28,682 | 3,123 | 31,805 |
| Form 2 | 22,586 | 1,241 | 23,827 | 2,765 | 26,592 |
| Form 3 | 13,207 | 1,149 | 14,356 | 2,524 | 16,880 |
| Form 4 | 7,496 | 969 | 8,465 | 2,291 | 10,756 |
| Form 5 | 966 | 208 | 1,174 | 448 | 1,622 |
| Form 6 | 640 | 132 | 772 | 352 | 1,124 |
| TOTAL | 72,202 | 5,074 | 77,276 | 11,503 | 88,779 |

8. In "high cost" schools, particularly in Nairobi, the Government has been awarding bursaries for the children of poor African parents in order to enable them to attend these schools. The amount issued in bursaries in these and other schools rose from K£55,000 in 1966 to K£1 10,000 last year. In addition to bursaries for secondary school pupils, local authorities are empowered to remit fees in primary schools for children from very poor homes. It is estimated that the value of such remissions last year was £300,000. Thus public authorities last year incurred a cost of over £400,000 to subsidize directly education for the children of needy parents. This cost will continue to rise as it is the intention of the Government that children whose parents cannot afford to pay fees are not for this reason denied access to schools. However care will have to be taken to ensure that such subsidies are received only by those who genuinely deserve them and this may require some tightening-up in the administrative procedures for selection.

9. The number of candidates and their performance in the main school examinations held within the country's educational system are shown in Table 10.5. The increasing use of the Kenya Junior Secondary Examination, first held in 1966 and intended for those who cannot afford to complete four years of secondary education (it is taken at Form 2 level), is apparent from the table—the number of candidates had doubled in 1967. The level of performance also improved. This was not the case for Cambridge School Certificate candidates—although the absolute number of those obtaining a certificate rose by 1,867 due to the more than 50 per cent increase in the number of candidates. A growth in the number taking the examination but a slight decline in the level of performance was also true of candidates for the Cambridge Higher School Certificate.

PERFORMANCE OF CANDIDATES IN SCHOOL EXAMINATIONS, 1966 AND 1967

Table 10.5

| | 1966 | 1967 |
|----------------------------------------------------------------|---------|---------|
| KENYA PRELIMINARY EXAMINATION— | | |
| Number of Candidates | 133,042 | 149,665 |
| Percentage of Passes | 48.5 | * |
| KENYA JUNIOR SECONDARY EXAMINATION— | | |
| Number of Candidates | 9,314 | 18,868 |
| Percentage of passes | 28.5 | 34.5 |
| CAMBRIDGE SCHOOL CERTIFICATE— | | |
| Number of Candidates | 8,036 | 12,108 |
| Percentage of full passes | 61.7 | 55.8 |
| Percentage of full passes and General Certificate of Education | 82.5 | 75.6 |
| CAMBRIDGE HIGHER SCHOOL CERTIFICATE— | | |
| Number of Candidates | 756 | 941 |
| Percentage of full passes | 46.0 | 43.0 |
| Percentage with one principal subject only | 35.1 | 37.3 |

*After 1966 it was no longer possible to "pass" or "fail" the KPE examination. Instead every candidate was awarded a certificate showing grades of achievement in each subject of the examination.

10. It would perhaps be appropriate to mention here the growing seriousness of the school-leaver problem. This is most serious for students who are unable to go beyond the Kenya Preliminary and the Kenya Junior Secondary examinations. There were over 168,000 such school leavers in 1967. Even at Cambridge School Certificate level, it is no longer easy for the growing number of certificate-holders and much less for those without full certificates to find jobs in the white-collar urban occupations such school-leavers have traditionally aspired to. The problem will be intensified by the very rapid growth which is going to take place over the next few years in the numbers of school-leavers with a full secondary education.

11. The Government is aware that there is no single answer to the problem. A continued high rate of economic growth is an essential general requirement within which specific approaches will have to be tried to maximize employment opportunities, particularly in rural areas. However, a great deal can be done within the educational system to adapt the instruction imparted to the changing situation and needs of the country. Above all, the dangerous and misleading notion that the possession of a certificate precludes any but urban occupations must be combated. There is no doubt at all that the larger proportion of school leavers will have to be absorbed in rural occupations, as employees or self-employed persons. One of the shortcomings of the present structure of the educational system is that it is adapted largely to meet the needs of those who continue from one stage of education to the next. It does not cater sufficiently for those who drop out at an intermediate

stage. It is the aim of the Government to relate the structure to the needs also of those who leave the system without progressing through all its various stages. Government policy on this and other problems of education will be set out in a Sessional Paper to be published in the near future. The Paper will outline the strategy of educational development programmes over the next decade or so. It is hoped that the Curriculum Development and Research Centre will play an important part in devising curricula to meet the contemporary needs of modern Kenya.

12. The number of students enrolled in teacher colleges rose by 8 per cent to 5,904 in 1967, almost all of the growth being in colleges training secondary school teachers. This does not necessarily mean that the number of qualified primary school teachers is seriously lagging behind the growth in the student population, since there is clearly room for improving the teacher-student ratio and a small improvement of this nature did in fact take place in 1967. The rate at which unqualified primary school teachers can be replaced by fully trained teachers depends both on the rate at which the capacity of the colleges can be increased and also on the ability of County Councils to pay the higher salaries of better qualified teachers. Salary scales were revised upward towards the end of last year and these increases combined with improved quality of teachers—in 1964 only 23 per cent of the intake into teachers' colleges had post-primary education but in 1967 this proportion was 51 per cent—are likely to subject the finances of local authorities to increasing strain. However, it is hoped that the higher pay of teachers will be accompanied by higher "productivity" in the form of more pupils per class and improved quality of instruction. If this does not happen, the real "volume" of education obtained for the outlay per teacher will be less than it was before salaries were increased and the quality of teachers improved by incurring additional expenditure.

13. The number of school teachers, showing whether they are professionally qualified and whether citizens or not, is set out in Table 10.6. In primary schools, professionally unqualified teachers are 30 per cent of the total. In secondary schools, the percentage position for unqualified teachers is far better in aided schools (22 per cent unqualified) than in unaided schools (62 per cent unqualified). "Professionally unqualified" does not, of course, mean that the teachers concerned should not be teaching. They do in most cases possess basic educational qualifications but these are not directly related to specific training in teaching. However, the absence of such training does affect the quality of teaching, particularly at primary school level.

14. The proportion of non-citizens among secondary school teachers. 57 per cent, is high but steadily declining as more local teachers are found both at graduate level from the University of East Africa and after studies overseas, and at non-graduate level from Kenyatta College and the Kenya Science Teachers College. To an extent, the preponderance of non-citizen teachers can be attributed to lack of interest in the teaching profession among citizen graduates. Steps are being taken to ensure that larger numbers of

graduates from the University of East Africa will go into teaching. As foreshadowed in the Development Plan, all Kenya students at the University of East Africa who receive Government bursaries are being bonded to Government service, including teaching, for a number of years on completion of their degree courses. In addition to this, the Ministry of Education is implementing the policy announced in the Development Plan for half of the undergraduate arts students and a third of the science students to include a professional education element in their first degree courses. These students will thus emerge with both a degree and a professional teaching qualification. This is an alternative to the system under which University graduates may take a one year post-graduate Education Diploma course after their three year degree course.

15. Kenya teachers had for a long time pressed for a unified teaching service in which there would be only one employer. Following a Government decision in 1966 to establish a Teachers' Service Commission, legislation was enacted and the Commission formed in 1967. The Teachers' Service Commission is intended to be the sole employer of all Kenya teachers in public schools. Registration of teachers by the Commission is now proceeding at the rate of a thousand per month. Secondary school teachers are being paid directly by the Commission and primary school teachers by local authorities acting on behalf of the Commission. It is hoped that the setting up of a unified teaching service will help to make teaching a more attractive profession.

16. Steps have also been taken to implement the Kenya Education Act of 1968 which replaces the previous Act of 1952. The purpose of the Act is to introduce more effective public control over schools, particularly primary schools. Amongst its main provisions are the vesting of the management of primary schools in the hands of local authorities, with provision for "sponsorship" by voluntary bodies, investiture of the Kenya Institute of Education with legal status, measures to regulate unaided schools and to protect standards in these schools and to safeguard parents and children against exploitation, and the strict regulation of the issue of educational diplomas and certificates.

SCHOOL TEACHERS BY QUALIFICATIONS AND CITIZENSHIP, 1967

Table 10.6

| | Kenya Citizens | Non- Citizens | Total |
|------------------------------|-------------------|------------------|--------|
| PRIMARY SCHOOLS— | | | |
| Professionally Qualified | 23,979 | 1,071 | 25,050 |
| Not Professionally Qualified | 10,369 | 253 | 10,622 |
| TOTAL | 34,348 | 1,324 | 35,672 |
| SECONDARY SCHOOLS— | | | |
| Professionally Qualified | 935 | 1,535 | 2,470 |
| Not Professionally Qualified | 791 | 792 | 1,583 |
| TOTAL | 1,728 | 2,327 | 4,053 |

17. At the sub-university level of technical education, the Kenya Polytechnic is the most prominent institution in the country. At the end of March 1967, it had 1,811 students in full time, sandwich, day release and evening courses, studying mechanical, electrical, automobile and building and civil engineering, science, commerce, printing and institutional management. At the Mombasa Technical Institute there were in March 1967, 472 full-time and 435 part-time students. In addition to the Kenya Polytechnic and the Mombasa Technical Institute there were 8 technical and trade schools running two, three and four year courses at junior craftsman and junior technician level—1,479 pupils were enrolled in such schools in 1967. There were also four secondary technical schools following an academic curriculum but with a technical bias. Students enrolled in these four technical schools are included in Table. 10.2.

18. The number of Kenya students in the University of East Africa over the last few years is shown in Table 10.7.

KENYA STUDENTS IN THE UNIVERSITY OF EAST AFRICA, 1963/64-1967/68

Table 10.7

Numbers

| | 1963/64 | 1964/65 | 1965/66 | 1966/67 | 1967/68 |
|------------------------|------------|------------|------------|--------------|--------------|
| UNDERGRADUATES— | | | | | |
| Common Faculties | 179 | 261 | 369 | 506 | 696 |
| Professional Faculties | 183 | 230 | 302 | 359 | 429 |
| POST-GRADUATE STUDENTS | 14 | 43 | 57 | 54 | 56 |
| OTHER | 160 | 128 | 88 | 102 | 116 |
| TOTAL | 536 | 662 | 816 | 1,021 | 1,297 |

19. The number of Kenya students attending University College, Nairobi, has almost tripled in the last five years, as shown in Table 10.8. The main development at the University College during 1967 was the opening of the new faculty of medicine.

20. The numbers of Kenya students in the applied sciences in the University of East Africa and more particularly in the University College, Nairobi, would have grown further had greater numbers of properly qualified candidates been coming forward to fill the available places. While problems of sufficient student housing and buildings have been important for some faculties, the inadequate supply of candidates which, it seems, is likely to persist, has been a major factor in the applied sciences. The root of the trouble seems to be deficiencies in the output of qualified science students, particularly those with Kenya citizenship, from sixth forms. At first sight, this is surprising when the number of Form 5 streams in existence is considered and also the fact that the ratio of science to arts students has been kept as near as possible to 60:40. A number of factors in combination appear to be responsible for what is, from a Kenya manpower point of view, an unfortunate situation, as shown in Table 10.9. These factors are: failure to enrol 25 pupils per stream in Forms 5 and 6, dropout of students between

entering Form 5 and completing Form 6, examination failures and the significant proportion of non-citizens among the successful students. Future programmes for development at the higher school certificate level should perhaps concentrate as much on curing these deficiencies as on creating new facilities.

UNIVERSITY COLLEGE, NAIROBI—ENROLMENT BY FACULTY, 1963/64-1967/68

| Table 10.8 | | Numbers | | | | |
|-------------------------------|---------|---------|---------|---------|---------|--|
| | 1963/64 | 1964/65 | 1965/66 | 1966/67 | 1967/68 | |
| UNDERGRADUATES— | | | | | | |
| Arts | 41 | 70 | 132 | 187 | 276 | |
| Science | 24 | 43 | 65 | 97 | 138 | |
| Commerce | 11 | 22 | 41 | 51 | 86 | |
| Architecture.. | 6 | 12 | 16 | 17 | 32 | |
| Engineering | 57 | 71 | 94 | 105 | 117 | |
| Veterinary Science | 11 | 17 | 27 | 32 | 39 | |
| Medicine | — | — | — | — | 19 | |
| TOTAL | 150 | 235 | 375 | 489 | 707 | |
| POST-GRADUATE STUDENTS | 3 | 27 | 35 | 44 | 44 | |
| DIPLOMA COURSES— | | | | | | |
| Domestic Science | 32 | 28 | 28 | 27 | 27 | |
| Art/Design | 14 | 17 | 21 | 23 | 22 | |
| Architecture.. | 10 | 7 | 4 | 1 | 1 | |
| Land Development.. | 22 | 25 | 16 | 17 | 16 | |
| Land Survey | 15 | 2 | — | — | — | |
| TOTAL | 93 | 79 | 69 | 68 | 66 | |
| OTHER COURSES | 43 | 8 | — | — | 5 | |
| ALL KENYA STUDENTS | 289 | 349 | 479 | 601 | 822 | |
| STUDENTS FROM OTHER COUNTRIES | 282 | 302 | 447 | 550 | 698 | |
| GRAND TOTAL | 571 | 651 | 926 | 1,151 | 1,520 | |

PROGRESSION OF STUDENTS THROUGH FORMS 5 AND 6*, 1966-1967

| Table 10.9 | | Arts | Science | Total |
|----------------------------------------------------------------------------------------------------------|--|------|---------|-------|
| Form 5 streams, January 1966 | | 29 | 36 | 65 |
| Potential places (25 per stream), January 1966 | | 725 | 900 | 1,625 |
| Form 5 places actually filled, January-March 1966 | | 557 | 643 | 1,200 |
| Candidates for final examination in 1967 .. | | 394 | 547 | 941 |
| Candidates qualified on minimum entry basis for University of East Africa | | 341 | 326 | 667 |
| Of which Kenya Citizens | | 258 | 215 | 473 |
| Percentage of Kenya Citizens qualifying for the University of East Africa in relation to places provided | | 36 | 24 | 29 |

*Excluding Strathmore College and the Kenya Polytechnic.

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21. The attention given to health by the Government is perhaps best illustrated by its rising expenditure (development and recurrent) on this service. This is set out in Table 10.9. Total public expenditure on health in the country is actually higher if outlays by local authorities (partially financed from Central Government grants which are included in the expenditure shown in Table 10.9) are also taken into account. Free out-patient treatment for all and free in-patient treatment for children has been available for several years. Recently, plans have been announced for free treatment at Government hospitals for all workmen who contribute to the National Social Security Fund.

CENTRAL GOVERNMENT EXPENDITURE ON HEALTH SERVICES, 1964/65-1967/68

Table 10.9

| | Total K£million | PER CAPITA | |
|---------|--------------------|------------|------------------------|
| | | KSh. | Percentage Increase |
| 1964/65 | 3 1 1 | 6/83 | |
| 1965/66 | 3.72 | 7/95 | 16 |
| 1966/67 | 4.07 | 8/44 | 6 |
| 1967/68 | 5.68 | 10/94 | 30 |

22. The improvement noted in last year's *Survey* in the number of doctors in the country continued in 1967.

THE NUMBER OF MEDICAL PRACTITIONERS AND DENTISTS, 1963-66

Table 10.10

Numbers

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|------------------------|------|------|-------|------|------|
| Medical Practitioners— | | | | | |
| Registered doctors | 866 | 635 | 699 | 820 | 870 |
| Licensed doctors | 42 | 75 | n.a. | 90 | 100 |
| TOTAL | 908 | 710 | (699) | 910 | 970 |
| Dentists | 40 | 26 | 39 | 49 | 42 |

23. Two major hospital projects, the Russian-built hospital at Kisumu and the Gatundu self-help hospital, were completed this year. However, the Kisumu hospital has not yet been taken over by the Government and made operational. Excluding these two projects, the number of hospital beds actually available in 1967 is set out in Table 10.11. It is felt that the growth in the number of beds in mission hospitals was largely due to changes in the system

HOSPITAL BEDS AVAILABLE, 1964-1967

TABLE 10.11

NUMBERS

| | 1964 | 1965 | 1966 | 1967* |
|-------------------|--------|--------|--------|--------|
| Type of hospital— | | | | |
| Government | 6,931 | 7,334 | 7,550 | 7,928 |
| Private | 1,589 | 1,617 | 1,600 | 1,590 |
| Mission | 3,091 | 3,232 | 2,288 | 4,090 |
| TOTAL | 11,611 | 12,183 | 12,438 | 13,608 |

*Including 313 beds in Government prison hospitals not included in previous years.

24. Perhaps the most notable advances in health during the year were in the field of training of medical personnel. At the professional level, thirty students began studies at the new medical school. The intake is expected to rise to one hundred annually by 1971/72. In order to relate studies to local conditions, it is intended to include a field course in community medicine in the students' later years of study. The new medical school is not only expected to increase the supply of doctors in the country but will also raise the numbers of Kenya citizens in a field largely dominated by non-citizens. However, because of the unavoidably long period of training necessary, the impact of the new school on the supply of doctors will not be felt for several years.

25. Steps have also been taken to increase the number of trained para-medical personnel. For many years to come, the number of doctors available will not be sufficient for the medical needs of the population but para-medical personnel, trained at a lower cost in time and money, can help to fill the gap. Plans have been drawn up at the Medical Training Centre to start a direct training programme for medical assistants who will be "auxiliary diagnosticians". This training is intended to be started in 1968/69 in conjunction with an up-grading course for existing medical assistants. An annual output of 50 "auxiliary diagnosticians" is expected to be reached by 1971.

26. In the field of nursing also, important developments have taken place. New buildings for a School of Nursing at the Kenyatta National Hospital were opened recently and the school is intended to turn out 100 registered nurses

a year. During 1967, 70 persons qualified as registered and 346 as "enrolled" nurses, the latter category being a lower level of nursing personnel. The number of nurses and midwives in training for registration rose from 409 in 1966 to 514 in 1967 and, at enrolment level, from 1,117 to 1,277. At the end of last year, forty hospitals were approved as nurse and midwife training schools. Of these, three were approved for the training of registered nurses. The rest give training for enrolment, including a small number of health visitors.

27. Steps have been taken to shorten the training of nurses by the introduction of "a new Community Nurse programme. Begun at the Coast and Nyanza Provincial Hospitals, this programme will be spread over the next four or five years to all schools of enrolled nursing, to provide a comprehensive three and a half year course in hospital nursing, midwifery and community health.

28. The rapid expansion of training for nurses has placed a strain on the supply of nursing tutors and administrators. With the assistance of the World Health Organization, a diploma course in Post-Basic Nursing has been established at the University College, Nairobi, and the first intake of students will begin in the current year. The aim of the course is to train locally nursing tutors and administrators. It is hoped the programme will eventually develop into a full degree course in nursing science.

29. Kenya is one of the few countries in Africa to establish a national family planning programme with the objective of providing a free service for parents who wish to plan their families. The family planning programme is being implemented not in isolation but as part of a three-pronged maternal and child health approach, intended to combat malnutrition, improve maternity/child medical services as well as providing family planning services.

30. During the last year intensive training of staff at all levels has been undertaken with international assistance from a variety of sources, to lay the foundations of an accelerated family planning programme. Already, 40 doctors in provincial hospitals have been trained in the clinical aspects of family planning. At a lower level, 207 registered nurses were given a course of general orientation and clinical introduction to family planning. A general course was given to 1,400 para-medical staff employed in Government, local authority and mission medical institutions. Among other medical staff, instruction was extended to 1,400 health inspectors, health assistants, medical and clinical assistants, midwives and health visitors. It is felt that this programme of training now provides the essential basis for a rapid implementation of the clinical aspects of the programme.

31. The Government has already opened five family planning centres in provincial and district hospitals and by the end of 1968/69, it plans to have weekly centres providing free services functioning in over 25 district and provincial hospitals. The Family Planning Association of Kenya (FPAK), a

voluntary body which has been long established in the field, has 40 centres throughout the country and is in the process of handing over its clinics to the Government. However, it will continue to play an active part in the development and implementation of the programme, with financial assistance from the Government, particularly at health centres.

32. In this effort, the FPAK will be assisted by seven mobile teams, consisting of a doctor and a midwife each, donated to the Government by the International Planned Parenthood Federation. One team is already operating and two more units will be operating soon. Eventually, each province will have one team.

33. The extension of the programme will be backed up by further training and evaluation. A field/mobile team to carry out intensive training in the clinical aspects and the upgrading of obstetrics and gynaecology services is already functioning in one province. As soon as its work is completed, it will move on to another province. A second team is to be based in Nairobi.

Housing

34. The statistics of residential housing included in Chapter 5 refer only to private building. There is also a substantial amount of housing built by public authorities. During 1967, over 20 projects were completed by the National Housing Corporation throughout Kenya. A wide variety of schemes and of price ranges were included in the houses completed, from 96 cheap rental houses at Naivasha to a scheme of 36 houses for mortgage at Woodley Estate, Nairobi, at a cost of about K£4,500 per house. The latter scheme was the first mortgage housing project organized by the National Housing Corporation and is now being extended to include further houses. At another Nairobi scheme, a pilot project of 15 mortgage houses was completed at a lower cost of between K£1,875-K£3,100 per house. The success of the mortgage and tenant purchase schemes suggests that the National Housing Corporation is helping to meet what is a strong demand for house ownership.

35. On a third scheme in Nairobi, a further 59 houses were completed in 1967 on a self-help basis. As the purchaser provided the labour for building the house, the cost of the housing was considerably reduced; the National Housing Corporation provided materials and plans. The average cost per house was K£475.

36. Although the demand for housing is greater in Nairobi because of its rapidly expanding population and higher average incomes, other areas of Kenya have not been neglected by the Corporation. Tenant purchase schemes at Embu and at Ngong and rental housing at Kisii, Kitale, Thika, Naivasha, Mombasa, Nakuru and Narok were completed in 1967. In addition, other projects such as site and service plots at Kitui and a mortgage scheme of 9 houses at Kisumu were undertaken.

37. Many local authorities also undertook housing projects in 1967. At Thika, work was started on a scheme of 114 houses and a further phase is planned. At Nyeri, 108 houses were completed with the help of a Government loan. Nairobi City Council announced plans to modernize a slum area at a cost of K£1 million, part of the housing to be for tenant purchase by existing residents in the area and the rest for rental.

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38. The main aim of the National Social Security Fund which was set up in November 1965, is to provide benefits for workers in their old age. The employees' benefits paid will be directly related to the equal contributions made by the employee and the employer. These contributions are made monthly, the rate of contribution for employee and employer being 5 per cent of the wage paid subject to a maximum payment of 40 shillings from each. Registration of all employees in Kenya is a massive task which must inevitably take some time to complete. To begin with, only male regular employees of the larger employers were included in the fund. Since then, further progress in registration has been made and by April, 1968, contributions were being received from employers with five or more employees. Thus, although coverage is not yet complete, the majority of employees in the country are already included within the scope of the fund.

39. Although the main aim of the fund is to provide benefits for old age, very few payments are likely to be made in the fund's early years. Later, however, as more and more registered employees approach the age of 60, payments will increase. The fund also provides other benefits such as survivors' benefits paid to the dependants of a deceased employee, invalidity benefit payable to those unable to work, and emigration grants payable to those leaving Kenya permanently. All these benefits are directly related to the contributions paid.

40. Most of the income received from contributions is being invested, largely in Kenya Government Stock. The income from these investments will enhance the amount payable as benefits and the economy will gain from the availability of additional savings for investment. When fully established, annual contributions to the fund are expected to amount to about K£5 million

Other Social Services

41. A good deal of voluntary effort, going into a wide range of social services, is undertaken in the country. Some of the finance for these services is made available by grants from the Government which also co-ordinates to some extent the activities of the voluntary agencies. However, the Government is gradually becoming more actively involved in this field and a Social Welfare Division has been set up within the Ministry of Cooperatives and Social Services to promote social welfare work in the fields of rehabilitation.

mental health, relief of distress, etc. At the end of last year, the Kenya School of Social Work was amalgamated into the Kenya Institute of Administration in order to integrate social work education more closely with other training facilities for community development already available at the Institute.

42. However, voluntary effort still remains dominant in social work and the list below (which is not complete) of voluntary organizations which received grants-in-aid from the Government in 1967 gives an indication of its scope:

- | | |
|-------------------------------------------------------|--------------------------------------------------|
| 1. Kavalina Childrens' Home. | 15. Amani Cheshire Home. |
| 2. Kakamega Childrens' Home. | 16. Mji wa Huruma (Beggars Home). |
| 3. Kivanga Childrens' Home. | 17. Dr. Barnardo's Home. |
| 4. Githige Childrens' Home. | 18. Caltex Home, Nyeri. |
| 5. Machakos Childrens' Home. | 19. Child Welfare Society of Kenya. |
| 6. Edelvale Home. | 20. Starehe Boys Centre. |
| 7. Kenya Red Cross. | 21. Salvation Army (Kabete Home). |
| 8. Nairobi Girls Centre. | 22. Coast School for the Physically Handicapped. |
| 9. J. F. K. Memorial Home for Crippled Children. | 23. Kenya Prisoners Aid Association. |
| 10. St. Anne's Convent, Kisii. | 24. St. John's Community Centre. |
| 11. Rangala Orphanage. | 25. National Council of Women. |
| 12. Dagoretti Childrens' Centre. | 26. Kenya Boy Scouts Association. |
| 13. Association for the Physically Disabled of Kenya. | 27. Kenya Girl Guide Association. |
| 14. Society for the Deaf and Dumb. | 28. Kenya Association of Youth Centres. |

CHAPTER 11—THE OUTLOOK FOR 1968

Production and income in the main industrial centres advanced to a high level in the first half of 1968 under the lead of the United States and Germany. Consumption demand in Britain also remained high, partly in anticipation of restrictive measures following the devaluation of sterling. The outlook for the second half of the year is less certain. Budgetary measures in Britain have been designed to achieve an overall cut in consumption in real terms while the proposal for a tax surcharge in the United States, if passed by Congress, is likely to check further advances of consumption there. But if the war in Vietnam continues, the overall level of Government expenditure

is likely to be maintained at a high level and economic growth in the United States might be higher in 1968 than in 1967. The economic outturn for the industrial countries taken together is also expected to be slightly more than last year but this is likely to depend in part, at least, on whether or not the EEC countries, particularly Germany and France, continue to stimulate economic growth. Output in Italy and Japan should move ahead but at a slower rate than in 1967.

2. The outlook for world trade is probably no better than in 1967 when an overall increase of only 5 per cent was achieved. Measures to correct imbalances of trade in the United States and Britain are bound to affect world trade if they are to be effective and the maintenance of the overall level of trade will depend in large measure on the policies followed by industrial countries in balance of payments surplus. If they are prepared to stimulate their economies beyond the levels that now seem likely, it is possible that world trade will continue to grow. However, on the basis of present trends, the possibility must be faced that world trade will be expanding only slowly by the end of the year. This bodes ill for primary producers such as Kenya, particularly in a situation when returns on a number of exports have already been reduced by the devaluation of sterling. The fact must be faced that uncertain external trends are likely to be an important determining factor for economic growth in Kenya in 1968.

3. Except in areas where planting has been prevented by excessive rain, the food situation in the country should be good: indeed it is likely to be a year of record food surpluses. The incidence of heavy rain in the first half of the year should also lead to a record crop of tea, although quality may on average be rather lower in these circumstances. On the other hand, the incidence of coffee berry disease may be exacerbated by the prolonged rain and production is now likely to be less than earlier estimates suggested and possibly insufficient to fill Kenya's international quota in the current quota year. On a calendar year basis, however, the crop should be maintained at last year's level. Sisal cutting is likely to be reduced sharply since present prices are uneconomic for a number of plantations. Livestock production both for meat and milk is expected to record some increase.

4. The returns received for these crops on the export market will, however, as usual, determine whether or not the farmers receive the benefit of higher production in the form of higher incomes. Tea prices on the London market are a little lower than they were twelve months ago but as a result of sterling devaluation the f.o.b. Mombasa price is nearly 20 per cent lower. Nairobi coffee prices have, however, been quite good—partly because they are less influenced by trends in sterling commodity markets and partly because of increased demand for Kenya grades. Prices of maize for export have been negotiated at reasonable levels, given the world maize supply situation, and prices of canned meat in Britain have held up surprisingly well. Sisal prices remain very low and prospects of any substantial revival do not appear

good in the face of competition from synthetics. For the same reason, export prices of pyrethrum may be lower in 1968. Prices for hides and wool are down significantly.

5. Taken as a whole, export price trends are likely to be unfavourable. Gross farm revenue earned is expected to increase by a little less than 6 per cent at current prices. In real terms, production is expected to increase by 9 per cent.

6. Manufacturing production is, at the moment, expected to be about 4 per cent higher than in 1967. The new system of trading in the East African common market caused some disruption of trade in the first few months of the life of the Community but it is expected that many of these problems will have been overcome by the end of the year. However, the transfer tax system is designed to influence the relative competitive positions of manufacturing industries within East Africa and since it is Kenya's industries which are bearing the brunt of these new taxes the position of some is bound to be affected adversely. On the other hand, the elimination of restrictive import controls should allow other industries, held back under the Kampala Agreement, to expand their East African exports once again, although stronger competition throughout East Africa must be expected from other countries which devalued their currencies. Investment in manufacturing over the last two years should provide new impetus, although, apart from the new sugar factories and the increase in cement production capacity, there are no major plants about to inaugurate production. If agricultural income rises faster than forecast at present, the manufacturing sector may do a little better than the 4 per cent growth forecast here.

7. Overall, the outlook for a rise in the volume of exports is rather better than in 1967. Significant increases in tea and maize exports, with a small increase in coffee, are expected. Some increase in external exports of minor produce and, within East Africa, manufactured products, is also forecast. Even taking into account the fact that export prices may be lower, the value of exports should approximate to that of the 1966 record year and even possibly exceed it.

8. The level of imports will be influenced by two factors. Firstly, it will be determined by the level of economic activity in Kenya as a whole, including the level of capital spending. In addition, it is likely to be influenced by the present tendency of the commercial sector to operate on the basis of a minimum level of stocks as a result of uncertainties over the issue of trading licences. It is difficult to forecast how long this uncertainty will prevail but it seems likely that stocks may be run down to the point that shortages of certain types of imported goods occur. Textiles and consumer goods imports are expected to be low. It is clear from revenue trends that imports in the first quarter of the year were high, as goods delayed by the British dockers' strike late in 1967, arrived at Mombasa. A sharp fall off during the remainder

of the year is forecast, however, and present indications are that, overall, imports may be lower by 5 or 6 per cent, even allowing for the fact that purchases from Uganda and Tanzania should show some increase and substantial imports of railway equipment are expected.

9. The rate of capital formation is difficult to forecast. A number of capital projects already started will make a further significant contribution, although some, such as the Kindaruma Dam and the Chemelil Sugar Factory, will be completed during the year. The most important new projects are expected to be the preliminary construction work for a fertilizer plant and a steel mill at Mombasa. Government capital spending should increase but overall the level of capital formation may be much the same or a little lower than in 1967.

10. Present indications are that the building and construction industry will have another good year but the overall level of activity will be only 3 or 4 per cent higher than in 1967. A number of projects started or approved last year will provide a high level of work for the industry but there was a fall in the rate of plan approvals in the first half of 1968 and by the end of the year this may be reflected in work started.

11. Provided political and economic trends in the world remain stable, tourism should have a record year. Attempts by the Government of the United States to restrict the outflow of money on tourist account may affect Kenya to some extent but it has already been noted that a significant number of Americans who visit Kenya are actually American citizens resident in Africa—such people will not be affected by these restrictions. A higher level of income in Europe and increasing awareness of Kenya's tourist attractions should lead to a further increase in the numbers of people arriving under inclusive tours. Hotel capacity at the Coast has been increased and further accommodation will be available in the game parks later in the year. Overall, accommodation shortages may still persist and for this reason the rate of growth of tourism is likely to be restricted to 10 per cent.

12. A further rise in public sector development spending together with the influence of a small wage increase for government servants should have the effect of inducing a rise in the product of general government.

13. Employment on large farms recorded a fall in 1967, while the rest of the economy created a number of new job opportunities. In 1968, the revival of tea production and the heavy maize crop should lead to some recovery of agricultural employment but in other sectors any increase is likely to be small. Further small wage increases must be expected, restricting the expansion of job opportunities. Employment in the building industry has probably reached a plateau and it is noticeable that many of the larger construction firms are using modern labour saving machinery. Any overall increase in employment will have to be sought in the main in the further acceleration of development in small scale agriculture.

14. When all trends are considered together it seems probable that 1968 will be another rather difficult year for the Kenya economy but one which will allow consolidation of advances made in recent years. The devaluation of sterling at the end of 1967, the speculation against the Kenya currency that followed it and the deterioration in the visible trade balance all contributed to a very tight credit situation in the first quarter of 1968. This has already eased considerably and if the forecast improvement in the trade balance is realized there should be a further easing of the credit position and therefore less restraint on development not financed directly by overseas funds. On the other hand, the relative competitiveness of Kenya production at the new currency values is only now being tested and some further falls in commodity prices must be regarded as a possibility. They should, perhaps, be regarded as probable if there is any serious setback to the growth of world trade, regarding which assumptions are very difficult to make at the present time. If, as suggested here, capital spending is no higher than in 1967, it seems likely that gross domestic product will rise by no more than 4 or 5 per cent both at current and constant prices. The balance of payments should, however, improve, causing some rise in the country's foreign exchange reserves.