REPUBLIC OF KENYA

ECONOMIC SURVEY 1965

Five Shillings - 1965

ECONOMIC SURVEY
1965

Prepared by the Statistics Division
Ministry of Economic Planning and Development

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Notes

1. In the tables the following symbols have been used: —

   "_" means "nil".

   ".." means "figures not available".

2. Individual figures may not add to totals because of rounding.

ECONOMIC SURVEY, 1965

CHAPTER 1—THE GENERAL ECONOMY

External Economic Influences

Like most underdeveloped countries whose economy is heavily dependent on overseas trade, Kenya is influenced strongly by the ebb and flow of economic tides in the world overseas. World production expanded in 1964. although there was some slackening in activity towards the end of the year. World trade rose in value by an estimated 12 per cent overall but trade between industrial countries would seem to have expanded at a relatively greater rate. Rising prices and balance of payments difficulties caused a number of countries to tighten import controls, to introduce measures to control the export of capital and to reintroduce higher money rates. In part, these corrective measures reflected the recurring balance of payments difficulties of Britain and U.SA. but in part reflected the lack of general financial liquidity in the world in relation to the world trade and the aspirations for economic development. Attempts by developed countries such as Britain, ,U.S.A. and Italy to control their foreign exchange losses by restrictive measures are perhaps inevitable under the present system of settling world trade but the first to be hit by such restrictive policies tends to be the poorer developing countries. It was, therefore, a matter of concern that restrictive economic policies seemed to be becoming more general towards the end of 1964. The underdeveloped world is heavily dependent on the continued economic strength of the developed industrial countries—countries such as Kenya would be severely hit by any general world economic setback— but at the same time they require the opportunity for steady economic development uninterrupted by "stop-go policies" in other parts of the world. At the same time having regard to the overriding need for development capital and the attempts by countries such as Kenya to encourage private capital investment, the recent measures in some developed countries aimed at limiting the outflow of private capital must be regretted. If these measures achieve their aims they must, to some extent, offset any benefit obtained from technical assistance and government to government loans.

2. However, the re-introduction of restrictive economic policies did not affect Kenya in 1964 except perhaps towards the end of the year and in general the country was able to take advantage of favourable trade opportunities ruling overseas and this is reflected in the extent of growth achieved during the year.

Domestic Income and Product

3. Total gross domestic product in Kenya is estimated to have risen by 7.2 per cent in monetary terms in 1964, one of the highest rates of growth achieved in the last ten years. Unlike 1963, however, the benefits of the expansion were disseminated more evenly throughout different sections of the

GROSS DOMESTIC PRODUCT AT FACTOR COST BY INDUSTRIAL ORIGIN, 1955-1964

Table 1 *£ million*

INDUSTRY	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964*
RECORDED MONETARY ECONOMY										
Agriculture (including Incidental Services)	19.98	24.90	23.78	24.75	25.32	29.44	28.33	28.46	33.14	37.04
Livestock	6.92	7.72	8.06	8.27	8.57	9.22	8.97	9.62	9.59	9.54
Forestry	0.77	0.81	0.69	0.68	0.79	0.81	0.90	0.97	0.78	0.94
Fishing and Hunting	1.47	1.62	1.02	0 90	0.89	0.53	0.50	0.81	0.88	0.90
Total	29.14	35.05	33.54	34.60	35.58	40.00	38.72	39.86	44.39	48.42
OUTSIDE RECORDED MONETARY ECONOMY										
Agriculture	33.04	34.71	37.33	38.02	38.47	36.10	34.21	46.43	47.87	49.32
Livestock	10.51	10.63	11.72	11.80	11.66	10.99	10.44	11.86	12.80	13.10
Forestry	1.98	2.38	2.43	2.57	2.70	2.94	3.08	4.74	5.79	5.87
Fishing and Hunting	0.27	0.28	0.21	0.20	0.20	0.16	0.16	0.19	0.20	0.20
Total	45.80	48.00	51.69	52.59	53.03	50.19	47.89	63.22	66.66	68.49
TOTAL PRODUCT										
Agriculture	53.02	59.61	61.11	62.77	63.79	65.54	62.54	74.89	81.01	86.36
Livestock	17.43	18.35	19.78	20.07	20.23	20.21	19.41	21.48	22.39	22.64
Forestry	2.75	3.19	3.11	3.25	3.50	3.75	3.98	5.71	6.57	6.81
Fishing and Hunting	1.74	1.90	1.23	1.09	1.09	0.69	0.68	1.00	1.08	1.10
Total	74.94	83.05	85.23	87.19	88.61	90.19	86 .61	103.08	111 .05	116.91
RECORDED MONETARY ECONOMY										
Mining and Quarrying	1.28	1 .36	1.26	1.23	1.12	1.09	0.85	0.83	0.89	0.65
Manufacturing	17.44	18.18	19.80	20.52	20.23	21.62	22.73	23.04	24.38	26.67
Construction	8.04	9.34	9.63	8.38	7.94	7.86	7.80	6.76	4.89	4.28
Electricity and Water	1 .45	1.75	2.09	2.36	2.56	2.79	2.84	3.29	3.60	3.80
Transport, Storage and Communications	15.18	15.78	18.64	17.69	19.03	20.34	21.15	22.26	24.62	25.64
Wholesale and Retail Trade	25.34	25.83	27.48	26.39	27.68	28.96	29.56	30.06	31.92	35.16
Banking, Insurance and Real Estate	2.22	2.52	2.83	3.26	3.46	3.54	3.88	4.01	4.17	4.49
Services	10.09	10.73	12.11	13.11	14.58	15.50	14.14	14.21	15.41	17.56
Rents (including ownership of dwelling houses)	5.26	5.80	6.65	7.51	8.05	8.70	8.14	8.43	9.36	9.55
Total	86.30	91.29	100.49	100.45	104.65	110.40	111.09	112.89	119.24	127.80
GOVERNMENT										
Central Government—										
Civil Departments	14.28	13.93	15.48	16.40	16.87	20.08	21.63	22.02	20.86	19.42
Local Authorities	2.26	2.29	2.53	2.89	3.15	3.35	3.49	4.11	5.90	10.85
Defence	2.68	2.54	2.12	1.11	1.43	1.37	1.75	1 .83	1.86	2.53
Overseas Governments (Local employees)	0.08	0.05	0.06	0.06	0.10	0.12	0.14	0.16	0.18	0.19
Total	19.30	18.81	20.19	20.46	21.53	24.92	27.00	28.12	28.80	32.99
TOTAL	180.54	193.15	205.91	208.10	214.79	225.51	224.70	244.09	259.09	277.70
Recorded Monetary Economy	134.74	145.15	154.22	155.50	161.76	175.32	176.81	180.87	192.43	209.21
Imputed Product Outside the Recorded Monetary Economy	45.80	48.00	51.69	52.59	53.03	50.19	47.89	63.22	66.66	68.49

*Provisional.

population and on the whole it would appear that most people were better off to some extent. The level of wage employment showed the first significant rise since 1960 while small-scale farmers contributed substantially to the higher level of production. Many problems remain, not least that of finding a means of livelihood for a rapidly expanding population, but 1964 can be regarded as the best year economically for a long time and a year in which foundations were laid for further longer term progress.

4. Only small changes in consumer prices were registered in the year—overall there was perhaps a rise of 1 per cent—and the increase of 7.2 per cent in gross domestic product in monetary terms represented an increase in the goods and services on the domestic market of approximately 6 per cent. Thus, for the second successive year Kenya has achieved the target rate of growth set by the Government for the period of the Development Plan 1964-70. Available data is insufficient to enable a reliable calculation to be made of the change in domestic product at constant prices in all sectors in 1964 but the real production of agriculture was slightly lower compared with the previous year and overall there was perhaps an increase of merely 4-5 per cent. The reason why gross domestic product at constant prices increased less than the total of goods and services on the domestic market is that export prices rose by a greater amount than domestic consumer prices. The terms of trade moved in Kenya's favour.

5. Weather conditions in Kenya could be described as "generally normal" in all areas and favourable for the production of food crops. As a result no food shortages occurred (although a lower level of maize deliveries to the Maize Marketing Board caused temporary shortages in some non-producing areas) and the imputed value of unrecorded subsistence production, included in the total gross domestic product, is estimated to have risen by 2.7 per cent. Since this estimate attempts to cover unrecorded transactions its reliability is inevitably low, except as an indicator that there was a normal growth of food production to feed the population.

6. Of greater significance, was the growth of the monetary economy of 8.7 per cent at current prices, the highest rate since 1959. As in 1963, agriculture made a substantial contribution. Record production of coffee was successfully marketed at prices much improved on those of the previous season while tea production and prices also moved favourably. A serious setback in sisal prices occurred in the year but owing to the bulk of production being sold forward the full impact of this fall was not felt in 1964. Maize and pyrethrum deliveries were down but wheat farmers had a good year. The improvement in coffee income was, however, the most significant factor in the growth of agricultural income and since there are now 225,000 growers of coffee in the country this higher level of income was widely disseminated. It is in fact notable that nearly all of the increased agricultural product (at current prices) was derived from the small farm sector.

COMPOSITION OF GROSS PRODUCT BY TYPE OF FACTOR INCOME

Table 2 *£ million*

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964*
RECORDED MONETARY ECONOMY										
Paid Employment:										
Public Employment	31.14	31.17	34.91	34.36	35.42	39.31	42.17	43.85	42.97	46.91
Private Employment	44.10	46.80	50.84	51.14	52.95	56.86	56.77	56 32	58.88	65.13
Total (Employment)	75.24	77.97	85.75	85.50	88.37	96.17	98.94	100.17	101 .85	112.04
Operating Surplus:										
Public Enterprise	2.31	2.10	2.21	2.69	3.09	3.06	3.00	2.93	3.77	3.59
Private Enterprise	51.93	59.28	59.61	59.81	62.26	67.39	66.74	69.34	77.47	84.03
Total (Operating Surplus)	54.24	61.38	61.82	62.50	65.35	70.46	69.74	72.27	81.24	87.62
Rental Surplus:										
Public Enterprise and Government..	1.24	1.34	1 .50	1.63	1.75	1.80	1 .93	2.05	2.14	2.23
Private Enterprise and Householders	4.02	4.46	5.15	5.88	6.30	6.90	6.21	6.38	7.22	7.32
Total (Rental Surplus)	5.26	5.80	6.65	7.51	8.05	8.70	8.14	8.43	9.36	9.55
Total (Recorded Monetary Economy)	134.74	145.15	154.22	155.50	161.76	175.32	176.81	180.87	192.43	209.21
IMPUTED PRODUCT OUTSIDE THE RECORDED MONETARY ECONOMY	45.80	48.00	51.69	52.59	53.03	50.19	47.89	63.22	66.66	68.49
TOTAL (GROSS PRODUCT)	180.54	193.15	205.91	208.10	214.79	225.51	224.70	244.09	259.09	277.70

*Provisional

7. The product of the small mining and quarrying sector was lower in 1964 than in any of the last ten years. This was due almost entirely to the effect on production of the cessation of oil prospecting. On the other hand manufacturing had a very good year, better than was anticipated in last year's Economic Survey. Details set out in Chapter 4 show that a number of industries contributed to this improvement but the most important factor was the production from the new oil refinery. The construction industry recorded a ten year low in 1964 as regards its estimated gross product but, in fact, the industry passed its low point in the year and the value of work undertaken was very similar to that in the previous year and is now rising.

8. Wholesale and retail trade had a record year, partly because of the general expansion of exports but more particularly because of the buoyant level of trade within the East African common market. The growth of this is commented on in more detail in Chapter 2. The development of the Kenya economy is also reflected in the rapid growth of service industries in the country: the gross product of services rose by 14 per cent in 1964, largely as a result of higher activity in health services and in the hotel and restaurant trades. All other sectors of private industry and commerce contributed to the general growth in some degree.

9. Changes in the gross product of the Government sector require some explanation as it will be observed that in spite of rising Central Government expenditure the gross product of civil departments was slightly lower in 1964 than in the previous year. The reason for this lies in the fact that responsibility of primary education—and the payment of primary school teachers salaries—was switched from Central Government to local authorities between the two years. Approximately £6 million was involved in this change and is reflected in the £5 million increase in the product of local authorities. The change in the public sector should be viewed overall.

10. The Economic Survey 1964 suggested that much of the higher income earned in 1963 was distributed as higher operating surpluses rather than a higher national wage bill. This situation was, however, reversed in 1964 when 55 per cent of the increased value of domestic product is estimated to have been distributed to wage earners: the total wage bill increased by 10 per cent while the operating surplus of businesses and firms increased by 8 per cent. The main reason for this change would seem to be that larger businesses paid out relatively greater amounts in the form of wages, probably as a result of the Tripartite Agreement under which they increased their labour force by 10 per cent. Small farms and businesses who earn a significant part of the operating surplus were less affected by this trend and as a result were generally better off during the year—this again reflects in the main the higher coffee payout. The composition of gross product by type of factor income is set out in Table 2.

External Trade

11. Exports inside and outside East Africa rose by £9 million to a total of £79 million. About £4 million of this increase consisted of petroleum products from the new refinery at Mombasa and another £3 million represents the gain from the large rise in the price received for coffee exports. Thus these two items account for most of the increase; in particular the level of exports outside East Africa, excluding coffee and petroleum products and adjusted for price changes, fell and this must be adjudged a disappointing feature. Exports to Uganda and Tanzania increased markedly even if a £2 1/2 million worth of petroleum products are excluded. Imports also rose to an all time high—by £5 million to £88 million—but much of the increase was in E.A. Railways and Harbours rolling stock which although consigned to their Headquarters in Kenya, would also be for use in the other E.A. countries. Another reason for the higher import bill was the crude petroleum which was later exported in a refined form. But for these special factors imports would have fallen, although this must be considered mainly to be a reaction to the very large increase last year and not as a turning point—the long.term trend must still be upwards, if only because of the need for imported capital goods for development. It is noteworthy that the value of goods coming from Uganda and Tanzania increased by much more relatively, than the value of imports from other sources. Imports from our East African neighbours have risen by 50 per cent in two years and the products of many of those countries' new industries are to be seen in the statistics. The excess of imports over exports, the visible balance of trade, was £8| million; this is an improvement of £3.5 million on the 1963 figure and under half what it was three years ago. Furthermore it is inflated by the inclusion of imports for East African organizations with head offices in Kenya. There was probably a small favourable swing in the terms of trade during the year with export prices rising rather more than import prices.

Finance and Banking

12. With a common currency and a closely interlocked East African commercial system, it is extremely difficult to interpret banking trends from available financial statistics in relation to trends in the Kenya economy in isolation. It is quite clear that the Kenya banking system undertakes banking transactions indirectly on behalf of Uganda and Tanganyika and financial flows in respect of any one country cannot be distinguished. It was suggested in the Economic Survey 1964 that the tight financial situation as demonstrated by the high advances/deposits ratio of the banks would place a restraint on expansion in 1964 unless there was a marked improvement in the level of deposits. In fact, in spite of an increase in monetary gross domestic product of £17 million in 1964 and an improvement in Kenya's current trade balance, private deposits rose by little more than £1 million. On the other hand, there

was an expansion of private advances of nearly £5 million over the year as a whole but much of this occurred before March and the small expansion after the first quarter was offset by a decline in advances to the public sector. To some extent, therefore, the economy expanded in 1964 in spite of the tight banking position but it is of course impossible to say how much further it might have developed if finance had been more freely available. On the other hand, advances to industry increased by 15 per cent and those to agriculture rose by 23 per cent. The squeeze would seem to have affected commercial credit in the main, where there was a reduction after the first quarter although as already noted, the position was eased by a fall of £1 million in Government advances.

BANK DEPOSITS AND ADVANCES

Table 3

	GOVERNMENT		PRIVATE SECTOR		ADVANCES/DEPOSITS RATIO	
	Deposits	Advances	Deposits	Advances	Private	Total
	£'000	£'000	£'000	£'000	%	%
1960 December	7,906	4,164	42,301	38,061	90	84
1961 December	9,251	4,904	43,206	34,104	79	74
1962 December	13,786	6,420	45,449	35,279	78	70
1963 December	15,868	7,994	46,660	42.367	91	80
1964 March	18,697	8,702	45,646	46,037	101	85
1964 June	19,052	6,341	43,553	46,228	106	84
1964 September	17,743	8,073	47,364	46,764	99	84
1964 December	17,115	7,006	47,879	47,641	99	84

It will be observed that the private advances/deposits ratio reached a peak in June 1964 and has since been brought back to some extent, although the ratio remains at a high level and above that of December 1963. Clearly, unless there is a growth of deposits there is no basis for an additional expansion of advances, unless additional support is provided by the banks' head offices overseas. It will be seen from Table 4 that substantial additional support was in fact received in 1964.

13. The changes in bankers balances in 1964 was particularly interesting, as although there was a substantial increase (£14.2 million) in the indebtedness of Kenya banks to banks abroad, this was almost entirely offset by an increase (£13.3 million) in indebtedness of Uganda and Tanganyika banks to those in Kenya. It would seem doubtful that this relationship has occurred coincidentally and on the face of it it would seem that a flow of funds from abroad to finance higher advances in Tanzania and Uganda is taking place through the Kenya banking system. It may also reflect some outflow of funds from East Africa generally.

CHANGES IN BANKERS BALANCES WITH OTHER BANKS

Table 4 £'000

	Net Balances due from Branches in Uganda and Tanganyika	Net Balances due to Banks Abroad
1960 December	6,371	6,570
1961 December	6,665	1,003
1962 December	5,151	—3,986
1963 December	5,496	1,185
1964 March	5,312	4,669
1964 June	8,864	8,528
1964 September	11,760	10,681
1964 December	18,825	15,421

14. It has already been noted that the level of deposits in Kenya failed to expand in 1964 in line with the growth in G.D.P. and the improvement in the balance of imports and exports. Unfortunately, the data required to compile a full balance of payments for 1964 is not yet available and it is, therefore, impossible to see whether changes in other sectors of the balance of payments may have been the cause of this. British military expenditures were almost certainly lower but official grants to the Kenya Government were higher. The foreign capital inflow may have been lower but information on this is not yet available. It would seem, however, that there was some outflow of funds from Kenya in 1964 which was the main reason why deposits did not expand as might otherwise have been expected. Some indication of the increased outflow of funds, but not a very reliable one having regard to the Tanzania and Uganda transactions passing through to Kenya banking system, is given by changes in net telegraphic transfers through the E.A. Currency Board. In 1963, telegraphic transfers to and from Nairobi and London were closely in balance but in 1964 there was a net flow to London of £7 million. This is a relatively small amount, less than the normal outflow of interest and dividends on debt and investments. In general, therefore, the problem would seem still to be one more of attracting new funds to Kenya for investment rather than controlling the outflow of profits from existing investments.

15. It is significant that there was no marked deterioration in the financial strength of the East African Currency Board. The total amount of currency in circulation at the end of 1964 was £81.2 million, compared with £75.7 million at the end of 1963, while the assets providing backing to this currency were valued at £86.4 million, of which £62.8 million, were convertible external assets. The value of the Board's assets at the end of 1963 was

£85.2 million of which £69.4 million was external. The East African Currency remains fully covered by the assets of the Currency Board and 77 per cent covered by external assets, reflecting a currency position as strong as most countries in a similar stage of development, although when divided between the three East African countries the external assets of the Board do not represent very substantial foreign reserves and they must, therefore, be safeguarded carefully. If there had been any serious net outflow of funds in 1964 this would have been reflected as a deterioration in the position of the Currency Board.

16. During the year, the Board took additional powers of credit creation and the fiduciary limit was raised from £25 million to £35 million over and above the limit of £10 million available for local crop finance. At the end of December 1964, local assets of the Board were valued at £23.6 million of which £3.2 million represented crop finance advances. 1964 was a significant year in the financial evolution of East Africa in that previously the Currency Board's money rate policy, as expressed through its Treasury Bill operations, was closely tied to developments in the United Kingdom, and East African Treasury Bill rates moved largely in line with London rates, e.g. the average rate in Dar es Salaam was 3.59 per cent up to 21st February compared with a London average of 3.67 per cent. In February 1964, when the bank rate in London increased to 5 per cent, the Currency Board intervened to prevent the East African Treasury Bill rates from rising in sympathy. Correspondence with the movement in London rates was resumed, but at a wider differential which was approximately 0.35 per cent. The rediscount and advances rates for Crop Finance remained at 5.5 per cent, i.e. per cent under the banks' minimum overdraft rate. The Currency Board moved further towards an independent rate policy for East Africa in November 1964, when the bank rate in London increased from 5 per cent to 7 per cent. The Board arranged a meeting immediately with representatives of the commercial banks to make them aware of the Board's views and intended actions. These were that it was important that East Africa should be insulated from the immediate impact of the rise in London rates, i.e. that there should be no automatic movement resulting from the London decisions. In particular, the Board considered that there was no case for any immediate rise in the general pattern of bank lending rates and to give substance to these views the following measures by the Board came into force from the 25th November 1964: —

(1) The East African Treasury Bill rates were supported to ensure that they did not rise above the existing level.

(2) The re-discount and advances rate for crop finance was reduced from 5.5 per cent to 5 per cent.

(3) The charge for outward remittances to London (sales of Sterling by the Board against East African shillings) was increased from 0.375 per cent to 0.5 per cent. Comparable changes were made in the Board's internal dealing rates with the banks.

17. There was a further deterioration in the position of the Kenya Savings Bank in 1964. Deposits were again lower and so was the balance at the end of December 1964. On the other hand, there was some slowing down in the rate of withdrawals. In general, however, the Kenya Savings Bank is not being used as a major savings medium and savings accounts at the commercial banks are more popular.

COMMERCIAL BANK SAVINGS DEPOSITS AND KENYA SAVINGS BANK, 1960-1964

Table 5 *£'000*

	Commercial Bank Savings Deposits*	KENYA SAVINGS BANK		
		Total Balance	Annual Deposits	Annual Withdrawals
1960	5,525	6,974	3,446	5,346
1961	7,126	6,507	3,393	4,011
1962	8,839	6,250	3,286	3,687
1963	10,051	5,756	3,150	3,783
1964	10,934	5,105	2,568	3,344

* As at 31st December.

18. The Nairobi Stock Exchange index (March 1958 = 100) moved within fairly narrow limits during 1964. At the beginning of the year it stood at 94 and at the end 92. At no point did it move higher than 97.1. It would seem that the Nairobi exchange is now less under the influence of internal political events and reflects more the indeterminate trend in stock markets overseas, particularly London, although the profitability of companies dealt in will also be an important influence. This change in the situation ruling over the last five years is a welcome indicator that political uncertainties in Kenya are no longer dominating economic decisions.

Capital Formation

19. The suggestions made in last year's Economic Survey that a higher level of capital formation would be recorded in 1964 were in fact borne out and there was an estimated increase of 8 per cent. It was particularly encouraging that private investment increased by a rather greater amount—12 per cent. In spite of an increase in the expenditure from Government's Development Account of £5 million, the estimated capital formation by Central Government was only about £1 million higher. The reason for this is that a large part of Government development money is being directed towards resettlement schemes financing a transfer of assets rather than the creation of new ones.

20. Capital expenditure on the remaining large farms was slightly higher than in the previous year but the completion of the Mombasa Oil Refinery (largely with the purchase of equipment in 1964) meant that the private sector

total was no longer assisted by this particular project. If the oil refinery is excluded ,non-agricultural investment was the highest since 1960 and most of this investment was of a productive type.

21. Investment is still well below the Development Plan annual target but it is suggested in Chapter 8 that this target is still reasonable and in the initial years of the Plan it is naturally less than the overall annual average.

Summary

22. At this time last year, in the Economic Survey 1964, it was suggested that gross domestic product would rise by approximately 4 per cent in 1964, although a substantial rise in investment would have the effect of increasing this rate to a more satisfactory level. In fact the revival of investment was no more than estimated but the economy succeeded in achieving rather more than forecast, an increase in G.D.P. of 7 per cent, as agricultural export prices turned out to be rather more favourable than anticipated. Since in other years it has been more usual to report that the growth in domestic income has been held back by an adverse movement in export prices, a change in Kenya's favour should be particularly welcomed. In terms of income growth, 1964 was the best year in the last ten.

23. There were, however, unsatisfactory features apparent in the economy during the year and these cannot be ignored. Investment was still not rising fast enough from the low levels of the past two years and there was some net outflow of funds from the economy: bank deposits did not expand to facilitate an expansion of bank credit. The level of wage employment improved which was a welcome reversal of the previous trend but as noted in Chapter 6 this improvement was very largely due to the once and for all effect of the Tripartite Agreement. The increase in employment was substantially less than the increase suggested by the Economic Survey. The value of agricultural production and the value of exports both increased but the improvement in both cases was due to improved prices and the real production of a number of products, particularly minor products, was down. The economy is still too much dependent upon coffee, tea and sisal, and tourism and manufacturing apart, attempts to diversify the economy particularly in agriculture are not yet reflected in production and export totals.

24. However, there were clear signs that a revival in capital formation had begun and if this is maintained and accelerated, as seems likely, the economy will continue to move forward. The climate of confidence in the economic stability of Kenya has improved substantially in the last twelve months and numerous projects, particularly in the field of industrial and tourist development, have been discussed. The momentum of the Development Plan is now increasing and apart from laying the foundation for longer term growth this will make a direct contribution to the economy immediately.

25. The prospects for 1965 are discussed in the final chapter of this Survey.

CHAPTER 2—EXTERNAL AND INTERTERRITORIAL TRADE

Introduction

1. The outstanding feature of Kenya's visible trade in 1964 was the increase, 12 per cent, in exports for the second successive year. The increase was particularly large, 31 per cent, in the case of exports to the other East African countries'": these rose from £20 million to £26 million for reasons which are examined fully in paragraph 21 et seq., although the new oil refinery was the most important single cause. There was a smaller increase in imports, 6 per cent, mainly attributable to the heavy imports of railway rolling stock by East African Railways and Harbours; but for this, and imports for other E.A.C.S.O. organizations, the adverse balance on visible trade of £8 1/2 million would have been about £2 million. When it is realized that this adverse balance has been more than halved in the last three years and that five to ten years ago it was in the region of £30-40 million, the great contribution rapidly rising exports have made to the economy is emphasized. The overall position is summarized below: —

EXTERNAL AND INTERTERRITORIAL+ TRADE, 1960-1964

Table 6 *£ million*

	1960	1961	1962	1963	1964
Imports—					
Net Imports—Total	70.1	68.9	69.5	73.7	76.7
of which Commercial	*65.0*	*62.0*	*63.8*	*70.3*	68.0
Government	*5.0*	*6.9*	*5.7*	*3.4*	8.6
Interterritorial	7.0	7.0	7.3	9.2	11.4
Total	77.1	75.9	76.8	82.9	87.9
Exports—					
Domestic	35.2	35.3	37.9	43.8	47.1
Re-export	5.0	6.4	7.2	7.1	6.4
Interterritorial	13.8	15.9	17.3	19.8	25.9
Total	54.0	57.7	62.5	70.8	79.4
Balance of Trade—					
External	-29.9	-27.2	-24.3	-22.7	-23.0
Interterritorial	+6.8	+9.0	+ 10.0	+ 10.6	+ 14.5
Total	-23.1	-18.2	-14.4	-12.1	-8.5

"—" indicates an adverse balance.

* In the trade statistics compiled by E.A. Customs and Excise, Zanzibar is still treated as a foreign country so there is no problem of comparability between 1964 and preceding years. Also for this reason reference will be found to Tanganyika in this Chapter. This should be read as "that part of Tanzania formerly known as Tanganyika".

The upward movement in exports outside of East Africa was greatly assisted by better prices realized for coffee. These showed a 23 per cent rise and this, together with slightly improved prices for many of the "second rank" exports, was more than sufficient to offset a fall in sisal prices. Export prices for the latter fell only slightly because the practice of selling forward meant that it was not until the last quarter of 1964 that the prices obtained for exports reflected the May break in market prices. Export prices for tea also fell a little in 1964 but the auction prices rose towards the end of the year and this can be expected to affect 1965 exports.

2. It may be noted that the usual theory that export prices always move against developing countries requires some qualification in the case of Kenya. The fact is that until 1964 the export price index had not changed by more than +- 4 per cent since 1958 and the movement in 1964 was a favourable one of 7 per cent. This means that practically all the increase in the value of domestic exports in 1964 can be attributed to better prices. When the £2 million boost from the oil refinery is allowed for, it also means that in aggregate, other exports fell in quantity terms. This is discussed in detail in paragraphs 4.6.

VALUE OF DOMESTIC EXPORTS, 1960-1964

Table 7 *£ million*

	1960	1961	1962	1963	1964
At current prices	35.2	35.3	37.9	43.8	47.1
At constant 1960 prices	35.2	37.4	39.8	44.7	45.1

3. As already mentioned Kenya's import bill is inflated by the inclusion of E.A.C.S.O. imports which may be used in any of the East African countries and also by imports of capital equipment by private organizations with their East African headquarters in Nairobi which are not always for use in Kenya. The increase in E.A.C.S.O. imports was about £4 million, which more than accounts for the rise of £2.9 million in imports from outside East Africa. When the steady inevitable rise in the export price indices of the industrialised countries which supply most of Kenya's imports is taken into account it is evident that there has been little, if any, "real" increase in imports. This, however, is in part a reflection of the substantival increase in imports in 1963, and the long-term trend is still upward, although the composition is likely to change substantially over the period of the Development Plan.

Pattern of External Trade

4. The principal explanations for the £3.3 million rise in exports are the increase in coffee, and the introduction of petroleum products as a major export. The former's increase of £4.4 million can be attributed to a 23 per cent increase in unit value received, together with a 13 per cent increase

in quantity exported. At the same time, the new oil refinery led to petroleum products, at £2.2 million, taking fifth place in the export table, having been negligible in previous years. But it is apparent that a more detailed explanation is required, because had all other exports but for these two remained the same, the increase would have been still greater than that actually recorded. In short, there were falls recorded in other items. The main culprits were sisal, due to a fall in price and quantity, and maize, the exportable surplus of 1963 not being repeated, together with soda ash as a result of the sacrifice of the South African market. These and the performance of the other main exports are set out below.

DOMESTIC EXPORTS, 1963 AND 1964

Table 8

Article	Value		Increase in			
	1963	1964	Value		Qty.	Price
	£'000		£'000	%	%	%
Coffee	11,015	15,396	+4,381	+40	+ 13	+23
Tea	5,665	6,056	+391	+7	+ 11	-4#
Sisal	7,532	6,028	-1,504	-20	-11	-11
Pyrethrum extract and flowers	3,030	2,453	-577	-19*	-17*	+2*
Meat and meat products	2,567	2,167	-400	-16	-27	+ 16
Petroleum products	57	2,160	+2,103			
Hides and skins, undressed	1,168	1,294	-126	+ 11	—	+ 10
Wattle bark and extract.	795	1,081	+286	+38*	+31*	+5*
Pineapples, tinned	815	874	+ 59	+7	+ 11	- 3
Cement	503	802	+299	+59	+ 58	+ 1
Butter and ghee	828	754	-74	- 9	-20	+ 14
Soda ash	1,234	708	-526	-43	-40	- 4
Cotton, raw	437	648	+211	+48	+38	+8
Scrap	252	565	+313	+ 120		
Maize, unmilled	1,574	17	-1,557	-99	-99	+43
Beans, peas and lentils	792	521	-271	-34	-41	+ 11
Other	5,568	5,591	+23	—		
	43,832	47,115	+3,283	+ 7.5	+0.7	+7

*Extract only.
+Estimated index.
The fall in the average export value of tea is in conflict with the rise in the average price fo tea realized on the London market. *See* Chapter 3. The reason is probably that since tea is often shipped on consignment or direct to blenders overseas, the estimated value declared on the export do will be understated when the market is rising. The total value of exports is therefore likely to be ur somewhat in 1964.

5. Whilst the table sets out very clearly the differences between 1963 and 1964, and the reasons for these changes, some explanation to put them in their proper perspective is required. The increase in the quantity of coffee exported is by no means exceptional but the extent of the price improvement is marked compared with recent years and this was the cause of the breakthrough from the £10-11 million mark at which coffee exports have stuck

for the last seven years. Tea narrowly wrestled second place back from sisal and continued its steady upward trend in both quantity and value. The immediate prospects for tea are also better than those for sisal so the gap may widen in 1965. Some of the export cuts to be seen in Table 8 have been caused through a lack of locally produced raw material for processing—pyrethrum, the most obvious example, has already been mentioned, and it also applies to the livestock products of meat, and butter and ghee. It is disturbing to have to curtail these exports when known markets exist. Pyrethrum exports would have fallen much further but for the existence of large stocks which were run down during the year. The fall in beans, peas and lentils, as well as soda ash, can be attributed to the loss of the South African market.

6. Those items which increased can be divided into two broad groups—those for which the increase is a continuation of the trend in previous years and those for which it is a reversal. As well as coffee and tea, the first classification would include tinned pineapples and cement, both symbols of Kenya's manufacturing industry and both the products of industries in which big expansion plans are being put into effect. The second category would include hides and skins, which showed a modest rise, and wattle bark which showed a marked rise due to greater exports to India and Pakistan.

7. Petroleum products were rather a special case, they consisted mainly of residual fuel oils and were exported to a variety of countries and as "ships stores". Other petroleum products were sent to Uganda and Tanzania *(see* below).

8. The increase in the value of coffee exports naturally increased the proportion of coffee in total exports and in 1964 this product represented almost one-third of the total, with tea and sisal accounting for a further quarter between them. These three plantation crops represented 60 per cent of exports in 1964. This was somewhat higher than in recent years when the proportion has been in the range of 50-55 per cent. One of the aims of the Development Plan is to diversify exports and particularly to reduce the present relatively heavy dependence on coffee* Obviously, this was not achieved in 1964. Given the behaviour of coffee prices it would have been most unlikely whatever the performance of other exports, but the significant point is that when the major items of coffee, tea and sisal, together with soda ash and maize, which are rather special cases, are excluded all of the rise in the value of the remaining exports was due to petroleum products. The products of the refinery are a welcome addition to Kenya's exports but, as well as this, what is required is a more widespread expansion over the whole range of smaller export items. A significant indicator given by Table 8 is that the substantial residual item "other" showed no increase in 1964.

*Development Plan 1964/70 page 29 paragraph 15.

9. The fact that the rise in net imports is a result of a sharp increase in Government imports has already been mentioned. To some extent (by about £2,000,000) the figures overstate the increase due to the reclassification of East African Airways and Voice of Kenya as "Government" in 1964, but there was a £2 million increase in rolling stock, and £0.6 million for part of a ship for use on Lake Victoria (the remaining part being due in 1965).

10. Excluding Government imports, commercial imports fell from £70.3 million to £68.0 million. Deducting from this the value of crude petroleum later re-exported as refined petroleum products would perhaps accentuate the drop by another £3-4 million. This decline in commercial imports can be attributed to increased local production of substitutes, assisted by a technical reaction to the increase of 10 per cent in commercial imports last year. A further factor is the transfer of East African Airways and Voice of Kenya imports from the commercial sector to Government. The falls were spread over a fairly wide range of manufactured goods and foodstuffs. "Iron and steel imports and other base metals" and "metal manufactures" both fell by about 20 per cent and in value terms this meant a total drop of £1.6 million. Rubber tyre and tube imports fell because of overstocking in 1963 but the fall in blankets and jute bags and sacks was probably a result of increased local production. Similarly, clothing imports were down by £400,000 (26 per cent) while local production was up. Textile piece goods imports also declined and although cotton piece goods imported from Uganda and Tanganyika are increasing, this was more a reflection of an import cycle than of import substitution. Importation of road motor vehicles for non-Government use also fell; however, as registrations of new vehicles remained much the same this is not indicative of any long-term trend.

11. Rice imports fell from £350,000 to £50,000, East Africa now being self-sufficient, but this saving was more than offset by the need to import sugar. Apart from sugar, rice and tea, food imports were down by £700,000, with falls fairly widely spread; the improved quality of local wheat alone saved £230,000 on hard wheat imports.

12. There was a substantial and important increase in industrial machinery imports, largely because of sugar machinery imports of £1.6 million. Agricultural machinery and implement imports rose as did the numbers of tractors registered. A 47 per cent rise in fertilizer imports confirms the more intensive working of agricultural land. Office machinery imports also increased, partly because of the advent of the computer age in Kenya. Certain raw material imports rose due to the increased level of activity in the manufacturing sector; the best examples of this are synthetic fibres for spinning (up from £200,000 to £330,000) and raw jute (up from £120,000 to £220,000). In aggregate, however, such items are small and more important were increases in certain consumer goods of a type or quality not (yet) made locally. Thus, imports of mechanical and pharmaceutical products, bicycles, and wireless sets all rose substantially. More surprisingly, so did those of spirits, beer and cigarettes.

13. Re-exports fell from £7.1 million to £6.4 million largely because of petroleum products, the domestically produced product replaced the imported thus causing domestic exports to rise at the expense of re-exports. A feature of the re-export trade last year was the amount of tea re-exported, largely to Sudan, and this continued in 1964.

Direction and Balance of External Trade

14. The countries to which Kenya's domestic exports are shipped showed a distinct change of emphasis in 1964. When South Africa is excluded, those to countries in Africa showed a big increase, as did those to North America, Eastern Europe, and China. Moderate but still sizeable increases were shown in exports to the Middle East and Far East; these largely resulted from the new exports of petroleum products. Exports to Western Europe, on the other hand, declined *by* £ 1.5 million rather surprisingly in view of the importance of that market for Kenya coffee (in 1963 it took 77 per cent) and the rise in coffee prices. The reason for this decline was that of the £4.4 million increase in coffee exports only £1.6 million was sent to Western Europe, and the curtailment of maize exports and the reduction in meat exports together more than counter-balanced this.

15. Exports to African countries outside East Africa (excluding South Africa) rose by 41 per cent and this increase was widely spread as may be seen below.

TRADE WITH COUNTRIES IN AFRICA

(excluding Uganda and Tanganyika)

Table 9 £'000

	EXPORTS			NET IMPORTS		
	1962	1963	1964	1962	1963	1964
MAINLAND—						
Somalia	227	417	600	17	12	9
Ethiopia	130	140	164	18	36	26
Sudan	275	243	362	12	1	9
Rwanda and Burundi	312	259	351	3	—	4
Congo (Leopoldville)..	333	273	123	305	500	725
Rhodesia, Malawi and Zambia	191	231	482	376	481	727
Mozambique	73	85	311	116	252	330
Egypt	63	115	75	7	23	29
Algeria and Libya	6	8	19	9	2	—
Ghana and Nigeria	12	15	18	1	8	4
INDIAN OCEAN ISLANDS						
Mauritius	383	352	633	8	5	9
Zanzibar	316	420	282	130	47	97
Other*	129	165	341	73	100	1
Total (excl. South Africa)	2,450	2,721	3,837	1,076	1,466	1,970
South Africa	1,103	1,884	—	2,791	2,164	24

*Includes Madagascar, Reunion and Seychelles.

16. About one-third of the exports set out in Table 9 are of foodstuffs and 45 per cent of manufactured goods other than foods, beverages and tobacco. The remaining 20 per cent consisted mostly of pyrethrum extract sent to Rhodesia and petroleum products to the Indian Ocean Islands. Indeed, of the increase of £1.1 million in exports shown in Table 9 above, £460,000 was due to the increase in petroleum products. The exports of manufactured goods referred to are no less than 36 per cent of all exports of manufacturers outside East Africa, and if soda ash and wattle bark extract are excluded this rises to just over 50 per cent.

17. It is also interesting to look at imports from the same countries and these are very much less widely spread. Kenya, with its comparatively well developed manufacturing industry and its production of varied agricultural products, is a difficult market for other African countries. Of the £2 million imports shown in Table 9, £1.2 million were tea imports for the Nairobi auctions which were subsequently re-exported. Nearly all the remainder was made up of palm oil from the Congo (£102,000), unwrought zinc from Zambia (£155,000), wool from Mozambique (£65,000), copra from Zanzibar (£64,000) and a variety of mnaufatcured products from Rhodesia (£243,000).

18. Further changes occurred in the sources of Kenya imports and again countries in Africa, Eastern Europe, and China increased their share. With the opportunity to replace South African imports, and the increase in railway rolling stock purchases the value of imports from the United Kingdom and Western European rose. The increase was particularly large in the case of imports from West Germany because of the sugar mill machinery. That for the United Kingdom was barely enough to bring it back to the 1962 level and, when the rolling stock imports are allowed for, the United Kingdom is clearly still declining in importance relatively, although it remains far and away the largest supplier. Imports from North America recovered from the exceptionally low year in 1963 and those from the Middle East were also up with the higher crude oil imports. The Far East was the only major area which declined with imports from India, Hong Kong and Japan all falling back, despite the latter becoming a major motor vehicle supplier. About half the imports from China were of tea which is sold at the Nairobi auctions and then re-exported. Almost three-quarters of those from Eastern Europe were of sugar. As sugar imports in 1964 were abnormally high, imports from these countries are likely to fall in 1965. An overall picture of the changes taking place in the direction of external trade is given in Table 10.

19. Over half the total adverse visible balance of £23 million on trade outside East Africa was incurred in trade with the United Kingdom. As usual there was also a substantial deficit in trade with Japan (£5 1/2 million) and in that with the suppliers of petroleum. The most favourable balance last year was with West Germany (£1.9 million); in 1964 this almost disappeared with increased imports from that country. This mantle is now worn by Canada, to

DIRECTION OF TRADE AND TRADE BALANCES, 1960, 1963 AND 1964

Table 10 £000

AREA/COUNTRY	NET IMPORTS			EXPORTS*			BALANCE		
	1960	1963	1964	1960	1963	1964	1960	1963	1964
STERLING AREA—									
United Kingdom	24,187	22,665	23,551	9,635	12,032	11,272	-14,553	-10,633	-12,279
Bahrein Islands	1,026	1,210	219	93	210	276	-993	-999	+ 57
Hong Kong	703	1,043	876	298	279	303	-404	-764	-573
India	2,184	2,754	2,367	1.531	1,259	570	-653	-1,494	-1,797
South Africa	3,618	2,164	23	1.532	2,375	185	-2,086	+211	+ 162
Other	2,140	3,766	3,257	4,069	5,363	5,533	+ 1,929	+ 1,595	+ 2,276
Kuwait++			5,043			163			-4,880
Total	33,858	33,602	35,336	17,158	21,518	18,303	-16,700	-12,084	-17,033
DOLLAR AREA—									
Canada and Newfoundland	361	235	228	821	1,667	1,894	+ 460	+ 1,432	+ 1,666
United States of America	4,218	4,000	4,837	4,003	3,169	4,870	-215	-831	+ 33
Total	4,579	4,235	5,065	4,825	4,836	6,764	+ 246	+ 601	+ 1,699
WESTERN EUROPE (excluding U.K. and Eire)—									
West Germany	5,094	4,970	6,991	6,534	6,846	7,282	+ 1,440	+ 1,876	
Other E.E.C. Countries	8,153	7,917	7,307	3,970	5,688	4,857	-4,183	-2,229	-2450
Other	2,597	3,161	3,413	1,478	2,589	3,306	-1,119	-572	-107
Total	15,844	16,048	17,711	11,982	15,123	15,445	-3,862	-925	-2,266
EASTERN EUROPE	251	647	1,748	52	485	1,534	-199	-162	-214
REST Of WORLD—									
Africa (Non-Sterling)	476	920	1,111	1,285	3,296	3,995	+ 808	+ 2,376	+ 2,884
China	26	326	696	351	364	394	+ 325	+ 38	-302
Iran	5,183	4,819	2,052	17	166	117	-5,166	-4,653	-1,935
Japan	5,078	7,857	7,122	2,045	1,685	1,648	-3,033	-6,172	-5,474
Other	1,102	947	2,095	773	1,184	3,101	-329	+237	+ 1,006
Total	12,116	15,516	14,824	4,523	7,180	10,789	-7,593	-8,336	-4,035
SHIPS' STORES, PARCEL POST AND SPECIAL TRANSACTIONS	3,672	4,287	3,659	1,709	2,322	2,247	-1,963	-1,965	-1,412
GRAND TOTAL	70,069	73,688	76,595	40,197	50,979	53,548	-29,872	-22,710	-23,046

*Includes re-exports.

"+" indicates a favourable balance.

++Included with "Other" prior to 1964.

which exports (£1.9 million) are far in excess of imports (£0.2 million) leaving a favourable balance of £1.7 million. Trade with Eastern Europe and China is fairly well balanced, though it varies by country and the overall deficit on it is about £0.5 million.

Inter territorial Trade

20. Exports and imports to and from Uganda and Tanganyika have been expanding rapidly for some years now, and in 1964 the increase was larger than ever before. This reflects the increasing effect of the Development Plans of all three countries with national incomes rising, existing East African industries being encouraged and new ones established. Interterritorial trade is playing an increasingly important part in the economies of the East African countries and these exports, for Kenya, are now almost 50 per cent of external exports, whereas five years ago they were just less than one-third. Similarly, although interterritorial imports into Kenya are relatively less important their share of total imports has been increasing at an even faster rate than that for exports. Both inter territorial imports and exports have doubled in the past five years and increased by 50 per cent in the last two.

21. In 1964, the rise in exports was particularly large because of the addition of the products of Mombasa's oil refinery, as is shown in Table 11 below. The total increase was £6.1 million and of this £2.5 million was in petroleum products. The increase was fairly evenly shared between Uganda and Tanganyika although exports to the latter moved up slightly less, particularly if petroleum products are excluded. The table which follows is intended to show both the changes between 1963 and 1964 and the longer term changes which have led to these exports doubling in five- years.

22. The somewhat greater increase in exports to Uganda are seen to be a result of a bigger increase in "food" exports, which in turn can be narrowed down to a £600,000 rise in milled wheat flour resulting from the closure of the Jinja Mill in Uganda due to the rising level of Lake Victoria. The mill has, however, been rebuilt so these exports will fall away in 1965. Apart from food exports the change in exports will be seen to be very similar for both countries with beverage and tobacco exports almost unchanged, basic material and fuels up with the petroleum exports, and manufactured goods up by 20-25 per cent. This is a very large increase, particularly as some exports were hit by the establishment of competing industries e.g. bicycle tyres and tubes, cement (in Uganda only), iron and steel plates and sheets and so on. It is an illustration in practice that all the East African territories can develop industrially at the same time.

23. The articles specifically mentioned in the Kampala Agreement (*see* Chapter 4) were tobacco, footwear, beer and cement. It will be noted that in the case of cigarette exports to Tanganyika, and tobacco and cement exports to Uganda individual falls occurred in 1964 but that in total there was a substantial rise. This was mainly because the Agreement had not yet taken

INTERTERRITORIAL EXPORTS—1959, 1963 AND 1964

Table 11 £'000

ITEM	To UGANDA			To TANGANYIKA		
	1959	1963	1964	1959	1963	1964
FOOD—						
Meat and meat preparations	139	137	139	140	170	209
Dairy products	589	695	763	247	281	271
Cereals and cereal preparations	824	714	1,549	882	1,147	1,096
Fruit and vegetables	102	193	201	147	338	276
Coffee and tea	174	190	119	494	351	332
Other foods	219	335	477	156	353	540
Total	2,047	2,264	3,248	2,066	2,640	2,724
BEVERAGES AND TOBACCO						
Beer	100	100	156	371	581	805
Cigarettes	751	783	802	895	1,127	823
Other	301	345	310	29	59	112
Total	1,152	1,228	1,268	1,295	1,767	1,740
BASIC MATERIALS AND FUELS—						
Petroleum products	16	21	1,045	3	27	1,468
Other	149	168	181	219	222	214
Total	165	189	1,226	222	249	1,682
MANUFACTURED GOODS—						
Chemicals and products :-						
Soaps, cleansing and polishing preparations	264	508	549	210	593	971
Other	176	767	790	224	480	716
Bicycle tyres and tubes	80	203	181	20	124	100
Paper, paperboard and manufactures	203	365	447	77	338	418
Textile fabrics, articles etc.:						
Sisal bags and sacks	222	266	378	60	79	118
Other	66	267	424	78	191	250
Cement	95	149	119	682	537	764
Iron and steel	15	721	699	12	406	165
Non-ferrous metals	–	81	111	–	65	24
Metal manufactures	484	442	837	474	669	780
Clothing	216	568	868	375	830	1,134
Footwear	246	517	605	333	683	793
Other	338	862	797	334	648	831
Total	2,405	5,716	6,805	2,879	5,643	7,064
MISCELLANEOUS—TOTAL	15	28	34	50	66	88
GRAND TOTAL	5,784	9,425	12,581	6,513	10,365	13,299

full effect and future years will see a decline in interterritorial trade in these commodities, or at least, a more even balance of trade in them. In aggregate, in 1964 the export of these items amounted to £1.9 million to Uganda and £3.2 million to Tanganyika or, in 1964, 15 per cent and 24 per cent of total exports respectively. Given the rates of increase of other exports which have been achieved recently, the total loss of these exports should be replaced in one or two years. This however is an illustrative theoretical calculation because it is only intended to reach a position of "balanced" trade in these items. Since in 1964, imports from each of the other countries in these commodities were about £1.5 million, the outflow from Kenya, if replaced by an inflow, would need to be reduced by only £0.7 million in the case of Uganda and £1.4 million for Tanganyika. Although serious for the industries directly concerned, this is not a reduction of unmanageable proportions when other exports are increasing at their current rate.

24. Looking at the 1959 figures it is striking that, apart from one or two food items and petroleum products, the increase in exports to Uganda and Tanganyika has been in manufactured goods, and, for these, over the five years the annual rate of increase is about 20 per cent for both countries.

25. Imports from Uganda and Tanganyika have also been increasing rapidly and the combined rise of 24 per cent is in striking contrast to the fall in commercial imports from outside East Africa. Most of the increase, particularly for Tanganyika, has taken place in the products of newly established industries, the most notable example of which is the aluminium products included in the description "non-ferrous metals". As a result of a new factory in Dar es Salaam imports of these aluminium circles, coils, and sheets into Kenya were £401,000 having been only £13,000 last year. The same occurred with cigarette imports, which from Tanganyika in 1964 were £112,000 having been £1,074 in 1963. The overall result was that manufactured goods imports (excluding food, beverage and tobacco products) doubled in 1964 from under £1 million to nearly £2 million. This brought them very near the level of those from Uganda although these too had increased substantially. For the latter country a £250,000 increase in cotton textile imports and a fourfold increase in the iron and steel products of the Jinja re-rolling mill reflect industrial developments. There were also large importations of vegetable ghee (£272,000) and this will serve to draw attention to the fact that for both Uganda and Tanganyika there has been a steady increase between 1959 and 1964 in food imports even if sugar is excluded. Imports of the latter from Uganda were almost £2 million whilst those from Tanganyika were negligible although they had been over £200,000 last year; in both cases Kenya would have imported much more had her East African partners been in a position to supply it. Kenya's imports of certain raw materials is bound to fall with the establishment of processing plants in Uganda and Tanganyika but overall the rapid increase can be expected to continue.

INTERTERRITORIAL IMPORTS—1959, 1963 AND 1964

Table 12 £'000

ITEM	FROM UGANDA			FROM TANGANYIKA		
	1959	1963	1964	1959	1963	1964
FOOD—						
Meat and meat preparations	—	75	72	51	75	88
Cereals and cereal preparations	25	135	163	107	194	280
Fruit and vegetables	18	35	76	268	400	420
Sugar, not refined	470	1,836	1,961	90	204	5
Coffee and tea	64	91	71	44	29	61
Margarine and shortenings	6	26	313	—	—	7
Other	144	193	212	89	226	216
Total	727	2,371	2,868	649	1,128	1,077
BEVERAGES AND TOBACCO						
Beer	16	18	6	5	4	17
Cigarettes	327	667	517	—	1	112
Unmanufactured tobacco	806	351	476	255	22*	279
Other	2	1	2	9	5	4
Total	1,151	1,037	1,001	269	32	412
BASIC MATERIALS AND FUELS—						
Oilseeds, oil nuts and oil kernels	1	11	7	197	217	174
Pyrethrum extract	—	—	—	—	217	—
Vegetable oils	689	673	753	187	111	305
Electricity	196	349	406	64	38	14
Other	273	220	131	256	180	219
Total	1,159	1,253	1,297	704	763	712
MANUFACTURED GOODS—						
Soaps cleansing and polishing preparations	46	154	229	4	2	6
Textile fabrics, articles. etc.:						
Cotton piece goods	402	1,030	1,289	—	76	187
Other	11	22	54	8	225	373
Iron and steel	—	35	185	—	1	80
Non-ferrous metals	—	—	—	1	13	401
Metal manufactures	33	84	85	96	45	71
Clothing	7	14	17	6	68	99
Footwear	4	17	15	12	356	342
Other	100	263	204	98	200	344
Total	603	1,619	2,078	224	986	1,902
MISCELLANEOUS—TOTAL	2	4	4	2	6	7
GRAND TOTAL	3,640	6,248	7,244	1,848	2,915	4,110

*E.A.Customs and Excise now state this to be in error.

CHAPTER 3—AGRICULTURE

Introduction

Farm incomes in 1964 reached a record level. Gross farm revenue was 5.5 per cent above that for the previous year. The major factor in this increase was high export prices for coffee and tea coupled with record levels of production for these two crops. The effect of the price changes in particular can be more clearly appreciated from the following table which shows gross farm revenue at current and 1958 prices:—

VALUE OF MARKETED AGRICULTURAL PRODUCTION AT CURRENT AND 1958 PRICES, 1958-1964

Table 13 £'000

YEAR	G.F.R. at current prices	G.F.R. at 1958 prices	Cumulative "Losses" resulting from price changes	Annual "Gains" (+) or "Losses" (—)
1958	41,019	41,019	—	—
1959	42,296	44,327	-2,031	-2,031
1960	47,204	47,238	-34	+1,997
1961	46,079	50,243	-4,164	-4,130
1962	47,424	48,412	-988	+3,176
1963	52,232	55,945	-3,713	-2,725
1964*	55,115	55,560	-445	+3,268

*Provisional.

The favourable price and production situation for coffee and tea far outweighed the effects of a fall in production of some other major crops, notably maize, pyrethrum and sisal.

2. The sharp decline in maize deliveries affected the food supply situation in the towns and other non-producing areas, such as plantation crop districts. Weather last year was favourable so that the decline in deliveries must be attributed to economic factors: it is believed that deliveries were affected by the relatively low pay-out for the two previous years. On large-scale farms, the incidence of theft also persuaded many farmers to switch to wheat.

3. The increase in gross farm revenue was shared by both the large and small-scale farm sectors. However, the rate of increase in the latter was higher due to the dominant position of coffee in this sector. The small-farm sector also benefited from the increasing contribution of settlement schemes, although this still constitutes only 2 per cent of the total revenue in this sector. The relative growth of the two sectors is illustrated in Table 14 below. Within the last decade, the share of the small-farm sector in total gross farm revenue has increased from 13.4 per cent to 25 per cent. The relative annual rates of growth for the two sectors during this period have been 17 and 3 per cent

respectively. As the fruits of past investment are realized and as new development proceeds, the smallholder will continue to enhance his position in the market economy. Over the next few years, the maturing of the large coffee and tea acreages and the full impact of the settlement schemes will make for a marked further increase. It should be noted, however, that the contribution of the settlement schemes will be more in the nature of a replacement of production on the large-scale farms taken over. The effect of the excision of 900,000 acres from the large-farm area is already apparent from the decline (in production from large-scale mixed farms (*see* Table 15 below). The increase in gross farm revenue in this sector in 1964 is attributable entirely to the two plantation crops, coffee and tea.

GROSS VALUE OF MARKETED PRODUCE, 1955-1964

Table 14

YEAR	LARGE FARM SECTOR		SMALL FARM SECTOR		TOTAL		Share of Small-farm Sector
	£m.	Annual % increase	£m.	Annual % increase	£m.	Annual % increase	%
1955	32.8		5.1		37.9		13.5
1956	32.6	-0.6	5.9	+15.7	38.5	+1.6	15.3
1957	32.4	-0.6	6.9	+16.9	39.3	+2.1	17.6
1958	33.4	+3.1	7.6	+10.1	41.0	+4.3	18.5
1959	33.9	+1.5	8.4	+10.5	42.3	+3.2	19.9
1960	37.7	+11.2	9.5	+13.1	47.2	+11.6	20.1
1961	35.7	-5.3	10.4	+9.5	46.1	-2.	22.6
1962	37.0	+3.6	10.5	+1.0	47.5	+3.0	22.1
1963	40.6	+9.7	11.6	+10.5	52.2	+9.9	22.2
1964*	41.2	+1.5	14.0	+20.7	55.2	+5.7	25.4

*Provisional.

4. It is noteworthy that the unfavourable world coffee supply situation last year did not affect prices of Kenya coffee. Although Kenya cannot entirely escape the effects of over-supply in world markets, the high quality of our product and the specialized market for it does, to some extent, protect us from trends affecting robust. The average 1963/64 price for Kenya coffee was £352 per ton compared with £280 for the previous year, a very welcome improvement of 25 per cent.

5. The improvement in tea prices, from an average of Sh. 4/13 per lb. in 1963 to Sh. 4/27 in 1964 in the London auctions* and an increase in production from 17,800 tons in 1963 to 19,000 tons enabled tea to oust sisal

* *See* note at bottom of Table 8.

from second place in value of both total production and exports. Although the sisal market has now stabilized, prices declined from £145 per ton c.i.f. London for No. 1 in May to £95 at the end of the year. This fall in prices was reflected in the level of production and incidentally affected the yield from the sisal export tax. Owing to the working of a sliding scale formula only a very small proportion of Kenya sisal exports are now liable to taxation.

6. Pyrethrum production has continued to decline. The cumulative impact of the settlement schemes, decreased payouts and rigid licensing from 1961 to 1963 has not yet been overcome, despite efforts to encourage production and a small increase in payout. The problems posed by the accumulation of unsaleable stocks which led to the restrictions have now been overcome by the liquidation of these stocks to meet sales contracts.

7. A major factor which now prevents increases in payouts to pyrethrum growers is the high unit costs of processing because of the low level of throughput. This is also a significant factor in the increased processing costs of the Kenya Meat Commission and, to a lesser extent, of the Uplands Bacon Factory. In the flour-milling industry also, a good deal of excess capacity exists because of the development of new mills in the neighbouring countries which were formerly supplied from Kenya mills.

8. Another unfavourable influence on agricultural production deserves mention. This is the incidence of theft. Thieving particularly affects maize growers and livestock farmers and its consequences have done and are doing considerable harm. Farmers are directly affected in two ways—by the actual losses and by the increased costs of precautionary measures. In addition, and perhaps more important, theft has a demoralizing effect and creates an unfavourable climate in which non-economic factors increasingly affect decision-making. There is a temptation, in this situation, to combat the unfavourable consequences of theft with changes in farming policy. However, economic counter-measures, such as price increases, are inadequate solutions.

The Large Farm Sector

9. In spite of the rapid pace of land settlement (by 30th June 1964, the number of large-scale farms had declined from 3,606 in 1962 to 2,959 and the total acreage from 7.7 millions to 6.8 millions), 1964 was a good year from the point of view of overall production. Within the large-farm sector, however, mixed farm output fell. The decline in acreages of crops such as barley and pyrethrum can be attributed directly to the transfer of land to settlement (included in the small-farm sector). This factor also accounts, to some extent, for the fall in dairy and beef production. The acreage under maize has been influenced primarily by the considerations mentioned in the

previous paragraph, although some negative influence from settlement cannot be discounted. The wheat crop was the largest ever recorded in Kenya and enabled the country to dispense entirely with import of wheat. Wattle bark production continued to decline. It is, however, expected to stabilize at this level since growers feel that the present level of production is more consistent with trends in world demand. The setback in sugar cane production is related to the difficulties of the Coast sugar factory and a considerable loss of crop from arson in Nyanza. Figures of production of the major crops in the large. farm sector are shown below: —

LARGE FARM AREAS—CROP PRODUCTION*, 1962.1964

Table 15 '000 *tons*

	1962	1963	1964
Wheat	83.1	117.8	131.2
Maize	111.2	119.7	69.0
Barley	9.9	19.2	16.3
Sugar Cane +	483.0	545.8	500.0
Coffee—clean	19.3	26.4	28.1
Tea—.manufactured	15 9	17.4	19.3
Sisal fibre and tow	56.7	63.1	61.4
Wattle—green bark	24.0	22.1	20.0
Wattle—stick bark	15.0	4.4	3.1
Pyrethrum flowers	7.3	3.9	2.2

*Production in crop season 1961/62 is shown under 1962 and so on.

+Estimated.

10. The downward trend in all categories of livestock (except pigs) which started in 1959 continued into 1964. The appropriate figures are set out in Table 16. The decline in numbers of dairy cattle and sheep between 1963 and 1964 was particularly high. It should, however, be noted that considerable numbers of dairy cattle and sheep have been transferred to small.holders in settlement schemes and outside. However, despite this, the overall numbers of grade stock and wool sheep are lower than they were in 1960. The slowing down of the decline in numbers of beef cattle can be related to the substantial fall in deliveries for slaughter (indicated in Table 17). However, what is disturbing from the point of view of the future is that breeding activity is still very slack. Unless breeding on a significant scale is resumed, both the numbers and quality of livestock will suffer. It is too early yet to assess the effects of the measures taken to increase the dairy and beef cattle population under the campaigns sponsored by the Kenya Dairy Board and the Kenya Meat Commission.

LARGE FARM AREAS—LIVESTOCK NUMBERS, 1962-1964

Table 16 000 *head*

	1962	1963	1964
Dairy cattle	355.7	332.0	284.6
Beef cattle	530.4	480.7	451.1
Sheep	510.9	501.8	409.8
Pigs	34.5	35.4	36.6
Poultry	287.7	255.7	203.3

11. The decline in livestock numbers must inevitably affect deliveries for slaughter and the output of livestock products, but the sharp fall in deliveries of cattle and calves is not altogether disastrous since it perhaps indicates that farmers may start building up their herds again. The increase in the pig population would suggest that deliveries for slaughter should increase in 1965.

12. The fall in dairy production during the three years shown below is less than the rate of decline in numbers of dairy stock. The average milk yield during these years has increased, suggesting that disposals of dairy stock during this period were in part in the nature of a culling process to eliminate inferior beasts. An increase in the wool clip per sheep would suggest that a similar process has also affected wool production.

LARGE FARM AREAS—LIVESTOCK PRODUCTION, 1962-1964

Table 17

		1962	1963	1964
SALES OF LIVESTOCK FOR SLAUGHTER—				
Cattle and calves	'000 head	139.3	129.9	104.4
Sheep and lambs	'000 head	106.8	89.0	81.0
Pigs	'000 head	53.9	44.3	42.0
Poultry	'000 head	245.0	228.2	231.1
OTHER PRINCIPAL PRODUCTS SOLD—				
Wholemilk	'000 gal.	17,884	17,484	16,729
Butterfat	'000 lb.	11,275	10,493	9,051
Wool	'000 lb.	2,650	2,724	2,350
Eggs	'000 doz.	2,115	1,855	1,601

13. Estimates of gross farm revenue on large-scale farms are set out in Table 18. The impact of the increased production and prices of tea and coffee is particularly striking. The value of these two commodities in 1964 increased by £2.4 million over the previous year, whereas the overall increase in gross farm revenue was only £0.6 million, indicating the magnitude of the reversals in sisal and the mixed farming and ranching sectors.

LARGE FARM AREAS—ANALYSIS OF GROSS FARM REVENUE, 1962-1964

Table 18 £'000

	1962	1963	1964*
CEREALS—			
Wheat	2,136	3,278	3,652
Maize	2,196	1,629	1,153
Barley	188	456	377
Oats	20	28	24
Total	4,540	5,391	5,206
OTHER TEMPORARY CROPS—			
Pyre thrum	1,517	1,188	493
Sugar	1,149	1,152	1,092
Other	930	940	861
Total	3,596	3,280	2,446
PERMANENT CROPS—			
Coffee (including mbuni)	6,187	7,136	9,625
Sisal	4,392	7,454	6,494
Tea	6,640	6,615	7,556
Wattle and other	456	327	316
Fruit	530	490	455
Total	18,205	22,022	24,446
Total (Crops)	26,331	30,693	32,098
LIVESTOCK—			
Cattle and calves for slaughter	3,578	3,175	2,542
Sheep and lambs for slaughter	313	246	246
Pigs for slaughter	563	500	475
Poultry and egg	412	365	290
K..M.C. Bonus	156	51	
Livestock for breeding and fattening	690	744	850
Wool	367	400	354
Total	6,079	5,481	4,757
DAIRY PRODUCTS—			
Whole milk	2,501	2,544	2,574
Butter fat	1,573	1,485	1,290
Butter, cheese and cream	117	78	139
Skim milk	350	331	306
Total	4,541	4,438	4,309
Total (Livestock and Dairy Products)	10,620	9,919	9,066
TOTAL GROSS FARM REVENUE	36,951	40,612	41,164

*Provisional.

Capital Expenditure

14. An increase in the level of capital expenditure was perhaps the most significant development last year on large.scale farms. The downward trend which started in 1961 was arrested. Gross capital expenditure rose from £3.3 million in 1962/63 to £3.7 million last year. It is also noteworthy that this figure refers to a reduced acreage, so that capital expenditure per acre increased even more significantly. The relevant data are shown below: —

LARGE FARM AREAS—ANALYSIS OF GROSS CAPITAL EXPENDITURE AND EXPENDITURE PER ACRE, 1959/60.1963/64

Table 19

YEAR	Gross Capital Expenditure £'000	Capital Expenditure per acre Sh.
1959/60	5,928	15.34
1960/61	5,200	13.42
1961/62	4,155	10.80
1962/63	3,289	8.98
1963/64	3,690	10.84

Levels of expenditure in different categories were as follows: —

LARGE FARM AREAS—GROSS CAPITAL EXPENDITURE BY TYPE OF EXPENDITURE, 1961/62-1963/64

Table 20 £'000

	1961/62	1962/63	1963/64
Residential Buildings	434	343	396
Non.residential buildings	343	208	399
Roads, Dams, Drainage and Water Supplies	346	186	205
Fencing	125	86	115
Plantation Development	1,041	851	713
Vehicles (excluding tractors)	641	590	657
Mechanical Equipment (including tractors)	945	826	1,040
Other	287	199	164
TOTAL EXPENDITURE	4,155	3.289	3,690

15. However some caution is necessary in drawing conclusions regarding trends in future years on the basis of figures for 1963/64. Farmers may have increased capital expenditure last year because the low level of investment during the three previous years was beginning to affect current production adversely. Although figures of net investment are unavailable to determine this, a good deal of expenditure may have been merely of a replacement nature, intended to maintain current production. It is significant that expenditure on

vehicles and mechanical equipment in 1963/64 was 46 per cent of the total compared with only 36 per cent in 1962/63. An even more significant indicator is that expenditure on plantation development continued to decline. The fall in investment over the last few years and its continued low level now cannot but affect productivity in future years. It is not suggested that greater capitalization is the answer to all problems but this certainly is a crucial factor in the determination of productivity on large-scale farms.

The Small Farm Sector

16. The bulk of production in this sector continues to be used for subsistence. Although marketed production has increased rapidly over the last few years, its share of total output in the small farm sector has not changed markedly, as the following figures show: —

SUBSISTENCE AND MARKETED PRODUCTION IN THE SMALL FARM SECTOR, 1960-1964

Table 21

	Estimated Subsistence Production	Marketed Production	Total	Marketed Production as
	£ mil.	£ mil.	£ mil.	% of total
1960	52.3	9.5	61 .8	15.4
1961	49.6	10.4	60.0	17.3
1962	64.9	10.5	75.4	13.9
1963	67.4	11.6	79 0	14.7
1964	69.4	140	83.4	16.8

17. The slow upward movement in the share of marketed production during the last two years is encouraging but its magnitude suggests that the small farm sector is still relatively backward. Even at a relatively advanced stage, peasant production throughout the world is characterized by a substantial amount of subsistence. The smaller the element of subsistence, the more "developed" peasant agriculture is. However, the series of "marketed production" above almost certainly under-states the total value of marketed small farm production as substantial quantities of unrecorded production are marketed at local centres within the district of production. The magnitude of the increase in the value of recorded marketed production in 1964 over the previous year—nearly 21 per cent—was quite striking and may be compared with the figure of 1.5 per cent for the large farm sector. However, this achievement is attributable primarily to the sharp increase in the earnings from coffee. These rose by 70 per cent over the previous year and the share of coffee in total revenue was 39 per cent, compared with 27 per cent in 1963.

18. Coffee thus became even more dominant in marketed small. holder production than hitherto. As past plantings reach maturity, it is likely to assume even greater importance, although the significance of coffee will, to

some extent, be counter-balanced by tea as the acreage under this crop matures. This large dependence on a single crop can affect incomes seriously in periods of depressed prices.

SMALL FARM AREAS—PRINCIPAL CROPS MARKETED*, 1962-1964

Table 22 '000 *tons*

	1962	1963	1964+
Maize	69.3	98 0	44.8
Rice Paddy	14.3	130	13.6
Pulses	8.7	12.4	13.7
Castor seed	3.6	4.5	2.4
Vegetables and fruit	101	9.5	10.6
Coffee—clean	8.1	9.4	15.2
Tea—manufactured	0.4	0.4	0.6
Sisal fibre and tow	20	6.5	6.2
Cotton lint	1.6	2.7	3.0
Wattle bark	220	22.3	21.6
Cashew nuts	2.9	4.3	5.2
Pyre thrum flowers	2.7	1.7	2.2

* Marketed production is defined as that portion of production which is sold outside the growing districts
+Production in crop season 1961/62 is shown under 1962 and so on.

19. Sales of surpluses of food crops were disappointing. Deliveries of maize were less than half the level for 1963. This factor is a major cause of the necessity to import maize. Sales of pulses and vegetables increased only a little.

20. Paddy production increased by another 600 tons in 1964. This is attributable entirely to the expansion of the Mwea-Tebere Irrigation Scheme. When present expansion plans are completed in 1968/69, Kenya will be self. sufficient in rice.

21. Among the cash crops other than coffee, deliveries of pyrethrum increased significantly. For the first time, the share of the small farm sector in total output of this crop equalled that of the large farm sector. In future years, it may be expected to be higher. Cotton production has continued to recover from the set-back in 1961 and the encouragement being given currently to it should result in a significantly larger crop next year.

22. Tea production increased only slightly over the previous years. The bulk of plantings are still immature. Finance for a second plan to raise total acreage to 25,000 acres by 1968 is already secured and plans for a third phase of expansion to double acreage by 1974 are being actively considered. Even when plantings mature, small-holders' incomes from the tea will be affected by the necessity to repay obligations to the Kenya Tea Development Authority. However, when these are repaid, and if world prices do not fall drastically, an acre of mature tea will yield an income comparable with that from coffee.

23. Figures of gross farm revenue in the small farm sector are indicated in the following table:—

SMALL FARM AREAS—ANALYSIS OF GROSS FARM REVENUE*, 1962-1964

Table 23 *£'000*

	1962	1963	1964+
Cereals—			
Maize	1,131	1,244	749
Rice	314	320	343
Other	82	156	103
Total	1,527	1,720	1,195
Temporary Industrial Crops—			
Cotton	271	498	550
Tobacco	66	111	76
Pyrethrum	488	359	492
Sugar	24	45	85
Castor and other oil seeds	284	337	200
Total	1,133	1,350	1,403
Other Temporary Crops—			
Pulses	251	282	321
Potatoes	105	132	151
Vegetables	167	203	231
Total	523	617	703
Permanent Crops—			
Coffee (including mbuni)	3,295	3,022	5,366
Tea	54	122	159
Sisal	132	519	667
Wattle	220	268	236
Coconut and products	215	246	324
Total	3,916	4,177	6,752
Fruit and Miscellaneous—			
Cashew nuts	68	113	221
Fruit	228	230	173
Miscellaneous crops	275	336	130
Total	571	679	524
Total Revenue from Crops	7,670	8,543	10,577
Livestock and Dairy Products—			
Cattle and calves for slaughter	2,120	2,184	2,258
Sheep and goats for slaughter	306	316	319
Pigs for slaughter	9	5	21
Poultry and eggs	82	54	85
Dairy products	286	518	691
Total	2,803	3,077	3,374
Total Revenue	10,473	11,620	13,951

*Marketed production is defined as that portion of production which is sold outside the growing district.
+Provisional.

24. The rapid increase in revenue from dairy production is noteworthy. This is directly related to the introduction of grade stock on small holdings at suitable altitudes.

25. The importance in gross farm revenue of crops grown at altitudes of between 5,000-8,000 ft. is quite apparent. The rapid annual increases in income of small-holders during the last few years are attributable largely to these crops. Development at lower altitudes is handicapped by the absence of crops with returns comparable to coffee or tea or even dairying. However, the development of large acreages of sugar-cane on small holdings, now under way, to supply cane to factories being erected should add very substantially to incomes at lower altitudes. Further expansion of cotton production also offers considerable scope for these areas, although the return per acre is relatively low.

Land Settlement

26. The process of land settlement continued at a rapid pace in 1964. By the end of June last year, 692 former large.scale farms totalling 881,221 acres had been purchased by the Central Land Board. Of this total 417 farms covering 406,821 acres were purchased during the twelve months ending 30th June, 1964. At this date, 809,286 acres were already settled with 15,682 families. Of these, 14.455 were on "high density" and 1,227 on "low density" schemes. The former vary in size from 11-67 acres and the latter from 16-180 acres. Area as well as the "potential" of land are taken into consideration in the determination of "density".

27. As far as production on settlement schemes is concerned, assessment must wait until the settlers establish themselves: in 1964, most of them had not seen a full season of production on their new holdings. Their output can be expected to continue to improve and production in 1966/67 should give a fair indication of "normal" performance.

28. The value of recorded marketed production during the twelve months ending 30th June 1964, was £250,000. Of this, £175,000. or 70 per cent, originated from dairy production.

CHAPTER 4—MANUFACTURING, BUILDING AND CONSTRUCTION

Manufacturing

1. The new Mombasa oil refinery's coming "on stream" at the end of 1963 led to the real output of manufacturers' rising by 12 per cent. This is shown in the table below which depicts the differing rate of progress of the various sectors of industry. The aggregate index for 1964 would have been

111 but for the oil refinery, so between a half and two-thirds of the growth in output can be attributed to the new industry. The remainder of the increase was chiefly due to a higher level of activity in the cement and clothing and textile industries.

QUANTITY INDEX OF MANUFACTURING PRODUCTION, 1960-1964—
COMPARATIVE CHANGES BY SECTOR

Table 24 *Base Year* 1961

Industrial Group	Base Year Weight	1960	1961	1962	1963	1964*
Foodstuffs	20.0	93	100	100	104	108
Beverages and tobacco	17.6	94	100	95	103	106
Textiles, clothing, footwear and leather	8.3	86	100	110	112	127
Wood, paper and printing	12.6	116	100	95	106	121
Rubber and chemicals	12.1	87	100	94	86	146
Non.metallic minerals	10.7	105	100	101	102	124
Metal working	17.6	91	100	123	125	119
Miscellaneous	1.0	102	100	105	119	157
TOTAL	100.0	96	100	103	106	120

*Provisional.

2. The foodstuffs industry, the most important of the industrial groups classified, again showed an increase with rises in the grain milling, bakery, and fruit and vegetable canning industries and slight falls in the meat, dairy and sugar industries. The beverage and tobacco industries showed a small rise but this conceals a fairly large increase in the breweries production which was partially offset by a fall in that of tobacco. With a fall expected in local exports of the products of this industrial group a general setback is probable in 1965. The clothing industry is responding to protection given to it by higher tariffs and import licensing and, after a pause for breath in 1963, again recorded a large increase in production. The rise in the wood, paper and printing industries which began last year continued. This year, however, it resulted from increased work in the furniture and fixture industry as well as the usual steady expansion of the paper and printing industry.

3. The rise in the rubber and chemicals group was entirely due to the oil refinery; excluding this the group shows some decline with rises in wattle extract and soap being too small to negate the fall in soda ash production. The designed capacity of the refinery was 2 million metric tons p.a. and the throughput in 1964 was about three quarters of that figure. Its operations have led to a very substantial change in the import-export trade in petroleum products. This is shown below for the three main products.

PETROLEUM PRODUCTS: SALES, PRODUCTION AND EXTERNAL TRADE
1962 AND 1964

Table 25 *Million Imp. Gallons*

	Motor Spirit		Diesel Oil		Fuel Oil	
	1962	1964	1962	1964	1962	1964
Net Imports	37.3	—	35.3	13.4	113.0	2.0
Production		64.9	—	20.5	—	186.5
Kenya Sales	34.0	35.6	29.4	31.0	90.3	91.8
Exports:—						
Re-exports	1.8	0.3	7.0	2.4	27.4	8.6
Domestic	—	1.4	—	6.2	—	89.5
Inter-territorial	—	20.4	—	23.2	—	20.7
TOTAL EXPORTS	1.8	22.1	7.0	31.8	27.4	118.8

4. Crude petroleum imports in 1964 were 1.5 million metric tons valued at £7.3 million and, by quantity, about 20 per cent of these were subsequently sent to Uganda and Tanzania in a refined form and a further 25 per cent exported outside East Africa. Because the latter were mainly of low value residual fuel oils whereas the former were of more refined products the value of exports to outside East Africa, at £2.2 million, were less than the former £2.5 million. The import saving on sales within Kenya are estimated to have been of the order of £1 million. However, this, and the export earnings, were absorbed by the refinery costs and could not be passed on to the consumer—indeed petrol prices rose in February 1965.

5. The industry group described as "non-metallic minerals" largely consists of the cement industry and its 20 per cent expansion was entirely due to the large increase in cement production (up by 25 per cent) which in turn was due to increased exports, Kenya consumption being much the same. The metal working industries fell back with the establishment of competing plants in Uganda and Tanzania and less railway repair work.

6. During 1964, the resurgence of investor's confidence noted in 1963 was continued. Confidence was inspired by the stable record of Government, the passing of the Foreign Investments Protection Act by the National Assembly, and by the healthy business climate which prevailed throughout the year. The conclusion of the Kampala Agreement (*see* below) with the Governments of Uganda and Tanzania resulted in a reduction of tensions within the East African Common Market and laid the basis for continued co-operation between the three Governments. The allocation of industries under the Kampala Agreement will accelerate the time schedule for investment in the allocated industries.

7. The year 1964 was notable for the reason that a large number of firms already existing in Kenya proceeded with expansion projects which had, in many cases, been delayed pending an appreciation of conditions after independence. A large number of firms decided that the time was ripe for expansion, re-modeling, or the introduction of new products. In addition many new firms established offices in Kenya for the first time and considerable growth will be forthcoming as they gain experience and establish themselves more thoroughly on the Kenya market. A number of projects which were in the planning stage in 1963 came into production or were about to commence production. Among these are a dehydrated vegetable factory, a pharmaceutical plant, and a motor vehicle battery firm. Further progress was made on the Pulp and Paper project and proposals are being considered which will enhance the viability of the scheme. Negotiations for a £7 million canning project have reached an advanced stage. The equipment for a new sugar refinery has been placed on order and a project for motor vehicle assembly is under consideration. Several new textile factories have opened and the blanket factory has machinery on order which will double its current production. Projects under negotiation or consideration have a total capital value in excess of £20 million.

8. The Development Finance Company of Kenya Ltd., a recently established development bank in which the Kenya Government has a large financial interest, has progressed very rapidly and has had to expand its staff to cope with the number of investment proposals. The company's initial capital of £1.5 million will soon be fully committed. The company has already established itself as a respected lending institution with a sound international reputation.

9. The Industrial and Commercial Development Corporation (I.C.D.C.) has been given responsibility for the development of African owned industries and commercial enterprises and, during 1964, steps were taken to expand the staff and to secure additional capital. In 1965 the I.C.D.C. will have a greatly expanded programme. Training facilities for African entrepreneurs are being opened in Nakuru where the Japanese Government is helping to establish the Kenya Industrial Training Institute. The institution building has now been completed to support a full scale programme of training and assisting African businessmen to establish new factories, shopping centres and commercial enterprises.

10. The Kampala Agreement, negotiated in April 1964 and confirmed by the Heads of Government in January 1965, is a statement of intention which will eventually be drawn up as a legal convention. It consists of two main parts. The first deals with existing industries and imbalances in inter. territorial trade in the products of these industries. Provided certain conditions

are fulfilled, a country in deficit can be granted a quota to enable it to build up its own production of the particular product. This part of the agreement is likely to affect Kenya producers of tobacco, cigarettes, footwear, beer and cement, since sales to Tanganyika and Uganda will be reduced to enable factories in the other two territories to build up their own production without competition from Kenya plants. A survey of business expectations carried out at the end of 1964 however showed that in aggregate these manufacturers still expected sales to expand in 1965 and later years.

11. The second part of the Agreement deals with the allocation of new industries; certain industries for which an immediate decision was required were allocated between the three countries—Kenya was allocated the electric lamp industry for which plans have now been announced—and it was agreed to establish a committee to study the future allocation of industry.

12. The Agreement marks the beginning of a new phase in inter-territorial co-ordination in industrial matters and further progress in this field can be expected. As it now stands, any adverse effect on Kenya's economy overall is marginal although certain individual industries and firms may be seriously affected. But the clearing up of misunderstandings and the removal of the fear that one unilateral action might "cascade" into the complete breakdown of the Common Market are worthwhile gains for all the countries concerned.

Building and Construction

13. After falling for the past four years the value of work undertaken by the building industry rose by 30 per cent, despite a further fall in building by local authorities. Capital expenditures on buildings were approximately £7 million in total in 1964, much the same as in 1962 and £1.6 million more than in 1963. It should perhaps be noted that the total is some way below that of £16.18 million which prevailed in the period 1956/57.

BUILDINGS—CAPITAL FORMATION AT MARKET PRICES, 1955-1964

Table 26 *£million*

Buildings	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964*
Public	5.16	5.57	5.36	4.26	4.40	5.33	5.68	3.90	2.76	2.62
Private	9.03	12.61	10.49	9.90	9.90	7.90	3.20	2.81	2.67	4.45
TOTAL	14.19	18.17	15.85	14.17	14.30	13.22	8.88	6.71	5.43	7.07

*Provisional.

14. Whilst there was a rise in building expenditure by the Kenya Government the bulk of the increase came from increased work done for the private sector. Some idea of the extent of this can be had from the following table: —

REPORTED COMPLETION OF NEW PRIVATE BUILDINGS IN MAIN TOWNS, 1959-1964

Table 27

YEAR	NUMBER		ESTIMATED COST *(£million)*		
	Residential	Non.Residential	Residential	Non.Residential	Total
1959	676	200	3.80	3.87	7.67
1960	562	154	3.29	2.34	5.63
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	1.27
1964	84	76	0.39	2.13	2.52

15. The outstanding feature of the table is the 1964 figure for the cost of non-residential buildings completed which greatly exceeds the 1963 figure and approaches that for I960. This figure does require some qualification, for it refers to buildings completed in 1964, although work may have been done on them in previous years. Some of the larger projects completed in 1964 were begun in 1963, so that if the table could be made up on the basis of work put in place the disparity between 1963 and 1964 would not be so great. Of course, the 1964 figure would in turn be increased by buildings begun in 1964 which will not be completed until 1965 or later, but there is reason to believe that the net effect would still be a closing of the gap. Indeed, in 1965 it would not be surprising, judging from the plans approved for Nairobi shown later, to see the completions figure fall a little because of the inflation of the 1964 figures by this bunching. Apart from this, the table shows that it is residential building which has been hardest hit and this does not have the same productive significance as non-residential building. Moreover, although no statistics are collected for buildings completed outside the six main towns, factories have been built and are planned outside the urban areas. Thus a more optimistic view is probably justified than the straightforward aggregates given in paragraph 13 would indicate.

VALUE OF ALL BUILDING WORK COMPLETED, 1959-1964

Table 28 *£million*

Year	Nairobi	Mombasa	Nakuru	Kisumu	Kitale	Eldoret	Total
1959	6 02	1.10	0.41	0.26	0.07	0.21	8.08
1960	4.97	0.61	0.18	0.17	0.01	0.13	6.08
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	2.78	0.24	0.02	0.04	0.01	—	3.08

16. The whole of the increase in building completed in the main towns took place in Nairobi. For all other towns the figure fell apart from a trivial rise in the case of Kitale.

17. Two of the indicators used to forecast the level of building in the current year are those of the value of plans approved by Nairobi City Council and the estimated cost of private buildings begun in Nairobi. Both of these point to the level of activity in 1965 being much the same as in 1964 with possibly some further improvement in residential building. With the probability of an increasing amount of factory construction outside the towns and some increase in Central Government and local authority building, the building industry should do rather better in 1965 than in 1964.

ESTIMATED COST OF BUILDING PLANS APPROVED BY NAIROBI CITY COUNCIL, 1959-1964

Table 29 *£ million*

Year	Residential	Non-Residential	Total
1959	4.65	1.83	6.48
1960	2.27	3.02	5.29
1961	0.31	1.69	2.00
1962	0.18	1.21	1.39
1963	0.47	1.38	1.85
1964	0.54	1.40	1.94

18. The construction industry has shown less decline in recent years than the building industry but in 1964 the work done, at about £7.2 million showed a marked decline. This was because of a reduction in the amount of road works undertaken together with the completion of the oil refinery. With an increasing amount of road works being started together with the Tana River Hyro-Electric Project the level of activity in this sector should also increase in 1965.

CONSTRUCTION AND OTHER WORKS—CAPITAL FORMATION AT MARKET PRICES, 1955-1964

Table 30 *£million*

Construction	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964*
Public	8.16	5.64	8.57	6.91	7.04	6.82	6.72	6.71	5.21	4.44
Private	1.76	2.10	2.90	3.24	3.20	3.09	2.49	5.12	3.63	2.77
TOTAL	9.92	7.74	11.47	10.15	10.24	9.91	9.21	11.83	8.84	7.20

*Provisional.

CHAPTER 5—TOURISM, TRANSPORT AND COMMUNICATIONS

Tourism

1. The number of tourists entering East Africa through Kenya increased in 1964 although by a smaller amount than had been in case in the preceding three years. The factors which led to this are however not such as to cause any fears for the long term future of the industry. Firstly there is simply the fact that 1963 was such a good year, with a 23 per cent increase, that something more modest could be expected. Taking 1963 and 1964 together the rate of increase is almost exactly the 15 per cent which is the present target rate of growth in the Development Plan. Even so, the number of tourists in 1964 was undoubtedly depressed in the first half of the year by the army disturbances in the three East African countries and possibly also by the cessation of South African Airways flights through Nairobi. A further contributory factor is the fall in the number of visitors from Britain and India; in the case of those from Britain the fall is probably related to the decline in the population of British nationals and hence a decline in the number of relatives and friends visiting Kenya. The table which follows gives an analysis by country of nationality and it may be noted that if visitors of British, Indian and South African origin are excluded the increase in visitors is 21 per cent compared with 7 per cent when they are included.

2. The table also shows that the increase in visitors took place chiefly in "persons in transit" and whilst such persons do make some use of the usual tourist facilities their average length of stay is very much less than for visitors classified as "on holiday" or "on business". The failure of the latter categories to rise would therefore be a matter for concern, were it not again the case that 1963 saw a much bigger increase in visitors on holiday and business, than in persons in transit, so that spread over two years a more satisfactory state of affairs is seen; and also that the fall in visitors from Britain and South Africa was entirely a fall in visitors on business and holiday (persons in transit of both nationalities actually rose). Excluding these countries and Indian nationals, visitors on holiday show a 20 per cent increase and visitors on business one of 6 per cent.

3. Because the bulk of the increase in numbers of visitors was in "persons in transit", whose average stay is only two days, gross earnings from foreign tourists are estimated to have been much the same as in 1963—about £6.9 million. This of course ranks tourism as second only to coffee as a foreign exchange earner, and the industry must be regarded as one of the more stable elements in the Kenya economy since it is not subject to marked fluctuations in world prices such as hit the sisal industry in 1964. Tourism displaced sisal as the second most important foreign exchange earner in the year simply because of the fall in sisal prices.

VISITORS TO KENYA BY NATIONALITY 1963 AND 1964

Table 31

Country of Nationality	Visitors on Holiday			All Visitors		
	1963	1964	Increase	1963	1964	Increase
	Number		%		Number	%
Countries in Europe						
Britain	6,703	5,654	-15.6	17,306	16,496	-4.7
Germany	1,093	1,470	+34.5	2,358	3.042	+29.0
Italy	913	1,000	+9.5	2,270	2,753	+21.3
Belgium, France and Netherlands	842	1,319	+56.7	2,901	3,339	+15.1
Other	1,690	2.045	+ 21 0	4.020	4,568	+13.6
Total	11,241	11,488	+2.2	28,855	30,198	+4.7
United States of America	5,177	6,328	+22.2	10,448	12,815	+22.7
Countries in Asia						
India	1,400	1,151	-17.8	6,151	4,542	-26.2
Pakistan	187	178	-4.8	577	503	-12.8
Other	834	512	-38.6	3,876	3,426	-11.6
Total	2,421	1,841	24.0	10,604	8,471	-20.1
Countries in Africa						
South Africa	1,198	508	.57.6	3,609	2,944	-18.4
Rhodesia	472	586	+24.2	1,047	2,194	+109.6
Other	649	847	+ 30.5	4,491	6,467	44.0
Total	2,319	1,941	-16 3	9,147	11,605	+ 26 9
Other Countries	648	765	+ 18 1	2,298	2,343	+2.0
Total All Visitors	21,806	22^63	+2 6	61,352	65,432	+ 6.7 (+20.9)*
of which:—						
Persons in transit				27,419	31,215	+ 13.8 (+25.4)*
Holiday visitors				21,806	22,363	+ 2.6 (+ 20.4)*
Business visitors				9,591	9,217	.+3.9 (+ 5.8)*
Other visitors				2,536	2,637	+ 4.0 (+50.9)*

*The figures in brackets show the effect of excluding nationals of Britain, India, and South Africa

4. Although such factors as price, publicity campaigns, the standard of accommodation and service, political stability and a general impression that tourists are welcome, will all be vital in increasing the tourist trade, they presuppose the ability of the industry to be able to cope with increased numbers. The planned annual growth rate of 15 per cent means numbers should increase by 50 per cent every three years and double every five. The Development Plan states how it is expected that this will be achieved and towards the end of 1964 one large hotel and a motel opened in Nairobi, whilst the improvement of facilities in the game parks continued. Table 32 shows the extent to which totals in different areas were occupied and it will be seen that only in Nairobi are hotels consistently fairly full. (The effect of the increase in accommodation in Nairobi may be seen in the data for January and February 1965.) Elsewhere these statistics confirm that the problem is that of providing the right kind of accommodation in the right place, rather than one of outright shortage of accommodation.

HOTEL BED OCCUPANCY RATES

Table 32

Percentages of total beds available

	TYPE OF HOTEL										All Hotels	
	Nairobi				Coastal		Un-Country		Game Lodges			
	International		Other									
	Foreign Visitors	Total	Foreign Visitors	Total	Foreign Visitors	Total	Foreign Visitors	Total	Foreign Visitors	Total	Foreign Visitors	Total
1964—												
January												
February		78	..	65	..	50	..	35	..	46	..	55
March												
April	51	68	7	60	6	38	4	27	17	32	14	46
May	43	61	6	54	7	32	2	25	20	36	12	42
June	47	63	10	60	6	32	2	25	17	36	14	44
July	58	73	7	56	8	37	5	27	27	48	16	47
August	62	78	13	60	11	70	6	33	23	56	19	59
September	60	77	12	60	11	49	4	26	21	43	18	51
October	56	73	10	62	8	37	2	24	21	36	16	46
November	58	74	9	59	7	32	3	23	17	26	16	43
December	53	71	13	63	12	59	4	28	21	43	18	54
1965—												
January	52	65	10	58	17	53	7	29	27	43	20	51
February	58	68	18	63	17	49	9	33	39	52	25	53

NOTES.—(1) "Nairobi International" hotels are defined as those for which over 50 per cent of the beds filled are occupied normally by foreign visitors.

(2) Except for "Nairobi International" hotels the figures for January, February and March 1964 are estimates.

Transport and Communications

5. The expansion of this sector has been rapid in recent years but 1964 seems to have been a year of somewhat slower growth. A small increase in the number of tourists together with modest increases in exports and imports to and from outside East Africa are the principal cause of this. (Although by value Kenya's exports increased by 7.5 per cent, in quantity terms the increase was small.)

6. Thus at Nairobi Airport the total number of passengers handled rose by 5 per cent to 475,000. This includes those merely alighting for an "in transit" halt and a decline in these has made the increase much less than is the case for passengers joining and leaving planes at Nairobi. If the latter type of passenger only is considered the increase is a more "normal" 17 per cent. Air freight showed a very marked increase of about 15 per cent. With no new aircraft and with the dropping of the Comet run to South Africa, East African Airways did well to record a 3 per cent increase in aircraft mileage and in the number of passengers carried through this is much the smallest increase since international services were begun. Air freight carried rose by 9 per cent with the increased use of this mode of transport although this, too, is less than in previous years. That the increase in both passengers and freight for East African Airways was less than the increases for all airlines using Nairobi means that East African Airways "market share" fell.

7. The port of Mombasa, of course, serves Uganda and northern Tanzania as well as Kenya and the figures of traffic handled have to be interpreted with this in mind. The number of passengers landed fell very substantially while embarkations rose to almost reach the 1960 and 1961 peak. In both cases the cause of the movement was the change in the numbers travelling to/from India. Such passengers account for about two.thirds of all those using the port; their numbers are far in excess of the numbers of migrants so the one-third decrease in arrivals from India and an increase of the same size in departures cannot be explained by the changing pattern of Asian migration. A possible explanation is that many of the departing passengers put themselves down as "temporary" emigrants and then fail to return; once the figures for 1965 become available the plausibility of this explanation should become more obvious. The tonnage of goods handled at Mombasa rose by about 25 per cent as a result of the oil refinery's operations. General cargo handled showed little change as in quantity terms none of the East African countries imports or exports changed much.

8. Internally the unchanged exports and imports have meant that last year's rise in the Railways' goods traffic handled in the whole of East Africa has not been maintained. It did, in fact, fall and there seems to be a historical

tendency for the traffic carried by the railways to show a smaller increase than the quantity of external trade. The number of passengers carried in East Africa by the Railways also showed a decline and this must represent a loss to road transport.

9. At the same time, there is no evidence that road transport is expanding particularly rapidly. The number of new buses and lorries were both down a little in 1964; total numbers of the former are, however, probably still rising whereas the latter are static. Motor.car and utility registrations are almost exactly the same as in 1963 but motor-cycles and some specialist types of vehicle, particularly tractors, increased. Petrol sales rose by only 2 per cent.

CHAPTER 6—EMPLOYMENT, EARNINGS AND PRICES

Employment

Perhaps the most difficult problem of the present stage of development is the creation of enough jobs to absorb an annual increase of approaching 80,000 in the number of men of working age. Clearly many of these men will be absorbed into traditional agricultural pursuits, which will generally imply a more intensive use of the land, but as pressure on available arable land compounds it will be increasingly difficult for more members of the family to obtain a reasonable living off the family land. Settlement schemes can help to ease the position—provided they do not push out more people than they embrace—but the surplus of men which cannot be absorbed by a more intensive use of the land, including the increasing numbers who will be able to find wage employment on small farms, will need to be provided with job opportunities by the development of industry, commerce and public sector activities.

2. Between 1960 and 1963, there was a serious deterioration in the employment position in the country which was reflected in a drop of some 90,000 in the numbers of people in recorded wage employment. 1964 was a significant year in that it provided the first indication that a reversal of this downward trend had started. There is still some way to go before there is a return to the 1960 employment position overall but the number of Africans in reported wage employment in 1964 was as high as any other previous year except 1960. If the number of Africans who find their living on settlement schemes is taken into account the position was perhaps about the same as 1960. The country has, however, not yet succeeded in catching up with the numbers that have been added to the working force since 1960. Since there has also been some improvement in the coverage of employment statistics in the last year, this also rather overstates the improvement in the employment position. The question of statistical coverage is discussed in more detail below.

3. In the "Economic Survey 1964", the limitations of the annual Labour Enumeration Survey were discussed and it was pointed out that important changes were taking place in the rural areas of the country and employment opportunities were being generated in the sector of the economy which previously had been predominantly based on subsistence production. It was noted that the Labour Enumeration Survey covered mainly large establishments and did not embrace small farms and small businesses. In view of the increasing significance of the contribution to employment and income of small businesses, a drive was made in the 1964 Survey to obtain returns from them. Data on establishments operating in business centres in rural areas such as markets, trading centres and small towns were collected and from these it was possible to estimate employment and income for a category of employees who were never before covered by the annual survey. It was, however, still not possible to obtain employment data from small farms. The usual mail method of collecting data was supplemented by sending out enumerators to all the main urban centres of the country to carry out personal interviews with employers. A drive to obtain a more complete roll of employers also led to improved coverage.

4. Employment figures in the main sectors of the economy are given in Table 33 below. To show the effect of the additional coverage in 1964 in Private Industry and Commerce, employment totals derived from the old and new panel of respondents are given separately. Extra coverage added a total of 42,246 employees to this sector but employment in the "old" firms also rose by 9000 employees or 6 per cent over the 1963 total. Employment in Public Services rose by 16.000 or 10 per cent but there was a further fall of 11,000 in employment on large farms and forests. Overall, there was an improvement in the level of wage employment outside of small-scale agriculture in the region of 15,000 jobs during the year. It is impossible to say what the effect of the new coverage would have been on the total number of employees in years earlier to 1964 but it is perhaps reasonable to assume that the sector represented by this new coverage has been growing rapidly and hence the effect on employment statistics will diminish retrospectively.

5. The fall in agricultural and forestry employment is mainly a result of the drop in the labour force employed on large farms. Employment on these farms dropped by 18,000 between 1963 and 1964, largely a result of the conversion of large-scale farms to settlement schemes. A total of 900,000 acres of former large farm sector had been bought for resettlement by the end of June 1964 and a sample survey of all settlement schemes indicated that the new settlers worked their land mainly with the use of family labour and employed very limited numbers of wage paid labour. From this survey it was estimated that settlement schemes in operation by June 1964 employed only 6,800 wage paid workers. It has already been stated that it was not

possible to estimate the numbers of agricultural employees in the areas which, formerly, were predominantly areas of subsistence farming but which in recent years have increasingly adopted more advanced farming techniques which generate wage employment. Estimates of employment in this sector can only be very tentative but it is suggested that although employment in the small farm sector outside of the resettlement areas, is generally on a casual basis, there are, on the average, perhaps 50,000 wage paying jobs available. With accelerated development on small farms their labour requirements are likely to expand rapidly.

NUMBERS REPORTED IN PAID EMPLOYMENT, 1960-1964

Table 33 '000s

	1960	1961	1962	1963	1964*	
LARGE SCALE AGRICULTURE AND FORESTRY—						
African	269.1	249.8	243.5	217.6	206.5	
Asian	0.8	0.6	0.6	0.7	0.6	
European	1.9	1.6	1.4	1.3	1.2	
	271.8	252.0	245.5	219.7	208.3	
PRIVATE INDUSTRY AND COMMERCE—						
African	151.1	134.1	133.2	121.8	130.2	(169.5)
Asian	25.6	25.0	23.6	24.3	25.7	(28.0)
European	12.3	11.7	10.6	10.2	9.4	(10.1)
	1890	170.8	167.3	156.4	165.3	(207.6)
African	140.7	145.9	147.2	139.5	160.9	
Asian	11.8	12.2	120	11.7	8.1	
European	8.9	8.9	7.8	6.1	4.7	
	161.4	167.0	167.0	157.3	173.7	
ALL EMPLOYMENT—						
African	560.9	529.8	523.9	478.9	497.6	(536.9)
Asian	38.2	37.8	36.1	36.7	34.4	(36.7)
European	23.1	22.2	19.8	17.7	15.3	(160)
	622.2	589.8	579.8	533.3	547.3	(589.6)

*The figures in brackets include the new coverage. *See* text.

6. Employment in the public sector rose by 16,000 in 1964. On the face of it, the rise was due largely to an increase of 15,000 in the number of local authority employees. In fact, however, the increase in local authority employment was largely caused by a switch of 11,764 primary and intermediate school teachers from Central Government and private services as a

result of these levels of education becoming the sole responsibility of local authorities. The overall increase was, therefore, created mainly by an increase in Central Government projects which, in spite of the switch of teachers, caused the level of employment in Central Government to be higher in 1964.

REPORTED EMPLOYMENT IN THE PUBLIC SECTOR, 1963 AND 1964

Table 34 *Numbers*

	1963	1964
Kenya Government	80,114	84,485
E.A. Railways and Harbours	24,124	23,338
E.A. Posts and Telecommunications	4,515	4,479
E.A. Common Services Organization	3,218	3,165
Defence (civilians only)	4,617	2,470
Foreign Government employees	279	301
Local Government	40,466	55,483
TOTAL	157,333	173,721

7. In 1964 employment in both the East African Posts and Telecommunications and the East African Common Services Organization was virtually unchanged, but employment in the East African Railways and Harbours suffered yet a further decline; it has been falling since 1962. The number of civilians employed by the armed forces dropped by about 2,000 as a result of the departure of British troops. Central Government employment rose mainly because of increased employment in the departments of: Forestry, Lands and Settlement, Agriculture, Police, and the Medical Department. The rise would have been higher if it were not for a drop of 3,075 employees, mainly casual workers, in the Ministry of Works. The Central Government figures do not reflect the sizeable National Youth Services employment most of which has been built up after July 1964 when the annual survey was undertaken. The present strength of the National Youth Services is 2,100.

8. The private industry and commerce employment total of 207,558 is the highest ever to be recorded for this sector but as noted above, it is in this sector that the improvement in coverage was effective. The "old" panel of firms whose employment in 1963 amounted to 156,353 employed an aggregate of 165,312 in 1964 giving a net rise of about 6 per cent. The improvement in employment was registered in all the main divisions of private industry and commerce except mining and quarrying and building and construction both of which declined in recent years, although the latter would seem now to have passed its lowest level.

EMPLOYMENT IN PRIVATE INDUSTRY AND COMMERCE, 1963 AND 1964
OLD AND NEW COVERAGE

Table 35

	1963	1964		
		Old Coverage	New Coverage	Total
Mining and Quarrying	3.110	2,214	80	2,294
Manufactures and Repairs	40,743	44,788	15,991	60,779
Building and Construction	8,619	8,236	578	8,814
Electric Light. Power Services and Water	2,407	2,457	12	2,469
Commerce	41,968	45,445	11,856	57,301
Transport and Communications	16,703	17,710	301	18,011
Other Services	42,803	44,462	13,428	57,890
TOTAL	156,353	165,312	42,246	207,558

9. Establishments that had never before been covered by the annual survey accounted for an aggregate employment of 42,246, 20 per cent of the total 1964 level of employment in this sector. Of this additional coverage, employment in the rural sector accounted for 27,960. Economic activities for which the wider survey found additional employees are, in particular, manufactures and repairs, commerce and miscellaneous services. These embraced such businesses as bakeries, blacksmiths, bicycle repairs, carpentries, garages, posho mills, slaughter houses, shoemakers, tailoring shops, tanneries, butcheries, bees wax shops, dairies, hides and skins sales, retail stores, barber shops, bars and tea rooms.

10. Part of the 10.4 per cent rise in the employment of the public services and most of the 6 per cent in the employment of old establishments of private industry and commerce were the result of Tripartite Agreement between Government, employers and workers. Data collected by the Labour Department's Employment Services suggest that a total of 33,950 persons were engaged under the auspices of the Agreement, the private sector accounting for 28,000 as against the proposed target of 30,000. The recorded rise in employment of the old panel of respondents is lower than the additional employment brought about by the Tripartite Agreement, mainly because of the drop of employment in the agriculture sector but also on account of certain establishments which contributed to employment in past years going out of business in the year. These factors had a depressing effect on aggregate employment in the "old" establishments.

11. Local authorities are reported to have employed 1,500 and Central Government 4,450 persons under the Tripartite Agreement. At the same time the Central Government has begun the National Youth Service which is growing at the rate of 200 additional volunteers every month and currently consists of about 2,100 persons. Nearly all of these will not be reflected in the employment statistics until 1965.

12. The Tripartite Agreement which ended on 8th April 1965 was successful in alleviating the acute unemployment situation that has prevailed in the past few years. Although the number of persons that received employment did not quite reach the proposed targets, the persons for whom jobs were found were those who rated high on the priority lists. The Agreement has now ceased to bind the signatory parties but there are indications to show that, in the main, the persons employed under the terms of the Agreement have been assimilated into the labour force of their employers and are being retained.

13. As stated above, it would seem that a large part of the increase in employment in 1964 was due to the Tripartite Agreement, but for which employment would perhaps again have fallen. This is disappointing at a time when gross domestic product is rising. Partly, it is because the growth in gross domestic product was greater at current prices than it was at constant prices, but two more fundamental reasons may also be suggested. Firstly, there is the continued rundown of employment in the large farm sector. Agriculture is so labour intensive that it is impossible to absorb the same number of persons in other sectors, even when their output is increasing. This can be illustrated by reference to the new oil refinery which cost £6.5 million to build and processed over £7 million worth of crude petroleum last year and yet employed some 300 people only. This is an extreme example but the point must be emphasized that agriculture is labour intensive and that the intensive working of Kenya's greatest natural asset—its land—would seem to be the only possible solution to the twin problems of rapid economic growth and the containment of unemployment. The second reason why the demand for labour lags behind the growth of gross domestic product is the trend towards more capital intensive and less labour intensive methods of production within existing sectors of the economy. This trend has almost certainly been stimulated by rising labour costs.

14. In the Development Plan it was anticipated that employment would grow at a rate of 2.8 per cent per annum between 1962 and 19670 but between 1962 and 1964 there was actually a fall in recorded employment of about 3 per cent per annum which, on the face of it, would seem to make it unlikely that the target can be achieved. Whilst private industry and commerce and the public services will probably increase their employment to the anticipated

level, as the plan gathers momentum, the shortfall in agriculture remains; and as already explained it is extremely difficult to absorb the large numbers involved in other sectors. These comparisons are not entirely valid however as the plan targets relate to the amount of labour necessary to planned output and, therefore, will include self-employed. (The self-employed are not included in the table below.)

COMPARISON OF TARGET AND ACTUAL RATES OF EMPLOYMENT GROWTH

Table 36

	EMPLOYMENT			RATES OF GROWTH	
	1962 Reported	1964 Reported	1970 Estimated	1962-64 Reported	1962-70 Estimated
		Thousands		*Percentages*	
Agriculture and Forestry	245.5	208.3	316.6	-7.9	+3.2
Private Industry and Commerce					
Mining and quarrying	3.5	2.2	4.2	-20.7	+2.4
Manufactures and repairs	45.3	44.8	51.9	-0.6	+ 1.5
Building and construction	12.6	8.2	15.9	-19.4	+ 3.0
Electric light, power and water supply	2.1	2.5	2.6	+ 11.8	+ 3.0
Commerce	42.8	45.4	52.0	+3.0	+2.4
Transport and Communications	16 0	17.7	23.8	+ 5.2	+5.1
Other Services	45.0	44.5	58.3	-0.6	+ 3.3
Total	167.3	165.3	208.7	-0.6	+2.8
Public Services	167.0	173.7	200.3	+2.0	+2.2
TOTAL	579.8	547.3	725.6	-2.9	+2.8

However, the position is perhaps not quite so serious as is suggested by this table, for by mid 1964 15,682 new farmers had begun operations on settlement schemes while as already pointed out the small farm sector is almost certainly expanding employment opportunities at a relatively faster rate. It is also noteworthy that employment in some industries is expanding at a faster rate than that suggested as a target in the Development Plan.

Earnings

15. The total wage bill for 1964 was the highest on record but the relative contributions to the total of each of the three main sectors remained much the same as in recent years, with private industry and commerce accounting for 49 per cent, and public services and agriculture accounting for 39 and 12 per cent respectively.

ESTIMATED ANNUAL WAGE BILL, 1960-1964

Table 37 *£ million*

	1960	1961	1962	1963	1964*
LARGE SCALE AGRICULTURE AND FORESTRY—					
African	10.0	9.8	9.5	10.1	10.6
Asian	0.4	0.4	0.4	0.4	0.4
European	2.1	2.1	1.7	1.6	1.7
	12.5	12.3	11.6	12.1	12.7
PRIVATE INDUSTRY AND COMMERCE—					
African	13.9	13.9	14.6	16.1	18.7 (20.9)
Asian	11.7	11.5	11.4	12.5	13.8 (14.8)
European	14.5	14.8	14.0	14.5	19.4 (15.1)
	40.1	40.2	40.0	43.1	46.9 (50.8)
PUBLIC SERVICE—					
African	14.4	16.5	17.8	19.2	26.5
Asian	6.6	7.4	7.3	7.7	5.9
European	11.3	13.4	12.0	9.6	7.3
	32.3	37.3	37.1	36.5	39.7
ALL EMPLOYMENT—					
African	38.3	40.2	42.0	45.4	55.8 (58.0)
Asian	18.7	19.3	19.1	20.6	20.1 (21.1)
European	27.9	30.3	27.7	25.7	23.4 (24.1)
	84.9	89.8	88.8	91.7	99.3 (103.2)

*The figures in brackets include the new coverage. *See* paragraph 4.

Usually the wage bill rises faster than employment and the contrary position in 1964 was due to two abnormal factors. Firstly the bulk of the increment in employment was in unskilled (Tripartite) workers who would receive relatively low wages, and secondly, because of the replacement of expatriate officers by local ones. This latter factor lowers the wage bill (with the same number of persons employed) because the new local officer is usually lower down the salary scale than his longer serving expatriate predecessor; also the local officer (in Government Service) does not receive the overseas inducement allowance paid to his predecessor by the British Government.

16. Within the public sector there were small falls in the wage bills of the East African Common Services Organization, the East African Posts and Telecommunications, the East African Railways and Harbours. On the other hand, rises in the Central and local government sectors were recorded. The wage bill accruing to Africans in public services as a whole rose by 38 per cent in 1964 and since 1960 the African wage bill in the public sector has risen by over 50 per cent overall. Only part of this increase has been compensated for by a decline in the European wage bill, that of Asians also being higher.

17. A rise of 5 per cent occurred in the wage bill of agriculture in spite of a drop in employment of similar magnitude. Most of the increment here accrued to Africans. In this case, as the majority of workers are unskilled, the additional Tripartite workers would not depress the average earnings per worker and so the "normal" relationship between changes in employment and the wage bill manifests itself.

18. The wage bill in private industry and commerce (old coverage) rose by 5 per cent above the 1963 level, as compared to 6 per cent rise in employment. There would appear to have been some increase in wages to existing workers which was masked by the relatively low wages paid to workers recruited under the Tripartite Agreement.

19. Of the aggregate wage bill in 1964, 56 per cent was paid to Africans, 21 per cent to Asians and 23 per cent to Europeans. When compared with last year's figures of 50, 22, 28 per cent and those of five years ago 45, 22, 33 per cent, the growth in importance of the African consumer, and the decline of the European, is obvious. Much of the change in the pattern of production and imports will be related to the different pattern of expenditures by ethnic origin and income groups, but insufficient information is available to be precise about this.

20. The upward trend in average earnings was maintained in 1964 particularly for African employees whose average annual earnings rose by 14 per cent above the 1963 level to £108. The average earnings of Asians and Europeans are £576 and £1,507 per annum respectively—rises of 3 and 4 per cent over the previous year. However, none of these changes in average annual earnings should be taken as applying to individuals or as indicators of the change in the rate paid for a specific job; they simply reflect the change in the average obtained by dividing the wage bill by the numbers employed.

21. The Schedule of the General Minimum Wages Order still remains unchanged and the rates which came into force on the 11th January 1963, still apply. Revisions have, however, been made in some of the minimum rates fixed for the other nine industries for which wage councils have been established. By an order on the Regulation of Wages in the footwear industry, which came into effect on the 1st July 1964, the minimum wages in this industry range from Sh. 128 to Sh. 200 for the employees of various cadres working in Nairobi and Mombasa, and Sh. 121 to Sh. 193 for all other areas. Minimum wages were also changed in the wholesale and retail distributive trades. In this industry, by an order which came into effect on the 1st February 1964, Nairobi and Mombasa workers receive minimum wages which range between Sh. 140 and Sh. 500. For Eldoret, Kisumu, Kitale, Nakuru and Thika Municipalities, the county council areas of Nyeri, Masaku, Kericho, Nanyuki and Thomson's Falls and the former township of Naivasha, the minimum wages range between Sh. 134 and Sh. 494. The minimum wages which

came into effect in the course of 1963 for the motor engineering trades, tailoring, garment making and associated trades, road transport, building and construction industry, laundry, cleaning and dyeing trades, banking, flour, confectionery and biscuit making trades, are still in force.

Prices

22. The stability of consumer prices has been a feature in the Kenya economy over the last few years, particularly for the prices of consumer goods purchased by the lower income groups. Prices of locally produced consumer products have shown little tendency to rise and cost of living increases have been confined to products affected by excise increases or to those which are imported and subject to rising prices overseas or higher import duties. Since there is generally a fairly close relationship between income and the consumption of excisable and imported products, the higher income groups have been affected to a relatively greater extent by rising prices than have the lower income groups, although the difference is not very significant.

23. Three indices are now maintained for tracing consumer price indices in the country. Two of these indices, the Nairobi Wage Earners' Index and the Nairobi Cost of Living Index have been maintained for some years. The Wage Earners' Index is based on the expenditure and consumption patterns of Africans with a monthly income of less than Sh. 320 while the Nairobi Cost of Living Index, is based on the consumption and expenditure patterns of European residents of Nairobi, thus reflecting the cost of living for the higher income groups. In 1964, a Nairobi Middle Income Index of consumer prices was compiled from a family budget study of African middle class residents of Nairobi with an annual income ranging between £200 and £750 per annum. This index, designed to measure the movement of consumer prices for the middle income section of the population, now fills a gap which has existed in the past between the other two indices.

24. The movement of the three indices during the year can be summarised and compared as follows: —

Table 38

	Dec. 1963	July 1964	Dec. 1964	April 1965
(i) Low Income Index (Nairobi Wage Earners' Index)	100.0	100.0	100.0	101.9
(ii) Middle Income Index (Nairobi)	E. 100.0	100.0	101.0	101.8
(iii) Higher Income Index (Nairobi Cost of Living Index)	100.0	101.9	102.2	102.5

25. In fact, however, the three indices do not have a common December 1963 base as each has been started at a different time. The Nairobi Wage Earner's Index (base October-December 1958 = 100) remained remarkably steady through the period December 1962 to December 1964, oscillating between 106.6 and 108.4. The stability of the index in 1964 could be attributed at least in part to the Tripartite Agreement and the concomitant introduction of price control over many of the consumer products included in this Index. However, in January and February 1965 the index which stood at 108 points in December 1964, moved up by about 3 points to 110.6 and 110.5 respectively. A temporary shortage of maize grain and flour and higher wholesale prices introduced by the Kenya Meat Commission for meat were the main cause of this. In April the index stood at 110.9 points. During the year 1964 the group indices for personal care and health, recreation and entertainment, transport and miscellaneous remained stable, while the household and fuel and light indices fell as a result of lower average prices for cloth, soap, paraffin and charcoal. The sub-indices which registered rises are (i) food; (ii) beverages and tobacco; and (iii) clothing and footwear. Beverages and tobacco group rose on account of the rise in the prices of soft drinks whereas the clothing and footwear rise was caused by higher average prices of khaki drill shirts, cotton vests, shirts and head squares.

NAIROBI WAGE EARNERS' INDEX OF CONSUMER PRICES

(Base: October-December, 1958 = 100)

Table 39

MONTH	GROUP									
	Food	Beverages and Tobacco	Clothing and Footwear	Fuel and Light	Household Operation	Personal Care and Health	Recreation & Entertainment	Transport	Miscellaneous	All Groups
1961 —										
December	104	104	103	99	99	168	102	117	162	105.3
1962—										
December	105	123	102	100	94	170	102	134	162	107.7
1963—										
February	104	123	102	99	92	204	102	134	300	109.2
June	102	123	102	104	92	204	102	134	300	108.0
December	101	126	102	109	96	204	102	134	300	108.1
1964—										
February	102	126	100	112	94	204	102	134	300	108.4
April	100	126	100	112	92	204	115	134	300	107.6
June	101	126	101	113	92	204	115	134	300	107.8
August	99	127	101	113	92	204	122	134	300	106.6
October	99	127	100	113	95	204	122	134	300	107.1
December	100	127	101	112	97	204	122	134	300	108.0
1965—										
February	105	127	103	110	92	204	122	134	300	110.5
April	104	133	104	112	95	204	122	134	300	110.9

26. The Nairobi Cost of Living Index (based 1939 = 100) stood at 320 points in January 1964, rose to 324 points in December and in April 1965 stood at 329 points. The rise of about 2 per cent was caused by increases in all sub.indices except papers and periodicals which remained stable over the whole period. The food, drink and tobacco sub-index rose by about 3 per cent as a result of higher average prices of meat, bacon, coffee and imported foodstuffs. There was a rise of about 2 per cent in the clothing and footwear index caused mainly by higher prices for shirts and cloth. The household index rose by a few points on account of higher average prices of kerosene, glass tumblers, electric bulbs, electricity and laundry charges. The domestic servants wages component also registered a rise.

27. Higher prices of petrol, motor vehicle spare parts and overhaul charges raised the transport index, whereas the miscellaneous group rose on account of higher average prices of refrigerators and new motor-cars. The amusements index rose as a result of higher charges for cinema shows and sports goods. Prices of most pharmaceutical items also rose and led to an overall rise in this sub-index.

NAIROBI COST OF LIVING INDEX (EXCLUDING RENT)

(Base: August, 1939 = 100)

Table 40

	GROUP									
MONTH	Food, Drink and Tobacco	Clothing and Footwear	Household	Domestic Servants Wages	Transport	Pharmaceutical Products	Amusements	Papers and Periodicals	Miscellaneous	All Groups
1961—										
December	303	274	265	472	228	166	189	188	273	299
1962—										
December	320	276	272	509	242	186	191	206	275	315
1963—										
February	319	276	273	516	242	185	193	206	277	315
June	318	278	269	511	248	187	196	206	289	316
December	319	280	268	511	250	188	197	206	297	317
1964—										
February	328	280	267	511	250	191	198	206	297	321
April	329	281	266	512	251	192	198	206	297	321
June	328	281	270	514	252	191	204	206	297	322
August	329	282	271	519	254	192	204	206	298	323
October	329	283	271	525	255	193	204	206	298	324
December	329	285	271	520	255	193	204	206	302	324
1965—										
February	335	286	271	524	260	195	205	206	304	328
April	334	286	272	527	261	195	205	206	304	329

28. The Middle Income Consumers' Index (base July 1964 = 100) has been maintained for too short a period to be of much use for economic assessment but the first nine months of this index are set out below to inaugurate the series for future use. Higher prices for maize, beef, clothing and petrol were the main cause of the slight rise in the index since July.

NAIROBI MIDDLE INCOME INDEX OF CONSUMER PRICES

(Base: July 1964 = 100)

Table 41

MONTH	GROUP										
	Food	Beverages and Tobacco	Clothing and Footwear	Fuel, Light and Water	Household Operation	Furniture and Utensils	Personal Care and Health	Recreation & Entertainment	Transport and Travel	Miscellaneous	All Groups
1964—											
August	99	100	100	100	100	100	100	100	100	100	100.5
September	100	100	100	99	100	100	100	100	100	100	100.8
October	100	100	100	100	100	100	100	100	100	100	100.8
November	100	100	100	99	100	100	100	100	100	100	100.9
December	100	100	100	99	100	100	100	100	100	100	101.0
1965—											
January	104	100	100	97	100	100	100	100	100	100	102.8
February	102	100	100	96	99	100	100	100	103	100	101.8
March	101	100	100	98	99	100	100	100	103	100	101.6
April	101	103	100	100	99	100	100	100	103	100	102.2

CHAPTER 7—PUBLIC FINANCE

This chapter outlines the course of Central Government expenditure over the five financial years ending 1964/65 as a background to 1965/66 Budget proposals. The trend of revenue receipts are reviewed over a longer period.

2. The totals of revenue and expenditure as set out in this chapter differ from the totals in the Government Appropriations Accounts for reasons which have been explained in the previous issues of the Economic Survey. As usual, one of the main causes for these differences is the division of the Budget into a Recurrent Account and a Development Account—the latter covering expenditure which is mostly met from loan moneys and grants, although certain development activities are carried out as part of the regular services of the Ministries, financed by a transfer of funds from Development to Recurrent Account. At the same time, there are also other internal accounting transfers, the inclusion of which would lead to double counting and cause the real trend in Government expenditure to be obscured. All such transfers have, therefore, been eliminated from the figures in the following tables. It should

also be noted that both revenue and expenditure are given here gross of collection costs of income tax and customs and excise taxes, and appropriations-in-aid (in the main, fees for services collected by departments and appropriated with Parliamentary approval to their own use) instead of net as voted in the Budget.

3. There are also two new reasons for the differences. Firstly, all regional expenditures incurred in 1963/64 have been included in the Central Government expenditure, so as to maintain comparability with previous years, since the fiscal autonomy of the regions was terminated as from January 1965 and regional expenditure which has been no more than a temporary feature of public expenditure, will cease to appear at all in public accounts as from 1965/66. However, the total expenditure figures shown for 1964/65 in this chapter include only that part of the regional expenditure which was met from the revenue provided by Central Government. It, therefore, excludes expenditure incurred by the regions from their own sources of revenue. This expenditure is very small compared to the total Central Government expenditure. Thus in 1963/64 the total regional expenditure amounted to £4.58 million, of which £3.81 million was incurred out of transfers of revenue from Central Government and £0.76 million out of the regions' own sources of revenue. In 1964/65 transfers from Central Government to regional authorities are estimated to be £3.28 million.

4. Secondly, unlike the procedure followed in the Economic Survey, 1964. all compensation payments to departing expatriate civil servants, including that part financed by the British Government, have been included with Central Government expenditure and revenue to give a complete picture of the total Central Government budget. Those parts financed by grants from the British Government under the Overseas Service Aid Scheme are, however, set out in Table 44 and can be subtracted from the Kenya Budget if required.

5. The expenditure of the last nine complete financial years along with the estimated expenditure for the current financial year is shown in Table 42 and analysed by broad groups of services in Table 43.

6. Total gross expenditure shows a rise of 19 per cent between 1962/63 and 1963/64 and a further increase of about 6 per cent between 1963/64 and 1964/65. It is particularly noticeable from Table 42 that after remaining steady at a little below 30 per cent of monetary G.P.D. the total expenditure of Central Government has increased to approximately 35 per cent of monetary gross domestic product, a level it has not reached since the State of Emergency in the early fifties. Much of the increased expenditure has, however, been balanced by increased grants and loans to the Government and it will be seen from Table 47 that taxes have taken a smaller proportion of gross domestic product in the last two years.

GROSS CENTRAL GOVERNMENT EXPENDITURE, 1955/56-1964/65

Table 42 £ million

	Recurrent Account	Development Account	Total	Percentage of Monetary GDP.
1955/56	39.90	7.12	47.02	34.9
1956/57	37.99	8.27	46.26	31 .9
1957/58	38.47	5.98	44.45	28.8
1958/59	38.09	8.02	46.11	29.6
1959/60	38.25	8.11	46.36	28.7
1960/61	43.26	7.68	50.94	29.1
1961/62	45.56	7 16	52.72	29.8
1962/63	48.27	9.40	57.67	31.9
1963/64	54.42	1408	68.50	35.6
1964/65 (Estimates)	56.78	15.98	72.76*	34.8

*Excluding Regional Fund Expenditure.

7. The sharp increase in recurrent expenditure in 1963/64 was mainly confined to pensions and gratuities and compensation payments—which occurred as a result of the departure of expatriate civil servants. These expenditures reached a peak in 1963/64 and can be expected to decline in 1964/65, after which they should return to a more normal level. A large proportion of the increased expenditure on compensation (and pensions and gratuities) in both 1963/64 and 1964/65 has been met by the British Government under the Overseas Service Aid Scheme. Furthermore, part of Kenya's share of these expenditures is being met from loan funds provided by the British Government and not from tax revenues. All the expenditure incurred by the British Government under the O.S.A.S., which also meets other allowances for expatriate officers, has been included in the total expenditure as shown in Tables 42 and 43 and a detailed breakdown of this expenditure is set out in Table 44.

8. The cost of financial obligations also increased in 1963/64 as a result of Kenya, on Independence, becoming a member of the number of international financial institutions such as the World Bank and the International Monetary Fund. Independence, falling in 1963/64, caused a number of other increases in recurrent expenditure such as £1 million increase in defence costs. This expenditure is expected to go up by another £2 million in 1964/65. Prior to Independence defence expenditure was in the main met by the British Government, but since December 1963 this has become a Kenya Government responsibility entirely.

RECURRENT AND DEVELOPMENT EXPENDITURE ON MAIN SERVICES, 1960/61-1964/65

Table 43 £million

	1960/61	1961/62	1962/63	1963/64	1964/65 Estimates
GENERAL SERVICES—					
Administration	3 05	2.95	3.31	3.84	4.59
Law and Order	8.88	8.31	8.22	8.17	8.15
Defence	0.33	0.31	0.19	1.18	3.00
Revenue collection and financial control	1.52	1.55	1.59	1.46	1.52
Total	13.78	13.12	13.31	14.65	17.26
FINANCIAL OBLIGATIONS—					
Public Debt	3.41	4.15	4.66	5.21	5.77
Subscriptions to International Monetary Organizations	–	–	–	1.05	–
Pensions and Gratuities	1.54	1.83	2.59	4.41	3.93
Compensation Payments	–	0.26	1.19	5.59	3.73
Passages and Leave Expenses	0.66	0.89	0.82	0.92	0.74
Transfers to Local Authorities	1.36	1.53	1.53	0.92	2.30
Total	6.97	8.66	10.79	18.10	16.47
ECONOMIC AND COMMUNITY SERVICES—					
Agriculture and Veterinary	6 04	6.81	10.53	13.46	14.36
Forestry	0.91	0.84	0.88	0.92	1.18
Game and National Parks	0.33	0.32	0.34	0.35	0.54
Transport	3.65	3.90	3.75	3.83	3.88
Other, including Water Supplies	2 10	1.77	1/72	2.09	2.85
Total	13.03	13.65	17.22	20.64	22.81
SOCIAL SERVICES—					
Education	8.10	8.59	8.35	7.75	7.43
Health	3.43	3.42	3.41	3 06	3.09
Other	1.67	1.92	1.50	111	2.34
Total	13.20	13.94	13.26	11.92	12.86
UNALLOCABLE	3.97	3.35	3.09	3.19	3.36
TOTAL EXPENDITURE	50.94	52.72	57.67	68.50	72.76

OVERSEAS SERVICE AID SCHEME—PAYMENTS FROM CONSOLIDATED FUNDS

Table 44 £'000

	1960/61	1961/62	1962/63	1963/64	1964/65 Estimates
Overseas Addition	496	2,002	1,825	1,456	1,590
Education Allowance..	12	109	134	109	74
Pensions and Gratuities	3	33	71	262	240
Compensation	–	129	824	2,782	1,804
Passages	83	397	350	349	235
TOTAL	593	2.670	3,204	4.958	3,943

9. On the Development side most of the increase in 1963/64 was confined to agriculture whose share of the total expenditure increased from 16 per cent in 1962/63 to 18 per cent in 1963/64. Of the net increase of £2.81 million on agriculture in 1963/64, Development expenditure accounted for an increase of £4.31 million, but Recurrent expenditure decreased by £1.5 million as a result of certain items of expenditure not being repeated in 1963/64. The increase in Development expenditure on the other hand in 1963/64 was mainly confined to Land Settlement, the cost of which increased by about £3.6 million to £7.4 million. £1.9 million of this increase was accounted for by increased expenditure on the purchase of agricultural properties, the cost of which moved up to £3.26 million—58 per cent of total cost of Settlement in the year. The remaining part was spent on the administration of Settlement and the general development of settlement farms. The cost of Settlement will rise to £7.7 million in 1964/65, of which £4.3 million will be represented by the cost of agricultural properties purchased during the year.

10. Apart from these major changes in expenditure in 1963/64, other minor increases are of interest. The cost of administration, following the reorganization of Government which increased the expenditure on regional and local administrations and foreign embassies abroad, has gone up and this trend has been carried on into 1964/65—the foreign service costs will rise from £0.1 million in 1963/64 to £0.6 million in 1964/65. Public debt obligations are increasing steadily and even with the present level of debt will rise further throughout the current decade. The most immediate public debt commitment facing the Government is the redemption or conversion of £3.34 million of local stock, falling due in 1965/66. The growth of Kenya public debt and its cost over the last ten years is of particular interest and is set out in Table 45 below. Table 45 sets out the total annual cost of debt servicing and also the net cost after account is taken of interest receipts and loan repayments made to Government by persons and bodies to whom Government has re-lent loan moneys received. Loans to settlement farmers and the Industrial Development Corporation are examples of this.

KENYA GOVERNMENT PUBLIC DEBT

Table 45 £'000

Year as at 30th June	Total Debt			Total Sinking Fund at Market Value	Annual Debt Servicing Charges	Interest and Loan Repay-ments Receipts	Net Cost of Servicing Charges
	External	Internal	Total				
1955	32,454	6,595	39,048	2,693	1,552	665	887
1956	37,980	9,125	47,104	3,198	1,751	518	1,233
1957	38.627	11,620	50,247	3,236	2,087	694	1,393
1958	40,642	13,864	54,506	3,745	2.447	1,240	1,207
1959	39,811	17,609	57,420	4,392	2,598	1,133	1,465
1960	44,470	18,426	62,896	4,716	2,832	1,505	1,327
1961	51,742	17,430	69,171	5,232	3,395	1,753	1,642
1962	57,735	17,701	75,436	5,284	4,140	1,831	2,309
1963	65,410	17,581	82,991	6,666	4,661	2,035	2,626
1964	68,514	17,600	86,114	7,881	5,203	2,413	2,790

11. As compared to the general increase in Central Government expenditure discussed so far. expenditure on social services declined during 1963/64—a trend that was first established in 1962/63. This decline is confined to education and health services and can be attributed to the transfer of a substantial part of those services to local authorities and does not represent any actual reductions in the services overall. It is reflected in part in an increase of

GROSS RECEIPTS ON RECURRENT ACCOUNT, 1960/61-1964/65

Table 46 £ million

	1960/61	1961/62	1962/63	1963/64	1964/65 Forecast
Taxation	28.57	30.98	34.92	36.77	38.12
Interest and repayment of loans	1.50	1 .75	1 .83	2.03	2.41
Charges for goods and services	4.73	4.62	4.56	4.54	4.41
Reimbursement from other administrations	0.74	112	1.28	1 .45	1 .94
Miscellaneous*	1 .52	I.35	1.72	2.18	1.85
TOTAL	37.06	39.82	44.31	46.97	48.73
Assistance from U.K.—					
Grants under Overseas Service Aid Scheme	1 .55	2.40	1.56	4.53	3.12
Other Grants	2.75	2.55	1.09	0.57	1 .35
Loans	–	–	0.25	3.87	0.73
TOTAL	4.30	4.95	2.90	8.97	5.20
TOTAL RECEIPTS	41.36	44.77	47.21	55.94	53.93

*Includes currency board surplus, fines, withdrawals from renewal funds, etc.

+ Includes currency board grant of £1.19 million for subscriptions to International Financia Organizations.

almost £1.4 million in transfers from Central Government to local and provincial authorities in 1964/65. In fact, if the expenditure by local authorities on education and health is taken into account the total expenditure on these services will show an increase.

12. Table 46 sets out the sources of revenue for recurrent expenditure. Taxation which has been analysed separately in Table 47 remains the principal source. However, in the last two years, taxation has also made a small contribution to revenue for Development expenditure as half of the yield on the sisal and coffee export taxes and all the revenue from estate duties are earmarked for this. Income tax and import and excise duties make the major contribution to the total revenue from taxation. Income tax has maintained its steady rate of growth, closely following the growth rate of monetary gross domestic product over the last few years. Import duty receipts, however, have fallen slightly in 1963/64 with a decline in net home consumption of imports. The forecasts, however, for import duties in 1964/65 show a reversal of this trend with higher rates of duty and rising imports. Excise duties have maintained a steady increase throughout 1963/64 and 1964/65 with rising consumption and, in the case of cigarettes and tobacco, higher rates.

GROSS REVENUE FROM TAXATION FOR RECURRENT EXPENDITURE, 1957/58-1964/65

Table 47 *£ million*

	1957/1958	1958/1959	1959/1960	1960/1961	1961/1962	1962/1963	1963/1964	1964/1965 Forecast
DIRECT TAXATION—								
Income Tax	11.29	11.33	10.41	9.97	10.30	11.12	13.23	13.64
Graduated Personal Tax	2.22	2.17	1.94	1.82	1.69	1.26	0.15	—
Estate duties	0.26	0.25	0.09	—	0.10	0.03	—	—
Export duties	—	—	—	—	—	0.01	—	0.30
Total	13.77	13.74	12.44	11.80	12.09	12.42	13.38	13.94
INDIRECT TAXATION—								
Import duties	8.11	9.54	10.66	10.00	11.71	13.76	13.67	14.30
Excise duties	2.94	3.16	3.25	3.59	3.86	5.44	6.02	7.00
Stamp duties	0.60	0.58	0.66	0.54	0.54	0.52	0.78	0 70
Petrol and diesel tax	0.51	0.50	0.57	0.93	1.07	1.07	1.07	1.00
Licences and Fees under the Traffic Act	0.73	0.78	0.82	0.76	0.80	0.86	0 80	0.42
Taxes and licences, n.e.s.	0.62	0.62	0.64	0.67	0.71	0.65	0.84	0.54
Land premia and taxes	0.15	0.10	008	0.05	0.05	0.03	0 03	0.08
Royalties	0.29	0.22	0.23	0.22	0.15	0.16	0.15	0.15
Total	13.96	15.50	16 90	16.77	18.90	22.50	23.39	24.19
TOTAL—(TAXES AND LICENCES)	27.73	29.25	29.34	28.57	30.98	34.92	36.77	38.12
Per cent of total taxation to Gross Domestic Product (Monetary Sector)	18.0%	18.8%	18.1%	16.3%	17.5%	19.3%	191%	18.2%
Percentage contribution of:								
Direct taxes	50	47	42	41	39	36	36	37
Indirect taxes	50	53	58	59	61	64	64	63

13. The percentage contribution of direct taxes and indirect taxes to total taxation in 1963/64 remained steady at 36 per cent and 64 per cent respectively. Very little change in these proportions is expected in 1964/65. Total taxation as a percentage of monetary gross domestic product has declined to 19.1 per cent in 1963/64 compared to 19.3 per cent in 1962/63 and is expected to drop further to 18.4 per cent in 1964/65. Thus, despite increased revenue from taxation and in number of cases increased rates of tax the Government is not taking a greater share of domestic product. It should, however, be noted that Graduated Personal Tax is now received by local authorities rather than by Central Government as hitherto and this is not taken into account. The total receipts by local authorities from Graduated Personal Tax are estimated to be around £4.3 million in 1964.

14. Tax receipts, however, contributed only about 67 per cent of the total Recurrent expenditure of Government in 1963/64 and the same is expected in 1964/65. Other internal sources of revenue made a contribution of £10.2 million in 1963/64 and £10.6 million in 1964/65, details of which are given in Table 46. The deficit in the recurrent expenditure and local revenue has been made up by grants and loans by the British Government. The grants total includes those made under the Overseas Service Aid Scheme, mentioned earlier in this chapter. In addition, 1964/65 includes a special and extraordinary £1.25 million grant made by the British Government for other recurrent expenditure. The loans shown as recurrent revenues consist mainly of interest-free loans made to ease the payment of the Government's share of compensation and gratuities and pension payments to expatriate officers. However, as mentioned earlier, O.S.A.S. and loans for compensation and pensions and gratuity payments reached their peak in 1963/64 and will now decline.

15. However, it is in the Development exchequer that the overseas contribution to revenue is most significant. In 1963/64 out of a total development revenue of £13.26 million, as shown in Table 48, local sources accounted for only £1.65 million or 12 per cent of the total. This however does not include a surplus of £1.5 million on the Recurrent Account, which was transferred to Development Account. In the current year, local sources are estimated to provide £2.18 million or 12 per cent of the total development revenue of £16.83 million, excluding a transfer of £1 million from Recurrent Account to Development Account. The remainder is obtained from external sources of which Britain still remains by far the major contributor. The British contribution to total development receipts in 1963/64 is £10.27 million and £11.55 million in 1964/65, about 73 per cent of the total development expenditure in each year. However, other external sources of revenue are beginning to become important and among these West Germany and I.B.R.D. are the two sources that have made a notable contribution.

DEVELOPMENT REVENUE ACCOUNT, 1958/59-1964/65

Table 48 £million

	1959/60	1960/61	1961/62	1962/63	1963/64	1964/65 Estimates
EXTERNAL SOURCES—						
Grants:						
U.K. Government	—	—	—	—	0.51	4.03
C D. & W./D.T.C.	0.84	1.57	2.27	3.74	3.90	0.07
Peoples Republic of China	–	–	–	–	–	0.80
A.I D. and Other	0.20	0 05	0.14	0.22	0.33	0.30
Loans:						
U.K. Exchequer	3 0 0	5.33	4.45	5.39	5.86	7.45
I.B.R.D.	—	0.39	0.69	0.64	0.27	0.36
West Germany	–	–	–	0.68	0.73	1.01
Others raised abroad	0.37	0.40	0 1 6	0.03	—	0.54
INTERNAL SOURCES—						
Grants:						
Local grants	–	–	–	–	0 0 7	0.08
Loans:						
Local Market Issues	1.75	0.30	0.29			0.53
Other East African Loans	0 41	0 1 0	0 0 7	–	0 0 3	0.10
MISCELLANEOUS OTHER—						
Taxation	–	0 0 6	0 0 5	–	0.32	0.45
Development Project Earnings	0.24	0 1 7	0.16	0.21	0.23	0.29
Others	0.76	0.80	0.98	0.48	1 00	0.83
TOTAL REVENUE	7.57	9 1 8	9.26	11 40	13.26	16.83

16. Finally, mention should be made of various technical assistance programmes from which Kenya derives considerable benefit but which are not accounted for in public accounts. Because of this last fact, it is difficult to evaluate the services received in the form of valuable high level manpower and equipment under technical assistance programmes but United Nations contributed approximately £700.000 in this form in 1963 and £800.000 in 1964. At the same time the Ford Foundation contributed possibly £200.000 in the form of manpower and equipment in both years. These two sources account for the majority of technical assistance received in this form.

CHAPTER 8—CAPITAL FORMATION

1. The level of investment in 1964 showed distinct signs of improvement in response to Government's efforts to encourage a higher level, particularly in the private sector. If the absolute improvement yet appears relatively modest, it must be remembered that investment takes time to get underway, and in the early part of 1964 the turn of political events and uncertainties

regarding the future of the E.A. Common Market caused some potential investors to hold back. Preliminary estimates of capital formation in 1964 are given in Table 49 and include investment in building, construction and works e.g. roads, motor vehicles, machinery, etc. These estimates do not include any value for building work undertaken in the rural sector outside of large. scale agriculture and settlement and, therefore, neither cover the substantial improvements being made to the standard of rural housing nor self.help building projects in the shape of schools and hospitals which have started to contribute significantly to overall capital formation.

GROSS FIXED CAPITAL FORMATION, 1960-1964

Table 49 £ million

	1960	1961	1962	1963	1964
PUBLIC SECTOR—					
Kenya Government	8.1	7.2	6.9	5.0	5.9
E.A.C.S.O. (including Trading Services)	2.2	2.2	2.2	2 1	2.7
Local Authorities	3.0	3.2	3.2	2.5	1.2
Military	1.2	1.8	0.5	0.2	–
Total	14.4	14.5	12.8	9.8	9.8
PRIVATE SECTOR—					
Agriculture	5.4	4.6	3.6	4.3	4.4
Oil Refinery Construction	–	–	2.5	1 0	0.7
Other	21.6	12.9	14.4	15.3	17.9
Total	27.0	17.4	20.5	20.6	23.0
PUBLIC AND PRIVATE—TOTAL	41.4	31 .9	33.3	30.4	32.8

*Provisional.

2. It will be seen that the 1964 total is up by million to much the same level as 1962. Of more importance is the rise of 12 per cent in private sector investment, bringing it to within striking distance of the 1958.60 level. The improvement since the early sixties is the more impressive when the size of the oil refinery, which was being build at that time, and the sluggish behaviour of agricultural investment is considered. Excluding these items, the rise in private investment will be seen to be the largest in recent years and three times last year's increase. Investment in agriculture improved in 1963 and this higher level was maintained in 1964. The division between the different types of private investment are considered in Table 50.

3. In the private sector, excluding agriculture, it will be seen that the reason why the 1964 figure is less than that of 1960 is that the fall was mainly in non.productive investment, such as dwellings and motor cars, and that

GROSS CAPITAL FORMATION IN THE PRIVATE SECTOR, 1960-1964

Table 50 £ million

	1960	1961	1962	1963	1964*
AGRICULTURE—					
Buildings	1.3	1 0	0.7	0.7	0.7
Construction	2.3	2 0	1.6	2.1	2.2
Vehicles, machinery and other equipment	1.8	1.6	1.4	1.5	1.5
Total	5.4	4.6	3.6	4.3	4.4
REST OF PRIVATE SECTOR—					
Residential buildings	3.4	0.7	0.5	0.8	0.7
Non.residential buildings	3.2	1.6	1.7	1.3	3.1
Construction	0.8	0.5	3.5	1.5	0.6
Cars	5 1	2.9	3.6	4.1	4.1
Commercial vehicles	2.4	1.5	1.6	2.7	3.1
Aircraft	1.4	–	0.5	0.1	0.2
Machinery and other equipment	5.4	5.7	5.4	6.0	6.8
Total	21.6	12.9	16.9	16.3	18.6
PRIVATE SECTOR—TOTAL	27.0	17.4	20.5	20.6	23.0

*Provisional.

investment in "machinery and other equipment" and in commercial vehicles was well up on the 1960 total. Investment in "non-residential buildings" i.e. hotels, offices, factories, etc. was at much the same level as in 1960. Indeed, non.agricultural private investment, excluding the non productive sectors of residential buildings and motor cars, was not only 21 per cent higher in 1964 than in 1963 but higher than for any year since 1957. Even if some allowance were made for the likely rise in prices, the 1960 total is the only one in the five year period which approaches that of 1964. It may confidently be stated, therefore, that the tide has turned and that with several large projects under way or scheduled to proceed in the near future, productive investment will expand further. With regard to consumers' investment in dwelling and cars, it is quite probable that the pattern of demand has changed with the decline in the European wage bill and with a tendency for employers to be less willing to provide employee housing within normal terms of service. While it would be untrue to suggest that private residential building is not at a low ebb, it may well be that the level of five years ago is no longer a valid standard for comparison, since the enforcement of a free choice in housing expenditure has caused employees to readjust their ideas of a reasonable standard of housing. Perhaps more important, the departure of British troops caused a considerable number of houses to come on to the market and reduce the immediate pressure of demand. It was significant that the houses did not cause any substantial reduction in house rents and normal population growth is likely to create renewed pressure for new house building.

4. Apart from the low level of investment in private dwellings, the reason why the aggregate figure for capital investment was no higher is to be found in the fact that 1964 investment by the public sector was virtually the same as in 1963 and this level is well below that of preceding years (*see* Table 49). However, investment by the Central Government was higher than in 1963, which reversed the decline of the previous three years. E.A.C.S.O. investment also increased with new railway rolling stock purchases. The failure of the total for the public sector to record an increase was due to a 50 per cent drop in local authorities capital expenditure—a fall of £1 1/4 million. This can largely be explained by the completion, or near completion, of many of the local authorities scheduled building and construction projects, together with some delay in embarking on new projects over the period of reorganization of local government in the country. In the current year, Nairobi City Council has a capital programme of £1.25 million, with £9.5 million to be spent over the next seven years. And whilst Nairobi is, of course, by far the most important individual contributor to the capital expenditure by local government, in aggregate the remaining authorities are also important. To a large extent the ability of these authorities to undertake the work required will depend on their being able to establish a sound overall financial position.

5. As well as judging the amount of investment by comparison with the past, it must nowadays be compared with the level required to fulfil the planned rate of growth of the economy. In the Development Plan it was estimated that over the period 1964.70 an average annual capital expenditure of £53 million would be needed—so the total for 1964 is £20 million short. However, as policies can be expected to have a cumulative effect, and because with an expanding economy capital formation in the early years of the Plan will naturally be less than the six year average, the position is not as might appear at first sight. Investment by the public sector was £5.5 million less than the average annual rate envisaged over the Plan period but this can be attributed entirely to the problem of timing, since the total planned expenditure of this sector is substantially within the capacity of Government to control and should, therefore, be achieved. Starting from the figure of £33.3 million, to average £53 million an average annual increase of 18.5 per cent is required. Whilst high, this is not impracticable— as already pointed out the increase in 1964 for the "productive" types of investment was 21 per cent—in view of the number of new projects coming forward. These were detailed in Chapter 4, page 37. but the biggest are the Tana River Hydro. Electric Development Scheme, textile mills at Mombasa, Thika and Kisumu. sugar factories, the re-equipment of E.A. Airways with VC 10's and the probable plans for railway modernization.

CHAPTER 9—MANPOWER

Population and Migration

In inter censal years the population must be estimated and the most important factor in this calculation is the much quoted annual rate of growth in Kenya of 3 per cent. This raised the total population by approximately a quarter of a million in 1964 to bring it to 9,104,000 at the 30th June 1964.

2. The non-African section of the population is only 3 per cent of the total and as their natural rate of increase is less than that of the African section, and they can be expected to experience a net loss through migration, this proportion can be expected to decline. Certainly for the first time since 1945 and perhaps for much longer, this was the case in 1964. Firstly there was a sizeable fall in the European community due to emigration and the departure of the British forces and their families. By the end of the year the European population is estimated to have been about 40,000 compared with 53,000 18 months earlier and a peak of around 60,000 in 1959/60. Most of the decline was due to the forces departure and civilian emigration was actually lower than in 1963 or 1962. European civil immigration was also down, but not by so much as civil emigration so the net loss through migration also fell a little.

3. Secondly, the Asian population also experienced a net loss through migration with emigrants at a record high, and immigrants at a record low. In comparison with the total population this loss was however fairly small, and less than the natural increase, so that the total Asian population rose by a little under 2 per cent to 183,000 in mid 1964. It is, however, thought that many persons who recorded themselves as temporary emigrants when leaving Kenya have failed to return, so that the actual European and Asian population may well be less than the estimates.

PERMANENT IMMIGRATION AND EMIGRATION OF CIVIL POPULATION

Table 51 *Numbers*

	EUROPEANS		ASIANS AND ARABS	
	Immigration	Emigration	Immigration	Emigration
1960	3,628	3,813	2,801	2,130
1961	3,204	6,052	2,282	2,529
1962	3,956	8,379	2,177	1.922
1963	3,789	8,107	2,348	1,675
1964	3,500	6,677	1,666	2,944

Manpower Shortages

4. The rapid population growth has created a surplus of unskilled and untrained manpower in the country but at the same time numerous vacancies exist which cannot be filled due to a shortage of highly trained and educated workers. It must also be expected that economic development will create a further demand for high and middle level manpower but shortages in some high level occupations are, and will be, more critical than others. In order to identify and evaluate these shortages and to devise methods to overcome them, the Government has carried out a manpower survey covering high and middle level manpower needs which has now been completed. The survey covered the following occupational categories: —

Category A — those occupations requiring university or higher education;

Category B — professional occupations in which a university degree is not mandatory;

Category C —s killed technicians and clerical workers needing secondary or trade school education; and

Category D — qualified artisans.

COMPOSITION OF KENYA'S NON-AGRICULTURAL EMPLOYMENT (EXCLUDING DOMESTIC SERVICES)

Table 52

CATEGORY	1964 Actual	1970 (Estimated)	% Increase
	Numbers	Numbers	
A. Professional and to Management	6,300	10,000	58.8
B. Technical and Semi.Professional	12,800	31.200	143.6
C. Skilled Office and Middle and Lower Management	32,000	41,300	29.0
D. Skilled Manual	17,900	25,000	39.8
semi-skilled and Unskilled	265,800	317,800	19.6
TOTAL	334.800	425.300	27.0

5. By the end of the first Plan period, 1970, the nation's supply of category A people with at least university education will be almost sufficient in aggregate to meet minimum needs. On the other hand, the composition of the expected supply is likely to be quite uneven and serious shortages in certain areas are anticipated. Similarly, on the basis of present growth estimates, surpluses in other occupations requiring university education or advanced training may be experienced. The minimum gross need for university trained personnel to replace current expatriate and normal growth requirements may amount to 5,600 by 1970 and it seems that approximately 4,600 graduates will become available over the period. Most of these are expected from universities and colleges overseas—particularly from the United

States, U.K. and Eastern Europe but 1,600 will be educated in the three university colleges in East Africa and local higher teacher training institutions. Overall, the aggregates of demand and supply of university trained people up to 1970 very nearly balance but major shortages will exist for doctors, nearly 300; mechanical and electrical engineers—over 100 each; surveyors, pharmacists, physical planners and veterinarians. Well-educated manpower may be wasted because of the nature of their studies; for instance, surpluses are likely to occur in such fields as: B.A. general, biology, agriculture, chemistry.

6. An overall shortage of about 4,000 people or 18 per cent is likely to exist in Category B by 1970. Solutions to this shortage may take the form of employing less-qualified personnel or spreading the work to the existing staff, or even introducing better (more productive) methods. Major shortages of fully qualified people in this category will include: primary school teachers—3.000 (at the minimum); nurses—400 (although the establishment of the proposed school of nursing may reduce the pressure here substantially); non-certified accountants—300; draughtsmen—200; engineering technicians and laboratory technicians—100; aircraft pilots and flight engineers.

7. Probably the most serious shortage revealed by the survey is expected in Category C, the skilled technicians and office workers. The total requirement is estimated to be as high as 18,000 for skilled office workers alone and another 7,000 for skilled technicians by 1970. Outstanding shortages are expected in—

(a) Stenographers and Secretaries	1,500
(b) Book-keepers and Cashiers	2,400
(c) Trained Mechanics (Motor)	1,400
(d) Executive Officers, Government	3,000
(*e*) Telephone and Telegraph Operators	500

8. In category D—skilled artisans such as painters, carpenters, tailors, etc.— shortages will also exist, although of less serious magnitude than in Category C. The need for these people will be much greater than the present and anticipated sources of supply. Gross demand of approximately 3,000 artisans is estimated in six years compared with the meagre 1,250 trained artisans likely to be available to the economy during th same period.

Education

9. The first step to overcome manpower shortages is to increase basic facilities, so that children are not prevented from taking up opportunities for specialized training through lack of minimum educational qualifications. But the need for a programme for universal education is also to ensure that everyone will be able to play their part as citizens more fully in building the new nation. A wide variety of educational methods will be used in fulfilling these

needs, as are described in the Development Plan, but so far as school facilities are concerned their rate of expansion accelerated in 1964. The reduction in the number of primary schools suggested by Table 53 represent in fact no more than an amalgamation of a number of primary and intermediate schools in 1963 and 1964.

NUMBERS OF SCHOOLS AND PUPILS IN KENYA, 1955-1964

Table 53 *Numbers*

YEAR	SECONDARY		PRIMARY	
	Schools	Pupils	Schools	Pupils
1955	51	9,997	3,588	432,678
1956	55	10.856	3.680	486,937
1957	62	11,265	4,064	547,989
1958	78	15,142	4,691	651,758
1959	94	17,950	4,876	719,510
1960	91	19.445	5,206	781,295
1961	104	21,369	5,725	870,448
1962	141	25,903	6,198*	935,766
1963	150	31,120	6,058*	891,553
1964	222	35,921	5,150*	1,014,719

*1962,1963 and 1964 figures are not comparable with each other or with earlier years owing to the amalgamation of some schools in these years.

10. In secondary schools the increase in the number of pupils was one of 15 per cent which was assisted by a doubling in the number of known "unaided" secondary schools. The target rate of increase, 18 per cent in Form 5 enrolments, was achieved, although there are still only between 800 and 900 pupils in this grade. In the primary schools an increase of 14 per cent more than made up for the decline in the previous year.

CHAPTER 10—THE OUTLOOK FOR 1965

The Managing Director of the International Monetary Fund recently commented that the world economy "is entering a more difficult phase in which the economies of the developing countries will be particularly under pressure". There is likely to be a slower rate of growth in industrial countries outside North America and Japan and the turn of world economic events in 1965 will depend to a large extent on whether the efforts of some of the major industrial countries to control upwards pressures on domestic costs and prices, and consequent balance of payments difficulties, is offset by the continuing expansionary influence of others. On the whole, the world outlook is not very good either for primary commodities or more extensive overseas investment.

2. As far as Kenya is concerned, it is most unlikely that the increase of gross domestic product for 1965 will be as high as 1963 and 1964. Last year production and price influences in agriculture moved in Kenya's favour: the opposite is likely to be the case in 1965. Coffee prices should be much the same as last year—perhaps a little less—and production should be up by 1.500 tons, increasing total coffee income by about £0.5 million. But a substantial cut in 1965 income will be caused by lower prices for sisal and, probably, a rather lower level of production in response to these prices; income from this crop may be reduced by as much as £3 million. Dairy production is likely to be down, partly due to a reduction in the number of productive animals and partly due to below average rainfall in the first quarter of the year. The numbers of cattle and sheep for slaughter may also be down. On a more optimistic note, tea production has been reduced by the recent spell of dry weather but provided rainfall is normal through the year as a whole, production should be up on 1964 and prices are reasonably firm. Pyrethrum production should record some recovery and cotton output should respond to the current production drive, backed by credit facilities for ploughing and insecticides. Overall, agricultural income is likely to be reduced by about £1.5 million or 3 per cent.

3. All of the cut in agricultural income overall—and more—is expected to fall on the large farm sector: forecast income for 1964 being nearly £4 million or 10 per cent down. The small farm sector is expected to expand its coffee production and increase its gross income by a £2 million or 16 per cent. Production in the non-recorded (subsistence) sector should be fully maintained and the normal rate of expansion is forecast. But all these forecasts of agricultural income depend upon the country receiving at least a near average amount of rain.

4. Manufacturing should have another quite good year in spite of the effect of the Kampala Agreement on the tobacco and beer industries. New factories are expected to come into production but there will not be the impetus given to growth in 1964 by the new oil refinery. The product of manufacturing is forecast at 4 per cent higher. Construction should show a more marked improvement in 1965 with increased building work and the intensification of work on the Kindaruma Scheme. Other sectors of private industry and commerce are expected to have a good year, but rather less rapid growth than in 1964 is forecast.

5. Income from tourism should show a further rise after a steady year in 1964 and the growth target of 15 per cent may well be achieved. It is indeed important that tourism should have a good year as the full impact of the departure of British troops, whose expenditure had the same effect on the Kenya economy as tourist expenditure, will be felt in 1965. In 1964 the expenditure of British troops was in the region of £8 million per annum compared with 1964 tourist expenditure of £7 million; there remains a substantial gap to be made up.

6. In line with the slight fall in agricultural income, exports to countries outside East Africa are expected to show perhaps a slight drop, due to the cut in the value of sisal exports. Other commodities, notably coffee, tea and cotton are expected to attain higher values and may yet offset the lower sisal values. Interterritorial exports are, however, likely to show a rise of £2-3 million, with increased petroleum exports offsetting commodities affected by the Kampala Agreement. This will represent a further rise of 10 per cent.

7. Net imports are likely to continue the rise started in the last quarter of 1964 and overall may increase in value by 5 per cent. The arrival of the new VC 10 aircraft could increase this however. Imports from Uganda and Tanganyika may rise by as much as 20-25 per cent as the products of the new factories in those territories find markets in Kenya.

8. With a slightly wider trade gap and with income from British military expenditures largely eliminated some deterioration in the current account of the balance of payments must be expected.

9. Government expenditures, both central and local, will be as important as ever and both can be expected to rise. Central Government expenditure will increase, but perhaps not as sharply as in the last two years and its capital formation is likely to be much the same as in 1964. A further expansion of capital expenditure by Government will depend to a large extent on the success achieved in obtaining technical assistance and development loans and grants from abroad. The balance of payments difficulties of U.K. and U.S.A. are likely to limit their ability to assist while the high money rates now ruling in the world will tend to make loan money expensive. It is expected, however, that the Government's part of the Development Plan will gather momentum during the year. Local authorities can be expected to take a more active part in development than in the last two years and the Nairobi City Council in particular is anticipating on an expenditure of an additional £1 1/4 million as the first part of its own recently announced £9.5 million Development Plan over 7 years. The annual rate of investment achieved in 1965 will be a major factor in determining the extent of economic progress achieved. At the moment it seems that total gross capital formation worth £38 million may be undertaken during the year, of which £10-12 million may be building and construction work. This total, if achieved, would represent an improvement of 18 per cent on 1964.

10. The prospects for wage employment in 1965 are as difficult to forecast as ever. The purchase for settlement of additional large farms may reduce agricultural wage employment to some extent but as the present buying programme comes to an end, so should the fall in employment, particularly as in 1965 there should be some increased employment opportunities created by a higher level of pyrethrum production. Manufacturing activity should rise

but recent experience suggests that relatively few jobs will be created. Increased investment particularly where this involves construction work should increase demand for labour. Overall, it seems that the level of employment may rise by 5 per cent during the year.

11. When all factors above are taken into consideration, it seems unlikely that gross domestic product will rise by much more than 4 per cent in 1965. This will be less than the target rate of 6 per cent and barely more than is needed to maintain the per capita income in the country when the population is rising by over 3 per cent. But Kenya has just experienced two good years and so long as the progress of the economy is heavily dependent on the export prices received for primary commodities, and the effect of the weather and plant and animal diseases on agricultural production, it must be expected that there will be years in which the general trend of growth is interrupted and "flat" years are experienced. It seems probable that 1965 will be a year of relatively slower growth in terms of gross domestic product but a year of increasing capital investment

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