



REPUBLIC OF KENYA

ECONOMIC SURVEY
1967

Seven Shillings - 1967

ECONOMIC SURVEY, 1967

CHAPTER 1—GENERAL ECONOMY

External Economic Influences

The principal external factors influencing the world economy in 1966 were the persistence of balance of payments deficits in the main reserve centres and the effects of attempts by the United States and Britain to bring these deficits under control. World production, however, remained at a high level but the rate of growth was possibly slightly lower than that of 1965 which saw a 5 per cent expansion in the industrial countries overall. A lower rate of growth affected particularly the United States, Britain, Canada and Germany, although, on the other hand, France, Japan and Italy moved ahead at a faster rate than in the previous year and none of the major industrial economies failed to achieve some increase in production.

2. The balance of payments constraints—in the United States occasioned largely by the continuing conflict in Vietnam, and in Britain by the persistent trade imbalance and a massive short-term capital outflow following the seaman's strike last year—led to corrective policies based initially on high interest rates and physical controls rather than fiscal correctives. As a result of this, interest rates throughout the world were almost generally high and it was only in the last quarter of the year and the first quarter of the current year that concerted attempts were made to obtain a general lowering of money rates throughout the world.

3. As a result of the high level of world production, world trade also continued to be buoyant and expanded by perhaps 11 per cent in value. But, once again, as in previous years, trade in manufactures expanded at a faster rate than trade in primary commodities. At the same time, high money rates and import restrictions caused some run-down in stocks maintained in the industrial countries, and although the prices of primary commodities overall could be considered to be firm generally, the prices of a number of important commodities including coffee and sisal declined during the year. International discussions continued on the subject of the "Kennedy round" of tariff reductions and much progress has been made in the direction of a general lowering of customs tariffs on international trade. It is, however, not yet clear how much benefit this might bring to Kenya.

4. The balance of payments difficulties in the United States and Britain were also the cause of a more cautious attitude towards the granting of development aid. Although the absolute level of aid may not have been lower, there was a reduction of aid relative to the size of the total product in the industrial countries. Great difficulty has been experienced in securing the maintenance of the level of untied contributions to the International Development Association and the aid targets of the present development decade have fallen short of the hopes expressed in the early 1960's. These developments

have coincided with the discouragement of private capital outflows from the developed countries and it has become increasingly apparent that investment capital in the developing countries must, to a larger extent, be generated internally. The present trends of world production, development aid and private international investment can only lead to a widening in the gap in the standards of living of the rich and the poor countries, a matter of increasing concern to the long-term health and stability of the world economy.

5. The Kenya economy in 1966 was in various degrees influenced by all of these external factors, but this survey will show that although a number of exports were sold at lower prices on the world markets, total exports increased to a new record level in the year and national production as measured by Gross Domestic Product moved ahead at the best rate for some years. Although world money rates were high, Kenya was able to borrow funds for development mainly from its own local money market but also on a government-to-government basis and, although development aid on a world level was reduced, the Kenya Government was able to negotiate a higher level of aid. At the same time, the overseas private capital inflow was higher than for some years and there are indications that it may move yet higher.

6. All this does not mean that Kenya has succeeded in isolating itself from the rest of the world economy, for clearly this is not true, but the rising impetus of the Development Plan, the reputation of the investment climate in Kenya, and the strength and broad front of recent production advances have carried the economy forward in spite of external problems. The Kenya economy is, however, still heavily dependent on events outside its control and, perhaps, the point of most concern in the coming year will be not the availability of loans or aid but the trend of commodity prices.

The Growth of the Economy

7. It is possible to use a number of criteria in order to assess the progress of the economy, but the usual measure of the rate of economic development is the estimate of Gross Domestic Product. Estimates of domestic product are not, however, among those statistics which are a definitive measure to which there can be only one precise answer comparable to the number of oranges in a bag. It is, in fact, an aggregation of numerous data which vary substantially in order of precision. This is so in any economy whether highly developed statistically or whether relatively under-developed in this field as in Kenya.

8. Estimates of Gross Domestic Product for Kenya have been published on a comparable basis since 1954, but since that time there has been a significant increase in the availability of economic data with which to assess the size and structure of different industries. Some of these data have been used to improve the bases of the existing estimates of domestic product, but if the new data had continuously been incorporated into the annual calculations, comparability would have been lost between one year's statistics and the next and rates of growth would as a result have become meaningless. It was, therefore, neces-

sary to undertake a complete revision of the methods of estimating and aggregating different sectors and to publish a completely new set of (revised) figures. This survey includes such a new set of calculation for Kenya for the first time.

9. The new series cover the years 1963-66, but in order to assess the progress of the economy over a longer period and to compare the revised figures with the old, the latter are set out for a ten-year period as has been the practice in previous issues of the Economic Survey.

10. The revised calculations are noticeably different from the old ones. Firstly, as mentioned above, new economic data have been incorporated. Secondly, numerous changes have been made in the classification and sub-classification of enterprises in order to provide greater consistency in this and a more accurate assessment of the size of particular sectors. This has involved splitting a number of organizations, notably, perhaps, the East African Railways and Harbours, East African Posts and Telecommunications and East African Airways among different industries rather than allocating their activities entirely to one. Thirdly, efforts have been made to obtain a more comprehensive estimate of the size of the non-monetary sector. Finally, the opportunity has been taken to introduce greater consistency in methods and classifications on an international basis.

11. The new calculations* have two main advantages. Firstly, they make available a more accurate assessment of the size of the Kenya economy than has been available hitherto: average *per capita* income in 1966 was estimated to be K£38 as compared with K£33 on the basis of the old calculations. Secondly, a more consistent classification of industries should provide a more reliable guide to industry rates of growth. For this reason, discussion of the progress of the economy in this Economic Survey will be based on the new calculations. However, whether the old or new calculations of Gross Domestic Product are used for the assessment of economic progress in 1966, there is no disagreement between them that the year was one of very substantial advance—the best since any sort of calculation of Gross Domestic Product has been made in Kenya. Gross Domestic Product (at factor cost) rose by 10.5 per cent compared with 2.4 per cent in 1965 and 6.8 per cent in 1964. In part, the substantial increase last year reflected the fact that the economy returned to its "normal" growth trend after a relatively stagnant year in 1965 which had been adversely affected by dry weather. Good weather conditions for most of the year in nearly all areas meant that harvests were generally good, and the production of cash crops which were planted in previous years but retarded by the dry weather of 1965 came into bearing in 1966.

12. If the first three years* of the present Development Plan period are considered as a whole, the average rate of growth per annum has been 6.5 per cent at current prices, compared with a planned projection of 6.3 per cent

***A detailed description of the methods used in the new calculations together with subsidiary industry tables will be published as a separate document.**

per annum at constant prices. A complete constant price series of Gross Domestic Product has not yet been prepared for this period but such evidence of price changes as is available suggests that although a number of prices (of both outputs and inputs) have risen, others (mainly outputs) have fallen and the net effect of price changes over this period is probably small. The real rate of growth is therefore likely to have been close to the estimate of growth at current prices and it is fair to claim that in the first three years of the present plan period the economy has moved ahead at approximately the same rate as that projected in the Plan. This is true whether the economy is considered as a whole or whether the monetary and non-monetary sectors are considered separately.

13. The new calculations do not show that Kenya's heavy dependence on the prosperity of agriculture is any less than had previously been indicated by the old calculations. Indeed, the new calculations show the share of agriculture in total product to be approximately 35 per cent instead of 28 per cent in the old calculations. For some years yet to come, the course of the Kenya economy will depend in large measure on the agricultural product and this in turn will be influenced in large degree by weather and world market prices outside the ability of the Government or farmers to control. Economic forecasts for 1966 had indicated that there would be a substantial increase in agricultural income during the year and this was in fact realized. As mentioned above, the improvement in weather conditions in 1966 led to a substantial improvement in agricultural harvests and, in consequence, there was an increase in the product of the agricultural industry (including non-monetary agriculture) of 15.6 per cent. A detailed discussion of the basis of this improvement can be seen in Chapter 3. It is sufficient to say here that although there was a high level of income earned by nearly all crops and livestock products, the largest factor in this was a K£4.4 million increase in farmers' coffee receipts. The non-monetary sector was, however, influenced by a substantial improvement in the food situation in nearly all areas after the crops planted late in 1965 came to harvest.

14. Taking the period 1964/66 as a whole, the agricultural industry advanced by 3.1 per cent per annum. The growth rate of monetary agriculture was only 2.4 per cent, which was substantially lower than the 6.8 per cent projected in the Plan. It is, therefore, true to say that the planned rate of growth for the economy as a whole has been achieved in spite of the fact that agriculture has failed over the last three years to meet its target.

15. Clearly, other industries have been doing rather better than projected in the Plan and notable amongst these has been "manufacturing and repairing" which over the period 1964-66 moved ahead at an average rate of 11.8 per

***Growth rates for the first three years of the Plan have been calculated from the geometric mean of Gross Domestic Product at factor cost 1963-1966 on the assumption that 1964 was the first year of the Plan and that growth in 1963-64 is therefore relevant.**

cent per annum compared with 8 per cent per annum projected in the Plan. The basis of this rapid expansion was the increasing production of the Mombasa oil refinery. Refinery production expanded less in 1966 and the growth of "manufacturing and repairing" as a whole also slowed down in consequence. If the recent average rate of advance is to be maintained in the next few years, the impetus will need to be taken up by other industries. A discussion of recent industrial developments can be found in Chapter 4.

16. The Development Plan projects a target rate of growth for the building and construction industry of 18.3 per cent per annum. Over the period 1964-66 the actual rate of growth has been much below this at 4.8 per cent. But in 1966 building activity increased rapidly and from its low in 1965 the industry is estimated to have moved up by 20.7 per cent. Although a number of bottlenecks have appeared which are discussed in more detail in Chapter 4, if the present impetus can be maintained and these bottlenecks broken, the industry could still catch up with its Plan targets at the end of the period as a whole.

17. Wholesale and retail trade has moved ahead steadily over the last three years at an average of 6.9 per cent and there has been very little difference in the pace of advance over this period. Similarly, the "transport, storage and communications" industry has moved ahead at an average of 10.3 per cent per annum and this rate also has been more or less constant over the three-year period and the industry seems to be adapting itself to the needs of the economy.

18. A detailed discussion of the impact of the public sector on the economy can be found in Chapter 8. General Government services accounted in 1966 for approximately 12.6 per cent of total Gross Domestic Product. Over the last three years, these services have grown by 9.2 per cent per annum on average although this rate has declined somewhat in the last two years.

19. The product of other sectors and their rates of growth are set out in Table 1.1. It will be seen that with the single exception of mining and quarrying, all industries recorded a significant advance in 1966. It is clear that the services industries are developing in line with the economy and so far there is little evidence of serious bottlenecks developing although this is, perhaps, likely in the hotel industry in the current year.

20. The separate contribution of each industry to Gross Domestic Product as shown by the revised calculations are set out in Table 1.1. Gross Domestic Product can also be set out another way, Table 1.3, showing the various factor incomes that go to make up this product. This table is comparable to that included in previous issues of the survey, "Composition of Gross Product by Type of Factor Income", which is included here for comparative purposes as Table 1.4. However, the new table is derived from the revised calculations of industrial product and is based on Gross Domestic Product at market prices (rather than factor cost as previously) and so enables the adjustment to be made for net factor incomes paid abroad, in order to show, for the first time in Kenya, an estimate of Gross National Income (including depreciation).

GROSS DOMESTIC PRODUCT (NEW CALCULATIONS)

Table 1.1

1963-1966

INDUSTRY	K £ MILLION				PERCENTAGE RATES OF GROWTH			Cumulative Annual Rates of Growth, 1963-66
	1963	1964	1965	1966*	1963-64	1964-65	1965-66	
GROSS PRODUCT AT FACTOR COST—								
A. Outside Monetary Economy:								
Agriculture	65.37	67.63	63.96	72.86	+ 3.5	- 5.4	+ 13.9	+ 3.7
Forestry	4.41	4.52	4.63	4.74	+ 2.5	+ 2.4	+ 2.4	+ 2.4
Fishing	0.10	0.10	0.11	0.11		+ 10.0		+ 3.2
Building and Construction	4.11	4.48	4.73	5.14	+ 9.0	+ 5.6	+ 8.7	+ 7.8
Water	2.28	2.34	2.41	2.48	+ 2.6	+ 3.0	+ 2.9	+ 2.8
Ownership of Dwellings	5.24	5.46	5.63	5.79	+ 4.2	+ 3.1	+ 2.8	+ 3.4
TOTAL PRODUCT OUTSIDE MONETARY ECONOMY	81.51	84.53	81.47	91.12	+ 3.7	- 3.6	+ 11.9	+ 3.8
B. Monetary Economy:								
1. Enterprises and Non-profit Institutions:								
Agriculture	50.98	49.49	46.54	54.83	- 2.9	- 6.0	+ 17.8	+ 2.4
Forestry	1.28	1.47	1.57	1.59	+ 14.8	+ 6.8	+ 1.3	+ 7.5
Fishing	0.90	0.86	1.02	1.04	+ 4.4	+ 18.6	+ 2.0	+ 4.9
Mining and Quarrying	0.50	0.85	1.25	0.90	+ 70.0	+ 47.1	- 28.0	+ 21.6
Manufacturing and Repairing	28.42	33.17	36.74	39.64	+ 16.7	+ 10.8	+ 7.9	+ 11.8
Building and Construction	5.78	6.02	5.52	6.66	+ 4.2	- 8.3	+ 20.7	+ 4.8
Electricity and Water	4.87	5.36	5.57	6.10	+ 10.1	+ 3.9	+ 9.5	+ 7.8
Transport, Storage and Communications	23.76	26.31	29.11	31.84	+ 10.7	+ 10.6	+ 9.4	+ 10.3
Wholesale and Retail Trade	31.88	33.78	36.31	38.99	+ 6.0	+ 7.5	+ 7.4	+ 6.9
Banking, Insurance and Real Estate	9.88	11.52	12.89	14.59	+ 16.6	+ 11.9	+ 13.2	+ 13.9
Ownership of Dwellings	13.55	13.58	13.76	14.62	+ 0.2	+ 1.3	+ 6.3	+ 2.6
Other Services	13.03	14.09	14.39	16.45	+ 8.1	+ 2.1	+ 14.3	+ 8.1
TOTAL 1	184.83	196.50	204.67	227.25	+ 6.3	+ 4.2	+ 11.0	+ 7.2
2. Private Households (Domestic Services):	2.76	2.94	3.28	3.52	+ 6.5	+ 11.6	+ 7.3	+ 8.4
3. General Government:								
Public Administration	15.95	16.64	17.17	17.34	+ 4.3	+ 3.2	+ 1.0	+ 2.8
Defence	1.45	2.19	2.74	3.39	+ 5.10	+ 25.1	+ 23.7	+ 32.7
Education	6.89	10.58	10.20	11.08	+ 53.6	- 3.6	+ 8.6	+ 17.1
Health	3.86	4.08	4.51	4.70	+ 5.7	+ 10.5	+ 4.2	+ 6.8
Agricultural Services	4.04	4.21	4.71	5.02	+ 4.2	+ 11.9	+ 6.6	+ 7.5
Other Services	3.38	3.85	4.53	4.83	+ 13.9	+ 17.7	+ 6.6	+ 12.7
TOTAL 3	35.57	41.56	43.85	46.35	+ 16.8	+ 5.5	+ 5.7	+ 9.2
TOTAL PRODUCT—MONETARY ECONOMY	223.16	241.00	251.80	277.12	+ 8.0	+ 4.5	+ 10.1	+ 7.5
TOTAL GROSS PRODUCT AT FACTOR COST (Monetary and Non-monetary)	304.67	325.53	333.27	368.24	- 6.8	+ 2.4	+ 1.5	+ 6.5
INDIRECT TAXES	25.23	26.99	28.58	30.68	+ 7.0	+ 5.9	+ 7.3	+ 6.7
Minus: SUBSIDIES	0.59	0.35	0.53	0.54	- 40.7	+ 51.4	+ 1.9	- 2.8
TOTAL GROSS PRODUCT AT MARKET PRICES	329.31	352.17	361.32	398.38	+ 6.9	+ 2.6	+ 10.3	+ 6.6

*Provisional.

GROSS DOMESTIC PRODUCT AT FACTOR COST BY INDUSTRIAL ORIGIN, 1957-1966

Table 1.2 (OLD CALCULATIONS)

K£million

INDUSTRY	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966*
RECORDED MONETARY ECONOMY—										
Agriculture (including Incidental Services)	23.78	24.75	25.32	29.44	28.33	28.46	33.14	36.72	32.89	38.66
Livestock	8.06	8.27	8.57	9.22	8.97	9.62	9.59	9.50	9.71	10.08
Forestry	0.69	0.68	0.79	0.81	0.90	0.97	0.78	0.92	0.76	0.78
Fishing and Hunting	1.02	0.90	0.89	0.53	0.50	0.81	0.88	0.87	1.01	1.37
TOTAL	33.54	34.60	35.58	40.00	38.72	39.86	44.39	48.01	44.37	50.89
OUTSIDE RECORDED MONETARY ECONOMY										
Agriculture	37.33	38.02	38.47	36.10	34.21	46.43	47.87	49.75	45.60	52.10
Livestock	11.72	11.80	11.66	10.99	10.44	11.86	12.80	12.13	13.00	16.33
Forestry	2.43	2.57	2.70	2.94	3.08	4.74	5.79	6.45	6.54	6.64
Fishing and Hunting	0.21	0.20	0.20	0.16	0.16	0.19	0.20	0.20	0.21	0.25
TOTAL	51.69	52.59	53.03	50.19	47.89	63.22	66.66	68.53	65.35	75.32
TOTAL PRODUCT—										
Agriculture	61.11	62.77	63.79	65.54	62.54	74.89	81.01	86.47	78.49	90.76
Livestock	19.78	20.07	20.23	20.21	19.41	21.48	22.39	21.63	22.71	26.41
Forestry	3.11	3.25	3.50	3.75	3.98	5.71	6.57	7.37	7.30	7.41
Fishing and Hunting	1.23	1.10	1.09	0.69	0.68	1.00	1.08	1.07	1.22	1.62
TOTAL	85.23	87.19	88.61	90.19	86.61	103.08	111.05	116.54	109.72	126.20
RECORDED MONETARY ECONOMY—										
Mining and Quarrying	1.26	1.23	1.12	1.09	0.85	0.83	0.89	0.75	0.84	0.82
Manufacturing	19.80	20.52	20.23	21.62	22.73	23.04	24.38	29.38	32.03	34.60
Construction	9.63	8.38	7.94	7.86	7.80	6.76	4.89	4.38	5.09	6.05
Electricity and Water	2.09	2.36	2.56	2.79	2.84	3.29	3.60	3.47	3.72	4.49
Transport, Storage and Communications	18.64	17.69	19.03	20.34	21.15	22.26	24.62	26.30	29.63	33.14
Wholesale and Retail Trade	27.48	26.39	27.68	28.96	29.56	30.06	31.92	34.06	35.37	38.17
Banking, Insurance and Real Estate Services	2.83	3.26	3.46	3.54	3.88	4.01	4.17	4.49	4.63	5.23
Rents (including ownership of dwelling houses)	12.11	13.11	14.58	15.50	14.14	14.21	15.41	18.30	18.37	18.93
TOTAL	6.65	7.51	8.05	8.70	8.14	8.43	9.36	9.54	10.26	10.49
TOTAL	100.49	100.45	104.65	110.40	111.09	112.89	119.24	130.67	139.94	151.92
GOVERNMENT—										
Central Government:										
Civil Departments	15.48	16.40	16.87	20.08	21.63	22.02	20.86	20.21	24.04	25.38
Local Authorities	2.53	2.89	3.15	3.35	3.49	4.11	5.90	11.34	11.91	12.32
Defence	2.12	11.1	1.43	1.37	1.75	1.83	1.86	1.65	2.16	2.78
Overseas Governments (Local employees)	0.06	0.06	0.10	0.12	0.14	0.16	0.18	0.91	0.48	0.24
TOTAL	20.19	20.46	21.53	24.92	27.00	28.12	28.80	34.11	38.59	40.72
TOTAL	205.91	208.10	214.79	225.51	224.70	244.09	259.09	281.32	288.25	318.84
Recorded Monetary Economy	154.22	155.50	161.76	175.32	176.81	180.87	192.43	212.79	222.90	243.52
Imputed Product Outside the Recorded Monetary Economy	51.69	52.59	53.03	50.19	47.89	63.22	66.66	68.53	65.35	75.32

*Provisional.

GROSS NATIONAL INCOME (INCLUDING DEPRECIATION)
(NEW CALCULATIONS)

Table 1.3

1963-1966

K£million

	1963	1964	1965	1966*
GROSS DOMESTIC PRODUCT AT MARKET PRICES—				
A. Outside The Monetary Economy	81.51	84.53	81.47	91.12
B. Monetary Economy:				
1. Remuneration of Employees:				
Enterprises	78.01	84.33	87.52	95.48
Private Households	2.76	2.94	3.28	3.52
General Government	35.57	41.56	43.85	46.35
TOTAL REMUNERATION OF EMPLOYEES	116.34	128.83	134.65	145.35
2. Rental Surplus (including depreciation)	13.55	13.58	13.76	14.62
3. Other Operating Surplus (including depreciation)	93.28	98.58	103.39	117.15
4. Indirect Taxes	25.23	26.99	28.58	30.68
5. <i>Deduct</i> —Subsidies	0.59	0.35	0.53	0.54
TOTAL MONETARY ECONOMY	247.80	267.64	279.85	307.26
TOTAL GROSS DOMESTIC PRODUCT	329.31	352.17	361.32	398.38
<i>Deduct</i> —FACTOR INCOMES PAID ABROAD	14.82	15.26	15.46	16.59
<i>Add</i> —FACTOR INCOMES RECEIVED FROM ABROAD	6.68	6.22	6.03	5.57
GROSS NATIONAL INCOME (INCLUDING DEPRECIATION). .	321.17	343.13	351.89	387.36

*Provisional.

COMPOSITION OF GROSS PRODUCT BY TYPE OF FACTOR INCOME
(OLD CALCULATIONS)
1957-1966

Table 1.4

K£million

	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966*
RECORDED MONETARY ECONOMY—										
Paid Employment:										
Public Employment	34.91	34.36	35.42	39.31	42.17	43.85	42.97	48.54	54.15	57.95
Private Employment	50.84	51.14	52.95	56.86	56.77	56.32	58.88	64.96	68.48	72.86
TOTAL (EMPLOYMENT)	85.75	85.50	88.37	96.17	98.94	100.17	101.85	113.50	122.63	130.81
Operating Surplus:										
Public Enterprise	2.21	2.69	3.09	3.06	3.00	2.93	3.77	3.39	4.30	5.42
Private Enterprise	59.61	59.81	62.26	67.39	66.74	69.34	77.47	86.37	85.70	96.81
TOTAL (OPERATING SURPLUS)	61.82	62.50	65.35	70.46	69.74	72.27	81.24	89.76	90.00	102.23
Rental Surplus:										
Public Enterprise and Government	1.50	1.63	1.75	1.80	1.93	2.05	2.14	2.22	2.28	2.35
Private Enterprise and Householders	5.15	5.88	6.30	6.90	6.21	6.38	7.22	7.32	7.98	8.14
TOTAL (RENTAL SURPLUS)	6.65	7.51	8.05	8.70	8.14	8.43	9.36	9.54	10.26	10.49
TOTAL (RECORDED MONETARY ECONOMY)	154.22	155.50	161.76	175.32	176.81	180.87	192.43	212.80	222.90	243.52
IMPUTED PRODUCT OUTSIDE THE RECORDED MONETARY ECONOMY	51.69	52.59	53.03	50.19	47.89	63.22	66.66	68.52	65.35	75.32
TOTAL (GROSS PRODUCT)	205.91	208.10	214.79	225.51	224.70	244.09	259.09	281.32	288.25	318.84

*Provisional.

21. Gross National Income is lower than Gross Domestic Product as a result of the fact that the balance of overseas factor payments is outwards. This is almost inevitable in an underdeveloped country such as Kenya with considerable overseas private investment in the country and a substantial external public debt. However, as noted in the balance of payments section below, Kenya itself has significant overseas investments—mainly by Kenya firms in Uganda and Tanzania—and in consequence is able to earn an overseas income from this source of over £5 million. Other factor incomes involved here are the salaries of technical assistance personnel, since they are technically non-residents, and emolument payments by non-residents to Kenya residents.

22. Within the monetary economy, the factor incomes are remuneration of employees, rental surpluses and other operating surpluses. The latter two items should strictly be shown net of depreciation rather than gross as here. Further study is, however, needed on the estimates of real capital consumption as opposed to depreciation recorded in financial accounts before these can be regarded as sufficiently reliable for publication.

23. Total remuneration of employees increased by K£10.70 million or 8 per cent in 1966. Consumer prices rose by perhaps 2 1/2 per cent during the year so that the real income of wage and salary earners, as a whole, rose by about 5 per cent. Total employment moved up by 2 1/3 per cent during the year, so average real wages were also higher by about 3 per cent.

24. Gross operating surplus consisting of interest, depreciation and profits advanced by 13 per cent in 1966. Approximately half of this increase was earned in agriculture, mostly small-scale agriculture. As noted above, the total product of agriculture rose by 15.6 per cent in 1966. Operating surplus in the wholesale and retail trade rose by K£2 million or 10 per cent and other increases were recorded in manufacturing and repairs, transport, storage and communications, and banking, insurance and real estate.

25. Rental surpluses are also estimated to have increased significantly as a result of a marked increase in the rents of residential properties in the municipalities arising from a shortage of accommodation.

Capital Formation

26. The rate of capital formation forecast for 1966 was exceeded and the total achieved was the highest ever in monetary terms—K£51 million. This total represented an increase of 41.5 per cent over the 1965 figures. Private capital formation was particularly striking for, after having been at a low level for some years, it advanced by 36 per cent in 1966 with increased investment in residential building and, more notably, machinery and equipment. The private sector appears to be keeping up with and possibly by now exceeding the investment targets set for it in the Development Plan.

27. Public sector investment is estimated to have increased by nearly 57 per cent in 1966 which, although a remarkable increase, is in fact somewhat behind the target rate set in the Plan, as a result of a number of bottlenecks discussed in this Survey.

28. The year was notable for the rising activity of the building industry both in the public and private sectors. It became apparent, however, that the low level of activity prevailing in the last few years had significantly reduced the capacity of the industry and it was experiencing difficulty in meeting the demands on it made by the economy.

Finance and Banking

29. 1966 was significant in the history of monetary development in Kenya, for the three important financial measures announced in 1965 became fully effective and had important influences on the monetary and financial affairs of the country.

30. The Central Bank was established on 23rd May 1966 and its first tasks have been to establish itself as an administrative financial body, to undertake the issue of a separate Kenya currency for the first time, and to take over the function of Government banker from National and Grindlays Bank Limited. The Central Bank has not so far found it necessary to intervene directly to control the credit base in Kenya, but it has held regular meetings with the commercial banks on the subject of their credit policies, and it does have the power under the Central Bank Act to intervene and apply controls on the issue of credit if it felt this to be necessary. The Central Bank has absorbed the bankers' clearing house and has taken over the administration of Exchange Control from the Treasury.

31. The first issue of a separate Kenya currency, replacing currency previously issued by the East African Currency Board, was started in September 1966. By April 1967 a total of K£17.35 million of the new notes were circulating in the country. New Kenya coins were issued in April 1967 and will gradually replace the coin issue of the East African Currency Board. It is difficult to assess how much of the currency of the East African Currency Board still circulates in the country, but it is perhaps unlikely to be more than about K£4 million; and so the main part of the conversion operation has already been accomplished. The old currency notes will cease to be legal tender in September 1967. The new Kenya currency is backed by assets taken over from the East African Currency Board by the Central Bank of Kenya, or acquired in the normal course of its operations. The total value of the Bank's assets on 31st March 1967 was K£28.5 million; of which K£23.2 million represents the value of foreign assets, providing the principal foreign exchange reserves of the country. The Kenya currency issued by the Central Bank is therefore more than covered in value by foreign exchange assets.

CENTRAL BANK OF KENYA
LIABILITIES AND ASSETS AS AT 31ST MARCH 1967

Table 1.5

LIABILITIES—	K£	ASSETS—	K£
Capital	666,666	Foreign Exchange	23,220,050
Notes in Circulation	17,353,205	Kenya Government Secur-	
Government Deposits	8,047,988	ities	3,509,852
Bank Deposits	1,936,660	Government Guaranteed	
Other Liabilities	518,928	Securities	450,156
		Advances to and Re-dis-	
		counts for Kenya Banks	198,274
		Other Assets	1,145,115
Total	28,523,447	Total	28,523,447

32. In addition to the foreign assets shown in these accounts there are others which can be considered legitimately as part of the Kenya foreign exchange reserves. These include gold held with the International Monetary Fund, Kenya Government funds in the United Kingdom, Kenya's share of the residual assets of the East African Currency Board and the foreign exchange holdings of the commercial banks which would accrue to the Central Bank if the banks were not permitted to hold funds in this way. If these are taken into account, total foreign exchange reserves were approximately K£40 million at the end of March 1967, which is equivalent to a normal four months' imports suggested as desirable in the Central Bank Act.

33. The *Economic Survey 1966* noted the significance of the extension of exchange control to sterling transactions as from June 1965. The effect of this measure in the full year is reflected in a substantial improvement in the capital account of the Kenya balance of payments and a rapid rise in the level of private bank deposits at the commercial banks. The nationalization of the commercial banks in Tanzania caused the Tanzania Government to restrict the free flow of currency between that country and the rest of East Africa. This meant that exchange control over intra-East African transactions had been introduced for the first time. Although the purpose of the Tanzania measures is to control capital outflow from that country during the period of banking reorganization, the practical effect of the instruction that all financial transactions between Tanzania and the other two East African countries must be made through the banking system is likely to cause a further reduction in the level of Tanzania-Kenya trade which, in any case, declined in 1966 as a consequence of the Tanzania trade restrictions discussed in Chapter 2. It had been hoped that the initial agreement to allow currency notes of Tanzania to circulate in Kenya could be preserved but, in the event, this facility has had to be withdrawn following the latest Tanzania measures. Uganda banknotes continue to circulate in Kenya.

34. It is at present difficult to assess the longer term effects on Kenya of the recent Tanzania measures. In recent years there has been a substantial trade between the three East African countries that has been transacted in cash, and currency notes have moved freely across the borders generally with a substantial net annual inflow into Kenya. Trade between Kenya and Tanzania is, at the moment, severely impeded by the present arrangements and a further reduction from the 1966 level of trade is likely to be inevitable unless the situation returns to normal soon or is rectified by the proposed East African Treaty. It must be admitted, however, that the special relationship that has traditionally existed between the three East African countries in the monetary field is at present under some strain as a result of the recent imposition of exchange controls by Tanzania, in spite of attempts by the three independent Central Banks to work in close harmony and maintain the advantages afforded by the previous system of common currency.

35. The extension of exchange control regulations to sterling transactions in June 1965 had an immediate and significant effect on the level of private deposits at the commercial banks. Between June 1965 and December 1965, private deposits rose by 17 per cent from K£44.7 million to K£52.8 million. Over the calendar year 1966 there was a further rise of 22 per cent to K£64.9 million and this rise has continued during the current year. The measures introduced in June 1965 have, therefore, had a profound and beneficial effect on the economy, for although some capital may have been frightened away by the extension of exchange control over sterling transactions, the amount involved is unlikely to have been greater than the amount of finance held in the country by the extended control. At the same time, it is clear from the evidence of capital investment that foreign capital has continued to flow into Kenya, and in fact the rate of capital inflow has increased since exchange control regulations were extended.

PRIVATE DEPOSITS AT THE COMMERCIAL BANKS

Table 1.6

K£'000

	Demand	Time	Savings	Total*
1961 December	32,089	3,990	7,126	43,206
1962 December	31,832	4,845	8,772	45,449
1963 December	31,935	4,751	9,973	46,660
1964 December	32,574	4,481	10,824	47,879
1965 March	32,030	3,469	11,366	46,897
June	29,151	3,847	11,415	44,749
December	34,651	4,426	13,050	52,806
1966 March	35,711	6,570	14,080	56,986
June	36,554	8,009	15,156	60,042
December	38,772	8,234	17,139	64,893
1967 January	37,251	8,611	17,292	63,800
March	37,295	10,556	18,112	66,585

*Includes deposits in sterling or other foreign currencies.

36. The effect of the introduction of separate currencies and separate central banks in the three East African countries meant an end, in substantial measure, to the close interlocking that had previously existed in the East African banking system. Kenya banks are now substantially independent of banks in Uganda and Tanzania although balances are still held with them to finance the usual level of East African trade. Balances are also held with other banks abroad—generally headquarters of Kenya banks—but these have not fluctuated very much in the last year as had been the case previously. The Kenya banking system is now relying largely on the funds which it creates itself and is no longer either borrowing from or lending to other countries to any significant degree.

CHANGES IN COMMERCIAL BANKERS' BALANCES WITH OTHER
COMMERCIAL BANKS

Table 1.7

K£ million

	Net balances due from branches in Tanzania and Uganda	Net balances due from banks abroad
1961 December	6,665	-1,003
1962 December	5,151	3,986
1963 December	5,496	-1,185
1964 December	18,825	-15,421
1965 March	16,078	-13,599
June	3,463	-3,908
September	2,603	-276
December	5,167	-295
1966 March	2,008	5,345
June	1,597	7,680
September	1,030	10,505
December	1,216	7,043
1967 January	191	5,248
February	1,348	5,369
March	372	5,698

37. Bank advances did not expand to the same extent as deposits in 1966 and as a result there was some easing of the credit position during the year. The banks generally may have tended to restrain advances in front of the inauguration of the Kenya Central Bank and the transfer of Central Government deposits to it. But the fact that advances did not move forward at a faster rate is perhaps somewhat surprising in the light of the growth of the rest of the economy. There was, however, a sharp increase in bank advances in the first quarter of the current year.

38. Advances to manufacturing moved up slightly, but advances to agriculture and trade showed no increase over the year and advances to enterprises were in total lower in December 1966 than in March 1966, although a significant expansion is evident by March 1967, as a result of larger advances to wholesale and retail trade.

COMMERCIAL BANK DEPOSITS AND ADVANCES

Table 1.8

	GOVERNMENT		PRIVATE		ADVANCES/DEPOSITS RATIO	
	Deposits	Advances	Deposits	Advances	Private	Total
	K£'000	K£'000	K£'000	K£'000	%	
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 December	17,115	7,006	47,879	47,641	99	84
1965 June	16,234	6,957	44,749	44,818	100	85
December	16,798	7,278	52,806	50,130	95	82
1966 March	16,898	5,683	56,986	52,920	93	79
June	20,677	9,410	60,042	53,408	89	78
December	12,537	1,918	64,893	53,595	83	72
1967 January	11,339	2,164	63,800	56,860	89	79
February	11,081	1,992	66,570	57,521	86	77
March	11,525	2,388	66,585	57,318	86	76

KENYA COMMERCIAL BANKS—BILLS, LOANS AND ADVANCES

Table 1.9

K£'000

	1966				1967
	March	June	Sept.	Dec.	March
I. GOVERNMENT—					
(a) Central Government	5,121	8,530	8,140	827	627
(b) Local Government	41	33	49	88	
(c) Public Enterprises	520	847	1,368	1,002	141
GOVERNMENT TOTAL	5,682	9,410	9,557	1,917	768
II. ENTERPRISES (PRIVATE) —					
(a) Agriculture	7,120	6,872	6,681	6,276	6,329
(b) Mining and Quarrying	75	93	86	75	65
(c) Manufacturing	7,741	7,749	8,772	8,299	9,979
(d) Building and Construction	1,124	1,052	1,122	1,078	1,183
(e) Electricity and Water	302	304	280	283	279
(f) Transport, Storage and Communications	1,075	923	950	701	853
(g) Oil Companies	1,488	2,349	2,334	2,198	2,418
(h) Wholesale and Retail Trade	23,186	23,869	23,921	22,953	25,050
(i) Real Estate	621	569	895	489	601
(j) Financial Institutions	4,669	4,674	3,822	4,767	4,530
(k) Other Businesses	3,817	2,962	2,525	3,574	4,832
TOTAL ENTERPRISES	51,218	51,416	51,388	50,693	56,119
III. PRIVATE HOUSEHOLDS TOTAL (and non-profit making organizations)	1,862	2,124	2,378	2,902	2,820
TOTAL BILLS, LOANS AND ADVANCES	58,762	62,950	63,323	55,512	59,707

39. No changes occurred during the year in the re-discount rate of the Currency Board and subsequently of the Central Bank or in the advances rates of the commercial banks. The stricter control of foreign exchange enabled Kenya rates to be isolated largely from the steep increase in interest rates in other centres that occurred in the year. Kenya rates did not follow world rates upwards and have not so far followed them downwards: the re-discount and advances rate for crop finance has remained at 5 per cent over this period.

40. The year under review saw a further increase in private savings lent to the principal savings institutions but, as in recent years, most of the increase flowed into the commercial banks savings deposits although for the first time for some years deposits exceeded withdrawals in the Kenya Savings Bank. The latter has continued to afford a popular means of saving for the "small saver". However, the turnover of funds suggests that the Bank, operated through Post Office branch offices, is providing a rate of interest on accounts which are more in the nature of demand rather than savings deposits and, in consequence, is unable to operate profitably without Government support.

COMMERCIAL BANK SAVINGS DEPOSITS AND DEPOSITS AT THE KENYA SAVINGS BANKS
(BANK DEPOSITS, 1961-66, AS AT 31ST DECEMBER)

Table 1.10

K£'000

	COMMERCIAL BANK SAVINGS DEPOSITS*	KENYA SAVING BANK		
		Total Balance	Annual Deposits	Annual Withdrawal
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	2,868	3,344
1965	13,050	4,808	2,218	2,629
1966	17,139	4,969	2,283	2,232

*Private and Government Deposits.

+Provisional.

41. Finance for the property market eased to some extent in 1966. Whereas in earlier years it had been almost impossible to obtain mortgage finance for house purchase, the inauguration of a new building society backed by Government and the availability of some insurance money has allowed the domestic property market to pick up from the depressed levels prevailing in the previous five or six years. A fairly active property market has appeared once again and a significant number of transactions have taken place. Residential property values have not, however, adjusted fully to the high level of rents being charged in this sector. New building activity is taking place in the municipalities, particularly Nairobi, and comment on this is made later in this Survey.

42. The Nairobi Stock Exchange had another good year. Not only were shares buoyant but new issues were made on the market and in one instance a new local tobacco firm was partly floated by a local issue. The Central Government was also successful in undertaking new issues of stock and a total of K£7.5 million was raised in this way during the year. The Tanzania Government also successfully undertook an issue of £6 million on the Nairobi market. Over the year 1966 the East African industrial share index moved up from 107 to 140 points and (on the basis of the new share index) has held fairly steady in the current year in spite of uncertainty following the announcement of nationalization measures in Tanzania. The improved liquidity position in the country is reflected in the buoyancy of the Nairobi market, and whereas in recent years the market has been depressed and inactive, its main restriction at the present time is possibly the shortage of scrip. Uncertainties in the plantation industries have inevitably caused some setback in plantation shares but the recent upward movement has begun to discount profit in some sectors some way ahead as unutilized money has sought new outlets. It is, therefore, to be hoped that other companies will take advantage of the opportunity "to go public" and thus broaden the scope of the market as a whole and widen the ownership of industrial and commercial assets in the country.

External Trade

43. The level of external trade in 1966 was a record, the total of all imports and exports being 18 per cent higher than in 1965. Exports rose in total by 12 per cent but all of the increase was contributed by overseas exports, up by 23 per cent. For the first time for some years there was no increase in exports to Uganda and Tanzania. Total imports rose by 23 per cent and once again all of the increase can be attributed to the overseas sector: imports from Uganda and Tanzania declined in aggregate.

44. Approximately 78 per cent of the increase in exports could be attributed to three products—coffee, tea and petroleum products. Some other products also showed increases, notably hides, wattle extract, pyrethrum extract, meat products and soda ash. Falls were recorded for sisal, copper, pineapples and cement.

45. As far as imports are concerned, apart from some increase in imports of maize, wheat and sugar, the main cause of the sharp rise was a significant increase in imports of capital goods for the public sector. Private sector capital imports were also up.

46. The overall effect of these trends was a sharp deterioration in the recorded visible trade deficit from K£19.2 million to K£32.3 million, the highest level since 1957. It must, however, be emphasized that in so far as much of this deterioration in the visible trade balance was due to capital imports, it was to a large extent covered by an inflow of capital; this is discussed further in the next section. Average export prices recorded both rises

and falls in 1966, but overall the export price index showed a fractional rise. Import prices generally rose rather more, however, and once again there was a further adverse movement in the terms of trade.

Balance of Payments

47. At the time this survey is prepared only part of the information required to compile a full balance of payments for the previous year is available but the main developments in 1966 in this field are clear and the supplementary details to be received later will not affect the basic structure of the accounts.

48. There was a balance of payments surplus in 1966: foreign exchange reserves of the central monetary institutions increased by approximately K£9.2 million and other monetary movements caused a further increase in foreign assets of K£3.4 million, making a total of K£12.6 million. As a result largely of the substantial increase in the adverse visible trade gap, there was a marked increase in the current account deficit compared with 1965 but this was offset by a greater net capital inflow both on public and private account. Net transfer payments into Kenya from overseas were rather lower than in 1965.

49. The balance of merchandise transactions—visible trade adjusted for timing, coverage, etc.—was a deficit of K£30 million compared with deficits of K£19.4 million in 1965 and of K£9.4 million in 1964. The reasons for this marked deterioration in the merchandise balance are discussed in Chapter II, and it has already been noted that although there was a 23 per cent increase in exports, imports increased to an even greater degree, largely as a result of higher public sector capital imports.

50. Freight earnings on goods transported through Kenya to Tanzania and Uganda increased with the level of overseas trade in those countries, while port earnings and harbour receipts rose for the same reason. The foreign travel account showed a higher surplus in response to the tourist boom—K£8.5 million net as against K£4.5 million net in 1965—and is becoming one of the most important sources of foreign exchange. This is discussed in more detail in Chapter 5.

51. Net investment payments are provisionally estimated to have risen in spite of a rise in investment receipts. A net deficit on international investment income account is normal in an underdeveloped country and Kenya is perhaps atypical in that it does have quite substantial receipts from these sources. Approximately 30 per cent out of all payments are in respect of public sector debt and the remainder represent interest and profits on private sector investments of which part is retained and re-invested in the country, being shown here as an increase in private long-term liabilities in the capital account.

BALANCE OF PAYMENTS 1964-1966

Table 1.11

K£million

	1964			1965			1966*		
	CURRENT ACCOUNT								
	Debits	Credits	Net Credits	Debits	Credits	Net Credits	Debits	Credits	Net Credits
A. GOODS AND SERVICES									
1. Merchandise Transactions	86.7	77.3	Dr. 9.4	97.4	78.0	Dr..19.4	116.6	86.8	Dr. 29.8
2. Non-Monetary Gold Movements	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.1
3. (a) Freight on International Shipments ..	0.4	7.6	7.2	0.4	8.1	7.7	0.4	9.1	8.7
(b) Insurance on International Shipments	0.1	0.1	0.1		0.1	0.1	0.1	0.2	0.1
4. Other Transportation	5.4	9.4	4.0	5.5	11.1	5.6	6.0	12.2	6.2
5. Foreign Travel	6.8	9.4	2.6	6.4	10.9	4.5	5.9	14.4	8.5
6. International Investment Income	14.8	5.0	Dr. 9.8	14.8	5.8	Dr. 9.0	16.0	5.3	Dr. 10.8
7. Government Transactions n.e.i.	2.3	9.5	7.1	1.5	2.0	0.6	1.3	5.1	3.8
8. Other Services	3.2	6.3	3.1	3.6	5.8	2.2	3.8	5.6	1.9
TOTAL GOODS AND SERVICES	119.8	124.7	4.9	129.7	122.0	Dr. 7.7	150.2	138.9	Dr. 11.3
B. TRANSFER PAYMENTS									
9. Private Transfer Payments..	7.5	4.4	Dr. 3.1	4.8	4.4	Dr. 0.5	3.9	3.6	Dr. 0.3
10. Government Transfer Payments	5.1	20.7	15.6	6.1	13.5	7.4	6.5	8.2	1.7
TOTAL TRANSFER PAYMENTS	12.6	25.1	11.5	10.9	17.8	6.9	10.4	11.8	1.4
	CAPITAL ACCOUNT								
	Assets	Liabilities	Net Credits	Assets	Liabilities	Net Credits	Assets	Liabilities	Net Credits
C. CAPITAL MOVEMENTS									
11. Private	26.3	10.9	Dr 15.3	1.3	4.4	3.1	0.9	10.9	10.1
12. Government Enterprises	1.0	1.6	0.6	1.3		Dr. 1.3	Cr. 0.7	4.9	5.7
13. Local Government ..	0.3	Dr. 0.1	Dr. 0.5	0.4	0.7	0.3	Dr. 0.7	Cr. 0.9	Dr. 0.3
14. Central Government	1.6	1.6		1.5	9.0	7.5	Cr. 3.6	10.1	13.7
TOTAL CAPITAL MOVEMENTS	29.2	14.0	Dr. 15.2	4.5	14.1	9.6	Cr. 4.1	25.0	29.2
D. MONETARY MOVEMENTS									
15. Central Monetary Institutions:									
(a) Central Bank							16.9		Dr. 16.9
(b) E.A. Currency Board	Cr. 2.7		Dr. 2.7	0.9		Dr. 0.9	Cr. 8.4		8.4
(c) Accounts with I.M.F. ..	0.8	-	Dr. 0.8		-		0.7		Dr. 0.7
	Cr. 0.9		0.9	1.5		Dr. 1.5	Cr. 3.9	Dr. 7.2	Dr. 3.4
16. The Commercial Banks	Cr 2.8	—	2.8	2.4	—	Dr. 2.4	5.3	Dr. 7.2	Dr. 12.6
TOTAL MONETARY MOVEMENTS									
BALANCING ITEM			Dr. 5.1			Dr. 6.5			Dr. 6.7

*Preliminary Estimates.

52. Net transfer receipts were lower in 1966, largely as a result of fewer grants being received by the public sector during the year. The overall strength of the balance of payments in 1966 was, however, derived, in the main, from a substantial increase in private capital receipts. In part, this was spontaneous and is a reflection of the desire of private investors to bring their money into the country to find profitable investment outlets. However, in part, it was also an involuntary effect arising from exchange control over sterling transactions which was introduced in June 1965. In the second half of that year it was clear that the extension of exchange control to sterling transactions had turned a private capital outflow into a capital inflow. The benefit of this measure was felt for a full 12 months in 1966 and it is most likely that if such control had not been introduced Kenya would have been running an overall balance of payments deficit on current and long-term capital account in 1966. The Central Government increased its overseas liabilities during the year and this is discussed in Chapter 8.

53. The banking system, adjusting itself to a new financial situation arising from the break-up of the East African currency system and the inauguration of three separate central banks in what had previously been a single banking area, caused a small net outflow of funds. Balances with banks in Uganda and Tanzania were run down while balances with other banks were built up.

CHAPTER 2—EXTERNAL TRADE

Introduction

In 1966, Kenya's adverse overall balance of visible trade, taking into account both external trade and trade with Uganda and Tanzania, widened by K£13 million to K£32 million. The year was marked by two conflicting trends; large increases in both net (overseas) imports and domestic (overseas) exports, and a virtual standstill in trade with Uganda and Tanzania.

2. While domestic exports, at a record K£58 million, rose by 23 per cent on 1965, the sharpest increase for many years, total net imports rose even more sharply, by 26 per cent, to K£112 million, and the deficit on external trade rose to K£50 million, the widest gap for over ten years. Since the surplus of trade with Uganda and Tanzania, at K£17.8 million, remained approximately the same as in 1965, the overall deficit widened to K£32.3 million. The major factor in the deterioration of the external balance was a K£11.4 million (135 per cent) increase in Government imports (Kenya Government and EACSO) discussed in paragraph 10. Without this rise in Government imports,

the deterioration would have been about K£1.6 million. The overall position is summarized in Table 2.1 below.

EXTERNAL AND EAST AFRICAN* TRADE, 1962-1966

Table 2.1 K£ million

	1962	1963	1964	1965	1966
IMPORTS—					
Net Imports—Total	69.5	73.7	76.6	89.0	112.4
(from Overseas) of which					
Commercial	63.8	70.3	68.0	80.5	92.4
Government	5.7	3.4	8.6	8.5	20.0
From Uganda and Tanzania	7.3	9.2	11.4	11.7	11.1 *
TOTAL	76.8	82.9	87.9	100.7	123.5
EXPORTS—					
Domestic (Overseas)	37.9	43.8	47.1	47.2	58.1
Re-exports	7.2	7.1	6.4	4.9	4.2
To Uganda and Tanzania	17.3	19.8	25.9	29.4	28.9
TOTAL	62.5	70.8	79.4	81.5	91.2
BALANCE OF TRADE—					
External	-24.3	-22.7	-23.0	-37.0	-50.1
With Uganda and Tanzania	+100	+10.6	+14.5	+17.7	+17.8
TOTAL	-14.4	-12.1	-8.5	-19.3	-32.3

*Trade with Uganda and Mainland Tanzania. For Customs purposes Zanzibar is considered a foreign country, and trade with it is shown in "Overseas" rather than intra-East African trade. References throughout this chapter to "Tanzania" should be understood as "Mainland Tanzania".

While this overall deficit is comparable, in monetary terms, to those of a decade or so ago it is less critical than it appears. Over the period the total value of Kenya's trade has almost doubled and the visible trade deficit now represents only 15 per cent of total trade as opposed to 27 per cent in 1956.

3. Previous *Economic Surveys* have pointed out that Kenya is to some extent an exception to the general rule that primary producers are subject to constantly falling prices. This seems once again to have been true in 1966; despite one or two falls, notably in coffee, there was a small rise in export income due to rising prices overall, and the export price index improved by about one point. However, much the largest part of the higher export value is attributable to increases in export quantities.

VALUE OF OVERSEAS EXPORTS, 1962-1966

Table 2.2 K£'million

	1962	1963	1964	1965	1966
At current prices	37.9	43.8	47.1	47.2	58.1
At 1960 prices	39.8	44.7	45.1	44.9	55.7

Average coffee export prices fell by K£23.10s. per ton, partly in line with the world trend but partly because of a fall in the quality of coffee produced. But a few commodities, particularly hides and skins, benefiting from a world

shortage of leather, improved their price level appreciably. Sisal prices, however, continued to slide from 1965 and fell another 10 per cent over the year. The low level of coffee prices and the export restrictions of the International Coffee Agreement, the increasing probability of the development of effective substitutes for pyrethrum and the growing competition from polypropylene for sisal give cause for concern for the rate of expansion of agricultural exports in the next few years.

4. Despite the slight increase in export prices, the terms of trade moved further against Kenya; the gap between the level of prices received for exports and that paid for imports of manufactures widened again in 1966. This problem, which faces all primary producing countries, shows no sign of easing.

Rc wgt p'qñGz wgt pñVt cf g

5. The pattern of Kenya's exports remained very much the same as in 1965. Coffee and tea were responsible for K£7.3 million of the K£11 million increase in domestic exports, and these, together with petroleum products, made up 56.9 per cent of total domestic exports in 1966. In contrast to 1965, it was the agricultural sector which recorded the greatest gains. The performance of the major export commodities is summarized in Table 2.3,

OVERSEAS EXPORTS, 1965 AND 1966

Table 2.3

	VALUE		INCREASE IN			
	1965	1966	Value		Qty.	Price
	K£'000	K£'000	K£'000	%	%	%
Coffee, unroasted	14,096	18,780	+ 4,684	+ 33	+42	- 7
Tea	6,085	8,714	+ 2,629	+ 43	+ 42	+1
Petroleum products	4,544	5,678	+ 1,135	+ 25	+ 18	+ 6
Sisal	3,852	3,340	- 511	- 13	- 4	- 9
Meat and meat products	2,468	2,994	+ 526	+ 21	+ 26	- 4
Pyrethrum (extract and flowers)	2,230	2,825	+ 595	+ 27	+ 47	+ 4*
Hides and skins, undressed	1,756	2,573	+ 817	+ 48	+ 3	+ 43
Wattle extract	711	1,455	+ 743	+ 105	+ 96	+ 5
Soda ash	806	1,111	+ 305	+ 38	+ 43	- 4
Cotton, raw	747	869	+ 121	+ 16	+ 26	- 7
Cement	939	843	- 96	- 11	- 15	+ 5
Beans, peas, etc.	475	577	+ 102	+ 21	+ 33	- 9
Wool	560	565	+ 5	+ 1	+ 5	- 4
Pineapples, tinned	775	535	- 239	- 31	- 33	+ 3
Metal scrap	443	437	- 6	- 2	- 31	+43
Cashew nuts, raw	480	429	- 51	- 11	- 16	+ 7
Copper, unwrought	883	419	- 463	- 52	- 57	+ 11
Animal feed	224	396	+ 172	+ 77	+ 72	+ 3
Butter and ghee	293	392	+ 99	+ 34	+ 22	+ 10
Wood carvings	336	384	+ 48	+ 14		
Wattle bark	118	142	+ 23	+ 20	+ 30	- 7
Other	4,352	4,615	+ 263	+ 61		
TOTAL	47,173	58,073	10,900	23

*Extract only

6. Exports of non-agricultural products—petroleum products, cement, copper, soda ash, tinned pineapples, and wattle extract—rose overall by K£1.4 million. Of this net rise, K£1.1 million was, however, due to oil refinery

exports (mainly to Zambia). Exports of copper, with an 11 per cent increase in price, fell by 57 per cent in quantity, from 3,664 to 1,564 tons, and 52 per cent in value. Tinned pineapple exports, which also rose slightly in price, fell by 33 per cent in quantity, mainly due to lower demand for these products in the U.K. Exports of cement fell by 10 per cent because of diversion of production to the home market. Soda ash exports made a healthy recovery with the development of markets in the USSR and, at K£1.1 million, regained their 1963 level. Trade in wattle bark extract was also more buoyant than in recent years with a 105 per cent increase.

7. In the agricultural sector, apart from the increases in coffee and tea mentioned above, hides and skins and pyrethrum extract and flowers recorded the best advance. A 50 per cent price increase in hides caused the sharp increase in their export value and a 500 tons increase in quantity of pyrethrum extract and flowers was the cause of the higher export value of that item.

8. The expansion of agricultural exports projected in the 1966-70 Plan still seems reasonable in spite of increasing marketing difficulties but the longer term outlook is a matter of concern. It is unfortunate that the rate of growth of exports of manufactures has slowed down so much; even petroleum products, the source of a large part of export growth in the last two years, have now levelled out with the arrival on stream of the Dar es Salaam refinery. There is still too much dependence on coffee and tea and it seems unlikely that this situation can be changed in the short term.

9. Last year's *Survey* forecast that net imports, influenced by the need to import maize in the first half of the year, the delivery of two Super VC10 aircraft, and rising capital expenditure, might rise by K£5 million. This forecast was too conservative for, as indicated above, the rise in imports was 26 per cent or K£23 million. The largest increases overall were as follows:—

	<i>K£ million</i>
Aircraft and miscellaneous transport equipment	+ 6.3
Machinery	+ 4.5
Road vehicles	+ 1.5
Maize	+ 1.4
Railway rolling stock	+ 1.0
Kerosene	+ 1.0
Metal and manufactures	
(excl. iron, steel, aluminium)	+ 0.8
Sugar	+ 0.7
Paper and manufactures	+ 0.7
Wheat	+ 0.5
Clothing	+ 0.5

10. As stated above, K£11.4 million of the total rise in imports is attributable to "Government imports". Seventy-five per cent of this increase was due to imports for the East African Airways, Railways and Harbours, and Posts and Telecommunications organizations, and was made up of the following: —

	<i>K£ million</i>		
	1965	1966	<i>change</i>
Aircraft	0.7	6.0	+ 5.2
Aircraft parts	0.9	1.9	+ 1.0
Railway vehicles	0.9	1.9	+ 1.0
Aircraft engines	0.1	0.9	+ 0.8
Telecommunications apparatus	0.6	1.2	+ 0.5

The joint East African ownership of these corporations means, first, that imports into Kenya are not necessarily finally destined for use solely in Kenya and therefore Kenya's "Government imports" are always somewhat inflated; and secondly, that large capital outlays like the K£6 million spent by Kenya on the VCIO's are balanced by a capital inflow since they are purchased on deferred terms. Indeed, the increase in the adverse visible balance of trade in 1966 was in large measure a reflection of rising capital investment in the country.

11. Comparison of the import structure of 1966 with that of a decade ago shows remarkably little relative change within broad groups. Raw material imports, a very small proportion of the total, are the only one showing a consistent rise; most other groups seem to have increased parallel with each other except for fuels, which have shown a slight decline as a percentage of the total.

END-USES OF NET IMPORTS, 1956 AND 1964-1966

Table 2.4

CATEGORY	K£ '000				PERCENTAGE OF TOTAL			
	1956	1964	1965	1966	1956	1964	1965	1966
1. Food, drink, tobacco	5,286	6,733	10,405	12,802	7.6	8.8	11.7	11.4
2. Basic materials	941	2,168	3,448	3,536	1.3	2.8	3.9	3.1
3. Fuels	9,369	9,271	10,281	11,820	13.4	12.1	11.6	10.5
4. Semi-manufactures and chemicals	24,534	26,138	31,819	35,441	35.1	34.1	35.7	31.5
5. Transport equipment	9,092	11,343	13,268	20,482	13.0	14.8	14.9	18.2
6. Capital goods, other	12,290	13,473	11,627	18,201	17.6	17.6	13.1	16.2
7. Miscellaneous consumer goods	2,927	3,860	4,124	5,304	4.2	5.0	4.6	4.7
8. Miscellaneous	5,386	3,609	4,065	4,811	7.7	4.7	4.6	4.3
TOTAL	69,823	76,595	89,037	112,396	100.0	100.0	100.0	100.0

If individual commodities had been considered, it would have been noticed that some important changes had taken place over the last ten years of which perhaps the most important has been the substitution of crude oil for refined

products—the main reason for lower import value of "fuels". Yet the fact remains that although Kenya industry has expanded very considerably over the period, the overall level of imports has grown rapidly and the basic composition of imports has changed relatively little as between consumer goods, fuels and capital goods. It is frequently suggested that the creation of import-saving industries will cause basic structural changes in the pattern of imports, and up to a point it is true that consumer-goods imports will be replaced by locally produced goods; but weight must also be given to the fact that as average income rises so the horizon of consumer demand expands and additional—if perhaps different—consumer goods are imported. The problem is less that such imported goods will be required for consumption and more that capital priorities for development may cause a shortage of foreign exchange. In this situation, it becomes necessary sometimes to impose cuts on consumer-goods imports. However, as a result of the recent strength of the Kenya balance of payments position, it has not been necessary to consider such action here and import controls, where imposed, have been concerned mainly with protection of local infant industries or with revenue.

12. Re-exports fell by K£643,000 on 1965, mainly in machinery and transport equipment. Re-exports of lubricating oils rose by K£200,000.

Direction and Balance of Trade

13. As in past years, the United Kingdom provided the biggest single-country source of imports and market for exports (although the proportion of exported goods shipped through, rather than into, Britain is not known). The trade gap between the United Kingdom and Kenya widened from K£15 to K£25 million. The main factor in the K£12.5 million increase in imports was higher imports of machinery and transport equipment. Again, the VC10's with their ancillary equipment make up a large part of this, but there were also heavy importations of railway rolling stock, telecommunications equipment, vehicle chassis for assembly, and textile machinery. It must be noted, again, that the larger part of the increase is ascribable to "Government imports". While Britain's exports to Kenya increased from 28 to 34 per cent of total net imports, Kenya's to Britain remained at 21 per cent of total domestic exports, with an absolute increase of K£2 million. Exports to the EEC, with West Germany as the largest buyer, expanded by K£2.5 million, or 21 per cent, giving the EEC 25 per cent of total exports in 1966. Nineteen per cent of Kenya's imports originated from the EEC. Trade with EFTA, excluding the United Kingdom, remained at about its 1965 level; again, the deficit widened slightly. The sharp deterioration in the overall visible trade balance is reflected in a deterioration in the trade balance with nearly every trading partner. In part, these adverse trade balances will be covered by an increase in capital liabilities and mention has already been made of the two VC 10 aircraft—K£6 million—in this respect. The recent restrictive measures on imports from Japan have caused the trade gap with that country to narrow from K£7.3 million to K£900,000.

DIRECTION OF TRADE AND TRADE BALANCES, 1964-1966

Table 2.5

K£'000

AREA/COUNTRY	NETIMPORTS			EXPORTS*			BALANCE		
	1964	1965	1966	1964	1965	1966	1964	1965	1966
STERLING AREA—									
United Kingdom	23,551	25,164	37,752	11,272	11,079	13,511	-12,279	-14,085	-24,240
Bahrein Islands	219	-77		276	184	146	+57	+261	+146
Hong Kong	876	733	1,750	303	291	398	-573	-442	-1,352
India	2,367	2,171	3,501	1,570	1,545	1,596	-797	-626	-1,905
Kuwait	5,043	2,887	2,291	163	152	118	-4,880	-2,735	-2,173
Other	3,424	4,358	4,450	6,427	6,298	6,769	+3,003	+1,940	+2,319
TOTAL	35,476	35,236	49,744	20,010	19,548	22,538	-15,466	-15,688	-27,206
DOLLAR AREA—									
Canada and Newfoundland	228	551	536	1,894	1,848	2,080	+1,666	+1,297	+1,544
United States of America	4,837	8,511	11,275	4,870	2,750	5,384	+33	-5,761	-5,891
TOTAL	5,065	9,062	11,811	6,764	4,598	7,464	1,699	-4,464	-4,347
WESTERN EUROPE (excluding U.K. and Eire)—									
Western Germany	6,991	6,147	8,056	7,282	7,398	8,150	+291	+1,251	+93
Other EEC countries	7,307	9,114	13,198	4,857	4,570	6,373	-2,450	-4,544	-6,825
Other	3,413	3,588	4,277	3,248	3,524	3,897	-165	-64	-381
TOTAL	17,711	18,849	25,531	15,386	15,492	18,420	-2,325	-3,357	-7,112
EASTERN EUROPE—TOTAL	1,748	1,870	4,347	1,540	1,005	1,549	-208	-865	-2,798
REST OF THE WORLD—									
Africa (non-sterling)	1,128	1,125	1,275	4,024	3,899	3,893	+2,896	+2,774	+2,618
China	696	954	1,944	394	633	931	-302	-321	-1,013
Iran	2,052	4,149	7,900	117	131	143	-1,935	-4,018	-7,757
Japan	7,122	9,058	2,695	1,648	1,730	1,794	-5,474	-7,328	-901
Other	1,933	4,850	2,682	1,419	1,840	1,982	-514	-3,010	-700
TOTAL	12,931	20,136	16,496	7,602	8,233	8,743	-5,329	-11,903	-7,753
SHIPS' STORES, PARCEL POST AND SPECIAL TRANSACTIONS	3,659	3,883	4,466	2,247	3,167	3,594	-1,412	-716	-872
GRAND TOTAL	76,595	89,037	112,396	53,548	52,042	62,308	-23,046	-36,995	-50,088

*Includes re-exports.-

14. Imports from Eastern Europe expanded enormously in 1966. Including the USSR, imports rose from K£1.9 million to K£4.3 million, a rise of 126 per cent. Exports, however, increased by only K£544,000, increasing the deficit with Eastern Europe by K£1.9 million.

15. Kenya has consistently had a favourable trade balance with most other African countries, although her trade with Africa outside of Uganda and Tanzania has always been a very small—if growing—part of the total. The most interesting item in this trade in 1966 was trade with Zambia, which increased by K£1.2 million. While the airlift for oil contributed K£800,000 to this, exports of all other sectors increased—notably foods (largely bacon and temperate vegetables), and, among manufactures, paper bags and boxes, portland cement, and clothing and footwear.

TRADE WITH COUNTRIES IN AFRICA, 1964-1966

Table 2.6

K£'000

	EXPORTS*			NET IMPORTS		
	1964	1965	1966	1964	1965	1966
MAINLAND—						
Uganda	12,581	15,339	15,619	7,244	7,135	7,317
Tanzania	13,299	14,087	13,282	4,110	4,569	3,806
Somalia	966	658	324	9	9	10
Ethiopia	209	180	224	26	92	36
Sudan	1,393	1,446	947	9	49	7
Rwanda and Burundi	380	605	754	4	5	26
Congo (Kinshasa)	207	174	646	725	314	624
Rhodesia	405	376	—	268	287	- 9
Malawi	98	139	210	303	371	203
Zambia	191	457	1,735	156	134	156
Mozambique	336	57	128	330	638	501
Egypt	80	92	88	29	12	19
Algeria and Libya	44	39	22	-	5 52	
Ghana and Nigeria	47	37	51	4	23	4
INDIAN OCEAN ISLANDS—						
Mauritius	692	679	601	9	6	3
Zanzibar	472	502	326	97	55	92
+Other	586	811	910	1	2	8
TOTAL	31,986	35,678	35,867	13,324	13,707	12,855
Percentage of all Exports/ Imports	40.3	43.8	39.4	15.1	13.6	10.4

*Including re-exports (except for East African trade),
+Includes Madagascar, Reunion and Seychelles.

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16. The Kampala Agreement of 1964 covering East African trade was intended to reduce the imbalance which existed in Kenya's favour, and to promote more balanced industrial growth in the economies of the three East

African countries. Its consequences have shown themselves particularly in the adoption of an increasingly protectionist policy by Tanzania, which in 1965 imposed import licensing on a wide range of goods, whether originating from outside East Africa or from Kenya or Uganda. This was further extended in 1966, and the list now covers over a hundred commodities. The major Kenya exports that have been affected are meat preparations, dairy products, cereals, beer, cigarettes, soaps, margarine and shortening, insecticides, exercise books, woven fabrics, sisal bags, iron and steel products, aluminium products, furniture, clothing and footwear.

17. The evidence of 1966 shows great variation in the application of the licensing system. In general it seems that it is being flexibly applied, and that its main purpose is to be a potential means of control, rather than prohibition, in the Tanzanian import structure. Thus, the commodities most seriously affected by the restrictions in 1966 were clothing and footwear (exports of which were cut by 54 per cent), and cigarettes. Exports of beer also fell by a third, and those of aluminium products from K£41,000 to K£3,000. Among other products subject to the new restrictions, however, margarine and shortening showed a 108 per cent rise, and woven fabrics a 206 per cent rise. Exports of petroleum products fell off slightly with the opening of the new Dar es Salaam refinery, and it is expected that these will continue to fall as it increases its output.

18. Despite the increases which did occur, however, the total value of exports to Tanzania declined by K£805,000, a 6 per cent decrease compared with 1965, and at the same time, imports from Tanzania into Kenya also fell by K£764,000, so that the trade imbalance in Kenya's favour closed by only K£41,000; the goods primarily responsible here were aluminium products, onions, and vegetable oils. Very few increases in imports from Tanzania were recorded.

19. On the other hand, exports to Uganda increased by a further K£300,000 in 1966. While trade in most items expanded, the largest growth was in woven fabrics. Petroleum products maintained a steady increase but exports of sisal bags and of iron and steel goods fell off considerably. Imports showed a 3 per cent increase overall, concealing large rises in such goods as beer, woven fabrics and iron and steel goods, and heavy falls in raw sugar, margarine and shortening, and unmanufactured tobacco.

20. The divergent trends of Kenya's trade with Tanzania (falling) and Uganda (slightly rising) provide food for thought. Trade to be successful needs to be a two-way business but attempts to maintain an even balance with each and every country separately can be self-defeating, particularly if these attempts take a restrictive form as in the case of Tanzania's trade with the rest of East Africa. Controls over exports from a close trading partner may be effective in the country imposing these but will increase competition in the country against which the controls are directed and will in consequence

EXPORTS TO UGANDA AND TANZANIA, 1964-1966

Table 2.7

K£'000

ITEM	To UGANDA			To TANZANIA		
	1964	1965	1966	1964	1965	1966
FOOD—						
Meat and meat preparations	139	209	194	209	152	162
Dairy products	848	1,361	1,175	346	309	443
Cereals and cereal preparations	1,549	1,089	1,011	1,096	1,048	387
Fruit and vegetables	201	209	279	276	310	371
Coffee and tea	119	99	175	332	352	318
Other foods	477	494	570	540	531	837
TOTAL	3,248	3,461	3,405	2,724	2,702	2,518
BEVERAGES AND TOBACCO—						
Beer	156	64	57	805	690	438
Cigarettes	802	452	364	823	363	163
Other	310	93	111	112	147	249
TOTAL	1,268	609	532	1,740	1,200	850
BASIC MATERIALS AND FUELS—						
*Petroleumproducts	1,045	2,153	2,369	1,468	2,752	2,062
Other	181	572	437	214	369	339
TOTAL	1,226	2,725	2,807	1,682	3,121	2,401
MANUFACTURED GOODS—						
Chemicals and products:						
Soaps, cleansing and polish-						
ing preparations	549	677	713	971	592	623
Other	790	1,044	1,144	716	938	1,306
Bicycle tyres and tubes	181	185	191	100	92	77
Paper, paperboard and manu-						
factures	447	569	617	418	526	801
Textile fabrics, articles, etc.:						
Sisal bags and sacks	378	478	137	118	95	122
Other	424	566	1,353	250	296	835
Cement	119	68	81	764	880	803
Iron and steel	699	781	175	165	25	47
+Aluminium	111	38	6	24	41	3
Metal manufactures	837	989	974	780	751	776
Clothing	868	1,347	1,477	1,134	1,020	178
Footwear	605	600	404	793	694	607
Other	797	1,160	1,548	831	1,010	1,280
TOTAL	6,805	8,502	8,820	7,064	6,960	7,459
MISCELLANEOUS—TOTAL	34	42	56	88	104	53
GRAND TOTAL	12,581	15,339	15,619	13,299	14,087	13,282

*Excludingby-products.

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

reduce the ability of the controlling country to sell its own goods. Thus, the main effect of the Tanzania controls has been to reduce trade in both directions—the balance of trade is very much the same and a net loss to both seems to have been achieved. On the other hand, trade with Uganda, subject to very few controls, has continued to expand in both directions, in spite of a substantial drop in Uganda's sugar exports to Kenya which traditionally has been the main part of Uganda's trade with this country.

21. The drop in imports of sugar from Uganda goes back to 1965 when the surplus available in Uganda for export to Kenya declined and Kenya had to seek the balance of its requirements from other sources. Since then, the price of sugar available on the "free" market has dropped sharply and the landed cost in Mombasa of sugar imported from overseas is well below that paid for Uganda sugar, the price of which is fixed within a modified version of the Commonwealth Sugar Agreement. A high level of imports from abroad (largely from Eastern Europe) has therefore been maintained. However, domestic production during the current year is expected to be twice that of 1966, following the installation of new capacity. This and further development over the next few years will sharply reduce if not eliminate imports from overseas, although imports from Uganda are likely to be required.

Export Promotion

22. Steps taken by the Government to promote Kenya's exports in 1966 included Ministerial trade delegations to various countries and representation at international trade fairs. A delegation visited the Arab countries and another went to discuss export prospects in the Congo (Kinshasa). As part of a major trade drive to Zambia, which is showing encouraging results, as noted above, Kenya took part in the 1966 Lusaka trade fair. A Kenya exhibit was also included in the Tel Aviv fair. New trade missions to the Arab States and to the Indian Ocean Islands are planned for 1967. Exhibits are also planned for the 1967 Lusaka fair and the Berlin "Partners for Progress" exhibition. Kenya is also an exhibitor at the recently opened Montreal exposition but this is seen as less of a trade fair as such than an exhibition giving a general image of the country—although of course, it is hoped that such a display will help to promote Kenya's exports in North America and promote its attractions for tourists.

23. With the re-establishment of the Export Promotion Council as a semi-independent body, intended to recommend measures to promote exports to the Government, to organize Kenya's participation in trade fairs and to give practical help to exporters, particularly traders starting to export for the first time, it is hoped that more incentives will be given to exporting industries and that advice on exporting will be more readily available.

IMPORTS FROM UGANDA AND TANZANIA, 1964-1966

Table 2.8

K£'000

ITEM	FROM UGANDA			FROM TANZANIA		
	1964	1965	1966	1964	1965	1966
FOOD—						
Meat and meat preparations	72	4		88	127	
Cereals and cereal preparations	163	208	276	280	340	89
Fruit and vegetables	76	106	155	420	453	353
Sugar, not refined	1,961	835	220	5	147	1
Coffee and tea	71	38	20	61	41	33
Margarine and shortenings	313	491	557	7	32	20
Other	212	331	339	216	261	231
TOTAL	2,868	2,013	1,567	1,077	1,401	842
BEVERAGES AND TOBACCO—						
Beer	6	27	153	17	1	1
Cigarettes	517	177	34	112	71	34
Unmanufactured tobacco	476	809	407	279	409	352
Other	2	33	21	4	9	10
TOTAL	1,001	1,046	615	412	490	397
BASIC MATERIALS AND FUELS—						
Oil seeds, oil nuts and oil kernels, etc.	7	27	50	174	121	187
Vegetable oils	753	983	678	305	480	343
Electricity	406	418	440	14		
Other	131	140	145	219	147	255
TOTAL	1,297	1,568	1,314	712	748	786
MANUFACTURED GOODS—						
Soaps, cleansing and polishing preparations	229	306	346	6	4	6
Textile fabrics, articles, etc.:						
Cotton piece goods	1,289	1,261	1,905	187	59	60
Other	54	46	80	373	422	406
Iron and steel	185	186	382	80	103	26
*Aluminium				401	509	341
Metal manufactures	85	91	150	71	114	155
Clothing	17	31	68	99	108	38
Footwear	15	42	64	342	258	247
Other	204	539	819	344	346	494
TOTAL	2,078	2,502	3,815	1,902	1,923	1,773
MISCELLANEOUS—TOTAL	4	5	5	7	7	10
GRAND TOTAL	7,244	7,135	7,317	4,110	4,569	3,806

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

CHAPTER 3—AGRICULTURE

Climatically the year 1966 was much more favourable than 1965, when drought conditions in most areas had led to serious food shortages and a decrease in the production of almost every agricultural product. The long rains in 1966 were extremely good and provided almost ideal conditions during the cereal-growing season. After this crop had been harvested, food supplies were abundant, although disappointing short rains led to reduced levels of food-crop production in the last few months of the year. In 1966, sales of almost every crop exceeded the 1965 level to such an extent that there was an overall increase of nearly 18 per cent in the total value of marketed production. This was matched by an estimated increase in the value of output in the non-monetary sector of 13.9 per cent.

2. The year 1966 began with an acute food shortage, after the disappointing maize harvest of late 1965. So as to meet the urgent need for maintaining food supplies, the Government imported 140,000 tons of maize from the United States during the early months of 1966, over and above the 80,000 tons imported in 1965. All of this was yellow maize, which is not a popular food, and with good maize crops being harvested from the early plantings in 1966, a substantial portion of the imported maize remained unsold when local white maize was available in sufficient quantity to meet demand. Most of the surplus imported maize had to be disposed of either through re-exports or by sale at a subsidized price for livestock food. The wheat harvest in 1965 was also lighter than anticipated, and, in the light of the continuing high demand for wheat and wheat flour products, substantial quantities of wheat also had to be imported into East Africa.

3. After abundant crops had been harvested from the plantings of early 1966, the food shortage was completely overcome. With the flow of produce on to the market, the acute scarcity of livestock food was also brought to an end during the second half of the year. These had earlier been in very short supply, and quantities of imported cereals were also obtained for compounding into concentrated foods for livestock.

4. The gross value of marketed agricultural produce rose in 1966 to a record high level of K£56.3 million. The value of marketed produce and its division between the large and small farm sectors is shown in Table 3.1. A new system has been adopted for the calculation of gross farm revenue, which is related to the revision of the Gross Domestic Product figures discussed in Chapter 1. The new system differs from the old one in two major ways. The first difference arises from the fact that gross farm revenue has been recalculated for 1963 and subsequent years on the basis of sales made during the calendar year. This introduces a desirable element of consistency between the figures for each particular product which did not exist before. During previous years, the production of some crops had been estimated on a calendar year basis, whilst for other crops the sales figures used were those recorded during the last accounting period of the commodity board or

other agency which dealt with them. This meant that, under the old system, sometimes the sales shown for a particular year were mostly made during the previous calendar year but were shown as sales for the year during which the accounting period ended, irrespective of whether this was early or late in the year. Whilst the new system introduces consistency between the figure shown for the different commodities, it has meant that the figures of production for any one year are not comparable between the old and the new bases.

GROSS VALUE OF MARKETED PRODUCE 1963-1966

A.—NEW CALCULATIONS

Table 3.1

	LARGE FARM SECTOR		SMALL FARM SECTOR		TOTAL		SHARE OF SMALL SECTOR
	K £'000	Annual Increase %	K £'000	Annual Increase %	K £'000	Annual Increase %	%
1963	36,980		12,387		49,567		25.1
1964	35,913	- 2.9	13,977	+ 12.8	49,890	+ 0.1	28.0
1965	33,418	- 6.9	14,396	+ 3.0	47,814	- 4.2	30.1
1966*	36,120	+ 8.1	20,217	+ 40.4	56,337	+ 17.8	35.9

*Provisional.

B.—OLD CALCULATIONS

	LARGE FARMS	SMALL FARMS	TOTAL
	K£m.	K£m.	K£m.
1963	40.9	11.6	52.5
1964	42.0	13.9	55.9
1965	36.9	14.5	51.4
1966	37.5	19.7	57.2

5. The second change that has been made in the calculation of gross farm revenue is the exclusion of certain items that are produced but later consumed within the agricultural sector. In previous estimates, a value had been placed on the quantity of seed and the numbers of livestock that were sold by one group of farmers to another, but since these were merely intra-sectoral transfers they have been excluded from the new calculations. A related feature is the omission of the value that was placed in previous years on the fodder crops that farmers grew for consumption by their own livestock. The exclusion of items of this kind mainly accounts for the lower levels of gross farm revenue that have resulted from the adoption of the new method of calculation.

6. The increase in the value of sales in 1966 was not evenly shared between the large and small farm sectors. Although there was an increase in both of the two parts into which the agriculture industry can conveniently be divided, the rate of increase was very much greater in the small farm sector, the value of marketed production in 1966 being over 40 per cent higher than in 1965. At the same time, the value of production in the large farm sector showed an increase of 8 per cent, which reflected a welcome reversal in the downward trend which took place during the previous two years. However, its contribution to total marketed production fell to just over 64 per cent, as production from the small farm sector continued to constitute an increasing proportion of total sales. During 1966 the area of the large farm sector continued to diminish as more farms were purchased for sub-divisional land settlement under the last stages of the purchase programme for the High Density "Million-acre" and Low Density schemes, but as is shown below in Table 3.14, the area purchased was very much smaller than in previous years. Part of the increase in the value of production from the small farm sector is attributable to the growing volume of output coming from settlement schemes which, as described in a later section of this chapter, are now beginning to increase production rapidly as the settlers become more firmly established on their farms.

7. The greatest increase in the value of production between 1966 and 1965 was in coffee, where increased production of 14,803 tons brought an extra K£4.357 million* to farmers. Tea production also increased by over 12 million pounds of made tea, to produce a crop worth almost K£1.9 million more than in 1965. Large increases in production also took place with pyrethrum, castor and oil seeds, pulses, and dairy produce. Production of some other crops, however, showed a significant decline. The value of wheat sales in 1966 was less than in 1965, reflecting the much-reduced quantities harvested after the poor year in 1965. By the end of the calendar year little had been sold off the farms of the much better crop grown in 1966 and the value of this heavier crop will be reflected in the figures for 1967, together with improved barley figures which also showed a steep decline in 1966. Both the quantity and value of sisal production during the year continued to decline as a reflection of the continuing low price for this product. Total sales of sugar-cane were also significantly reduced, primarily because little was converted into jaggery; the production of white sugar increased during the year.

8. The aggregate effects of movements in the producer prices of agricultural products led to an increase in the producer value of produce marketed at current prices in 1966 of K£628,000 over the value of this quantity of production when based on 1963 prices. This is reflected in the figures of Table 3.2.

"This figure, and all other value figures in this Chapter for coffee sales, is gross of the coffee export tax of K£20 per ton.

The use of these overall aggregate figures is a little misleading since over the four years 1963 to 1966, which is a relatively short period in which to measure long-run changes in world commodity prices, there have been opposing trends which are to a large extent self-cancelling in the compilation of aggregate figures. Table 3.3 analyses the value at current prices in each of the last four years of the five main groups of agricultural commodities, which can be compared with their values at 1963 prices. Although this reflects the same aggregate situation as Table 3.2, it clearly brings out the important diverging tendencies. Between 1963 and 1966 there have been increases in the producer prices of cereals, livestock and dairy products, most of which are consumed within East Africa. Taken as a whole, there has been little change in the value of temporary crops. However, the most significant fact is the continued downward trend in the value of producer prices for permanent crops which affected coffee, tea, sisal, wattle and other important export crops. The extent of this fall was exaggerated to some extent by the fact that sisal prices were unusually high in 1963, but over this four-year period the quantity of sisal produced diminished. Even if sisal prices had been constant, a serious decline would have been observed. However, the reduction in agricultural incomes through a decline in world prices was offset by an increase in the producer price of those commodities which were mainly consumed in the East African market.

VALUE OF MARKETING AGRICULTURAL PRODUCTION AT CURRENT AND 1963 PRICES

Table 3.2

K£'000

	Gross Farm Revenue at Current Prices	Gross Farm Revenue at 1963 Prices	Cumulative "Losses" resulting from Price Changes	Annual "Gains" (+) or "Losses" (-) over Previous Year
1963	49,367	49,367		
1964	49,890	48,834	+1,056	+1,056
1965	47,814	48,723	+147	- 909
1966	56,337	55,709	+ 775	+628

9. Coffee was not only the fastest-growing agricultural product in 1966 but continued to be the most valuable, accounting for almost 31 per cent of the total value at current prices of all marketed produce. Total production increased rapidly over the last year, particularly on small farms, as more and more of the very large plantings made in the early 1960s become of bearing age.

10. The quality and price of the Kenya coffee crop is of particular importance in the context of overseas trade. Whilst there may be little that Kenya can do to influence the level of world prices, it is vital that the quality of the crop is maintained at a high level. Table 3.4 contains some details of average prices paid in the Nairobi auctions for the different grades of Kenya coffee

CURRENT VALUES OF GROUPED AGRICULTURAL COMMODITIES AT 1963 AND 1966 PRICES

Table 3.3

K£'000

Year	CEREALS		TEMPORARY CROPS		PERMANENT CROPS		LIVESTOCK		DAIRY PRODUCTS		TOTAL	
	1963 Prices	Actual Prices	1963 Prices	Actual Prices	1963 Prices	Actual Prices	1963 Prices	Actual Prices	1963 Prices	Actual Prices	1963 Prices	Actual Prices
1963	7,971	7,971	4,112	4,113	27,426	27,426	5,961	5,962	3,895	3,895	49,365	49,367
1964	6,200	6,042	4,198	4,048	29,129	30,289	5,568	5,710	3,739	3,801	48,834	49,890
1965	7,357	7,118	4,400	4,641	27,833	26,262	5,468	5,814	3,666	3,979	48,724	47,814
1966	7,001	7,377	5,355	5,390	33,738	32,416	5,623	6,336	3,992	4,818	55,709	56,337

GRADING AND PRICES OF THE COFFEE CROP, 1962/63-1966/67*

Table 3.4

GRADE	1962/63		1963/64		1964/65		1965/66		1966/67 (up to 2-5-67)	
	Share of Total Crop	Average Auction Price per cwt.	Share of Total Crop	Average Auction Price per cwt.	Share of Total Crop	Average Auction Price per cwt.	Share of Total Crop	Average Auction Price per cwt.	Share of Total Crop	Average Auction Price per cwt.
	%	KSh. /*****		KSh. /*****	%	KSh. /*****	%	KSh. /*****		KSh. /*****
AA	15.36	362/58	21.41	388/56	16.32	386/43	11.23	386/46	16.84	345/47
PB	1.95	330/53	2.56	380/50	2.14	380/96	2.20	352/30	2.12	324/93
A	25.63	322/34	24.17	371-85	23.06	371/20	18.85	367/54	21.96	330/33
E	1.58	302/54	2.65	374/38	1.98	365/29	1.49	350/11	2.25	312/67
B	31.04	290/18	24.17	353/84	28.77	358/81	32.92	339/09	21.39	314/76
C	9.28	264/04	7.32	347/35	10.56	348/59	16.82	320/40	6.87	295/82
IT	8.96	259/26	11.06	343/71	8.87	346/89	6.78	323/83	11.52	290/40
M	2.45	281/91	2.63	328/06	3.33	348/00	2.28	301/78	10.05	288/55
T	3.29	231/05	3.74	329/92	3.90	338/43	4.52	298/77	4.85	273/75
UG	0.46	—	0.29	—	1.07	—	2.91	—	2.15	—
All Grades	100.00	303/04	100.00	363/32	100.00	358/19	100.00	338/73	100.00	316/12
Total Production (tons)	33,713.6		43,460.3		38,771.6		51,252.6		33,386	
Proportion in top five Grades per cent	75.56		74.96		72.27		66.69		64.56	

*Quota years, i.e. 1st October to 30th September

and the proportion of the total crop which fell within each grade. The figures reflect a disquieting situation. Prices for most grades eased slightly between 1963/64 and 1965/66, but have taken a fairly sharp turn for the worse during the current coffee quota year. This trend to some extent accounts for the diminishing average value of all coffee sold each year since 1963/64. However, during this period there was also a reduction in the average quality of coffee being offered for sale. The proportion of the crop coming in the top five grades fell from almost 76 per cent in 1962/63 to less than 65 per cent during the current quota year. To a large extent the poor quality of the most recent crops is due to the rapid increase in production in the small farm areas, where sufficient facilities for the proper handling and preparation of the crop have not been available. During the second half of 1966, and in early 1967, a major campaign was put into effect for the building of 122 new coffee factories, particularly in Central Province and Embu and Meru Districts, and these measures, together with an intensive extension effort for the training of factory managers will lead, it is hoped, to an improvement in average quality during the coming season. However, another major cause of the decline in quality has been the continued incidence of coffee berry disease, which, despite a slackening in incidence in 1966, still constitutes a major threat to the industry. Despite intensified research efforts, no proper remedy for it has yet been found.

The Large Farm Sector

11. With only relatively small purchases being made during 1966 for settlement under the land transfer programme, the area of the large farm sector remained constant at approximately 6.5 million acres in 1965 and 1966. During the second of these two years, further sales of land to new African owners took place, although at a relatively slower rate than in previous years. After the middle of 1966, a new programme for land purchase arrangements came into effect under what is known as the Stamp purchase programme. Under this programme a number of properties are acquired by Government for operation by the Agricultural Development Corporation as State Farms, especially for the maintenance of nucleus herds of high-quality livestock. At the same time, most other large farms being purchased from their previous owners pass into the hands of the A.D.C., who will continue to own the land for some years but will admit new African farmers on take-over to operate as tenants for a number of years. When they have been taught the elements of large farm operation, and have proved satisfactory, they will begin to purchase their farms.

12. As a result of these new arrangements the number of independent African large-scale farmers did not increase in 1966 at the same rate as in 1965. The extension cover available to these farmers has, however, increased significantly with the arrival in late December 1966 of a team of 10 Dutch volunteers who have come to work in the Uasin Gishu District, as a complement to the teams of German advisers and Peace Corps workers who were

already carrying out this important function in the Trans Nzoia and Nakuru Districts. At the same time, although it was decided not to open a second training centre for farmers of this type, the throughput of the Thomson's Falls Large-scale Farmers' Training College has been increased. There are now some definite and very encouraging signs that these combined approaches are enabling the new owners of these large farms to improve their performance and, by farming more profitably, helping to maintain and increase production from the sector as a whole.

13. In Table 3.5 figures are given showing the quantity of different crops produced on large farms during the last four years. A reduction in the quantity of cereals very largely reflects the effect of the severe drought in 1965. The 1966 planted crops were known to be very much bigger than those planted in the previous year, but these will not be purchased until the first half of 1967, when they will be recorded in the figures for that year. Although there was an increase in the quantity of coffee produced, production in 1966 is still below the 1963 level, probably reflecting the continued effect of coffee berry disease. The area of coffee on large farms remained virtually unchanged. After the set-back due to drought in 1965, tea production has got back on to the rising trend line established in earlier years. Sisal production fell a little, probably as a result of the poor world price. Pyrethrum output was also reduced in a year when prices were at record high levels. This partly reflects again the poor establishment of the new plantings made in 1965, but this probably also reflects a declining interest in this crop on the part of large-scale farmers.

LARGE FARM AREAS—CROP PRODUCTION, 1963-1966

Table 3.5 '000 tons

	1963	1964	1965	1966
Wheat	105.2	128.0	153.0	124.6
Maize	102.6	53.7	56.6	53.6
Sugar cane	400.3	518.7	447.4	401.2
Coffee—clean	27.7	24.8	23.4	25.2
Tea—manufactured	17.3	19.0	18.0	23.5
Sisal—fibre and tow	58.7	58.5	59.8	55.1
Wattle—green bark	22.1	20.0	16.0	25.5
Wattle—stick bark	4.4	3.1	3.8	4.3
Pyrethrum flowers	3.9	2.2	2.9	2.5

14. Details are shown in Table 3.6 of the numbers of different kinds of livestock reported as being on large farms at the date of the census which is taken in the middle of each year. It appears that the trend of falling populations of cattle and sheep has at last been reversed, with small increases in the number of each type being recorded in 1966 as compared with the number reported in the middle of the previous year. This reverses the trend which

began in 1960. It is likely that a small but steady increase will continue in the next few years, although in view of the large acreages that have been transferred out of the large farm sector, it is unlikely that stock numbers will ever return fully to their 1960 levels. The number of pigs on farms fell sharply again during 1966, this decline being reflected elsewhere (in Table 3.8) in an increase in the number of sales, as fewer stock were retained for breeding and more sent off for killing as soon as they were ready, particularly during the earlier part of the year, when concentrate foods were both scarce and expensive. The consequences of this development are now being felt in an acute shortage of bacon and other pig products, which it is hoped will soon be reversed as a result of the increased prices now being paid to producers.

LARGE FARM AREAS—LIVESTOCK NUMBERS, 1960-1966

Table 3.6 '000 head

	1960	1961	1962	1963	1964	1965	1966
Dairy cattle	412.7	392.7	355.7	332.0	284.6	260.1	261.7
Beef cattle	566.9	549.1	530.4	480.7	451.1	446.3	476.6
Sheep	582.6	580.2	510.9	501.8	409.8	399.8	433.8
Pigs	50.5	41.4	34.5	35.4	36.6	36.3	30.5
Poultry	255.8	280.6	287.7	255.7	203.3	198.7	186.6

ANNUAL PERCENTAGE CHANGE IN LIVESTOCK NUMBERS, 1960-1966

Table 3.7

	1961	1962	1963	1964	1965	1966	1960-66
Dairy cattle	-4.8	-9.4	-6.7	-14.3	-8.6	+0.6	-36.6
Beef cattle	-3.1	-3.4	-9.4	-6.2	-1.1	+6.7	-15.9
Sheep	-0.4	-11.9	-1.8	-18.3	-2.4	+8.5	-25.5
Pigs	-18.0	-16.7	+2.6	+3.4	-0.8	-16.0	-39.6
Poultry	+9.7	+2.5	-11.1	-20.5	-2.3	-6.1	-27.1

15. The increase in the number of dairy cattle, although very small, does represent a fairly fundamental change in attitude on the part of large farmers towards more intensive breeding and stock rearing. This is further reflected by the fact that during 1965/66, 80 per cent more dairy cattle were sold from large farmers to people in the settlement schemes than during the previous year. With a continuing strong market for breeding cattle, more and more owners of grade stock are likely to continue making efforts to keep and rear as many of their female stock as they can. With increasing competition between buyers from several sources including the settlement schemes, other small-scale farming areas, and buyers from other African countries, prices of over K£50 per head for high-quality cows and heifers-in-calf were being paid during the second half of 1966. Due to the drain on the national herd, restrictions have had to be placed on the export of live dairy cattle to neighbouring

territories, whilst the potential of the national dairy herd has been increased during the year through the importation of a relatively large number of pedigree animals from Western Europe. As a result of this combination of factors, there was a small but perceptible increase in the number of dairy females retained in the period up to May 1966. In the light of the likely continuation for several years yet of high prices for mature dairy stock, there is no reason to suppose that this trend will not continue.

16. The recovery from the drought is reflected quite clearly in the figures of dairy products sold, which are given in the lower part of Table 3.8. Due to a rapid increase in the local market for whole milk, and increasing demand at favourable prices from Uganda, the quantity of whole milk sold by farmers during the year increased over the 1965 level by slightly more than one-third to an estimated 21 million gallons. At the same time, sales by farmers of butterfat were only slightly reduced, reflecting an overall increase in the quantity of milk sold by large farms in one form or another of almost 12 per cent, much of which can be attributed to the improved quality of the grazing available during 1966.

LARGE FARM AREAS—LIVESTOCK PRODUCTION, 1963-1966

Table 3.8

		1963	1964	1965	1966*
SALES OF LIVESTOCK FOR SLAUGHTER—					
Cattle and calves	'000 head	117.2	98.1	90.2	91.0
Sheep and lambs	'000 head	85.0	78.6	71.4	67.0
Pigs	'000 head	43.2	42.2	42.5	50.7
Poultry	'000 head	229.6	215.7	200.9	200.0
OTHER PRINCIPAL PRODUCTS SOLD—					
Wholemilk	'000 gal.	17,107	16,040	15,675	20,923
Butterfat	'000 lb.	9,772	7,852	6,972	6,654
Wool	'000 lb.	2,724	2,350	2,285	2,664
Eggs	'000 doz.	1,728	1,629	1,419	1,200

*Provisional.

17. The quantity of wool produced on large farms declined during the early 1960s parallel to the absolute decline in the number of sheep, although in 1966 it followed the upward trend in the sheep population. Throughout this period, however, the average weight of wool produced per sheep has steadily increased from 5.43 lb. per head in 1963 to 5.73 lb. for 1964 and 1965, and 6.15 lb. in 1966. There is every likelihood that the quality of the national flock has been considerably improved through culling over the last five years, and the wool-bearing capacity of the increasing number of sheep is likely to be reflected in a maintained level of high yields per animal. It is, of course, too early yet to know whether there is likely to be a rapid increase in sheep numbers, though

LARGE FARM AREAS—ANALYSIS OF GROSS FARM REVENUE, 1963—1965

Table 3.9

K£'000

	1963	1964	1965	1966*
CEREALS—				
Wheat	2,949	3,495	4,158	3,810
Maize	2,049	982	1,028	1,239
Barley	456	407	424	278
Oats and others	52	59	65	43
TOTAL	5,506	4,943	5,676	5,370
OTHER TEMPORARY CROPS—				
Pyrethrum	774	485	712	614
Sugar	1,092	1,360	1,473	882
Others	226	184	176	198
TOTAL	2,092	2,029	2,361	1,694
PERMANENT CROPS—				
Coffee	8,293	8,464	7,814	8,958
Sisal	6,633	5,893	3,720	2,935
Tea	6,645	7,424	6,789	9,158
Fruit	243	213	236	171
Wattle and others	369	379	381	431
TOTAL	22,183	22,373	18,940	21,653
TOTAL CROPS	29,781	29,345	26,977	28,717
LIVESTOCK—				
Cattle and calves for slaughter	2,452	2,234	2,106	2,200
Sheep and lambs	215	186	174	191
Pigs for slaughter	499	475	470	538
Poultry and eggs	269	253	222	195
Wool	387	347	319	450
TOTAL	3,822	3,495	3,291	3,574
DAIRY PRODUCTS—				
Wholemilk	1,862	1,782	1,918	2,704
Butterfat	1,408	1,156	1,102	1,010
Butter, cheese and cream	95	121	114	98
Skim milk	12	14	17	17
TOTAL	3,377	3,073	3,151	3,829
TOTAL LIVESTOCK AND DAIRY PRODUCTS	7,199	6,568	6,442	7,403
TOTAL GROSS FARM REVENUE	36,980	35,913	33,419	36,120

*Provisional. +Excluding revenue from sales to small farms.

the fairly sharp increase in 1966 over 1965 and the shortage of mutton and lamb in the first half of 1967 suggests that the numbers being retained for both breeding and further wool production has increased considerably.

18. The fact that increasing numbers of sheep were being retained probably accounts for the decline in the number of sheep and lambs sold by large farms during 1966. In contrast to the decline in the number of sheep sold for slaughter, a small increase in the number of cattle and calves sold for slaughter off large-scale farms is recorded in 1966 for the first time for some years. Although there seems to be some likelihood that beef cattle numbers on large farms will now begin to increase, it is questionable whether this will keep pace with the increase in the local demand for beef. During the first four months of 1967, local consumption of fresh beef increased by 40 per cent over the level for the same period of 1966, and although this was partly attributable to a shortage of other forms of meat, it does suggest a pace in the rate of increased local demand for beef which is unlikely to be matched by possible rates of increase in the size of the national herd, particularly in that part which is kept on the large-scale farms.

19. The estimated value of gross farm revenue on large-scale farms is shown in some detail in Table 3.9. Due to the sharp fall in the value of sisal production, the total value of sales from these farms in 1966 failed to reach the peak level of 1963. The decline in pyrethrum production is reflected once again in these figures, despite the fact that a record high price was paid in 1966. The value of sugar-cane production also fell substantially in 1966, partly as a result of the 1965 drought. However, in 1964 and particularly in 1965, large quantities of sugar were being sold and processed for the production of jaggery, but with the regulation of the sugar crop and the zoning of growers to supply the sugar mills in Central Nyanza, the quantity going for jaggery production was sharply reduced in 1966. This used to be a particularly profitable use of sugar-cane, and this fact accounts for a substantial proportion of the reduction in the value of the cane harvested.

Capital Expenditure on Large Farms

20. The recent upward trend in capital expenditure on these farms was continued in 1966, as is shown by the figures of Table 3.10. These figures, which are the amounts reported by farmers in the Annual Census of Large-scale Farms, suggest a very high rate of capital expenditure in the year up to the middle of 1966, particularly in plantation development. This item, which may have been over-estimated, consists almost entirely of the expansion of tea planting, but the increased level of reported expenditure on every one of these investment items suggests a renewed confidence in the outlook of large-scale farmers which will probably be reflected in increasing levels of production over the coming few years.

LARGE FARM AREAS—GROSS CAPITAL EXPENDITURE BY TYPE OF
EXPENDITURE, 1962/63-1965/66

Table 3.10

K£'000

	1962/63	1963/64	1964/65	1965/66
Residential buildings	343	396	606	774
Non-residential buildings	208	399	266	308
Roads, dams, drainage and water supplies	186	205	249	430
Fencing	86	115	132	182
Plantation development	851	713	595	1,318
Vehicles (excluding tractors')	590	657	660	901
Mechanical equipment (including tractors)	826	1,040	1,307	1,523
Other	199	164	258	517
TOTAL	3,289	3,690	4,072	5,953

The Small Farm Areas

21. In Table 3.11 details are given of the quantities of the principal commodities produced by small farmers and sold by them out of their districts. These figures, which include a proportionately small but increasing quantity of output derived from the settlement schemes (which for this purpose are all classified as small farms) reflect only the quantity of produce that is known to have been exported from its district of origin. The figures in this and succeeding tables take account of neither that production which is sold to other people within the district where it was produced, nor of the quantity that is never sold or otherwise exchanged but is consumed on the farms where it is grown.

SMALL FARM AREAS—PRINCIPAL COMMODITIES MARKETING, 1963-1966

Table 3.11

'000 tons

	1963	1964	1965	1966
Maize	96.7	33.2	47.9	71.9
Rice paddy	12.8	12.3	13.8	16.8
Pulses	11.8	10.1	12.9	19.2
Castor seed	4.0	4.1	5.1	7.0
Coffee—clean	9.3	16.0	15.3	25.1
Tea—manufactured	0.5	0.9	1.4	1.9
Sisal fibre and tow	11.5	8.5	3.2	1.2
Cotton, lint and seed	8.4	10.5	12.1	11.1
Wattle bark	25.8	26.1	16.7	28.8
Cashew nuts	4.0	5.9	8.9	8.1
Pyrethrum flowers	1.8	2.1	3.3	6.8

22. Maize is usually sold to the marketing boards from small-farm districts earlier than from the large-farm areas, and much of the increased production from the 1966-planted crop is reflected in the higher level of sales shown for

that year. The figures in the table, which cover only the amount sold to the Maize Marketing Board and its successor, the Maize and Produce Board, probably underestimates the quantity that was sold out of the producing districts since it takes no account of other sales which, though illegal, were made outside of the Board. During the early part of 1966 it was thought that a substantial quantity of maize was being exported across the border into Uganda, although in the latter part of the year, when plenty of food was available throughout Western Kenya and Eastern Uganda, it is unlikely that much traffic of this kind would have occurred. Sales to the Maize and Produce Board of pulses, castor seeds and other minor crops increased substantially between 1965 and 1966, and almost all of this increased production has derived from the traditional small-farming areas. Although the plentiful availability of food crops and the improved weather conditions will have been partly responsible for the higher level of output of these crops, this is unlikely to be a full explanation of the greatly increased level of sales. Possibly the establishment over the last few years of a national board which handles this kind of produce has made it possible for farmers in new areas to increase their production of these crops for the market, whilst through improved coverage the Marketing Board is likely to be handling a higher proportion of total sales than was previously the case.

23. The most significant increase in production from small-farm areas was the increment of 40 per cent in the quantity of coffee produced. This reflects a recovery from drought which, together with coffee berry disease, depleted the crop in 1965. Part of the increase derives from new production which has arisen through the coming into bearing of the large acreages of coffee which were planted during the early 1960s, particularly in the Central and Eastern Provinces. The tremendous increase in production from these areas severely taxed the processing capacity of the existing coffee factories, but as mentioned earlier, a rapid programme was undertaken in late 1966 and early 1967 to establish increased processing capacity, and to train new managers, so as to try to maintain quality at the highest possible level.

24. The quantity of pyrethrum produced in the small-farm areas has been increasing steadily since 1963, and in 1966 it was more than double the amount produced in the previous year. During 1964 and 1965 the Pyrethrum Marketing Board ran down the large stocks that had earlier been accumulated, and were therefore able to increase both production quotas and the prices that farmers received. The price offered to farmers for "over-quota" production was almost as high as the price that they received for flowers that were delivered within their quota allowance, and this has brought forth a greatly increased quantity of this crop. It is notable, however, that half of the small-farm production, and more than a third of the total national production of pyrethrum, is grown in the settlement areas. It is likely that production within the settlement schemes and amongst small-scale farmers as a whole will continue to increase. With the threat of reduced prices in the next few years it is

possible that small-scale producers, relying mainly on unpaid family workers, will take over practically all production of this crop from the large-scale farmers. Increasing competition from producers in other countries, and progress in the development of synthetic insecticides is a constant threat to the income of pyrethrum growers. In the circumstances, the best guarantee of a continued high level of income for pyrethrum producers is the growing of high-yielding strains. During the past year or 18 months, the Pyrethrum Board has been testing the pyrethrin content of plants growing on the farms of practically every pyrethrum grower in the country, large or small, in order to identify those farms on which high-yielding strains of pyrethrum are grown. This testing programme will allow all growers the opportunity of improving the pyrethrins content of their flowers within a fairly short period, and as an added incentive there is a suggestion that a differential price should be paid by the Board for flowers that are delivered to the factory with a pyrethrins content above a certain fairly high minimum level. Kenya's competitive position can probably only be maintained if growers can effectively concentrate on these high-yielding strains.

25. The gross value of farm sales from the small-farm areas is shown in Table 3.12. Although this increased by over 40 per cent in 1966 over the value for the previous year, more than half the increase was derived from coffee. Clearly the expansion of sales of this crop cannot continue indefinitely, since it is likely that the quantity of coffee produced in 1967 will exceed the Kenya quota in markets that are controlled by the International Coffee Organization. Some of this surplus coffee can be sold in "non-quota" markets, where substantially lower prices are obtained. However, the amount that will be produced in excess of our likely allocation for sales in quota markets will, within a few years, become very sizeable. Our annual quota in mid-1967 is less than 700,000 bags, or 41.2 thousand tons. Production in the present crop season might reach 1,000,000 bags (67,000 tons), and the likely production in 1970 from coffee that is already planted might be as high as 80,000 tons. It is very unlikely that the forthcoming amount of "over-quota" coffee can be sold, and during the next few years a ceiling will probably be set on the amount that farmers as a whole can hope to receive from the coffee crop.

26. In these circumstances it is imperative that the production of other crops should be encouraged if the income of farmers, particularly those in the small-farm sector, are to continue growing at anything like the present rate. The Development Plan contains a number of proposals for the expansion and introduction of other crops which can be grown on farms of this type. One of the best prospects for increased output lies in tea.

27. The expansion of smallholder production of tea continues to increase, and is likely to accelerate, as more and more of the established tea comes into production. In Table 3.13 details are given of the areas planted at the end of each financial year of the Kenya Tea Development Authority. By the middle

SMALL FARM AREAS—ANALYSIS OF GROSS FARM REVENUE, 1963-1966

K£'000

Table 3.12

	1963	1964	1965	1966*
CEREALS—				
Maize	1,899	619	862	1,446
Rice	287	276	311	376
Others	279	204	270	185
TOTAL	2,465	1,099	1,443	2,007
TEMPORARY INDUSTRIAL CROPS—				
Cotton	462	573	646	666
Tobacco	111	80	27	30
Pyrethrum	315	423	763	1,519
Sugar	245	172	142	109
Castor and other oil seeds	338	222	216	407
TOTAL	1,471	1,470	1,794	2,731
OTHER TEMPORARY CROPS—				
Pulses	282	263	308	629
Potatoes	122	147	66	180
Vegetables and others	146	139	112	156
TOTAL	550	549	486	965
PERMANENT CROPS—				
Coffee	2,703	5,462	5,130	8,343
Tea	184	366	542	754
Sisal	1,301	857	197	67
Wattle	294	281	218	341
Coconuts and products	245	324	403	449
TOTAL	4,727	7,290	6,490	9,954
FRUIT AND MISCELLANEOUS CROPS—				
Cashew nuts	140	221	397	395
Fruit	288	317	315	278
Miscellaneous crops	88	88	120	136
TOTAL	516	441	832	809
TOTAL CROPS	9,729	11,034	11,045	16,466
LIVESTOCK AND DAIRY PRODUCTS—				
Cattle and calves for slaughter	1,929	1,953	2,160	2,405
Sheep and goats for slaughter and wool	152	156	199	216
Pigs for slaughter	5	21	84	61
Poultry and eggs	54	85	80	80
Dairy products	518	728	828	989
TOTAL	2,658	2,943	3,351	3,751
TOTAL GROSS FARM REVENUE	12,387	13,977	14,396	20,217

*Provisional.

of 1966 there were nearly 27,000 growers with just over 16,000 acres of tea between them. Increasing acreages of the earlier-planted tea are now coming into production, and the volume of tea sales from the small-farm areas should increase rapidly over the next few years.

THE DEVELOPMENT OF SMALLHOLDER TEA PRODUCTION

Table 3.13

	Area Planted at end of Year	No. of Growers at end of Year	Production of Green Leaf during Year
	(Acres)		(Lb.)
Up to mid-1961	3,735	9,062	-
1961/62*	6,232	14,177	2,948,325
1962/63	8,430	18,278	4,425,405
1963/64	10,659	19,775	6,022,951
1964/65	12,683	22,343	11,655,177
1965/66	16,010	26,693	17,589,880

*K.T.D.A. Financial Year ending 30th June.

28. The production of cereals on small farms is likely to continue expanding. Maize growing for sale appears to have become increasingly popular, both as a consequence of the availability of hybrid seed in abundant quantities and as a result of the widespread extension and demonstration measures that were carried out in rural areas during the last few years by the Department of Agriculture. Despite a reduction in the gazetted producer price for the 1967 crop, there are indications that the area planted in the last few months on both large and small farms may be even greater than in 1966. With the expansion of wheat-growing in Masailand, small farmers' incomes from this crop will also increase. Although only a part of the estimated area of 200,000 acres of suitable land in Narok District has so far been exploited, the 1967 acreage of almost 28,000 acres will be around 10,000 more than was grown there in 1966, and will constitute between 8 and 9 per cent of the national plantings. These areas are expected to give yields somewhat higher than the national average, and although production from these and other small-farm areas may amount to only 10 per cent or so of the entire Kenya wheat crop, they will bring a welcome flow of funds and development activity into previously underdeveloped areas.

29. The expansion of the irrigation areas will also lead to increased production, particularly of rice. Over 13,000 tons of rice were harvested in early 1967 from the Mwea/Tebere Irrigation Scheme, where new extensions brought the irrigable area up to approximately 7,000 acres. During the last year a 200-acre extension was also completed at Perkerra, whilst work has begun on two new schemes. Work on the preparation of the pilot scheme at Ahero is nearing completion, whilst the detailed survey of the Yala Swamp area has been successfully completed and work has begun on

the essential construction tasks required for the development of this area. No further expansion has taken place on the Galole Scheme for some years. However, widespread survey and experimentation has been carried out there by a team of experts appointed by the United Nations Development Programme. They are investigating the possibility of developing some 200,000 acres of irrigable land in the Lower Tana River Basin, and their final comprehensive report on the possibilities and cost of this proposal is due to be presented by the end of 1967.

30. The expansion of cotton received a setback in 1965 and 1966 through the failure of a credit-based expansion programme, particularly in Western and Nyanza Provinces. Expansion has, however, increased in Central and Eastern Provinces which between them were likely to have produced almost one-third of the 1966/67 crop of around 32,000 bales. To cater for this expansion, a new cotton ginnery is being planned for construction at Emali. Another crop to receive a setback in its expansion is passion fruit. Two years ago there was considerable over-production of this crop in Kisii District, which is the principal growing area. Producer-price reductions were successful in reducing the acreage in production, but then a virulent attack by Brown Spot fungus ravaged the remainder of the growing vines. The area now grown there is estimated at only 150 acres. However, a major campaign has begun to combat the disease. New plantings and increased production are being encouraged through the issue of free seedlings, an improvement of the transport arrangements for delivering the fruit, an increase in producer prices, and a system of cash payments for fruit immediately on delivery. The factory in this area requires something like four million pounds of fruit annually, and it is hoped that this level of supply will be achieved by May 1968. Prospects for this crop should then be good if the disease problem can be overcome, since a new sales-promotion campaign in Europe appears to be showing encouraging results. Meanwhile, continued attention is being given to expanding the production of other high-quality horticultural crops, particularly with a view to increasing the volume of out-of-season exports to European markets.

31. Sugar planting in the Central Nyanza area is continuing according to the programme that was outlined on page 39 of the Economic Survey 1966. All the cane harvested from this expanding area will be processed for white-sugar production in two new factories. One of these at Muhoroni began receiving its first cane in late 1966, while work has already begun on the other at Chemilil.

32. Due to a shortage of suitable planting material, the expansion of the area of pineapples grown on small farms in Kiambu and Muranga Districts to supply the Thika factory has fallen behind the planned rate. However, the expansion of this crop will probably increase later in the year and in 1968, since pineapple-growing farms figure prominently in the programme for

expanding the amounts of credit available for small farmers which has just been negotiated with the World Bank. This credit project will be associated with different kinds of farm in many districts, and should give a substantial boost to the production of many different crops. The final loan agreement is for K£1 1/4 million to be issued to 8,000 farmers over the next three years. Special importance is being given to the successful operation of this credit programme. Loans will be given for the development of the whole farm on the basis of a complete farm plan, and a special cadre of loans officers and field officers in the Department of Agriculture will be devoted exclusively to the farms covered by this project.

33. An application for additional funds for use in the development of the range areas, mainly in the Trust Lands, has also been made to the World Bank, and a pre-appraisal mission from the Bank visited Kenya in March 1967 to consider this application. Also to promote the development of unrealized potential in these areas, a team of specialists has been assembled in Kenya recently under a United Nations Development Programme project to undertake a programme of education, survey and research in those areas that may be suitable for cattle ranching. This team will follow up some of the suggestions for the development of the range areas that were made in the report of the East African Livestock Survey (the MacGillivray Report). This survey, which was carried out under U.N.D.P. assistance and which was completed in late 1966, revealed the enormous potential for livestock development that there is in Kenya, and indicated some of the principal guide lines to be followed in the development of both production and markets for livestock products.

Land Settlement

34. By the middle of 1966 the purchase of land for settlement schemes organized by the Settlement Fund Trustees was drawing to a close. This programme, which combines both the "million-acre" scheme of high-density settlement and the I.B.R.D./C.D.C. schemes of low-density settlement, will eventually cover something like 1.154 million acres. In mid-1966 almost all this land had been purchased, and only approximately 100,000 acres remained to be taken over under this programme. Of the land that has already been purchased from its previous owners, all but 126,000 acres had been settled by the middle of 1966. By the middle of 1967 it is expected that all the land in the original settlement programme will have been acquired, and all of it will have been planned and settled, except for one or two particular areas which have special problems which cannot be solved very quickly. During 1966/67 the first arrangements are being made by the Department of Settlement for the next phase of the Settlement Programme, which is the purchase of 60,000 acres up to the middle of 1970. This land will be sub-divided mainly into low-density type farms in what have been called the "*Harambee*" Settlement Schemes. These schemes are part of the land transfer programme which is

being financed with long-term loans from the British Government, which were obtained after discussions which followed consideration of the report of the Stamp Mission on Land Transfer which visited Kenya in early 1965.

35. The principal activity of the Department of Settlement is now that of consolidating the settlers on their farms, and making the financial, technical and administrative arrangements that are required to allow the farmers to attain high levels of production in the shortest possible time. In the last few years the acquisition of new land and the basic planning arrangements for the sub-divisional programme have been a major preoccupation of the Department of Settlement, but the principal emphasis of that Department's activities have now shifted towards the stimulation of production on every scheme.

36. Table 3.14 gives an indication of the growth of marketed sales through co-operative societies from the settlement schemes during the last four complete financial years. Although these figures show a rapid increase, it should be noted that they do not cover all sales made from the schemes. Part of the production on the settlement farms is consumed on the farm where it is produced, or elsewhere within the scheme, whilst there is known to be a considerable volume of sales of various products outside the settlement co-operative societies. Unfortunately, the volume of these sales cannot be estimated. The rapid increase in sales through the co-operatives that has characterized the last few years can be expected to continue for some time, not only as new land is brought into production but as the intensity of operation increases on the farms that have been settled for more than one or two years. Already the settlement farmers are coming to assume national importance in the production of a few particular crops. The settlement schemes are becoming particularly important in connexion with pyrethrum production. During the 15 months up to mid-1966 the settlement co-operatives as a whole, by producing slightly more than their licensed quantity, produced over 31 per cent of all dried flowers delivered to the Pyrethrum Board. A similar situation applies to the production of milk and dairy produce. Although settlement farmers have been unable to obtain the number of grade cattle that were anticipated in their budgets and development loans, they are already producing a significant proportion of the sales made to the K.C.C. In the middle of 1966 sales from co-operative societies on settlement schemes constituted slightly more than one-seventh of all sales of milk and dairy produce to the K.C.C., and this proportion is likely to go on increasing as the shortage of dairy cattle is gradually overcome. During 1967 production and sales from the settlement schemes will continue to expand at as fast or at a faster pace than has been observed in the last few years.

37. Although the settlement farmers have already achieved considerable success, there are a number of important problems connected with the settlement programme which have to be considered. In June 1966, a joint British

THE PROGRESS OF SETTLEMENT SCHEMES, 1962/63-1965/66*

Table 3.14

		1962/63	1963/64	1964/65	1965/66
		Acres	Acres	Acres	Acres
Acres of land purchased	Annual	246,828	307,273	219,673	80,722
	Total	429,497	736,770	956,443	1,037,165
Families settled	Annual		10,485	8,557	4,516
	Total	5,197	15,682	24,239	28,775
<i>Produce Sold through Co-operative Societies</i>		£	£	£	£
Milk			117,871	284,857	424,362
Pyrethrum			22,624	109,921	425,344
Butterfat			57,492	65,925	95,178
Beef		..	25,181	58,368	53,329
Wheat			3,213	32,220	29,622
Other products			22,278	62,574	129,963
TOTAL ANNUAL TURNOVER		40,338	248,659	613,865	1,157,798

*Years ending 30th June.

and Kenya Government mission was brought together to undertake a comprehensive study of all aspects of land settlement in Kenya, including principally the schemes put into effect by the Settlement Fund Trustees, but also taking into account various other types of settlement that have from time to time been implemented. This mission presented its report to the Kenya Government in November 1966 and the numerous suggestions and recommendations that were made are being considered by Government. It is expected that, as a consequence of this study, various changes in the operation of the settlement programme will be made which will lead to improvement, not only in production from the schemes but also in the repayment situation, which unfortunately is lagging far behind the scheduled rate of repayment. These changes will be introduced on the schemes during the course of 1967.

Land Registration in the Traditional Small Farm Areas

38. Tables 3.15 and 3.16 show the progress made during 1966 in the registration of land in the former Trust Land areas. The rate at which land came on to the Register continued to increase in 1966, as more and more of the work in consolidation areas was completed, and the remaining task consisted almost entirely of adjudication in areas where fragmentation was not serious. By the end of 1966, a total of 2,087,000 acres had been registered. Of this, 215,000 acres in Murang'a District had to be cancelled in 1960 and re-adjudicated, so that the amount of land actually brought on to the register up to the end of

1966 was 1,871,800 acres on 328,388 farms in 19 districts. During 1966, land was first brought on to the register in three districts, namely Machakos, Kericho and Taita, whilst adjudication also began during that year in Kajiado District, where it is hoped that the first group registration of large ranches will take place in the latter part of 1967.

THE AREA OF LAND REGISTERED IN EACH DISTRICT 1956/67-1966

Table 3.15

'000 acres

	Total during 1956/7-1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67 (6 months)	Total to 31.12.66
Central Province								
Nyeri	196.7	*	*	*	*	•	*	196.7
Murangas**	233.7	51.6	65.7	51.9	56.4	35.6	17.0	511.9
Kiambu	238.2		*	*	*	*	*	238.2
Kirinyaga	135.4	53.0						188.4
Total	804.0	104.6	65.7	51.9	56.4	35.6	17.0	1,135.2
Eastern Province								
Meru	23.2	73.4	24.4	21.6	#	44.6	25.7	212.9
Embu	38.5	86.7	+	+	#	*	*	125.2
Machakos	+	+	+	+	#	36.9	#	36.9
Total	61.7	160.1	24.4	21.6	+	81.5	25.7	375.0
Rift Valley Province								
Nandi	6.7	7.2	9.2	3.2	13.9	+	9.9	50.1
Elgeyo Marakwet	+	17.4		3.6	27.4	+	2.3	50.7
Baringo	32.9	41.5	14.8	1.8	13.7	8.7		113.4
Kajiado	+	+	#	9.9	4.0	#	6.4	20.3
Kericho	+	+	#	+	+	#	13.0	13.0
Total	39.6	66.1	24.1	18.6	58.9	8.7	31.6	247.5
Western Province								
Kakamega	+	#	#	#				
Bungoma	+	#	#	24.0	41.8	23.1	45.7	134.6
Busia	+	#	#	21.4	32.4	55.4	#	109.2
Total	+	#	#	45.4	74.2	78.5	12.4	12.4
Nyanza Province								
Kisumu	+	+	+	#	#	2.0	#	2.0
Saiya	+	+	+	#	#	3.0	8.4	11.4
Kisii	+	+	+	#	7.0	14.3	13.8	35.1
South Nyanza	+	+	+	#	#	19.2	#	19.2
Total	+	+	+	#	7.0	38.5	22.2	67.7
Taita	+	+	+	#	#	3.6	1.8	5.4
TOTAL ALL PROVINCES	905.3	330.8	114.1	137.4	196.6	246.4	156.4	2,087.0

Notes.—

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

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

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

**In Murang'a District, the registration of 215,000 acres was cancelled in 1960. This area is included in the figures for the district.

39. Consideration of the report submitted by the Mission on Land Consolidation and Registration (the Lawrance Report) has been completed, and publication of the report (together with a Sessional Paper giving the views of the Government) should take place about the middle of 1967. This report has become the basis for an accelerated programme of land registration which will spread to many more parts of the Trust Land areas, and it is planned to build up the staff involved in this work so as to achieve a rate of new registration of approximately 1,000,000 acres per annum in 1970. Apart from their recommendations on an accelerated programme, the mission made a number of valuable suggestions for improving the progress of the work, amongst which was the establishment of an inter-ministerial committee to co-ordinate and prepare both short-term and long-term programmes for the areas to be covered by the registration programme. Planning for the work to be begun during the next financial year has already been completed, but may be delayed a little through the need to bring into effect a new Land Adjudication Act, which will allow the use of simplified procedures in the adjudication of land rights. This legislation should be prepared and carried through all its stages during the coming 12 months.

AGRICULTURAL HOLDINGS BROUGHT ON TO THE REGISTER IN EACH DISTRICT

<i>Table 3.16</i>		<i>Numbers</i>	
	Up to 31-12-65	Up to 31-12-66	
Nyeri	43,593	43,593	
Murang'a	62,126	74,987	
Kiambu	37,408	37,408	
Embu/Kirinyaga*	43,302	43,302	
Meru	11,967	22,426	
Machakos	0	2,460	
Nandi	2,792	3,534	
Elgeyo/Marakwet	3,166	3,628	
Baringo	1,953	1,953	
Kajiado	412	651	
Kericho	0	1,352	
Kakamega	55,821	63,372	
Bungoma	7,914	11,978	
Busia	0	2,480	
Kisumu	164	621	
Saiya	0	2,983	
Kisii	1,062	5,503	
South Nyanza	2,902	2,902	
Taita	0	3,255	
TOTAL	274,582	328,388	

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

CHAPTER 4—MANUFACTURING, MINING AND BUILDING AND CONSTRUCTION

Manufacturing

In last year's *Survey*, it was noted that the major factor in the maintenance of the level of gross domestic product in the drought year 1965 was the substantial growth (nearly 11 per cent over 1964) of the manufacturing sector. In 1966, the growth of the sector was slower but still remained at the satisfactory level of 8 per cent.

2. The performance of individual sub-sectors within manufacturing is indicated in Table 4.1 which presents a quantity index of production. This index rose 5 points in 1966 but does not give a full measure of the growth of this sector since it ignores quality changes and understates the impact of new industries.

QUANTITY INDEX OF MANUFACTURING PRODUCTION 1961-1966
COMPARATIVE CHANGES BY SECTOR

Table 4.1

Base Year 1961

INDUSTRIAL GROUP	Base Year Weight	1961	1962	1963	1964	1965	1966*	Per Cent Change 1966/1965
Foodstuffs	20.0	100	100	104	108	122	120	- 1
Beverages and tobacco ..	17.6	100	95	103	105	101	105	+ 4
Textiles, clothing, footwear and leather	8.3	100	110	112	129	131	158	+ 21
Wood, paper and printing	12.6	100	94	106	126	150	148	- 1
Rubber and chemicals	12.1	100	94	90	141	159	178	+ 12
Non-metallic minerals	10.7	100	101	102	124	144	141	- 2
Metal working	17.6	100	123	125	119	121	125	+ 3
Miscellaneous	1.0	100	110	120	157	194	243	+ 25
TOTAL	100.0	100	103	107	120	130	135	+ 4

*Provisional.

3. The fall in the production of foodstuffs was caused largely by a drop in the milling of grain and the processing of pineapples. Maize milling in 1965 was affected by the drought conditions of that year—due to a shortage of food in normally self-sufficient parts of the country, larger than normal quantities of maize were milled in order to meet requirements in the affected areas. This contributed significantly to the rise in the index for this sector in 1965. In 1966, however, not only did the general maize supply position in the country improve but consumption in the urban areas declined because the imported yellow maize which was still being supplied to the mills was not favoured by consumers. Pineapple canning operated on a reduced scale, partly because of difficulties in securing fruit of the right quality due to the effects of the drought in 1965 and partly because of difficulties in export markets.

4. The decline in the output of these food products was not entirely offset by the rise in the production of other food-processing industries such as dairy and meat products and sugar. A large addition to the capacity of the sugar industry was made when the new mill at Muhoroni commenced production late in 1966. However, the bulk of the increase in sugar production, shown in Table 4.2, arose from a higher level of output in the existing factories. But the expected increase in sugar output of 80 per cent in 1967 will derive almost entirely from the new factory. Construction of another new factory at Chemelil has already started and is expected to be completed in 1968. As these new factories reach capacity output, the gap between domestic production and consumption will be narrowed.

PRODUCTION AND CONSUMPTION OF MAJOR EXCISABLE COMMODITIES, 1962-1966

Table 4.2

	SUGAR (<i>'000 tons</i>)		BEER (<i>'000 Imperial gallons</i>)		CIGARETTES AND CIGARS (<i>'000 lb.</i>)		MINERAL WATERS (<i>'000 Imperial gallons</i>)	
	Pro- duction	Con- sumption	Pro- duction	Con- sumption	Pro- duction	Con- sumption	Pro- duction	Con- sumption
1962	32.5	98.8	8,708	6,703	4,482	3,375	n.a.	n.a.
1963	36.8	96.6	9,681	7,637	4,630	3,547	n.a.	n.a.
1964	34.8	103.5	10,659	7,676	4,255	3,508	n.a.	n.a.
1965	28.6	110.5	10,880	8,473	3,681	3,350	3,806	3,558
1966	35.8	119.5	11,018	9,726	4,003	3,648	4,312	4,180

5. The beverages and tobacco industry's quantity index of production recovered to its 1964 level. The output of all major items in this group—mineral waters, cigarettes and beer—shown in Table 4.2, rose. A well-known international firm established a new factory to produce cigarettes. While cigarette consumption during the last few years has been stagnant, that of beer has been rising rapidly—nearly 15 per cent in 1966 compared with 10 per cent in 1965. This growth has made for a significant increase in excise revenue. The effects of new brewing capacity created in 1966 should be reflected in statistics of production in 1967. The gap between production and consumption of both beer and cigarettes has continued to narrow during the last few years following the development of new capacity in Uganda and Tanzania to replace imports from Kenya.

6. The textiles group showed the most rapid growth, due primarily to the inauguration of production in the first cotton textile factory in Kenya, located at Kisumu. The first stage of this factory has now been completed. In addition to offering employment to about 700 workers, this K£1 million plant will also use some locally grown cotton. However, there are signs of serious difficulties for the textile industry in East Africa, at least for the next few years. Several cotton mills now in production or under construction

are already competing for the East African market. Although even all these mills will be unable to meet East African requirements for *all* types of cotton textiles, they are already competing strongly for the grey cloth market which will remain their main line of production for some years. This problem of initial production of low-quality cloth applies also to rayon mills.

7. Grey cloth is traditionally the first item of production in mills located in countries without a labour force with a tradition of skill as mill operatives. Production of more sophisticated cloth of higher counts is introduced as the labour force acquires more skill and experience. However, this is usually several years later. In so far as expansion to produce new and better textiles is related to new investment out of profits from grey cloth, further development could be retarded if grey cloth cannot yield a reasonable margin of profit. It would seem that the textile industry in East Africa has rather abruptly found itself facing this unexpected situation. Careful licensing of grey-cloth production and a more up-to-date assessment of the size of the market is desirable. This does not mean, however, that new investment in more sophisticated cloths is not required.

8. Other new textile factories, either completed or under construction, include plants for the manufacture of woollen suitings and woollen knitwear. One or two existing firms have expanded operations to produce new lines of knitwear. However, existing knitwear factories have felt the effects of Tanzanian restrictions on imports from Kenya quite strongly.

9. While the growth of the rubber and chemicals group in 1965 was almost entirely due to the continued growth of production at the Mombasa oil refinery, in 1966 this particular industry showed little change. The rise of 19 points in the quantity index for this group was almost entirely due to a growth in the output of soda ash and wattle and pyrethrum extract. Reference has already been made to developments in these industries in Chapters 2 and 3.

10. Output in the group "non-metallic" minerals declined primarily because of a small fall in cement output which dropped from 476,000 tons in 1965 to 463,000 tons in 1966. Significant changes also took place in the disposal of cement production. Following the decline in the building and construction industry after 1960, most of the cement produced was exported. Eighty per cent of total output was disposed of in this way in 1964 and 1965. With the rise in domestic building and construction (discussed later in this chapter), domestic consumption in 1966 was 45 per cent higher and the proportion of total output exported fell to 69 per cent. Part of this decline was also due to the fact that exports to Tanzania dropped following the erection of a cement factory there.

11. Other new factories which have already started production or are at an advanced stage of construction include the manufacture of power cables, batteries, fertilizer blending, plastic furniture and other plastic items, brushes

and chalks and crayons. A major project, the development of a nitrogenous fertilizer factory at Mombasa, is now at an advanced stage of negotiations. Factories to manufacture plywood and fruit-packing boxes (for export) are also at a similar stage. However, the proposed pulp and paper mill at Broderick Falls, for which a feasibility study was first completed three years ago, has still not been finalized although foreign investors continue to show an interest in it. It is perhaps significant that, unlike almost all other industries now established in Kenya, this project will have to rely for viability on exports outside East Africa.

12. Other industrial projects which are at the exploratory stage include caustic soda, bicycle assembly and manufacture of parts, partial manufacture of tyres and tubes, ceramics, starch and pharmaceuticals.

13. Although the progress made in the manufacturing sector in 1966 can be considered satisfactory, there are indications that it might have been more rapid but for certain circumstances. The restrictions imposed by Tanzania on imports from Kenya, and the more recent exchange restrictions which have further affected the flow of trade between the two countries, held the growth of production back in some sectors. As far as new projects are concerned, it would seem that potential investors have been hesitant until the future of the East African Common Market is clarified, despite declarations by all three Governments of their determination to ensure that the common market continues, albeit in a modified form.

14. The Government continued to press forward with its own specific measures to promote industrial development. These are effected primarily through the Industrial and Commercial Development Corporation (ICDC) and the Development Finance Company of Kenya (DFCK) in which it is a shareholder (through the ICDC). A specific policy objective of the ICDC is the promotion of African industrial and commercial enterprise. During 1965/66, the small industrial loans issued by it rose 90 per cent over the previous year. Among the recipients of the loans were several ex-students of the Kenya Industrial Training Institute at Nakuru which has been set up with Japanese assistance for the specific purpose of imparting industrial knowledge and expertise to African businessmen. The first 60 students finished their courses last year.

15. Perhaps the most important aspect of the ICDC's work in 1966 was the beginning of construction work on an industrial estate in Nairobi. This is the first of five such estates intended to be built in various towns over the next few years. These estates will house small industrial establishments owned and run by African entrepreneurs. The Nairobi estate, expected to cost K£1 million, will cover a 15-acre area and will probably accommodate 30-50 businesses. An important integral part of the estate will be an extension service which will offer advice and guidance to entrepreneurs in the estate.

16. The DFCK is concerned primarily with larger investments. Perhaps its most significant contribution to industrial development is the fact that for every K£1 it has invested, it has induced over K£7 of private investment, most of it foreign. Its total investment (actual and committed) is now just over K£2 million, in 14 undertakings which have in them a total capital of just under K£17 million. The three "Founder Shareholders"—the Governments of Kenya, the United Kingdom and West Germany acting through various agencies—have now been joined by an official Dutch agency. Actual investments during 1966, all in commercially viable enterprises, totalled K£763,206. The industries over which its investments are spread include both the sugar factories mentioned above, the Kisumu textile mill and other textile establishments, power cables and other metal industries, timber and timber products, food and agricultural products processing (to which particular importance is attached), fertilizer blending and brushes. A comparison of this list with the new industries mentioned above gives some measure of the importance of the DFCK in recent industrial development in the country. Non-industrial investments have also been made, in hotels and insurance.

Mining

17. The value of the output of the mining industry is shown in Table 4.3.

THE VALUE OF MINING OUTPUT, 1963-1966

Table 4.3 K£'000

	1963	1964	1965	1966
Soda	19.3	19.3	22.7	21.9
Soda ash*	1,283.6	887.9	895.9	1,183.7
Copper	504.7	654.7	868.3	426.3
Salt	278.1	420.3	528.0	555.1
Gold	128.9	168.6	142.9	149.5
Limestone products	97.4	94.4	109.9	127.0
Diatomite	71.0	71.9	49.2	33.8
Carbon dioxide (natural)	54.2	59.2	60.5	68.8
Silver	25.2	22.3	9.6	8.6
Other minerals	11.1	13.5	10.9	45.7
TOTAL	2,473.5	2,412.1	2,697.9	2,620.4

*Although soda ash is also included in the quantity index of manufacturing, it is felt that it would be more appropriately classified as a mining product; a new quantity index of manufacturing incorporating this and other changes is being devised.

18. Mining in Kenya is a relatively small industry despite the variety in the products extracted. The total value of production in 1966 did not change very much despite a sharp fall in the output of copper. But for a recovery in the production of soda ash for which new markets were found, as mentioned in Chapter 2, mining output would have fallen to below the

1964 level. The drop in copper production is related entirely to the cessation of mining operations following the exhaustion in the middle of 1966 of economic deposits at the only mine where copper was extracted. Unless new deposits are found, copper will now disappear from the list of minerals produced in Kenya. Diatomite production declined further during the year but plans for the modernization of its production by the injection of substantial new investment are now well advanced.

19. During 1966, the Mines and Geological Department published several monographs on known large deposits of particular minerals which have substantial economic potential. These are kyanite at Murka in the Tsavo National Park, nobium at Mrima Hill, 40 miles south-west of Mombasa and wollastonite near Kajiado. A Japanese team, representing a large private firm in Japan, completed a detailed examination of the kyanite deposit. Japanese investment interest in the mineral will depend on the report of this team, now under preparation. There is also interest in the very large nobium deposit at Mrima Hill. Nobium is a rare metal used in the production of high-temperature stable alloys. However, technical problems of separation still remain to be overcome and investigations are continuing. A licence to exploit the wollastonite at Kajiado has now been granted and part of the production from this deposit will provide raw material for the production of ceramics.

20. A gaylussite deposit at Amboseli offers the possibility of caustic soda production from this mineral rather than by normal chemical techniques. Laboratory tests have been encouraging but nothing firm can be said until the possibility of developing plant for manufacture on an industrial scale has been investigated.

21. The normal exploration work of the Mines and Geological Department was continued during the year but with emphasis on specific mineral surveys rather than more general regional surveys. However, the cost of specific mineral surveys which involves drilling, is high and limitations of funds restrict the scope of such necessary work. The large survey project being undertaken in Western and Nyanza provinces with United Nations assistance and oil exploration by a private firm were also continued.

Building and Construction

22. Statistics of, first, the number and estimated cost of private new buildings and, secondly, of private building work completed, including extensions, in the main towns are shown in Tables 4.4 and 4.5. On the basis of work completed only, 1966 does not appear to be a particularly outstanding year. This, however, is largely due to the fact that some of the major projects started last year and even in 1965, are still under construction and the significance of these in the statistics of building work

REPORTED COMPLETION OF NEW PRIVATE BUILDINGS IN MAIN TOWNS, 1960-1966

Table 4.4

	NUMBER		ESTIMATED COST (K£ MILLION)		
	Residential	Non-Residential	Residential	Non-Residential	Total
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	1.28
1964	98	98	0.48	2.25	2.73
1965	43	74	0.26	1.10	1.36
1966	105	63	0.58	1.06	1.64

completed will be more apparent in the current year and in 1968. It is noteworthy that during 1966 almost all building work was confined to the larger towns and the smaller towns reported no completions at all. However, some new building is known to have been initiated in these smaller towns in 1966.

VALUE OF ALL PRIVATE BUILDING WORK COMPLETED IN MAIN TOWNS, 1960-1966

Table 4.5

K£ million

	Nairobi	Mombasa	Nakuru	Kisumu	Kitale	Eldoret	Thika	Total
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	2.95	0.32	0.02	0.05	0.01	-	0.04	3.40
1965	1.43	0.16	0.02	0.04	0.01	0.01	0.15	1.82
1966	1.65	0.43	0.02	0.03	-	-	-	2.12

23. Of greater significance and relevance as an index of a renewed high level of activity in the building industry are the figures of building plans *approved* during 1966 and the first quarter of 1967. These are set out in Table 4.6 for plans approved by the Nairobi City Council.

24. The number of plans approved has continued to rise since the beginning of 1966, for both residential and non-residential building. The estimated total cost of plans approved during 1966 was 49 per cent above that of 1965, and figures for the first quarter of 1967 suggest that the momentum is being carried into the current year. However, part of the increase in the cost of new plans approved is attributable to rising costs, discussed later in this chapter.

PRIVATE AND GOVERNMENT BUILDING PLANS APPROVED BY THE NAIROBI CITY COUNCIL, 1962-67

Table 4.6

	NUMBER OF PLANS						ESTIMATED COST K£'000						
	PRIVATE			GOVERNMENT			PRIVATE			GOVERNMENT			All Buildings
	Residential	Non-Residential	Total	Residential	Non-Residential	Total	Residential	Non-Residential	Total	Residential	Non-Residential	Total	
1962	386	312	698	9	29	38	184	1,208	1,392	263	358	621	2,013
1963	357	328	685	14	25	39	465	1,381	1,846	316	84	400	2,246
1964	321	367	688	11	32	43	542	1,397	1,939	37	518	556	2,495
1965	266	420	686	10	32	42	504	1,599	2,103	367	1,203	1,570	3,673
1966	610	486	1,096	13	32	45	1,714	2,450	4,164	80	1,242	1,322	5,486
1964—													
4th Qr.	76	86	162	3	5	8	164	171	335	22	87	109	444
1965—													
1st Qr.	61	113	174	1	10	11	132	305	437	282	34	316	753
2nd Qr.	73	129	202	7	6	13	105	489	594	85	23	107	701
3rd Qr.	70	98	168	1	9	10	108	461	569	—	123	123	692
4th Qr.	62	80	142	1	7	8	159	344	503	—	1,023	1,023	1,526
1966—													
1st Qr.	99	109	208	5	8	13	235	324	559	6	126	132	691
2nd Qr.	142	101	243	3	14	17	493	637	1,130	40	771	811	1,941
3rd Qr.	181	104	285	1	6	7	515	730	1,245	—	11	11	1,256
4th Qr.	188	172	360	4	4	8	471	759	1,230	34	334	368	1,598
1967—													
1st Qr.	226	125	351	1	2	3	655	657	1,312	27	21	48	1,360

NOTE.—Government includes Central Government, E.A.C.S.O. and Nairobi City Council.

25. While plans approved for both residential and non-residential buildings in 1966 were above those for 1965, the growth of new residential building is particularly striking. The value of residential building approved in 1966 was three times that of 1965. Very high rents during the last two years particularly, reflecting the quite serious shortage of housing which continues to persist, are the incentive behind the renewal of private residential building. Easier housing finance, mentioned in Chapter 1, is also a contributory factor.

26. New house building also includes several large national and local authority housing schemes. In Nairobi, the Central Housing Board is building a new tenant-purchase scheme at Woodley and the City Council is redeveloping Pumwani. This latter development, in addition to increasing the amount of housing available, will also result in slum clearance. Municipal housing projects are also being undertaken in Mombasa, Kisumu, Nakuru and Thika.

27. Non-residential building includes office and factory buildings, some of the latter arising out of new industrial development mentioned earlier in this chapter. In Nairobi, large firms are increasingly moving their head offices to or near the site of factories or warehouses away from the centre of the town, to the industrial area where land is cheaper. Work on one of the two large, new hotels (which are included under non-residential buildings), mentioned in Chapter 5, is already under way and due to start shortly on the second. Two of the large new buildings in Nairobi now under construction are Government office blocks.

28. In addition to building, construction activity has also grown rapidly. The largest single project in this respect is the K£6 million hydro-electric dam at Kindaruma and the associated transmission lines. Another dam project is the raising of the dam wall at Sasumua, started in 1965 in order to enlarge water supplies for Nairobi. Within the capital, the Nairobi City Council is building a new trunk water pipe in addition to other construction work on roads, drainage, etc. Irrigation development, by the expansion of existing schemes and the inauguration of work on two large pilot projects, has expanded significantly, as mentioned in Chapter 2. The road programme, outlined in Chapter 6, involves large capital expenditure. The extent of capital formation in all construction activity is discussed in Chapter 9.

29. The upsurge in building and construction activity is healthy and encouraging. However, there is concern over the ability of the building and construction industry to keep up with a growing level of activity in this field. A significant factor in shortfall between budgeted and actual development expenditure, discussed in Chapter 8, is the constraint imposed by the capacity of the construction industry to undertake a level of activity necessary to maintain the tempo of development construction. This bottleneck, rather than finance, is now beginning to appear as the principal limiting factor in the immediate future and could seriously impede the investment programme.

30. The most obvious evidence of pressure on the "supply side" in building and construction is the sharp increase in building costs. Records kept since 1960 indicate that for a fairly common but simple type of structure in Nairobi, the cost per "foot super" in January 1967 was 85 per cent higher than in 1960 and 53 per cent over that in 1965. The bulk of the increase in costs has therefore taken place during the last two years, since the beginning of a renewed higher level of activity in the industry. Two factors account for this rise in costs—an increase in wages and a sharp rise in the price particularly of quarry materials.

31. There are two aspects to the rise in wages. Those of unskilled labour particularly have maintained a steady rise since 1960—a phenomenon observed in all sectors of the economy. To some extent, this has also been true of semi-skilled labour. However, while these two categories of labour have maintained a steady increase in wages for several years, those of skilled labour have risen sharply within the last year or two. The wages of unskilled labour have risen most, relatively speaking, but it is the lack of skilled labour which is seriously hampering the industry and requires urgent attention. Any solutions will have to take the short-term urgency of the situation into account as well as the implementation of measures of a more long-term nature.

32. A most important aspect of the development of skilled labour is training on the job. The supply of semi-skilled workers is probably a good deal larger than that of skilled ones and the skills of the former can be improved by more training on the job. This is as much in the interests of the industry as of the economy as a whole.

33. An increase in costs similar to that of labour, although lower, has been observed in the cost of quarry materials—sand, stone and ballast. The price of these in Nairobi had declined substantially after 1960 but has risen nearly 200 per cent since 1965. These materials, as far as Nairobi is concerned, are usually obtained from within a radius of about 20 miles of the city. While some increase in transport costs has obviously taken place, it is notable that wages in the quarrying industry have not changed during the last two years. This suggests that most of the increase in price since 1965 is going into enlarged profits.

34. An improvement of the situation in this respect in the short-term is probably easier than increasing the supply of labour. Government loan assistance, perhaps through the Industrial and Commercial Development Corporation, to enable entrepreneurs to increase investment in crushing and transport equipment should bring forth an improvement in supplies, particularly if profits are as high as they seem. This also provides an opportunity to help African businessmen to expand their activities in what is a relatively simple industry in terms of managerial skills required.

35. One of the consequences of the continued increase in building costs is the uncertainty this introduces in the planning of new projects. However, it should be emphasized that rising building costs are only one side of the cost-benefit equation—as long as benefits in terms of rents remain high, and they are high, rising costs should not be regarded as an argument against building. The greater danger is the delay which the at present limited capacity of the industry is causing to the public investment programme in particular.

36. Apart from improvements in the supply of labour and quarry materials, other solutions to alleviate the position can also be considered. More standardization in design and greater use of prefabricated materials would economize on the use of design staff, enable the substitution of skilled by semi-skilled labour and perhaps also enhance the prospects of new and relatively inexperienced contractors entering the industry. Investment in factory development to manufacture pre-fabricated units and sections deserves serious consideration. Some experience, designs and production facilities in pre-fabricated low-cost wooden residential houses is already available but is not being fully used in the towns due to building regulations relating to fire hazards. Termites are also a menace but not an insuperable one. As long as fire safety and anti-termite precautions can be adequately assured, this type of construction should be more fully exploited. Timber is relatively cheap and plentiful in the country while stone, ballast and sand are scarce and expensive, at least temporarily. This type of construction also requires less skilled labour and, because it sharply reduces construction time, would promote more efficient use of the resources of the building industry.

CHAPTER 5—TOURISM

1. The very rapid growth in tourism which was apparent in 1965 continued at an accelerated pace in 1966. In 1965, the number of visitors increased by 24 per cent over the previous year; in 1966, the increase was 31 per cent. The total number rose from 81,448 in 1965 to 106,520 in 1966 and it has more than doubled over the last four years. Changes in the number of visitors since 1962, by categories of visitors, are indicated in Table 5.1.

2. The sharpest growth has been in the number of visitors who come to Kenya specifically for holiday purposes. The proportion of these in the total rose from 34 per cent in 1964 to 40 per cent in 1965 and 46 per cent in 1966. While this trend firmly underlines the significance of the growing attraction of Kenya as a holiday resort, the higher total of visitors who come for other than holiday purposes also contributes to the expansion of foreign exchange

VISITORS ARRIVING IN KENYA, 1962-1966

Table 5.1

	1962	1963	1964	1965	1966
VISITORS ('000)—					
Transit	24.6	27.4	31.2	35.1	39.2
Holiday	15.6	21.8	22.4	32.4	49.1
Business	7.3	9.6	9.2	11.1	15.1
Other	2.4	2.5	2.6	2.8	3.2
TOTAL	49.9	61.4	65.4	81.4	106.5
ANNUAL PERCENTAGE INCREASES—					
Transit	35	11	14	13	12
Holiday	6	39	2	45	52
All visitors	18	23	7	25	31

earnings from the tourism sector. Although the duration of the stay of in-transit visitors is quite short, visitors on business appear to spend almost as long in the country as those on holiday.

3. The significance of "package tourists" in the total number continues to grow. Increased efforts to attract such tourists and the continued growth of such facilities as low-cost charter flights has contributed to this although international air traffic regulations still inhibit more extensive charter flights. Also, there is probably considerable "promotion" by satisfied visitors. A visitor who enjoyed his stay is perhaps the best advertisement for a growing tourist industry. Within Kenya, the problem now is more one of providing adequate facilities for those who choose to spend their holidays here, than spending money on advertising the particular attractions of the country.

4. The nationality of visitors, set out in Table 5.2, is perhaps a reflection of the degree to which charter flights for package tourists are available. Although visitors of British nationality remained the largest single group, the most rapid growth was in those from West Germany and Switzerland—96.5 and 59.7 per cent respectively—most of the charter flights coming to Kenya depart from Frankfurt or Zurich. In absolute terms, visitors of British nationality were 39 per cent of the total and 38 per cent of visitors who came specifically for holiday purposes. British visitors include members of the British armed forces in Aden who use Kenya as a leave centre but exclude the substantial number of naval personnel from visiting ships and other ships' crews who spend short periods in Mombasa.

5. It is interesting to note that a large number of visitors do not come to Kenya direct from their "home" continents. This is particularly true of visitors from North America—only 13 per cent of them came direct from North America in 1966. This was an even lower proportion than in 1965.

VISITORS BY NATIONALITY, 1965 AND 1966

Table 5.2

COUNTRY OF NATIONALITY	VISITORS ON HOLIDAY			ALL VISITORS		
	1965	1966	% + or -	1965	1966	% + or -
EUROPE—	<i>No.</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>No.</i>	<i>%</i>
United Kingdom	11,358	18,430	+ 62.3	26,416	41,068	+ 55.5
Germany West	2,429	6,282	+ 158.6	4,226	8,302	+ 96.5
Italy	1,626	1,858	+ 14.3	3,349	4,014	+ 19.9
France	1,095	1,733	+ 58.3	2,672	3,475	+ 30.1
Switzerland	1,947	3,364	+ 72.8	2,469	3,944	+ 59.7
Other	2,202	3,426	+ 55.6	5,691	7,441	+ 30.8
TOTAL	20,657	35,093	+ 69.9	44,823	68,244	+ 52.3
UNITED STATES OF AMERICA	6,867	9,293	+ 35.3	13,512	16,670	+ 23.4
CANADA	442	593	+ 34.2	1,316	1,747	+ 32.8
ASIA—						
India	1,263	1,365	+ 8.1	4,296	4,234	- 1.4
Israel	312	389	+ 24.7	1,466	1,709	+ 16.6
Pakistan	182	251	+ 37.9	512	789	+ 54.1
Other	357	552	+ 54.6	2,412	2,181	- 9.6
TOTAL	2,114	2,557	+ 21.0	8,686	8,913	+ 2.6
AFRICA—						
South Africa	518	349	- 32.7	3,606	3,539	- 1.9
Zambia	126	85	- 32.5	1,360	1,315	- 3.3
Other	947	536	- 43.4	6,257	4,298	- 31.3
AUSTRALIA AND NEW ZEALAND	266	339	+ 27.4	914	1,034	+ 13.1
ALL OTHER COUNTRIES	414	231	- 44.2	974	760	- 22.0
TOTAL ALL VISITORS	32,351	49,076	+ 51.7	81,448	106,520	+ 30.8

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

Table 5.3

('000's)

	CONTINENT OF DEPARTURE		CONTINENT OF ORIGIN	
	1965	1966	1965	1966
Africa	32.7	43.7	11.2	9.2
Europe	27.6	38.2	44.8	68.2
America	4.7	2.4	14.8	18.4
Asia	15.7	21.9	8.7	8.9
Other	0.9	0.3	1.9	1.8
TOTAL	81.4	106.5	81.4	106.5

6. The similar discrepancy in the figures for Europe is largely due to the large number of British visitors from Aden and other areas outside the United Kingdom. It is also likely that a good many visitors of British nationality are related to East African Asians who have adopted British citizenship. The wide gap between visitors whose continent of departure was Africa and who also originate in Africa is clearly a reflection of the fact that Kenya is popular as a leave centre among expatriate personnel in the continent.

7. While the total number of visitors increased by 31 per cent in 1966, the duration of stay also rose, by 23 per cent, to 14.5 days. At the same time an increasing proportion of the additional tourists took up hotel accommodation rather than stayed with relatives or friends, which meant that although the total number of visitors arriving increased by 31 per cent, the demand for hotel beds by foreign visitors increased by 44 per cent overall while demand for beds by foreign visitors in the game lodges rose by 63 per cent. The hotel industry also had to accommodate a 5 per cent increase in demand from East African visitors.

HOTEL BEDS AVAILABLE AND OCCUPIED, 1964-1967

Table 5.4

'000 Bed Nights

Year/Quarter	TYPE OF HOTEL									Total Beds Occu- pied
	Nairobi International*			Game Lodges			Other			
	Beds Avai- lable	Beds Occupied		Beds Avai- lable	Beds Occupied		Beds Avai- lable	Beds Occupied		
		For- eign Visi- tors	E. A. Resi- dents		For- eign Visi- tors	E. A. Resi- dents		For- eign Visi- tors	E. A. Resi- dents	
1964— (Apr.-Dec.)	247.3	134.1	40.9	61.8	12.7	11.5	1,149.5	85.4	417.2	701.9
1965	388.4	194.6	52.4	137.0	32.8	19.1	1,598.0	164.4	534.9	998.2
1966	387.6	223.2	50.7	158.2	53.6	16.7	1,607.6	285.6	560.4	1,190.2
1965—										
1st Qr	95.9	53.7	11.8	33.9	11.0	4.5	390.1	49.8	133.5	264.3
2nd Qr.	96.9	40.4	13.3	35.8	4.5	4.0	393.8	25.7	122.2	210.1
3rd Qr.	98.0	49.7	13.3	32.1	9.2	6.0	406.9	46.5	138.1	262.9
4th Qr	97.6	50.8	14.0	35.2	8.1	4.6	407.2	42.4	141.1	260.9
1966—										
1st Qr	95.7	60.0	11.3	37.2	16.3	3.7	396.7	75.1	140.9	307.3
2nd Qr.	96.5	47.1	11.5	37.4	8.3	3.5	381.7	46.9	125.5	242.8
3rd Qr.	97.6	58.3	14.1	41.9	15.6	5.4	410.8	82.8	152.6	328.8
4th Qr	97.8	57.8	13.8	41.7	13.4	4.1	418.4	80.8	141.4	311.3
1967—										
1st Qr	96.0	67.5	11.8	41.5	21.0	4.5	449.5	116.3	134.2	355.4

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

8. The degree of capacity of utilization emerges more clearly in Table 5.5. While the number of available beds increased only by 1 per cent, higher intensity of utilization enabled a much larger demand to be satisfied. A more even distribution of visitors during the year also facilitated this. However, considerable variations in the occupancy rate within any given month still

remain and there exist short periods of extreme pressure on capacity. By its very nature, the hotel trade cannot expect full capacity utilization throughout the year. While some room for manoeuvre probably still remains, particularly if arrivals can be more carefully staggered, hotel capacity is now nearing saturation point and a growth in the number of visitors in 1967 to rival that in 1966 cannot be accommodated although development of new capacity continues.

HOTEL ROOMS AND BEDS AVAILABLE* AND OCCUPIED, 1965 AND 1966

Table 5.5

	NAIROBI		Coastal	Up-Country	Game Lodge	All Hotels
	Inter-national	Other				
Rooms available ('000)	246	367	311	276	63	1,263
Occupancy rate (%)	78	63	56	38	47	58
Beds available ('000)	388	550	589	459	136	2,123
Occupancy rate (%)	64	53	46	30	38	47
1966—						
Rooms available ('000)	242	362	342	259	71	1,276
Occupancy rate (%)	87	72	69	43	56	67
Beds available ('000)	388	540	626	441	158	2,153
Occupancy rate (%)	70	62	58	34	44	55

*Thousand rooms or bed nights.

9. Construction of a 250-bed new international hotel in Nairobi is under way and work on another of 400 beds is due to start later in 1967. An extension to an existing international hotel will provide a further 72 rooms. Existing beach hotels at the coast are undertaking or contemplating expansion and an entirely new one was completed in 1966. Plans for a "holiday town", also at the coast, are being considered. In the game parks, existing lodges are expanding and plans to build new lodges are at an advanced stage.

10. Other tourist facilities are also being developed. These include a national park at Donyo Sabuk and improvements at Lake Nakuru and Mount Kenya. Plans for the further development of Meru Game Reserve are also under consideration. Continued progress on the bituminization of the Mombasa road improves access to the Tsavo National Park, while plans to bituminize the Namanga road will improve access to the Amboseli Park.

11. The increase in the number of visitors during 1965 and 1966 would suggest that an annual growth of 25 per cent up to 1970 would not be unrealistic (a figure of 15 per cent is assumed in the Development Plan). This will certainly require very substantial growth in the present level of new investment in the tourist industry. After coffee, tourism is the most important single source of foreign exchange in the economy and bids fair to occupy the leading position in this respect within a year or two. The very rapid growth

of foreign exchange earnings from this source is illustrated in Table 5.6. Given the relatively weak long-term prospects of many of our export crops, it can be argued that tourism deserves a better place in the list of priorities for development. It is not merely a question of more hotel beds (although this is the most urgent problem) but also of adequate development of appropriate "infrastructure" such as roads, airport facilities, etc.

GROSS FOREIGN EXCHANGE EARNINGS* FROM TOURISM, 1962-1966

Table 5.6

	K £ m.	Annual Increase
		%
1962	7.3	14
1963	9.0	23
1964	9.4	4
1965	10.8	15
1966	14.3	32

*Receipts from "Foreign Travel" in the Balance of Payments.

12. In the meantime, there is an urgent need for short-term solutions while new hotels are being built. More effective use of existing capacity by better spacing of arrivals has already been mentioned. In the game parks, better roads would enable the lodges to be used throughout the year. The relatively low utilization factor in "up-country" hotels could be improved by making the attractions of areas where these are located better known and more systematically exploited. Capacity in the "Nairobi Other" group of hotels, which provide less expensive accommodation, shown in Table 5.5, could also be more effectively utilized by improvements to make them more attractive to visitors.

13. It is now quite obvious that tourism in Kenya has enormous potential for growth. However, its development will require careful co-ordination in the planning and location of new accommodation and also in the provision of other facilities of an "infrastructure" nature. The Government has set up a Tourist Development Corporation in the last year to examine all facets of the development of the industry and to invest in its development. The Corporation is an investor in the two new large hotels for Nairobi mentioned above and is investigating several requests from private sources for loan funds to build new accommodation. However, it requires more finance and efforts are being made to interest airlines and international financial organizations to participate in the development of the industry. Two surveys are currently being undertaken, one directly by the Government to study tourist expenditure, and another jointly by the Government and the Tourist Development Corporation to assess expansion plans and financial requirements for these in the hotel industry. It is expected that the results of these surveys will yield valuable information for planning for further growth of the industry.

14. Estimates of the economic benefits of tourism are more difficult to quantify than the benefits of, say, tea production or exports. Present estimates of the foreign exchange earnings from tourism are based on the recorded number of visitors arriving in Kenya, the recorded length of their stay and an estimate of their daily expenditures. The latter is not easy to estimate and is based on a sample survey of tourists. The new survey mentioned above suggests that the estimates in Table 5.6 do not overstate the income received from this source and when a current study of pre-travel payments is completed may possibly show that they are a slight understatement of the total.

15. It has been suggested that because many tourists pay a large part of the cost of their holiday in the country of their departure, very little benefit is derived by the Kenya economy. This is not so, as the hotels which accommodate tourists have to be paid in Kenya and they have to pay their employees' wages, the food bills and other running costs in this country. It is also clear that tourists spend large sums with tour-operating firms in Kenya, on locally produced curios and other expenditures on local goods. Some of the benefit of tourist expenditures is, of course, lost through their purchasing imported goods, either directly or indirectly through the use of imported capital goods but this is no different from the benefit situation in other industries.

CHAPTER 6—TRANSPORT, COMMUNICATIONS AND ELECTRICITY

The transport network was under heavy pressure in 1966 due to an increase in trade and the impact of the emergency efforts to maintain supplies to Zambia. Although the effect of the latter on transport facilities available in Kenya was rather marginal, it was aggravated by the fact that pressure arose when available facilities were already intensively employed.

2. While quick upward movements of trade or emergencies such as the Zambian situation cannot always be anticipated, there is scope for the more effective co-ordination of transport than exists now, particularly in relation to the railways and harbours. The facilities of the East African Railways and Harbours located in Kenya also serve the needs of Uganda and, to a lesser extent, of Tanzania. All three countries undoubtedly derive benefits from operating these services on an East African basis. However, the "East African" nature of the railways and harbours organization has probably resulted in a generalized global "East African" approach to development of these. As long as economic planning in East Africa was of a rudimentary nature, the inadequacies of this approach were not apparent. Now, however, the situation in this respect has changed completely—all East African countries are endeavouring to guide development within comprehensive economic plans.

3. Of necessity, communications must dovetail with other aspects of the national planning effort. Bottlenecks in this field can have far-reaching repercussions on growth. Basically, it is a problem of closer co-ordination of railway and harbour operations and their expansion with national planning goals. The East African Railways and Harbours have performed commendably in a difficult situation. More effective co-ordination with the national development plans will enhance the benefits derived by all these countries from the joint operation of this service. This applies also to the postal and telecommunications organization and the airways.

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4. During the first half of 1966 particularly, the railways and harbours were severely strained following the very large increase in trade, described in Chapter 2, and the consequent movement of goods and services. Part of the problem arose out of the "carry over" of congestion in Mombasa harbour from 1965. The expansion of freight handled in Mombasa can be seen from the following series: —

FREIGHT HANDLED AT MOMBASA, 1962-1966

Table 6.1

	LANDED		LOADED		TOTAL	
	'000 Tons	% Increase	'000 Tons	% Increase	'000 Tons	% Increase
1962	1,820	3.9	1,156	12.0	2,976	6.9
1963	1,969	8.2	1,302	12.6	3,271	9.9
1964	2,415	22.7	1,645	26.3	4,060	24.1
1965	2,635	9.1	1,710	4.0	4,345	7.0
1966	3,128	18.7	1,872	9.5	5,000	15.1

5. After a sharp rise in 1964, the rate of growth of the amount of freight handled declined in 1965 and rose again in 1966 but without reaching the enormous increase observed in 1964. In 1965 and 1966, the increase in freight landed exceeded that of freight loaded. This was partly the result of large imports of maize and sugar during these two years. A shortage of rolling stock and inadequate handling equipment caused serious delays in the movement of accumulated goods out of the port.

6. As an emergency measure, a road lift of privately owned lorries was organized to move freight both into and out of the harbour. Between its inception in March 1966 and the end of the year, the road lift moved over 100,000 tons of goods in both directions. By August, the worst of the problem was overcome and since then there has been no abnormal delay to shipping which had suffered long turn-round delays during the crisis. As part of the emergency lorry lift, a local road haulage service was introduced within Mombasa. Its object was to speed up the movement of export cargo from

godowns to the docks in order to eliminate the wasteful use of wagon capacity for short-distance movements. Nearly two hundred thousand tons of export freight was moved in this way and a large number of wagon units released for main line work.

7. Although new rolling stock was imported, a good deal more is on order. This will enable the withdrawal of obsolete wagons and locomotives and is part of a plan for modernization which will extend to marshalling yards and port handling facilities. This new equipment and the completion of two new berths at Mombasa will make it easier to absorb the impact in future of sudden increases in tonnages.

8. A major event in the development of water and rail transport was the commissioning towards the end of 1966 of two train ferries which now speed up the transit of freight across Lake Victoria between Kisumu, Mwanza and Jinja. This facility will also be extended to Musoma next year.

9. Another notable event for shipping in 1966 was the inauguration of the Eastern African National Shipping Line, a joint venture between the three East African Governments, Zambia and a private shipping firm. Two ships for the line have already been chartered. The objective is to establish a regular monthly service to European ports with what will eventually be a fleet of three ships owned by the line.

10. The number of passengers passing through Mombasa continued to decline. It had fallen by 9,127 in 1965 and dropped another 10,808 in 1966. Apart from the general expansion of air travel, the decline is primarily due to the fall in the number of persons leaving for Asia. One of the two shipping lines which has operated a passenger service to Europe through Mombasa for several decades also withdrew from passenger transport during the year.

Road Transport

11. The extensive use of lorries to clear the congestion at Mombasa has already been noted. This was partly responsible for the large increase in the number of lorries registered in 1966, shown in Table 6.2. Other contributory factors included general growth of the economy and transfer of trucks to use in maintaining supplies to Zambia.

12. While total registrations of new vehicles were 16.4 per cent higher than in 1965, new lorry registrations were 57 per cent greater. At 12,857, the increase in the total number of vehicles registered was itself the highest for the past decade. The total stock of motor vehicles rose from an estimated 98,000 in 1965 to about 104,000 in 1966.

13. After remaining stationary over the two previous years, the consumption of petrol, shown in Table 6.3, rose by 5 per cent, from 35.6 million to 37.4 million gallons. A reduction in the price of petrol during the current

NEW MOTOR VEHICLE REGISTRATION, 1962-1966

Table 6.2

Numbers

	1962	1963	1964	1965	1966
Motor cars	4,305	4,466	4,058	5,031	5,579
Utilities	2,422	2,542	2,974	3,402	3,636
Lorries	618	799	658	785	1,231
Buses	206	289	281	252	239
Motor cycles	536	602	650	729	871
Other	557	753	980	850	1,301
TOTAL	8,644	9,451	9,601	11,049	12,857
Percentage Annual Increase	11.4	9.3	1.6	15.1	16.4

year should help to increase consumption further. Light diesel fuel consumption rose even more than that of petrol, reflecting the large increase in the number of lorries and perhaps also more intensive use of such vehicles. Government revenues from taxes on fuel benefited correspondingly from the growth in the consumption of these two fuels.

CONSUMPTION OF PETROL AND LIGHT DIESEL FUEL, 1962-1966

Table 6.3

'000 Gallons

	Petrol	Light Diesel Fuel
1962	34,017	23,979
1963	35,040	23,478
1964	35,582	25,090
1965	35,561	26,124
1966	37,390	29,637

14. In last year's survey it was noted that the road-construction programme during 1965 had two broad objectives—

- (1) Improvement of existing roads by bituminization, higher standards of gravel, realignment and construction of new or improved bridges and
- (2) Construction of new roads, particularly in areas of tea and sugar development.

Road development in 1966 continued to reflect these two approaches.

15. Over two-thirds of the Nairobi-Mombasa road has now been bituminized. Work on this road was started at the beginning of 1964 and is expected to be completed by mid-1968 at a total cost of K£2.5 million. The section already bituminized considerably facilitated the large-scale lorry

lift to and from Mombasa, noted above, although not without taxing the newly laid surface. Work also continued on the Kisumu/Yala, Ahero/Kisii, Kiganjo/Nanyuki and other roads. The construction of several new bridges, particularly on the Nairobi-Mombasa road (to replace the old narrow bridge near Athi River), at Morendat, on the Nairobi-Nakuru road and at Fort Hall on the Nairobi-Nyeri road, will ease the movement of traffic and enhance safety along these roads.

16. Work on an entirely new road to link Nairobi and Addis Ababa was inaugurated by the National Youth Service. Each country is building the section over its territory and the road, of good gravel standard, is expected to be completed in 1970. Another road, to the hydro-electric scheme at Kindaruma, is being built, from Thika. Its completion is intended to coincide with the commissioning of the Kindaruma scheme.

17. The Ministry of Works is now preparing for another programme of trunk road improvement. Two major projects will be the bituminization of the Athi River/Namanga road and the Eldoret/Tororo section of the Nairobi/Kampala road. Contracts for these two projects are expected to be let shortly.

18. The programme of tea roads is being continued along with the development of new tea-growing areas. Nine hundred miles of tea tracks are to be built, at a cost of K£1.3 million. Like the tea roads, "sugar" roads are intended primarily to serve the needs associated with the development of a specific industry. However, this does not mean that only traffic directly related to tea and sugar will use these roads. Their value to the economy will be considerably greater than the benefits accruing directly to the two specific industries whose development has stimulated their construction.

Civil Aviation

19. During 1966, several international airlines were added to the list of those already using Nairobi Airport. The number of passengers handled at Nairobi and Mombasa airports, set out in Table 6.4, has continued to grow, from 675,000 in 1965 to 748,000 in 1966, or by 11 per cent. In addition to regular flights, a growing number of chartered aircraft carrying tourists is now using both these airports. East African Airways are also expanding their operations and two of the three Super VC 10 aircraft purchased for international flights were delivered last year. A K£250,000 programme of improvements to hangars and other facilities at Nairobi Airport for these aircraft is being implemented. Although there is still some room for manoeuvre, it is quite clear that, given the existing rate of growth in the number of passengers passing through Nairobi and Mombasa airports, enlarged facilities which are likely to cost substantial sums will be necessary before long and plans for these are now being worked out.

COMMERCIAL AIR TRAFFIC AT NAIROBI AND MOMBASA AIRPORTS, 1962-1966

Table 6.4

	1962	1963	1964	1965	1966
PASSENGERS ('000)—					
Landed	145	168	187	199	235
Embarked	150	174	203	210	243
In-Transit	238	254	218	266	270
TOTAL	533	596	608	675	748
FREIGHT (tons)—					
Landed	2,493	2,827	3,556	3,751	3,861
Loaded	4,247	4,779	5,696	6,280	6,411
TOTAL	6,740	7,606	9,252	10,021	10,272

20. Facilities at Mombasa, Malindi and Wilson airports were improved. At Mombasa the main hangar was re-sited and an improved system to facilitate night landings installed. At Malindi, the runway was extended, a control tower built and night-approach facilities, hitherto absent, installed. The increased traffic at these two airports, particularly of tourists, can now be more efficiently handled. General improvements made to Wilson Airport in Nairobi were in response to the very large growth in the use of this airport by private aircraft. In fact, in terms of aircraft movements, this is now one of the busiest airports in Africa. The rapid growth of air charter business from Wilson is partly the result of the growth of tourism but also due to greatly increased use of charter aircraft by businessmen.

Other Communications

21. In 1966, the number of telephones installed in Kenya rose by 6 per cent. The total number of telephones available since 1962 is shown in the following series:—

1962	45,956
1963	47,953
1964	50,850
1965	53,592
1966	56,914

22. Thirty-six new post offices were opened, nearly twice as many as in 1965. New exchange facilities now under construction in Nairobi will greatly increase the number of telephone lines available.

23. New major developments in broadcasting during the year included the installation of a medium wave transmission station at Kisumu, the commissioning of a 100-kilowatt transmission station at Ngong and improvements to the television transmitting station at Timboroa.

24. The size of the television viewing public has increased considerably. The total number of licensed television sets at the end of 1966 was 10,940, an increase of 1,813 over 1965. The total television audience is, of course, much larger than the number of sets. The number of radio licences issued has grown as follows since 1962:—

1962	54,672
1963	85,799
1964	89,032
1965	113,898
1966	142,221

The increase since 1964 is largely a result of more stringent enforcement of the licensing rules, rather than the introduction of new sets although, no doubt, some of the growth is genuine.

Electricity Generation and Consumption

25. Production, imports and consumption of electricity are shown in Table 6.5. Power consumed in 1966 was 7 per cent higher than in 1965 when it had exceeded the previous year's consumption by only 2 per cent. Although a part of the increase was imported, the bulk of it was supplied from domestic generating capacity.

PRODUCTION, IMPORTS AND CONSUMPTION OF ELECTRICITY, 1963-1966

Table 6.5

'000 kw.

	1963	1964	1965	1966
Domestically generated	263,340	323,170	327,503	346,800
Imported	204,999	183,286	190,484	203,000
Total available	468,339	506,456	517,987	549,800
Power station use and transmission losses	74,952	80,780	83,969	84,800
Net sales	393,387	425,676	434,018	465,000

26. Consumption by type of user is set out in Table 6.6. All categories of user show an increase.

27. Generating capacity was increased by 12,500 kilowatts following the completion of development at Kipevu Power Station at the coast. This new capacity will be sufficient to meet the power requirements of the coast for several years, including those arising out of the several large projects now being undertaken or contemplated—a fertilizer factory, extensions to the existing cement factory, pumping stations for the extension of the Mzima Springs-Mombasa water pipeline along the coast, a new television broadcasting station at Mombasa and the introduction of electricity into several coast townships.

SALES OF ELECTRICITY BY TYPE OF USER, 1963-1966

Table 6.6

'000 kw.

	1963	1964	1965	1966
Domestic	89,053	89,679	87,395	93,126
Off-peak water heating and pumping	71,551	70,736	73,814	74,648
Small power supplies	22,320	20,395	20,701	21,728
Large power supplies	89,899	94,828	81,296	92,821
Commercial	61,922	67,999	63,698	71,170
Lighting (small consumers)	5,048	5,369	5,633	6,082
Street lighting	7,930	8,301	8,438	8,797
Special contracts	43,520	66,137	90,628	93,467
Staff quarters	2,144	2,232	2,415	2,723
TOTAL	393,387	425,676	434,018	464,562

28. Work at the hydro-electric site at Kindaruma, part of the Seven Forks Project, continued during the year. It is expected that the first generating unit will be ready at the end of the current year. The financial arrangements for the entire hydro-electric scheme on the Tana River were completed early in 1966. The estimated cost of the scheme is expected to be in the region of K£6 million.

CHAPTER 7—EMPLOYMENT, EARNINGS AND PRICES

Employment

The problems of collecting employment statistics in countries such as Kenya have been discussed in previous issues of this *Survey*. Briefly, these are related to the nature of the economy and to difficulties of coverage. In any economy in which the vast bulk of the labour force consists of owner-farmers, serious problems of definition arise—is someone who owns agricultural land, has his family living on it, but is himself without any occupation in an urban area, "unemployed"? Questions such as this can be answered only if very large and expensive surveys to determine the precise economic status of each member of the labour force can be undertaken at frequent intervals. Present statistical resources do not permit this.

2. The self-employed include not only farmers but also others in urban occupations. With the development of the economy, new opportunities offering outlets for small businesses multiply. It is quite likely that such outlets are absorbing an increasing number of economically active people, pushed not only by the incentive of economic opportunity but also by necessity if wage employment is difficult to secure. Small-scale business activity is becoming more important not only in urban but also in rural areas. An economic survey

of the Central Province undertaken during 1963/64 suggested that over 6 per cent of total net income per household is derived from business activity. Clearly, a growing number of people are gainfully occupied in this manner.

3. The annual enumeration of employment, which is the primary source of employment data, excludes all smallholder farming areas, except settlement schemes. These present special problems which make the technique of postal inquiry as a means of enumeration in these areas impossible. However, a new programme of agricultural surveys, including information on employment, is now being undertaken and should yield reliable data on what is regarded as an increasingly important sector as far as wage employment is concerned.

4. Other improvements to the coverage of the annual enumeration of employment have also been made. Three years ago, it was extended to rural markets in order to secure data on employment in non-agricultural occupations in the countryside. Although full coverage in this respect has not yet been secured, these represent a significant addition to recorded employment and the relevant information is included in the tables presented in this chapter.

5. Another change in the figures not included in previous published series requires explanation. The major exercise to revise the Gross Domestic Product calculations, discussed in Chapter 1, involved a systematic examination of each industry and its subdivisions. In some cases, this examination revealed anomalies in employment figures as collected in the annual enumeration of labour and the actual employment situation, especially in non-agricultural industries. In particular, it is clear that the annual enumeration understates employment in some industries in the private sector, such as domestic service, education, forestry and road transport. For these industries, Gross Domestic Product calculations have been based on a more realistic assessment of employment and it is felt that the estimates used there should also be incorporated into the published figures. However, in order to preserve consistency in figures of reported employment, and also to illustrate the magnitude of the additional number included in the estimates, these are shown separately in Table 7.1. Further comment on these is made later in this chapter.

6. Employment totals during the three years 1964-66 are set out in Table 7.1. If the addition of unreported employees outside smallholder agriculture is taken into account, employment in 1966 rose 15,600 or 2.5 per cent over 1965, after stagnating between 1964 and 1965. It was only in 1966 that total employment outside smallholder agriculture can be said to have very nearly recovered to the level of 1960.

7. On the basis of the consolidated figures, private sector employment rose by 10,000 or 2.4 per cent against a rise in public sector employment of 5,600 or 3.1 per cent. But for the continued steady growth of the public sector, total employment in 1965 would have fallen over 1964 and shown a smaller increase in 1966.

NUMBERS IN PAID EMPLOYMENT, 1964-66

Table 7.1

'000s

Reported Employment ('000s)	1964	1965	1966
PRIVATE AGRICULTURE AND FORESTRY—			
Africans	208.0	202.7	203.8
Asians	0.7	0.7	0.8
Europeans	1.2	1.1	1.2
	209.9	204.5	205.8
PRIVATE INDUSTRY AND COMMERCE—			
Africans	168.6	169.5	173.6
Asians	28.3	27.6	29.0
Europeans	10.2	9.6	9.7
	207.1	206.7	212.3
PUBLIC SERVICE—			
Africans	161.8	167.2	173.6
Asians	8.2	7.9	7.4
Europeans	4.7	4.5	4.2
	174.7	179.6	185.2
ALL EMPLOYMENT—			
Africans	538.4	539.4	551.0
Asians	37.2	36.2	37.2
Europeans	16.1	15.2	14.9
	591.7	590.8	603.1
Estimated Unreported Employment ('000s)	23.2	28.3	31.6
Total Estimated Employment ('000s)	614.9	619.1	634.7
ANNUAL PERCENTAGE GROWTH—			
Total employment	-	0.7	2.5
Private sector	-	-0.2	2.4
Public sector	-	2.8	3.1

8. On the basis of reported figures only, the racial breakdown of employment suggests a rise in numbers in wage-paid jobs of 2.2 per cent for Africans, 2.8 per cent for Asians and a fall of 2 per cent for Europeans. The unreported employment figures in Table 7.1 refer almost entirely to Africans, and when these are included, the number of Africans in employment rose 2.6 per cent, from 567,700 in 1965 to 582,600 in 1966. It should be kept in mind that, in absolute numbers, the largest increase in African employment has probably taken place in smallholder agriculture for which, unfortunately, there are as yet no reliable data. Outside the small-farm sector, the number of Africans in employment is still below the 1960 level. This is due entirely to the very large decline in employment on large farms following the take-over and subdivision for resettlement of over a million acres of formerly European-owned holdings. However, African employment in manufacturing and commerce and in the

public sector has risen. This, together with the fact that land settlement itself has absorbed a large number of people, has more than compensated for the fall in the numbers of recorded Africans employed in agriculture. The rise in the number of Asians employed in the private sector suggests that, following Africanization programmes in the public service, more Asians have turned to the private sector to seek employment.

9. The estimate of the unreported employment addition shown at the bottom of Table 7.1 is included in the figures of employment by industry in private employment, indicated in Table 7.2.

EMPLOYMENT IN THE PRIVATE SECTOR, 1964-66

Table 7.2

'000S

SECTOR	1964	1965	1966
Agriculture and forestry	214.5	209.3	210.8
Mining and quarrying	2.5	2.5	2.8
Manufacturing and repairs	61.4	65.7	65.9
Building and construction	9.3	9.4	10.2
Electricity and water	2.5	2.5	2.7
Commerce	55.9	53.0	53.0
Transport and communications	24.5	26.7	28.0
Other services	69.5	70.1	76.3
TOTAL	440.0	439.3	449.7

10. But for a small rise in employment in forestry, employment in agriculture and forestry would have declined again in 1966. However, it has been pointed out that the figures of agricultural employment do not include employment on smallholdings outside settlement schemes. Probably 100,000 to 130,000 people find wage-paid employment on such farms. Also, it should be kept in mind that the settlement schemes provide work for a large number of people. In addition to employing just under 15,000 wage-paid labourers, there are working on them some 90,000 adults, settlers and members of their families and relatives. The number of these, as well as of paid employees, continues to grow as the settlement schemes are consolidated and progress is made towards higher levels of production.

11. The additions for unreported employment, shown in Table 7.1, can be attributed largely to the "other services" group, particularly domestic service and private education. Of the 31,633 employees included in the Gross Domestic Product estimates in 1966, but not reported in the annual enumeration of labour, 16,628 or 53 per cent were domestic servants. This particular sector presents quite difficult enumeration problems and there can be no doubt that the figure of reported employment, about 18,000, considerably understates the position. In fact, it is possible that even the consolidated estimate shown here does not cover all employees in this sector.

12. The addition to private education is intended to cover employees in the numerous "*Harambee*" schools (see Chapter 10) and the very large number of new self-help nurseries started by local groups, particularly during 1966. Fourteen per cent of the total estimated unreported employment is in respect of this sector. Of the other sectors, 15 per cent (4,964) of the unreported employees in 1966 were estimated to have been in the road transport industry. The very large numbers of small enterprises in this sector make complete enumeration difficult and the number of registered vehicles in road transport indicated considerable under-coverage in the reported data.

13. It has already been noted that the public sector showed a higher rate of employment growth than the private sector. Twenty-nine per cent of all employees are in the public sector and this proportion has grown during the last few years. The analysis of public sector employment shown in Table 7.3 suggests that the bulk of the rise in employment between 1965 and 1966 took place in the Central Government and the statutory boards. Local authorities also increased the number of their employees by about 1,400. Of the other "public" sector bodies, only the railways showed any increase.

EMPLOYMENT IN THE PUBLIC SECTOR, 1964-66

Table 7.3

'000s

	1964	1965	1966
Kenya Government (including statutory authorities)	85.5	86.7	90.9
E.A. Railways and Harbours	22.3	24.3	25.3
E.A. Posts and Telecommunications Administration	4.5	4.8	4.7
E.A. Common Services Organization	3.2	3.3	3.2
Defence* (civilians only)	2.5	0.6	-
Foreign Government employees	0.3	0.6	0.4
Local authorities	55.5	59.4	60.8
TOTAL	174.7	179.6	185.2

*Employees of British forces prior to their withdrawal. Civilian defence employees of the Kenya Government are included under "Kenya Government".

14. An interesting aspect of changes in the structure of employment is that, if figures of recorded employment only are considered, the number of adult males in jobs in 1966 was much the same as in 1965. The number of juveniles in employment rose by 1,400 but that of adult females went up from 82,400 to 87,200 or nearly 6 per cent. It is also notable that less than half the rise in the numbers of employed women was in traditional agricultural occupations - the bulk of it took place in the public sector and in industry and commerce. This does perhaps reflect one aspect of the changing role of women in society, that a growing number of them are willing to take up wage employment and that employers are also showing a more progressive attitude towards employing women. The percentages of males, females and juveniles in the major sectors are shown in Table 7.4.

ADULT MALES AND FEMALES AND JUVENILES IN EMPLOYMENT, 1964-66

Table 7.4

Percentage

	MALES			FEMALES			JUVENILES		
	1964	1965	1966	1964	1965	1966	1964	1965	1966
Agriculture	26.3	25.7	24.1	8.0	8.0	8.8	1.2	1.0	1.3
Private industry and commerce	32.1	32.1	31.8	2.7	2.8	2.9	0.1	0.1	0.2
Public Service	27.1	27.1	28.1	2.4	2.7	2.9	-	-	-
TOTAL	85.5	84.9	84.0	13.1	13.5	14.6	1.3	1.1	1.5

15. It was noted in last year's *Survey* that the overall rate of growth in employment was lagging behind the rates projected in the Development Plan. This remained true in 1966, despite the rise in numbers employed. Changes in employment in individual sectors during the last three years and the Plan target rates are compared in Table 7.5 below.

COMPARISON OF TARGET AND ACTUAL RATES OF ANNUAL WAGE EMPLOYMENT GROWTH

Table 7.5

Percentages

	1964-65	1965-66	Plan Targets
Agriculture and forestry	-2.4	0.7	3.0
Mining and quarrying	nil	12.0	5.0
Manufacturing and repairs	7.0	0.3	5.0
Building and construction	1.1	8.5	12.7
Electricity and water	nil	8.0	3.3
Commerce	-5.2	nil	4.3
Transport and communications	8.9	4.9	2.0
Other services	0.9	8.8	5.0
TOTAL	0.7	2.5	4.5

16. All sectors except agriculture and forestry, building and construction and commerce have been close to or exceeded the target rates during 1964-66. The most serious shortfall is in agriculture. The Plan target for this sector assumed that the bulk of the rise in employment will be on smallholdings for which, unfortunately, there are no data. It is, however, felt that some increase in employment in smallholder farming has in fact taken place and the shortfall in employment is probably rather smaller than suggested in Table 7.5, although overall growth during 1964-66 was probably still below the Plan target rate.

Earnings*

17. The total wage bill in the economy shown in Table 7.6 has continued to rise. In 1966, it was K£131.9 million compared with K£117.6 million in 1965, a rise of K£14.3 million or 12 per cent. (Earnings exclude the value of passages and pensions.)

ESTIMATED ANNUAL WAGE BILL, 1964-66

Table 7.6

K£million

	1964	1965	1966
REPORTED EMPLOYMENT			
Private agriculture and forestry	12.7	12.7	13.4
Private industry and commerce	50.8	54.3	60.8
Public Service	42.1	47.1	53.5
ESTIMATED UNREPORTED EMPLOYMENT	2.7	3.5	4.0
TOTAL	108.3	117.6	131.9
Annual percentage increase	-	8.6	12.2

*Figures of earnings in the chapter are not comparable with those shown in Table 1.3—the latter are higher for every year. The major source of the discrepancy is that the earnings shown in this chapter exclude the value of pensions and passages and also any wages paid to employees on smallholdings outside the settlement schemes. Also annual earnings in this chapter are derived from wages paid in the month of June whereas, as far as possible, the Gross Domestic Product calculations include actual wages paid during 12 months. There is a tendency for the latter figure to be higher.

18. The largest absolute increase in 1966 was in the wage bill of the public sector which also showed the highest employment growth. However, the overall rate of increase in the wage bill of almost all sectors was well above growth in employment—even sectors in which employment actually dropped continued to show a rising wage bill. Changes in average earnings in each sector and a comparison of changes in employment and average earnings are set out in Tables 7.7 and 7.8.

19. During the three years 1964-66, the rate of growth of average earnings has been nearly three times that of employment. There is little doubt that the continued rapid increases in earnings and the very slow growth of employment are related—as average wages go up, employers economize on the use of labour by substituting capital. The consequences of this situation of wages rising faster than employment are serious enough to warrant the repetition of a passage from last year's *Survey*—"As prosperity in the country increases, labour has a reasonable right to expect that it can share in this prosperity. On the other hand, if as a result of the fact that it is better organized through trade unions, labour is able to demand and obtain pay increases at a faster

AVERAGE EARNINGS PER EMPLOYEE, 1964-66

Table 7.7

K£

	1964	1965	1966
THE PRIVATE SECTOR—			
Agriculture and forestry	60.9	62.0	65.8
Mining and quarrying	172.1	175.8	179.0
Manufacturing and repairs	200.0	210.7	233.0
Building and construction	191.7	206.7	256.0
Electricity and water	374.6	422.5	443.5
Commerce	328.0	361.0	374.2
Transport and communications	362.7	399.2	425.2
Other services	177.0	190.0	195.4
PUBLIC SERVICE	239.9	261.9	288.6
TOTAL	176.1	190.0	207.8

CHANGES IN EMPLOYMENT AND EARNINGS, 1964-66

Percentage

	1964-65		1965-66		1964-66	
	Employment	Average Earnings	Employment	Average Earnings	Employment	Average Earnings
THE PRIVATE SECTOR—						
Agriculture and forestry	-2.4	1.8	0.7	6.1	1.8	8.0
Mining and quarrying	nil	2.1	12.0	2.1	12.0	4.0
Manufacturing and repairs	7.0	5.4	0.3	10.5	7.3	14.8
Building and construction	1.1	7.8	8.5	23.8	9.6	34.8
Electricity and water	nil	12.8	8.0	5.6	8.0	18.4
Commerce	-5.2	10.0	nil	3.7	-5.2	14.1
Transport and communications	8.9	10.0	4.9	6.5	14.3	17.2
Other services	0.9	7.3	9.4	2.8	10.4	10.4
PUBLIC SERVICE	2.8	9.2	3.1	10.2	6.0	20.3
TOTAL	0.7	7.9	2.5	9.4	3.2	18.0

rate than the expansion of the economy as a whole, the result can only be that the shares in national income of other classes of the population are reduced, which in Kenya means a reduction in the relative share of national income going to the self-employed, particularly the large number of unorganized self-employed farmers. This problem is not unique to Kenya and many countries of the world are seeking some form of incomes and prices policy. But in developed countries, the majority of the population are wage and salary-earners and the effect of forcing up wages is passed on in the form of higher prices which need not necessarily be harmful in itself unless prices are being forced up at a rate relatively faster than that of overseas competitors. In a country heavily dependent on primary products such as Kenya, it is not

possible to allow product prices to rise in this manner for prices are largely determined in overseas commodity markets over which the primary producer has little control. The effect of disproportionate increases in wages is not so much to push up prices, although this occurs to some extent, but the creation of a cost squeeze which either forces the producer to abandon that particular enterprise or causes him to produce with different combinations of capital and labour—the effect of both alternatives is to reduce employment."

20. A substantial growth in employment is one of the most important targets in the Development Plan. It is, however, obvious that employment is not growing at the desired rate. In the face of this situation, the Government is considering the introduction of an incomes policy with the object of speeding up the growth of employment.

Rt legu'

21. The rapid rise in average earnings in 1966 has taken place at a time when the cost of living has been relatively stable. This is illustrated in Table 7.9.

RELATIVE CHANGES IN CONSUMER PRICE INDICES,
DECEMBER 1964 TO APRIL 1967. (JULY 1964x100)

Table 7.9

	December 1964	December 1965	December 1966	April 1967
Low income index (Nairobi wage earners' index)	100	107	109	110
Middle income index (Nairobi)	100	101	105	105

22. The low income index is based on the expenditure and consumption patterns in Nairobi of African workers with a monthly income of less than KSh. 320 per month or K£210 per annum and the middle income index on similar patterns for African middle-class residents of Nairobi with annual incomes varying from K£200-K£750. The Nairobi wage-earners' index rose two points in 1966, and has crept up another two points during the current year, while the middle income index which rose four points in 1966 has remained steady.

23. Changes in individual subgroups within the two indices are shown in Tables 7.10 and 7.11. During 1966 the subgroup "household operation" in both indices was affected by increases in indirect taxation. For the wage-earners' index, this factor and a small increase in food prices contributed to the rise in the index, the latter being more important because of its large weight in this index.

Table 7.10

Year/Month	Food	Beverages and Tobacco	Clothing and Footwear	Fuel and Light	Household Operation	Personal Care and Health	Recreation and Entertainment	Transport	Miscellaneous	All Groups
1964— December	100	100	100	100	105	100	100	100	100	100
1965— December	114	106	103	100	115	35	100	100	100	107
1966— March	117	106	103	100	112	35	100	100	100	109
June	117	106	104	100	114	35	100	100	100	109
September	117	107	104	101	123	35	100	100	100	110
December	116	107	103	101	128	35	100	100	100	110
1967— January..	116	107	101	102	129	37	100	100	100	109
February	116	107	102	104	125	37	100	100	100	110
March	117	107	102	107	128	37	100	100	100	110
April	118	107	103	104	129	37	100	100	100	111

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

Table 7.11

Month/ Year	Food	Beverages and Tobacco	Clothing and Footwear	Furniture and Utensils	Fuel, Light and Water	Household Operation	Personal Care and Health	Recreation and Entertainment	Transport and Travel	Miscellaneous	All Groups
1964— Dec. ..	100	100	100	100	100	100	100	100	100	100	101
1965— Dec. ..	108	105	102	100	100	99	100	100	103	100	102
1966— March	112	105	102	103	100	101	48	100	104	99	102
June ..	113	105	104	109	100	104	48	100	110	98	106
Sept. ..	113	105	106	109	100	108	49	110	112	98	106
Dec. ..	112	104	107	109	102	108	50	111	112	99	106
1967— Jan. ..	112	104	106	109	103	108	50	111	112	99	106
Feb. ..	113	104	106	109	103	108	50	111	111	99	106
March	113	104	106	109	103	108	50	111	111	99	106
April ..	113	104	106	109	105	108	50	111	111	99	106

A Government policy to keep consumer prices relatively stable, particularly for essential items, and a generally favourable economic situation, can be considered as the main factors in the relative stability in consumer prices. That such stability is not common to all countries with growing economies is evident from the comparative indices for 26 selected countries, shown in Table 12,

In Sessional Paper No. 10 of 1965, the Government undertook to control increases in the prices of basic consumer commodities and, in the main, it has been successful in this. This is not to suggest, however, that there are no occasions in which prices should be allowed to rise. Price policy must be seen as one of the instruments of control for an overall incomes policy. In a country

such as Kenya, the prices of basic foods in the towns frequently represent what the agricultural producer in the rural areas receives. If urban prices were always held down rigidly by Government action it would invariably mean that the Government was holding back the growth of incomes of the rural producers. In the main, over the last five years, urban incomes have moved ahead much faster than those of the producers in the rural areas, and since, also, average urban incomes are higher than those in the rural areas, on grounds of equity it is at times necessary for the Government to use its influence as a counterweight in favour of rural incomes. This means that the Government must be prepared on occasions to see the prices of basic food commodities rise. Such a policy is not incompatible with the overall objective of holding down the advance of urban consumer prices but implies that the rural producer should not be asked to subsidize the consumption of the urban dweller.

CONSUMER PRICE INDICES IN SELECTED COUNTRIES

Table 7.12

	1961	1963	1965	1966
AFRICA—				
Kenya (Nairobi)	100	102.7	110.6	111.9
Congo (Brazzaville)	100	111.2	133.9	137.4
Nigeria (Lagos)	100	103.8	110.8	126.7
Uganda (Kampala)	100	88.1	111.9	106.5
Ivory Coast (Abidjan)	100	98.5	102.5	109.5
Senegal (Dakar)	100	107.1	113.2	116.3
Tunisia (Tunis)	100	98.6	109.6	113.4
U.A.R. (Cairo)	100	97.7	115.3	126.4
Zambia	100	100.8	112.5	122.9
Ghana (Accra)	100	113.7	163.7	171.0
AMERICA—				
Argentina (Buenos Aires)	100	158.9	249.5	321.3
Brazil (Sao Paulo)	100	263.7	800.0	1,181.6
Jamaica (Kingston)	100	103.5	108.3	110.4
Mexico (Mexico City)	100	101.8	107.8	112.1
Chile (Santiago)	100	164.1	308.4	377.2
Ecuador (Quito)	100	114.1	122.3	129.0
United States	100	102.4	105.4	108.3
ASIA—				
Cambodia (Pnom-Penh)	100	109.0	115.6	112.0
Ceylon (Colombo)	100	103.8	107.3	106.9
India (Delhi)	100	107.8	133.0	145.6
Iran	100	101.2	107.2	106.8
Pakistan (Karachi)	100	101.6	111.7	119.5
Thailand (Bangkok)	100	103.5	106.4	110.0
Japan	100	114.8	128.4	135.4
EUROPE—				
United Kingdom	100	106.4	115.0	120.2
Germany	100	106.1	115.9	116.7
Italy	100	112.4	124.5	127.1

SOURCE: Yearbook of Labour Statistics—published by the International Labour Office

CHAPTER 8— PUBLIC FINANCE IN THE ECONOMY

The revised domestic product accounts enable a more comprehensive assessment to be made of the direct impact on the economy of the Central Government, Local Government and other Government agencies than has been available hitherto. Table 8.1 shows that the total "General Government" sector contributed a total of K£46.4 million to gross domestic product in 1966, divided between a number of services including "public administration and defence", "education", "health and medical services" and "agriculture and veterinary services". In addition to these services, however, the public sector contributed to the gross product of other "enterprise sectors" to the extent of K£5.4 million in 1966. These "enterprise" activities of the public sector include "transport", "construction", "water", "manufacture and repairs", "forestry" and "services". The overall contribution of the public sector to the economy in 1966 was in total estimated to be K£51.7 million of which K£33.0 million was the product of Central Government and K£14.4 million was the estimated product of Local Government. A detailed analysis of the contribution of the public sector in 1963 and 1966 is set out in Table 8.1. Over this period, the product of Central Government has grown at a cumulative rate of 6.3 per cent per annum and the product of Local Government at a cumulative rate of 16.3 per cent per annum.

2. This chapter is, however, largely concerned with the impact of the Central Government but reference is made to the effects on the economy of other public bodies. The course of Central Government revenue and expenditure is analysed in detail to assess this contribution as a background to the 1967/68 financial budget to be presented to Parliament by the Minister for Finance.

3. As explained in previous issues of the *Economic Survey*, the totals of revenue and expenditure of the Central Government as set out in this chapter differ from the totals shown in the Government Appropriation Accounts and in the published Estimates of expenditure and revenue. The principal reasons for these differences are: —

- (a) The division of the Budget into Recurrent and Development Accounts causes transfers of various expenditure items from one account to the other. The figures included in this chapter eliminate any resultant double counting in the Appropriation Accounts.
- (b) Both revenue and expenditure are given here gross of collection costs for income tax, customs and excise taxes, and Appropriations in Aid (in the main, fees collected by departments and appropriated with parliamentary approval to their own use) instead of net as voted in the Budget.
- (c) All regional expenditure incurred in 1963/64 and 1964/65 before the Constitution was amended, has been included in the Central Government expenditure so as to maintain comparability over time.

CONTRIBUTION* OF PUBLIC SECTOR TO GROSS DOMESTIC PRODUCT

Table 8.1

K£ million

	1963					1966 Provisional				
	Central Govt.	E. A. C. S. O.	Statutory Boards	Local Authorities	Total	Central Govt.	E. A. C. S. O.	Statutory Boards	Local Authorities	Total
General Administration	4.0	1.6	-	1.5	7.1	4.9	1.9	-	1.8	8.6
Justice and Police	8.7	-	-	-	8.8	8.6	0.1	-	-	8.7
Defence	1.4	-	-	-	1.4	3.4	-	-	-	3.4
Education	3.3	-	0.5	3.1	6.9	3.0	-	0.7	7.4	11.1
Health services	2.4	-	-	1.4	3.8	2.9	-	-	1.8	4.7
Agricultural and Veterinary services	3.6	0.3	0.1	0.1	4.0	4.4	0.4	0.1	0.2	5.0
Other general services	1.5	0.8	-	1.0	3.4	2.7	0.8	-	1.3	4.8
Total General Government	25.0	2.8	0.5	7.1	35.6	29.9	3.2	0.7	12.5	46.4
Transport	0.3	-	-	-	0.3	0.3	-	-	-	0.3
Construction	0.6	-	-	-	0.6	0.5	-	-	-	0.5
Water	0.4	-	0.3	0.8	1.5	0.5	-	0.4	1.0	1.9
Manufacturing and repairs	0.6	-	-	-	0.6	0.8	-	-	-	0.8
Forestry	0.8	-	-	-	0.8	1.0	-	-	-	1.0
Services	-	-	-	1.1	1.1	-	-	-	0.9	0.9
Total Government Enterprises	2.6	-	0.3	1.9	4.8	3.1	-	0.4	1.9	5.4
TOTAL ALL GOVERNMENT	27.5	2.8	0.8	9.2	40.3	33.0	3.2	1.1	14.4	51.7

*Excluding East African self contained services.

- (d) All expenditure undertaken through the Overseas Service Aid Scheme for British expatriate civil servants, and also the expenditure under consolidated fund services has been included with the Central Government figures, to give a complete picture of the Budget. That part of the expenditure financed by grants from the British Government under OSAS is, however, set out separately in Table 8.3 and can be subtracted from total expenditure if desired.

4. Although the change in the form of presentation of national accounts does not now allow an analysis of the impact on the economy of the Central Government going back ten years, a measure of the higher level of Government activity over this period is the rate of change of total expenditure. At the same time, one measure of rising income in the economy is the increase in Government revenue, although the latter is, of course, influenced by other factors including increases in tax rates and changes in non-tax revenues. A ten-year series of Central Government expenditure and revenue is set out in Table 8.2. The final out-turn of the financial year 1966/67 must, however, be treated as a tentative forecast; for the expenditure total is based on the published Estimates and it is likely that for reasons discussed below, total expenditure may fall short of the estimate. On the other hand, revenue has

been forecast on the basis of a reasonable expectation of the actual out-turn for the year at the time of writing. The balance of expenditure and revenue at the end of June is likely to be more favourable than is indicated in Table 8.2. At this time last year, the deficit for the year 1965/66 was shown in the *Economic Survey* as K£7.53 million, whereas the final out-turn was in fact a deficit of K£4.06 million. The final out-turn in the year 1966/67 may perhaps be a small surplus.

OUT-TURN OF CENTRAL GOVERNMENT REVENUE AND EXPENDITURE, 1957/1958—1966/1967

Table 8.2

K£ million

	REVENUE			EXPENDITURE			Surplus Deficit
	Re- current	Develop- ment	Total	Re- current	Develop- ment	Total	
1957-58	37.98	5.52	43.50	38.47	5.98	44.45	-0.94
1958-59	38.27	6.15	44.42	38.09	8.02	46.11	-1.69
1959-60	38.51	7.57	46.08	38.25	8.11	46.36	-0.28
1960-61	41.36	9.18	50.54	43.27	7.68	50.94	-0.40
1961-62	44.41	9.26	53.67	45.22	7.16	52.37	+1.29
1962-63	46.82	11.40	58.21	48.34	9.40	57.73	+0.48
1963-64	55.57	13.26	68.83	54.04	14.08	68.13	+0.70
1964-65	57.34	15.83	73.17	56.92	13.62	70.54	+2.63
1965-66	62.35	11.11	73.46	63.26	14.25	77.52	-4.06
1966-67 (Est.)	70.18	14.50	84.68	68.29	20.60	88.89	-4.21

5. On the assumption that the level of estimated expenditure in 1966/67 is actually achieved, the total will be 14 per cent greater than in the previous year. This higher level of Government activity has been caused partly by the filling of staff vacancies, previously existing as a result of the shortage of higher and middle level personnel, but more particularly by the rising impetus of Government's development activity. Over the nine-year period 1956/57 to 1965/66, the total Central Government expenditure rose by a cumulative rate of 6 per cent per annum. Since 1962/63 the cumulative rate of increase has risen to 11 per cent per annum on the basis of the Estimates for 1966/67 shown here. The Development Plan projects a 7 per cent per annum average rate of growth in recurrent expenditure compared with an increase of 8.4 per cent on the average since 1962/63 and 5.4 per cent over the period since 1956/57. It is perhaps possible that the recurrent implications of the Development Plan require a growth of recurrent expenditure of rather more than 7 per cent, but, if this figure is exceeded to any significant degree, it will be difficult for the Government to finance capital development from its own resources to the extent planned and it will, in consequence, be forced to increase the size of the national debt at a proportionately faster rate. It is, however, evident that the Government has been reasonably successful in holding in check the expansion of recurrent expenditure and the greatest increase in Government activity has been in the development sphere. A full

assessment of the position would, however, require consideration of all Local Government expenditures as responsibility for a number of important functions of Government—in particular primary school education—has passed from the Central Government to Local Government in recent years.

6. At the same time, the expenditure and revenue totals are shown in this chapter gross of the British Overseas Service Aid Scheme and the net cost to the Kenya exchequer is less than indicated in Table 8.2. Payments under this scheme are now declining after reaching a peak in 1963/64 but the total paid in 1966/67 has been substantially the same as payments made in 1962/63 and they do not, therefore, significantly affect the rate of growth of recurrent expenditures over the period taken as a whole.

PAYMENTS UNDER THE OVERSEAS SERVICE AID SCHEME

Table 8.3

K£'000

	1962-63	1963-64	1964-65	1965-66	1966-67
Overseas addition	1,825	1,456	1,572	1,436	1,262
Education allowance	134	109	88	109	94
Pensions and gratuities	71	262	232	225	259
Compensation	824	2,782	1,800	1,629	1,548
Passages	350	349	292	145	219
TOTAL	3,204	4,958	3,982	3,544	3,382

7. It will be seen from Table 8.4 that, since 1962/63, Central Government expenditure has increased as follows:—

	<i>per cent</i>
General services	73
Financial obligations	61
Economic and community services	52
Social services	41
Total Expenditure	54

General services, the costs of which have risen most, include expenditures on law and order and defence. Prior to independence the cost of defence was borne by the British Government and the whole of this cost had subsequently to be taken up by the Kenya Government. At the same time, the security situation in the North-Eastern Province has required a much faster build-up of defence forces than might otherwise have been the case.

8. The cost of financial obligations has increased sharply since 1962/63 principally for two reasons. First, the departure of expatriate civil servants to facilitate the Africanization of the Civil Service involved a sharp increase in the cost of pensions, gratuities and compensation. Part of the cost of this was,

in fact, met by grants from the British Government and the remainder by loans from the same source. However it is clear that compensation payments are now tailing off and the trend of pension payment should in the next few years return to a more normal rate of increase. Secondly, transfers to local authorities have doubled since 1962/63, largely in consequence of the transfer of responsibility for primary education to those bodies. This item should, therefore, be considered together with the expenditures on social services and it will then be evident that the latter have not developed as slowly as suggested by the figure above.

RECURRENT AND DEVELOPMENT EXPENDITURE ON MAIN SERVICES, 1962/1963—1966/1967

Table 8.4

K£ million

	1962-63	1963-64	1964-65	1965-66	1966-67 Estimate
GENERAL SERVICES—					
Administration	3.34	3.82	4.98	4.73	4.98
Law and order	8.22	8.17	8.16	8.83	10.03
Defence	0.17	1.16	3.04	4.03	5.62
Revenue collection and financial control	1.59	1.46	1.66	1.76	2.39
TOTAL	13.31	14.61	17.83	19.35	23.02
FINANCIAL OBLIGATION—					
Public Debt	5.66	5.20	6.36	7.70	7.00
International Monetary Organization Subscriptions	-	1.05	-	0.71	-
Pensions and Gratuities	2.59	4.41	3.86	3.77	4.21
Compensation Payments	1.65	5.59	3.60	3.25	3.00
Passages and leave expenses	0.82	0.95	0.66	0.62	0.60
Transfers to local authorities	1.53	0.92	2.47	4.14	3.34
TOTAL	11.24	18.14	16.96	20.19	18.15
ECONOMIC AND COMMUNITY SERVICES—					
Agriculture and Veterinary	10.53	13.46	12.74	11.09	11.65
Forestry	0.88	0.92	1.11	1.19	1.71
Game and National Parks	0.34	0.35	0.47	0.59	0.90
Transport and roads	3.75	3.82	3.41	5.65	7.79
Other (including water supplies)	1.72	2.09	2.82	3.27	4.18
TOTAL	17.22	20.63	20.55	21.79	26.23
SOCIAL SERVICES—					
Education	7.96	7.39	6.81	6.89	9.66
Health	3.41	3.05	3.17	3.72	4.33
Other	1.50	1.11	2.35	2.82	4.10
TOTAL	12.87	11.55	12.83	13.44	18.09
UNALLOCABLE	3.09	3.19	2.86	2.75	3.40
TOTAL EXPENDITURE	57.73	68.12	70.54	77.52	88.89

9. Public debt obligations continue to increase as a concomitant to the expansion in the size of the total debt and are now a substantial charge on the exchequer. The increase in public debt in recent years has been rapid as is shown by Table 8.5. Of the total external debt, K£11.6 million was incurred as part of the land re-settlement programme and K£1.44 million as a result of P.L.480 imports of maize from the United States as a result of poor maize harvests. Generally, however, the public debt can be related directly to economic development and the return from development projects should, on a broad view, be higher than the financial cost of the debts incurred. At the same time, the public debt is a liability of the country which has to be met and the rate at which the recurrent financial burden of this liability increases has to be watched carefully. The cost of the public debt in the current year is lower as a result of reduced redemption payments.

KENYA GOVERNMENT PUBLIC DEBT

Table 8.5

K£ million

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				
1956 ..	37.98	9.13	47.10	3.20	1.75	0.67	1.09
1957 ..	38.63	11.62	50.25	3.24	2.09	0.52	1.57
1958 ..	40.64	13.86	54.51	3.75	2.45	0.69	1.76
1959 ..	39.81	17.61	57.42	4.39	2.60	1.24	1.36
1960 ..	44.47	18.43	62.90	4.72	2.83	1.13	1.70
1961 ..	51.74	17.43	69.17	5.23	3.40	1.51	1.89
1962 ..	57.74	17.70	75.44	5.28	4.14	1.75	2.39
1963 ..	65.41	17.58	82.99	6.67	4.66	1.93	2.73
1964 ..	68.51	17.60	86.11	7.88	5.21	2.04	3.17
1965 ..	77.23	18.21	95.44	9.05	6.36	2.82	3.54
1966 ..	86.10	19.34	105.44	9.99	7.70	2.45	5.25

*Excluding short-term borrowing.

10. Within economic and community services the main part of the increase in expenditure has been derived from an expansion of the road-building programme and a further increase in such expenditures can be expected in the next few years as an enlarged programme gets under way—some delay in implementing existing schemes has occurred in the current year.

11. Agricultural and veterinary expenditures are still the most substantial item in the functional analysis but the rate of growth of these since 1962/63 has been less than that of any other economic or community service. The reasons for this are two-fold. First, as is shown in Table 8.6, expenditures on the settlement programme are shown against this item and whereas in the earlier years a higher proportion of settlement expenditures were related to administration of the programme and the purchase of land, in the last two years a greater proportion has been spent on the development of settlement

farms. Secondly, contrary to what is suggested by these figures, the main thrust of economic development in Kenya is through agricultural development but the financing of this development is undertaken either through statutory corporations set up by the Government for this purpose (e.g. the Agricultural Development Corporation, the Agricultural Finance Corporation and the Kenya Tea Development Authority) or by individual farmers themselves, either with their own resources or with privately arranged finance.

EXPENDITURE ON AGRICULTURE AND SETTLEMENT, 1962/1963—1966/1967

Table 8.6

K£ million

		MINISTRY OF SETTLEMENT			Other Agricultural Expenditure	Total	
		Recurrent	Development				
			Land Purchase	Other Develop- ment			Total
1962/63		0.18	2.35	1.25	3.78	6.75	10.53
1963/64		0.16	4.26	2.98	7.40	2.06	13.46
1964/65		0.08	3.73	2.86	6.67	6.07	12.74
1965/66		0.38	1.19	1.90	3.47	7.62	11.09
1966/67	(Est.)	0.38	0.79	2.41	3.58	7.87	11.45

12. Education expenditures, as already noted, have been affected by the transfer of responsibility for primary education to local authorities but are now rising steeply as the secondary education programme accelerates. A new programme financed by a loan from the World Bank subsidiary, the International Development Association, will lead to a further expansion of school building.

13. Health expenditures have also not risen as fast as might be expected although expenditures by local authorities on health services have grown rapidly following the abolition of charges at all health clinics. The main reason why Central Government expenditures have not risen is that the capital programme has not got under way as quickly as hoped—a marked increase is expected in the next two financial years.

14. It is of interest to consider Government expenditures in relation to the goods and services they are used to purchase as well as the functional services they provide for the community. Such an analysis—an economic analysis—is set out in Table 8.7. It divides expenditures, first, between capital and recurrent in an economic sense rather than the administrative division used in the financial estimates; secondly, capital expenditures are divided between those that consist of assets created directly, and those which represent loans to other sectors to finance capital formation indirectly; thirdly, the capital account includes loan repayments. The recurrent account is divided into five main heads—wages and salaries, other goods and services, subsidies, interest on debt, and other transfers.

ECONOMIC ANALYSIS OF EXPENDITURE 1962/63-1965/66

Table 8.7 (i)

K£ million

ITEM	1962/63	1963/64	1964/65	1965/66
RECURRENT EXPENDITURE				
CONSUMPTION EXPENDITURE ON GOODS AND SERVICES				
<i>Wages and Salaries:</i>				
Personal Emoluments	17.72	17.90	19.01	19.31
House Allowances	0.74	0.71	0.72	0.81
Passage and Leave expenses	0.82	0.95	0.66	0.62
Pay and allowances to Armed Forces:—				
Military	0.12	0.52	1.65	2.38
Pension and Gratuity	0.08	0.07	0.07	0.07
Contribution to Pension Fund	0.41	0.57	0.45	0.45
Total	19.88	20.73	22.57	23.65
<i>Other Goods and Services:</i>				
Rent of Fixed Assets:—				
(a) Residential ..	0.15	0.16	0.17	0.19
(b) Non-residential and other	0.15	0.17	0.20	0.21
Maintenance and repairs	1.32	1.25	2.76	3.38
Travelling expenses	0.92	1.18	1.73	1.98
Equipment, postal and incidental expenses	0.81	0.80	0.67	0.82
Courses of training for Government Officers	0.16	0.02	0.04	0.02
Commission to Agents	0.03	0.05	0.07	0.10
Stores	0.50	0.64	0.90	1.06
Rations	0.45	0.44	0.55	0.55
Expenses of Boards, Committees and Com- missions of Enquiry	0.08	0.04	0.10	0.09
Research work and specialist visits and surveys	0.13	0.17	0.24	0.27
Uniforms	0.23	0.29	0.33	0.27
Light, water and conservancy	0.33	0.34	0.47	0.58
Advertising and publicity, printing and station- ery	0.17	0.18	0.24	0.29
Libraries	0.01	0.01	0.02	0.01
Collection costs of income tax, customs and excise duties	0.76	0.74	0.75	0.90
Provincial Administration—other charges	0.24	0.24	0.45	0.28
Military construction and equipment	—	0.21	0.21	0.42
Miscellaneous	0.96	1.67*	2.29	2.49
Total	7.40	8.60	12.18	13.89
Total Consumption Expenditure	27.29	29.33	34.76	37.53
SUBSIDIES—				
To agriculture	0.64	0.33	0.27	0.75
To other sectors	0.12	0.08	0.01	0.03
Total	0.76	0.41	0.28	0.78
INTEREST—				
External Debt	2.66	2.94	3.26	3.46
Internal Debt	1.00	1.11	1.14	1.27
Total	3.66	4.05	4.41	4.73

ECONOMIC ANALYSIS OF EXPENDITURE 1962/63-1965/66—(Contd.)

Table 8.7 (ii)

K£ million

ITEM	1962/63	1963/64	1964/65	1965/66
RECURRENT EXPENDITURE—(Contd.)				
OTHER TRANSFERS—				
To Household and Unincorporated Enterprises:				
Persons (including pensions)	4.00	5.13+	4.24	4.13
Private non-profit educational institutions	4.78	4.46	4.09	4.56
Other private non-profit institutions	0.21	0.13	0.32	0.22
To Public Corporations	—	—	—	—
To Rest of the World	1.39	5.95+	3049	3.97
To Other General Government Agencies:				
Road Authority	2.88	2.39	—	—
Local Government#	1.71	1.03	2.42	3.45
E.A.C.S.O	0.22	0.13	0.13	0.21
Land Settlement	1.94	2.81	2.29	0.93
Miscellaneous	0.38	0.50	0.47	0.22
Total	17.50	22.53	17.45	17.69
TOTAL RECURRENT EXPENDITURE	49.21	56.32	56.90	60.73
CAPITAL EXPENDITURE				
GROSS CAPITAL FORMATION—				
Residential buildings	0.29	0.29	0.25	0.46
Non-residential buildings	0.74	0.80	0.99	1.25
Construction and works	2.00	1.06	2.12	3.11
Plant, machinery and equipment	0.58	0.48	0.52	0.88
Vehicles	0.41	0.49	0.50	0.69
Land	—	0.02	0.05	0.04
Total	4.03	3.15	4.43	6.43
INVESTMENT IN GOVERNMENT ENTERPRISES	—	—	—	0.05
LOANS TO OTHER SECTORS—				
To Household and Unincorporated Enterprises	0.48	0.32	0.21	—
To Public Corporations	0.55	1.27	1.05	2.85
To Private Corporations	—	—	—	0.02
To Other General Government Agencies	2.47	4.79	4.82	2.76
Total	3.50	6.38	6.08	5.63
LOAN REPAYMENTS TO OTHER SECTORS—				
External Debt	0.48	1.75	1.79	2.86
Internal Debt	0.01	0.01	0.84	1.31
Sinking Fund	0.51	0.51	0.51	0.51
Total	1.00	2.27	3.13	4.68
TOTAL CAPITAL EXPENDITURE	8.52	11.80	13.64	16.78
TOTAL EXPENDITURE	57.73	68.13	70.54	77.52

NOTES

*Increase in 1963/64 mainly due to expenditure on Independence Celebrations and certain other items for which an economic breakdown is not available.

+Increase in 1963/64 is due to Compensation and Gratuity payments made partly locally and partly overseas.

#The figures differ marginally from those shown as transfers to local authorities in Table 8.4. This is because some of the transfers to local authorities which could be identified functionally have been included under their appropriate head in Table 8.4, and in 1965/66 a K£0.78 million loan to Local Governments is shown under "Loans to Other Sectors".

N.B.—Totals of Interest Payments and Loan Repayments to other sectors in 1961/62, 1964/65 and 1965/66 do not agree with the respective public debt charges for these years as shown in Tables 8.4 and 8.5. This is because certain interest and loan repayments liabilities incurred by the Kenya Government on behalf of some semi-government bodies in these years are shown as interest and/or loan repayment Charges in Table 8.7.

$K\pounds$

Table 8.8 (i)

ECONOMIC CLASSIFICATION	RECURRENT EXPENDITURE								CAPITAL EXPENDITURE			Total Recurrent and Capital Expenditure
	CONSUMPTION EXPENDITURE		Subsidies	Interest on Public Debt	Transfers to Households	Transfers to Local Government	Other Transfers	Total Recurrent Expenditure	Gross Capital Formation	Loans and Investment in Government Enterprises	Loan Repayments to Other Sectors	
	(a) Wages and Salaries	(b) Goods and Services										
GENERAL SERVICES—												
Administration—Central	1,201,531	401,091	—	—	17,377	—	1,628	1,630,627	259,459			1,890,086
Administration—Provincial	1,826,720	307,935	—	—	—	—	—	2,134,655	81,396			2,216,051
Conduct of Foreign Affairs	268,445	208,394	—	—	3,899	2,989	117,455	601,182	19,399			620,581
Law and Order	6,089,315	2,225,694	—	—	3,974	—	—	8,318,983	510,807	—	—	8,829,790
Defence	2,392,004	1,552,733	—	—	27,698	—	—	3,972,435	59,677	—	—	4,032,112
Revenue Collection and Financial Control	54,897	1,099,020	—	—	534	—	128,278	1,739,729	22,449	—	—	1,762,178
COMMUNITY SERVICES—												
Roads	91,256	1,513,493	14,448	—	—	62,713	—	1,681,910	1,777,692		1,713,860	5,173,462
Water Works	415,501	732,817	4,749	—	20,445	—	—	1,173,512	140,254	333,334	—	1,647,100
Other	17,891	15,014	—	—	1,270	—	—	34,175	15,784	—	—	49,959
SOCIAL SERVICES—												
Education	1,113,638	249,978	—	—	5,018,267	—	25,004	6,406,887	487,203			6,894,090
Health	2,142,923	1,091,515	586	—	111,522	14,704	3,498	3,364,748	359,071	—	—	3,723,819
Labour	237,445	62,857	—	—	29,998	—	1,690	331,990	17,820		—	349,810
Housing	10,493	32,053	—	—	14,158	—	—	56,704	31,258	420,500	—	508,462
Other, including Community Development	604,402	700,948	—	—	198,028	2,010	—	1,505,388	454,781	—	—	1,960,169
ECONOMIC SERVICES—												
Agriculture	2,298,733	1,291,674	749,852	—	29,549	—	1,142,029	5,511,837	157,908	3,896,328		9,566,073
Veterinary	870,963	489,876	—	—	1,929	—	2,700	1,365,468	153,783	—	—	1,519,251
Forestry	401,335	143,390	10,862	—	455	—	1,000	557,042	630,716	—		1,187,758
Game and Fisheries	155,179	86,939	—	—	114	—	14,000	256,232	111,610	48,355	—	416,197
National Parks and Tourism	10,405	40,859	—	—	50	7,000	89,500	147,814	30,079	—	—	177,893
Lands, Mines, Surveys and Geology	649,119	199,537	—	—	100	—	—	848,756	231,913	47,472	—	1,080,669
Commerce and Industry	184,825	65,762	—	—	2,398	—	—	252,985	40,782	—		341,239
Transport, excluding Roads	178,296	206,290	—	—	—	—	16,300	400,886	78,891			479,777
Fuel and Power										150,000	—	150,000

CROSS ECONOMIC AND FUNCTIONAL ANALYSIS OF 1965/66 ACCOUNTS—Contd.

Table

8.8

(ii)

K£

ECONOMIC CLASSIFICATION	RECURRENT EXPENDITURE								CAPITAL EXPENDITURE			Total Recurrent and Capital Expenditure
	CONSUMPTION EXPENDITURE		Subsidies	Interest on Public Debt	Transfers to Households	Transfers to Local Government	Other Transfers	Total Recurrent Expenditure	Gross Capital Formation	Loans and Investment in Government Enterprises	Loan Repayments to Other Sectors	
	(a) Wages and Salaries	(b) Goods and Services										
FUNCTIONAL CLASSIFICATION												
RECURRENT FINANCIAL OBLIGATIONS—												
Public Debt:												
(a) Interest	-	-	-	4,732,341	-	-	-	4,732,341	-	-	-	4,732,341
(b) Sinking Fund	-	-	-	-	-	-	-	-	-	-	514,855	514,855
(c) Redemption	-	-	-	-	-	-	-	-	-	-	2,452,010	2,452,010
Compensation Payment to Designated Officers	-	-	-	-	178,375	-	3,073,077	3,251,452	-	-	-	3,251,452
Pensions and Gratuities	521,879	-	-	-	3,249,919	-	-	3,771,798	-	-	-	3,771,798
Subscriptions to International and Monetary Organizations	-	-	-	-	-	-	707,973	707,973	-	-	-	707,973
Passages and Leave Expenses	621,114	-	-	-	-	-	-	621,114	-	-	-	621,114
Transfers to Local Authorities, n.e.s.	-	-	-	-	-	3,360,443	-	3,360,443	-	780,000	-	4,140,443
UNALLOCABLE EXPENDITURE—												
Buildings—Residential	91,374	271,254	-	-	-	-	-	362,628	59,664	-	-	422,292
Buildings—Non-Residential	91,375	282,699	-	-	-	-	-	374,074	178,993	-	-	553,067
Ministry of Works—Unallocable	509,471	430,614	-	-	2,454	-	1,005	943,544	504,352	-	-	1,447,896
Government Printers	139,978	146,580	-	-	-	-	-	286,558	12,438	-	-	298,996
Other Unallocable	-	28,563	-	-	-	-	-	28,563	-	-	-	28,563
TOTAL	23,647,507	13,886,579	780,497	4,732,341	8,912,513	3,449,859	5,325,137	60,734,433	6,428,179	5,675,989	4,680,725	77,519,326

15. At a time when under-developed countries are so often criticized for governmental extravagance, it is perhaps of interest to note that between 1962/63 and 1965/66 capital expenditures of Government nearly doubled but expenditures on wages and salaries rose by no more than 19 per cent in spite of a substantial increase in the number of Government employees. Capital expenditures accounted for 15 per cent of all Government expenditures in 1962/63 but by 1965/66 this proportion had risen to 22 per cent. Wages and salaries as a proportion of the total have fallen from 34 per cent to 31 per cent.

16. The "functional" and "economic" analysis can be put together as a cross tabulation such as that set out for 1965/66 in Table 8.8. This detailed analysis identifies consumption and capital expenditures by main service and provides a detailed explanation of how the Central Government spends its revenue. For reasons of space this table can only be set out for one year and it cannot be used to demonstrate changes over time.

17. Government finances its annual expenditures from revenues received from a variety of sources. Recurrent revenues are summarized in Table 8.9.

18. Since 1962/63 total recurrent revenue has increased from K£46.8 million to a forecast K£70.2 million in 1966/67 or 50 per cent. Tax revenue has risen over this period by 53 per cent and now finances about 77 per cent

GROSS RECEIPTS ON RECURRENT ACCOUNT 1962/63-1966/67

Table 8.9

K£million

	1962/63	1963/64	1964/65	1965/66	1966/67 Forecast
DOMESTIC SOURCES—					
Taxation	34.92	36.77	39.74	44.32	53.59
Interest and repayment of loans	1.83	2.03	2.67	2.72	3.37
Charges for goods and services	4.57	4.54	5.28	5.16	5.55
Reimbursement from other administrations	0.89	1.08	0.95	0.62	1.30
Miscellaneous*	1.72	2.18+	1.12	4.93+	1.69
Total	43.93	46.60	49.76	57.75	65.50
ASSISTANCE FROM U.K.—					
Grants under Overseas Service					
Aid Scheme	1.56	4.53	3.55	2.38	2.41
Other grants	1.08	0.57	1.31	0.05	0.05
Loans	0.25	3.87	2.72	2.17	2.22
Total	2.89	8.97	7.58	4.60	4.68
TOTAL RECEIPTS	46.82	55.57	57.34	62.35	70.18

*Includes lines, withdrawals from renewal fund, etc., and in some years Currency Board surpluses.

+Includes Currency Board grant of £1.19 million in 1963/64 and £0.7 million in 1965/66 for subscriptions to International Financial Organisations.

of all expenditures compared with 70 per cent only two years previously. Revenues from the Overseas Service Aid Scheme are tending to decline with expenditures and the overall level of assistance in the form of grants and loans for the Recurrent Account from the United Kingdom Government is now much less than it was three years ago. The consequence of this is that tax revenue is required to finance a higher total of recurrent expenditure.

19. Tax revenue in 1966/67 has, however, been extremely buoyant, rising at a faster rate than the economy as a whole as measured by gross domestic product. Forecast (gross) revenues in 1966/67 total K£53.6 million compared with K£44.3 million in 1965/66, a rise of 21 per cent. Income tax receipts are expected to rise by 16 per cent, as a result of higher revenues obtained by the introduction of "Pay As You Earn" for personal income tax and a much higher revenue from corporation tax and tax on the profits of unincorporated businesses. Import duties have also increased by about 16 per cent while an increase in excise duties of nearly 50 per cent is forecast, in spite of there being no significant increase in excise duty rates in the year except for the imposition of a small excise on soap and biscuits.

GROSS REVENUE FROM TAXATION FOR RECURRENT EXPENDITURE 1962/63-1966/67

Table 8.10

K£ million

	1962/63	1963/64	1964/65	1965/66	1966/67 Forecast
DIRECT TAXATION—					
Income Tax	11.12	13.23	13.46	15.89	18.50
Graduated Personal Tax	1.26	0.15	—	—	—
Estate Duties	0.03	—	—	0.26	0.28
Export Duties	0.10	—	0.45	0.65	0.90
Total	12.42	13.38	13.91	16.80	19.68
INDIRECT TAXATION—					
Import Duties	13.76	13.69	15.89	17.20	20.00
Excise Duties	5.45	6.02	6.24	6.30	9.40
Stamp Duties	0.52	0.78	0.72	0.70	0.80
Petrol and Diesel Tax	1.08	1.07	1.15	1.18	1.50
Licences and Fees under the Traffic Act	0.86	0.80	0.84	0.97	1.20
Taxes and Licences, n.e.s.	0.66	0.84	0.75	0.94	0.71
Land Premia and Taxes	0.03	0.03	0.06	0.04	0.11
Royalties	0.16	0.15	0.18	0.19	0.19
Total	22.52	23.39	25.83	27.52	33.91
TOTAL (TAXES AND LICENCES)	34.94	36.77	39.74	44.32	53.59
Percentage contributions of:—					
Direct Taxes	36	36	35	38	36
Indirect Taxes	64	64	65	62	64

20. Although there have been some changes from year to year in the proportion of tax revenue derived from direct as opposed to indirect taxes, it is interesting to observe that the proportion of each is expected in 1966/67 to remain the same as in 1962/63.

21. The development revenue account is set out in Table 8.11. This consists mainly of a definitive list of the sources of grants and loans received specifically for development purposes. The most striking feature of the

DEVELOPMENT REVENUE ACCOUNT 1962/63-1966/67

Table 8.11

K£ million

	1962/63	1963/64	1964/65	1965/66	1966/67 Forecast
EXTERNAL SOURCES—					
<i>Grants:</i>					
U.K. Government	-	0.51	3.03	2.35	0.78
C D. & W/D.T.C	3.74	3.90	0.44	-	-
Peoples Republic of China	-	-	1.07	-	-
Freedom from Hunger (U.K.) and others	0.22	0.33	0.26	0.18	0.09
Total	3.96	4.74	4.80	2.53	0.87
<i>Loans:</i>					
U.K. Exchequer	5.39	5.86	6.21	3.95	3.00
I.B.R.D.	0.64	0.27	0.27	0.13	0.27
West Germany	0.68	0.73	1.22	0.20	0.45
I.D.A	-	-	0.03	0.51	1.06
U.S.A.I.D	-	-	-	2.22	0.76
Other raised abroad	0.03	-	0.24	0.24	0.19
Total	6.74	6.86	7.97	7.25	5.73
Total External Sources	10.70	11.60	12.77	9.78	6.60
INTERNAL SOURCES—					
<i>Grants;</i>					
Local Grants	-	0.07	0.04	0.06	0.02
<i>Loans:</i>					
Local Market Issues	-	-	1.03	0.56	7.36
Other East African Loans	-	0.03	-	0.18	0.31
Total	-	0.03	1.03	0.74	7.67
MISCELLANEOUS OTHER—					
Taxation	-	0.32	0.64	-	-
Development Project Earnings	0.21	0.23	0.23	0.31	0.12
Others	0.48	1.00	1.12	0.22	0.09
Total	0.69	1.55	1.99	0.53	0.21
Total Internal Sources	0.69	1.65	3.06	1.33	7.90
TOTAL REVENUE	11.40	13.26	15.83	11.11	14.50

current year compared with earlier years is that the major source of finance has been locally raised loans rather than loans obtained from external sources. It should be emphasized that approximately two-thirds of these loans have been raised on the local capital market from local savings and do not represent deficit financing through increases in the fiduciary currency issue. Part, however, can be attributed to the switching out of sterling stock by various official funds into local stock. The rate of interest on locally raised loans is still expensive—6.5 to 7.25 per cent to redemption—but the fact that it has been possible to borrow nearly K£5 million from local savers is of considerable significance for the development plan, since it will be less dependent on the vagaries of external finance.

22. It should be noted that Table 8.11 excludes transfers of recurrent revenue to development account since this is an inter-account transaction but the Government has been endeavouring to increase the contribution of tax revenue to development, and, over the last four years, transfers from the recurrent account have been: —

	<i>K£</i>
1963/64	1,500,000
1964/65	1,000,000
1965/66	2,379,558

It is clearly important that as much of development as possible is financed by tax receipts rather than loans, since even if the latter can be raised locally and do not involve a foreign exchange servicing burden they still present an increasing budgetary problem so long as money rates are high.

23. Although external receipts for development have been significantly lower in 1966/67 as compared with recent years, substantial external loans on favourable terms have been negotiated and will be received in the next few years. The United Kingdom Government has agreed to make an interest-free loan of £18 million for general development, land consolidation and land transfer. The World Bank—through I.D.A.—has agreed to loans, first, for secondary schools and teacher-training colleges and, secondly, for roads and agricultural credit. These are 40-year loans with a 10-year moratorium at | of 1 per cent. The Federal Republic of Germany has agreed to provide loan money at 3 per cent over 18 years for tourist roads, agricultural development and small-scale industry. Negotiations have also been completed with the African Development Bank for a loan to finance the Great North Road (Athi River-Namanga and Elburgon-Tororo) and negotiations are continuing with the Israeli, Japanese and Italian Governments.

24. Mention has already been made in a number of places in this survey of delays that have occurred in the implementation of development projects and this has resulted in a shortfall of development expenditure against the Estimates. The reasons for this shortfall lie in part in delays, frequently inevitable, occurring in loan negotiations but more particularly due to construction delays in planned capital works. Shortages of design staff.

quantity surveyors and the inability of the building industry to gear itself to the much higher level of activity required are all contributory causes. It is to be hoped that the present situation is a temporary one arising from the difficulties the building industry is experiencing in picking up from the low level of activity prevailing over the last few years. But it is vital that the present building bottleneck is overcome quickly.

25. A chapter entitled "Public Finance in the Economy" is incomplete without a detailed description of the contribution on local authority services to the economy and the financing of these. Unfortunately, however, detailed up-to-date final accounts are not available for many of the smaller local authorities, particularly of the county councils and in spite of their considerable importance—an estimated total gross product of K£14.4 million in 1966 and an estimated growth rate of 16.3 per cent per annum since 1963—local authorities represent perhaps the worst documented sector of the economy. In part, this may explain why a number of local authorities found difficulty in meeting their financial commitments in 1966.

26. Total local authority expenditure in 1965 is provisionally estimated at K£16.6 million and in 1966 K£17.4 million. The percentage distribution of expenditure on the basis of prepared estimates was:—

PERCENTAGE DISTRIBUTION OF LOCAL AUTHORITY EXPENDITURE 1965 AND 1966

	<i>Table 8.12</i>		<i>Percentages</i>	
	COUNTY COUNCILS		MUNICIPALITIES	
	1965	1966	1965	1966
Administration	7.8	8.8	8.4	8.2
Primary education	63.7	61.9	18.5	18.8
Health	9.7	10.5	15.2	14.8
Roads	10.2	10.7	10.9	10.7
Housing			13.0	12.4
Water	18.6	8.1	11.1	10.6
Other trading services			5.2	5.5
Other			17.7	19.0

It will be noted that as far as county councils are concerned, the provision of primary education is by far the most important service with which they are concerned. On the other hand, municipalities provide a much wider range of services.

27. There is also a distinct difference in the structure of revenues as between county councils and municipalities. Almost all of the revenue of county councils—87 per cent—is derived from three sources—graduated personal tax, school fees and Government grants. Municipalities derive revenue from a greater variety of sources and in particular have an income from land rates and fees from the greater range of services they provide.

PERCENTAGE DISTRIBUTION OF REVENUE OF LOCAL AUTHORITIES BY SOURCE,
1965 AND 1966

Table 8.13

Percentages

SOURCE OF REVENUE	COUNTY COUNCILS		MUNICIPALITIES	
	1965	1966	1965	1966
Graduated personal tax	25.1	26.4	24.4	24.9
Rates	0.3	0.3	25.5	25.3
Cesses	2.9	2.7	-	-
School fees	27.7	27.4	4.0	4.6
Housing	-	-	11.2	11.7
Water	-	-	10.7	10.8
Fees and other charges	-	-	3.9	4.3
All other	10.6	10.0	14.0	14.8
Grants:				
General	25.0	23.7	5.1	2.3
Road	8.4	9.4	0.9	1.1

28. A number of local authorities, particularly those operating in rural areas, have experienced difficulty in collecting the revenues due to them. However, the position improved in 1966 compared with 1965 as a result of the Central Government administration taking over the responsibility for the collection of graduated personal tax.

CHAPTER 9—CAPITAL FORMATION

Forecasts of capital formation for 1966 had suggested an increase of 30 per cent over the 1965 (revised) level, giving a gross investment capital total of K£47 million. Provisional estimates of the out-turn for the year show that the forecast was easily exceeded and that a total capital formation of K£51 million was achieved—42 per cent higher than the previous year's (revised) figure and nearly 17 per cent of monetary Gross Domestic Product at market prices.

RATES OF CAPITAL FORMATION TO MONETARY GROSS DOMESTIC PRODUCT
1963-66

Table 9.1

K£million

	1963	1964	1965	1966*
(i) Monetary G.D.P. (at market prices)	247.8	267.6	279.8	307.3
(ii) Capital Formation	31.9	36.3	36.0	51.0
Per cent (ii) of (i)	12.9	13.6	12.9	16.6

*Provisional.

2. Over the period 1963-66, annual capital formation rose by nearly 60 per cent, a cumulative average increase of 17 per cent per annum. Clearly, the economy is beginning to gear itself to the capital expenditure programme

outlined in the Development Plan but has not yet reached the average annual rate of capital formation projected for the period up to 1970—K£65 million. This, however, had been expected in the Plan and projected annual expenditure is forecast to rise from K£42 million in 1965/66 to K£81 million in 1967-70. Exact comparisons of capital expenditures on a calendar-year basis as above with projections on a split-year basis as in the Plan are not possible but three factors seem to emerge. Total capital formation in 1966 was roughly on the level projected for it in the Plan (an average of the 1965/66 and 1966/67 planned levels would require total capital formation of K£53 million in 1966).

GROSS FIXED CAPITAL FORMATION, 1963-66

Table 9.2 K£million

	1963	1964	1965	1966*
PUBLIC SECTOR—				
Kenya Government	5.2	4.9	5.5	8.3
E.A.C.S.O. (including Enterprises)	2.1	4.0	2.2	4.2
Local Authorities	2.5	1.4	1.4	1.8
Total	9.8	10.3	9.1	14.3
PRIVATE SECTOR—				
Agriculture	5.8	6.4	5.3	7.5
Other	16.3	19.6	21.6	29.2
Total	22.1	26.0	26.9	36.7
TOTAL PUBLIC AND PRIVATE	31.9	36.3	36.0	51.0

*Provisional.

Secondly, private capital expenditures are rising rapidly—36 per cent between 1965 and 1966—and are keeping up with the planned rate. Indeed, since all the available evidence suggests that the rise is continuing, the planned rate for the next two years will quite likely be exceeded. Thirdly, capital formation by the public sector has been falling a little behind the planned level as a result of various bottlenecks, particularly in building and construction, although these had been anticipated to some degree when the Plan was drawn up. Central Government has fallen behind a little, while E.A.C.S.O. and local authorities are falling behind significantly. It should, however, be re-emphasized that information on the spending pattern of local authorities is inadequate for a full assessment, while the East African Railways and Harbours, the largest enterprise in Kenya, is unable to provide details of its capital spending in Kenya and an estimate has had to be made on the basis of total East African investment.

3. The striking increase in private investment is most encouraging for the successful outcome of the private sector targets in the Development Plan. A study of the Plan will, however, show that the level of private investment

will need to rise further yet, but there are indications that this is already under way and there is perhaps some built-in tendency in the present estimates of private capital formation for some lag to occur in the initiation of capital work and recording in the estimates. On the other hand, it should be re-emphasized that the Development Plan projections are based on constant prices, whereas the capital formation estimates set out in this chapter are on current prices. It is clear that although prices in the economy generally have not been rising steeply, the most significant increases have, in fact, been affecting investment expenditures. The rise in building costs has been discussed in Chapter 4 while capital equipment prices, determined largely by overseas suppliers, have also risen perhaps by 5 per cent per annum. At the same time, it should be noted that approximately K£1 million of the increased total of capital expenditure by the private sector in 1966 was represented by an increased expenditure on cars. It is, perhaps, becoming a debatable theoretical point whether, with the improving transport system in Kenya, all motor vehicles should be recorded as part of capital formation. Certainly, the Plan projections for private investment did not provide for such a steep rise in vehicle purchases.

GROSS CAPITAL FORMATION IN THE PRIVATE SECTOR, 1963-66

Table 9.3 K£million

	1963	1964	1965	1966*
AGRICULTURE—				
Buildings	0.7	0.8	0.9	1.1
Construction	3.6	3.7	2.5	4.0
Vehicles, machinery and other equipment	1.5	1.8	1.9	2.4
Total	5.8	6.3	5.3	7.5
REST OF PRIVATE SECTOR—				
Residential Buildings	0.7	0.6	0.5	1.0
Non-Residential Buildings	1.2	3.6	2.6	2.7
Construction	1.5	0.9	2.0	2.5
Cars	4.1	4.1	5.3	6.4
Commercial Vehicles	2.7	2.9	3.5	4.4
Aircraft	0.1	0.6	0.8	2.7
Machinery and other equipment	6.0	6.9	6.9	9.5
Total	16.3	19.6	21.6	29.2
PRIVATE SECTOR TOTAL	22.1	25.9	26.9	36.7

*Provisional.

4. In so far as the capital formation estimates have not yet been revised, there are a number of sector classification inconsistencies in between these estimates and those of Gross Domestic Product. In particular, purchases of aircraft and other capital expenditures of East African Airways in Kenya are shown here in the private sector although strictly they should be recorded as

"public enterprise expenditures", together with those of such organizations as East African Railways and Harbours and East African Posts and Telecommunications. However, since the Development Plan projections were based on these particular sector classifications, the comparisons made with the Plan in this Chapter are not invalidated.

5. Another striking feature of private capital formation in 1966 was the rising level of investment in agriculture. This investment was widely dispersed throughout the agricultural industry, but in spite of the complete fall-away of capital expenditures in the planting of coffee, expenditure on plantation development was rising, particularly in tea development. Capital investment in the settlement schemes rose from K£0.9 million in 1965 to K£1.3 million in 1966, while the total investment in the declining (in size) large-farm sector rose from K£3.9 million in 1965 to K£5.8 million in 1966, largely as a result of plantation development. Capital formation arising as a result of self-help projects throughout the country was valued at K£1.2 million as against K£0.8 million in 1965. Residential building in the municipalities is estimated to have almost doubled, and in spite of rising building prices was probably at a higher level than in any other year since 1961. No rise was recorded in non-residential building but, in fact, the level of such building has increased substantially in recent months and the estimates of such building in 1967 will reflect this fact. Private construction activity increased by K£1/2 million largely as a result of the fact that work at the Kindaruma Hydro-electric site increased from K£330,000 to K£909,000.

6. Although as mentioned earlier, capital formation by the Central Government is falling slightly behind the rate projected in the Development Plan, it still increased by over 50 per cent in 1966 over the 1965 total. This increase would have been even higher had all expenditures earmarked in the Development Estimates for 1966/67 been undertaken within the time-scale planned. More than 50 per cent of the increase in Central Government investments in 1966 arose from construction projects and, in particular, road construction. Capital expenditure on roads moved up sharply from K£1.9 million in 1965 to nearly K£4 million in 1966. The main projects that account for this were the Ulu/Sultan Hamud (Nairobi/Mombasa), Kisumu/Kisii, Kiganjo/Nanyuki and the Mombasa/Malindi roads. Higher expenditures were also recorded on non-residential buildings, vehicles and machinery and equipment. As regards non-residential buildings, the planned expansion of Government offices has now got under way and this is likely to accelerate further in the current year.

7. It was indicated in Table 9.1 that total capital formation in 1966 represented 17 per cent of Gross Domestic Product at market prices, but it would be misleading to suggest that all this investment was financed by domestic savings. The balance of payments set out in Table 1.11 shows that there was an estimated net capital inflow and transfer payments of over K£30 million in 1966 compared with an estimated K£16.5 million in 1965. In one sense,

therefore, practically the whole of the increase in capital formation in 1966 was financed from overseas although it is also relevant to note that the Kenya economy "saved" an additional K£12.6 million which was used to increase foreign exchange reserves. The balance of payments current account deficit in 1966 was K£18 million (including the negative balancing item of K£6.7 million).

CHAPTER 10—EDUCATION, MANPOWER AND HEALTH

Education

Rapid expansion of educational facilities at all levels has been a major concern of the Government since independence and, as the following paragraphs show, much progress has been made in this field, particularly in secondary education, despite the continuing severity of two fundamental constraints—the dearth of adequately trained teachers and the heavy recurrent cost implications of building more schools. In addition to direct development by the Government, community effort is playing a conspicuous role in the extension of educational facilities through the building of "*Harambee Schools*".

2. Primary school enrolment in 1966 was 1,043,416, or 59 per cent of total children of primary school age. This rise of 6 per cent over 1965 implies that school enrolment is out-pacing population growth. Parents appear to be becoming more educationally motivated and feel the need to send and keep their children in school. A number of primary schools, closed down in 1965 due to lack of funds, were re-opened last year. However, average enrolment per class shows that there are some areas where schools are not fully utilized. It may, therefore, be necessary that the Ministry of Education should control the opening of new schools more to aim at fuller utilization of existing facilities. Considerable progress was made in extending the New Primary Approach Syllabus during the year and very encouraging results from its use are already apparent.

3. The main thrust of Government's education policy has, however, been in the direction of expanding the base of secondary education. This has been remarkably successful for secondary school enrolments rose 31.7 per cent, from 47,974 in 1965 to 63,193 in 1966 (excluding enrolments in private schools). The Development Plan target for maintained and assisted schools is 65,500 pupils by 1970, compared with 41,227 enrolments in these schools in 1966. If the growth of the last three years is maintained, the Plan target should be well within reach.

4. Sixty-seven new secondary schools with 392 classes were opened in 1965. The number of secondary schools built since independence is 253 and the total available in 1966 was 403. A further 60 schools are expected to have

been added in 1967. A K£52.5 million loan secured from the International Development Association will add considerably to the resources available for the development of more new Government secondary schools but the heavy recurrent expenditure which results from the rapid building of a large number of new schools will have to be met out of domestic revenues. It is of note, however, that Central Government expenditure on education has risen from K£6.8 million in 1964/65 to K£9.6 million in 1965/66.

5. A most remarkable feature of this growth is the extent of community self-help involvement in the development of new schools. Of the new schools opened since independence, about 200 are *Harambee* schools built by self-help groups throughout the country. The Form I intake of these schools in 1967 is equal to that of the Government schools. Self-help effort has thus greatly increased opportunities to continue their education for pupils leaving primary schools after the Kenya Preliminary Examination.

6. The full extent of the growth of secondary education is more clearly apparent from Table 10.1 which sets out the increase in enrolment at each level since 1962. The rapid growth during 1964-66 will make a significant contribution to the economy's manpower requirements for occupations which require a secondary education as well as for those which require a higher education, in so far as the secondary schools will turn out a larger number of candidates qualified to go forward to institutions of higher education, including teachers' training colleges.

ENROLMENT IN SECONDARY SCHOOLS BY CLASSES, 1962-1966

Table 10.1

	NUMBERS					% Increase
	1962	1963	1964	1965	1966	1964-66
Form I	9,093	11,214	12,712	18,978	24,108	90
Form II	6,883	8,174	9,122	12,536	18,503	103
Form III	5,280	5,829	7,035	7,760	11,209	59
Form IV	4,230	4,791	5,625	6,849	7,068	26
Form V	646	667	864	1,130	1,356	57
Form IV	359	445	563	721	948	68
TOTAL	26,491	31,120	35,921	47,974	63,192	76

7. In addition to developing new physical facilities for secondary education, the Government has also taken steps to make existing schools more accessible to African children. In 1967, it directed that 50 per cent of the intake into Form I classes in all the former European and Asian schools should be Africans.

8. A significant increase was recorded in 1966 in Form V classes following the introduction in 1965 of free education (or a sharp reduction in fees) in the "high cost" schools at Forms V and VI level. Developments such as this inevitably create demands for additional teachers and greater effort will have to be directed at increasing the supply of suitably qualified teachers for secondary schools.

9. While the supply of trained teachers is still well below requirements, there is evidence to suggest that, as with primary schools, the available teachers and building facilities could be put to better use. The number of pupils per class in secondary schools in 1966 was as follows: —

	<i>Pupils per Class</i>
Form I	36
Form II	34
Form III	31
Form IV	26
Form V	19
Form VI	15

It would seem that considerably more pupils could be accommodated at the higher levels. It is likely that in some classes the average number of pupils has actually declined during the last year. The provincial distribution of pupils per class is also uneven, particularly in the boarding schools. For example, while the average size of Fifth and Sixth Forms in Central Province in 1966 was 19 and 16 respectively, it was 16 and 14 in Nyanza Province and only 10 and 10 in Coast Province. Boarding schools particularly should offer much better scope for the fuller utilization of existing facilities. Stricter control over the opening of new schools is desirable.

10. The growth in the number of children in schools is also reflected in the numbers sitting for local and overseas examinations. In 1966, 8,019 candidates sat for the Cambridge School Certificate examination, compared with 7,353 in 1965. Of the School Certificate candidates, 4,929 secured full passes and 1,676 were awarded a General Certificate of Education. Over 18 per cent of those who wrote K.P.E. examinations were accepted for enrolment in secondary schools, compared with less than 13 per cent in 1965.

11. A new examination, the Kenya Junior Secondary Examination, was introduced in 1966 at Form II level and designed primarily to cater for those pupils who cannot afford to complete four years of secondary education. Successful candidates in this examination can now receive a recognized certificate which will enable them, among other things, to train as P2 teachers. This examination is not compulsory for all schools and was attempted in 1966 by 9,314 candidates, of whom 2,636 (28.3 per cent) passed.

12. The number of trainees for the various grades in the teacher-training colleges rose by 2 per cent, from 5,355 in 1965 to 5,474 in 1966. Significant increases were particularly apparent for the S1 courses as a result of the increased output from secondary schools. This category of trainees is prepared for work in secondary schools to alleviate the shortage of teachers in the country. One of the landmarks in teacher education during the year was the first enrolment of science teacher-trainees in the new Kenya Science Teachers' College currently housed in temporary premises while building work at the permanent college site continues. In teachers' colleges also, the average size of class fell from 26 in 1964 to 24 in 1965 and 1966.

13. The total number of primary school teachers increased from 30,592 in 1965 to 33,522 in 1966. There was a slight drop in the number of untrained teachers who still account for the relatively high proportion of about one-third of the teaching staff. But the increase of 2,930 was wholly in respect of trained teachers. The number of secondary school teachers rose from 2,494 to 3,004 during the same period with larger increases being recorded for university trained and SI teachers. While future expansion of secondary education for the next few years will continue to depend heavily on the availability of expatriate teachers (and every effort will have to be made to recruit teachers overseas), even greater effort will be necessary to train local teachers.

14. In secondary trade education, the number of students rose from 1,247 in 1965 to 1,349 in 1966 with new "technician" courses being launched at Kabete Technical School under the aegis of the Kenya Polytechnic. Work continued during the year on the extensions to Kenya Polytechnic buildings which will enable a doubling of the student number by 1970. The Government is aware of the importance of these institutions as a source of technical manpower and more resources are being allocated to expand this sector of education.

15. During the academic year 1966/67 there were 826 Kenya students, as against 765 in the previous year, studying in the various faculties of the University of East Africa. More than half of these were enrolled at the University College, Nairobi. At the same time, about 4,500 Kenya students were estimated to be studying outside East Africa, the majority at British and American universities. However, a large proportion of these are non-citizens who are not expected to return to Kenya. A notable addition to the higher education facilities available in Kenya is a new medical school which will accept its first students during the current year.

16. Apart from the growth of formal education, a major drive to promote adult literacy was started in 1966 with the inauguration of the Adult Literacy Campaign. Initial effort is being concentrated in ten districts and it is hoped to include another ten during 1967/68. Each district project involves the teaching of 600-1,500 adults in classes of 30. Teaching is by specially trained

teachers working under supervision. The objective is to start the first year of teaching by imparting basic reading and writing skills which would enable students to proceed to a full primary education course. The programme concentrates on particular groups of people such as settlement farmers and estate or urban employees who require literacy based skills in their work. It is hoped in this way to maximize the economic impact of the campaign.

High-level Manpower in the Public Service

17. Table 10.2 shows the number of superscale and other high-level posts in the public service (Central Government only) in February of the current year. Out of the 6,180 occupied posts in the categories shown, 51 per cent were occupied by Africans (whose numbers include a few non-citizens). The progress of Africanization in the public service can be judged from the fact that at the end of 1963, only 19 per cent of the occupied posts in the categories shown were held by Africans. The proportion of Africans in senior posts has thus increased by two and a half times over the last three years. In fact, the pace of Africanization has been faster than these proportions suggest because the number of occupied posts in the categories shown has risen by 14 per cent over this period. It should also be emphasized that the figures shown in Table 10.2 refer only to less than 10 per cent of the Civil Service establishment. In the Civil Service as a whole, 90 per cent of the employees are Africans.

HIGH-LEVEL PUBLIC SERVICE POSTS, FEBRUARY 1967

Table 10.2

	Africans	Others	Total	Percent- age of Africans in Total
Super-Scale	264	135	399	66
Administrative and technical ..	455	1,224	1,679	27
Executive and middle technical	2,415	1,687	4,102	59
TOTAL	3,134	3,046	6,180	51

18. The number of non-citizens in the categories shown is still approximately half the total. Government recruitment and training programmes continue to lay emphasis on the replacement of non-citizens by citizens as soon as possible.

19. Along with its efforts to Africanize the Civil Service, the Government is also taking steps to hasten a similar process in the private sector. New immigration rules to control the flow of expatriates into the country have already been announced. A more important step, the introduction of work permits, will provide the means for more effective practical steps in this direction.

Health

20. The decline in the total number of doctors practising medicine in the country, observed since independence, has been reversed. The number of doctors had fallen from a peak just over 900 in 1963 to under 800 in 1965. Preliminary figures for 1966 suggest that it has again climbed back to about the 1963 level. However, given the fact that population since 1963 has increased, the number of doctors available per every 1,000 persons is rather less than it was three years ago.

21. Traditionally, the vast majority of doctors practising medicine in Kenya have been trained in Britain or India and Pakistan. Now, however, a more varied background of training is becoming apparent. In addition to the growing number of graduates from the University of East Africa, many trained doctors are now returning from a large number of other countries and the number of those still training in these countries is perhaps even higher. The regulations governing the registration of doctors were devised to cope with personnel returning from well-known institutions. But many doctors are now coming back after finishing their training in "non-traditional" countries to find that under existing registration regulations some of them are treated differently. It is important that this anomaly should be removed. This is not to say that the standard of professional competence should be compromised—only that the quality and level of skill rather than where it was acquired should be the criterion of registration.

22. The total number of doctors, although important, is not the only standard by which medical services available to the population can be judged. Other criteria such as the number and distribution of hospitals and medical centres are also important. In this respect, some progress has been made. The total number of hospital beds, shown in Table 10.3, increased in 1966 by 8 per cent over 1965.

Table 10.3
HOSPITAL BEDS AVAILABLE, 1963-1966

	1963	1964	1965	1966
TYPE OF HOSPITAL—				
Government	6,708	6,931	7,334	7,550
Private	1,575	1,589	1,617	1,600
Mission	3,061	3,091	3,232	3,288
TOTAL	11,344	11,611	12,183	12,438

23. In addition to the provision of new beds, other facilities such as out-patient departments, operating theatres, radiography units, staff housing, etc., have been introduced or improved at existing hospitals. The large new Russian-built hospital at Kisumu is expected to be completed in July although work on ancillary buildings such as housing will continue for a while after.

Grants for capital improvements to health centres and dispensaries operated by local authorities were continued. However, these local authority medical facilities are now severely strained as a result of the provision of free out-patient treatment. The increase in the number of patients who come for treatment far exceeds the growth in staff and the supply of drugs and medicines.

24. Mission health services also look as if they have reached the limits of their expansion. They have experienced increasing financial hardships since independence as a result of declining aid from traditional sources of finance. Many overseas donors feel that regional churches ought to bear a greater part of the burden of their hospitals. Mission hospitals do, of course, receive substantial Government assistance. It would seem that this will have to increase and further development of these hospitals will have to rely more on Government finance.

25. One of the two perhaps most notable events in the field of health in 1966 was the announcement that a new medical school to train doctors will accept its first intake of students during the academic year 1967/68. The opening of the medical school is part of a project which is expected to cost several million pounds over the next few years. The first intake of students will number 35, to be increased to 100 every year in the early seventies. Most of the students are expected to be Kenyans and their numbers will be in addition to the 15-20 Kenyans who graduate from the Makerere Medical School every year.

26. The second major landmark with implications which go far beyond public health is the inauguration of an extensive family planning service by the Government. The Family Planning Association has established 22 family planning clinics over the last three years. The Government's programme is intended to extend family planning on such a scale that it will eventually considerably reduce the rate of population growth from its present level of 3 per cent per annum. Teams to staff the Government clinics are now being trained. By the end of the current year, 30-35 clinics will be operating in provincial and district hospitals. The service will be free, as part of the maternal and child health programme. Twenty-five thousand insertions of intra-uterine contraceptive devices will be made in the first year, to be increased to 150,000 by the end of the fourth year.

CHAPTER 11—THE OUTLOOK FOR 1967

Production and income in the major industrial countries is likely to remain at a high level in 1967. The United States may try to hold back the growth of internal consumption but Vietnam commitments will inevitably cause a high

level of Government disbursements and most indicators suggest a high level of economic activity. The British Government seems to be moving cautiously towards a reflationary policy following its substantial balance of payments improvement: production should therefore show a small rise. In the European Common Market area the high level of production in France and Italy should more than offset a relatively slower growth in Germany. The Japanese economy seems to be moving ahead once again.

2. The outlook for world trade is also quite good but the greatest expansion is once again likely to be seen in manufactured goods rather than primary commodities where the outlook can only be described as fair. As far as Kenya exports are concerned, coffee prices have already dropped sharply, tea prices are hesitant and sisal prices show no indication of recovery from their recent low levels. Pyrethrum extract is likely to have to face more severe competition from synthetic insecticides, while rising internal demand is likely to restrict the growth of meat and dairy exports. Some export gains should, however, be recorded by miscellaneous export crops.

3. Forecasts of export income in 1967 have to take all these trends into account as well as the level of agricultural and manufacturing production, commodity and trade restrictions affecting Kenya crops, and import-saving policies in our main markets.

4. Agricultural production should record a further advance in total in 1967. Sales of wheat and maize from crops planted in 1966 and already harvested will run at a very high level. There should be no food shortage in the country and a surplus of cereals should be available for export—wheat to Uganda and Tanzania and maize overseas. Coffee receipts will, however, be reduced by perhaps K£1.3 million as a result of lower export prices and the quantity restrictions of the International Coffee Agreement: the production of coffee will be a record but there will be a substantial unsold surplus in stock at the end of the year. Small-farm income from coffee is, however, likely to show a further rise and approach a record of K£10 million, outstripping estate income from this crop for the first time.

5. Tea production should move ahead once again but less than last year: there are fewer young trees coming into bearing in the large-plantation areas and the full impact of the small-farm tea-planting programme is not yet due. Sisal production is forecast at about the same level as last year. Pyrethrum production should be up but the pay-out price significantly lower. The recent planting programme in sugar and the opening of the new factory at Muhoroni is forecast to lead to an increase of over K£1 million in the income earned from cane—mainly to small farmers. Small increases are forecast in the production of cotton, castor and pulses.

6. The numbers of slaughter stock marketed are likely to be higher, in the main, but there are indications that quality may be rather lower and in spite of price increases in 1967 total income is likely to be only a little higher. Milk production is also expected to be only slightly higher than in 1966.

7. Overall gross farm income is forecast as rising by K£3.5 million or between 6 and 7 per cent. All this increase, however, is expected to be contributed by the small-farm sector whose cash income should rise to approximately K£24.5 million, over K£4 million higher than in 1966. Large-farm gross revenue is likely to fall by about K£0.5 million.

8. Manufacturing production is likely to be affected by two conflicting trends. Firstly, new plants will be available for production in some industries—such as sugar, power cables, plastic items, woollen textiles and cigarettes. Secondly, trade restrictions and the build-up of industry in Tanzania and Uganda will tend to restrict the markets for Kenya's manufacturers in those countries. The impetus given by the rapid rise of oil refinery production over the last few years will no longer be felt in 1967, while the market for local textiles has not yet reached the present level of textile capacity. Food manufacturers are, however, expected to expand production significantly. Overall, manufacturing may perhaps lift its level of production by 6 per cent but anything more looks unlikely at the present time.

9. Considered as a whole, the export outlook is not as bright as might be wished for. It must, however, be recalled that overseas exports moved up by 23 per cent in 1966; such a rate of increase would be unlikely to be sustained for two consecutive years. Present indications are that overseas exports in 1967 will be rather lower than in 1966, perhaps down by 5 per cent. Exports to Uganda and Tanzania will be influenced by the growth of new industries in those countries and to a certain extent also by trade restrictions. Some commodities should, however, be sold in increasing quantities and for this reason it is considered that the total level of all sales should be maintained at about the 1966 level.

10. The level of imports will be determined by the overall activity of the economy in general and the rate of capital formation in particular. Consumers' goods and producers' goods imports can be expected to arrive in similar quantities to last year although prices are likely to be rather higher. No imports of grain except, perhaps, hard wheat should be required. Capital imports will be influenced by the arrival of further new aircraft, and of equipment for the capital programme of East African Railways and Harbours. The increasing level of capital investment in other sectors will also be reflected in higher imports of capital equipment. Taken as a whole, imports are forecast to rise by a further 5 per cent.

11. As usual, the rate of capital investment will be an important factor in determining the level of economic activity in 1967. It will be clear from this Survey that this rate has been rising rapidly in the last two years and a further

increase is looked for in 1967. The level of activity in the building industry is rising; the East African Railways and Harbours are undertaking a major re-equipment programme, as are a number of important private industrial concerns. Hotel development is moving ahead rapidly. Tentative forecasts of capital formation suggest a figure of 30 per cent higher than 1966, possibly K£65 million.

12. The building and construction industry will need to expand rapidly in 1967 to meet the rising needs of the economy. On the basis of the capital formation forecast above, the product of the industry should rise by as much as 35 per cent in spite of rising costs and difficulties of finding sufficient skilled craftsmen. The aggravation of existing bottlenecks in this industry will need to be watched carefully.

13. Tourism should have another very good year with a further increase in the numbers arriving but perhaps a lower rate of increase as compared with 1966. Present indications suggest an increase in private tourists of 17 per cent but a rather lower level of foreign military and naval personnel arriving for leave in Kenya. Tourist income may perhaps rise by 12 per cent in total.

14. The public sector will be influenced by rising development expenditures and also decisions to be taken by the Government on the Public Service Salaries Commission Report. It is at present difficult to forecast the overall expansion of this sector but it could be as high as 10 per cent or even higher if some of the present development bottlenecks are eliminated quickly.

15. The level of wage employment has proved extremely difficult to forecast in recent years as a result of the fact that employment has not advanced as fast as general economic growth. Wages are likely to continue to move up faster than employment and will perhaps advance by a further 5-7 per cent on the average in 1967, and cause further economies in the use of labour. The lower level of coffee production on the plantations and possibly some cut-back in sisal employment will affect agricultural employment adversely. On the other hand, the building industry is likely to be seeking new employees to sustain its expansion, and public sector employment is likely to increase further. An overall small increase is, therefore, forecast, but this is likely to continue to lag behind the increase in employment projected in the Plan.

16. When all factors are taken into account, it becomes evident that 1967 is likely to be a more difficult year for the economy and one in which a number of strains may emerge. But it will also be a year of further advances: production is still moving up, if perhaps rather slower than in 1966, and capital formation is now rising at what is probably an unprecedented rate. A first forecast of Gross Domestic Product for 1967 indicates a level about 6 per cent higher than last year, although doubts regarding a number of commodity prices make this forecast even more tentative than usual at this time of the

year. It does, however, appear that the economy will remain on the course set by the Development Plan. However, if exports record a fall as suggested above and imports rise even within the 5 per cent limit forecast, there will be a significant deterioration in the merchandise account of the balance of payments. The overall deficit on goods and services account is likely to deteriorate further in 1967, perhaps to nearly K£20 million; and the stability of the balance of payments as a whole will, therefore, depend heavily, once again, on a substantial foreign capital inflow.