

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



COUNTRY DEVELOPMENT STRATEGY STATEMENT

FY 1981

KENYA

BEST AVAILABLE

**DEPARTMENT
OF
STATE**

January 1979



USAID/KENYA

COUNTRY DEVELOPMENT STRATEGY STATEMENT: 1981-1985

January 1979

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Executive Summary and Key Issues----- | 1 |
| 1. Summary----- | 1 |
| 2. Key Issues----- | 3 |
| I. Analytical Description of the Poor----- | 5 |
| A. Overview----- | 5 |
| B. Socio-economic classification----- | 6 |
| 1. The Poor Smallholder Farmer----- | 6 |
| 2. Pastoralists----- | 8 |
| 3. The Landless and Squatters----- | 8 |
| C. Geographic Classification----- | 8 |
| 1. Western Kenya----- | 9 |
| 2. Arid and Semi-Arid Lands----- | 9 |
| D. Causes of Poverty----- | 10 |
| 1. Macroeconomic Factors----- | 13 |
| 2. Regional Interdependence----- | 13 |
| 3. Distribution of Land and Income----- | 13 |
| 4. Determinants of Smallholder Income----- | 16 |
| E. Progress and Commitment----- | 19 |
| 1. Overview----- | 19 |
| 2. Progress and Commitment by Sector----- | 19 |
| (A) Population----- | 19 |
| (B) Health----- | 20 |
| (C) Education----- | 20 |
| (D) Employment----- | 21 |
| (E) Environment----- | 21 |
| 3. Summary of Rural Development Commitment----- | 21 |
| 4. Human Rights----- | 22 |
| F. GOK Development Plan: 1979-1983----- | 22 |
| G. Absorptive Capacity----- | 25 |
| H. Other Donors----- | 26 |

| | <u>Page</u> |
|---|-------------|
| II. Strategy----- | 28 |
| A. Goals----- | 28 |
| B. Objectives----- | 28 |
| 1. Agriculture----- | 28 |
| 2. Nutrition----- | 29 |
| 3. Population----- | 29 |
| 4. Health----- | 29 |
| 5. Education and Human Resources Development----- | 29 |
| C. Targets----- | 30 |
| 1. Agriculture----- | 30 |
| 2. Nutrition----- | 31 |
| 3. Population----- | 31 |
| 4. Health----- | 31 |
| D. Constraints----- | 32 |
| 1. Agriculture----- | 32 |
| 2. Health----- | 32 |
| 3. Population----- | 32 |
| E. Strategy----- | 33 |
| 1. Overview----- | 33 |
| 2. Agriculture----- | 35 |
| 3. Nutrition----- | 41 |
| 4. Health----- | 41 |
| 5. Population----- | 42 |
| 6. Education----- | 43 |
| 7. Human Resources----- | 44 |
| 8. Women in Development----- | 44 |
| 9. Private Voluntary Organizations----- | 45 |
| 10. PL 480----- | 45 |
| 11. Centrally Funded Projects----- | 47 |
| III. Assistance Planning Level----- | 48 |
| A. Proposed Assistance Planning Level (PAPL)----- | 48 |
| B. Justification of PAPL----- | 49 |
| C. Staffing Implications----- | 50 |
| D. PL 480----- | 51 |
| E. Housing Investment Guaranties----- | 53 |

Executive Summary and Key Issues

1. Summary

In the course of preparing its next five-year development plan, (1979-83), the new Government of Kenya has been taking stock of the results of the first 15 years of growth as an independent country. In the context of a smooth and constitutional transition after Kenyatta's death, a continued adherence to a basically market-oriented, private ownership economy, and a sharp worsening of the foreign exchange outlook, the GOK has begun to shift development strategy in several fundamental respects which are in harmony with the thrust of US aid legislation, and form a favorable context for an effective US assistance program. The overall shift that most clearly affects the potential role of US aid involves an explicit change in development emphasis to a much more thorough-going strategy for greater equity and the provision of basic human needs. To accomplish this, the GOK will have to: (1) shift the geographic distribution of development expenditures toward areas previously underserved and underinvested (although the provincial and ethnic maldistribution of expenditure was pronounced, it was not grossly skewed); (2) reorient agricultural research toward the dryer and environmentally more fragile ecozones and develop sound production programs in the face of a dearth of knowledge and experience base; (3) expand and increase the effectiveness of agriculture support services deliberately serving the smallholder; (4) revamp pricing and marketing policies that act, in some cases, as disincentives to smallholders; and (5) develop effective nutrition, health, sanitation and population strategies. Although the new plan is not finalized at this writing, it is clear from drafts available to the Mission, from public and private expressions of the President and senior officials, and from policy changes already initiated, that the GOK is moving in most of these directions, although with varying degrees of assurance and boldness.

To support the GOK's efforts, the proposed USAID strategy would:

- (1) focus activities in the two geographic areas relatively neglected until now, where a substantial fraction of the poorest Kenyans reside, viz. the arid and semi-arid lands (ASAL), and portions of Western Kenya; (2) move the program

into activities affecting the rural poor as directly and palpably as possible, designed to raise smallholder incomes through increasing productivity and off-farm employment; (3) stress agricultural productivity, smallholder supporting services, and aspects of the infrastructure framework which is especially weak in these areas, e.g., farm-to-market transport, on-farm and local storage and marketing facilities, and water and soil conservation works; (4) initiate health sector activities in potable water and environmental sanitation including specific communicable disease interventions, supported by assistance in rural health delivery planning and experiments with innovative delivery system approaches; (5) support the GOK's interest in initiating serious nutrition activities, through possible activities in nutrition planning, direct interventions, increases in the size and effectiveness of the Title II program, and systematic consideration of nutritional implications into account in Mission agriculture project activities; (6) lend all possible US support and influence to encourage recent indications that the GOK may now be prepared to address Kenya's population growth problem with priority and full government attention hitherto lacking; and (7) selectively draw upon centrally funded projects in problems such as rural energy and appropriate technology, which can complement the overall strategy in related subjects.

In its overall relationship with the GOK, the Mission foresees an opportunity to complement the activity level of the program with a more active dialogue on sector policy problems that bear significantly on the prospects for the beneficiaries of USAID projects and on the viability of those activities. This may involve difficult issues of pricing and marketing constraints. However, it is believed that the excellent atmosphere of US-Kenyan relationships, the leading role the GOK appears to want from USAID in ASAL development, and the proposed rising level of US assistance, should form a context in which constructive and diplomatic dialogue on these framework issues can be conducted beneficially.

The proposed strategy would require a substantial increase in US input. In the ASAL areas, the USAID resource input foreseen would be less than that of the IBRD or the combined input of other donors, but would have to rise

to significant amounts to support meaningful activities. Taking account of the total strategy, we find the proposed IPA level of \$80 million in FY 85 a reasonable amount that can be feasibly reached by that year. Kenya will need substantial external resource support during this period, given the balance of payments prospects. As a new instrument of US support, this CDSS proposes initiating a PL 480 Title I (or possible III) program on the order of \$10-15 million a year over the period.

2. Key Issues

1. While Western Kenya comprises "high and medium potential" land (i.e. good soil and water conditions), the ASAL areas pose formidable technical and environmental problems which have been under-researched. The rate of productivity decline in some of these areas appears alarmingly high. Therefore, with time a serious constraint, it must be recognized that the strategy carries a higher risk and greater challenge for AID than would a focus on the better-endowed areas. This risk is judged a reasonable one that must be taken if the AID program is to address a significant portion of the potential target population. Taking on this role implies a long-term commitment, and a need for substantial inputs.

2. Kenya's under-attention to its population growth problem has been the most serious flaw in its development efforts to date. Rapid growth in the labor force, the dependent population and the school age cohorts, has been at the source of Kenya's major development problems, viz. the movement of population into the marginal and ecologically fragile lands previously very sparsely inhabited, the rising land pressure with its attendant political problems, and the growth in urban migration with its attendant rise in the numbers of unemployed, far beyond the job-creation capacity of the industrial and service sectors. The Mission believes it would be a major mistake to withdraw from the subject at this time despite the narrow scope at present for USAID activities. There are indications of rising anxiety within the GOK over population growth, a recognition that family planning programs must be complemented by anti-natal and supportive actions in all sectors, and a willingness to tackle these questions and discuss the problems with interested donors. The Mission proposes to explore such options with the new government, and offer to assist in suitable activities if such dialogue

over the next year proves fruitful. Consideration also needs to be given to the possible role of the Consultative Group as a forum for strengthening these potentialities for a policy turnaround.

3. GOK budget constraints - in the form of recurrent cost burden - have emerged as a major problem, and will worsen over the CDSS period. Part of the problem arises from donor preference for capital as opposed to recurrent cost financing. Very rapid expansion of the primary education system has been a second major contributory cause. A third major source only now emerging is military expenditures. Since independence Kenya elected to spend very little on building a defense capability. Faced with the security deterioration around its borders, the GOK became alarmed in 1977, and decided (based partly on analysis and advice of US military experts) to embark on a crash program to strengthen its defense forces. The foreign exchange costs of this buildup will bunch heavily during the next plan period, while the recurrent budget implications grow on the domestic side. The Country Team judges the need to create a credible defense capability to be well-founded and prudent. Difficult questions of scale and timing remain however, as well as the burden this will pose for development efforts.

4. The strategy omits or suspends judgment at this time on several program options that might be consistent with the overall thrust of complement the activities proposed to be undertaken. These include a) education, where the resource, technical, and policy problems are formidable; where Mission technical resources are very limited; and where we look to a very selective problem assessment to help sort out the issues and identify specific areas where modest-scaled US inputs might have significant potential; b) the health delivery system per se, where the GOK has yet to sort out its own strategy, and where substantial assistance from other donors is available.

5. Donor coordination in Kenya leaves much to be desired. Many donors are active, bringing with them a wide variety of objectives, project preferences and operating procedures. Information exchange, coordination at the program and project level are often poor. In the ASAL areas where USAID is likely to play a special role, we have already indicated to the GOK our strong concern over coordination arrangements; the GOK is giving special attention to development of a coordination framework for ASAL areas. In other areas, satisfactory coordination with one or more donors has been developed on an ad hoc basis around specific projects. But for many areas where coordination has surfaced as a hindrance, improved procedures and "donor management" by the GOK will have to be evolved.

I. Analytical Description of the Poor^{1/}

A. Overview: Kenya's total population of 14 million people is predominantly poor. Of the total population 87 percent is rural, of which 80 percent subsist on incomes below the IBRD's standard of absolute rural poverty of \$93 per year. Urban areas account for 13 percent of the population, of which 25 percent subsist on incomes below the IBRD's urban poverty line of \$122. Nationally, 73 percent of the population have incomes below the IBRD's definition of absolute poverty.

The GOK has refined its identification of the poor to include four specific socio-economic categories and two geographic regions as follows: (1) the poorest half of Kenya's smallholder farmers (i.e., those with incomes below \$360 per annum), (2) pastoralists, (3) landless and rural squatters, and (4) the urban poor. The two geographic areas are: (1) Western Kenya and (2) the arid and semi-arid lands (ASAL). This classification is consistent with the target beneficiaries as identified in USAID/Kenya's current portfolio of assistance activities and the development strategy set forth in this CDSS. The classification has been adopted to define the universe of potential target beneficiaries of AID-funded assistance activities in Kenya.

^{1/}Data presented in Part I draws heavily from: Central Bureau of Statistics Integrated Rural Survey, 1974/75. March 1977; IBRD. Social Indicators. September 1978; and AIDTO Circular A-469 (11/18/78).

B. Socio-Economic Classification: The four socio-economic classifications include those who have not shared equitably in the benefits of Kenya's development and rising income levels. The following table (using 1975 data) provides population and income data for the four categories of poverty as defined by the GOK. The order of groups reflects USAID/Kenya's own priority ranking, based on the size of the group and a perception of the relationship of the Mission strategy to each group.

| | Number Households | Number Persons | Average Household Income (\$ per year) | Average Per Capita Income (\$ per year) |
|--|----------------------|------------------|---|--|
| a. Poor Smallholder Farmer (Household income below \$360 per year) | 700,000 | 4,830,000 | \$206 | \$39 |
| b. Pastoralists | 195,000 | 863,000 | 250 | 56 |
| c. Landless and Squatters | 410,000 | 1,435,000 | 281 | 80 |
| d. Urban Poor | 40,500 | 141,800 | 300 | 86 |
| Total | <u>1,345,500</u> | <u>7,269,800</u> | <u>\$235^{1/}</u> | <u>\$44^{1/}</u> |

Source: See footnote No. 1, page 5

Note: The total in column three represents 52 percent of the national population. GDP per capita nationwide (1974/75) is \$168. Legal minimum wage per worker is \$436.

The following discussion focuses on the USAID/Kenya target group which includes the poor smallholder farmer, the pastoralists, and the landless and squatters. While the preceding table includes urban poor in the category of poor Kenyans, they are not part of the USAID/Kenya target group in this CDSS.

1. The poor smallholder farmer is a subset of the total smallholder^{2/} farmer category. There are approximately 1.4 million smallholder farmers (79 percent of the national population) with an average household income of \$476 per annum (1974/75) and an average holding of 2.3 hectares. The poor smallholders number 700,000, with an average annual household income of \$206 and an average holding of 2.1 hectares. Forty-five percent of the poor smallholders own less than 1 hectare (as against 31 percent for all smallholders).

^{1/} Weighted average

^{2/} Smallholders are defined as owning/working less than 20 hectares.

The poor smallholder farms are generally not self-sufficient in food production (only 42 percent of food consumed is home grown) although a high proportion (77 percent) of their total production is consumed on the farm. In order to obtain money for off-farm purchases (58 percent of food consumption and 65 percent of total consumption), the smallholder depends upon off-farm and non-agricultural income, with regular and casual employment providing 25 percent of the total household income, remittances from relatives another 20 percent, and non-farm surplus (mostly domestic manufacturing of beverages and tobacco products, charcoal making, and footwear/clothing repair) representing another 12 percent.

As a group, smallholders are responsible for 51 percent of Kenya's marketed production. Within the category of smallholder farmers, the poorest 20 percent earn 4.4 percent of the total category income while the richest 20 percent earn 45 percent of the income. The annual incomes of the "richer" fifty percent of the smallholders are \$360 to \$1,200 per household (\$51 to \$171 per capita).

Maize dominates smallholder production and consumption. Forty percent of cultivated land is devoted to maize and approximately 55 percent of the maize produced is consumed on the farm. Pulses account for 28 percent of the cultivated area and 72 percent of pulse production is consumed on the farm.

The average smallholder household contains seven members, half of whom are under 15 years of age. Approximately 88 percent of the female population is to be found in rural areas. Nearly all the adult women cultivate their own small holdings and produce the food consumed by their families. Women have a major role in farm production (providing 75 percent of on-farm labor) and household duties, primarily due to the migration of the male heads of households to urban and semi-urban areas in search of employment. With the rapid spread of primary education (in 1975 76 percent of the primary school-age group in rural areas were attending school) women have taken over chores formerly performed by the young.

2. The Pastoralists: The life of pastoral groups is regulated by seasonal changes in the availability of water and grazing land. Efforts by the Government to provide education, health care, and other services have been tied to introducing some degree of settlement. While more children of pastoralists have been attending schools in recent years, efforts at settlement generally have failed. When water and pasture seem more abundant elsewhere, nomadic pastoralists have moved on, leaving schools and dispensaries behind. When drought occurs, families are forced to sell jewelry and household items. Eventually livestock starve or are slaughtered for food. Humans and animals suffer from starvation, especially the old, the very young, and pregnant women. Families are forced to gather around Mission stations, trading centers, and government posts in order to collect famine relief supplies. Those who lose their entire herds become client herdsmen of others more fortunate or join the landless and unemployed in the towns and eventually in the cities.

3. The Landless and Squatters: An estimated 1.4 million rural Kenyans are either totally landless or squatters with limited land rights. Land distribution and land transfer have been primary ingredients for conflict from the colonial period, through the Mau Mau Rebellion in the early 1950s. The distribution of land will remain a major problem as long as Kenya is primarily an agricultural economy with limited amounts of good agricultural land available. Therefore, the landless are dependent upon employment. Urban employment is difficult to obtain; rural non-agricultural employment is limited; and agricultural employment is highly seasonal. While the landless are able to earn household incomes in excess of the poorest smallholders (see table in section I.B.), the uncertainties and income variations they encounter make it difficult to provide for basic needs. The squatters also face the problem of uncertainty; without title to land their source of income is not secure and investments which might increase production appear highly risky given their tenuous hold on the land.

C. Description of Target Beneficiaries-Geographic Classification: Two geographic areas have been relatively deprived of essential economic and social services; the arid and semi-arid areas, and Western Kenya.

These areas comprise 79 percent of Kenya's land surface and 60 percent of the population. The median smallholder household income in these areas is below the national level.

| | <u>Percent National Population</u> | <u>Percent National Land Area</u> | <u>Household Median Income</u> | <u>Median Holding</u> |
|------------------------------|--|---|--|---------------------------|
| Arid and Semi- Arid Areas | 20% | 73% | \$212 ^{1/} | 1.9 ha. ^{1/} |
| Western Kenya | 40% | 6% | \$280 | 1.4 ha. |
| National Smallholder | 79% | n/a | \$364 | 2.3 ha. |

1. Western Kenya:^{2/}

Virtually all of the land area is classified as high or medium potential, with portions of Western Province containing 2,350 persons per square mile, the highest density figures in all of Kenya. For a variety of political, social, and historical reasons, Western Kenya has received fewer governmental services and investments in infrastructure than would be justified by its population size, level of economic activity and potential. Central Province and parts of Rift Valley Province (roughly coinciding with Kikuyu settlement patterns) have, relative to western Kenya, received a disproportionate amount of Government attention and investment of public resources.

2. The Arid and Semi-Arid Lands of Kenya^{3/} have not received a proportionate share of public investment but their economic potential is limited, their population is small (20 percent of the national population), and their technical and social development problems are considerable. The ASAL farmers depend more on off-farm and non-agricultural income for survival than the average small-holder farmers. Operating farm surplus only provides 26 percent of their total household income (national average: 57 percent) with off-farm employment (casual and regular) providing 31 percent and non-farm operating surplus contributing another 25 percent. Productivity is

^{1/}Data for smallholder only, excludes pastoralist income and holding data.

^{2/}Western Kenya is defined as Nyanza and Western Provinces and Trans Nzoia, Uasin Gishu, Nandi and Kericho Districts in Rift Valley Province.

^{3/}Northeast Province; most of Eastern and Rift Valley Provinces, and Tana River District in Coast Province. The area within the Tana River Irrigation Project (a large multi-donor scheme) is a major exception to this assertion.

well below the average at 2.7 (total production over total inputs) as against the national smallholder average of 4.6^{1/}. Limited smallholder productivity and income levels are compounded by deficient access to social and economic services, as detailed below.

Distance Of Rural Households From Social Amenities - 1975^{1/}

(Percentage of Households)

| <u>More Than Four Miles From:</u> | <u>Primary School</u> | <u>Health Center</u> | <u>Market</u> | <u>Bus Route</u> |
|-------------------------------------|-----------------------|----------------------|---------------|------------------|
| ASAL Smallholder (Eastern Province) | 6 | 70 | 43 | 44 |
| National Smallholder Average | 2 | 50 | 25 | 23 |

D. Causes of Poverty: Poverty in Kenya is primarily a function of: (1) population growth; (2) limited natural resource base; (3) uneven geographic distribution of quality agricultural land; (4) limited access to employment and productive inputs; and (5) low productivity technologies. Only 20 percent of the land is of high or medium agricultural potential while 80 percent is low potential, arid and semi-arid land (ASAL). Nationally, about three-quarters of the population lives in roughly one-tenth of the country's land area.

Kenya's rapid population growth at 3.7 percent per annum is placing great strain on the limited availability of productive land, constantly increasing demands for educational, health, and other social services, and is generating a swiftly expanding labor force. In 1965 Kenya had 1.03 hectares of high and medium potential land per capita. Under current population growth rates by 1985 Kenya will only have .53 hectares of high and medium potential land per capita. The labor force is supporting an ever increasing number of dependents (the economic dependency ratio is 1.1), is engaged in relatively low productivity work (84 percent is employed in agricultural) and possesses limited skills and education (only 40 percent of the adult population is literate).

1. Macroeconomic Factors: Impact on the Poor^{2/} Agriculture provides a livelihood for some 85 percent of the population, contributed 38 percent

^{1/} Calculated from Central Bureau of Statistics, Integrated Rural Survey. 1974/75.

^{2/} For a detailed macroeconomic analysis and further data, see IBRD. Economic Memorandum of Kenya. 1977 (1793a-KE); IMF. Kenya-Request For Stand-By Arrangement. 1978 (EBS/78/56); and ILO, Employment, Incomes, Inequality in Kenya, 1972.

to Kenya's 1977 Gross Domestic Product (GDP) and accounted for 80 percent of domestic exports.^{1/} Yet, the sector has not kept pace with the economy's overall growth. Between 1973 and 1977, GDP increased by 4.7 percent per annum, while the agricultural sector expanded at only 2.2 percent per annum. The GOK's wage and price policies have ensured that urban/formal sector wages have not outpaced rural/agricultural incomes. Formal sector wage increases have been kept below the average inflation rate, resulting in declining real urban wages while prices for agricultural products have been increased considerably in recent years.^{2/} As a result, the terms of trade between agricultural and non-agricultural goods has improved from 81 in 1974 to 116 in 1977. The shift in the terms of trade combined with the decline in real wages in the formal sector represent major policy steps designed to favor the rural poor.

Of the additional 225,000 workers expected to join the labor force between 1978 and 1983, the GOK expects that 40 percent will be absorbed in agriculture, 32 percent by rural off-farm employment, and about 11 percent in rural self-employment and wage employment. Therefore, agriculture and rural employment opportunities are counted on to absorb 83 percent of the growth in the labor force. Urban formal and informal employment is expected to absorb the remaining 17 percent.

Over the next five years, agricultural production is expected to grow at only 5 percent per annum while on-farm agricultural employment opportunities are projected to increase at the rate of 2.7 percent per annum. Rural to urban migration will hold the agricultural population growth rate to 2.5 percent per year. In order to insure the requisite distribution of production resources, the GOK plans to maintain the price of agricultural products in line with world market prices of these goods. Future agricultural price increases are therefore expected to be modest. Combining the production and price expectations indicates that agricultural income will grow at 4.8 percent per annum between 1978 and 1983, with agricultural income increasing at only 2.3 percent per capita per annum. Only through above average production increases can the rural poor expect to achieve relative income growth over the next five years.

^{1/} Domestic exports exclude items which are imported solely for re-export without any value being added in Kenya.

^{2/} Between 1973 and 1977 maize prices increased 130 percent, wheat prices 171 percent, and sugar cane prices 145 percent.

Kenya's growing external resource gap is aggravating the development constraints imposed by limited natural resources. Foreign exchange earnings depend heavily on the export of primary products such as coffee and tea (58 percent of 1977 exports). Primary product price instability has resulted in massive fluctuations of export earnings which Kenya has neither been able to predict nor control. Kenya's export and import requirements have been the subject of a recent IBRD analysis in preparation for the up-coming Consultative Group meeting. In the short run, the IMF estimates that the current account balance will worsen from a positive balance of \$61 million in 1977 to a negative balance of \$505 million in 1979. IBRD analysis indicates Kenya will experience sharpening decline in foreign exchange earnings. However, the final projections are not available at this writing.

Increased military expenditures, as a result of increased political tensions in the Horn of Africa and East Africa, will result in a three-fold jump in military related imports. Military expenditures, which were 5.5 percent of Kenya's FY 1976 budget and 13.4 percent in FY 1978, are expected to account for 20 percent by FY 1980. As a portion of GDP, military expenditures have climbed from 1.6 percent in 1976 to 4.5 percent in 1978 and may reach 7 percent by 1980. Military expenditures will reduce the development budget and foreign exchange reserves available to support Kenya's rural development program.^{1/} It should be noted that since independence Kenya's record on military versus development expenditures has been excellent. Until recently expenditures for military needs has been minimal. The GOK's efforts to improve its defensive capability in a very short period is resulting in major expenditures. In view of the unfavorable economic outlook over the same period, the drain on scarce foreign exchange resources will exacerbate a difficult economic period for Kenya.

The GOK has begun to apply import controls to bring import levels into line with recent projections of lower export earnings. An import squeeze will impact upon imported production inputs. Essential agricultural imports, including fertilizers, pesticides, and farm machinery will be affected but the extent cannot yet be determined.

^{1/}For details, see Nairobi 00309.

Since 1975, tariffs have been revised to encourage export-promotion industries and to discourage capital good importation. Credit and foreign exchange controls have been modified to discourage multi-national firms from engaging in domestic borrowing for industry and commerce when international credit is available. Wage increases have been held to below the national inflation rate in order to avoid overpricing labor relative to capital.

2. Regional Interdependence: Until 1977, East Africa was a model of inter-African economic and social cooperation. Changes in political and economic forces resulted in the disintegration of the East African Community (EAC). Kenya is not economically dependent upon her neighbors but Kenya has enjoyed the benefits of mutual cooperation. In 1970, Kenya sent 29 percent of her exports to Uganda and Tanzania and purchased 10 percent of her imports from within the Community. In 1977 Kenya sold only 12 percent of her exports to Community members and imports from the Community fell to virtually zero. Kenya has had to invest heavily in its own rail and harbor system, as well as finance the establishment of its own airline. The 1977/78 budget contained \$32 million for capital investments related to services formerly provided through the EAC.

Prospects for resumption of trade with Tanzania are not good. While such resumption would obviously benefit Kenya considerably, it would not compare with the impact of successful penetration of markets in the Middle East. The dissolution of the EAC and the military conflict among Kenya's neighbors have caused a distinct economic impact in Kenya as described above.

3. Distribution of Land and Income:

(A) Land: The distribution among provinces of Kenya's high and medium potential agricultural land is very uneven, ranging from close to 100 percent of a province's agricultural land (Western, Nyanza, Central), to 20 to 30 percent (Coast, Eastern, and Rift), and to zero percent for North Eastern Province. Concentrations of good agricultural land have also resulted in population concentrations, as described above in Section I.C.

Approximately 43 percent of Kenya's agricultural land is officially classified as "large farms" (generally greater than 20 hectares) with the remaining 57 percent "smallholder" farms.^{1/} Land distribution and ownership is a highly complex issue which often results in a serious mis-reading of basic data.^{2/} Many of the large farms have been subdivided and are operated by smallholder farmers.

Agricultural Land Use and Ownership Patterns (Percent of Total Land)

| | <u>Single or Corporate Ownership</u> | <u>Multiple/Smallholder Ownership</u> | <u>Total</u> |
|--------------------|--|---|--------------|
| <u>Large Farms</u> | | | |
| Plantations | 6.7 | - | 6.7 |
| Mixed Farms | 7.7 | 7.7 | 15.4 |
| Ranches | <u>7.0</u> | <u>13.7</u> | <u>20.7</u> |
| Subtotal | 21.4 | 21.4 | 42.8 |
| <u>Small Farms</u> | - | <u>57.2</u> | <u>57.2</u> |
| Total | <u>21.4</u> | <u>78.6</u> | 100.0 |

Source: Statistical Abstract, 1977 and IBRD, Economic Memorandum.

Almost 80 percent of all land is therefore in the hands of the smallholder farmers. About 75 percent of the nation's smallholder farmers have either formal title to their land or are in the process of registering land which they hold by right of custom. Kenya's land reform and transfer programs (as described in AID Spring Review) have clearly benefited the smallholder.

The most controversial aspect of land transfer has been the role of powerful social and economic organizations, generally formed along ethnic lines. The Kikuyus have had the combined advantages of (1) controlling the highest positions in Government, (2) being wealthier than most ethnic groups due to their early contacts with the colonial powers and their highly productive home areas and (3) a strong social/economic organization (GEMA) which has been able to make major land purchases for distribution to organization members. About 45 percent of the total land transferred since independence has gone to Kikuyus, who comprise 20 percent of the population.

^{1/}The distinction between "large" and "small" farms is a function of several factors, including the actual size of the holding, its commercial application, and whether it was formally part of the "white highlands" or tribal trusts.

^{2/}For details on land and land tenure, see AID Spring Review, Land Reform in Kenya. 1970.

Ethnic "territorial rights" are strongly felt in Kenya and political pressures make it difficult to transfer land in one ethnic area to members of another ethnic group. Province borders closely follow ethnic lines. In three of the seven provinces at least 88 percent of the population belongs to a single ethnic group and in the other provinces over 90 percent belong to one of two groups. Kenya's second President has publicly recognized that problems have been encountered in land distribution, and has halted all land distribution pending a major review of the situation and the distribution mechanisms. The Kikuyus dominated Kenya's politics from Independence to the August 1978 death of President Kenyatta. Kikuyus inhabit primarily the highly productive Central Province (96 percent of which is classified as high and medium potential land).

In view of the foregoing, it is clear that the distribution of land as related to poverty primarily correlates with the quality of land, land-population ratio and traditional ethnic areas.

B. Income Distribution: Income distribution is related to the distribution of agricultural land (see preceding section) and employment opportunities. The majority of the better paying formal sector jobs obviously are found in urban areas. There is, therefore, a significant difference between the average urban and the average rural income. The GOK has attempted to moderate these income differences through the application of wage and price policies.^{1/} In 1976 the average value added per worker in the non-agricultural sector was 10.5 times that of the agricultural worker yet the average urban household income was only 3.3 times as great as the average rural household income.^{2/}

The national pattern of income distribution has improved in recent years. Studies carried out in 1969 and 1976 show that whereas the poorest 25 percent of the population received 4.1 percent of the nation's income in 1969, they received 6.2 percent, in 1976, a 51 percent increase. Similarly, while the richest 10 percent of the population received 56.3 percent of the nation's income in 1969, their share was reduced to 37.7 percent by 1976, a 33 percent decline.^{3/} Income levels are related to

^{1/} See discussion in Section I.D.1.

^{2/} Central Bureau of Statistics. Economic Survey 1978.

^{3/} Ministry of Planning and Community Affairs. 1979-83 Development Plan (chapter drafts) and ILO, op. cit.

differences in ethnic groupings. This is due in part to the relationship between ethnic groups and distribution of quality land on one hand and the bias in government services among provinces. Dominating the national political structure and the higher Government offices, the Kikuyus have been able to increase the relative share of public expenditures accruing to their region. Nevertheless, over one-half of Central Province smallholders (22 percent of national total) have a household income of less than \$425 per year, against the national median of \$364, which is not a significant advantage when the Province's abundance of good agricultural land is considered. Thus, while the distribution of Government services has followed a geographic and ethnic pattern, the bias has not been excessive nor has it resulted in a gross maldistribution of smallholder income. President Moi, a Kalenjin, has stressed the equitable development of all of Kenya and has begun in his first months as President to shift policy away from the previous pattern. An important example was his establishment of the Lake Victoria Basin Development Authority to deal with the development of Western Kenya.

4. Determinants of Smallholder Agricultural Income: Smallholder farmers represent 79 percent of Kenya's total population and 66 percent of the Mission's target beneficiaries.^{1/} Analysis of the correlation between household income levels and production/economic characteristics points out that the significant variables determining household income and rural poverty are: (1) agricultural productivity which is a function of the quality of land, availability and efficient use of inputs and services, and marketing services; and (2) off-farm incomes generated by regular and casual employment.

Variables which do not appear significant in determining household income include: (1) size of farm holding; (2) purchased farm inputs relative to total farm inputs; and (3) education level of the head of household.

Income differentials within the smallholder category are primarily a function of access to regular off-farm employment and the level of on-farm productivity. For the target universe of poor smallholder farmers

^{1/} Data presented in this section draws heavily from the data contained in Section I.B.

only 41 percent of total household income is generated by the operating farm surplus, with 8 percent generated by regular employment, 16 percent by casual employment, and 20 percent by remittances.^{1/} It is important to note that the absolute level of income earned from casual employment and remittances is roughly equal across income categories; however, income from regular employment and farm operating surplus increases in direct proportion to the income category. Comparing the poorest 10 percent smallholders to the richest 10 percent smallholders, regular employment increases from \$6 per year (8 percent of household income) to \$284 per year (19 percent of household income). Rural employment opportunities are limited and tend to be concentrated in the areas of greater economic activity where the average smallholder already is in the medium to higher income categories. Allocation of regular employment favors the semi-skilled, slightly more prosperous farmer.

Agricultural productivity is the major factor in determining farm income; and farm income, in turn, represents the major input into smallholder household income. Significant production differentials are observed between smallholder income groups. The poorest 10 percent of the smallholders achieve a return of 1.98 (total farm production divided by total farm input costs) while the richest 10 percent^{2/} achieve a return of 6.98, or 350 percent greater than the poorest 10 percent. Agricultural productivity of women tends to be constrained due to inadequate agricultural training and services directed to women and inadequate research on those crops which absorb a large portion of women's agricultural efforts. For ASAL areas, lower productivity reflects both the inherently poorer land and water resources and the technological gap compared with the higher potential areas; agriculture research in Kenya has hitherto concentrated on the latter (where returns to research investment are probably higher) to the detriment of the ASAL population.

Availability of and access to production services seriously constrains increased agricultural production. Studies of Kenya's agricultural extension service have shown that only four percent of extension agent field visits

^{1/}GOK. Integrated Rural Survey. Remaining inputs include non-agricultural household production.

^{2/}Central Bureau of Statistics. op. cit.

were to poor smallholder farmers against 59 percent of visits to more prosperous farmers, with the remaining visiting being to villages or related to government functions.^{1/}

The technical and administrative orientation of the extension service toward prosperous farms and cash crops with only limited development and transfer of information and technology appropriate to smallholders is an underlying cause of this pattern. Furthermore, while approximately 25 percent of all smallholdings are managed by women, only 49 percent of such farms included in a recent survey had ever been visited by extension agents while 72 percent of jointly managed farms were visited.^{2/}

Agricultural credit programs have undergone rapid expansion in recent years, but have resulted in the disbursement of agricultural loans to only 2.5 percent of Kenya's smallholder farmers. Most credit schemes have required land title as collateral and many smallholders have in the past not possessed legally processed title deeds. Although 75 percent of the smallholder farms are in the process of registration, as of 1977 only one-third of the farms had completed the registration process and received title deeds. Furthermore, women, who manage between 25 and 30 percent of all smallholdings, have in the past generally been unable to obtain title deeds (deeds have gone to the male). Title deeds are now being issued to women. The problem with agricultural credit has been the distribution of available funds and concentration on financing land transfers rather than production activities.

Input availability has been a serious bottleneck for smallholders who do purchase inputs and even the poorest farms, on average, purchase 32 percent of their total farm inputs. The distribution system has often failed to provide supplies when required or has not stocked such items as fertilizers in packaged units appropriate for the smallholders' needs. Inputs are now being packaged in units suitable for the one hectare farm.

The national marketing system, with marketing boards often being the only legally recognized purchasing body, paying the officially-set purchase price and controlling the inter-regional movement of produce aggravates production problems. Smallholders, however, must move produce to official marketing points (often distant from farms), must meet the

^{1/} D. Leonard, W'Opindi, Tumwa, "The Work Performance of Junior Agricultural Extension Staff in Western Province," Institute for Development Studies Discussion Paper No. 109, 1971.

^{2/} K. A. Staudt, "Inequities in Delivery of Services to Female Farm Clientele" University of Nairobi, 1977.

board's quality standards (usually defined in terms of moisture content and uniformity of produce) and must move a sufficiently large volume of produce at any one time to justify the effort. While boards and their agents buy at the officially posted price, many smallholders unable to overcome the official market barriers sell their products to itinerant traders at prices which are often one-half of the officially posted price.

E. Progress and Commitment

1. Overview: This section highlights the effectiveness of Kenya's development activities, summarizing information contained in USAID/Kenya's 102(d) Report and other parts of this document. Between 1963 (independence) and 1977, Kenya's real GDP increased at the annual rate of 5.8 percent while GDP per capita increased at 2.2 percent per annum. In current prices, GDP per capita increased from \$102 in 1964 to \$275 in 1977. Between 1969 and 1976 income distribution became more equitable. Smallholders increased their share of total marketed production from 20 percent in 1960 to 51 percent by 1977. These changes are partly a result of the GOK's efforts to develop the rural areas, to increase agricultural production and, particularly, to increase smallholder agricultural incomes. Estimated GOK expenditures for agriculture which directly affect the rural poor rose from 39 percent of 1974/75 agricultural expenditures to 76 percent of 1978/79 expenditures.

Since independence, land distribution has been dominated by the transfer of land from Europeans to Kenyans. In aggregate, land transfer has clearly benefited the smallholder farmer who owns or participates in the cooperative operation of approximately 80 percent of Kenya's agricultural land. (Section I.D.3).

2. Summary of Progress and Commitment by Sector^{1/}

(A) Population: The rate of population increase, estimated at 3.0 percent in 1970, is now officially set at 3.5 percent, although the figure is more likely closer to 3.7 percent. There is no evidence to date that this rate of increase is slackening. The first national family planning program began in 1974. During 1974-1978 contraceptive acceptors increased

^{1/} Agriculture: Progress in the agriculture sector is discussed throughout the CDSS, especially pp. 6, 7, 10 and 11.

at about 10 percent per annum, but the number of acceptors was too small to make a measurable impact on fertility. As of 1978, less than 3 percent of the women in the 15-49 year age group contracept. The low acceptance rate results from a combination of economic, social and cultural factors which encourage the large family unit, and the absence of good quality family planning facilities, effective motivation programs and aggressive political support for the programs. A large percentage of the GOK's family planning funds are supplied by external donors. There is no evidence that a shortage of Kenyan funds or external aid resources are a deterrent to achievement of program objectives. The 1974-1978 Plan was probably over-ambitious, hoping to cut population growth to 3 percent. While the very high rate of population growth warrants more rapid expansion of family planning services, it must be recognized that such expansion might have limited demographic effect until the pro-natalist factors cited above change significantly or are countered by deliberate government interventions.

(B) Health and Water: Changes in health status have been impressive since independence. Life expectancy has increased from 42.5 years in 1960 to 50 years in 1976. Population physician ratio has dropped from 10,840 in 1960 to 5,800 in 1975. The bulk of this gain, however, has been to the advantage of urban areas. During the 1974-1978 Plan period, the GOK constructed 66 percent more rural health facilities, hired 2 percent more doctors and 4 percent more medical assistants than anticipated in the Plan. Yet in rural health, expenditures for recurrent costs in the Ministry's budget declined from 13.7 percent in 1974 to 10.0 percent in 1978, and therefore, did not meet goals for the period. Rural health programs have been plagued by problems of organization, planning and manpower.

Water is generally scarce, with many rural women spending up to 3 hours a day obtaining and carrying the family's supply. In 1970 only 2 percent of the rural population had access to safe water; by 1975, only 4 percent.

(C) Education: In 1975 school enrollment included 87 percent of all primary aged children, 16 percent of secondary school aged children and less than 1 percent in the post-secondary levels. Enrollment of

females in primary schools has been increasing, from 33 percent of total primary school enrollment in 1961 to 46 percent in 1975. However, the proportion of females enrolled in secondary schools was 36 percent of total secondary school enrollment in 1975 as against 33 percent in 1961. Ministry of Education's recurrent budget allocations accounted for 26.8 percent of the GOK's FY 1975 recurrent budget, declining to 20.9 percent in FY 1979. This drop reflects the conscious decision to restrain the education budget. Approximately 60 percent of the adult population in 1977 was classified as illiterate, an improvement over the 70 percent so classified in 1970.

(D) Employment: Wage employment increased over 5 percent per annum between 1974 and 1978, in excess of the Plan target. Rural and agricultural employment (representing over 80 percent of the labor force) has not, however, kept pace with the national labor force increase of 3.5 percent per annum. Under and unemployment, especially among school-leavers is still a major national problem.

(E) Environment: Until 1977 the GOK paid little attention to environmental matters. The GOK has recently established an Environment Secretariat and instituted environment assessment reports for all major new activities and programs. Special attention is being paid to the environment preservation and rehabilitation of arid and semi-arid areas, major water sheds, and Kenya's coast line.

3. Summary of Policies Reflecting a Growth with Equity Policy and a Rural Development Commitment^{1/}

(A) Agricultural Pricing Policies: Between 1973 and 1978 the GOK raised producer prices for basic agricultural products at rates in excess of urban wages and the national inflation rate. The rural-urban terms of trade improved in favor of the rural sector from 81 in 1974 to 116 in 1977.^{2/}

(B) Wage Policies: Formal sector wage increases have been kept below the national inflation rate, resulting in a decline in real wages between 1974 and 1977 and thereby assisting in the reallocation of income from the urban centers to the agricultural sector.

^{1/} For details and data sources, see USAID/Kenya's October 1978 Report on Section 102(d).

^{2/} Price of agricultural products relative to non-agricultural products.

(C) Participation in Development: During implementation of the 1974-1978 Development Plan the GOK established a Rural Planning Unit in the Ministry of Finance and Planning to coordinate decentralized planning efforts; increased rural development grants to districts by 240 percent; and District Development Committees undertook an expanded role in the implementation of development projects and in the provision of inputs for the 1979-83 Development Plan.

(D) Promotion of Labor-Intensive Production: The GOK has introduced new public works programs featuring labor intensive construction and production technologies. Taxes and import licenses have been used to encourage labor intensive production technologies.

(E) Women in Development: In 1975, the GOK established a Women's Bureau in the Ministry of Housing and Social Services to coordinate women's projects throughout Kenya. The Ministry of Agriculture has included in the 1979-83 Development Plan reference to relating the extension service to the needs of women in agriculture.

4. Human Rights: Kenyan society allows for a relatively free and open discussion on most issues affecting public welfare. Corruption and tribalism are widely condemned from the President on downwards. Although there is at present only one political party, the many factions within it allow for opposing viewpoints. The few political detainees in Kenya were recently all granted amnesty by the new President.

(F) GOK Development Plan - 1979-1983

Kenya's Development Plan 1979-1983 is scheduled for release in February 1979. This section outlines the main thrust of the Plan as known to date but does not include investment plan and budgetary data which are currently unavailable.

The overall objective of the Development Plan, 1979-1983 is to alleviate poverty throughout Kenya, with a focus on insuring basic human needs for the majority of Kenya's people and extending the benefits of development to those groups which have thus far not shared equitably in Kenya's growth. Set in the context of a rural development strategy, the Plan's basic objectives are to: (1) increase rural production and incomes, (2) increase the equitable distribution of income, (3) increase

access to basic services, and (4) increase participation in decision making at the district level.

Plan targets include: (Growth rate per Annum)

| | |
|---|----------------------------------|
| --GDP | 6 percent |
| --Agricultural Production | 4.6-5.0 percent |
| --Agricultural Production Per Capita | 2.1-2.5 percent |
| --Agricultural Income | 4.3-4.8 percent |
| --Agricultural Income Per Capita | 1.8-2.3 percent |
| --Employment | 3.8 percent |
| --Population Growth | Balanced growth by the year 2000 |

Sector specific policies include:

(A) Greater emphasis on rural development; (B) efforts to strike a balance between rural and urban development in order to diminish existing income dichotomies; (C) additional efforts to implement decentralized planning; (D) an increased emphasis on agriculture development in order to raise productivity, employment, nutritional standards, and foreign exchange earnings; (E) greater emphasis on establishing manufacturing industries in rural areas and increased efforts on export promotion; (F) increased attention on access to rural infrastructure, including rural roads and water, and initiation of a rural housing policy; (G) efforts to extend rural health services and primary education more widely.

The GOK's strategy focuses on certain constraints and opportunities to development. The strategy elements outlined below are built around the theme of increasing the utilization of existing capacity.

Land Use: Limited high potential agricultural land and increased population pressures on low potential land have produced a strategy which includes: a major development program in arid and semi-arid land (ASAL), increased supply and efficient utilization of appropriate smallholder agricultural inputs, new soil and water conservation programs, expanded irrigation schemes, development and dissemination of production technologies appropriate to smallholder farmers and ASALs, improved produce marketing systems, and revisions to land taxes and land tenure policies.

Increased Private Sector Efficiency: Institute export promotion programs; relax price controls; reduce non-tariff protection measures for domestic industry; institute tax and tariff incentives favoring the increased use of domestic inputs.

Increased Public Sector Efficiency: Undertake a review of statutory boards and prepare revisions of the civil service schemes of service.

Expanded Employment Opportunities: Institute tax credit to encourage industrial locations in rural areas; revise educational and vocational curriculums in order to match education programs with domestic employment and skill requirements; institute tax provisions raising the cost of capital relative to labor; promote rural employment opportunities.

Maintain Efficiency of Existing Plant and Equipment: Provide increased technical training and evaluate the maintenance requirements of imported technologies.

Environmental Management: Introduce environmental impact assessments and increase environmental education.

Development of Appropriate Technologies: Focus research on economics of production technologies, smallholder technology requirements, and informal sector technologies.

Increased Access to Production Services: Expand rural roads network, introduce designated rural service centers, and increase district level services.

The 1979-1983 Plan is set within the framework of "second generation" problems and options. The "easy" development programs, including land transfer, Kenyanization, virtually universal primary education, and the introduction of simple and effective agricultural production inputs (such as hybrid maize) have already been undertaken. Despite Kenya's impressive growth rates, major problems remain, most notably, the majority of Kenya's population is still poor. The development options now open to Kenya are the "hard" second generation options required to achieve major breakthroughs in rural development and poverty alleviation.

Plan objectives, as outlined elsewhere in this Section, are generally valid and realistic. Note that this assessment is based (1) only on those

sections of the Plan currently available and (2) does not include analysis of the yet unpublished budget. Population growth may prove difficult to contain, based on current world-wide experience in this field. Agricultural income growth projections appear reasonable but are related to such uncontrollable variables as the weather, world market produce prices, and the price of imported agricultural inputs. Employment growth is predicated upon increasing the utilization of Kenya's resources and productive capacities. Given Kenya's growth record, even in the face of the major international economic upheavals of the early 1970s, Kenya stands a good chance of attaining her planned objectives.

G. Absorptive Capacity: Relative to other developing countries, Kenya's planning, project development, and management capabilities are considerable and permit Kenya to absorb and effectively utilize large quantities of foreign assistance.

The contemplated rural development activities require considerable administrative resources at the national and local level. The GOK recognizes that limits to the quantity and quality of human resources within the Government present a serious implementation constraint. To address these limits, the GOK plans to increase in-service training programs, raise the civil servant retention rate by improvements to the schemes of service, reorient academic training programs toward providing required technical and administrative skills, and to intensify requests for donor assistance in financing training. At the same time, the GOK is planning to increase the implementation responsibilities of the parastatals, the private sector, and local institutions in order to lessen the administrative and implementation burdens. Finally, the GOK is examining its pricing, land, and employment policies to find ways to assist in the implementation of rural development programs.

Increasing the quantity of adequately trained human resources is constrained by limited public finances. The 1979-83 Plan recognizes that large portions of the budget are already committed to established facilities and programs, thereby limiting the funds available for new projects and that sizable development expenditures made in the past have generated ever growing recurrent costs. Therefore, the GOK plans to increase the recurrent cost share of the budget.

The bulk of donor financing is for development expenditures (as against recurrent costs) and by its concessionary nature tends to reduce the "cost" of development expenditures relative to recurrent costs, thereby raising the level of today's development expenditures and tomorrow's recurrent cost requirements. Major donor investments in rural development activities aggravate the recurrent cost problem due to a high ratio of such costs to development costs.

There are several positive factors which, if fully utilized, could be important instruments for ameliorating constraints on absorptive capacity. The GOK is very receptive to private voluntary organizations especially as they may play a direct service role. The Harambee movement mobilizes significant local savings and implementation capacity as well as introducing a major participatory element to development in Kenya particularly when viewed in terms of the increasing role of District Development Committees in the development process. Also, Kenya has a reservoir of entrepreneurial talent and a vigorous private sector that can assist in relieving the absorptive capacity constraint as mentioned above.

Clearly, there are opportunities for the donor community to lessen constraints caused by recurrent cost burdens and inadequate human resources. The Mission suggests that these issues be included on the Consultative Group agenda because all donor programs are affected.

Part of the strategy of this CDSS addresses constraints in this area through: (1) the proposed PL 480 program which could impact on the recurrent cost problem as well as limited availability of foreign exchange; and (2) the human resource portion of our strategy as contained in Section II.

(H) Other Donors: There are approximately 30 bilateral and multilateral donor agencies active in Kenya. As of December 31, 1977, donor commitments for on-going projects totaled \$1,000 million in loans (\$510 million undisbursed) and an estimated \$450 million in grants. Additional major commitments in 1978 were \$625 million, not including debt cancellation of \$30 and \$120 million by Sweden and the United Kingdom, respectively. The IBRD commitment in 1978 was the largest at \$227 million. Major bilateral donors, including the United Kingdom, Sweden, West Germany, Belgium and Switzerland are either

forgiving existing foreign assistance debts or planning to eliminate loans and to provide all future foreign assistance on a grant basis. Foreign assistance receipts (measured as cash flows into the GOK Treasury) represented 10 percent of the GOK's FY 1977 budget. As of December 1977, the largest single donor (at 38 percent of total donor commitments) is the World Bank Group, followed by the United Kingdom (13.5 percent), West Germany (7.5 percent), the United States (6.0 percent), and Sweden (5.6 percent).^{1/} Of the total \$1.4 billion committed through December, 1977, \$993 million (68 percent) was provided as loans and \$460 million (32 percent) as grants. Donor commitments were concentrated in agriculture (31 percent), transport and communications (17 percent) and water development (14 percent). U.S. commitments were distributed as follows: agriculture (43.0 percent), transportation and communication (24.2 percent), urban/housing (15.2 percent), health (8.2 percent), education (4.2 percent), and other (5.2 percent).

Approximately 45 percent of all donor assistance is earmarked for rural development activities comprised of 30 percent grant and 70 percent for loans. With 81 percent of its assistance to Kenya destined for rural development activities, AID ranks third in its contribution (10.7 percent) to total donor assistance flowing into such areas.

Seventy percent of donor contributions cannot be allocated to specific geographic regions due to their multi-sector nature. With regard to the geographic distribution of the remaining 30 percent, donor funds favor Coast Province (31 percent of geographic distribution), Rift Valley Province (15 percent), Nairobi (13 percent), Nyanza Province (13 percent), and Eastern Province (10 percent) with lesser amounts going to the other provinces. In contrast to other donors, 27 percent of AID's ongoing assistance is directed to Western Province, 27 percent to Nyanza Province, 22 percent to Northeastern Province, 9 percent to Rift Valley Province, 8 percent to Eastern Province and 7 percent to Coast Province. This rank ordering coincides with the provinces identified in Section I.A. which have been relatively less served by government services and which have not shared equitably in Kenya's development. A comparison of the geographic

^{1/} UNDP. Information in this section is based on the Mission's initial analysis of UNDP's Compendium of Donor Assistance as of December 31, 1977.

distribution of other donor versus AID funds for the agriculture sector also indicates differences in emphasis. For instance, 37 percent of AID's investments in agriculture as compared to 8 percent for other donors, are directed to North Eastern Province.

Donor coordination is fostered through a number of arrangements such as the bi-annual Consultative Group meeting chaired by the IBRD; and periodic meetings hosted by the GOK. However, donor coordination needs to be improved in a number of areas such as the recurrent cost constraint, the GOK's limited absorptive capacity, population policy and family planning issues and GOK plans for ASAL areas.

II. Strategy

The GOK's goals and objectives as stated in the Development Plan for 1979-1983 and those of AID are highly compatible. Therefore in this section the Mission adopts those goals and objectives for its strategy, indicating where we differ with the GOK.

A. Goals: The primary goal of the GOK for the 1979-1983 Development Plan period is alleviation of poverty, particularly in rural areas, by emphasizing the improvement of the standard of living of the poorest segments of the rural population who have thus far not benefited equitably from development. Increased incomes will be pursued as a principal way for improvements in living standards and for addressing income distribution and equity concerns. Because agriculture dominates the economy and export sector, increases in production, improvements in marketing and increased employment opportunities will be emphasized as major vehicles for improving rural incomes and for related macro-economic effects as well. Also, the GOK's goal is to provide greater access to health and education services in rural areas.

B. Objectives:

1. Agriculture: Alleviate poverty by: (A) providing income earning opportunities for rural dwellers; (B) increasing production on land of low and medium agricultural potential, since output on high potential lands will not expand at the high rate of the past (High growth rates in agriculture are required to meet the needs of a growing population and for export in order to improve the balance of payments.); and (C) taking corrective steps against further erosion of soils and pasture land which threaten the natural resource base in order to ensure that the production, income, and employment goals can be realized.

2. Nutrition: The primary GOK objective is to promote better nutrition. Specifically, a food and nutrition authority will be established by the GOK giving nutrition a multi-sectoral focus, leading to production of a national nutrition plan. The Mission concurs in these objectives to the extent they are an initial step by the GOK, recognizing that this is the beginning of a process designed to lead, over time, to more informed and ambitious objectives in the future.

3. Population: The GOK's population objectives are too imprecise and general and their acceptor goals are far too modest to achieve a demonstrable impact on fertility. The Mission's objectives are: to try to move the GOK to more precise and ambitious objectives; to secure greater top policy level attention to this problem; and to promote active research programs (104d) exploring policy alternatives that could significantly affect fertility behavior and complement the government's family planning services program with an active and imaginative delivery system through Private Voluntary Organizations (PVOs).

4. Health: The GOK's objectives in this sector are to: strengthen measures for eradication, prevention and control of disease; provide for adequate and effective services for the whole population; and promote biomedical and health services research.

The Mission's objectives will be somewhat more narrowly defined than the above. (See pages 31-32.)

5. Education and Human Resources:

(A) Education: USAID has not been involved in the formal education sector for a number of years (except for agricultural education under the ASSP project) and our technical staff capacity in this sector is minimal. Objectives and targets in education may be included in the FY 1982 CDSS depending on the outcome of exploratory studies and analyses planned for FY 1979.

(B) Human Resources: The Mission objective is to assist the GOK in relieving the human resource constraint, which limits absorptive capacity, by addressing portions of the shortage in skilled personnel required to carry out the GOK's rural development plans in such areas as: agricultural extension and research; natural resource management (e.g., water and

environment); rural environmental sanitation and medical services; and project identification, planning and management for rural areas.

C. Targets:

1. Agriculture: The Plan targets measure progress toward achievement of the Plan's objectives in agriculture, including nutrition levels. AID inputs will assist the GOK to achieve the Plan targets.

A. Agricultural Growth Targets: Total agricultural growth is targeted at 4.6-5.0 percent per annum. Major agricultural sub-sector targets are: food crops, 4.3 percent; industrial crops, 14 percent; export crops, 4.2 percent; and livestock, 4.6 percent.

B. Agricultural Income Targets: The utilization of purchased inputs (principally fertilizer) will increase more rapidly than agricultural output (as part of the policy of land-use intensification). Based on constant (1976) prices, total agricultural income is expected to increase by 4.3-4.8 percent per annum; and per capita agricultural income, 1.8-2.5 percent per annum. With agricultural production expected to grow at 10.7 percent per annum (current prices) during the Plan period and the agricultural population estimated to increase by 2.5 percent annually, the increase in per capita purchasing power of agricultural income is projected at 8.2 percent per annum. If, however, the inflation rate of non-agricultural goods exceeds 8.2 percent, the real per capita agricultural incomes may not increase during the Plan period.

C. Balance of Payments Targets: Agriculture's net contribution to improving the balance of payments is estimated as follows (\$ million; 1976 prices):

| | 1978 (est.) | 1983 (target) | Annual Rate Of Growth 1978-83 |
|--|----------------|------------------|----------------------------------|
| Agricultural exports | \$545.9 | \$668.5 | 4.1% |
| Import substitution | 128.8 | 239.3 | 13.2% |
| Sub-total | <u>\$674.7</u> | <u>\$907.8</u> | <u>6.1%</u> |
| Foreign exchange content of agricultural inputs | <u>54.7</u> | <u>76.9</u> | <u>7.1%</u> |
| Net contribution to balance of payments | \$620.0 | \$830.9 | 6.0% |

The import substitution effect is high, mainly because of the rapid increases that are projected for sugar production, which accounts for over one-half of the value of import substitution.

D. Agricultural and Rural Employment Targets: On-farm employment in agriculture is planned to increase at a rate of 2.7 percent annually. Most of the additional employment will originate from acreage expansion of labor demanding crops and labor intensive husbandry methods. In addition, public expenditure for soil and water conservation and rural works will provide further off-season employment, such that total rural employment is expected to increase at a rate of about 3.0 percent annually over the 1978-83 period.

2. Nutrition: The GOK's targets are: calorie availability will increase by 7.6 percent per capita between 1976 and 1983, and protein availability will increase by 6.2 percent. The Mission's nutrition targets are: to develop in concert with the GOK a strategy for meaningful collaboration in nutrition programs including identification of malnourished groups and areas of intervention, and to undertake nutrition interventions. (Specific targets must await development of nutrition plans, strategies and identification of interventions.)

3. Population: The GOK target is to recruit 700,000 new family planning acceptors and to increase the number of sustained active users up to a level of 250,000 during the Plan period. Demographers assure us that this target, even if it were achievable with present GOK policies and delivery systems, is far short of what would be required to achieve a significant impact on the growth rate. The Mission will support the GOK program but will also explore alternatives such as those mentioned under "objectives."

4. Health: The GOK's targets are too imprecise and general to achieve a demonstrable impact on health status and sector constraints. The Mission's targets are to: assist in small experimental efforts that will test approaches to a community based health system to increase the quantity and quality of GOK health service system outreach, particularly in those areas emphasized in this strategy, using PVOs when possible to augment GOK resources; achieve a plan for effective improvement in rural health services; achieve a significant increase in trained rural health

personnel and support specific high pay-off preventive interventions (such as community water, environmental sanitation, expanded immunization programs and specific disease interventions) where the GOK has a rational plan for action.

D. Constraints:

Major constraints to Kenya's economic and social development at the macro-economic and sector levels have been discussed throughout this CDSS. Sector specific constraints are also present.

1. Agriculture: The principal constraints to increased rural income are low agricultural productivity, inefficient produce marketing, and insufficient employment opportunities. Agricultural productivity is constrained by the insufficient dissemination of known technologies, the lack of new relevant production technologies (especially in ASALs) and inadequate and inaccessible inputs. With government policy moving towards domestic-external parity in agricultural product prices, farmers will realize price increases primarily from improved marketing, currently constrained by the dominance of para-statal marketing boards, and restrictions to produce movement. Employment opportunities are constrained by the low level of on-farm productivity, insufficient credit to hire seasonal labor, and limited rural industry and construction. Governmental inefficiencies, including the shortage of qualified agricultural manpower, limit the ability to plan and execute necessary agricultural development activities.

2. Health: The major constraints are: inadequate infrastructure for potable water and environmental sanitation; inadequate facilities for increased services in the rural areas; inadequate numbers of trainers and training facilities; lack of an adequate planning capability; lack of a tested rural health strategy to reach the eighty percent of the population not now served; a professional bias in favor of hospital-based curative services by a physician dominated Ministry; and limited capacity of the GOK to expand funding for health services.

3. Population: The major constraint is that the GOK is promoting a policy of family size limitation in a society that values children highly both for social and economic reasons with only a limited capacity to provide replacement social services and income assurance to those who accept such policies. Thus the demand for family planning services is limited. On the

other hand, the GOK has not yet adopted a public stance, or attempted to devise policies and programs, vigorous enough to address the problem. Other constraints are: inadequate service delivery facilities; analysis of available demographic data; and research into determinants of fertility.

E. Strategy:

(1) Overview: Mission strategy in recent years has emphasized investments in the agriculture sector primarily directed at redressing access constraints and strengthening institutions, often at the national level, which affect smallholder's production and therefore the ability to earn greater income and partake in an improved standard of living. Ongoing programs which will have important spin-off effects for the current strategy deal with the basic constraints of deficient manpower and agricultural training institutes as well as improvement of cooperatives and agricultural extension services; with the rural planning structure, aiming primarily at making improvements at the ministerial and district levels for planning to meet a broad spectrum of rural needs; and a (just completed) major study of arid and semi-arid lands (ASAL). The ASAL study is particularly important for the refinement of the target group presented earlier in Section I, and will have a significant impact on the current strategy as a result of the identification of constraints and needs for a group which has not benefited equitably from development. Agricultural research (previously a regional activity) emphasized breeding of hybrid maize varieties which have been widely adopted by small and large farmers and have been the basis of substantial nationwide production increases. Although widely adopted, these varieties are best suited to the high potential areas of Kenya. The above activities were necessary and logical steps dealing with some basic issues as perceived by the GOK upon which this strategy builds.

This strategy is oriented toward increasing equity by assisting those rural areas which have not shared equally in Kenya's development thus far. Inequity is manifested primarily in terms of differences in income and level of GOK development and social services. Basically, there are two causes underlying the lack of equitable growth; one, the quality of the natural resource base, applies primarily to ASAL areas. The other, which concerns ethnic conflicts and politics applies to several areas, primarily western Kenya where the natural resource base should have led to more equitable growth.

The current strategy will require significant investments in agriculture and rural development as well as other sectors. Based on a refinement in the identification of the target group and analysis of current macro and micro trends, we envisage greater emphasis on these problems at the sub-sector level, closer to the ultimate beneficiaries. This implies, for instance, that in terms of the agriculture production and marketing chain we will focus more on those factors which immediately affect the smallholder, particularly those who thus far have not benefited significantly from development. In terms of social services, AID programs will focus on those geographic areas which have suffered relatively greater deprivation from limited access to GOK health and education services.

Although agriculture production will remain a central problem area for the US AID program in this period, we envisage some diversification of the activity content of the program in order to increase the subjects and instruments through which the US can assist the GOK meet its basic human needs objectives. Some of these activities would be supportive of agriculture production (e.g. expansion of rural marketing infrastructure), while others would be in health on a scale new to the USAID program in Kenya. In addition, the Mission will be exploring in FY 79 and 80 such related areas as rural energy, appropriate technology and methods for greater local participation through the District Development Committees, as prerequisites for possible activities in FY 81 and beyond.

Nevertheless, efforts to directly affect the target group cannot be conducted without some attention to policy matters and constraints which form part of the context of the problems. The strategy therefore will follow two paths: priority will be placed on investments with immediate impact on the daily lives of beneficiaries, but selective concomitant interventions at the national level will also be required.

Regarding overall size and program instruments, the strategy envisages a continuing increase in the volume of US assistance to Kenya, with rising levels of Development Assistance in project form, complemented by PL 480 Title I commodity aid. The external resource needs of the next plan period are expected to be of such magnitude as would warrant both

higher levels of project aid, and some degree of commodity assistance. The GOK has begun to raise these needs with the donors. Given the added dimension that PL 480 can also provide some relief to the GOK on the recurrent cost problem, this CDSS proposes that the US make an additional contribution toward meeting Kenya's increased resource needs during this period, through provision of PL 480 commodities (other than Title II) on the order of \$10-\$15 million a year. At this level, the total US input would still be small in relation to Kenyan resource needs, and less than levels provided by IBRD and several bilateral donors, but would be responsive to Kenya's external development requirements at a level more commensurate with US-Kenya relations, with rising US aid availabilities and the clear preferences of the GOK concerning the role of the US in the country's development in the next few years. It is important to note that the program size and composition proposed would greatly enhance USAID's capacity (both bilaterally and at CG meetings) to sustain the dialogue referred to above on broad policies affecting the target group, several stages removed from direct project activities.

Finally, it is important to recognize that even at the expanded levels of assistance proposed, the US development role in Kenya will remain modest and partial. Therefore, the CDSS could not be developed as a "shadow" development plan, nor will the US be able to play a major role with respect to GOK development programs and policies, with the exception of the specific subjects that evolve under the USAID program. In one major area - arid and semi-arid lands - the GOK has clearly indicated its hope that the US will play a major role, perhaps as primus inter pares among donors, despite the fact that US resource inputs into these areas may not be the largest. Thus, the AID program must be designed to focus on specific problems where opportunities exist for significant impact consistent with US legislation, but not pretend that it serves as a development mini-plan on its own.

(2) Agriculture: The Mission's strategy is primarily concerned with increasing rural incomes and reducing the effect of constraints to increased agricultural production, rural employment and marketing which underlie limited incomes. This approach requires income oriented interventions in terms of physical inputs, production services and inputs, as well as policy and research improvements. We have chosen to focus our efforts on

production, employment and marketing constraints because our analysis, as contained in Section I.D., indicates that these factors correlate most with differences in income and rural poverty in Kenya. Therefore, AID efforts oriented at reducing such constraints have the best chance of directly affecting differences in equity and the rural standard of living of the target group.

Due to the major influence of sub-regional ecological conditions and GOK investments on agricultural productivity, differences in income levels are to a considerable extent expressed in terms of geographical areas. Thus, the emphasis foreseen for the AID program in problems of poor smallholders (see Section I.B. and C.) means that focusing on this particular target group is tantamount to focusing on the problems of certain geographic areas. The areas that have benefited most from Kenyan economic growth since independence will not receive direct attention from the program. Although the pastoralists in the Northeast are part of one of the lowest income groups in Kenya, a firm decision as to whether and how USAID's involvement should evolve cannot be made until the experiences of US, GOK and other donor efforts in this area are thoroughly evaluated. Income differences are also a result of the nature and extent of GOK investments in various areas. The other geographic area, which has been underserved by GOK development services but is the object of ongoing USAID activities, is in western Kenya. This area is densely populated, has lagged in its growth relative to Central Province and some other areas and encompasses ecozones with high potential and less difficult development problems than encountered in the ASAL areas.

A. Production increases will be pursued through a number of methods, primarily land use intensification, production technology research, and input supply. This strategy will emphasize interventions including physical inputs for land use intensification and research related to the quality of land and efficient use of non-purchased inputs (i.e. water resource management rather than seeds and fertilizers) because our analysis in Section I.D. indicates that such factors are more highly correlated with income differences. The growing demand for food resulting from Kenya's rapid population growth, rising incomes and the need for exports, when

viewed in the context of the shortage of high potential land requires more effective use of available soil and water resources. There is a need for production and service inputs, water management and production technology relevant to smallholders and low and medium potential lands, particularly to bring into production lands not currently cultivated. The need to increase and improve the use of soil and water resources will be emphasized under this strategy and will be pursued primarily in terms of water resource management and non-irrigated cropping. Another requirement will be for research on livestock, crops and production technology for successful intensified use of arid and semi-arid lands emphasizing constraints on smallholder production.

The difficulties and risks involved in land use intensification and research as they apply in ASAL should not be underestimated. A thorough review of world-wide experience in dry-land agriculture and fragile environments forms part of this strategy. Environmental degradation is already serious in many ASAL areas. The Mission will look to the experience of other countries' dry land agriculture and livestock efforts such as those conducted in Israel, the AID-sponsored dry-land wheat program in Turkey, experience in the Southwest of the U.S., and Australia's experience. In addition, this strategy assumes that because of the very complex production, cultural and environmental problems encountered in Kenya's ASAL, the Mission will be undertaking a task the fruits of which will ripen in the 1985-1990 time frame.

Because of the high risk and meager knowledge base, the Mission's strategy for SAL areas will be to follow a dual path of research and action oriented programs. Initially the balance between the two paths will be skewed in favor of research, expanding the data base (particularly in hydrology) and pilot scale projects. Toward the end of the planning period of this CDSS, we anticipate that a major shift towards larger action oriented investments will occur. Within the context of action programs, there will be an emphasis during the initial part of this planning period on a strategy for investments where the risk of serious error is low, the knowledge base is sound and which are "free standing," implying that they have a development

rationale not dependent on a complex of other interventions in order to achieve the desired output. Toward the end of the planning period of this CDSS, we anticipate that interventions of greater risk may be undertaken.

As regards service inputs, our strategy emphasizes use of the agriculture extension service and cooperatives as primary vehicles for improvements in this area. USAID's current program is already addressing the requirement to make the extension system fully responsive to smallholder needs and to disseminate research results. Under this strategy, inputs will be made to increase significantly the number of female extension agents and women trained in the agricultural education system. This is essential in Kenya because women have a major role in agricultural production, marketing and processing and therefore are key decision-makers concerning agricultural production.

Another element in our strategy will be to achieve broader participation through increased use of cooperatives especially involving women. Cooperatives are a central feature in Kenya's past development plans and the Development Plan for 1979-1983. Within the Mission's strategy such organizations are viewed as potentially of great significance for increased production, improved marketing and access to inputs such as seeds, tools, machinery and new production technology. However, a serious constraint must be addressed before they can become a fully effective instrument of development on a broader scale: the shortage of qualified and experienced personnel to manage cooperatives must be met. GOK services to cooperatives will be directed toward improved performance particularly in relationship to the efficiency with which goods and services are provided to cooperative members.

The GOK's cooperative development strategy for contributing to national development and for overcoming sector constraints includes several elements compatible with the Mission's strategy such as the continued use of smallholder cooperatives (mainly the marketing societies) as the most cost-effective vehicle for disbursing smallholder credit. Cooperation will also be expanded in traditional areas of input supply, credit and marketing.

USAID and IBRD's ongoing efforts in this area have shown that extensive work must be undertaken in the strengthening of training, management and administrative capabilities of both government and cooperative personnel. USAID will help Government to evaluate the cooperative manpower constraint and will work with it in trying to overcome this constraint. USAID strategy in this area coincides directly with that of Government. While cooperatives are considered as the preferred vehicle for providing direct assistance to the rural poor, these institutions will be constantly evaluated against other possible channels of assistance to ensure that they continue to warrant ongoing Government/USAID support. This part of the strategy bears potentially great significance for efforts in ASAL areas. Because producers in such areas have smaller than average holdings and incomes, and are most lacking in access to inputs and the resources to acquire them, a greater emphasis than in the past to foster cooperatives could be the most appropriate vehicle for facilitating ASAL production by diffusing risk, conveying technical information and providing access to inputs.

As part of its production strategy, the Mission will explore the need for appropriate rural energy sources, which has been viewed as a serious constraint to smallholder production. Macro-economic considerations also add to the importance of more extensive and efficient use of non-traditional energy.

B. Employment increases in rural areas is a key element in this strategy. Farm development programs must be supplemented by employment creation in other parts of the rural sector because forecasts indicate that agricultural production will not meet the need for increased rural employment. While labor intensive crops and production techniques will be emphasized, these need to be complemented by employing farm laborers in soil conservation, drainage and water resource management schemes, reforestation, alternate energy efforts and other rural works during non-agricultural seasons. The proposed PL 480 program could possibly play a role in generating such employment.

C. Marketing: Because farmers who have emerged from subsistence in Kenya are particularly responsive to price changes for agricultural products, an emphasis on market incentives and efficiency is especially important in order for the producer to retain increasing proportions of sales, since projected increases in agricultural prices are below the expected rate of inflation for agricultural inputs. Therefore, particularly

in ASAL areas, the Mission's strategy includes a focus on marketing including macro constraints, such as GOK's pricing policies, storage capacity to minimize post-harvest losses, rural access roads which facilitate transport of produce and livestock, and access to inputs to reduce the cost of marketing.

In addition to the foregoing, this strategy has other implications for increasing rural income. Changes in producer prices which favor crops grown principally by small farmers will cause a redistribution of income within the agricultural sector; for example, farmers who market maize are likely to see relative decreases in prices and pyrethrum producers are likely to gain. (Pyrethrum is cultivated primarily by women and is a very labor intensive crop.) In addition, to the extent that Government programs emphasize the development of the ASAL areas, there will be a shift in income to producers in these regions. Increased employment in the agricultural sector will result from acreage expansion to more labor-demanding crops (such as tea, coffee, pyrethrum, sugar) at the expense of less labor-intensive crops (such as sorghums and grain legumes) which, in turn, will increasingly be grown on marginal lands as some grazing land is transferred to arable use.

The Mission agriculture and rural development strategy will function within a largely favorable GOK policy and incentives framework. Farmers who have emerged from subsistence in Kenya are highly responsive to prices, markets, and land policies. Accordingly, the GOK has adopted certain supportive policies. New policies, including an integrated and consistent agricultural pricing policy, will emphasize and encourage more competitive markets. As regards employment, new policies will emphasize: (a) those crops and livestock activities with a high labor component; (b) higher yields per hectare (which ordinarily requires additional labor inputs); (c) mechanization that is employment creating; (d) credit for activities with a high labor content; and (e) soil and water conservation activities which are frequently labor absorbing. The current land policy system permits land ownership solely for its asset value, even if its productive potential is not realized; in the future, the government will have first option to buy

land of high and good agricultural potential (zones II and III) in blocks of at least 20 hectares, which can then be made available for leasehold settlement by the landless; the National Land Commission will reassess all policy issues related to land.

3. Nutrition: Nutrition is a new emphasis for the GOK and the Mission. Depending on the outcome of a review the Mission is now initiating, we hope to assist the GOK in some specific nutrition interventions during this Plan period. Parallel with the Plan's stress on the nutritional implications of agricultural development strategy, the Mission will attempt to design its agricultural activities with deliberate attention to nutritional impact, drawing on guidelines being developed by the U.N. sub-committee on nutrition. Our strategy includes a potentially significant role for appropriate centrally funded projects. The Mission will also seek to augment the action oriented aspects of the strategy through the Title II program which can be made more responsive to the mal- and under-nourished.

The Mission will also evaluate its Title II Program, especially its MCH and Pre-School feeding sectors, in order to find ways to enhance its effectiveness in addressing malnutrition among vulnerable groups; and to examine the possibility of using the Title II program for future initiatives in nutrition. Furthermore the Mission will coordinate its Title II activities with the planned US \$30 million World Food Program activities which have similar objectives, to insure maximum impact.

(4) Health: There are three primary aspects to the Mission's strategy in the health sector. The approach the Mission will take during the period covered by this CDSS is necessary to deal with the sector constraints discussed earlier. While the GOK plan asserts that upgrading primary care and preventive services will be a high priority, these programs will command only a small percentage of the MOH budget with the bulk of funds and MOH personnel continuing to be directed to curative hospital based services. First, our strategy is to assist the

GOK to influence the pattern of resource allocation away from the curative, hospital based side of health services to increased emphasis on rural health. Second, our strategy seeks to minimize the recurrent cost burden, already a major impediment to expansion of outreach and services in rural areas, and assist the GOK evolve systems for low cost, community based health services. Third, our strategy is to focus initially on sub-sector problems emphasizing preventive aspects of health services such as environmental sanitation and potable water. Rather than being a second-best strategy, this focus flows from the expectation that improvements in the health context - especially water - will be at least as cost effective as expansion of the formal health system.

Our strategy seeks to avoid investments in the current hospital and curative biased system. The effect of such investments would be to subsidize recurrent costs of the current system. The major share of other donor involvement in this sector is characterized by investments in the current system. Therefore the Mission will seek to develop and field test a rural health strategy to bring effective health services to rural Kenya at a cost that can be sustained with domestic resources. Later on in the period covered by this CDSS if the GOK resolves the issues associated with implementing the rural health strategy, USAID will want to consider more general support to the rural health system to include possible assistance in augmenting facilities and quality of service.

5. Population: The population growth rate is one of the major development issues in Kenya which has the potential for undercutting the GOK's attempts to alleviate poverty. The GOK's policy is to deliver family planning services through an integrated MCH/FP system. This would appear to be the optimum vehicle. However, due to a lack of sufficient emphasis to date to meet the magnitude of the problem, the delivery system is woefully inadequate in terms of planning, infrastructure and personnel. There is a growing awareness of the sense of urgency required to meet the problem

on the part of certain key GOK officials and other donors. The Mission's strategy is to support the GOK's efforts, while joining other donors in pressing for emphasis which is more commensurate with the seriousness of the problem. Major aspects of our intervention, initially, will be in the areas of demographic planning; research on the economic and social determinants of fertility, about which little is known; and increasing the level of human resources for delivery of family planning services. In addition, the Mission will attempt to design its activities with specific attention to the implications for the population growth rate. The nature and magnitude of the population problem requires a multi-ministerial and multi-donor effort, particularly in terms of expansion of the delivery service network. This has not yet taken place but appears to be an approach that the Ministry of Planning is considering. Our strategy is to support a multi-donor effort as well as an expansion of the delivery system. Because of the magnitude of the required investment, expansion of the system is clearly an area for a multi-donor effort. In view of the foregoing, the Mission will also encourage greater private sector and PVO involvement in family planning efforts wherever possible. The Mission suggests that this topic be included as a major agenda item for CG attention.

6. Education: In this CDSS the Mission wishes to make a distinction between the formal education sector in its various forms and requirements to ease human resource constraints which are discussed in the following section. The previous CDSS contained plans for a sector assessment in 1978 which was not conducted. The Mission maintains its position that exploratory efforts are required in order to provide a basis for deciding whether or not to be involved in this sector, and if so, to what degree. Rather than a sector assessment as previously planned, however, the exploratory efforts to be undertaken in 1979 will focus on several specific aspects of the sector as follows: administrative and curricula reform; vocational education; non-formal education; adult literacy; elementary education; and relevant rural education.

A Mission strategy must await the results of such studies and is therefore a matter to be incorporated in a future CDSS. However, it is doubtful that under any future strategy the Mission would be involved in education on a scale equal to our projected investments in agriculture and rural development. Therefore, the specific areas of exploratory studies seem to be more relevant than a sector-wide study which in all likelihood would require follow-on specific studies such as those cited above.

7. Human Resources: Limited numbers and inadequately trained staff are major constraints in each sector relevant to USAID's strategy. The strategy of the Mission has been to deal with this constraint on an ad hoc, project-by-project basis, with the exception of the Agricultural Systems Support Project (ASSP) which deals inter alia with human resource constraints in the agriculture sector. The Mission wishes to expand on the strategy implicit in the approach taken under the ASSP project, but in a manner that will reduce some of the disadvantages inherent in project level training, primarily that trained personnel are not available until after one or two years of the project life have expired. The result is that implementation is delayed and achievement of optimal results from the project are jeopardized. Therefore, the Mission will conduct a human resource needs analysis in 1979 focused on those areas where inadequately trained staff are major impediments to USAID's future efforts. Investments in human resources can then be focused in anticipation of program and subsector interventions.

8. Women in Development: This CDSS strategy explicitly recognizes the resource role of women in Kenya and areas requiring improvements directed at women. Special consideration will continue to be given to ways and means of increased participation in all USAID projects. This is particularly appropriate given the agricultural production orientation of the Mission strategy vis-a-vis women's role as a

major part of the farm workforce. Barriers to women's participation, such as lack of training, constraints on access to credit, land inheritance, etc., will be specifically addressed within the context of each USAID project. With women dominating small scale marketing in the rural areas, they will be the principal beneficiaries of activities concerned with the marketing structure. Provision of potable water benefits men, women and children alike; but provision of that water at more convenient locations will mean time and energy savings primarily for women. Systematic efforts will be made to take into account the implications for, and the operational involvement of, women in all USAID activities.

9. Private Voluntary Organizations (PVOs): Kenya provides a very favorable climate for PVO activities, so long as they are not in direct conflict with other GOK programs or policies. PVO projects are also excellent vehicles for dealing directly with the rural poor target group, due to the nature of PVO organization and PVO host country relationships. But, with limited financial and managerial resources, and a PVO preference (in Kenya) for self-reliance, i.e., not conducting their program through Government machinery, the impact of their activities is limited. This setting suggests a dual strategy. PVOs will be used to implement areas of the Mission strategy either as a complement to the bilateral program, or as pilot efforts. The action project strategy for PVOs will be particularly relevant in the areas of health and population, where service structures are needed to augment GOK service systems, particularly in ASAL areas. The pilot project role for PVOs could be a very significant instrument for diminishing the costs of testing the appropriateness of techniques which may bear a high risk particularly in ASAL areas.

10. PL 480

A. Title I: As noted earlier, recurrent costs and employment needs in rural areas are major constraints. The PL 480 food sales element in the strategy is intended in part to address these matters. PL 480 aid would have at least two primary levels of impact. First, it would assist, albeit

to a small degree, in relieving some of the pressure on the GOK's limited foreign exchange earnings. Second, the local currency generated from the sale of commodities could be programmed to meet a portion of the recurrent cost of AID programs (e.g. off-season employment in conservation works in ASAL areas) and thereby ease the recurrent cost pressure on the GOK. Also, a portion of the local currency generated could be used to bring additional resources to bear on rural development needs if the Title III mechanism were utilized. The precise form of PL 480 agreement and use of the proceeds is a matter for future negotiation with the GOK.

B. P.L. 480 title II: To date, the P.L. 480 Title II program has been the Mission's main activity with a potential impact on nutrition levels, i.e., MCH and Pre-School feeding programs. The primary focus of these programs has been to feed mothers and malnourished children under five years of age. The Mission is planning a nutrition assessment in which an evaluation of the Title II program will take place. This evaluation will assess the past and present Title II activities in order to: (1) ascertain how food commodities can be more effectively allocated to ensure that the most malnourished are in fact being reached. This would reduce the likelihood of severe malnutrition in drought and famine conditions and also establish a communication network for distributing emergency food supplies in drought and famine-prone areas if the need arises; (2) examine the possibility of using the Title II program base for future expanded GOK-Mission nutrition initiatives; (3) extend present feeding programs to include the rehabilitation of the severely malnourished. To help measure and monitor nutritional impact of the current Title II program, Catholic Relief Services is introducing a new growth surveillance system.

By working closely with Catholic Relief Services and the GOK, the Mission will encourage the integration of the Title II nutrition and education objectives into GOK programs and the formulation of GOK nutrition

objectives. The Mission will also coordinate its Title II activities with the planned World Food Program for Kenya in order to avoid duplication of effort and to ensure maximum benefit from both programs. Finally, our strategy is to be supportive of initial GOK efforts to improve nutritional levels and includes possible expansion of the Title II program to support GOK interventions, among them the GOK's plan to institute a national school milk program.

11. Centrally Funded Projects (CFPs): The Mission portfolio of CFPs consists of 13 ongoing and 8 proposed projects currently under review. The CFPs occur in a variety of sectors. The role of CFP's will be quite important to the Mission's strategy in several ways. Throughout the CDSS reference has been made to the exploratory aspects of our strategy in such areas as appropriate technology, rural energy, urban poverty and education, to name but a few. The Mission will look to CFPs as an important input in our exploratory efforts. Also, CFPs can serve as vehicles for research and data gathering efforts the Mission will wish to undertake. Finally, CFPs may play a specific role in terms of pilot projects and particularly in response to our section 104(d) concerns where we view CFPs as a potentially major instrument.

III. Assistance Planning Level:A. Proposed Assistance Planning Level: (PAPL)

| | <u>1981</u> | <u>1982</u> | <u>1983</u> | <u>1984</u> | <u>1985</u> | <u>TOTAL</u> |
|--|-----------------|-------------|-------------|-------------|-------------|--------------|
| Agriculture Rural Development and Nutrition | | | | | | |
| Physical Inputs | 13 | 13 | 14 | 36 | 25 | 101 |
| Service/Input | 1 | 3 | 14 | 5 | 22 | 45 |
| Policy, Plan, Research | 5 | 4 | 2 | - | - | 11 |
| SUB-TOTAL | <u>(19)</u> | <u>(20)</u> | <u>(30)</u> | <u>(41)</u> | <u>(47)</u> | <u>(157)</u> |
| Population & Health | | | | | | |
| Physical Inputs | 3 | 10 | 13 | 13 | 9 | 48 |
| Service/Input | - | 2 | 2 | - | 9 | 13 |
| Policy, Plan, Research | 1 | 2 | 1 | - | - | 4 |
| | <u>(4)</u> | <u>(14)</u> | <u>(16)</u> | <u>(13)</u> | <u>(18)</u> | <u>(65)</u> |
| Education and Human Resources Development | 1 | - | 1 | - | 5 | (7) |
| Technical Assistance, Energy, Research, Reconstruction and Selected Development Problems | - | 1 | 3 | 10 | 10 | (24) |
| TOTAL | 24 | 35 | 50 | 64 | 80 | 253 |
| (of which ongoing) | (10.5) | (8.5) | (6) | (2) | (-) | (27) |
| PL 480 Title I | 9.0 | 10.7 | 12.2 | 13.6 | 16.3 | 61.8 |
| PL 480 Title II | 4 ^{1/} | 4 | 5 | 5 | 6 | 24 |
| HIGs | - | 20 | - | - | 25 | 45 |

^{1/} Assumes a 50 percent increase.

B. Justification of the PAPL: The growth path in assistance planning levels proposed, and the IPA level for FY 85, represent orders of magnitude that we judge consistent with, and necessary for the proposed strategy, given the following considerations: (1) Lower levels of expenditure on ASAL activities in the initial years will lay the basis for more substantial investments in the FY 1983-85 period. (2) A US role characterized by a purposive commitment to making a significant contribution to more rapid economic advancement of the target populations identified herein, implies both a long-term effort and level of resource input high enough to sustain a meaningful program. In the ASAL areas in particular, creation of a solid foundation for smallholder income increases will require a more comprehensive set of activities and investments than was needed in the high potential areas, where selective interventions (e.g. hybrid maize research) could have quick and sustainable impact because they could be exploited within a relatively well-endowed natural resource, institutional and infrastructure framework. Because of the environmental degradation already taking place in these areas, and in the face of a commitment to redress the past differential growth rates between these areas and the more favored regions, the GOK will have to capsule in a few years a research/data gathering/planning/investment process that has barely begun in these parts of the country. For USAID to play the role proposed, a similar rapid build-up, and fairly comprehensive coverage, will be necessary. We have not attempted to build up a detailed set of budget paths based on alternative packages and scales of specific projects for this exercise. Nevertheless, rough judgments support the conclusion that assistance levels significantly lower than those proposed - viz. the IPA growth path augmented by PL 480 - would not support a viable set of activities consistent with the strategy and role envisaged. It is important to note that even at the rising levels proposed, the USAID program in Kenya would probably rank about the same among the donors as it does now. We do not see any need for the US to become the major bilateral donor in order to undertake the relatively leading role we (and the GOK) envisage in some aspects of the strategy.

(3) From a negative point of view, it is clear that an assistance path that was essentially flat over the period, or rose only very slowly, would restrict the program to completing the activities now underway that focus on the agricultural manpower institutions, and initiating in the neglected target areas activities that even if useful could not be construed as sufficient in size or scope to constitute a "strategy," or support the role proposed. (4) In the overall resource and development context, although the IBRD and GOK projections of the external resource requirements are not yet available, it is clear that these needs will be substantial. Again, while the levels proposed will not vault the US into the position of the major source of concessional financing, they would constitute a significant magnitude of support. The USAID program in Kenya is not a gap-filling, or essentially resource-transferring effect. Nevertheless its sheer resource contribution is a dimension not without importance, especially in the years immediately ahead. Again, an essentially flat path (eroded by inflation, in addition) would be tantamount to a US decision not to meaningfully participate with the donor community in helping tide Kenya over the difficult macro-economic problems of the next few years.

C. Staffing Implications: The present Mission ceiling is 37 USDH and 50 FNE. This staff manages a bilateral program that has averaged \$30 million for the past two years; in addition a major portion of the staff (about one-third) provides support for REDSO/EA and a number of countries in east and southern Africa. The present program comprises some thirteen active bilateral projects, Title II, HIG's, and some twenty regionally or centrally funded projects. The factors of USAID staffing that need to be considered are personnel for project design, management and evaluation; and financial and administrative services.

The directions proposed for the USAID program imply heavy design, implementation oversight and coordination burdens. Means will have to be found to cope with this increased management requirement within DH staff levels unlikely to be much higher than at present. One route might be through upgrading foreign national staff to undertake

greater management and operational responsibilities. The major option however would seem to lie in increased FNE levels which would allow for hiring selected numbers of professionals who could assist in substantive oversight functions, e.g. engineers.

D. PL 480: Kenya has achieved the enviable position of being relatively self-sufficient in basic food production. However, due to low income levels and distribution problems, not all Kenyans are able to produce or purchase a nutritionally balanced diet. Children of the poor are the most seriously affected. While domestic production of most foods is sufficient to meet internal demand, certain foods, such as wheat, rice and vegetable oils are imported to augment domestic supplies. Given Kenya's growing balance of payments problems, (see Section I.D.) food imports will represent an increasing foreign exchange burden.

The average Kenyan's food consumption, measured by percentage of caloric intake, favors maize (44 percent), starchy roots (11 percent), grains (7 percent), beans and pulses (7 percent), wheat (5 percent), and rice (1 percent), with the remainder spread over some 20 other foods. Kenya is self-sufficient in maize production, the last major maize imports being in 1971, with modest levels of export achieved by 1975. The Government maintains a modest strategic reserve of maize. Roots, miscellaneous grains, and pulses are grown on smallholder farms for on-farm and domestic consumption.

Assuming an illustrative usual marketing requirement level of 75 percent suggest a 1981 PL 480 sales program of about \$9 million. Inflation and increased import levels would push the 1985 level up to about \$16.3 million.

Wheat production has only increased at the rate of 1.4 percent per annum since 1965, and GOK agricultural planners forecast production increases at only 1.0 percent for the 1979-83 period, with consumption rising at a higher rate.

Kenyan rice production has climbed from 14,000 metric tons in 1965 to about 40,000 metric tons in 1976. During the same time, domestic consumption, augmented by imports, rose from 15,000 metric tons to about 43,000 metric tons. While the GOK expects rice production to increase at 6.7 percent during the plan period, consumption is expected to grow at an even faster rate.

Vegetable oil imports, at 7,000 metric tons in 1965 will triple by 1981. Domestic production of cotton has barely increased from 12,000 metric tons in 1965 to 16,000 metric tons in 1976, while demand has soared. Import requirements for 1981 are estimated at 4,000 metric tons, and will increase throughout the 1981-85 period. The GOK hopes to increase cotton production by 15 percent per annum during the Plan period, but this is considered overly optimistic in light of present pricing policies.

The Mission has estimated Kenya's 1981 import bill for certain major crops as follows:

| | <u>Metric Tons</u> | <u>\$ Million</u> |
|---------------|--------------------|-------------------|
| Cotton | 4,000 | 6.8 |
| Wheat | 59,000 | 10.8 |
| Rice | 4,400 | 1.4 |
| Vegetable Oil | 21,000 | 17.0 |
| | | <u>\$36.0</u> |

PL 480 Title I

Program Projections^{1/}
(\$ Millions)

| Commodity | <u>FY 1981</u> | | <u>FY 1982</u> | | <u>FY 1983</u> | | <u>FY 1984</u> | | <u>FY 1985</u> | |
|---------------|----------------|--------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|
| | <u>MT</u> | <u>\$</u> | <u>MT</u> | <u>\$</u> | <u>MT</u> | <u>\$</u> | <u>MT</u> | <u>\$</u> | <u>MT</u> | <u>\$</u> |
| Cotton | 1,000 | \$1.7 | 1,100 | \$ 2.1 | 1,150 | \$ 2.4 | 1,200 | \$ 2.2 | 1,250 | \$ 3.1 |
| Wheat | 14,750 | 2.7 | 15,600 | 3.2 | 16,500 | 3.7 | 17,500 | 4.3 | 18,600 | 5.0 |
| Rice | 1,100 | 0.4 | 1,200 | 0.5 | 1,275 | .5 | 1,375 | .6 | 1,450 | .7 |
| Vegetable Oil | 5,250 | 4.2 | 5,500 | 4.9 | 5,750 | 5.6 | 6,000 | 6.5 | 6,250 | 7.5 |
| Total | | <u>\$9.0</u> | | <u>\$10.7</u> | | <u>\$12.2</u> | | <u>\$13.6</u> | | <u>\$16.3</u> |

MT: Metric tons

\$: 1978 commodity prices (November) adjusted by annual inflation rates

^{1/}Based on an illustrative usual marketing requirement of 75%.

E. Housing Investment Guaranties: By the year 2000 the urban population (defined to include centers of greater than 2,000 people) is expected to increase more than five-fold. The present pattern of settlement, with Nairobi as the primate city and numerous small centers, is expected to continue. In terms of numbers of centers, a near three-fold increase, from 90 to 250, is expected. The bulk of these centers will consist of smaller towns of less than 10,000 people. Successful family planning efforts, for example, over the next 20 years would only marginally affect this development pattern. Accompanying this growth are a set of difficult and inter-related problems which must be faced if the development process is to proceed smoothly. And of course the way in which these problems are resolved will impact directly on basic issues of income distribution.

While incomes are higher in urban areas, such comparison masks significant differences within and among the towns themselves. One example of this is the very real poverty, exacerbated by the high cost of town living, in the sprawling slums of the larger centers, poverty characterized by a lack of access to basic needs services which exist in these centers but are unevenly distributed. Of those in wage employment it has been estimated that fully one-third earning at the bottom rung of the income ladder are located in urban areas. In general, there are striking differences in income levels both between groups in the larger centers and between centers, with the tendency being for incomes to be lower in smaller centers. Thus, any set of development policies which ignores these centers will ignore the opportunities of making basic changes in the income structure.

The inevitable increasing concentration of peoples will require creation of centers which meet minimum standards for habitation and will encompass such matters as employment generation, promotion of access to basic health, water, and sanitation services, minimum shelter, not only for the poor but for all those who are unable to afford the speculative prices which rapid urbanization causes.

Over the past two Plan periods, a policy of spatial development has been increasingly articulated by the GOK. Basic to this policy have been two goals - the first to slow the growth of Nairobi in order to devote greater resources to other areas and the second to minimize outmigration from rural regions. Programs to achieve these goals have been less well articulated. What is clear is that in order to achieve the goals it will be necessary to encourage migrants from rural areas to go to smaller towns and market centers. The key to success will be the ability of the government to orchestrate investments in such centers in an economically sensible manner while at the same time avoiding an acceleration of migration above that which would occur naturally. AID resources, including regular development funds and funds available through the Housing Guaranty program, can make a significant contribution to insuring that the inevitable changes in the structure of the Kenyan economy are accomplished more smoothly, through investments in both rural areas and in population centers, and that the benefits of such changes are shared more equitably.