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UNITED STATES GOVERNMENT

# memorandum

PD-ACC-893

DATE: 10 July 1978

REPLY TO ATTN OF: AFR/EA/K, Richard H. Eney
Kenya Desk

SUBJECT: Country Development Strategy Statement - Kenya

TO: See Distribution

The enclosed CDSS will be reviewed at 9 AM Wednesday, 12 July, in Room 6944 (Africa Bureau Conference Room). This represents an exchange of timing with the ECPR for the Agriculture Systems Support project PP, which has been changed to 4 PM Thursday, 13 July.

An issues paper is attached.

If you are unable to participate in or send a representative to the review, please transmit your comments to the Kenya Desk (6746 NS) on 23229 by COB Wednesday.

Attachments:a/s

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# KENYA

## Country Development Strategy Statement

### ISSUES PAPER: for review 12 July

I. Issues identified by the Mission

At pp. 31-33 of the enclosed CDSS USAID/Kenya identifies the following strategy issues:

1. Extent of the GOK's actual commitment to growth and equity - The USAID believes per Section III that a serious and firm policy commitment to both exists although recognizing that the institutional infrastructure to implement is limited and that economic and political developments during the next several years could cause greater emphasis to be placed on growth. The USAID's advocacy of a broad assistance approach toward relieving access and manpower constraints in the principal sectors of concentration should strengthen supporting infrastructure so as to facilitate reaching equity objectives. The issue, however, is one which should be addressed in subsequent annual CDSS', in review of the 1979-83 Plan as published and the 1979/80 budget, and in the next GC meeting. It is anticipated that next year's CDSS will be in a position to make better informed judgements than this document.

2. Absorptive capacity - The FY 1980 ABS proposes significant amounts of assistance in agriculture and health in FY 1979, at all three levels in FY 1980, and during the planning period, FY 1981-84. Government's ability to absorb such AID funding will be affected by manpower capabilities for planning and implementing, where the MOH may be less well off than the Ministry of Agriculture; GOK budgetary and FX constraints, including the recurrent budget, and by levels of other donor assistance to these same sectors. At this point in time and at such an early stage in design of new activities for FY 1980 and beyond, the Mission can really only assume absorptive capacity will not impede AID program evolution. However, the Mission proposes absorptive capacity and recurrent budget financing as issues for review by the GC and that AID request the IBRD specifically to review them as part of its pre-GC analysis and evaluation of Kenya's economy, development policies and performance.

3. Defense versus development spending - Subsequent to drafting of much of the above, the Minister of Finance and Planning stated in the June 15 1978/79 Budget Speech that he did not know when it would be possible for the GOK to afford to implement the NCEOP Report given future economic prospects and that it would be essential to restrain educational spending within tighter and redefined guidelines than were set down in Sessional Paper No. 4. The Minister said, "if the present level of defense spending is inescapable, we have no options but to delay the improvement in education we all want." He then stressed that the GOK could not expand both education and defense simultaneously and that while spending on health, police, and development administration would also be restricted, because defense and education took such a large part of the total budget, the choice would largely be between those two services if others were not to be cut back absolutely. Looked at narrowly, this has serious implications for provision of AID assistance to education within the near term if one accepts that the proposed restructuring of the education system is essential to achievement over the long-term of growth and equity objectives. The USAID believes the sector assessment should go ahead as proposed but giving attention to how much of the restructuring could be implemented within the redefined financial guidelines. In the absence of further information alternative education strategies "a" and "c" shown at pg. 30 of the CDSS might be less desirable or appropriate. More broadly considered, judging by the areas cited for budget cuts the Minister may be opting for development and defense. See issue 1 above.

4. AID technical expertise capabilities - AID personnel having technical expertise in the agriculture, health and education-development administration fields are known to be severely limited. Problems of ceilings, MODE and sheer availability will impact upon USAID's program design and implementation. Delegating responsibilities for these to regional offices and/or AID/W is no solution, particularly given prospects for vastly increased U.S. assistance in Africa. Realizing such aid levels will, thereby, involve loosening of Congressional and AID requirements for project design-approval and/or management, relief of overseas personnel restrictions and, certainly, elimination of conflicting guidelines which apply thereto, or some conbination of these. In effect, AID cannot spend the funds without the programs, and it cannot have the programs without the personnel.

II. Issues Identified in AID/W

Review of the CDSS in AID/Washington surfaced further issues, as follows:

1. Approach to problems of small farmers (rural poor) - USAID's strategy is based on the assumption that lack of access by small farmers to input and services is a major constraint to be addressed. Other constraints may include -

a) Size of holdings - land tenure practices. With an average smallholding of 1.2 to 1.5 hectares under cultivation, is it plausible to support such an area can support a family at an acceptable standard of living whatever crops and technology are used?

b) Availability of relevant technology.

c) Other unspecified constraints?

Is there agreement with USAID on which constraint is the major one?
Is there agreement on which constraint USAID should focus on?

2. Employment generation - support for "informal sector" - The idea of supporting the "informal sector" through projects for introducing intermediate technology or other means is a possibility for addressing the problem of underemployment, the landless, and the working poor. The proposed Rural Market Centers project involves an intermediate (appropriate) technology component. Constraints against greater AID activity - lack of expertise and involvement of other donors (Scandinavians) - are noted but without any discussion why they cannot (or should not) be confronted and overcome. If the "formal" (modern) sector is expected to provide only a tenth of the needed new jobs (40,000 against a requirement of 400,000) and agriculture is already an area of underemployment, exploration of possibilities in this area of the economy might be rewarding.

3. Manpower training - education evaluation. - Kenya's shortage of trained manpower has been identified by IBRD as a major constraint on development, and the resulting problem with national absorptive capacity is recognized in the CDSS as

a main difficulty. However, no training component appears in the summary of the GOK 1979-83 Development Plan. While the Mission has proposed projects that address this problem directly, one receives only modest priority (13th of 28 for Kenya Education Staff Institute). Further action is expected to follow the in-depth examination of the Education sector which the Mission requests. Requested IBRD review of absorptive capacity as an issue for the Consultative Group may also produce fur ther possibilities for USAID interventions. These studies may take some time. It is not possible to use the NCEOP report for general guidance in drafting a policy, even if it has not yet been officially adopted? Alternately, does the official reserve over this report suggest that the time is not appropriate for an in-depth study?

4. Review of development/defense priorities and conflicts.- It is noted that Balance-of-Payments and defense demands may create new and serious problems - in fact, the conflict between the demands of national defense and national development which result from the military escalation in the Horn of Africa is plainly acknowledged. IBRD, in its forthcoming country study, should be asked to address this problem both in its effect on immediate priorities and its influence on Kenya's ability to deal with recurrent costs.

5. Future strategic questions

a. CDSS discussion of the characteristics of that 12% of smallholders who are defined as "progressive" is inadequate. knowledge of the characteristics which make this group "progressive" could provide important insights into the strategic approach that would effectively reach the "nonprogressive." To what extent (for example) are the "progressive" farmers also the ones that have managed to establish formal title to their land?

b. Given Kenya's high rate of population growth and present land shortage, Family Planning and the problems it has encountered in Kenya deserves a more thorough discussion. The CDSS implies that the Ministry of Health has not been as effective and aggressive in this area as it might have been. It is, however, largely silent on the origins of MOH problems and what AID might do to help overcome them.

c. Program lending may not be an appropriate US response to Kenya's Balance of Payments problem. What alternatives exists within Sector Support and PL 480 Title III programs?

# COUNTRY DEVELOPMENT STRATEGY STATEMENT

## KENYA - 1980-84

## I. PROFILE OF THE POOR MAJORITY[1/]

Of Kenya's population of 14 million 90 percent live in rural areas, and 86 percent derive their incomes principally from agriculture--the dominant sector in the economy as measured by percentage of the labor force employed (86 percent), contribution to Gross Domestic Product (29 percent), and total exports (68 percent). Significant disparities exist among the rural areas in levels of development, productivity, and income potential quite apart from cultural differences. Roughly 80 percent of Kenya's land area is classed as marginal/semi-arid, and 30 percent of the populace live as pastoralists and smallholders in these areas where they are chronically subject to drought and famine, where the land's productivity is declining, and where the availability of water is a primary concern. Virtually all this group can be classed as "poor." However, the areas' inhabitants are rapidly increasing mainly due to "land hunger" and the resultant migration from the over-populated high (agriculture) potential areas.

Kenya's rural poor also live in significant numbers in the medium and high potential areas which constitute 18 percent of the land area and in which 60 percent of the total population is concentrated. Here, population density and traditional inheritance patterns result in increasing numbers of farms being too small to support their owners' families.

Smallholders constitute almost 11 million of Kenya's population (about 1.5 million small farms) in contrast to only 3,200 large holdings located almost entirely in the former scheduled, or European, high potential areas. Since Independence the area under large holdings has decreased slightly, and the size distribution has become less skewed over time. During the same period the number of large holdings has increased by only about 400.

A smallholding is under 8 hectares in size although almost 75 percent are less than 3 hectares. On the average a smallholding is 2.3 hectares of which 1.2-to-1.5 hectares is cultivated. Given the small size of many holdings, only 57 percent of rural household income is attributable to farm operating surplus with the remainder derived from non-farm earnings, including wages from regular and casual employment and transfers from relatives working in urban areas. Such transfers may approximate 20 percent of urban wages.

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[1/] Much of the socio-economic data cited in this section is drawn from reports on the Integrated Rural Survey being carried out by the GOK Central Bureau of Statistics.

A smallholder household averages seven members, half of whom are under 15 years of age. One-fourth of all such households are headed by women, primarily due to urban migration of the male heads of households. Traditionally, women perform 75-80 percent of on-farm agriculture labor while also being responsible for child bearing and care, food processing and preparation, water carrying (which may take between 2-4 hours per day), and home management.

Annual mean per capita income for household members is $69 while the median level is $45; over half (54.7 percent) of smallholder household members had annual per capita incomes of less than $57 in 1975 and about 90 percent, less than $150. These figures contrast sharply with nationwide figures for GDP per capita of about $232 in 1976 current prices or $217 in 1972 constant prices. (Per AID data 86 percent of Kenya's population falls within Africa's poor majority.)

About 1.1 million farmers have formal title to their land or are in the process of registering land they hold by right of custom. The smallholders' share of gross marketed production has increased dramatically from 20 percent in 1960 to 51 percent in 1976. This change has been particularly noticeable for cash or export crops, such as coffee and tea which before Independence were reserved exclusively for expatriates, and also for crops such as maize (the national staple, 65 percent of which is smallholder produced), pyrethrum and milk. Such increases have occurred principally through acreage expansion, thereby suggesting substantially greater small farmer participation in the agriculture economy.

Gross marketed production represents only about half of all agriculture produce. The remainder does not enter the official market system. Of total production smallholders may be responsible for 80 percent and may consume 50 percent on their farms. While aggregate data indicate a dramatic increase in small farm production and income, to date the principal beneficiaries of post-Independence agriculture policies have been large and medium-sized farmers, and, also, within the smallholder category a "progressive" group--those individuals who have been able to take advantage and make use of available factors of production. It is these "progressive" small farmers, representing only about 12 percent of the total smallholder group, who are responsible for the majority of smallholder production.[1/]

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[1/] See memo Nelson to Ambassador of August 18, 1978, on "Smallholder Agriculture Production in Kenya - Overview," copy available in AFR/EA.

The remaining 88 percent of smallholders may be classed as "non-progressive," i.e. those who do not yet have access to modern technology and inputs--they do not belong to cooperatives, do not use credit, do not use improved seeds, fertilizers or pesticides, do not have adequate on-farm storage, and are not served by extension services. They do participate to a limited degree in the established market system, often to their disadvantage, selling off some of their maize to enable purchase of matches, tea, sugar, salt and similar items, and to finance their children's school attendance. They also trade a portion of their maize for goods or services outside the established market system. Few produce a cash crop--the limited land available, need to grow food for consumption, and technology available to them, whether residing in high or lower potential areas, foreclose this option.

Kenya's Physical Quality of Life Index, calculated using mid-1970's data for literacy (20-25 percent), life expectancy (50 years), and infant mortality (119 per 1,000 live births), is 40, which places her very close to the average of 39 for 49 low-income countries.[1/] For smallholder households access to health, education and other social services varies among the provinces with no one province consistently having better access in every category. Across-the-board the North Eastern Province is the most inadequately served. Nationwide, 83 percent of rural Kenyans live within two miles of a primary school, and it is estimated that between 74-87 percent of primary school-age children are enrolled, in large part due to abolition of tuition fees for primary education in Standards I-V. (Various user fees still exist, however.) Only 10 percent of smallholder households are within 2 miles of a Government secondary school and another 24 percent, a "Harambee," or self-help, secondary school. About 37 percent of rural households reside within two miles of a market and 55 percent within that distance of a bus route. Only 16 percent live within the same radius of a health center. While life expectancy is increasing, about one-third of all rural children suffer some protein deficiency although malnutrition is less severe than in other African LDC's.[2/]

Little comparable data exists for nomadic pastoralists, squatters and the landless, and these, representing about 300,000 households, are not included in the above statistics on smallholders. However, it is estimated that their income might approximate the median level, or below, for smallholders. For nomadic pastoralists in the North Eastern Province and the dry districts of other provinces access to social services is

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1/ Overseas Development Council. The United States and World Development, Agenda 1977, Annex A, Table A-3, p. 162.

2/ For further information on social services see also 77 Nairobi 13951 and 77 Nairobi 12302.

probably even more limited due to their life style and the relatively fewer number of such facilities in these comparatively under-populated districts.

The great majority of Kenya's poor, therefore, are found throughout the rural areas, but significant numbers reside in the cities. The ILO/UNDP[1/] estimated that nearly 25 percent of urban employees in the formal, i.e., modern, capital-intensive, sector of the economy, which uses advanced technology, and the majority of employees and self-employed persons in the urban informal sector, must be counted as members of the "working poor." (The informal sector, which may be both urban and rural-based, is characterized by ease of entry, reliance on indigenous resources, family ownership, small scale of operation, labor-intensive and adapted technology, reliance on skills acquired outside the formal education system, and unregulated, competitive markets.) The urban poor frequently live in squatter settlements lacking most essential services, such as running water, electricity, health facilities and schools. They may earn about KShs. 350 (the minimum wage set by law) or less per month, working generally much longer than 40 hours per week. This group contains disproportionate numbers of women, the young and the uneducated. The urban unemployed, representing 8-14 percent of the urban population (based on limited data for Nairobi, Mombasa and Kisumu), also are part of the urban poor which <u>en toto</u> may represent about 20 percent of adult males and 50 percent of adult females residing in cities.

To put urban poverty in perspective the poorest 40 percent in Nairobi may be five-to-six times richer than the poorest 40 percent in rural areas, and average incomes in Nairobi may be six-to-seven times higher than those of smallholders. Significant income differences exist even when cost of living differences between rural and urban areas are allowed for according to the ILO/UNDP.[2/]

Although progress has been made in extending various social services and integrating small, African farmers into the economy, much remains to be done. This is true both for many progressive smallholders as well as for the non-progressive group given the prevalence of poverty in Kenya. Further, poverty is not strictly a matter of unemployment or under-employment. The vast majority of Kenya's poor work long, hard hours in agriculture or in urban-based, informal sector activities. These are the "working poor" whose productivity and incomes must be raised through enabling them to make more efficient use of the resources which they have available and through concerted efforts to address existing income disparities between the informal sector (rural and urban) and the modern sector of the economy.

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[1/] ILO/UNDP. <u>Employment, Incomes and Equality</u>. Geneva. 1972, p. 76.

[2/] ILO/UNDP, <u>op. cit.</u>

## II. KEY FACTORS CONTRIBUTING TO POOR MAJORITY POVERTY

The socio-economic conditions described in Section I constitute a background which must be taken into account in any development effort. Kenya is, overall, a poor country. Also, income distribution is highly skewed with about 20 percent of Kenya's households earning an estimated 53 percent of total private income. This dualism reflects both historic distortions in, and the existing structure of, the economy, divided between the formal-informal, or modern-traditional, sectors.

### A. Macro-Economic Constraints

One major constraint is land. With 80 percent of Kenya being marginal/semi-arid the production and income potential of these areas is limited, while the possibilities for reducing that potential, through environmental deterioration as a result of natural and man-made hazards, is great. At present Kenya lacks an appropriate technology which could maximize production potential and income generating opportunities for these areas' inhabitants as well as a means of transferring to them any such technology which might be developed or imported. Concurrently, the high potential areas are already over-populated and the land available for cultivation virtually fully utilized. In these areas new production increases will have to come from intensifying production on existing farms for which the technology also must be disseminated.

Another constraint is Kenya's rapid population growth rate, now estimated at 3.5 percent per year and rising. Given these two constraints over the long-term Kenya must ultimately rely on the modern sector to generate employment and appropriate incomes for her people. However, for the next 10-to-20 years prospects are that the modern sector will not generate sufficient jobs to absorb new entrants to the labor force. New entrants now total 400,000 annually, and the number will rise to 500,000 in the 1980's and 600,000 at the end of that decade. Yet, modern sector employment presently totals only 915,000 for a labor force of about 6.6 million, and even with a respectable 6 percent annual growth in GDP only 40,000-to-45,000 new jobs would be created annually. Only one in ten of all secondary school leavers may find modern sector jobs. Therefore, to agriculture falls the responsibility for generating the growth to fuel the transition to a modern, manufacturing-based economy.

A third constraint is manpower. Kenya has abundant unskilled labor, and, when compared to many other African LDC's, a relatively large pool of skilled personnel. However, the numbers of adequately trained personnel are sufficient to meet only the principal needs for the top levels of the public and private sectors. Many at this level lack job-related experience, and virtually all lack any training in management and administrative skills. Management capability at this and the middle level is woefully lacking and is having an increasingly negative impact on implementation of development programs. This problem should become acute for Government as it moves more purposefully during the 1979-83 Development Plan period into programs directed toward rural areas, the informal sector, and non-progressive smallholders. The IBRD considers manpower to be Kenya's most serious development constraint.

Additionally, the report of a Government-appointed National Commission on Education Objectives and Policies, established to review Kenya's education system, was released in May 1978.[1] It recommended that the education system be restructured and the curricula revised to make the system and its output more relevant to Kenya's development needs. Primary schooling should be made available to all, free, by 1980, and primary and technical education should receive priority so as to provide training more suited to students' future employment and to expand the cadre of technically skilled personnel needed for the industrial sector, for agriculture, and for informal sector activities. These objectives are to be achieved under restrictive financial availabilities. Of particular concern to the NCEOP was the growing number of school leavers seeking employment and the shrinking prospects for their finding meaningful jobs. However, the Report apparently is not being presented to Parliament for approval, as normally would occur, and it has been publicly criticized by senior GOK leaders. It is uncertain how many of the recommendations will be implemented, a problem on which the 1979-83 Plan may shed more light.

## B. Sectoral Constraints

### 1. Agriculture

The July 1975 DAP Supplement identified manpower--quantity, quality and utilization--as the most important constraint to agriculture and rural development and one underlying the other sectoral constraints. These others, in order of priority, were (1) macro-economic policies; (2) small producer access to agriculture and rural institutions, services and infrastructure, including inputs, credit, knowledge/extension, marketing/storage, roads and water, and (3) research. The reader is referred to the DAP Supplement for a full discussion of this topic.

These constraints are long-term and apply today as was borne out by the findings of a series of studies on agriculture manpower, education, research and various credit activities, and a review of storage problems recently carried out under AID auspices. Briefly summarized some of the principal conclusions are:

-- Demand over the next 10 years for agriculturally trained personnel for the public and private sectors to meet the needs of currently known programs and within the framework set by existing policies and goals approximates 152 percent of current training capacity for university graduates, 110 percent for diploma holders, and 234 percent for certificate holders. (The last two categories form the backbone of Kenya's extension service and constitute the nucleus of additional staff needed to provide extension services to the "non-progressive" small-holder group.)

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[1] See TOAID A-60 of May 19, 1978.

-- There is a critical need for in-service training of agriculture personnel to improve staff competence and meet increasing technological requirements.

-- The primary problem affecting agriculture research is attraction and retention of competent technical staff.

-- Additionally, increased attention must be given to small farmer-oriented research into range management and ecology of arid lands, drylands agriculture, plant pathology, entomology, horticulture and weed science.

-- The Agriculture Finance Corporation, Kenya's primary agriculture lending institution, served in 1977 only 30,000 small (progressive) farmers while the cooperative system provided credit to an additional 140,000.

-- Estimates of storage losses at the farm level range from 5-to-30 percent annually. (A 15 percent loss represents about $45 million in marketable smallholder surplus.)

-- Farmers do not benefit fully from GOK price support and stabilization activities and, in fact, may often be adversely affected.

The above problems are illustrative of agriculture manpower and some access constraints which will persist for the long term. On the access-rural infrastructure side a similar time frame should apply in the area of rural roads and water facilities. Kenya's existing roads network is skewed toward the international, trunk and primary roads side, leaving the rural network (secondary, minor, and access roads) far behind in adequacy of coverage and provision of year-round access. Government has with significant donor support reoriented its roads programs toward the rural areas, but reaching agreed program goals may well take 10 years or more.

Similarly, providing access to safe water for every Kenyan household by the year 2000--a GOK objective dating at least from the 1974-78 Development Plan--will be a long-term effort. Kenya has few permanent rivers and must rely on rainfall for much of its ground water.

Consequently, provision of small dams and reservoirs to conserve ground water for year-round use and providing communal water points within a reasonable distance of rural households is essential. Irrigation facilities are also needed, but construction in the past has proved highly expensive, often to the point of unfeasibility.

The DAP Supplement found macro-economic policies were then a potential, as opposed to a current, sectoral constraint. Subsequently, pricing policies have not acted as a serious across-the-board disincentive to producers although Government-established prices have in individual cases, i.e. livestock, impacted adversely. Annual GOK review of producer prices and subsequent adjustments have since early 1975 benefitted smallholders producing maize, milk, pyrethrum, cotton, sugar cane, sunflower and rice. Upward price revisions announced in February for meat are expected to have a positive impact and may, subject to further review, remove the single pricing problem which has been of greatest concern to donors (see TOAID A-32). However, for small-scale producers input prices, rainfall and home consumption needs may be more important in determining output than established producer price levels.

What may have more serious consequences for smallholders are requirements that maize be marketed solely through the Maize and Produce Board and that one must have a license to move more than 10 bags of maize across district boundaries. In surplus areas it is questionable whether farmers actually receive guaranteed farm-gate prices because the MPB has limited storage and, therefore, limited buying capacities shortly after harvest. Over time fundamental changes in price controls and marketing policies will probably occur, but from the smallholders' standpoint a less rigid control system can prove successful only if the physical and institutional infrastructure assures a marketing environment which allows a competitive system to emerge, linking local, district and interregional trading system.

Credit financing for smallholders from both Government and commercial sources increased by 313 percent, for cooperatives by 167 percent, and for large holders by 21 percent during 1972/73-1975/76. Some observers advocate a rise in the interest charged for agriculture loans from 10-to-12 percent to about 18 percent to bring the rate more in line with the actual cost of lending. This proposal needs further review to determine the optimum agriculture lending rate for Kenya's poor majority.

2. Health/Family Planning

Kenya's health system lacks sufficient professional and paramedical personnel to staff the existing delivery system, nor has the necessary work been done to generate acceptable data on manpower requirements and to relate them to GOK objectives, training capacity or rural health needs. The future role, training and quantity of nurses and midwives is of central importance since they are the main agents for delivery of rural health services. Medical professionals are woefully weak in management capability and largely resistant to change.

Of immediate concern is the orientation of Kenya's health system, being urban-hospital based and basically providing curative services. In fact, 80 percent of the current health budget finances curative facilities in Nairobi and Mombasa alone. Only an estimated 15-to-20 percent of the population ever sees a doctor or nurse. Obviously, a delivery system serving rural areas now exists in only a rudimentary form. This deficiency impacts upon all the rural poor, but on women and children in particular. First, numerically they predominate among rural dwellers. Second, women and children tend to use rural health facilities more frequently than do men because of their inability to be absent for long periods of time from traditional responsibilities for households and "shambas," i.e. farms, and/or from schools. Addressing problems of focus and institutional development will be a decidedly long-term effort, requiring possibly, 10-to-20 years and significant resources. Extending delivery of rural health care, especially integrated maternal-child health/family planning services, will have to be carried out as an addition to, not a replacement for, the existing health system.

Nutrition has long been a neglected area in Kenya, reflecting the comparatively lower incidence and severity of nutritional deficiencies and uncertainly as to how to address the problem. The most prevalent form of nutritional deficiency is Protein Energy Malnutrition in the 0-5 years age group while vitamin deficiencies play a role in an unknown number of incidences of blindness. The frequency of severe PEM seems to be relatively low, but mild to moderate forms may affect about one-third of this age group. Fatalities directly attributable to malnutrition are few although it is often a factor in deaths from other causes, such as measles, whooping cough and gastroenteritis. Data on the extent and severity of malnutrition and on inter-and intra-regional differences is lacking. Various private and quasi-governmental organizations and the Ministry of Health operate feeding-nutrition education programs, but these are generally small and poorly coordinated. There is at present no national nutrition policy although one is promised, viewing nutrition as an integral part of MCH care, in the 1979-83 Development Plan. Extending nutrition programs throughout rural areas would require, first, promulgation of a policy, its implementation principally through the rural health delivery (MCH/FP) and agriculture extension systems, and education efforts of the Ministries of Health, Agriculture and Education. Doing so, however, would make these efforts subject to the manpower and access constraints referred to earlier.

Kenya has long had a family planning policy--since 1967, being the first sub-Saharan African country to adopt one--and has had since 1974 an official program to make services available nationwide. Family planning is considered an integral part of MCH, and services are provided as part of integrated rural health efforts. Simultaneous implementation of the 1974-79 National Family Planning Program with a 10-year Rural Health Program is the most efficient approach given availabilities of financing, staff and facilities, but this has subjected family planning to problems of divided management within the Ministry of Health for FP and the various rural health-related services and to manpower constraints.

With the accomplishments of the Program to date in putting an MCH/FP delivery infrastructure in place[1/] the constraint now taking on heightened significance is an inadequate information-education effort. The MOH Health Education Unit is approaching the point of having appropriate facilities and equipment, but the Unit is poorly led, inadequately staffed, both in numbers and skills, and unable to produce materials in adequate amounts and conveying the desired message in a readily understood form to the target audience. This problem is wider in scope than just FP since the HEU is responsible for all health education efforts.

3. Education

USAID has had for many years no direct involvement in the formal education sector and since 1975 none in the non-formal area. However, assistance to agriculture education has been proposed for FY 1978 approval. The Mission also lacks expertise in this field. USAID's proposed Development Planning Study was to have reviewed the education sector to identify constraints and possible areas of opportunity for future USAID assistance, but the study has not yet been implemented.

That a re-examination of the question of AID assistance or non-assistance to education in Kenya is timely is indicated by several factors: The issuance of the NCEOP Report; reported emphasis in the new 1979-83 Development Plan on basic human needs; several approaches made to USAID by Government over the last year regarding possible assistance for a staff training institute, "Harambee" institutes of technology and the National Youth Service, and broadening of the bilateral program into education-related programs in the agriculture sector.

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[1/] See the report of the multi-donor Technical Review of the National Family Planning Program carried out jointly with the GOK in March-April 1977 for details.

Since Independence Kenya has made enormous gains in education; still, however, there are imbalances in educational opportunities among provinces and districts, between urban and rural areas, and between the sexes. Also, the system does not well serve the labor market, and unemployment is rising among formal education graduates at all levels. While the manpower constraint predominates, its dimensions may be shifting (in part because of progress achieved) away from some technical skills and toward management capabilities. At the same time the education system is at the center of a mix of conflicting values--education is viewed by the public as the best route to advancement in the modern sector; the education system seems geared to creation of an elite rather than of greater equity; there is growing concern for the need to promote socio-cultural values based on African traditions of political democracy and mutual social responsibility and a parallel concern about modern education's role in this process, and there is concern over meeting basic needs based on increased development and use of appropriate and labor-intensive technologies.

For this CDSS the USAID tentatively identifies the following as the major education constraints impacting on Kenya's poor:

a. The nature of the existing educational system and the need to make the system more relevant to employment opportunities for its graduates and to Kenya's manpower requirements.

b. Inefficiency of the current education system as manifested in part by divided responsibilities for training within the sector. For the Ministry of Education there are serious and increasingly openly acknowledged management-administrative problems which adversely affect operation of the system and which could have serious implications for any eventual restructuring.

c. Inequitable distribution of education opportunities affecting women and residents of dry areas. The IBRD's Fourth Education Loan seeks to address this problem through financing of various facilities. By itself this may be only a start, and further efforts over the medium term will be required.

d. Lack of financial resources, which will slow the pace of widening access to secondary, post-secondary and university education and of introducing universal primary education. Since 1975 the education budget has been allowed to grow only at a pace equal to, or below, increases in the total budget so as to keep educational expenditure to about 28 percent of the whole.

Before reaching definitive conclusions re the above the USAID believes the sector should be examined in depth to identify constraints, to review the NCEOP Report and the 1979-83 Plan regarding the future shape of the educational system and its appropriateness, to evaluate the scope and nature of other donor involvement and AID's relationship thereto, to identify alternatives to AID involvement in the formal education sector, and to make recommendations on future AID assistance, or non-assistance, under the education/human resources development category.

4. Manufacturing

Development in this sector has been oriented toward capital-intensive, import substitution industries. This orientation needs to change in favor of labor-intensive industries in order to maximize opportunities in the modern sector for productive employment. Siting of new industries in rural areas, a policy already in existence, needs to be further encouraged. With the break-up of the East African Community and the appearance of a permanent balance of payments constraint (see below) Kenya will also need to favor export-oriented industries. Following from the importance of agriculture to the economy and the absence of any significant mineral resources, Kenya must utilize agricultural resources and products more efficiently, thereby giving attention to agriculture-based industries to the maximum extent possible.

Kenya does not have an appropriate industrial strategy, and tariff reform and related measures are needed. In addition, organizational deficiencies exist within the Ministry of Commerce and Industry, and management and technical skills are in high demand for this sector.

There is very significant foreign private investment in Kenya, over $200 million from U.S. sources alone, and the GOK encourages such investment, albeit also providing for Government equity participation. The conduciveness of Kenya's investment climate and historical stability provide opportunities for support for modern sector development by foreign private investment which many other LDC's lack. At the same time it is questionable whether many sources of such investment use, are experienced in, or might be willing to adopt the low-skilled, labor-intensive, agriculture-based or related, appropriate technologies which might be most suited to increasing productivity and income opportunities in the informal sector.

5. Summary

Two constraints which are long-term in nature, reappear explicitly and implicitly in the above discussion--the need for skills and limited access by the poor to services, institutions and/or infrastructure. In the case of access to comprehensive, integrated health care and health education, Kenya lacks a system for delivering services, particularly to rural areas, the skilled personnel to staff such a system, and management capability to install and put the system into effect. In agriculture skills needs are as great, if not greater, but the overall nature of the access constraint is similar to that in health. Research, extension, training, credit and marketing systems already are in place; however, they are not at present oriented nor do they reach the poor, and the "non-progressive" element in that group in particular, thereby necessitating the reorientation and expansion of existing systems without detracting from services already available. The GOK has recently decided to address these problems.

Government policies have not been a significant constraint in the two sectors in the recent past, except for nutrition and marketing. The need for comprehensive policy change may be more important for the manufacturing and education sectors.

Another refrain which stands out is the need for technologies suited to Kenya-specific conditions. The most obvious is for an agriculture technology suited to residents of the marginal/semi-arid lands. The same need could be expressed for an information-education technology which can deliver its messages on preventive health measures, nutrition information, and family planning effectively and with the comprehension of the target group.

## III. ACTION CONSTRAINTS TO IMPROVING THE WELFARE OF THE POOR MAJORITY[1/]

### A. Host Country Resource Availabilities

The kind of development program implicit in efforts to address the above constraints and which is explicit in the current 1974-78 and proposed 1979-83 Development Plans requires significant amounts of financing. Kenya's capital formation record has been quite impressive, mainly due to a good domestic savings performance. Such savings approximated 20 percent of GDP during 1972-74 and are projected to reach about 25 percent during 1979-83. Kenya has also attracted large inflows of foreign capital, both private and public, due to its positive investment climate and to its pragmatic development policies and achievements in development. However, for many years to come Kenya does not appear to be able itself to generate sufficient capital to provide productive employment, and capital will, therefore, be a relatively scarce factor of production.

At least in the short term (here, 1978-83) the most severe constraint for the Kenya economy will remain the shortage of foreign exchange (FX). High export prices for coffee and tea masked this problem in 1976-77, but Kenya's import dependency is high, and the pressure on the balance of payments (BOP) has reappeared as coffee and tea prices have fallen. The BOP has been in deficit since September, reducing hefty FX reserves built up previously, and an overall deficit is forecast for 1978, reflecting price changes and a predicted 40 percent drop in coffee production due to weather. Even with a return to a more normal production level in 1979, GOK officials are now predicting a BOP deficit seriously reducing reserves for that year.

The IBRD estimated in October 1977 that the BOP gap, then expected to reappear in 1977, would decline during 1977-82 as the economic restructuring policy contained in the GOK Sessional Paper No. 4 of 1975 achieved its objectives. However, even if policies to reduce import dependence were successful, the decline in dependency would only manifest itself gradually. Further, on the export side volume could, realistically, climb only slowly. The IBRD expected the terms of trade would turn strongly against Kenya in 1977 and would not turn in favor of Kenya for many years to come. Consequently, it was estimated that during 1978-82 Kenya would require $400 million in foreign financing (disbursements) annually with $320 million coming from public sector sources and $80 million from the private sector. The interim level of

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[1/] Given some duplication in the guidance (State 53416) between subjects to be discussed under this and the preceding sections, USAID will cover here only immediate constraints not treated previously.

new commitments of such financing was projected at $230 million per year in 1976-78. Further, it was noted that meeting the $320 million public sector financing target would require a three-fold increase over the annual average of $100 million experienced in 1974-75 for Kenya to maintain a 5.5 percent annual growth rate.

While export prices for coffee and tea held up longer than anticipated, the general substance and conclusions are sound. However, imports have risen faster than anticipated, and duty increases announced in the 1978/79 budget may not suffice to control demand for luxury goods. Even with induced restraint, import dependency will remain given the nature of the economy, and restructuring the economy per the current Plan and Sessional Paper No. 4 will be a medium-to-long term process. Finally, Kenya's economy is very much subject to events over which she has little control--weather, world market fluctuations for her exports and necessary imports, including oil. The GOK in the 1977/78 budget did try to prepare for the expected leaner days (1) by accelerating repayment of debt incurred in 1973-75, largely from the IMF, to cover the BOP gap existing at that time and (2) by financing one-time-only capital imports for several development programs so as to take advantage of foreign exchange availabilities.

Debt servicing requirements are now small for an LDC. Total external public debt at the end of 1976 was $1,400 million, including Kenya's then estimated share of East African Community debt ($172.2 million). Debt service payments that year were $42.1 million or 2.5 percent of all exports. Foreign exchange reserves rose from $274 million in December 1976 to $502 million a year later (about four months of imports). However, debt servicing will increase rapidly over the next six years, principally due to greater short-term borrowing so that the GOK predicts the debt service ratio will rise to 6.5-to-7 percent by 1983. (The IBRD had predicted 7-to-10 percent during 1980-85.) These figures may be conservative given rising overseas military expenditures, financing needs for the 1979-83 Plan, continuing BOP deficits, and revisions in the share of EAC debt attributed to Kenya as a result of the allocation of Community liabilities to be completed in 1979. BOP concerns will need to be monitored closely.

The impact of the above on the 1979-83 Development Plan are unclear. During 1974-78 Government spending rose from $345.5 million for recurrent costs and $180.9 million, development, in 1973/74 to $895 million and a predicted $444 million, respectively, in 1977/78. Due to a $120 million shortfall in 1977/78 development expenditure, unexpected revenue increases from import duties and significant short-term borrowing, the budget deficit may be only $22 million. The revenue-expenditure gap for 1978/79 may reach $96 million, much less than the annual gap of $240 million predicted during the new Plan period. This predicted level may well be affected by continued high inflation (in 1977, 20 percent), tax collections and domestic savings, and concessional assistance levels. The Plan reportedly anticipates the gap to be financed by aid ($168 million) and foreign borrowing ($72 million). Domestic borrowing is to finance the residual deficit from the 1974-78 Plan. Two issues re the gap are the conservativeness of GOK predictions of its size and whether donor support of the above magnitude will actually be forthcoming. Aid receipts have risen significantly during 1974/75-1977/78 but still have fallen short of predicted levels in each of the last two years (by $50 million in 1977/78 alone). The Consultative Group meeting next April may give some firm indications of trends.

Related to the problem of financing shortfalls is the issue of levels of recurrent spending. (In 1977/78 this exceeded original estimates by $240 million.) Continued inflation will give impetus to increases as will new Plan activities directed toward extending GOK services to rural areas. Also, there is concern that recurrent spending is not keeping up with needs created by 1974-78 development spending, and the NCEOP's recommendations, if implemented, raise more questions about recurrent expenditure amounts.[1/]

Defense spending has more than doubled since 1975/76 due to the situation in the Horn of Africa. While increases have been especially sizeable on the recurrent side, per the published estimates for 1977/78 defense represents 14 percent of the total GOK budget. There are clear indications of greater increases in 1978/79.[2/] From 1964-1975 defense ranged between four-to-six percent of GOK spending, reflecting a conscious GOK policy to give priority to development. During 1977/78 the GOK financed both development and defense, but this may have resulted from inadequate internal GOK coordination rather than a conscious policy reversal. Those responsible for preparation of the new Plan acknowledge that increased defense spending will continue, but given the coordination problem and the advanced state of Plan preparation, it is uncertain now how much the 1979-83 Plan does take defense needs into account. The Governor of the Central Bank, speaking recently on inflation, stated that the GOK could not continue to spend both on defense and other programs. Thus, GOK policy here is in transition with its future impact on development activities and the budget as a whole unsettled.

The GOK in 1976 requested the CG to provide increased amounts of aid and greater financing of local costs. Government will repeat this request next April, reflecting the longer payoff period and higher

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[1/] See also "Summary Narrative Statement" in FY 1979 Kenya ABS.

[2/] The 1978/79 estimates now show defense as being 11 percent of total net expenditures and 12 percent of gross expenditures. Defense spending identified as such is projected at $170.4 million, net, and $201.8 million gross, the difference representing appropriations-in-aid.

risks associated with programs directed to the rural poor and basic needs. The latter, too, imply increased spending on education, health and so on while the economic restructuring program, endorsed by the CG, gives priority to directly productive activities rather than social infrastructure. With the BOP and budget concerns cited abo e donors may well have to provide significant financing for poverty-basic needs programs.

The manpower constraint has already been described; that constraint as manifested by management inadequacies will bear heavily on action programs. This is evident in the USAID agriculture manpower-education report but also in the shortfalls in development spending in 1977/78 and for certain sectors, such as agriculture, during 1974-78 as a whole.

B. Government Policies and the 1979-83 Development Plan

Various policy problems have been cited above. One that needs further elaboration is interest rates. For the economy as a whole, the IMF recommended in December 1975 the introduction of larger rate flexibility over time as one result of a study of interest rate structure. The study also confirmed that in general interest rates in Kenya were lower than those in other countries (including those from which money had been borrowed for investment) and that real interest rates had been negative since inflation accelerated in 1973. The study concluded that the rates did not allocate investment to priority uses or promote efficient use of capital, and they also induced adoption of capital-intensive techniques over labor-intensive ones. Little change has occurred, and the problem persists.

Overall, however, Kenya has been judged by CG members to be highly pragmatic in its economic policies.[1] The 1974-78 Development Plan embodied the ILO/UNDP and IBRD recommendations to emphasize equity and employment through continued growth and through accelerated development of rural areas, including in particular smallholder agriculture. These objectives which coincided well with AID's "new directions," required a restructuring of the economy and utilizing domestic resources more efficiently. The Plan was overtaken by events almost before its publication--accelerating world inflation, especially for energy, falling export prices and drought leading to rising inflation, an unprecedented BOP deficit in 1974 and significantly reduced growth. Sessional Paper No. 4 of May 1975, therefore, instituted a series of practical and

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1/ See Paris 35189 of November 29, 1976, and the IBRD document (EA 77-1 dated February 23, 1977) on "The Chairman's Report of Proceedings" of the Kenya CG meeting, November 22-24, 1976.

fundamental policies revising Plan targets. The objectives of the revision were to limit losses of foreign exchange and accelerate the economy's restructuring so that it could resume rapid growth in the 1980's under a permanently more severe BOP constraint.

Assessing actual growth-equity performance under the Plan is inhibited by the economic down-turn of 1974-75 and the succeeding coffee "boom" of 1976-77. GDP growth for 1974-78 was only 4.7 percent per year as against a 7.4 percent target although performance during the second half of the period was much higher than in the first half. Changes in per capita GDP were indifferent when account is taken of population growth. Export volume did not increase as expected, and capital formation was only 70 percent of targeted volume. Employment creation fell short of planned levels, and real wages decreased by 10 percent due to inflation.

To give credit where it is due, however, the restructuring program envisaged in the 1974-78 Plan and Sessional Paper No. 4 requires time to design, implement, and achieve results. The GOK did accelerate the restructuring program and reaffirmed its intention to seek growth with equity in the face of the serious economic problems of 1974-75. Several development activities--the rural health/FP programs, rural roads efforts which include labor-intensive approaches, the Integrated Agriculture Development Program (IADP), efforts to strengthen agriculture planning, and introduction of decentralized planning--have begun as proposed during the Plan period although the GOK, like AID and other donors, has encountered some difficulties in identifying and designing programs which directly impact upon the incomes and quality of life of its disadvantaged groups. As a result implementation or expansion of some of these is beginning later than expected. Development expenditure more than tripled in amount between 1973/74-1977/78 and rose from 34 percent to 39 percent of the GOK budget. Development spending on agriculture alone rose from K£ 6.3 million to K£ 30.1 million and from 10 percent to 14 percent of the development budget. The composition of development spending shifted decidedly in favor of productive activities and economic infrastructure during FY 1976-78. Significantly, the combination of rising producer prices and restraining pay increases for modern sector wage earners did improve the relative income position of farmers vis-a-vis modern sector employees.

The GOK itself views Plan achievements with the same "mixed" attitude as the above. See Appendix I.

Section I above discusses Kenya's status regarding Section 102(d) criteria and suggests in several instances progress achieved since Independence in 1964. Progress in many cases is difficult to illustrate given data limitations, which the Integrated Rural Survey over time should rectify; however, the tables in Appendix II to the CDSS and information in Section I do support the conclusion that the GOK has made significant strides in meeting the basic needs of Kenyans although the impact of the 1973-75 economic down-turn is also apparent.

Key policies impacting upon development during the period of this CDSS will be spelled out in the 1979-83 Development Plan. That document, to be published in December 1978, reportedly has the goal of alleviation of poverty which is to be achieved (1) through creating productive employment so as to enable most Kenyans to meet their basic needs for food, water, education, shelter and health, (2) through increasing or maintaining the levels of savings and investment in order to bring about a respectable growth rate in GDP (6 percent annually), and (3) through revising income, tax, trade and investment policies to reduce inequalities in income and ownership of assets. Sector specific policies to be part of the Fourth Plan include:

1. Greater emphasis on rural development than during 1974-78, but with the new Plan spelling out specific action programs.

2. Efforts to strike a balance between rural and urban development in order to diminish existing income dichotomies. Presumably, this will involve programs aimed at the urban poor to supplement current and expanded rural development efforts.

3. Additional efforts to introduce decentralized planning initiated under the Third Plan.

4. A further increase in emphasis on agriculture development to raise productivity, employment, nutritional standards, and foreign exchange earnings. The GOK plans to more than double the $240 million to be spent on agriculture during 1974-78, to utilize policy and institutional changes so as to raise agricultural incomes, and to initiate programs to reach directly non-progressive farmers living throughout Kenya. However, special attention will be given to development of marginal/semi-arid areas.

5. Greater emphasis on establishing manufacturing industries in rural areas, particularly those which are labor-intensive and where Kenya has a comparative advantage; attempts to encourage informal sector activities, and increased efforts in export promotion.

6. Increased attention to making rural infrastructure more widely available, including rural roads and water, and initiation of a rural housing policy.

7. Within limited financial availabilities for social services, efforts to extend rural health services and primary education more widely.[1/]

Government officials caution that a Plan having poverty and basic needs goals can be expected to encounter serious planning and management problems. These are programs with which the GOK has had limited previous experience and which by their very nature will be difficult to design and implement, especially given the lack in many cases of an available technology. Further, the officials acknowledge the importance of the savings-investment, BOP, and revenue-expenditure gaps. The second of these may become manageable, they feel, during 1979-83, but the others will continue over several future Plans.

The proposed GDP growth rate overall is based on a projected annual growth of 6.7 percent in the monetary sector and 3.2 percent in the non-monetary sector. These levels, which are lower than those achieved in 1964-73 and set for 1974-78, reportedly reflect efforts to be realistic and to gear projected growth rates to Plan objectives.

C. Growth Versus Equity

The outline of the new Plan[1/] gives evidence of a continued focus on equity, employment, rural development and smallholder concerns

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[1/] For further details see the "Weekly Review" of December 12, 1977, and L. Richards' Memorandum to the Files of last April 14 on "Kenya's Fourth Development Plan, 1979-83," copies of which are available in AFR/EA.

[2/] See also "Weekly Review," December 12, 1977, various articles on pp. 9-14, 17-25, and 26-32 on overall subject "Rich and Poor in Kenya." Copy in AFR/EA.

but with refinements re poverty and basic needs and the addition of the marginal areas emphasis. Therefore, it represents a continuation of existing development policies, albeit with a sharper focus on the needs of Kenya's poor, rather than a radical departure. Explicit, too, is continuation of the economic restructuring contained in the 1974-78 Plan and Sessional Paper No. 4.

Last January Government leaders met to discuss "The Kenya We Want" as part of Development Plan formulation.[1/] That Conference identified a series of "hard choices" facing Kenya in its development programs. Examples are developing marginal as opposed to high potential areas, controlling population growth, revamping the education system, generating productive employment opportunities and Kenyanizing the private sector. The consensus reached was that Kenya had exhausted the easier options of the past and that the hard choices had to be addressed. Performance in some of these areas during the current Plan period, for example, employment, export promotion and population, has been disappointing. From what is currently known of the 1979-83 document it is uncertain how far the Plan actually will go in adopting the hard options. Many of its policies and programs are still being debated within Government; for example, the NCEOP Report should figure in debates on Plan education priorities and, hopefully, the relationship between defense and development is also under serious review.

That the GOK publicly talks of "cautious" introduction of programs in 1979-83 for non-progressive smallholders and the informal sector indicates more stress on equity than was in the last Plan. The stress on marginal areas and basic needs is even more encouraging. The less ambitious GDP growth targets proposed for 1979-83 may also reflect equity considerations. Kenya, being nearly self-sufficient in food production (wheat and sugar being exceptions) must intensify smallholder production of both food and cash crops for purposes of growth, employment creation, and income generation. The GOK decision to reorient various agriculture support systems (extension, cooperatives, credit, etc.) and extend their outreach to small farmers not now being served followed by Government's requests to AID and the IBRD for assistance may have both growth and equity impacts. However, continuation of ceilings on educational expenditure and probable maintenance of the priority assigned to spending on productive activities would favor growth objectives. Last February USAID personnel were advised that the basic needs to be addressed in the Plan, in order of priority, were food, water, education, shelter and health. Health was purposely ranked last in the expectation it

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[1/] See Nairobi 1604 dated January 31 and "Weekly Review" dated January 30 available in AFR/EA.

could be addressed in part through the first three basic needs and that social service expenditure would be contained. Consequently, while health spending would not increase dramatically, the orientation of health efforts was then expected to change to favor preventive medicine.[1/]

Based on information now available, then, the 1979-83 Plan may be a broadly based overall approach to both equity and growth objectives with Plan strategies giving slightly more emphasis to growth. Key to achieving these objectives will be performance under the employment strategy; however, apart from 1) the labor-intensive Rural Access Roads and Rural Public Works programs, implementation of which should accelerate during 1978-79, 2) the stated plan to site more industries in rural areas, and 3) expanding the armed forces, proposed means of creating employment will be unknown until Plan publication or possibly later at project formulation. With costs of creating one modern sector job ranging between $720 - $36,000 and sizeable capital investment also required for developing marginal lands, Kenya will need to give particular attention to job creation in the informal sector and agriculture. Of equal importance, however, will be raising incomes of the "working poor" through intensifying and making their production more efficient. Pilot activities may be useful in pointing the way to addressing employment problems in a similar fashion to the role played by Agriculture Sector Loan I, Part C, vis-a-vis non-progressive smallholders.

Ultimately whether 1979-83 gives priority to growth, or equity, or both equally may be more the result of continued stability and absorptive capacity than GOK planners' intentions. Stability during the period may be affected by relations with Somalia and by internal political developments which may affect the making of the hard choices cited earlier. Re the internal situation, at this point one can only assume that under ensuing circumstances Kenya will remain basically pragmatic and Western-oriented while over the long-term the GOK will pursue the same development approach which has proved so successful heretofore. Absorptive capacity may be a more immediate problem. Benefits from planning assistance will only gradually be felt in agriculture, and no similar potential exists in health. Implementation difficulties exist in all the ministries with which USAID now works and with which the Mission might become involved in the future. This problem will be exacerbated as donor financing presumably

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[1/] See letter Richards to O'Keefe, AFR/EA, of February 9.

increases in response to basic needs initiatives. Agriculture, water, and education are fields of significant donor involvement now, and health might soon join this group.

### D. Summary

While Kenya has demonstrated its commitment to growth with equity, it is difficult to show many tangible results of the related policy decisions over the last four years. Not only is the time period extremely brief on which to judge what are medium to long term efforts, but intervening economic and international events and the principal economic constraints facing Kenya have impeded implementation of many poor-oriented programs. The future is equally unclear given limited knowledge of 1979-83 Plan content, uncertainty over BOP and defense developments, financing issues, and the nature of the development choices now confronting Kenyan decision-makers. The period of this CDSS could well be a watershed as crucial to donors as to Kenya's poor majority. Based on evidence of past achievements and what is known of GOK program directions, Kenya seems to be in accord with AID's new directions and basic needs emphases.

## IV. AID ASSISTANCE STRATEGY

### A. Current Program

Bilateral AID assistance to Kenya is provided in agriculture, directed toward the access constraint, and in health/family planning, at present toward developing Government capacity to provide family planning services. Both sectoral goals aim at the USAID's program goal of improved equity, including basic needs. Assistance to agriculture encompasses three sub-sectors: Smallholder food production, including some broad activities underlying the entire sector, livestock development, and marginal lands development. Bilateral AID assistance has increased significantly in support of the above and the 1974-78 Plan, reaching possibly \$30-to-\$56 million in FY 1978. For further information on USAID's current agriculture program, and its relationship to sector constraints and AID's agriculture policy, see Annex XVI, Section B, of the Agriculture Systems Support Project Paper.

### B. Future Program - Overall

Peering five years into the future for Kenya is particularly difficult now because of the unfinished status of the Fourth Plan, especially uncertainty about the policy changes and "hard choices" to be included therein, uncertainties regarding financial needs and availabilities, and stability issues. A factor specific to USAID is the lack so far of the proposed Development Planning study from which guidance was expected regarding future assistance areas. While answers to many programmatic issues may be tantalizingly near, they are still sufficiently vague to give the forecaster-strategist pause.

Even so, USAID's goal in assisting Kenya should continue to be improved equity for Kenya's rural poor. This is in accord with AID's new directions and Government's own development goal. Given the long-term nature of Kenya's principal development constraints--land, population growth, and manpower quality and quantity--and the importance of agriculture for both equity and growth, USAID believes bilateral assistance should continue in the two existing sectors of concentration.

The above implies continued Development Assistance rather than use of Security Supporting Assistance financing. Provision of Development Assistance seems to be in accord with GOK goals as now known, U.S. interests in Africa overall, supportive of Kenya's development experience and achievements, and more appropriate given FAA requirements. While SSA can be used for development purposes, the choice of SSA countries reflects non-development considerations which at present may not apply here or which by their adoption might be contrary to growth-equity objectives. Kenya with a comparatively successful record for an African LDC in fostering economic development and introducing equity into its development efforts should be supported, which is what USAID hopes to do through the broad development approach proposed below, so as to serve as a model which others might adopt or adapt to their own circumstances.

The target group for all AID activities should be the rural poor, including small farmers, pastoralists and where possible the landless. The urban poor, possibly, should continue to be excluded from bilateral programs for two reasons although they may benefit from Housing Investment Guarantys, P.L. 480, Title II and various centrally funded AID activities. First, focus on rural areas is more important given existing income and access disparities between rural-urban areas and the greater numbers of rural poor. Secondly, USAID believes the U.S. may be at a comparative disadvantage in its past experience with and capabilities in the informal sector as against the Scandinavians, for example.

As pointed out earlier, poverty is widespread throughout Kenya and found among both "progressive" and "non-progressive" (as now defined) smallholders. The non-progressive category may represent 88 percent of smallholders and 90 percent of this total group have annual incomes under $150, i.e. AID's poverty criterion. Consequently, given the seeming correlation of the two groupings, despite different income levels[1/] the Mission proposes that its target group be defined as, first and foremost, smallholders having total per capita incomes from all sources of $150 annually, a holding of 20 acres or less, and who have not used regularly credit, extension and/or marketing services. To this group should be added nomadic pastoralists, squatters and the landless although recognizably these will be difficult to reach directly. For squatters and the landless AID might look to supporting nation-wide, employment-generating activities and to informal sector efforts supported by the GOK and other donors. The landless are scattered throughout Kenya, and moving them into settlement schemes may foster differences between tribal groups over land rights.

In the case of nomads, reaching these in ways outside of the livestock sub-sector should be carefully considered. Activities to meet basic needs, i.e. education and health, involve provision of facilities for lightly populated areas whose residents move frequently. Anything which AID might do ultimately leading to their more settled existence, and particularly in the North East, may have side effects which may be considered less desirable; for example, GOK registration of Somali "Kenyans" for purposes of collecting water use fees and providing increased social services can also further security objectives. For the landless and nomadic members of the AID target group pilot programs which impact directly upon them and which can serve as learning experiences before operational programs begin may be one approach for AID to consider.

The issue of broad-based, nation-wide assistance efforts versus activities more directly related to the poor is pertinent to Kenya. USAID's experience over recent years with ASL I, Part C, and before that the Rural Development-Vihiga project have pointed out the problems inherent in pilot programs directed to a small target group which may later be overtaken by operational efforts. Conversely, ASL I also demonstrates the utility of such activities in fostering redirection of GOK policies and operating programs toward Kenyans not benefitting from existing activities. It now appears that the operational (as distinct from the preceding policy) decision to reorient agriculture systems has occurred. Such decisions re water

[1/] Per ASL I from whence came the term "non-progressive smallholder," such an individual has annual gross real farm income of $100 or less and the potential to earn more, lacks access to credit and extension services, and has a holding of 20 acres or less.

and rural roads were made some time ago. When this might happen on the rural health and education sides is less clear, pending the next Plan and its implementation. Therefore, it is now most appropriate for AID to assist directly, where it can, broad national programs aimed at providing various GOK services to AID's target group, thereby supporting directly implementation of the GOK equity commitment. This will be supportive of the next Plan as now known but also will not arouse sensitivities re large numbers of expatriates serving outside Nairobi in Government field positions.

Given the extent of the access constraint for both of AID's continuing sectors and the role of the manpower constraint in improving access, adopting the broad approach will involve design of projects to develop training institutions at the post-secondary level and/or training of Kenyan personnel to manage and implement rural poor-oriented activities. In marginal areas development of infrastructure--dams and irrigation facilities, rural roads, and social infrastructure such as schools and clinics--will involve some "stretching" of the Congressional guidelines under which AID operates. Because these areas are dry and less productive they are underpopulated and, subsequently, less well served at present by the full range of infrastructure in addition to services integral to achieving growth with equity, including basic needs, for poor inhabitants.

Finally, Kenya's economy being as sophisticated as it is, is dependent to a greater degree on imports, particularly of oil, to stimulate growth than may be true of other African LDC's. The BOP problems which will be a central consideration for Kenya's growth strategy probably will generate a need for program lending. The IBRD, United Kingdom and West Germany have in the past been significant sources of such assistance. Once the magnitude of the FX shortfall and donor plans are more clearly known, it may be appropriate for AID to reconsider the appropriateness of program assistance to support growth objectives and, using resultant local currency generations, to reinforce and support recurrent and development costs of equity-oriented programs.

The USAID's FY 1980 ABS does not now contain provision for program lending--at this point it would be premature to do so. However, it does contain proposals for continued efforts in agriculture education and for new initiatives in marginal lands development, rural health delivery for management training, and, possibly education which are directly related to the above considerations.

Within the context of the above broad approach there may still be some possibilities for AID support of "direct impact" efforts, such as with the pilot programs cited above and in III.C. re employment problems. AID might also reach the target group directly through utilization of PVO's in a range of activities, and of P.L. 480 Title II in the nutrition area. The latter assumes a GOK decision to intensify its nutritional efforts and better integration of the Title II program with GOK activities than now exists. PVO efforts might both complement AID bilateral projects in the same sectors but also supplement the AID program by operating in sectors in which AID is not directly involved. The PfP OPG to train rural businessmen is one example.

A further factor to consider re the overall AID program is donor collaboration. As the USAID has stressed elsewhere, a large number of donors operate in Kenya and have sizeable programs. The major donors include the UK, FRG, Sweden, Denmark, the Netherlands, Norway, Canada, IBRD/IDA, and EEC in addition to the U.S. All have increasingly redirected their programs to emphasize rural development, particularly agriculture and water, in addition to education. Many AID activities--ASSP, rural roads, family planning, livestock and, certainly for the future, marginal lands development--must be implemented collaboratively. In practice this means AID may not be able to support what it deems preferable or to direct project objectives to all the concerns which AID has or in the way it desires. On the other hand, AID has become an increasingly influential donor which gives it greater leverage and has created a more receptive climate for AID suggestions. See Appendix III.

C. <u>Future Program - Agriculture</u>

Within the agriculture sector continued focus should be on the access constraint. The high proportion of Kenyan farmers who are smallholders and/or pastoralists and within that category the proportion who fall within AID's target group, make improved access central to increased equity and growth. Recognizably, however, manpower will be crucial to addressing this constraint, a factor which the proposed ASSP in its various component systems seeks to address.

There may well be some shift in the relative magnitude of amounts of assistance and numbers of projects among the sub-sectors and, possibly, some change in the sub-sectors themselves. This clearly will be the case for the marginal lands development sub-sector. Proposed GOK emphasis on marginal areas during 1979-83 and various supporting Mission initiatives in the FY 1980 ABS for FY 1979-80 funding could together significantly increase the importance of this sub-sector relative to the others. Also, livestock and marginal lands development are closely related and mutually reinforcing activities and may merge into one sub-sector. As identification and design of assistance for marginal areas proceeds, project(-s) content in addition to soil and water conservation, afforestation, rural roads, and basic needs services may give predominance to livestock-related activities, particularly since the GOK has proposed that USAID involvement in this sub-sector be confined to Kitui and the northern part of Tana River Districts and to the North Eastern Province (see more below) and since this contiguous geographical area may be best suited to livestock. A major segment of Mission support for Government's Phase II Livestock Development Program is in the North Eastern Province which borders on Somalia. (While initial GOK work on design of Phase III has begun, no details are yet available, but it is presumed further AID support will be requested in FY 1979 or FY 1980.)

As now formulated and proposed the three sub-sectors give AID nation-wide coverage, a consideration important in Kenya where political and tribal boundaries coincide. A GOK proposal to assign donors specific districts in which to undertake comprehensive, integrated, marginal-area development programs has met with mixed reactions and some concern among the donor community.[1/] USAID's position, based on equity, and geographic and political concerns, has been that it is willing to consider assistance to the areas proposed to us; however, the Mission believes actual aid requirements in any one area may exceed the capabilities of a single donor alone to meet and it would prefer to continue to participate with Government in other development efforts as well, including multi-donor activities, consonant with FAA provisions and AID's bilateral development objectives. This Kenyan proposal needs further clarification and discussion internally and with the donors alike.

Assuming some success in addressing the access constraint by the GOK and donors and extending the outreach of various agriculture services and systems, marketing policy could become a more serious problem. USAID through the proposed ASSP study of on-farm and cooperatives storage may be able to make an input into whatever consideration of national marketing policy, including storage, occurs under the next Plan. Subsequently, improved on-farm and cooperatives storage capabilities should facilitate creation of a more competitive marketing environment, flowing from changed policies or, alternatively, may provide a necessary adjunct to MPB facilities to enable the existing system to operate more in line with GOK objectives.

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[1/] See also FY 1979 ABS, "Summary Narrative Statement."

D. Future Program - Health

Although currently active only in supporting the 1974-79 National Family Planning Program, finally as the outgrowth of the 1976 Family Planning project evaluation, the donor review of the FP program, a USAID staff paper and continuous work with the MOH, which collectively go back over two years, USAID has recently begun placement of health planners in the Ministry of Health (1) to contribute to the health/FP section of the new Plan, (2) to assess for AID the health sector and its assistance needs, and (3) to design for AID financing a project or projects to support expanded delivery of rural health services. New bilateral projects in rural health delivery and health administration are included in the FY 1980 ABS along with three OPG's for different pilot programs. The new bilateral activities may include AID's contribution to the next phase of the FP program which, AID understands, may be cast in the broader framework of a comprehensive five-year national effort directed toward integrated MCH/FP care. Such an expanded involvement would require a revision to AID's existing sector goal to encompass developing the GOK's manpower and institutional capabilities for providing comprehensive rural health services, including preventive health care, particularly for mothers and children, family planning, nutritional programs, and health education.

As stated above, it is presently unclear how far the MOH will actually go toward revising existing health policies to focus on preventive rural health and to be more aggressive in implementing the Government's family planning policy. These uncertainties reflect the state of the Plan, the serious manpower constraint, budgetary restraints for social services, and a recent change in senior leadership within the MOH, the import of which is still to be ascertained. The positioning of the planners within the MOH is an opportunity to contribute to needed policy changes which, hopefully, can be realized. The next annual CDSS may need to reassess the proposed sector goal, the magnitude of AID assistance proposed for the sector, and whether the broad approach implicit in the above and explicit in the ABS or activities directly providing rural health care may be more appropriate. One alternative might be a broadened health sector program, falling somewhere between the existing level of support and that proposed in the ABS. Such a program might relate the expansion of AID support to the pace of policy changes and to reorientation of the health system towards one more suited to basic needs, family planning concerns, and budget realities. Here, PVO's might play a significant supplementary role by implementing direct-impact health programs.

E. Future Program - Other Sectors

1. Education

Government has approached the Mission regarding possible assistancein education. As indicated in II.A. and II.B.3 above, the Mission feels a sector assessment is required which among other concerns should address the issue of how much of the NCEOP Report can and will be implemented. For budgetting purposes USAID has included in the ABS support for a Kenya Education Staff Institute at the FY 1980 expansion level, assuming the outcome of the assessment is positive.

Various alternative strategies may be considered for the formal education sector:

a. A broad range of activities to support implementation of the NCEOP Report's recommendation as are actually reflected in the Fourth Plan. Activities might include development of managerial capabilities for MOE officials and school administrators, provision of post-secondary technical training, integrating agriculture training within primary and/or secondary schools, primary curriculum development, and provision of secondary schooling for girls and nomads. The last named would supplement IBRD efforts, but in each case AID initiatives must be closely reviewed and coordinated with existing and planned levels of other donor activities. Given employment prospects, general secondary schooling outside that indicated above should not receive AID assistance.

b. A program focused solely on management-administrative training which in combination with related efforts in the agriculture (ASSP) and health (Rural Health Administration) sectors would represent a comprehensive approach to this key aspect of the manpower constraint. The FY 1980 ABS has proposed education activities reflecting this approach.

c. Activities directed to primary education, i.e. curriculum development and school administration, which would directly support NCEOP objectives for universal free primary education and to restructure the primary schooling system. Such a strategy would be directly related to basic needs and at most the 26 percent of Kenya's primary-age children not now enrolled.

d. Addressing key technical and managerial training requirements through the continuing sectors of concentration while supplementing such activities with the proposed Human Resources Development project.

2. Rural Small Industry

As suggested earlier in the CDSS, the USAID is not proposing direct assistance to this sector. This is because of the seriousness of intra-sectoral problems and uncertainty about their potential resolution, the key role of agriculture in meeting growth with equity goals, Mission concerns about U.S. capabilities in informal sector activities and small, labor-intensive rural industries, and the existing role of other donors. Proposed AID support for Rural Market Centers may impact upon this sector, particularly through use of appropriate technology to produce farm tools and implements. The PfP OPG and possibly others of a similar nature may be a means for providing assistance outside of the bilateral program.

F. <u>Issues</u>

1. <u>Extent of the GOK's actual commitment to growth and equity</u> - The USAID believes per Section III that a serious and firm policy commitment to both exists although recognizing that the institutional infrastructure to implement is limited and that economic and political developments during the next several years could cause greater emphasis to be placed on growth. The USAID's advocacy of a broad assistance approach toward relieving access and manpower constraints in the principal sectors of concentration should strengthen supporting infrastructure so as to facilitate reaching equity objectives. The issue, however, is one which should be addressed in subsequent annual CDSS', in review of the 1979-83 Plan as published and the 1979/80 budget, and in the next CG meeting. It is anticipated that next year's CDSS will be in a position to make better informed judgments than this document.

2. Absorptive capacity - The FY 1980 ABS proposes significant amounts of assistance in agriculture and health in FY 1979, at all three levels in FY 1980, and during the planning period, FY 1981-84. Government's ability to absorb such AID funding will be affected by manpower capabilities for planning and implementing, where the MOH may be less well off than the Ministry of Agriculture; GOK budgetary and FX constraints, including the recurrent budget, and by levels of other donor assistance to these same sectors. At this point in time and at such an early stage in design of new activities for FY 1980 and beyond, the Mission can really only assume absorptive capacity will not impede AID program evolution. However, the Mission proposes absorptive capacity and recurrent budget financing as issues for review by the CG and that AID request the IBRD specifically to review them as part of its pre-CG analysis and evaluation of Kenya's economy, development policies and performance.

3. Defense versus development spending - Subsequent to drafting of much of the above, the Minister of Finance and Planning stated in the June 15 1978/79 Budget Speech that he did not know when it would be possible for the GOK to afford to implement the NCEOP Report given future economic prospects and that it would be essential to restrain educational spending within tighter and redefined guidelines than were set down in Sessional Paper No. 4. The Minister said, "If the present level of defense spending is inescapable, we have no option but to delay the improvement in education we all want." He then stressed that the GOK could not expand both education and defense simultaneously and that while spending on health, police, and development administration would also be restricted, because defense and education took such a large part of the total budget, the choice would largely be between those two services if others were not to be cut back absolutely.[1/] Looked at narrowly, this has serious

[1/] GOK "Budget Speech for the Fiscal Year 1978/79" June 15, 1978, p. 3. Copy available in AFR/EA.

implications for provision of AID assistance to education within the near term if one accepts that the proposed restructuring of the education system is essential to acnievement over the long-term of growth and equity objectives. The USAID believes the sector assessment should go ahead as proposed but giving attention to how much of the restructuring could be implemented within the redefined financial guidelines. In the absence of further information alternatives 'a' and 'c' in E.1. above might be less desirable or inappropriate.

More broadly considered, judging by the areas cited for budget cuts the Minister may be opting for development and defense. See issue 1 above.

4. AID technical expertise capabilities - AID personnel having technical expertise in the agriculture, health and education-development administration fields are known to be severely limited. Problems of ceilings, MODE and sheer availability will impact upon USAID's program design and implementation. Delegating responsibilities for these to regional offices and/or AID/W is no solution, particularly given prospects for vastly increased U.S. assistance in Africa. Realizing such aid levels will, thereby, involve loosening of Congressional and AID requirements for project design-approval and/or management, relief of overseas personnel restrictions and, certainly, elimination of conflicting guidelines which apply thereto, or some combination of these. In effect, AID cannot spend the funds without the programs, and it cannot have the programs without the personnel.

## V. OPTIONAL FUNDING LEVELS[1/]

Funding for the Kenya program has increased significantly based on U.S. interests and on Kenya's pragmatic development policies; its record of achievement and ability to use assistance well; the compatibility between GOK and FAA development objectives; need, and Kenya's stability and value as a Western-oriented market economy which might serve as a development model. Also, Kenya has a good human rights record. These considerations remain valid.

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[1/] The USAID notes some contradictions inherent in the analysis required in State 53416 and the ABS guidance on alternative funding levels.

The FY 1980 ABS projects the bilateral assistance levels ($ million) as shown in the table on the following page. The table does not present a fully accurate picture of assistance benefiting the marginal areas and livestock. The ASSP and Rural Planning projects are attributed to the Smallholder Food Production sub-sector even though these activities underly and support the entire sector. These "projects," therefore, are considered sectoral in their scope and impact. While the Mission has concerns about geographic attribution of projects, the following are indications of where ongoing project activities occur:

Livestock - North Eastern Province
Narok, Kajiado Districts - Rift Valley Province
Taita-Taveta, Kwale Districts - Coast Province

Marginal Lands - Machakos, Kitui, Embu Districts - Eastern Province
Baringo, Elgeyo Marakwet Districts - Rift Valley Province
North Eastern Province, Tana RiverDistrict - Coast Province

Smallholder Food Production - Western and Nyanza Provinces - nationwide for sector-wide projects

Family Planning/Health - nationwide and Nairobi

Kenya bilateral aid levels reached $29.9 million in FY 1977, and this year should approximate between $30 to $56 million. At a minimum future annual AID financing should be comparable to the actual levels achieved in prior years given the GOK funding constraints and development financing requirements. It would be preferable and consonant with U.S. interests for AID assistance during the 1979-83 Plan period to increase a pace with the GOK's greater need and ability to absorb and to increase by amounts indicative of the degree of AID support for achievement of Government's development goal and its equity and growth objectives.

Proposing optional funding levels appropriate to the target group may conflict with AFR funding availabilities since Kenya's rural poor represent such a sizeable percentage of the population and since USAID has chosen a broad developmental approach. Optional funding levels then, at a minimum, might include funding for the Smallholder Food Production sub-sector, for Livestock Production (North Eastern range areas only) and for ongoing family planning projects, or in FY 1979, $7.4 million, in FY 1980 between $20.7 and $64.3 million, and during FY 1981 - FY 1984, between $25 million and $62.5 million annually. This option has the advantage of maintaining the AID assistance presence

| | FY 1979 | FY 1980 | | | FY 1981 | FY 1982 | FY 1983 | FY 1984 |
|---|---|---|---|---|---|---|---|---|
| | | Mark | Exp. | Prop. | | | | |
| Food and Nutrition | 29.3 | 20.7 | 63.7 | 76.3 | 35.0 | 50.0 | 100.0 | 125.0 |
| Smallholder Food Prod. | ( 6.4) | (19.7) | (50.7) | (63.3) | 10.0 | 25.0 | 50.0 | 62.5 |
| Livestock | ( 0.7) | ( 1.0) | ( 1.0) | ( 1.0) | 15.0 | - | - | - |
| Marginal Lands | (22.2) | ( - ) | (12.0) | (12.0) | 10.0 | 25.0 | 50.0 | 62.5 |
| Health | 15.0 | - | 3.2 | 3.2 | 10.0 | 20.0 | 12.0 | 25.0 |
| Population | 0.6 | 0.5 | 0.5 | 0.5 | 5.0 | - | 5.0 | - |
| Education | 7.7 | - | - | 4.4 | - | 10.0 | 3.0 | 10.0 |
| Total Program | 52.6 | 21.2 | 67.6 | 84.6 | 50.0 | 80.0 | 120.0 | 160.0 |
| F & N - Sectoral | 0.7 | 19.4 | 50.4 | 50.4 | - | - | - | - |
| Health/FP - Sectoral | 15.6 | 0.5 | 3.7 | 3.7 | 15.0 | 20.0 | 17.0 | 25.0 |
| Total Sectoral | 16.3 | 19.9 | 54.1 | 54.1 | 15.0 | 20.0 | 17.0 | 25.0 |

in key activities or areas, such as marginal lands, the North East, FP and broad sector-wide agriculture projects although funding levels could be unacceptably low.

A second option might be to fund a level representing only ongoing and proposed (for FY 1979-80) agriculture projects in all three sub-sectors, excluding support for ranch-related livestock development, and the two existing FP projects. This would enable initiation of significant assistance for marginal areas development, thus having growth and equity impact for the areas' poor residents, and would have the advantages of Option 1 while also raising to more respectable levels total annual funding amounts throughout the period. These levels would be in FY 1979 $29.6 million, in FY 1980 between $20.7 million and $76.3 million, with the FY 1980 level maintained throughout FY 1981-84.

A third alternative would be to add to Option 2 new health activities so as to broaden family planning assistance into the rural health field and widen impact on the target group. This might add $15 million to the FY 1979 level, $3.2 million in FY 1980, and $10 million to $25 million in FY 1981-84. The financial benefits would be significant in individual years per the preceding table but would not be felt continuously throughout the entire planning period. Equity and basic needs implications could be important.

A final option is full financing of the ABS' proposed FY 1979-84 financing. The estimates for FY 1979 and FY 1980 are reasonable. The FY 1981-84 amounts can at this point be rough orders of magnitude only although the assistance efforts embodied in the numbers would represent a very real U.S. contribution to GOK development objectives and at the same time to U.S. objectives in Africa. Given absorptive capacity, AFR funds availabilities, and actual project details to be identified during design, these figures may be high.

Overall, USAID believes Option 3 to be preferable in terms of impact on the rural poor target group, support for GOK equity-oriented development efforts, as well as growth objectives, and for AID adoption of a broad-based development perspective in Kenya. It includes financing of both sector-wide activities and more narrowly focused projects.

The management and staffing implications of the above will be as much affected by the AID technical expertise issue in the preceding section as by actual program value, phasing of obligations and project composition. The preferred Option 3 would involve all the new positions included in the ABS-MOB except the education expert.

## VI. CONCLUSION

The above analysis is not as specific as the Mission might prefer due to the uncertainties alluded to previously. Much will happen on the Kenya development scene over the next 10 months or so which should clarify many of the areas now vague and considered to be of concern. This document, therefore, seeks mainly to lay the basis for this transition so as to relate the target group and some assistance proposals to past experience and the lessons learned therefrom and so as to lay the groundwork for the broadly based strategy proposed, recognizing that in the coming year the strategy probably should be much refined. Actions identified in this CDSS which should contribute to strategy refinement are:

a. Carrying out an education sector assessment. Action Agent: USAID (page 12).

b. Requesting the IBRD to review absorptive capacity and recurrent budget financing as issues for consideration by the Consultative Group. Action Agent: AID/W (page 32)

## 1978 ECONOMIC SURVEY

## THE DEVELOPMENT PLAN 1974-78

Kenya's third Plan for economic and social development covering the period 1974 to 1978 had to contend with the world oil crisis in the first year and the consequent world recession thereafter. Thus the first half of the Plan coincided with a period of great world economic strain and painful adjustment which had the most profound consequences on the Kenya economy.

The overall objective of the third Development Plan was to continue to promote the growth of the economy to achieve fuller participation of all the people, by creating greater employment opportunities and securing a more equitable distribution of resources and income. The expansion and diversification of health and education services and the attainment of a more efficient transport system and the modernization of agriculture were identified as priority areas for action.

The potential for overall economic progress during the Plan period was changed fundamentally by the oil crisis and a number of the projects listed in the original plan document had to be re-phased. Economic pressures were particularly severe in 1975 and 1976. However, having withstood the readjustment process, which had to be instituted to contain the balance of payments problem, Kenya was then able to benefit nationally from the surge in coffee and tea prices which began in late 1976 and continued into 1977.

The Government published its Sessional Paper No. 4 entitled "On Economic Prospects and Policies" in 1975. It was noted in the paper that the difficulties arising from the oil crisis and the world recession had led to a severe balance of payments problem in Kenya which could only be contained by curtailing domestic demand for foreign goods and services. Indeed growth in the Kenya economy almost came to a halt in 1975 and per capita incomes actually fell.

As a result of the changes in the prices of imports and exports which took place in 1974 there was a significant deterioration in Kenya's terms of trade. The Kenya economy was unable to continue to import the same relative quantities of goods and services, and it was therefore decided to hold the growth rate in the quantity of imports to less than 2 per cent a year. At the same time it was expected that exports would grow in volume by 8 per cent a year. Apart from directly restraining imports and promoting exports the economic strategy also required that domestic production be further stimulated to help promote import substitution developments and the encouragement of export industries. The longer term objectives of promoting growth, employment and an improved distribution of income it was felt could still be attained.

These changes in policy were adopted in response to the external situation which had generated three interrelated squeezes: a price squeeze—caused by import prices rising more swiftly than export prices; a commodity squeeze—caused by the need to increase exports to pay for the same quantity of imports which in turn reduced the volume of goods available for domestic consumption; and a credit squeeze—caused by a decline in flow of funds from abroad to finance residual deficits in the balance of payments.

All forecasts in 1975 were subject to great uncertainty and the course chosen to deal with an exceptional situation had to be worked out very carefully gauging the relative dangers of both inflation and recession. The Government through fiscal measures in this period endeavoured to broaden the tax base by imposing higher rates of duty on non-essential and luxury consumer goods; to induce industry to adopt more labour using techniques by raising duties on imported capital goods; and to effect economies in the consumption of petroleum products. Income tax was also made more progressive.

It was also decided that the expansion of total domestic credit should be limited to 16 per cent, although the agriculture sector was to be allowed to raise its share of total credit to 17 per cent of net deposits of commercial banks. In July 1976 the liquidity ratio of the commercial banks was raised from 15 to 18 per cent. These restrictions together with the fiscal measures noted above were aimed at reducing the exceptional deficit on the balance of payments.

These policies were not altogether successful, particularly in so far as the control of inflation was concerned. However, in 1976 there was very real evidence of a return to a more normal balance of payments situation. Consequently the credit restrictions were eased in 1977, and a calculated risk taken to secure a higher rate of growth in the domestic economy despite the attendant problems that might arise from continued inflationary pressures.

In retrospect, it seems likely that the very sharp decline in imports in 1975 did not adversely affect the economy as it might otherwise have done because of the overstocking that had taken place in 1974 when imports had been overbought in anticipation of continuing price rises. This cushion of high stocks ensured spplies to all sectors of the economy.

For the Plan period as a whole, the economy achieved a growth rate in GDP of about 4.7 per cent a year, compared with the original target of 7.4 per cent. Some basic data on growth rates in GDP by sectors for the years 1973 to 1977 are presented in Table 3.1. There has been a substantial growth in GDP as a whole from mid-1976 onwards--probably in the region of 6.5 per cent a year. This figure is slightly lower than the rate of growth registered in the second Plan but is a distinct improvement on the average rate of growth of only 2.8 per cent a year recorded in the first half of the current Plan period.

DEVELOPMENT PLAN, 1974-1978

Main Sectoral GDP Growth Targets and Performance at Constant (1972) Prices

Table 3.1 Percentage

| | Plan Target Average rate of growth 1972-78 | PERFORMANCE | | | | |
|---|---|---|---|---|---|---|
| | | Cumulative rate of growth 1972-77* | 1973-74 | 1974-75 | 1975-76 | 1976-77* |
| Agriculture+ .. .. .. | 4.7 | 2.2 | 1.6 | 0.4 | 0.4 | 7.5 |
| Manufacturing .. .. | 10.2 | 10.5 | 5.2 | -0.2 | 18.5 | 15.0 |
| Building and Construction** | 7.2 | -2.7 | -9.7 | -3.6 | -4.6 | 6.0 |
| Wholesale and Retail Trade | 7.2 | 3.7 | -3.1 | -7.6 | 8.3 | 10.7 |
| Transport and Communications | 7.2 | 2.1 | -1.0 | -3.0 | 10.4 | -5.7 |
| Finance, Ownership of Dwelling, Other Services** | 7.2 | 6.1 | 11.4 | 4.4 | 6.5 | 4.9 |
| Government Services .. | 10.1 | 6.7 | 11.6 | 7.5 | 5.4 | 5.7 |
| TOTAL GDP .. | 7.4 | 4.7 | 3.7 | 1.2 | 6.1 | 7.3 |

* Provisional
** Monetary Sector only
\+ Including Forestry and Fishing

As shown in Table 3.2 the total volume of capital formation in the period 1974-78 actually affected amounted to only 70 per cent of the target set in the Plan. The disruptions in Kenya's economic prospects and the need to curtail both private and public capital formation in order to restore the balance of payments to a more healthy situation has their greatest impact in these early years and the volume of capital formation declined to 77 and 69 per cent of the targets respectively set for 1974 and 1975. The two succeeding years were also no more favourable and the levels of capital formation in relation to the targets in 1976 and 1977 were respectively 64 and 71 per cent. External loans and grants actually received were substantially below the level that had been forecast over the Plan period as a whole and although the position was more satisfactory in the second half of the Plan period, inflation had caused sharp rises in actual capital costs which could not be met by higher inflow of resources.

DEVELOPMENT PLAN, 1974-1978

Capital Formation Targets and Performance, at Constant (1972) Prices

Table 3.2 K£ million

| | 1974 | 1975 | 1976 | 1977* | Total 1974-77* |
|---|---|---|---|---|---|
| Performance .. .. | 146 | 143 | 145 | 175 | 609 |
| Target .. .. | 189 | 206 | 225 | 246 | 866 |
| Ratio (per cent) .. | 77 | 69 | 64 | 71 | 70 |

*Provisional

Besides the impact on capital spending, deterioration in economic condition also affected the pattern of Government expenditure, during the years under review. As a result the outturn in many directions was somewhat different from that planned. A comparison of the distribution of planned and actual recurrent and development expenditure for the Plan period is detailed in Table 3.3. In general the level of expenditure on the social services declined below the level intended in the Plan while recurrent expenditure on economic services was also below the level planned and the development expenditure has risen above the target in the Plan. Some of the discrepancies between planned and actual expenditures are accounted for by the need to increase expenditure on defence and to take over the Kenyan section of the communications network previously managed by the East African Community.

PATTERNS OF CENTRAL GOVERNMENT EXPENDITURE:

DEVELOPMENT PLAN TARGETS AND PERFORMANCE, 1973/74-19777/78

Table 3.3 Percentages

| | 1977/78 | | | 1973/74-1977/78 | | |
|---|---|---|---|---|---|---|
| | Target | Actual | Actual/ Target | Target | Actual | Actual/ Target |
| RECURRENT EXPENDITURE | | | | | | |
| Social Services | | | | | | |
| Education .. .. | 29.2 | 19.9 | 68 | 28.3 | 24.0 | 85 |
| Health .. .. .. | 7.2 | 6.2 | 86 | 7.2 | 7.2 | 100 |
| Other .. .. .. | 2.0 | 1.9 | 95 | 2.1 | 2.1 | 100 |
| Economic Services | | | | | | |
| Agriculture .. | 5.2 | 4.8 | 92 | 5.8 | 5.5 | 95 |
| Power, Works and Communications .. | 9.6 | 7.7 | 80 | 9.4 | 7.8 | 83 |
| Other .. .. .. | 7.6 | 6.6 | 87 | 7.8 | 6.7 | 86 |
| All other Services* | 39.2 | 52.9 | 135 | 39.4 | 46.7 | 119 |
| TOTAL .. .. | 100.0 | 100.0 | | 100.0 | 100.0 | |
| DEVELOPMENT EXPENDITURE | | | | | | |
| Social Services | | | | | | |
| Education .. .. | 2.1 | 2.2 | 105 | 3.9 | 2.9 | 74 |
| Health .. .. .. | 7.2 | 4.6 | 64 | 6.1 | 4.5 | 74 |
| Housing .. .. | 8.1 | 3.9 | 48 | 7.3 | 4.5 | 62 |
| Other .. .. .. | 1.8 | 1.1 | 61 | 1.4 | 0.9 | 64 |
| Economic Services | | | | | | |
| Agriculture .. .. | 16.7 | 13.5 | 81) | 22.3 | 14.2) | 109 |
| Water Development | 8.1 | 15.7 | 194) | | 10.0) | |
| Power, Works and Communications .. | 20.7 | 28.4 | 137 | 26.8 | 31.9 | 119 |
| Finance and Planning | 4.9 | 9.6 | 196 | 7.1 | 10.5 | 148 |
| Other .. .. .. | 14.7 | 13.0 | 88 | 14.6 | 12.9 | 88 |
| All other services .. | 15.7 | 8.0 | 51 | 10.5 | 7.7 | 73 |
| TOTAL .. .. | 100.0 | 100.0 | | 100.0 | 100.0 | |

*Includes expenditure on consolidated fund services, defence, home affairs and police.

Figures in Table 3.4 highlight the major differences between the Plan targets and the actual pattern on disposal of GDP. The share of private consumption in the period 1973-1977 at 62.6 per cent of total GDP was higher than the Plan target of 60.2 per cent and at 2 per cent the level of the import surplus was less than half the target figure of 4.2 per cent. This latter decline is entirely due to the favourable shift in terms of trade and the ensuing commodity boom in 1977. While the share of private consumption in the disposal of total GDP has fallen from 64.4 per cent in 1973 to 58.2 per cent in 1977; there has been little change in the share of public consumption at around 17 per cent, and the share of gross investment has risen from 20.1 per cent to 21.2 per cent over this period.

DISTRIBUTION OF EXPENDITURE: DEVELOPMENT PLAN TARGETS AND PERFORMANCES, 1973-1977

Table 3.4 Percentages

| | 1973 | | 1977 | | 1973-77 | |
|---|---|---|---|---|---|---|
| | Target | Actual | Target | Actual | Target | Actual |
| Private Consumption | 61.2 | 64.4 | 59.2 | 58.2 | 60.2 | 62.6 |
| Public Consumption | 18.5 | 16.9 | 20.0 | 17.1 | 19.2 | 17.4 |
| Gross Investment | 24.1 | 20.1 | 25.4 | 21.2 | 24.8 | 22.0 |
| Export less Imports | -3.8 | -1.4 | -4.6 | 3.6 | -4.2 | -2.0 |
| TOTAL GDP | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Financing of gross investment has varied markedly in the years under review. While a particularly high proportion of gross investment was financed by foreign resources in 1974 and 1975, in 1977 domestic savings were actually higher than total investment. As a result the resources borrowed from abroad in 1977 plus some small part of the domestic savings contributed to the net increase in the country's foreign reserves. However, over the five-year period 1973-77 gross investment totalled K£1,371 million and of this 80 per cent was financed from domestic savings and the balance by the net inflow of foreign resources. In the Plan 76 per cent of investment had been intended to be financed by domestic savings by 1978.

IMPACT OF EXTERNAL EVENTS

Kenya has an open economy very much dependent on the export receipts from a handful of primary commodities and its growing exports of manufactured products assisted by invisible earnings from tourism and transport services. Imports of fuel, raw materials, semi-finished products, manufactures and machinery and transport equipment are essential to help keep the economy functioning. In 1974 fuel imports more than quadrupled in value after the rise in oil prices and a very heavy deficit appeared in the balance of payments. The immediate impact of these external events was felt in the form of the price, commodity and credit squeezes noted above.

The price squeeze was manifested in the worsening of the terms of trade, which deteriorated from a base of 100 in 1972 to 85 in 1974 and 78 in 1975. Fortunately late in 1976 and in the first half of 1977 coffee prices rose very rapidly and the switch from coffee to tea by consumers also sparked off increases in prices of tea. As a consequence the terms of trade recovered to 91 in 1976 and even more significantly to 120 in 1977.

The impact of the commodity squeeze is best illustrated by the effect it had on the volume of external trade. In terms of index numbers the volume of exports had by 1974 risen to 111 from a base of 100 in 1972. Exports then declined to 101 in 1975, but have since picked up steadily and by the end of 1977 had reached the 1974 level of 111. Over this period imports declined from a figure of 104 in 1974 to 82 in 1975 and 78 in 1976. Although there has since been an increase in the volume of imports, the index by 1977 had only risen to 96.

The third aspect of the impact of external events concerns this credit squeeze. There was a large reduction in the country's international reserves in 1974, despite a large rise in the net capital inflow, as a result of the sharp increase in the deficit on Kenya's balance of payments current account. Money supply in consequence fell in real terms, credit was restricted, and the Kenya shilling devalued by 14 per cent in September 1975. By January 1976 the actual liquidity ratio of the commercial banks had declined to the minimum level of 18 per cent. There was a turnround in 1976 and 1977, following the boom in commodity prices which resulted in a significant swing in the balance of payments, and restoration of a reasonable rate of growth in the economy as a whole. By the end of 1977 the level of domestic credit had risen by 23 per cent over December 1974. Although the liquidity ratio of the commercial banks was raised to 20 per cent in January 1978, the actual ratio at the end of December 1977 was 28.4 per cent.

As shown in Table 3.5, over the five year period 1973-1977, net capital inflows from abroad amounted to K£367.7 million, and receipts of transfer totalled K£76.2 million. A prominent feature on the current account of balance of payments was the substantial rise in net receipts from services, which in 1977 had reached a peak of K£58.8 million compared to K£39.9 million in 1974.

BALANCE OF PAYMENTS, 1973-1977

Table 3.5 K£ million

| | CURRENT ACCOUNT | | | CAPITAL ACCOUNT | |
|---|---|---|---|---|---|
| | Goods | Services | Transfers | Capital* Inflow | Changes in Reserves and Related Items |
| 1973 | -54.7 | 0.1 | 7.8 | 57.7 | -10.9 |
| 1974 | -161.0 | 39.8 | 6.9 | 83.8 | 30.5 |
| 1975 | -128.6 | 36.2 | 18.5 | 67.0 | 16.9 |
| 1976 | -96.7 | 48.3 | 13.5 | 70.6 | -35.7 |
| 1977 | -64.2 | 58.8 | 29.5 | 88.6 | -112.7 |

*Includes errors and omissions

GROWTH OF DOMESTIC ECONOMY

The failure to reach the target growth rate of GDP in the first half of the Plan period is accounted for by the traumatic impact on the world economy of events beyond the control of any individual country. Inflation world wide rose to unprecedented levels and Kenya's experience of a rise of 71 per cent in the index on consumer prices in Nairobi from December 1973 to March 1978 was not out of line with the general trend.

Agriculture - The average rate of growth of production in monetary agriculture from 1972 to 1977 was only 2.2 per cent a year. The performance in the years 1973 to 1975 was particularly disappointing due to indifferent weather conditions, but the policy action to raise producer prices for items in domestic demand together with high coffee and tea prices in 1976 and 1977 caused the contribution of monetary agriculture at constant prices to rise by 4 per cent in 1976 and this was followed by a particularly sharp rise in 1977 of 12.3 per cent in the value added.

Manufacturing - This sector has been relatively successful in the Plan period and recorded an average rate of growth in production of 10.5 per cent a year between 1972 and 1977, although most of the growth occurred in the years 1976 and 1977. Policy action designed to continue with import substitution of manufactured goods has in the more recent years been complemented with measures designed to promote export oriented industries. A continuous search has been instituted for new markets and for the development of products in demand in these markets.

Tourism - During the period 1972 to 1977 the number of bed-nights spent in hotels by foreign visitors to Kenya rose by 9.9 per cent a year. This is a much lower rate of growth than that achieved in the 10 years to 1972. As a result the annual growth in bed-nights spent at hotels in Kenya by foreigners was only half the target growth rate of 19.7 per cent a year set in the Plan. Since the growth in bed capacity was lower than the increase in actual occupancy, the bed occupancy rate increased from 50 per cent in 1972 to 55 per cent in 1977. Most of the additional hotel capacity was created at beach hotels at the coast and in Nairobi.

Transport and Communications - The disruption of the transport system brought about by the break-up of the East African Community will it appears make it virtually impossible for the transport and communications sector to achieve the growth target of 7.2 per cent laid down in the Plan. The sector is estimated to have averaged a growth rate of 2.1 per cent between 1972 and 1977. The communications component of the sector performed much better than the sector as a whole as it proved to be a more simple operation to domesticise the Kenya operations of the East African Posts and Telecommunications Corporation.

## THE SOCIAL SCENE

As far as the social scene is concerned significant strides were made in the provision of education, health care and water supply facilities during the Plan period. However, the creation of new job opportunities and provision of housing particularly for those in the low income category has lagged behind the targets set in the Plan. Some of the indicators on these facilities have been set out in Table 3.6, detailing both the Plan targets and the figures on actual achievement.

Enrolment figures on both primary and secondary schools in 1977 exceeded the Plan targets. The pupil/teacher ratio of 33.1 for primary schools in 1977 was slightly better than the target ratio of 33.5. Although the number of graduate, S1, P1, and P2 trained teachers was substantially higher than the target in the Plan, a higher than intended number of untrained teachers have had to be recruited to cater for the expansion in enrolment, as a result of the larger than planned expansion in the intake of pupils.

There has been a sharp increase in the provision of health facilities in rural areas during the Plan period. A total of 1,145 units had been established by 1977 as compared to the planned figure of 688. There has also been a general improvement in the proportion on provision of hospital beds and trained staff per 1,000 persons, over the Plan period.

DEVELOPMENT PLAN, 1974-1978

Selected Social Indicators: Performance in Relation to Targets

Table 3.6 Numbers

| | Target 1977 | Actual 1977 | Actual/ Target Ratio |
|---|---|---|---|
| EMPLOYMENT | | | |
| Modern Sector .. .. .. .. .. .. | 952,000 | 902,898 | 95 |
| Urban Informal Sector .. .. .. .. | 154,000 | 103,900 | 67 |
| EDUCATION | | | |
| Primary School Enrolment .. .. .. .. | 2,951,000 | 2,971,239 | 101 |
| of which Standard I .. .. .. .. | 582,000 | 602,076 | 103 |
| Secondary School Enrolment* .. .. .. | 110,300 | 127,996 | 116 |
| of which Form I .. .. .. .. .. | 24,600 | 30,587 | 124 |
| HEALTH | | | |
| Rural Health Facilities - units .. .. | 688 | 1,145 | 166 |
| Central Government Staff .. .. .. .. | | | |
| Doctors .. .. .. .. .. .. .. | 550 | 564 | 102 |
| Registered Nurses .. .. .. .. .. | 1,350 | 1,233 | 91 |
| Medical Assistants .. .. .. .. | 965 | 1,002 | 104 |
| HOUSING | | | |
| Allocation of development funds 1973/74-1977/78-K£million .. .. .. .. .. | 82.2 | 61.0** | 74 |

*Aided Secondary Schools only.
**Gross Capital formation on residential dwellings, 1973-77 at constant (1972) prices - Monetary Sector only.

The creation of employment opportunities, however, in the years to 1977 did not come up to the Plan target. As shown in Table 3.6 there were 903,000 persons in employment in the modern sector in 1977 against a target of 952,000. Besides this failure to meet the target on employment, average wages also declined in real value. Wages at current values rose on average by 66 per cent between 1972 and 1977 but in the same period consumer prices had risen by 85 per cent, with the result that real wages fell by about 10 per cent.

Source: GOK Economic Survey 1978

Table I. School Enrollments and Number of Schools

| | 1964 | | 1974 | | 1976 | |
|---|---|---|---|---|---|---|
| | Pupils | Schools | Pupils | Schools | Pupils | Schools |
| Primary | 1,014,719 | 5,150 | 2,734,400 | 7,668 | 2,895,000 | 8,544 |
| Secondary | 35,921 | 222 | 195,800 | 971 | 280.000 | 1,280 |
| University | - | - | 4,620 | 1 | 6,005 | 1 |
| Other higher ed. | NA | NA | 12,523 | 28 | 11,714 | 19 |

Table II. Percentage of Rural Population Unable to Read in Any Language

| Age-Group | Males | Females | Totals |
|---|---|---|---|
| 15-19 | 25 | 42 | 37 |
| 20-24 | 19 | 40 | 33 |
| 25-29 | 18 | 52 | 38 |
| 30-34 | 20 | 65 | 43 |
| 35-39 | 20 | 80 | 45 |
| 40-44 | 35 | 83 | 60 |
| 45-49 | 40 | 83 | 63 |
| 50-54 | 45 | 85 | 65 |
| 55-59 | 45 | 90 | 67 |
| 60+ | 65 | 92 | 72 |
| Total | 35 | 70 | 54 |

Table III. Expenditure on Social Services (K£ Million)

| | 1964/65 | 1973/74 | 1977/78 |
|---|---|---|---|
| Education | 7.43 | 44.6 | 89.0 |
| Health | 3.09 | 14.5 | 46.3 |
| Labor ) | 2.34 | 2.0 | 3.6 |
| Housing & Social Services ) | | 5.4 | 11.4 |
| Total | 12.86 | 66.5 | 150.3 |

Table IV. Hospital Beds and Cots

| | 1964 | 1971 | 1974 | 1975 |
|---|---|---|---|---|
| Government | 4,237 | 9,097 | 10,285 | 14,438 |
| Mission | 2,995 | 4,118 | 6,649 | 7,349 |
| Other | 1,504 | 1,310 | - | - |
| Total | 11,430 | 14,525 | 16,934 | 23,787 |

Table V. Population and Vital Statistics in Census Years

| | 1948 | 1962 | 1969 |
|---|---|---|---|
| Total Population | 5,405,966 | 8,636,263 | 10,942,705 |
| African Population | 5,251,120 | 8,365,942 | 10,733,202 |
| Births Registered | NA | 7,320 | 121,872 |
| Deaths Registered | NA | 1,662 | 28,702 |

Table VI. Attendance at Family Planning Clinics, 1967-1976

| | Total | First Visits | Re Visits |
|---|---|---|---|
| 1967 | 9,397 | 1,519 | 7,878 |
| 1968 | 41,920 | 13,110 | 28,810 |
| 1969 | 102,640 | 29,761 | 72,879 |
| 1970 | 148,831 | 35,136 | 113,695 |
| 1971 | 179,756 | 41,100 | 138,656 |
| 1972 | 217,484 | 45,205 | 172,279 |
| 1973 | 261,361 | 50,054 | 211,307 |
| 1974 | 287,816 | 51,446 | 236,370 |
| 1975 | 301,232 | 53,441 | 247,791 |
| 1976 | 305,834 | 54,587 | 251,247 |

Table VII. Infant and Child Mortality - Percentage of Children Dying During First Two Years of Life

| Mothers Age Group | Census Years 1962 | Census Years 1969 |
|---|---|---|
| 15-19 | 15 | 13 |
| 20-24 | 17 | 15 |
| 25-29 | 20 | 17 |
| 30-34 | 24 | 20 |
| 35-39 | 27 | 23 |
| 40-44 | 31 | 26 |
| 45-49 | 34 | 30 |

Mortality Rates: 1969 Census - 157 per 1,000 live births

1962 Census - 174 per 1,000 live births

Table VIII. Per Capita GDP (K£)

| Year | Amount: Constant Prices | Amount: Current Prices |
|---|---|---|
| 1964 1/ | 36.3 | 36.3 |
| 1970 | 42.7 | 45.7 |
| 1971 | 43.9 | 48.8 |
| 1972 1/ | 54.5 | 54.5 |
| 1973 | 56.3 | 60.2 |
| 1974 | 55.6 | 69.3 |
| 1975 | 54.2 | 76.7 |
| 1976 | 55.6 | 91.2 |
| 1977 | 57.7 | 113.0 |

1/ Base years for calculating constant prices are 1964 and, more recently, 1972.

Table IX. Percentage Changes in GDP Per Capita

| Year | Current Prices | Constant Prices |
|---|---|---|
| 1972/73 | 8.7 | 2.0 |
| 1973/74 | 17.1 | 0.6 |
| 1974/75 | 10.6 | -2.5 |
| 1975/76 | 18.9 | 2.7 |
| 1976/77 | 23.9 | 3.7 |
| 1964/74 (Cum) | 5.9 | 2.6 |
| 1972/77 (Cum) | 15.7 | 1.2 |

Sources: GOK Central Bureau of Statistics publications on Integrated Rural Survey and 1969 Census, Economic Surveys (various years), and Statistical Abstracts (various years).

Appendix III

Assistance to Kenya, Excl. AID

($ Millions)

| | 1973 | 1974 | 1975 | 1976* | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|---|---|
| Bilateral Donors | 86.1 | 99.5 | 108.8 | 136.0 | 125.0 | 145.0 | 92.6 | N/A |
| United Kingdom | 28.6 | 32.5 | 21.0 | 38.1 | 27.6 | 27.6 | - | - |
| West Germany | 11.4 | 17.1 | 21.9 | 15.3 | 27.9 | 34.8 | 34.8 | - |
| Sweden | 12.1 | 17.5 | 18.9 | 22.3 | 18.6 | 19.5 | 18.6 | - |
| Netherlands | 9.7 | 9.4 | 10.7 | 14.6 | 20.1 | 24.6 | - | - |
| Denmark | N/A | 5.1 | 9.1 | 9.7 | 7.2 | 7.4** | 10.3 | 10.8 |
| Norway | N/A | 6.0 | 9.3 | 8.8 | 12.4 | 15.1 | 12.9 | 13.8 |
| Canada | 6.7 | 4.6 | 6.7 | 10.2 | 11.2 | 16.0 | 16.0 | 16.0 |
| Other | 17.6 | 7.3 | 11.2 | 17.0 | N/A | - | - | - |
| Int'l Agencies | 10.8 | 84.0 | 104.8 | 216.2 | 150.8 | N/A | N/A | N/A |
| IBRD | - | 44.4 | 75.5 | 149.0 | 84.0 | - | | |
| IDA | 6.0 | 33.5 | 25.5 | 14.0 | 26.0 | - | | |
| IFC | 2.9 | 2.8 | - | 9.1 | 3.8 | - | | |
| AFDB | - | 3.0 | 3.0 | 3.0 | - | 11.6 | | |
| UNDP | 1.9 | 0.3 | 0.3 | 0.3 | 2.0 | - | | |
| Other UN | - | - | 0.5 | 0.8 | - | - | | |
| BADEA | - | - | - | 5.0 | - | - | | |
| EEC | - | - | - | 35.0 | 35.0 | 35.0 | 35.0 | 35.0 |

* FY 1976 figure includes TQ.

** Represents 9 month period April-December 1978.

Sources: The above information is taken from the AID FY 1978 and FY 1979 Congressional Presentations (data for 1975-77) and for subsequent years from information supplied to USAID by various donors. Data on bilateral donor programs in 1978 and beyond reflects commitments agreed with the GOK or now included in indicative planning figures for the years indicated above. For international agencies during the same period the figures given reflect USAID's knowledge gained from donor representatives of the magnitude of their programs.

Given the variety of sources, the above data is not internally consistent since some figures represent commitments and others, disbursements, and time periods vary among calendar and fiscal years. Even so, the above table should present a fairly clear picture of gross order magnitudes of assistance now available to Kenya. Levels may increase, but certainly, there will be no significant diminution in total, or individual donor, assistance amounts over the coming years. The latter assumption from all current indicators is certainly true for the World Bank, the largest donor, which expects to provide $400-$500 million over the next four years or so.