PN-AAW-483

Country Development Strategy Statement

FY 1984

KENYA

January 1982

Agency for International Development
Washington, D.C. 20523

BEST AVAILABLE

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Kenya
FY 1983 CDSS

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EMBASSY OF THE
UNITED STATES OF AMERICA

Nairobi, Kenya

February 12, 1982

Mr. M. Peter McPherson
Administrator
Agency for International Development
Department of State
Washington, D.C. 20523

Dear Peter:

I am pleased to endorse the Kenya AID Mission's Country Development Strategy Statement for 1983-1987. I spent considerable personal time on this document. I believe it provides a coherent analysis of economic and development issues in Kenya and offers an appropriate reasonable strategy for addressing them.

The three development objectives chosen--increased rural production, employment and income; reduced population growth; and efficient delivery of basic social services--are of course interrelated. Kenya's future depends upon the small farmer's productivity, but efforts to increase output will come to naught unless the population growth rate is reduced and a sustainable balance attained between population and land resources; the ultimate development objective in any country is a better life for the people, yet given the limits upon financing and trained personnel an improvement in basic social services must depend upon more cost effective delivery systems.

All of us in Nairobi are concerned about Kenya's serious energy problems, and so is a plethora of other donors. We have concluded that fuelwood development within the framework of agricultural production is the most appropriate area of emphasis for U.S. programs during the coming period.

We are pleased that the Government of Kenya has taken some difficult steps in the past year or so to improve the policy environment for development. The Government has also explicitly recognized that the private sector is frequently more efficient and effective than government parastatals. We will maintain our support for policy reform and private sector participation in development. In this connection, I would like again to salute the role you personally played during President Moi's Washington visit to help persuade him of the importance of adequate agriculture prices and for a wider scope for market forces in distribution. He has acted on the first and certainly heard the second--which we are still pressing.

As a last point, I would like to praise the PRE mission we have just had. They were quality people and did a quality job. We benefitted greatly and so will Kenya as some of the ideas and projects take form.

Good luck as we enter the second year.

With regards,

Sincerely,

Bill

William C. Harrop
American Ambassador

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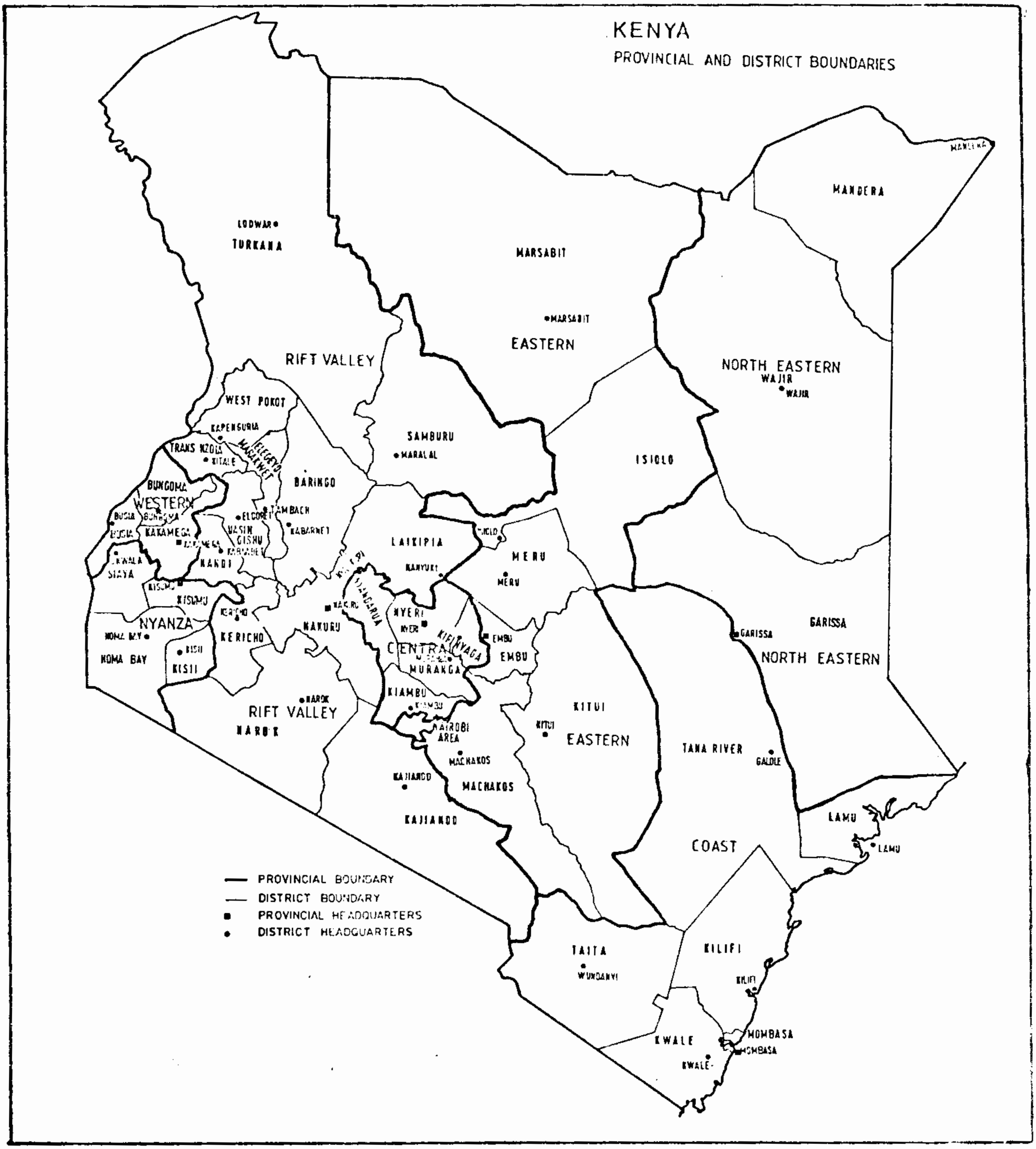
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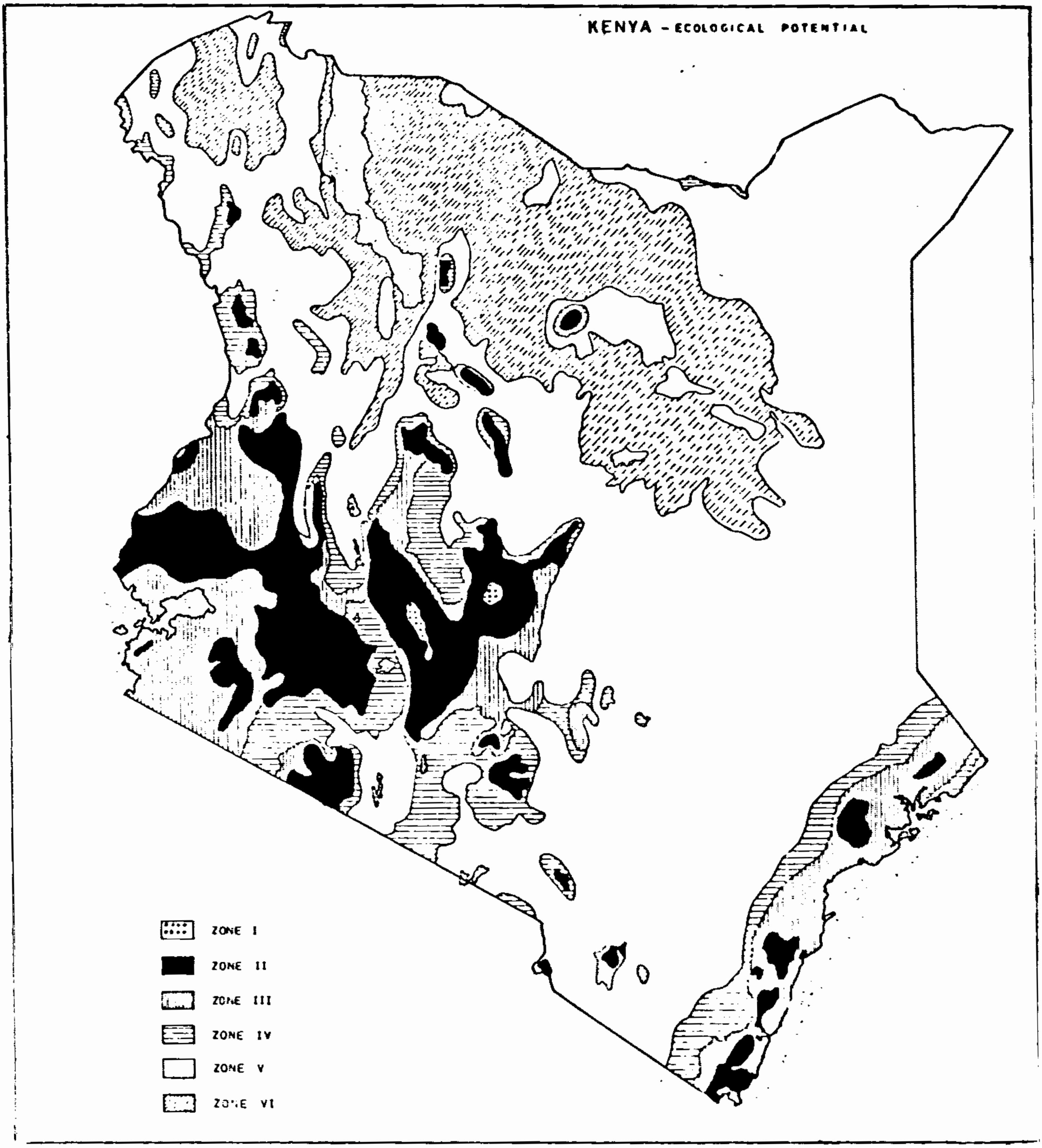
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Key To Map Of Eco-climatic Zones

I.	Afro-alpine	Very high altitude above forest lines. Mostly barren with use limited to water catchment and tourism.
II.	High potential	High moisture, mostly high altitude. Used for forest, coffee, tea, pyrethrum, intensive livestock, maize, and cotton (at low altitude).
III.	Medium potential	Generally lower moisture and altitude than Zone II. Used for mixed farming: hybrid maize, wheat, pulses, cotton, groundnuts, oilseeds, cashew, coconuts, and livestock.
IV.	Semi-arid	Marginal agricultural potential mostly limited to sisal and quick-maturing grains. Productive rangeland. High density of wildlife.
V.	Arid	Moderate rangeland potential. Wildlife important in some areas.
VI.	Very arid	Low potential rangeland limited to nomadic pastoralists.

Source: Kenya Atlas, 1970. Tidrick, Kenya: Issues in Agricultural Development, IBRD, 1979 (mimeo).

Note: For statistical analysis of land potential by zone, see Table 5, page 8.

Executive Summary

Development Setting

Kenya has achieved substantial progress in its eighteen years of national independence by pursuing pragmatic development policies and maintaining a relatively open and stable political system. In many ways the development problems Kenya faces today stem from previous successes. The population growth rate of more than four percent per annum reflects dramatic decreases in adult and infant mortality resulting from investment in education, health and other social services. Expansion of such services using conventional methods, however, has resulted in limited national coverage and has put a severe strain on the Government's ability to fund recurrent costs. Redistribution of land following Independence led to large initial increases in output and productivity. Today's challenge to agricultural support systems is to deliver new methods of increasing farm output especially on smallholdings. Given Kenya's limited supply of productive land, pressures on the environment and energy resources (particularly fuelwood) are being felt more strongly each year.

The keys to increasing Kenya's agricultural production over the next five years lie in providing greater incentives to the private sector through pricing and marketing policies, intensifying use of high and medium potential lands, and finding better ways to reach small farmers with improved technologies. Efforts must be undertaken now to address the environmental effects of required increases in food and energy production, particularly in Kenya's semi-arid regions. Although more than forty percent of smallholder income in Kenya is already accounted for by off-farm activities, the role of off-farm income must take on even more importance as the per capita availability of good agricultural land continues its rapid decline. A long-term structural adjustment of Kenya's economy has recently been initiated with considerable donor support. As the program begins to take effect, higher levels of rural income and increased policy support for labor intensive production should improve opportunities for private sector employment in rural areas in a wide variety of processing, manufacturing, transport and service activities.

USAID Objectives and Strategy

The principal purpose of the USAID assistance program is to promote broad-based economic development in Kenya as the basis for continued progress in political, social and related areas of national life. In light of the economic and social realities outlined above, the U.S. assistance strategy is structured around three development objectives: (1) increased rural production, employment and income, (2) reduced population growth; (3) efficient delivery of basic social services. The program is directed toward a clearly defined set of target groups and is designed to take into account constraints in U.S.A.I.D. funding and staffing anticipated during the period 1983 to 1987.

Target groups have been identified by both socio-economic characteristics and geographic location. The U.S. assistance program focuses specifically on small farmers with low incomes (including squatters on unofficially divided large farms) and on the rural landless. Taken together these groups comprise more than four-fifths of Kenya's poor and account for approximately one-quarter of the total national population. Geographically, two regions have been targeted: the high and medium potential agricultural lands of Western Kenya and the ecologically fragile semi-arid lands (activity will be concentrated in Kitui District).

USAID has concluded that funding and staffing limitations will permit neither direct bilateral programs nor monitoring of centrally funded programs in areas outside the three development objectives defined above. In order to obtain the greatest possible impact from available resources, the USAID strategy concentrates on supporting key policy changes (particularly in population and agriculture), on developing institutional capabilities for technology transfer (particularly through training), and on demonstrating low-cost systems for delivery of basic services. Project interventions directly benefitting the poor are normally closely connected with one or more of the three approaches described. Given present limitations on Government's ability to finance recurrent costs and to fully implement projects, the USAID strategy emphasizes new approaches involving the private sector, non-governmental organizations, and local community self-help efforts.

USAID/KENYA

Country Development Strategy Statement, 1983-1987

I. Analysis

A. Macroeconomic Overview

Despite a continued high level of commitment to development, Kenya has faced increasing difficulty in matching the rapid progress experienced during the first ten years after Independence in 1963. From 1964 to 1973 real Gross Domestic Product (GDP) grew at an average rate of 6.6 percent per year, and per capita GDP rose at an average rate of nearly 3 percent. More recent developments are less promising reflecting both internal problems and Kenya's vulnerability to external events: the collapse of the East African Community in 1977, the end of the coffee boom in 1978, international recessions (1974/75 and 1980/81), continuing increases in petroleum and other import prices (especially in 1974, 1975, 1979, 1980), and periodic drought (1974/75, 1979/80).

GDP growth during the period 1974-80 has averaged only 4.7 percent annually, and the rate for 1981 is estimated to be under 3 percent. Growth in per capita GDP has been negative in five of the last eight years including 1979, 1980 and 1981. Per capita GDP at market prices stood at $421 in 1980 based on a realistic mid-year population estimate of 16.5 million. (Table 1.) The level for 1981 will be somewhat less even if calculated at the 1980 exchange rate. In addition, however, the Kenya shilling was devalued against the SDR on two occasions in 1981 for a cumulative adjustment of 23.7 percent. If the average exchange rate of the shilling for 1981 as calculated by the International Monetary Fund is applied to final GDP data for the year, estimates of Kenya's per capita GDP will be substantially reduced from the recorded levels of recent years.

The slowdown in Kenya's overall rate of economic growth in recent years has occurred in spite of a general increase in the levels of both internal and external resources which have become available for development since Independence. Investment in Kenya has risen from 12.4 percent of GDP in 1964 to an average of just over 19 percent during the period 1974-80. Consumption as a percentage of GDP has not changed significantly during the period as a whole. As Table 1 makes clear, an overall increase in the share

Table 1
Kenya: Use of Total Resources, 1964-1980

Sector	Share of Total GDP* 1964	1974	1980**	Average Share 1974-80
Total GDP*	100.0	100.0	100.0	100.0
Plus: Imports, Goods NFS	29.2	40.9	40.5	35.7
Less: Exports, Goods NFS	33.4	33.7	28.3	30.5
Equals: Total Resources for Domestic Expenditure	95.8	107.2	112.2	105.2
Private	78.2	74.6	78.3	75.3
Public	17.0	25.9	28.4	27.5
Stock Adjustment	0.6	6.6	5.5	2.4
Consumption	82.8	81.5	85.3	81.4
Private	68.9	64.4	65.6	62.9
Public	13.9	17.0	19.7	18.4
Investment	12.4	19.1	21.4	19.1
Private	9.3	10.2	12.7	10.2
Public	3.1	8.9	8.7	8.9
Stock Adjustment	0.6	6.6	5.5	2.4
Memorandum Items:				
1. Total GDP (Million KSh.)	7,133.2	21,213.4	51,883.2	
2. Total GDP (Million US $)	998.6	2,969.9	6,968.4	
3. Total GDP Per Capita	$100	$228	$421	

Notes: *At market prices; equals GDP at factor cost plus taxes, less subsidies.
**Preliminary.

Source: Central Bureau of Statistics. Economic Survey 1975, 1981. Statistical Abstract 1966, 1980. National Accounts Companion Volume, 1979.

of investment expenditures in GDP, without a general fall in the share of consumption, has been made possible by a significant increase in the net inflow of resources from external sources. Kenya's relatively open economy and stable political environment have enabled the country to attract a continuous flow of both foreign investment and foreign assistance. Total resources available to the country have exceeded total GDP by an average of more than 5 percent during the period 1974-80. There is every indication that such a pattern can be sustained for the forseeable future. In national accounting terms, the excess of investment over domestic savings must be just matched by a surplus of imports over exports. On that basis, one-quarter of Kenya's overall investment during 1974-80 has been financed by net external flows of one sort or another. Disbursements of development assistance alone during the period have averaged nearly $250 million per year, and the annual level of such disbursements has been increasing by some 20 percent per year.

Current government policy is to use interest rates more flexibly to encourage domestic savings and capital formation. Bank deposit rates were increased from 5 percent to 10 percent between June 1980 and September 1981 and lending rates from 10 percent to 14 percent. Interest on housing bonds was made tax free to improve the attractiveness of this type of investment. A major expansion of the Post Office savings system was also initiated in 1981 to provide an increase in financial intermediation countrywide. Given Kenya's already high rates of savings and investment, efficient use of resources is perhaps the most important approach to increasing the overall rate of growth. The positive effects on efficient allocation of resources resulting from recent policy decisions on interest rates are at least as important as any likely effect on the overall savings rate. However, real rates of return on alternative investments still remain above official savings and borrowing rates, and credit is restricted by direct regulation rather than by price. On the whole, private investment in productive resources is limited not so much by the cost or availability of credit as by other considerations. Potential investors face considerable uncertainty due to government interference in the market place via price controls or marketing restrictions. Uncertainties regarding the availability of foreign exchange and import licenses, and fears of fluctuations in tariff protection are also important.

As Table 2 makes clear, nearly every major sector of the economy has shared in the general slowdown of activity since the early 1970s. Some sectors have performed better than others, however, and the economy has undergone a slow but steady structural transformation. The share of agriculture in output has declined from 39.8 percent of the total in 1964 to 32.6 percent in 1980. Agriculture's share of wage employment declined more rapidly from 37 percent of the total to 23 percent during the same period. Manufacturing has undergone a slow expansion since Independence, accounting

Table 2
Kenya: Gross Domestic Product By Sector, 1964-1980

Sector	Share of Total GDP* 1964	1974	1980**	Growth Rate*** 1964-73	1974-80
Total GDP*	100.0	100.0	100.0	6.6	4.7
Private	75.9	74.4	72.9	-	-
Public****	24.1	25.6	27.1	-	-
Agriculture	39.8	35.4	32.6	4.7	4.2
Private	39.5	35.0	32.2	-	-
Public	0.3	0.4	0.4	-	-
Manufacturing	10.4	12.7	13.3	8.4	6.2
Private	8.8	10.6	10.5	-	-
Public	1.6	2.1	2.8	-	-
Mining and Quarrying	0.5	0.3	0.3	10.5	6.7
Construction	3.8	6.0	6.1	7.3	3.3
Electricity and Water	2.1	1.7	2.1	6.2	7.3
Government Services	12.9	14.6	14.7	9.8	6.2
Other	30.6	29.4	31.0	6.5	4.9
Memorandum Item:					
Total GDP (Million KSh.)	6,602.0	18,776.0	44,418.0		

Notes: *At factor cost and current prices.
**Preliminary.
***1964-73 growth rates at constant 1964 prices; 1974-80 growth rates at constant 1976 prices.
****Includes Government services and Government enterprises.

Source: Central Bureau of Statistics. Economic Survey 1975, 1981. Statistical Abstract, 1980. National Accounts Companion Volume, 1979. CBS Worksheets.

for 13.3 percent of GDP and for 14 percent of total wage employment by 1980. Although the public sector increased its share of wage employment from 31.4 percent of the total in 1964 to 46.9 percent in 1980, it increased its share of GDP by only 3 percentage points during the period to 27.1 percent of the total. Details of developments in each of these sectors will be considered separately below.

The reduced growth rate in key sectors of the Kenyan economy during 1974-80 has affected the overall growth rate of wage employment as well. Table 3 indicates that wage employment grew at an annual average rate of 3.9

Table 3
Kenya: Wage Employment By Sector, 1964-1980

Sector	Share of Total Wage Employment 1964	1974	1980*	Growth Rate 1964-74	1974-80
Total	100.0	100.0	100.0	3.9	3.3
Private	68.7	60.0	53.1	2.5	1.2
Public	31.4	40.0	46.9	6.4	6.1
Agriculture	37.0	31.6	23.0	2.3	-2.0
Private	-	25.9	17.2	-	-3.6
Public	-	5.7	5.9	-	3.7
Manufacturing	-	12.3	14.0	-	5.7
Private	8.9	9.9	11.1	4.9	5.3
Public	-	2.4	3.0	-	7.3
Other	-	56.1	62.9	-	5.3
Private	-	24.3	24.9	-	3.7
Public	-	31.8	38.0	-	6.4
Male	86.1	85.3	82.4	4.0	2.7
Female	13.9	14.7	17.6	4.4	6.5
Memorandum Items:					
1. Total Wage Employment (1000's)	563.6	826.3	1,005.8	3.9	3.3
2. Potential Labor Force (1000's)**	3,675	5,176	6,601	3.5	4.1
3. Percent in Wage Employment	15.3	16.0	15.2	-	-

Notes: *Preliminary.
**Based on 85 percent participation rate among those aged 15-59. Proportion of population aged 15-59 from censuses of 1962 and 1979 applied to population estimates for 1964 and 1980. Average of such proportions for 1969 and 1979 applied to population estimate for 1974.

Source: Central Bureau of Statistics. Economic Survey 1968, 1976, 1981. Statistical Abstract 1968, 1976, 1980.

percent during 1964-74, but by only 3.3 percent during 1974-80. The potential labor force increased its average annual growth rate over the same periods from 3.5 percent to 4.1 percent. As a result, only 15.2 percent of Kenya's estimated labor force was engaged in wage employment of any type in 1980.

Table 4
Kenya: Projected Population and Labor Force Characteristics, 1978, 1983, 2000

	1978	1983	2000
Total Population (1000's)*	15,357	19,115	38,609
Implicit Growth Rate	-	4.48	4.48
Pre-School Age (0-5)	3,319	4,193	8,851
Primary School Age (6-12)	3,068	3,978	8,438
Secondary School Age (13-16)	1,385	1,758	3,760
Persons 60 +	595	704	1,094
Productive Age (15-59)	7,122	8,615	16,799
Dependency Ratio	115.6	121.9	130.1
Potential Labor Force**	6,054	7,323	15,709
Projected Modern Sector Employment***			
Historic Growth (4.7%)****	1,085	1,393	3,110
High Growth (6%)	-	1,452	3,910
Employment Required Outside the Modern Sector			
High Estimate	4,969	5,930	12,599
Low Estimate	4,969	5,871	11,789

Notes: *Henin's series II (medium) projections used here are based on maintenance of the fertility rate of 8.1 measured in the 1977/78 Kenya Fertility Survey, and on a continuing fall in the crude death rate from 14.2 in 1979 to 10.0 in 1989 and to 7.1 in 1999. Henin's series I (low) projections are based on an unlikely combination of a fall in fertility to 7.6 in 1989 and to 7.1 in 1999 and on a constant crude death rate. Series I assumptions still result in an implicit growth rate of 4.3 percent per year between 1978 and 1983 and of 3.7 percent between 1983 and 2000.

**Based on an 85 percent participation rate among those aged 15-59.

***Includes wage employees in urban and rural areas, self-employed and unpaid family workers, and workers in informal establishments in urban areas.

****Exponential trend line based on 1972-80 data.

Source: Based on Henin, "The Characteristics and Development Implications of a Fast Growing Population," in Killick, Papers on the Kenya Economy, 1981. Employment projections - USAID analysis based on Economic Survey data, various years.

B. Resource Base

1. Population and Labor Force

Of Kenya's available resources, labor is the most abundant and its efficient utilization the most problematical. Kenya's estimated 1981 population of 17.5 million is growing at an annual rate of more than 4 percent. If fertility remains at current levels and mortality continues to decline along its historic trend, Kenya's population will double in 16 years, and there will be 38.6 million Kenyans by the year 2000. (Table 4.) More than half of the current population is under 16 years of age, and Kenya's dependency ratio is projected to rise from 115.6 in 1978, to 121.9 in 1983 and to 130.1 by the end of this century. Such rates are virtually unprecedented among developing countries and imply an increasing burden of investment in education and other social services into the foreseeable future.

Kenya's labor force is expected to rise from 6.1 million persons in 1978 to 15.7 million by the end of the century. Under any reasonable assumptions only a small proportion of this increase in the labor force can expect to find employment in the modern sector. If the growth rate of modern sector employment rises above its recent trend of 4.7 percent per year to as much as 6 percent, modern sector employment will only rise from 1.1 million persons in 1978 to 3.9 million persons by the year 2000. The remainder of the labor force, totaling some 11.8 million persons, will still be left to find employment outside the modern sector, primarily in rural areas.

2. Natural Resources

Kenya has some excellent agricultural land, but the amount of such land is strictly limited. (See Table 5 and frontispiece map of ecological potential.) Based on rainfall patterns, 9.3 percent of Kenya's land is officially classified as high potential (Zone 2) and a further 9.3 percent as medium potential (Zone 3). Of the total land area of 5.7 million hectares, however, only about 7 percent can be described as good agricultural land defined as having adequate and reliable rainfall and good soils and not steeply sloping. An additional 4.5 percent of the land is otherwise suitable for crops but is subject to periodic drought. Some 3.3 percent of land is currently forested; most is in the high and medium potential zones. Productive activity on much of the remainder of the land in Kenya is restricted to tourism and wildlife preservation and to livestock grazing. In terms of livestock carrying capacity, land in Zone 3 has only about 40 percent of the potential of land in Zone 2. The carrying capacities per hectare in Zones 4, 5 and 6 are 14 percent, 4 percent and 1 percent respectively of the level in Zone 2.

Table 5
Kenya: Land Potential and Use, Mid-1970s

A. Land Potential				B. Land Use		
Zone*		Area (m. ha.)	Share	Share	Area (m. ha.)	Description
I.	Afro-alpine	0.1	0.1%	6.2%	3.5	Recorded Small Farms
				4.7%	2.7	Recorded Large Farms
II.	High Potential	5.3	9.3%	1.8%	1.0	"Gap" Farms
III.	Med. Potential	5.3	9.3%	3.3%	1.9	Forest Land
IV.	Semi-Arid	5.3	9.3%	80.8%	46.0	Rangeland and Other
V.	Arid	30.0	52.7%			Unsuited To Agr.
VI.	Very Arid	11.2	19.7%	3.3%	1.9	Other Use
Total		56.9	100.0%	100.0%	56.9	Total

Source: Land Potential. Tidrick, Kenya: Issues in Agricultural Development, IBRD, 1979 (mimeo). Land Use. Hazelwood, The Economy of Kenya, 1979.

Note: *For further description see the frontispiece map and its accompanying key which define the ecological potential of land in Kenya.

Some idea of the availability of high and medium potential land per capita is suggested by the data contained in Table 6 (based on historic trends in population growth and internal migration patterns). In the three most densely populated provinces (Central, Western and Nyanza) high and medium potential land per capita will fall by approximately one-half between 1969 and 1989, to approximately one-quarter hectare per capita. By the end of this decade, Kenya's less densely populated provinces (Eastern, Rift and Coast) will have little more such land per capita than Kenya's most populated areas had at the beginning of the 1970's i.e., just over half a hectare per person. On a national basis, availability of high and medium potential land will have fallen by more than half between 1969 and 1989 to approximately 0.4 hectares per person.

Table 6
Kenya: Estimated Per Capita Availability Of Arable Land By Province
1969, 1979, 1989

Province	Arable Land* (1000 Ha.)	Population (1000's)			Arable Land Hectares Per Capita		
		1969	1979	1989	1969	1979	1989
Central	924	1,676	2,476	3,882	.55	.37	.24
Western	741	1,328	1,896	3,015	.56	.39	.25
Nyanza	1,252	2,122	2,863	4,335	.59	.44	.29
Eastern	2,692	1,907	2,756	4,261	1.41	.98	.63
Rift Valley	3,148	2,210	3,415	5,289	1.42	.92	.60
Coast	1,148	944	1,342	1,936	1.22	.86	.59
North-Eastern	-	246	323	502	-	-	-
Nairobi	-	509	863	1,286	-	-	-
Kenya	9,905	10,942	15,942	24,506	.91	.62	.40

Source: Based on Henin, "The Characteristics and Development Implications of a Fast Growing Population," in Killick, Papers on the Kenyan Economy, 1981.

Note: *Includes high and medium potential land as reported in the 1969 Census. Total varies slightly from the estimate given in Table 5.

Various sources have estimated that Kenya's cropland could eventually be expanded by as much as 400,000 hectares through forest clearance; by 400,000 to 500,000 hectares through irrigation; and by as much as 1,000,000 hectares through valley bottom drainage. Although each of these approaches could have adverse ecological effects, forest clearance has been the most controversial. Studies on fuelwood supply and demand conclude that production is already inadequate to meet demand on a sustained yield basis. Moreover, since some forest land with relatively steep slopes can only be converted to tree crops such as tea and coffee which have limited markets, the economic gains could be problematical.

The feasibility and costs of irrigation and land reclamation are being determined by efforts currently under way. The Ministry of Agriculture estimates the basic cost of irrigation for 100,000 hectares in the lower Tana River basin at $15,000 per hectare, and $7,000 per hectare for 400,000 hectares elsewhere. Cost estimates per hectare of drained bottom land appear to be significantly lower. Drainage costs and technical requirements will be better understood following completion of efforts currently being undertaken with the assistance of the Netherlands. The short to medium term constraints on expansion of cropland through irrigation and drainage relate therefore to absorptive capacity, including technical and managerial capability, and to cost uncertainities, rather than to physical lack of possibilities. In the meantime, better use of cropland is possible through introduction of modern technologies and increased use of purchased inputs, especially on small farms. Since cropland is unlikely to expand as rapidly as population even under the best of circumstances, increasing the productivity of the small farm remains a key development objective.

With regard to water, Kenya's National Master Water Plan indicates that the country has sufficient available resources not only to meet irrigation needs, but to supply projected demand for domestic, industrial, livestock and hydroelectric uses beyond the year 2000. High population growth and limited financial, technical and managerial resources, however, are expected to seriously strain government's ability to fully exploit existing water resources and meet the goal of providing safe water countrywide by the end of this century. In addition to its hydroelectric potential, Kenya has sufficient geothermal sources for generating electricity to meet significant additional demand, at least in areas where extension of the national power grid is cost-effective.

Kenya is even less favourably endowed with mineral resources than with good agricultural land. The country is a major world exporter of soda ash and does have commercial deposits of fluorspar, limestone, gypsum, diatomite, kaolin, vermiculite and other minerals, including various precious and semi-precious stones. Export earnings from soda ash, fluorspar and cement taken together, however, amounted to less than $45 million in 1980, or 4.4 percent of total exports. Kenya has no commercial deposits of many of the main industrial raw materials such as coal, oil, natural gas, copper, aluminum or tin. Some iron ore deposits have recently been found, however, and exploration for other minerals is continuing. In 1980, mining and quarrying accounted for only three-tenths of one percent of GDP, and the contribution of this sector to total output is not expected to expand significantly in the next few years.

C. Structure of Production

1. Agriculture

Despite a rate of growth since independence below that of the general economy, the agricultural sector still provides Kenya with 33 percent of GDP, 34 percent of inputs into manufacturing, 65 percent of non-petroleum exports and approximately 65 percent of total employment. Agriculture remains overwhelmingly in private hands with 99 percent of total output accounted for by the private sector. Labor Force Survey data for 1977/78 indicate a rural labor force participation rate of 83 percent for men aged 15 and over, and 87 percent for women. About 70 percent of males and 68 percent of females were at work on the survey day. Rural employment is basically agricultural with 80 percent of men and 96 percent of women engaged in farming. Despite the important contributions of women to child care and homemaking, the median number of hours contributed by rural women to work of the nature covered in the survey was 4.6 hours per day. The median number of hours for men was 5.4 hours.

Kenya's agriculture is characterized by a wide variety of production systems reflecting different ecological zones, population densities and land holding patterns. Farms of twenty hectares or more cover 3.7 million hectares or just over half of Kenya's recorded farmland. (Table 5.B.) Included in this total are 2.7 million hectares of so-called "large farms" in the former scheduled areas once reserved for European settlers and 1.0 million hectares of "gap farms" (i.e. farms outside the scheduled areas but too large to be included in the Integrated Rural Survey of small farms). During most of the 1970's, large farms and gap farms together provided approximately 25 percent of the value-added in agriculture and 45 percent of recorded marketed production. When coffee and tea prices were at their highest in 1977, large and gap farms increased their share of agricultural value-added to just over one-third of the total. Kenya's large ranches and open grazing lands in pastoral areas provided an additional 2 percent of agricultural value-added on average during during the 1970's.

The small farm is the dominant mode of agricultural production in Kenya accounting for 49 percent of recorded farmland, 55 percent of marketed production, 70 percent of value-added in agriculture, and more than 80 percent of agricultural employment. Small farms are officially defined as having less than 20 hectares although only 3 percent of all smallholdings in the Integrated Rural Survey (IRS) exceeded 8 hectares. Official IRS figures understate the total farm area, employment, and value-added accounted for by smallholder production. A significant but unknown proportion of land in the large farm areas has been unofficially subdivided, and some small farms, particularly in the Rift Valley, were not included in the IRS survey area. As shown in Table 9, squatters on large farms alone may account for more than 4 percent of Kenya's population and 2 percent of household income.

Most smallholdings are farmed by the owner. Women head nearly a quarter of all small farm households although this does not necessarily imply possession of a title deed. Maize is the nation's staple crop and more than 70 percent of maize is grown on smallholdings. Smallholders also grow beans, tea, coffee, pyrethrum, oilseeds, potatoes, fruit and cotton. Over 50 percent of the livestock are in high potential areas, mostly on small farms. The other 50 percent of the national herd are on large farms, are grazed by pastoralists, or are on small holdings in semi-arid areas. Extensive livestock grazing is the major economic activity in the arid and semi-arid lands with major crops being sorghum, millet, and beans. Sheep and goats number over 12 million and are an important protein source in marginal agricultural zones. Approximately one-half of all smallholders have entered into commercial agriculture. These "progressive" smallholders typically include individuals with at least some primary school education, an awareness of the advantages of modern agricultural inputs, some source of cash income (important for the purchase of inputs), relatively good access to roads and markets, and enough land to provide for family needs and to produce some surplus.

Table 7

Kenya: Smallholder Output and Employment By Size of Holding, 1974/75

Size of Holding (ha.)	Average Holding Size (ha.)	Labor Use Per Hectare (KSh.)	Output Per Hectare (KSh.)	Sales Per Hectare (KSh.)	Labor/ Output Ratio
Under 0.5	0.26	969	4,335	2,104	.22
0.5 - 0.9	0.68	419	2,213	1,175	.19
1.0 - 1.9	1.40	221	1,104	499	.20
2.0 - 2.9	2.38	151	904	567	.17
3.0 - 3.9	3.38	122	713	430	.17
4.0 - 4.9	4.37	113	800	527	.14
5.0 - 7.9	6.33	70	519	407	.13
8.0 - and over	12.90	32	224	157	.14

Source: Based on Livingstone, Rural Development, Employment and Incomes in Kenya, ILO, 1981.

Analysis of IRS data indicates that pessimism regarding productivity of small farms in Kenya has been largely unfounded. Output per hectare increases rapidly and consistently as farm size decreases, even for farms of half a hectare or less. Although differences in lanc quality may account for a minor portion of the increase in output per hectare on smaller farms, analysis of the data within each of eight relatively hcmogeneous agro-ecological zones, and within three different altitude (rainfall) zones, provides much the same result as analysis of the aggregated data. As Table 7 indicates, off-farm sales per hectare also increase as farm size decreases. Nationally, small farms increased their share of marketed production from 41 percent of the total in 1964 to over 53 percent in 1980. By the late 1970's, smallholders were competitive even in the typical tropical export crops, supplying approximately half of the tea and coffee marketed in Kenya, and a third of the sugar.

Table 8
Kenya: Percentage Distribution of Smallholder Household Income
By Source and Province, 1974/75

Income Source	Nyanza	West.	East.	Cent.	Coast	Rift	Total
Farm Operating Surplus	71.3	47.6	54.8	50.0	24.9	67.4	57.0
Off-Farm	28.7	52.4	45.2	50.0	75.1	32.6	43.0
Non-Farm Operating Surplus	9.3	5.1	14.1	7.7	18.8	6.6	9.7
Regular Employment	10.6	22.4	10.6	21.7	13.5	17.4	15.5
Casual Employment	2.8	6.6	10.1	8.6	14.3	2.9	6.9
Remittances	4.6	16.3	8.6	9.3	24.9	3.6	8.9
Other Gifts	1.5	2.0	1.8	2.8	3.5	2.1	2.0
Total Percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (KShs.)	3,911	2,494	3,486	4,241	3,325	4,577	3,652

Source: Central Bureau of Statistics. Integrated Rural Survey, 1974/75, 1977.

Kenya's small farmers are heavily concentrated in areas of high agricultural potential and have a demonstrated capacity for increasing output per hectare over time, but they include a large proportion of Kenya's poor and are facing a rapid decline in available land per capita (as suggested by the data presented in Table 6). Additional data presented in Table 8 illustrate that an increasing number of rural residents, although nominally classified as farmers, already receive a significant proportion of their total income from off-farm sources. The 1977 Rural Non-Farm Activity Survey and other special studies have documented a complex web of rural non-farm employment activities in Kenya including natural resource extraction, manufacture of food and beverages, manufacture of wood and metal products, wholesale and retail trade, clothing and furniture repair, and provision of food, lodging, transportation and other services.

Long-term trends in Kenya's agricultural development have important implications for policy-making and allocation of development resources. Between 1964 and 1973, agricultural GDP grew at an annual rate of 4.7 percent. Kenyan agriculture underwent a major transition as land reform permitted Africans to move into the former "White Highlands" and smallholders began to grow high value crops once restricted to production by Europeans. By the mid-1970's, more than a million and a quarter hectares had been officially purchased for transfer through various settlement schemes (largely financed by external donors) or through private sales. Nearly half of the transferred area was settled as small farms. The remainder was farmed in large blocks under co-operative management or as individual private holdings. Given such a transformation, crop acreage increased by 21 percent during the period and output of high value crops soared. Coffee and tea output alone accounted for about 50 percent of the increased value of agricultural output during the period. Increased use of inputs, better practices and improved technology (e.g. hybrid maize) also acted to greatly improve yields. Average maize yields increased 45 percent, and coffee and tea yields doubled.

Between 1974 and 1980 agricultural growth has slowed somewhat to an average annual rate of 4.2 percent. In the meantime, Kenya's population growth increased to more than 4 percent. Production of food has grown far less than population or domestic demand. Production of the chief staple, maize, fell from 2.25 million MT in 1977/78 to 1.65 million MT in 1980/81. Producers prices in the past have been inadequate (maize, beef and milk prices in particular), credit services inefficient (late disbursements, unsatisfactory collection programs), and provision of input supplies inadequate and untimely. Marketing services have been poor with parastatal bodies and cooperatives taking an increasing share of sale proceeds at the expense of the producer. These disincentives, combined with drought in some areas, resulted in the need for large grain and milk imports (costing about $265 million between late 1979 and July of 1981). Production has recovered somewhat with the 1981 long rains and may improve further in 1982 following increases in producer prices established by government.

Problems in Kenya's key agricultural sector were outlined in Kenya's National Food Policy Paper published early in 1981. Since then, the Government of Kenya has introduced large increases in producer prices on a number of important agricultural products including maize (44 percent), wheat (21 percent), rice (53 percent), sugar (13 percent), beef (20 percent to 30 percent), and milk (16 percent). Kenya's program of structural adjustment is now being extended to the agricultural sector under a $130 million agreement with the World Bank. The Bank, USAID and other donors are continuing to discuss necessary actions with the Kenyan Government relating to agricultural pricing, marketing, storage, credit, and financial planning and management. Donor support at the current stage of Kenya's agricultural development will be important both to help finance the costs implicit in implementing some key policy measures, as well as to lend support to policy-makers faced with difficult economic and political decisions during a time of increasingly scarce resources.

2. Manufacturing

The manufacturing sector in Kenya has performed consistently better than the economy as a whole, growing at an average rate of 8.4 percent per year in the first decade of independence and at a slower but still impressive rate of 6.2 percent since 1974. (Table 2.) However, despite its rapid growth the manufacturing sector remains relatively small, contributing something over 13 percent of GDP in 1980. Of this total nearly 80 percent is accounted for by private sector activity and the remainder by majority-owned government corporations or parastatal organizations.

Kenya's limited resource base and rapidly growing labor force have made the creation of productive off-farm employment one of the primary reasons for promoting industrial development. Wage employment in manufacturing grew at a rate of aproximately 5 percent during the first decade of independence and at a higher rate of 5.7 percent since 1974. Nevertheless, the growth rate of employment in manufacturing has remained consistently below the growth rate of manufactured output. (Table 3.) The employment elasticity of output in manufacturing was less than 1 during the period 1964-73 and was 0.86 during the period 1974-80. Although manufacturing accounted for 14 percent of wage employment in 1980, it employed only 141 thousand persons or 2 percent of the potential labor force. Women generally account for little more than 10 percent of the labor force engaged in manufacturing so that the sector contributes negligibly to overall employment opportunities for women. Nairobi and Mombasa together still account for more than two-thirds of all wage employment in manufacturing although there has been some reduction in geographic concentration of industry in recent years.

Since Independence, Kenya has fostered the growth of its manufacturing sector primarily by means of a policy of import substitution based on quantitative trade and foreign exchange restrictions. Relatively capital-intensive manufacturing was encouraged and protected. Industry operates with heavy dependence on imported inputs and is therefore vulnerable to limitations on the availability of foreign exchange. Industrial output has been increasingly directed toward the internal market, and has also become increasingly dominated by relatively large domestic or international firms. As a result of protection, the share of imports in the gross output of manufacturing fell from 44 percent in 1972 to 31 percent in 1978. In the same period the share of exports in the sector's gross output fell by more than half, from 23 percent in 1972 to 11 percent in 1978.

Most of the easy investments of the import-substitution variety have already been made. High levels of protection, including an overvalued exchange rate, have in the past resulted in an anti-export bias reducing the availability of foreign exchange. At the same time, the net contribution to foreign exchange savings of many past investments is open to question. The capital-intensive nature of many import-substitution industries has contributed to the relatively slow growth of industrial employment while the poor quality and high prices of many manufactured goods represent an implicit tax on the agricultural sector.

Recognizing some of the negative aspects of past trends in the sector, government in 1980 initiated an important, long-term structural adjustment program to promote the efficiency and competitiveness of domestic industry and to encourage export growth. The World Bank, the IMF, USAID and other donors have pressed strongly for such an approach and have provided support for its implementation. Relative prices of both inputs and outputs will be brought closer to world norms primarily through changes in the trade and exchange regimes. Policy measures already undertaken are discussed separately in the section on trade and the balance of payments below.

3. Public Sector

The contribution of the public sector to total output has grown only marginally since the early years of independence, increasing from 24.1 percent of GDP in 1964 to 27.1 percent in 1980. (Table 2.) Moreover government services currently account for just over half of public sector output with government enterprises accounting for the remainder -- proportions which have remainded virtually static since the first year of independence. Although local government authorities provided more than a quarter of all government services in terms of value in 1964, this share was reduced to less than 5 percent by the late 1970s as revenues and responsibilities were concentrated in the central government. This concentration has now proceeded well beyond the point of economic efficiency. The implicit need for increased decentralization and revitalization of the rural areas has been widely recognized by donors and has been incorporated as one of the objectives of the current Five Year Plan.

With regard to government enterprises, the lack of dynamism demonstrated during the past decade and a half (despite the many advantages inherent in operating as a branch of the government) also suggests the need for a change of direction and an opportunity for expansion of the role of the private sector. So too does the lack of growth of government's contribution to total output during a period when government has substantially increased its share of both domestic expenditure and wage employment. (Tables 1 and 3.).

The central government's budget rose from 20 percent of GDP in 1964 to 37 percent of GDP in 1980. The development account increased its share of the budget during the same period from 29 percent to 37 percent of the total as a result of considerable pressures from both internal and external sources. Although an expansion of the development account may have been desirable, it is now apparent that the number of donor initiatives has exceeded the Government's ability to manage projects. The burden on the recurrent budget, especially on managerial manpower in various key ministries, is so great that project implementation has been damaged -- seriously in some cases. There is also strong pressure from the IMF to restrain the growth of expenditures and to reduce the budget deficit in order to control inflation. Too often restrictions on recurrent expenditures occur in ways which further damage project implementation. This paradox has led external donors to increase the proportion of their assistance administered in program rather than in project form. Another solution would be to channel more project money through the private sector.

Economic and social services have increased their share of central government expenditures from 50 percent of the total in the first year of independence to 57 percent in 1980, with general administration, debt service and defense accounting most of for the remainder. General administration, and debt service accounted for 19 percent and 10 percent of the total budget in 1980 respectively. Defense expenditures ranged from four to six percent of the budget in the early years after independence. They rose to as much as 15 percent in 1978 at the time of the war in the Ogaden, but declined to 9.5 percent of the total in 1980, a level that is modest by the standards of many of the states in sub-Saharan Africa. Reflecting the rapid growth in Kenya's school-age population, education is the single largest item among central government expenditures on social services. It is also the single largest item in the budget, accounting for 19 percent of the total in 1980. Among social service expenditures education is followed by health, which accounts for an additional 5 percent of budget expenditures, and by housing and community welfare (2 percent). Among the economic services provided by the central government agriculture is by far the most important item, accounting for 11 percent of the total budget in 1980, followed by roads at 6 percent.

The tax effort put forth by Kenya in support of its development goals has been substantial and central government tax receipts have expanded from 10 percent of GDP in 1964 to more than 22 percent of GDP in 1980. The true incidence of taxation in Kenya and its net redistributive effects, if any, are not known with any precision. Official tax rates on personal and corporate income in Kenya are highly progressive, although collections fall most heavily on skilled workers, salaried personnel and expatriate executives who cannot disguise their incomes. Direct taxes increased from 28 percent of total tax revenue in 1964 to 42 percent in 1970. Since the introduction of the sales tax in 1973, a greater share of the tax burden has been put on consumption rather than on income and production, and the share of direct taxes has been reduced to a third of the total.

The share of central government expenditures covered by deficit financing has never exceeded the 27 percent recorded in the first year of independence. By 1969, this deficit had been reduced to 19 percent. Since then the deficit has averaged 21 percent, although the deficit was as high as 23 percent in 1980 (6.3 percent of GDP). Kenya's presentation at the Consultative Group Meeting of July 1981 projected a reduction of deficits to an average 12.4 percent of total expenditure during 1981-83, although such levels will be difficult to achieve.

Kenya's generally prudent and conservative fiscal policy has been combined with a monetary policy that has reacted to events rather than controlled them. It has sometimes been remarked that the most effective monetary regulator in Kenya since Independence has been the balance of payments itself. When large current account deficits are incurred, foreign exchange sales (shilling purchases) by the Central Bank reduce reserves, credit and the money supply, and effectively curtail domestic economic activity. Central Bank attempts to tailor the money supply to counteract the large swings in Kenya's external accounts have not in general been successful, and reaction times have been such as to reinforce external trends on a number of occasions. This intermittent stop-go effect has reinforced the extent to which the external sector has come to dominate short term developments in the Kenyan economy at the macroeconomic level.

4. External Trade and Balance of Payments

The external sector has become increasingly important to Kenya since Independence. The value of imported goods and services has risen from 29 percent of GDP in 1964 to 41 percent in 1980. (Table 1.) Imported goods by themselves accounted for 18 percent of 1980 GDP. Imported inputs have become important to the growth of Kenyan industry and to a lesser extent of commercial agriculture. Machinery and transport equipment accounted for 30 percent of the value of goods imported in 1980, while industrial supplies represented 28 percent, fuels 31 percent, (two-thirds for re-export), food and beverages 4 percent, and other consumer goods only 6 percent. Kenya's Social Accounting Matrix for 1976 shows that in the overall economy 35 percent of primary and intermediate inputs were accounted for by imports. In the manufacturing sector, imports accounted for 33 percent of gross output. By comparison only 3 percent of gross output in agriculture was directly accounted for by imports.

Shortages of foreign exchange make themselves felt first in reduced levels of economic activity in manufacturing. Effects on agriculture are important but mostly indirect through reduced levels of demand, shortfalls in government revenues and expenditures, and restrictions on availability of inputs or consumer goods produced within the country. Yet linkages of the small farm sector to cycles in the cash economy are more important than might at first be suspected. Although purchased inputs are equivalent to only 8 percent of total output, more than 60 percent of small farm consumption takes place on a cash basis. Some 40 percent of this cash expenditure is for non-food items. Foreign exchange shortages affect commercial farms more directly through shortages of fuel, fertilizer, pesticides, spare parts and other inputs.

Exports of goods and services have not kept pace with the rapid growth of imports in Kenya. The value of exports has fallen from more than 33 percent of GDP in both 1964 and 1974, to 28 percent in 1980. The volume of Kenya's worldwide exports was only four percent higher in 1980 than in 1972, the year when Kenya's program of industrial protection and import substitution began in earnest. Given a decrease of 13 percent in the external terms of trade, the purchasing power of Kenya's exports was 10 percent lower in 1980 than in 1972. By 1980, the volume of Kenya's manufactured exports had fallen to 83 percent of its 1972 level. Such decreases occurred despite (or perhaps because of) an increase in the price index of Kenya's manufactured exports by more than 390 percent during the same 8 year period.

Kenya has attempted to develop new markets in the Middle East, but little tangible evidence of success can be noted and no major breakthroughs are expected. The 1977 closing of the Tanzanian border resulted in a major market loss for Kenya. Exports to Tanzania fell from 10 percent of total exports in 1976 to 1 percent in 1980. The Ugandan export market similarly dropped from 10 percent of total exports in 1976 to 1 percent in 1979. The Ugandan market rebounded to 13 percent of the total in 1980, but prospects remain uncertain.

In contrast with the above trends, real GDP has grown by more than 4 percent annually since 1972. The failure of the export sector to expand or diversify has implied increasing relative shortages of imports as overall GDP continues to rise. The current account deficit rose from 3 percent of GDP in 1972 to 13 percent of GDP in 1980. Government projections tabled during and after the 1981 Consultative Group Meeting indicate continuing overall deficits at reduced levels averaging $215 million per year during 1981-84. Alternative projections proposed by the World Bank on less optimistic assumptions indicate overall deficits as much as 23 percent higher, suggesting a much more severe trade off between external balance and internal growth. The government of President Moi has in the past shown itself willing to apply orthodox methods to return foreign exchange reserves to acceptable levels, but application of such methods over the next few years would jeopardize the external trade liberalization and internal structural changes required to achieve both long-term improvement in the balance of payments, and desirable rates of long-term growth.

With assistance from the World Bank, the IMF, USAID and others, Kenya has undertaken a politically difficult program of long-term structural adjustment moving away from its past policy of import substitution to a policy emphasizing rationalization of internal production and export promotion. In 1980, the World Bank and the EEC provided credits totaling $70 million to assist Kenya in this effort. A two-year IMF standby arrangement, signed in July 1980, provided for credits equivalent to $273 million, $102 million of which had been drawn by August 1981. Difficult negotiations for release of the second tranche continued through December 1981 with agreement announced on January 13, 1982. The Government has promised to promote savings, hold down its international deficit and restore growth by a sharp slowdown in government spending.

The Government of Kenya has already indicated the seriousness of its intentions by undertaking a series of self-help policy changes which will increase the country's ability to earn foreign exchange while improving the prospects for long-term growth. In keeping with IMF recommendations, the Kenya shilling was devalued against the SDR in February and September of 1981 for a cumulative adjustment of 23.7 percent. Various import bans were replaced by a more liberal and uniform tariff system between June 1980 and

June 1981. Beginning in May 1981, the system of foreign exchange licenses was simplified; 80 percent of imports are now eligible to receive import and foreign exchange licenses automatically. The Budget Speech of June 1980 announced a doubling of export compensation payments from 10 percent to 20 percent of f.o.b. value. Finally, the Finance Act of June 1981 further assists exporters by lowering tariffs on a number of items used as inputs in various industrial processes, although many anomalous tariff rates continue to exist.

Full implementation of the above policies at the working level is now of paramount importance, although internal resistance from beneficiaries of past policies is to be expected. Policy changes of the above type deserve support for their effects on internal relative prices and resource allocation alone. Their effects on the ability of Kenya to compete in world markets for manufactured exports are significant but not decisive. As a relative newcomer to such markets, Kenya faces stiff competition from established suppliers, as well as internal problems relating to standards, quality control, marketing skills and so on. With its limited natural resource base and rapidly growing labor force, however, Kenya has no viable long-term alternative but to compete successfully in these markets.

D. Causes of Poverty and Constraints

1. General Comments

Descriptions of the causes, realities, and results of poverty are so closely interrelated that much of what has been said above provides a framework for the analysis contained in this section. In general it is wealth and not poverty that requires explanation. Moreover, an investigation of the possibilities for increasing income and wealth is inherently more interesting and rewarding than an inventory of the causes of poverty. Poverty may of course be explained in terms of limited resources or a history of available resources less than fully exploited. An explanation of this type will have some implications for policy. There also remains a distributional aspect to the question. With an average per capita GDP in 1980 of $421, Kenyans would be poor even if incomes were evenly distributed and if the accompanying redistribution produced no real income loss. It has already been pointed out that ownership of the primary productive asset (land) has undergone a substantial redistribution since Independence, although such redistribution has nearly come to a halt. It is almost certain that as income is created in the modern sector, overall income distribution in Kenya will worsen at least in the medium term unless the productivity of smallholder agriculture can be raised significantly. What is more certain is that redistribution alone would not satisfy the basic human needs of most Kenyans. Methods of creating additional wealth, particularly in rural areas, must also be sought.

2. Macroeconomic Considerations

Kenya's current level of development results from a number of limiting factors including poor natural resource endowment, a relatively late start, vulnerability to external events, and incomplete use of existing resources. Kenya's limited natural resource base has been previously discussed. In general such a constraint is non-actionable except through investment in exploration, irrigation, drainage, forestry and so on which must compete on an even footing with existing investment opportunities elsewhere in the economy. Exploitation of Kenya's resources by modern methods began in earnest only in the twentieth century with the opening of the country's rich interior to rail traffic. Such a late start, together with the colonial administration's relative lack of interest in developing the human resources of the country, goes a long way toward explaining present-day levels of development. Shortages of entrepreneurial, managerial, administrative and technical personnel remain as key constraints to Kenya's development at both the program and project levels.

The level of development effort put forth by Kenyan society since Independence has been impressive and considerable results have been achieved in spite of significant instability in the external sector. The relatively high levels of investment, taxation and government expenditure on human resource development (including education and health) have already been described. Maintainance of a relatively stable, open and democratic society has enabled Kenya to attract a continuous flow of foreign investment and external assistance. As previously discussed, this net inflow has increased the level of resources available to the Kenyan economy for investment and consumption alike. Certainly the levels of internal and external resources available for development purposes continue to be constraints in the sense that more would be better. Significant foreign exchange and budgetary constraints must be overcome to meet even the reduced development goals of the current Five Year Plan. In addition to the level of resources available at the macroeconomic level, the efficiency of resource use and the associated policy environment are of increasing importance. Fiscal and monetary policies, investment and interest rate policies, and trade and exchange policies have been discussed briefly in appropriate locations. Policy changes begun in many of these areas address macroeconomic constraints of key importance to Kenya's overall development prospects and level of income. Additional constraints more specifically related to income distribution and causes of poverty are considered below.

3. Agriculture

Agricultural production and incomes are highly correlated with: (a) the quality and distribution of land; (b) the availability of modern production technologies; (c) the availability of inputs, including credit for their purchase; and (d) pricing, marketing, and storage incentives.

a. Land quality and land distribution vary immensely in Kenya. High and medium potential agricultural lands vary as a proportion of the total from close to 100 percent (Western, Nyanza, Central), to between 17 and 30 percent (Coast, Eastern, Rift Valley), to near zero (North-Eastern). Access to good agricultural land in such circumstance can be very much a matter of birth and inheritance. With regard to land distribution it has been pointed out that just over half of Kenya's recorded cropland is now accounted for by large and "gap" farms generally of 20 hectares or more in size. Redistribution of large landholdings previously owned by European settlers has been virtually completed in Kenya, and nearly all large holdings are now in the hands of Kenyan citizens. Within the small farm areas, IRS data for 1976/77 indicate that 53.6 percent of smallholders farm 18.4 percent of the land, while at the top, the 3.5 percent of the farmers with 8 hectares or more control 17.5 percent of the land. More than 60 percent of smallholdings were 1 hectare or less and only 22 percent of smallholdings were 2 hectares or more. Moreover, some 14 percent of the households did not own land within the areas in which they were enumerated. Although some of these families might have had landholdings in other areas, it is likely that the majority were landless, suggesting that landlessness is a much larger problem than had been estimated using available data for 1974/75.

b. Lack of access to agricultural services and technologies seriously constrains smallholder production in Kenya. Kenya's agricultural extension agents spend only a fraction of their time on visits to poor smallholders, as opposed to more prosperous farmers. Furthermore, although approximately 25 percent of all small farm households are headed by women, only 40 percent of such farms had ever been visited by extension agents, according to a recent survey, while 72 percent of jointly managed farms had been visited. Agricultural crop research has concentrated on development of improved planting materials, especially for high potential areas, but relatively little attention has been paid to their adoption by smallholders. There has been considerable livestock research but much work remains to be done to adapt general results to specific areas. Lack of trained personnel limits the government's ability to deliver agricultural services, to manage appropriate research, and to implement agricultural development activities. Serious staff shortages have been identified especially at the lowest levels of the professional staff, including an estimated shortage of 5,000 front line extension agents by 1983. Where agricultural research and extension have been most successful, they have been provided by co-operative societies or profit-making enterprises specializing in production of cash crops such as coffee, tea, sugar, tobacco, barley and horticultural products.

c. Access to inputs is limited by unreliable delivery systems and by an absence of cash (or credit) for their purchase on a timely basis. Foreign exchange shortages have also limited the availability of required inputs at certain times. Credit programs have only recently been directed toward the poor smallholder. Requirements for collateral, complex application forms and lengthy processing times often are insurmountable barriers for a poorly educated smallholder. Furthermore women who manage smallholdings are generally unable to obtain credit since a land deed is often required as collateral and land has generally been titled only to males. Cooperatives, which offer credit without collateral, have focused on male farmers. Credit has been limited in part because cooperative and other government-sponsored programs have been poorly supervised and credit often has not been repaid.

Rural infrastructure plays an essential role in the delivery of goods and services in agricultural areas as well as in the transport, storage, and sale of rural output. About two-thirds of Kenya's roads are earthen, however, and 90 percent of these are not passable all year round. Roads built primarily to support cash crop production in high potential zones are of better quality and frequently better maintained than roads elsewhere.

d. Production incentives are closely related to relative product and input prices, and to the reliability of markets and the availability of storage facilities. These are controlled to a large extent by the GOK which fixes an official price for major food crops for everyone in the marketing chain: producer, buyer, wholesaler, processor, distributor, and consumer. Although it has been Government's stated policy to regulate crop prices to insure domestic self-sufficiency, price changes have often been ill-timed producing stimulus or restraint when least required. Agricultural pricing policies have generally favored the urban areas at the expense of the rural producer. Simultaneously, highly protected import-substitution industries produce high cost items (often of inferior quality) for purchase by the rural consumer. An overvalued shilling further diminishes the economic incentive for increased agricultural export production.

It has been demonstrated in the case of tea, coffee, and now sugar cane, that sufficient price incentives, guaranteed markets and effective extension of improved technologies will lead smallholders to produce an agricultural surplus. Yet today smallholders selling to a national marketing board (as is the case with maize) face considerable barriers to receiving even the officially posted prices. Produce must be moved to official buying stations (often distant from farms and over a road network frequently impassible during the rains), and must meet the board's moisture content requirements and other standards. Surpluses must be sufficiently large to justify the smallholder's marketing efforts. As a result only about 22 percent of smallholder maize flows through official marketing channels.

4. Off-Farm

Wage employment is a major component of rural household income and represents nearly the only income source in urban areas. Opportunities for wage employment tend to be located in and around urban areas and rural towns. Improving the imbalance between urban and rural employment opportunities will require more than incentives to locate industries in rural areas, a policy which has had little success to date. An integrated approach would involve stimulation of agricultural investment and production, promotion of processing and marketing of agricultural inputs and outputs in rural areas, and increased support of rural construction and service industries.

At the national level, government policy has attempted to increase the utilization of labor by restraining wage increases to levels below that of general inflation. Since 1970 this policy has been generally successful. Although consumer prices have officially increased by 279 percent since 1974 (and unofficially by much more), average wages have risen by only 252 percent so that real wages have declined by 10 percent or more. Government wage policy, however, has been offset to an unknown extent by its past policies with regard to interest rates, exchange rates, and industrial protection, all of which have had the effect of subsidizing capital-intensive production and thus acting as constraints on employment particularly in the manufacturing sector. In the Labor Force Survey of 1977/78, 17 percent of men and 13 percent of women in rural areas indicated that they were not employed, while another 13 percent of males and 19 percent of females said they were usually employed, but not at work on the survey day. In urban areas the Survey indicated unemployment rates of 6.8 percent for men and 6.4 percent for women, although a substantial proportion of persons having a job but not working on the survey day may well have included some who would better be considered unemployed or partially employed.

E. Analytical Description of the Poor

Statistical analysis of income levels and distribution in Kenya continues to rely heavily on Integrated Rural Survey data collected in the mid-1970's. Additional household budget data for urban and rural areas are to be collected during 1981/82 under the 1980-84 National Sample Survey and Evaluation Program. Such data will be incorporated into USAID planning as they become available. The National Sample Survey is expected to provide statistically accurate information on target groups at the district level. Data currently available permit a broad analysis of potential target groups of the type required for programming purposes but do not provide a basis for impact measurements below the provincial level without the commissioning of special project-related studies.

Existing data indicate that approximately 90 percent of Kenya's population is rural and that nearly one-third of rural population falls below a poverty line based on expenditures required to provide a minimum nutritional level with a small allowance for other necessities. (Table 9.) Rural areas contain more than 98 percent of the poor in Kenya defined in this manner. In Nairobi and other urban areas, those in poverty include the unemployed and the working poor. A disproportionately large share of these poor are represented by young, unskilled males seeking wage employment. With a growth rate of urban population of more than 7 percent, (3 percent in Mombasa, 5 percent in Nairobi, and 14 percent in other urban centers) and with a high rate of household formation in urban areas as a whole, urban unemployment, underemployment, and poverty can be expected to grow although urban problems form only a small part of the picture at the current time.

Table 9
Kenya: Income Distribution and Poverty, 1974

	Percent of Total				
Category	Population	Income	Group Below Poverty Line	Poor Pop.	Poverty Line* (KSh. p.a.)
Rural	90.2	57.2	32.2	98.5	-
Smallholders	72.3	39.0	28.9	71.0	2,000
Large Farm Squatters	4.2	2.2	33.3	4.8	2,000
Landless With Poor Occupations	2.9	1.7	50.0	5.0	1,900
Landless With Good Occupations	1.7	6.5	-	-	1,900
"Gap" Farmers	1.9	5.0	-	-	2,000
Large Farmers	0.1	1.1	-	-	2,000
Pure Pastoralists	5.1	1.0	84.8	14.6	4,285
Pastoralists Who Farm	0.5	0.3	33.3	0.6	2,700
Migrants (to semi-arid lands)	1.4	0.4	55.0	2.6	2,000
Urban	9.8	42.8	4.3	1.5	2,150
Nairobi	4.9	23.9	2.9	0.5	2,150
Other	4.9	18.9	5.7	1.0	2,150
Total (Percent)	100.0	100.0	29.4	100.0	-
Total (1000's)	14,295	15,890 KSh.	-	4,210	-

Note: *Household poverty line varies by household size and local living costs. Poverty is defined in terms of requirements to provide a minimum nutritional level with a small allowance for other necessities.

Source: Adapted from Collier and Lal, Poverty and Growth in Kenya, IBRD, 1980 in Livingstone, Rural Development, Employment and Incomes in Kenya, ILO, 1981.

Within the rural areas, measured poverty is absent only among large and "gap" farmers (representing less than 2 percent of the population) and among the landless with "good occupations" (1.7 percent of the population). This latter group includes teachers, extension agents and other civil service employees stationed in rural areas, as well as retail merchants, proprietors and others engaged in local business or commerce. The landless with poor occupations include only 2.9 percent of the total population but represent 5 percent of all poor persons in Kenya. Operating on the fringe of agricultural and formal sector activities, the 50 percent of this group who live in poverty represent an especially difficult sub-group to reach without a general increase in overall economic activity and employment in rural areas as a whole.

The highest proportions of poverty in Kenyan society are to be found among those groups who inhabit the country's arid and semi-arid lands. Among the purely pastoral people who constitute approximately 5 percent of Kenya's population, nearly 85 percent would be considered poor by conventional standards. These groups account for nearly 15 percent of all Kenya's poor. Pastoralists are concentrated in Rift Valley Province (45 percent), North-Eastern Province (20 percent) and Eastern Province (24 percent). The life of the pastoral groups is regulated by seasonal changes in the availability of water and grazing opportunities. Past efforts to provide education, health care, and other services have been aimed at introducing some degree of settlement. Yet when water and pasture seem more abundant elsewhere, nomadic pastoralists have moved on leaving schools and dispensaries behind. Heavy concentrations of pastoral people and their cattle near service points have often resulted in ecological damage which may have been forseeable, but which has proven extremely difficult to remedy.

Pastoralists who farm and migrants to semi-arid lands constitute two analytically similar groups that may also be difficult to reach with conventional programs unless new technologies demonstrate the economic feasibility of smallholders successfully farming Kenya's drylands on a consistent basis. These two groups together account for nearly two percent of Kenya's population and just over three percent of its poor. The income share data in Table 9 suggest that pastoralists who periodically farm have been more successful on the whole than migrants who try to survive by farming in dryland areas on a permanent basis.

As Table 9 indicates, smallholders and squatters on large farms together constitute more than three-quarters of Kenya's population, and account for a similar proportion of Kenya's poor. Large-farm squatters have not been included in government surveys as a separate statistical group. They belong analytically in the same class as other small farmers. The data in Table 9 indicate that approximately 29 percent of IRS smallholders fall below the established poverty line, while slightly more than a third of large-farm squatters are classified as poor.

The large-farm squatters are a manifestation of Kenya's land transfer policies since Independence. Squatters have occupied sections of large farms in groups or individually. In opposition to stated Government policy, they have operated these farms as small subsistence units rather than as large, market-oriented production units. Their main problem is uncertainty. Without title deeds, land tenure is not secure, and investments which might increase production are often too risky to undertake.

Poor smallholders identified in the IRS surveys of the mid-1970's constitute the core group of poor people in Kenya. As Table 10 indicates, the poor are concentrated. Nearly 29 percent of all poor smallholders are located in Nyanza Province, with another 25 percent in Western Province, and an additional 24 percent in Eastern Province. This notion of concentration is reinforced by other data presented in Table 10. Over 50 percent of all smallholder households in Western Province are classified as poor. The figures for Nyanza and Eastern Provinces are 38 and 35 percent respectively. Although poor smallholders in these three provinces account for approximately 16 percent of Kenya's total population, they represent approximately 55 percent of all Kenya's poor.

In addition to the poor identified in Tables 9 and 10, many Kenyans are at the margin of poverty who have relatively high earnings but support a large family and numerous relatives. Although the poor have been identified above by income levels, poverty is also manifested in relative lack of access to basic services, levels of health, nutrition, and education, and possession of basic material goods. Access to basic social services is difficult to document in a compact manner and in any case there is a significant distinction to be made between access and actual utilization.

Table 10
Kenya: Poor Smallholders By Province, 1974/75

Poor Smallholders	Nyanza	West.	East.	Cent.	Coast	Rift	Total
Number of Poor Smallholder Households	145,684	128,073	124,100	71,409	21,657	16,869	507,792
Percent of Total Poor Smallholder Households In Each Province	28.7	25.2	24.4	14.1	4.3	3.3	100.0
Percent of Smallholder Households Who Are Poor	37.7	50.3	35.1	21.7	31.0	18.8	34.2
Approximate Percent Of All Kenya Poor*	19.3	19.0	16.7	10.0	3.6	2.5	71.0
Approximate Percent of Population*	5.7	5.6	4.9	2.9	1.1	0.7	20.9

Note: *Adjustment has been made for variations in average household size among provinces. No adjustment has been made for possible variations in average size between households of poor smallholders and those of other poor people. To the extent that households of poor smallholders may be above average in size, the above approximations would be underestimates.

Source: Adapted from Collier and Lal, Poverty and Growth in Kenya, IBRD, 1979 (mimeo) in Tidrick, Kenya: Issues In Agricultural Development, IBRD, 1979 (mimeo).

Some idea of the availability of such services to Kenya's smallholders can be gained from a careful consideration of data presented in Table 11. Because of large variations in population density in Kenya, conclusions concerning the relative availability of access to basic services among provinces should not be hastily drawn on the basis of the data in the Table. Analysis of the central government's recurrent budget shows that per capita expenditures were much higher in Coast, Central and Rift Valley provinces in the mid-1970's than in Eastern, Western and Nyanza provinces. Such analysis reinforces the impressions regarding potential target groups based on income data presented above, as well as the conclusions to be drawn on the basis of some of the social welfare indicators presented in Table 11.

Table 11
Kenya: Social Welfare Indicators By Province, 1974/75
(Percent Of Smallholder Households)

Indicator	Nyanza	West.	East.	Cent.	Coast	Rift	Kenya Average
Health Center Within Four Miles	58.2	51.0	30.5	61.3	43.8	41.9	49.4
Primary School Within Two Miles	85.8	86.9	81.6	85.6	70.1	68.2	83.1
Percent Aged 6-12 In School	46.4	63.5	58.9	75.5	47.8	61.8	60.7
Percent Qualified Primary Teachers	55	57	59	82	53	59	61
GOK High School Within Four Miles	31.3	43.1	42.9	42.1	15.0	18.4	37.0
Percent Aged 13-15 In School	1.2	3.3	0.2	4.5	2.4	2.2	2.2
Dry Season Water Within Two Miles	95.5	99.5	79.3	98.0	65.7	95.3	91.6
Bus Route Within Two Miles	70.9	53.9	35.0	65.0	68.1	26.8	55.3

Source: Adapted from A. Bigsten, "Regional Inequality In Kenya," IDS, 1977 in Livingstone, Rural Development, Employment and Incomes In Kenya, ILO, 1981.

II. U.S. Strategy and Program

A. Overview

1. USAID/Kenya Approach

The basic objective of USAID in Kenya is to help promote broad-based economic growth which will support public and private provision of social services and improvements in the quality of life. USAID believes the best policy framework for achieving these objectives is one in which the private sector assumes the major responsibility for economic activity. Kenya is a country with a democratic political system and public policies favoring of a strong role for the private sector in economic and social development.

This set of conditions makes it possible for the U.S. to mount an assistance program consistent with U.S. values which offers high probability of attaining development objectives. The U.S. assistance strategy is consistent with Kenya Government development plans. The current national plan emphasizes measures to promote economic growth and smallholder agricultural production, with particular attention to equitable income distribution. Questions of income distribution and poverty are addressed primarily through efforts to increase opportunities for productive employment.

The Kenyan strategy for the next planning period will recognize the serious resource constraints of the public sector and the comparative advantages of the private sector in management and ability to mobilize capital. This approach, emphasizing private sector resources in harmony with public development goals, also addresses directly two of the most severe constraints to current public sector development programs: the recurrent expenditure burden of government programs and the strained capacity to implement programs effectively.

The policy environment for economic growth in Kenya has improved in the past year. Additional actions can help assure better economic returns to the rural sector and more rational management of government resources for production programs and provision of social services. Progress in policy guidance by Government on family planning is urgently needed. The U.S. Mission is engaged in dialogue with Kenyans in both public and private sectors and will continue this dialogue in furtherance of policy changes on issues ranging from those affecting the broadest economic matters to those related to specific project pre-conditions.

2. USAID Development Objectives.

Kenya's two basic resources are land and people. Development gains will come largely from intensified land use by more highly skilled farmers who, among other things, pay closer attention to conservation of land assets. The land provides food, fuelwood and employment as well as inputs for industry and commodities for earning foreign exchange. Ultimately, a sustainable balance between Kenya's population and land resources at a higher productivity level must be attained if development objectives are to be realized. Good land is in very short supply. High and medium potential land per capita in Kenya has declined from .91 hectares in 1969 to .62 hectares in 1979 and is projected to decline to .40 hectares by 1989. By comparison, in 1976 cropped land per capita in India was .3 hectares while in Kenya it was .2 hectares.

This intense symbiotic relationship among Kenya's land, people and development, the need to conserve the land while intensifying its use, the need to limit population growth and the need for more employment opportunities and better basic social services led to the selection of the following three objectives for the U.S. assistance program to Kenya:

-- Increased rural production, employment and income,
-- Reduced population growth,
-- Efficient delivery of basic social services.

The first should lead to economic growth. The second is a long-term necessity. The third will promote better use of public and private institutions and technologies to relieve Government of the ever-increasing social service burden.

USAID has concluded that staff and financial resource limitations will not permit either implementation of direct bilateral programs or backstopping of AID/W-funded programs outside the areas covered by these three objectives. With regard to human resource development, USAID will help in the training of personnel, which is a basic requirement for the country's overall development, through in-country and off-shore training. Training programs will be linked to specific bilateral programs and private sector-oriented activities. Assistance to training institutions will concentrate on management and technical training and post-secondary and secondary agriculture training. Other donors will continue to assist formal primary and secondary education.

Energy conservation and efficient use of natural resources will be treated as an integral part of rural production programs. Attention will be focused primarily on renewable energy approaches such as fuelwood production within integrated farming systems and agro-forestry.

a. <u>Increased Rural Production, Employment and Income</u>

Kenya's economy is dominated by the agricultural sector and future growth of the economy will depend heavily upon increasing agricultural production. As indicated above, agriculture provides 33 percent of GDP, 34 percent of inputs into manufacturing, and 65 percent of non-oil exports. Only 18 percent of the labor force was employed in the modern industrial sector in 1978 and the most optimistic projections indicate that a maximum of only 25 percent might be employed by the year 2000. In terms of incomes, the 10 percent of the population that is urban receives 43 percent of total income while the 90 percent of the population that is rural receives only 57 percent. Efforts to accelerate the economic development of Kenya with better income distribution must emphasize measures that lead to increased rural production, employment and income.

b. Reduced Population Growth

The rationale for selecting this objective for U.S. assistance is almost overwhelmingly self-evident. Kenya's 4 percent per annum population growth rate is the highest in the world and may well be headed higher. As previously noted, the land to population ratios are changing dramatically for the worse. Smallholder farms in the high potential land areas of Kenya have so far acted as a sponge absorbing the rapidly increasing population through subdivisions of large land holdings and through more intensive use of labor, e.g. cultivation of coffee, tea and pyrethrum. Unless further intensification of rural production occurs, the "sponge" will become saturated and population will spill over rapidly into urban areas seeking non-existent jobs and into the semi-arid lands seeking land to farm.[1/] Some movement has already begun. Farmers with no experience in cultivating and conserving semi-arid lands are using inappropriate cropping methods which are leading to severe environmental damage. Similarly Kenya's social service delivery systems for health, shelter, education and water are already seriously overburdened by rapid population growth. The current and projected squeeze on Government budgetary resources to meet recurrent costs of social services plus the unabated growth in population suggest that the quality and extent of services will decline unless changes are made. Given these factors, a reduced population growth rate emerges as an imperative for sustainable economic and social development in Kenya.

c. Efficient Delivery of Basic Social Services.

Kenya's most abundant resource is its labor force whose productivity is directly influenced by health and level of education and training. Health care and family planning services, training, adequate

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[1/] The "sponge effect" concept is taken from Livingstone, Rural Development, Employment and Incomes in Kenya, ILO, 1981.

shelter and safe water supplies are all important to the well-being and productivity of the population. Despite substantial resource allocations for social services since Independence, the quality and coverage of these services remain unsatisfactory. For example: no more than 30 percent of the population is reached by the combined public and private health care delivery system; only 32 percent of the population is served with piped water; and there is a severe shortage of decent affordable shelter. Considering the continuing strains on government's budgetary resources and undiminished population growth, the only feasible approach appears to be the development of more efficient social services delivery systems which build in increased human and financial resource contributions by the communities being served and promotion of fee-paid private delivery of services. Moreover, better health delivery systems will provide improved avenues for family planning.

3. Target Beneficiaries of U.S. Assistance

The nation as a whole will benefit from policy reforms undertaken in conjunction with U.S. balance-of-payments support and projects, from development of institutional and managerial capacity and from economic growth resulting from improved rural production. Smallholder farm households will be the direct recipients or target beneficiaries of many of the specific U.S. programs. As shown in Table 10 of the analysis section, Western, Nyanza and Eastern Provinces contain 78.3 percent of all poor smallholder households and approximately 77.5 percent of all the poor people in Kenya. Women in particular benefit from USAID focus on smallholders because of their paramount role in smallholder agriculture in Kenya. Nearly one quarter of smallholder households are headed by women, and women contribute well over half of all labor applied to smallholder production.

Smallholders, squatters on large farms unofficially subdivided and rural landless with poor occupations together comprise 80.8 percent of Kenya's poor people and almost 25 percent of the total national population. Kenyans employed in urban areas and on large farms and "gap" farms should also benefit from employment-generation programs focused on agribusiness development. Large farm growers of the major export crops do not need external assistance. Nomadic pastoralists are not included in the target group because of their small numbers (5.1 percent of the population) and the USAID conclusion that they cannot be reached directly on an economic basis with currently known methods of development assistance.

The potentially productive low income groups in Kenya have been defined in the analysis section in terms of occupation, income levels, gender and geographic location. Good quality land, the smallholder mode of production and low income levels become the principal factors in defining targets. Western Kenya, Central Province, and parts of the Rift Valley have most of Kenya's high quality land on which the most significant production gains can be effected. Only in Western Kenya (defined as the lands west of the Rift Valley: the districts of Kericho, Nandi, Uasin Gishu and Trans Nzoia in Rift Valley Province and Western and Nyanza Provinces) are all three factors present. Central Rift Valley is dominated by large farms. Central Province enjoys substantially higher income levels and has benefitted from higher levels of services and infrastructure investment to date as well as better access to off-farm sources of employment. Thus Western Kenya, a high-potential agricultural region, is the principal geographic area for U.S. demonstration and action programs.

Secondarily, USAID will target on conservation and production in semi-arid lands, making use of U.S. expertise in dryland agriculture. Protection of these ecologically fragile marginal lands and maximum use of their productive potential are also very important to Kenyan rural development objectives. Immigration to these areas is occurring at a rapid rate. Low income smallholders predominate. Several external donors assisting Government in semi-arid lands programs have taken responsibility for certain areas. USAID will concentrate on Kitui District, a very large arid and semi-arid district in Eastern Province. In that district USAID hopes to demonstrate how better use of semi-arid land and innovative ways of providing social services can better the economic prospects of rural residents in the four-fifths of Kenya lacking good potential for crop production.

These two areas taken together contain a very large proportion of the target group. As shown in Table 10 of the analysis section, Western, Nyanza and Eastern Provinces contain 78.3 percent of all poor smallholder households and approximately 77.5 percent of all the poor people in Kenya.

B. Sectoral Strategies and Programs

1. Increased Rural Production, Employment and Income

a. Constraints

The Kenyan rural landscape is a maze of ecological zones, farm sizes, crops, infrastructure and organizations; but smallholder agriculture is clearly the dominant mode of production. Smallholder farmers account for 75 percent of total agricultural output and produce more than 70 percent of maize, the basic food crop. Kenya's national development rests heavily upon the productivity of the smallholder, and constraints to increased rural production, income and employment are basically constraints upon the smallholders' productivity.

Inappropriate governmental policies or the lack of policies have had serious negative impacts upon the incentive or capacity of the smallholder to produce. Low and erratic government-fixed producer and consumer prices discourage production. Governmental control of maize movement and marketing has made it difficult for the smallholder to market production of this food staple freely at varying seasonal prices. Government has failed to establish policies and incentives that would encourage private sector involvement in input supply and marketing of agricultural production or improve land use patterns to include agroforestry, livestock and forage. It has also failed to reorient and integrate research and extension activities to adequately address smallholder problems. Governmental policies have tended to favor urban over rural areas and within rural areas to favor the larger farmers and cash crop producers over the smallholder.

If smallholders are to increase their production significantly, more appropriate technology and land use patterns suited to the agro-ecological and socioeconomic situation of small farmers are required. An integrated approach to the production of crops, livestock, forage and fuelwood is needed with appropriate soil and water conservation measures which would result in a sustainable production system.

Not only is development of more appropriate technologies required but more efficient and widespread delivery systems are needed for technology transfer and the provision of agricultural inputs such as fertilizer, pesticides, seeds, tools, equipment and credit and marketing services to smallholders. If the incentives are present the private sector will play a much larger role in the delivery of inputs and marketing services.

Continuing degradation of productive lands due to the lack of conservation measures is an important and increasing constraint to rural production. Conservation systems for public lands or for entire catchment basins are properly in the domain of the public sector but individual farm systems can make an important contribution to conservation by themselves or as part of a larger basin-wide system.

Inadequate development and maintenance of rural infrastructure to serve the smallholders' needs is a critical constraint to rural development. Perhaps the most important is the network of rural roads necessary for economic access to agricultural inputs and marketing of farm production. Roads also provide the small farmer with access to social services. A severe shortage of water supply systems for human consumption, livestock and small-scale irrigation is a constraint to both health and production. Maintenance of both roads and water supply systems are continuing problems. In many areas marketing, transport, storage and processing facilities are grossly inadequate.

The fuller development of the rural areas is further impeded by the lack of basic services in the small market towns. These small centers lack critical infrastructure, enterprises, shelter and community facilities. The underdevelopment of rural towns results in their inability to act within the private sector economy as effective suppliers of farm inputs and consumer goods and as outlets for farm produce. These small towns and even larger regional urban centers fail to provide significant off-farm employment opportunities due to the low level of investment in rural enterprises.

Over the next few years Kenya faces a shortage of foreign exchange resources which could adversely impact upon rural production if the projected requirements are not provided by donors or external financial institutions. Foreign exchange is required to finance the import of inputs required by the smallholder such as fertilizers, pesticides and tools. It is also required for imports that run the marketing system upon which the small farmer depends. These imports include vehicles, fuel, spare parts, and packaging materials. On a broader level foreign exchange is required to maintain a satisfactory growth rate of the Kenyan economy which will provide effective demand and markets for smallholder production.

Both public and private rural institutions are inadequate when measured against the tasks of development of the rural sector. Eventually, devolution of authority and resources to the local levels as well as participation and contributions of resources by local communities will be required to accomplish the tasks. The underfinanced and understaffed central ministries with their penchant for centralized control clearly are overburdened. Local institutions at the district, county and municipal levels need to be strengthened. These entities which have some regulatory functions but few resources should have responsibility for the provision of most local market facilities, domestic water supplies, and road and public works maintenance.

b. Strategy

As previously noted, smallholder agriculture is the dominant mode of production in Kenya. Generally the Kenyan smallholder farm unit has proven itself very competitive with larger farms in terms of output per land unit while using labor intensive methods which provide employment opportunities. Significant increases in smallholder production, employment and income beyond current levels are attainable from improved farming methods and proper incentives.

USAID strategy is to assist both the private and public sector in provisioning the smallholder with those things needed to increase output and farm employment. He needs access to appropriate inputs on a timely basis at a reasonable price. He needs technology that is economically and culturally suitable based on research that addresses farming problems. He needs assistance with conservation measures to preserve the land. He needs access to markets where he can sell his production at a reasonable price and receive prompt payment. And he is often a she. USAID's geographic foci in assisting the smallholder is Western Kenya and the semi-arid areas of Kitui District.

USAID will strive, in negotiation of all assistance agreements, to achieve an appropriate policy framework for development of the rural sector. Policy reform will be sought in the areas of development and transfer of technology; input supply, marketing, and pricing and the role of the private sector therein; land use and conservation of natural resources; and terms of service for key research and planning staff.

The role of the private sector in rural development will be further enhanced by direct support to key rural private sector entities to allow increased access by smallholders to inputs and marketing services. Financial intermediaries will be utilized to supply medium and long-term capital to rural enterprises, especially agribusinesses. These enterprises create off-farm jobs.

The system for the discovery, development and transfer of technology suited to the social, economic and agro-ecological conditions of smallholders will have to be reorganized and strengthened during the plan period if significant progress is to be made in increasing small farm production. Where possible, private sector extension initiatives will be supported as a substitute for or supplement to Government's extension services. Successful private-type specialized extension programs serve small farmers growing such crops as tea, barley and tobacco. USAID will continue to provide support to agricultural training institutions and provide offshore training to people who are likely to become key administrators, policy makers and scientists in agencies or entities serving the rural sector. Major effort will be devoted to achieving the necessary policy and organizational reforms necessary to reorient this system to focus on the small farm as a target unit and to involve the private sector. Policy and training efforts will have to be supplemented by technical assistance in farming/livestock systems research and extension and curriculum development at agricultural training institutions.

USAID will assist Government and the private sector to channel investment into rural market centers for infrastructure, shelter and community facilities. Expanded production of these basic facilities will provide employment and generate new enterprises in construction and allied industries. Housing construction is a low-technology, labor intensive, activity that offers employment for unskilled and semi-skilled labor and ease of entry into the market for local firms and individuals. See Section 3.c.(3) under the basic social service delivery systems objective for a discussion of our proposed program.

As Government will almost certainly continue to face serious foreign exchange shortages over the planning period, USAID will continue to utilize program resources to assure that flows of necessary modern inputs and marketing services to small farms are not interrupted. Government, partially in response to donor pressures, has recently taken major policy steps (increased producer prices, shilling devaluation) favorable to rural development and donors must show continued support if we are to press for action on further essential policy changes in the area of marketing controls and regulated prices.

c. USAID Programs

Both bilaterally and in concert with other donors, a continuing dialogue will be maintained with Government to rationalize policies that impact upon rural production, income and employment. Resources programmed for balance of payments support, i.e. annual ESF program grants and PL-480, Title I, will be used to underwrite policy changes wherever appropriate. Policy changes required for successful project implementation will be negotiated in the context of project development and design. Kenyans will be trained in policy research and formulation.

A combination of interventions will promote development of more appropriate production technologies and farming systems and more effective transfer of technology. On-going programs to develop on-farm grain storage, appropriate dryland cropping systems and farming/livestock systems for semi-arid lands will continue well into the planning period.

If Government demonstrates a commitment to institutional change, a major new program will be undertaken for the support and reorientation of the agricultural research and extension institutions. Private sector extension activities will be supported as an integral part of the extension program. The objective would be to assure that research is relevant to smallholders' needs in the context of a farm system approach, that the extension service transmits research results to the small farmer, and that the farmers' experience and problems are fed back into the research system for further analysis. Fuelwood production and land conservation problems will be addressed in the context of this program. A USAID financial nutrition planning project will help ensure that food production activities have a positive impact on nutrition status.

Balance of payments support will be provided not only to finance specific agricultural production inputs but also to help assure that a general shortage of foreign exchange does not curtail rural production. Programs will be developed with the private sector to extend its capability to produce and distribute inputs in the rural areas, e.g., seeds, fertilizer and pesticides and to provide extension services. The private banking sector will be used to channel funds to the rural areas for lending to the commercial, small enterprise and smallholder sectors. Priority in these sectors will be given to activities which favor employment generation.

Programs to increase the supply of trained personnel will include support to institutions such as the diploma-granting Egerton College, the higher secondary Harambee Institutes for Technology, and the secondary level Village Polytechnics, with emphasis upon the development of relevant curricula for future skilled workers in agriculture, commerce, small industries and building trades in rural areas.

The labor-intensive rural roads construction and maintenance program in Western Kenya will continue as planned and a similar program if feasible will be initiated in Kitui District. These roads provide small farmers access to agricultural inputs and social services as well as an outlet for their marketed production. Also in Kitui District a project will be undertaken to demonstrate water conservation techniques to provide water basically for production of food crops but also for human and livestock consumption.

Assistance will be provided to continue devolution of authority to the local levels for program planning and implementation. The current rural planning project and technical assistance in shelter and community development will continue and other programs will be initiated to provide technical assistance to appropriate local and central government entities and to local entrepreneurs.

d. Impact

At current planning levels, nearly four-fifths of USAID's new funding commitments during the period 1983-87 are programmed to meet the objective of increased rural production, employment and income. Projected commitments to the rural sector totalling $330 million are evenly divided between program and project assistance. Although the absolute amount of such assistance is substantial, the average annual commitment of $66 million will make a relatively small direct contribution to total national job formation. The same is true for agricultural production which is projected at nearly $2 billion annually during the rest of this decade (a ratio of commitments to expected output of less than 4 percent). Intensification of land use with labor intensive methods will have a direct job creation impact.

USAID/Kenya seeks impact by concentrating efforts on selected activities such as policy reform, institution building, and development and demonstration of low cost interventions which can be expected to have substantial multiplier effects. Program assistance is designed to support Kenya's on-going program of structural adjustment which currently focuses on the agricultural sector. The United States is only one of a number of donors led by the World Bank whose analysis, advice and assistance are encouraging and underwriting important changes in agricultural pricing, marketing, storage, credit and financial planning and management. An assessment of the relative effect of various donors on policy-making would be problematic, as would be an attempt to distinguish the various effects of individual policy changes from each other and from exogenous variables such as the weather. The impacts of policy-level changes are inherently more difficult to assess than those of project-level interventions, although USAID believes such changes are often more effective and more productive. Within the overall framework of policy change which USAID/Kenya supports, the impact will be clearest with regard to policies affecting input pricing and marketing where recent experience with ESF-financed commodity import programs provides us with a significant comparative advantage. More flexible input pricing, increased competition, and expanded distribution and use of inputs are USAID targets which should contribute to increasing rural output on a continuing basis, in addition to the impact on current production attributable to increased availability of the imported inputs themselves.

USAID project initiatives in the rural sector during the late 1970's focused on the strengthening of support institutions (Agricultural Systems Support Project, Rural Planning II, Dryland Cropping Systems). While these were good, solid development activities addressing fundamental constraints, they could be characterized as producing development resources but not putting them into action. Current USAID strategy seeks to increase the impact of such resources on production by men and women through experimental direct action projects such as the On-Farm Grain Storage project and by redirecting the efforts of rural development institutions toward achieving practical results. Substantial impact on smallholder production can be achieved through re-orientation of agricultural education institutions, the research establishment and extension outreach mechanisms. New private sector extension approaches to promote technology transfer, input distribution, rural credit (farm and non-farm) and employment are currently under intensive investigation and appear promising. New resources, directed where possible through institutions operating on a profit-making basis, are expected to impact more directly on rural production and employment than has been possible in the past.

2. Reduced Population Growth

a. Constraints

The combination of the current high level of fertility and a rapidly declining mortality rate in Kenya is virtually unprecedented in demographic history. Kenya has the highest recorded population growth rate of any country in the world and it may go higher. Although Kenya was the first sub-Saharan African country to adopt an official population policy and launched a National Family Planning Program in 1967, Government has seriously underestimated the gravity of the problem. Population concerns have been only superficially integrated into economic and development planning and no clear strategy for lowering the rate of population growth has emerged. In spite of Government's stated policies, decisions on allocation of resources reflect an inadequate political commitment to family planning programs.

Government's posture is heavily influenced by numerous social, cultural and economic factors in Kenya that encourage large families and translate into a very weak demand for fertility control measures. Since values, attitudes and practices related to fertility usually change very slowly in a society, overcoming this constraint will be a very long-term undertaking. The combination of factors include: the economic value of children in agrarian settings, emotional value of children, community and peer pressure to produce children, and the relative low cost of raising children within an extended family structure. Other factors include fatalism, short-term orientation, misconceptions about reproduction and contraceptives, and ignorance of the existence or location of service delivery points.

The status and role of Kenyan women are such that, for most women, the only way to achieve recognition is to produce large numbers of children.

Not only demand but also supply of family planning services are inadequate to address the population problem. The Ministry of Health, which is Government's main vehicle for the delivery of family planning services suffers a number of managerial, administrative and other weaknesses. In combination, they constitute a serious constraint to the delivery of family planning services.

Most of the health budget in the past has been devoted to hospital-based, curative services although Government has made a policy decision to emphasize rural health services. The clinical network of hospitals, health centers and dispensaries is inadequate for the delivery of comprehensive family planning services. Due to staffing turnover and lack of authority the National Family Welfare Center, Government's focal point for family planning activities, has not been effective. Enrolled nurses, who are chiefly responsible for delivery of family planning services, are inadequately trained in family planning techniques. The Ministry of Health's logistical system for drugs and supplies of contraceptives, its transport system and its statistical systems are all inadequate.

Government has done little to encourage use of the private sector in either demand creation or supply of family planning services. Indeed, Government policies hinder the development of alternative private and governmental contraceptive delivery systems. Alternative systems could be developed to meet latent or unmet demand among certain important segments of Kenyan society.

b. Strategy

USAID strategy for the planning period will place emphasis upon creation of demand for family planning through public and private sector activities. Support of public and private systems for delivery of family planning services will also continue. USAID must act in recognition that Kenyans have the primary responsibility for resolving their population issues. To date, public and private Kenyan agencies have welcomed U.S. population assistance. USAID will continue to work with leadership groups to build understanding of population issues and to encourage development of population policies by Kenyans which are appropriate for Kenya. Informed support will be essential to the eventual adoption of a comprehensive population strategy for the country. Rural health services programs will be closely integrated with population objectives and programs.

Because of the weak institutional capacity of the Ministry of Health, USAID intends to identify and assist private sector groups to deliver family planning information and services directly to Kenyans that desire them. In the recent past, PVOs have been more effective than Government in this field. PVOs can serve groups not currently reached by Ministry of Health programs and test new delivery systems for possible replication by Government. USAID will strengthen Ministry of Health capacity to deliver family planning information and services when Government follows through on its commitment to establish an effective interministerial body to coordinate family planning informational and education programs on a nationwide basis. Government is aware that the World Bank, the United Nations and USAID are all prepared to assist the interministerial information and education program as soon as the institutional structure is established.

USAID believes that family planning information and services, when delivered in a sensitive and culturally appropriate manner, will find acceptance in Kenya. Kenyans, particularly leadership groups, will support family planning when they better understand the benefits. USAID will help interested Kenyans to demonstrate that family planning is feasible by identifying pockets of unmet demand and satisfying that demand. Family planning components will be included within all development activities supported by USAID whenever possible.

c. USAID Programs

The single new U.S. bilateral program for the planning period will be the USAID's participation in the Integrated Rural Health and Family Planning Program (IRH/FP), a major multidonor program budgeted at $120 million. USAID will support the institutionalization of a National Council on Population and Development, the implementation of an Interagency Information and Education Program by private and public Kenyan agencies and the training of Ministry of Health paramedicals in family planning practices. USAID, and presumably the other donor agencies, will not proceed with the IRH/FP Program until Government establishes the Council and fills key vacancies within the Ministry of Health.

Under the leadership of the interministerial body to be established by Government, USAID will support both public and private information and education programs for the following target audiences: policy-making and opinion leaders, persons of reproductive age, school children and other youth, extension and service delivery personnel, mass media people and other groups of adults. In the rural health delivery component of the IRH/FP Program, USAID will not support basic expansion of health delivery infrastructure. Rather, USAID will focus on staffing an additional 605 full-time maternal child health/family planning service delivery points by financing the in-service family planning training of 1,600 enrolled community nurses and 360 clinical officers over a six-year period.

The current Health Planning and Information Project, Kitui Rural Health Services Project and other parts of the multi-donor integrated rural health and family planning project will help strengthen the planning and management systems of the Ministry of Health and promote allocation of relatively greater resources to the primary rural health care system which is the main vehicle for public family planning services.

Research on the determinants of fertility and analysis of the consequences of high fertility rates has been carried out under the Population Studies and Research Institute program which will continue until 1984. USAID will continue to use the results of this work and such vehicles as the RAPID program to persuade Kenyan leadership that a comprehensive strategy to reduce population growth is past due for Kenya.

The major programmatic innovation during the planning period will be the development of direct activities in the private sector. Heretofore, AID has supported private sector family planning activities in Kenya almost exclusively through centrally-funded grantees and contractors. USAID will develop a program to fund private sector organizations and groups (both U.S. and Kenyan) interested in implementing innovative approaches to the delivery of health and family planning information and services. Through this program USAID will identify and assist various population groups (women, youth, workers, churches, etc.) that desire family planning information and services. This program will not only provide services to those groups but also demonstrate to policy-makers that there is demand for family planning when assistance is provided in an appropriate manner.

USAID is the only donor that provides a significant amount of population assistance outside of formal bilateral agreements with Government. USAID is thus able to work effectively with the private sector and to respond rapidly to targets of opportunity. More U.S. resources, particularly those directed to the private sector, will be transferred to Kenya through centrally-funded activities (an estimated $15-20 million) than through bilateral funding during the planning period. Centrally-funded grantees and contractors are expected to involve themselves in areas such as commercial retail sales of contraceptives, community-based family planning delivery, and delivery of family planning information and services to hotel, factory and plantation workers.

d. Impact

Because of the large proportion of young people in the population today, even major changes in desired family size and fertility rates will not appreciably affect the population growth rate over the next five years. Nor is it reasonable to expect fertility to decline dramatically. The constraints described above are too numerous and deep-seated to be overcome quickly. Yet U.S. assistance can contribute significantly to the following which can be measured through surveys:

-- Attitudes more favorable to family planning among leaders and the general public.
-- Greater availability of family planning information and services within the formal Ministry of Health system and through other public, private and commercial channels.
-- More widespread availability and use of contraceptives.
-- Smaller desired family size.
-- Changes in policy to remove restrictions on distribution of contraceptives and wider purchase by users.

3. Efficient Delivery of Basic Social Services

a. Constraints

Although Kenya's social service delivery systems for health and nutrition, shelter, water, education and other services are quite diverse, certain similar problems and constraints affect all of the systems. These will be discussed here and, in the interests of brevity, only additional sector specific constraints will be included in the separate sector-oriented sections that follow.

Lack of trained personnel, financial resources and coordination mechanisms are endemic to all ministries that provide social services. High standards and high costs are characteristic of Government's delivery systems. Given Government's limited financial resources, such high standards and costs translate into very limited coverage. As previously noted, only about 30 percent of the population is reached with health care and piped water. In the shelter sector, a major constraint is too-high construction and space standards that are not affordable by the lower income groups. In health the main constraint is the static, curative, hospital-based health delivery system which results in high-cost per capita delivery of primary health care services and yields very low coverage of the population. In water, treatment plants and distribution systems which use costly technology and expensive imported componentry aim at production of an unnecessarily high quality of water. Donors have on the whole failed to persuade Government to adopt alternative approachs.

Delivery systems typically are centrally financed, managed and controlled and are unable to meet the demands placed upon them, given limitations on trained personnel and financial resources. There is a lack of knowledge and experience and a reluctance in trying alternative delivery systems utilizing decentralized planning and implementation approaches that involve contributions of community human and financial resources. In addition, the public attitude is widespread that to the extent possible certain goods and services should be obtainable free of charge, e.g. drugs, milk at school, primary schooling. Free public programs add further financial strain to already overburdened systems and budgets. They are also pronatalist and exacerbate the already serious problem of rapid population growth.

Even though the private sector contributes substantially to the provision of education, health care, water and shelter, Government appears reluctant to utilize more actively the private sector in delivery systems for social services or in Government's other programs. This is due, in part, to Government's limited capacity to mobilize private sector resources. Also the profit making orientation of the private sector is viewed with suspicion in these sectors by many and considered somewhat unseemly. As a result important development resources are not utilized.

The constraints discussed above are related to a fundamental problem of Government: a limited capacity for policy formulation and implementation. This weakness is exacerbated by weak information gathering and analysis systems which are a prerequisite to sound policy making. A large number of policies have simply been carried over from the colonial past and have never been given a hard re-examination. Others were developed to meet short-term objectives without careful examination of the long-range effects.

(1) Education

In human resources development, USAID is funding a number of activities but is not proposing new interventions in literacy programs or the basic education system. The primary and secondary education systems in Kenya suffer from inappropriate curricula aimed at passing examinations rather than preparing for employment, lack of trained teachers and administrators and a poor school infrastructure. The system is well entrenched and would require substantial personnel and financial resources to reorient it. Given USAID's resource limitations, other higher priorities and other donors' involvement in the formal education sector at primary and secondary levels, USAID is planning no new activities during the planning period. The $3 million centrally-funded project testing the use of radio as a medium for improving literacy in primary schools will not be followed by a bilateral activity. The REDSO/EA education sector project to improve the collection and use of education statistics may yield lessons to USAID in how to help ministries use available statistical data. The expansion of Egerton College, the major current project in post-secondary education, will continue into FY 1985. Personnel training at a variety of levels is an integral and important part of most on-going and planned USAID projects.

(2) Health and Nutrition

In both the health and nutrition areas, there is a lack of emphasis on preventive and promotive activities and limited outreach capacity. Although Government recognizes the importance of community-based systems for providing low-cost, effective, basic health services, it lacks models and experience with such systems which it could replicate. There is a general lack of integration of health, nutrition and family planning interventions within government and with the private sector. One such problem is that Government ministries and programs support a number of on-going nutrition training, research, planning and intervention activities but there is very weak coordination of these programs. The result is duplication and waste of resources and loss of impact of nutrition efforts. One aspect of this problem is reflected in Government's lack of interest in or financial support of the PL-480 Title II program and lack of information on its potential nutritional and developmental effectiveness.

(3) Water

The Ministry of Water Development needs to strengthen its current capacity just to maintain water systems already in place, yet it is charged with expanding current coverage to reach all citizens by 2000 A.D. (an unreachable goal). Only 50 percent of the water schemes in rural areas are considered reliable. Water pricing policies need to be rationalized with a view towards greater equity, operating cost recovery and conservation of water. The Ministry of Water Development needs to redefine its role in rural water schemes and perhaps limit its activities to that of water wholesaler and technical advisor. To the maximum extent feasible, responsibilities for rural water systems should be turned over to the local entities.

(4) Shelter

Reliance on the public sector to provide modern sector shelter for low income people has failed to come anywhere near meeting housing demand. The public sector has demonstrated an inability to recover the full cost of shelter schemes which could be used for reinvestment in additional housing. Private market mechanisms do not operate satisfactorily in meeting shelter needs of this target group.

Rural towns do not provide a full range of services and skills to agriculture or employment opportunities necessary to attainment of the rural development strategy objective. Further urban development in rural areas of the country is needed for that purpose.

b. Strategy

To date, both Government's and donors' pricrities in the delivery of social services seem to have been placed upon physical structures, training and policies that are more concerned with maintaining high standards than with cost effective delivery of services that reach the maximum number of people. The net result has been high cost and low coverage delivery systems.

The main feature of USAID's strategy will be the development and implementaton of prototype projects for health, water and shelter that demonstrate low-cost, affordable, replicable delivery systems. These projects will have some common characteristics. The design, implementation and management of the projects will be decentralized to the maximum extent feasible and they will require resource inputs from local communities. The private sector will be involved in the delivery systems. Governmental policies and standards will have to be altered to make the systems cost-effective.

In conjunction with these projects, USAID will work with Government to develop a policy framework permitting the use of appropriate design standards which will facilitate implementation and replication of the projects. USAID will also provide technical assistance and training to improve management information systems, policy formulation, managerial capabilities and coordination, all of which will be aimed at strengthening delivery systems for social services.

The Title II program will be reoriented to increase its nutritional and developmental impact. The long-term objective will be eventual assumption of responsibility for the program by private communities or Government.

c. USAID Programs

(1) Health and Nutrition

In recent years, USAID has helped the Ministry of Health in sector assessment, planning and building staff strength. The current Health Planning and Information Project will continue into the planning period if evaluation indicates it is having the planned impact. Assistance will be provided to develop a more comprehensive and reliable health information system, a planning division and a planning coordination committee in the Ministry of Health. These mechanisms are aimed at improved policy formulation and implementation. Better policy formulation will also be the aim of a health sector assessment and studies which are to be undertaken early in the planning period. One study will be the examination of possible roles for the private sector in health insurance and maintenance schemes.

The Kitui Rural Health Project, to begin in 1982, will demonstrate a replicable, low-cost, community-based, cost sharing health care delivery system that integrates preventive and curative health, family planning and nutrition activities. The system will coordinate activities of the private sector, Government ministries and the local community.

A new program will train traditional birth attendants and other practitioners to improve their effectiveness and link their work to that of the formal health system. An estimated 75 percent of all babies are delivered at home in Kenya. This program will extend preventive health care by involving the private sector. Traditional birth attendants will be trained in simple, improved procedures for child delivery and in family planning methods.

An increased management capability is required at the provincial, district, and Rural Health Unit levels in order to effectively manage community-based health care delivery systems. USAID will support in-country, in-service training programs for health administrators at the district and provincial levels in planning, implementation and evaluation of health programs.

Grants to private voluntary agencies or other non-governmental organizations will be made to develop innovative approaches to encourage assumption of costs by health care system users, involvement of traditional practitioners and the use of private insurance. USAID has used the lessons learned from the experience of three small AID-funded programs in primary health care in planning future programs.

Lack of coordination of nutrition programs has been identified as Kenya's most serious problem in the nutrition field. USAID will provide technical assistance and training to strengthen the Nutrition Planning Unit in the Ministry of Economic Planning and Development. This unit is responsible for government-wide planning of nutrition programs and ensuring that the programs are coordinated.

There is considerable scope for integrating the PL 480 Title II Program into USAID and government programs to provide basic social services and and increase rural food production. By complementing food commodities with development funds, current maternal and child health programs could be broadened to include parasite and diarrhea control, family planning information and education, sanitation and income-generating food production. Rotating funds could be established to finance basic drugs to be sold at maternal and child health clinics. More developmentally oriented Food-For-Work projects could be implemented. If funds were generated under Section 206 of PL 480, replacing food commodities in part or whole, the cost of inland transport and the burden of monitoring by CRS would be reduced. Local food production stimulated by the program would substitute for the Title II foods sold to generate funds.

A Mission program in this area will require careful preparation with the Title II sponsor and with Government. USAID will consider how to add funds to Title II foods -- through monetization under Section 206, government allocation of Title I currency generations or other funds, cooperating sponsor grants, operational program grants or a combination of these. By focusing all components of the Title II program, it might be possible eventually to create a program that can be maintained in the future by recipients and local and national institutions without outside assistance.

(a) Impact

USAID'S program impact will be measured to a large extent by the changes in government policy formulation and implementation. USAID expects to promote policies that are supportive of (a) the use of low-cost community-based health delivery systems, (b) decentralization of the planning and management of health services, (c) involvement of the private and traditional sectors in health care, (d) allocation of a greater share of resources for the rural sector and for preventive health care, (e) better coordination of public and private institutions' activities and (f) better coordination of Title II and other nutrition activities and incorporation of nutrition concerns into Government's development programs. Specific policy reforms will permit community health workers to distribute drugs and pharmaceutical contraceptives and to charge fees for drugs and services. Project impact will be measured in terms of health care coverage, and reductions in district morbidity and mortality rates, especially among mothers and children and increased contraceptive use. The cost effectiveness of the project will also be measured in terms of recurrent cost per beneficiary.

(2) Water

Until recently the Ministry of Water Development has been reluctant to make changes in design and water quality standards, operations and maintenance procedures or the role of the central Ministry in the retailing of drinking water. Negotiations are now in progress for the World Health Organization to undertake a study of water rates and the Ministry has asked AID to demonstrate innovative approaches to the provision of water to communities in Kitui District. Following completion of a master water plan for the district, to be carried out under the current Arid and Semi-Arid Lands Project, USAID will design a project to demonstrate the capability within local entities to establish or rehabilitate a system to provide potable water, health information and maintenance services. Policy changes to permit local financing of construction and maintenance and local decisions on rates are essential. Depending on the success of the demonstration further advisory assistance closely tied to activities in promotion of primary health care through community health workers will be considered. An additional program to conserve and manage water supply for human and agricultural needs will support USAID's rural production objective.

(a) Impact

The impact of the community water program will be measured on two levels. On the project level, it will be measured in terms of water delivered to the community, payments being made for water, community involvement in the management and maintenance of the system and the cost effectiveness of the system. At the policy level, the impact will be measured in terms of the extent to which the Ministry of Water Development is moving to replicate the system in other areas.

(3) Shelter

Kenya's urban population is growing at 7 percent per year. Growth rates in recent years have been significantly higher in secondary cities and towns than in Nairobi and Mombasa. Urban housing requirements in Kenya over the next five years are estimated at 300,000 units with total public and private sector production estimated at only 150,000 units.

USAID has completed three housing guaranty projects in Kenya during the last 15 years in Nairobi and 11 secondary towns. A principal objective was to institutionalize within Kenya's housing agencies an approach that would include self-help, minimum standards and full recovery of costs from beneficiaries.

The Small Towns Shelter and Community Development Project will finance upgrading of shelter and water and sewerage systems in eleven rural towns ranging in population from 5,000-15,000 and will finance improved or new community facilities and pilot employment generation activities. The growth of market centers is important both in terms of extending urban functions to rural areas and as potential growth points to attract skilled persons and to absorb some of the rural to urban migration by providing off-farm employment opportunities.

These towns are directly linked to the agricultural production network which sustains them. The project will support devolution of authority to local levels and train personnel to carry out shelter and community development programs. USAID will demonstrate how increased local participation and strengthened local administration will lead to improved methods of providing critical shelter and capital improvements for Kenya's small towns. Private sector orientation is seen in the mobilization and use of household savings, use of private construction companies and the initiation of pilot employment generating activities.

USAID is studying the role of the private sector in low income housing and intends to structure the next series of Housing Guaranty projects in a way that will support maximum participation by the private sector. Through governmental policies and incentives, the private sector's participation will be encouraged in the provision of finance and loan management services, the mobilization of household savings and raw land development. A pilot project is planned for FY 1983 and follow-on projects for FY 1985 and FY 1987. In view of trained personnel limitations in the housing sector, and limited experience of the Kenyan private sector in low cost shelter, USAID will also provide technical assistance to assist communities and implementing bodies in the design and implementation of shelter and community development projects.

Emphasis will be placed on projects in rural towns which are market and service centers for rural producers, thus linking the shelter program more directly to the rural production employment and income strategy.

(a) Impact

The direct impact of shelter programs will be measured by increases in the availability of low-cost shelter units, the extent of involvement of the private sector in the provision of low cost shelter and the improved capacity of local governments and institutions to promote low cost shelter programs. Policy reforms will be successful to the extent they call for full cost recovery of public sector housing, and appropriate building and space standards in relation to low income earners' ability to pay. Increased levels of economic activity in rural towns will be measured by employment and enterprise surveys.

C. Assistance Planning Levels

The following table contains proposed assistance planning levels for Kenya for the period FY 1983-1987. The total levels are commensurate with U.S. political and security interests in Kenya and the U.S. desire to assist this important East African country in its pursuit of economic development as a free society. For the planning period the ESF program will play an important role in helping Kenya bridge a difficult period of foreign exchange shortages by financing inputs to increase rural production. It demonstrates continuing U.S. support for Kenya's political and economic system and its people. It will also provide a mechanism for GOK contributions to private sector agribusiness development.

Half of the 1983 Development Assistance Level will be applied to make final commitments to all heretofore incrementally funded projects. USAID will fully fund all new projects. The Title I program is not budgeted beyond FY 1984 because current and projected grain production is on the rise. However, recurrence of drought conditions is always a possibility that could precipitate a request for Title I foodstuffs. Prospective personnel levels are not expected to be a restraint in implementation of the planned program given the proposed program consolidation, increased use of private sector intermediaries and the USAID/Peace Corps aim of using volunteers to the maximum extent feasible in project implementation.

Table 12
Assistance Planning Levels

Objective / Funding Source	1983	1984	1985	1986	1987
Increased Rural Production and Employment - Total	67.5	57.7	66.4	77.4	66.0
Completion DA Mortgage	15.3	-	-	-	-
New Development Assistance	7.2	22.7	36.4	47.4	36.0
Economic Support Fund	30.0	30.0	30.0	30.0	30.0
PL-480 Title I	15.0	5.0	-	-	-
Reduced Population Growth - Total	0.5	3.8	1.6	1.6	4.0
Development Assistance	0.5	3.8	1.6	1.6	4.0
Centrally Funded Activities (non-add)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)
Efficient Delivery of Basic Social Services - Total	14.4	15.7	12.8	8.0	21.0
Development Assistance	8.0	9.2	6.0	1.0	14.0
PL-480 Title II	6.4	6.5	6.8	7.0	7.0
Housing Guaranty (non-add)	(10.0)	-	(25.0)	-	(25.0)
Totals By Funding Source					
Development Assistance	31.0	35.7	44.0	50.0	54.0
Economic Support Fund	30.0	30.0	30.0	30.0	30.0
PL-480 Title I	15.0	5.0	-	-	-
PL-480 Title II	6.4	6.5	6.8	7.0	7.0
Grand Total	82.4	77.2	80.8	87.0	91.0
Housing Guaranty	10.0	-	25.0	-	25.0