

COLONY AND PROTECTORATE OF KENYA

ECONOMIC SURVEY
1961

Three Shillings - 1961

ECONOMIC SURVEY

1961

Presented by

the Minister for Finance and Development

the Hon. K. W. S. Mackenzie, C.M.G.

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Notice

Throughout the tables the following signs have been used:—

"—" means "nil".

"..." means "figures not available".

In some tables individual figures do not add to totals because of rounding.

ECONOMIC SURVEY, 1961

CHAPTER 1—THE GENERAL ECONOMY

Introduction

1. The economic scene in Kenya during 1960 presented something of a paradox. On the one hand the year was marked by lack of confidence resulting from political uncertainty which in the economic sphere manifested itself in a transfer of liquid funds from the Colony, a slackening in the flow of investment from overseas and a tendency to defer capital expenditure. This assessment was not, however, confirmed by most indicators of current activity. Agricultural production in 1960 from large farms and estates was, in terms of volume, some 7 per cent higher than in 1959. employment reached an all-time record with an accompanying increase in the amount paid in wages, the domestic income in the recorded monetary economy rose by 7 per cent, and both domestic exports and retained imports recorded increases over the previous year. In terms of current output conditions in 1960 were far from depressed and the percentage increase in the cash domestic product was greater than that recorded in any of the three preceding years. In order to understand this apparent contradiction in the state of the economy it is necessary to examine the I960 position in some detail.

Domestic Income and Product

2. Provisional estimates show that Kenya's gross domestic product in terms of current prices, including the predominantly subsistence production which takes place outside the recorded monetary economy, amounted to £222.8 million, compared with the-revised figure of £214.0 million in the previous year; this represents an increase of approximately 4 per cent. The level of subsistence production was adversely affected by the serious drought conditions which prevailed in the latter part of the year with the result that, if the value of this production is excluded, cash domestic product in the monetary economy rose by as much as 7 per cent. This compares favourably with the average annual increase recorded since 1955. Table I shows the composition of gross domestic product for the years 1955 to 1960 analysed by industrial origin, while this information is presented pictorially overleaf.

3. Agriculture continued to make the largest single contribution to gross domestic product and, excluding subsistence production, an increase of some 15 per cent over 1959 was recorded. This achievement is the more remarkable in that I960 was not a year of rapid expansion in the industrial countries of the western world to which Kenya looks for the markets for her products. World prices for many agricultural commodities weakened during the course of the year, although Kenya was fortunate to the extent that the prices of two of her important export crops, tea and sisal, remained firm throughout the year. Increased production of other crops was more than sufficient to offset the fall in prices that occurred.

GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN, 1955-1960

(Including Gross Product outside the Recorded Monetary Economy)

Table 1

INDUSTRY	£ MILLION AT FACTOR COST						PERCENTAGES					
	1955	1956	1957	1958	1959	I960*	1955	1956	1957	1958	1959	I960*
Agriculture (including incidental services)	53.54	59.84	61.11	62.43	63.03	64.59	29.6	30.9	29.7	30.1	29.4	29.0
Livestock	17.43	18.35	19.78	20.07	20.23	20.23	9.6	9.5	9.6	9.7	9.4	9.1
Forestry	2.75	3.19	3.11	3.25	3.50	3.75	1.5	1.7	1.5	1.6	1.6	1.7
Fishing and hunting	1.74	1.90	1.23	1.10	1.09	1.32	1.0	1.0	0.6	0.5	0.5	0.6
TOTAL	75.46	83.28	85.23	86.84	87.84	89.88	41.7	43.1	41.4	41.8	41.0	40.3
Mining and quarrying	1.28	1.36	1.26	1.23	1.12	1.09	0.7	0.7	0.6	0.6	0.5	0.5
Manufacturing	17.44	18.18	19.80	20.52	20.23	21.62	9.6	9.4	9.6	9.9	9.5	9.7
Construction	8.04	9.34	9.63	8.38	7.94	7.85	4.4	4.8	4.7	4.0	3.7	3.5
Electricity and water	1 .45	1 .75	2.09	2.36	2.56	2.79	0.8	0.9	1.0	1.1	1.2	1.3
Transport, storage and communications	15.18	15.78	18.64	17.69	19.03	19.94	8.4	8.2	9.1	8.5	8.9	9.0
Wholesale and retail trade	25.34	25.83	27.48	26.39	27.68	28.55	14.0	13.4	13.3	12.7	12.9	12.8
Banking, insurance and real estate	2.22	2.52	2.83	3.26	3.46	3.54	1.2	1.3	1.4	1.6	1.6	1.6
Rents (including ownership of dwellings)	5.26	5.80	6.65	7.51	8.05	8.70	2.9	3.0	3.2	3.6	3.8	3.9
General Government—												
Administration	*10.03*	*9.20*	*9.72*	*9.89*	*9. 91*	*10.68*						
Public health and education	*2.74*	*3.15*	*3.88*	*4.73*	*5.19*	*5.98*						
Agriculture and related services	*1.51*	*1.58*	*1.88*	*1.78*	*1.77*	*1.86*						
Local authorities	*2.26*	*2.29*	*2.53*	*2.89*	*3.15*	*3.32*						
Defence	*2.68*	*2.54*	*2.12*	*1.11*	*1.43*	*1.37*						
Overseas governments (local employees)	*0.08*	*0.05*	*0.06*	*0.06*	*0.10*	*0.12*						
Total (General government)	19.30	18.81	20.19	20.46	21.53	23.32	10.7	9.7	9.8	9.8	10.1	10.5
Services ..	10.09	10.73	12.11	13.11	14.58	15.50	5.6	5.5	5.9	6.3	6.8	7.0
TOTAL	181.06	193.38	205.91	207.75	214.03	222.79	100.0	100.0	100.0	100.0	100.0	100.0

* Provisional.

4. Small increases in the contribution to gross domestic product in 1960 were recorded for the manufacturing, transport, distribution and service industries, those for transport and distribution reflecting the high level of agricultural production both for sale overseas and in local markets and the greater volume of imports into Kenya. The increased wage bill, particularly that paid by the Kenya Government, resulted in a rise of some 8 per cent in the product of the general Government sector in 1960. This sector includes

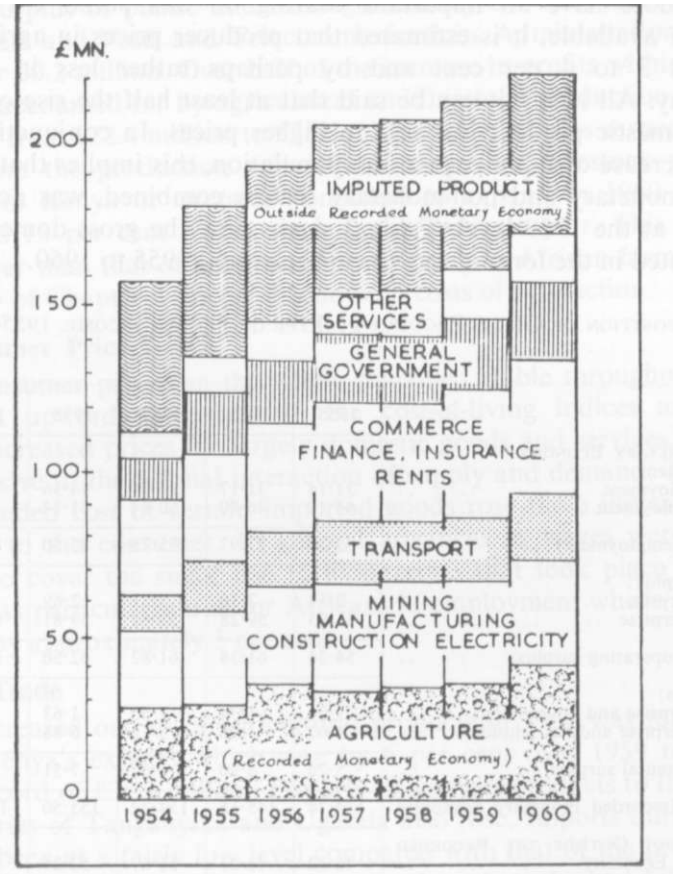


Chart 1—Gross Domestic Product by Industrial Origin, 1954-1960

only the administrative functions of the various levels of government and excludes certain trading and other productive activities such as the East African Railways and Harbours and the building and construction activities of the Ministry of Works which are classified under the appropriate industrial groups. The product of the building industry showed no change from 1959 when it was already at a depressed level in comparison with the preceding years. That the position was maintained in 1960 resulted largely from the constructional work on certain public projects, notably the contractor-financed

road scheme and the military cantonment at Kahawa, which proceeded throughout the year.

5. The increases in gross domestic product referred to above are all in terms of current prices. Difficult as it is to assess how much of the increase arose simply from higher prices, it is important to make the attempt, and then to relate the resulting figure to the population increase. A change in physical output per head, while not in itself necessarily indicative of a change in living standards, does have an important bearing on this point. On the limited information available, it is estimated that producer prices in agriculture rose by perhaps 3 to 4 per cent and by perhaps rather less in the rest of the economy. All in all, it can be said that at least half the rise of 4 per cent in gross domestic product was due to higher prices. In conjunction with the probable increase of 2 per cent in the population, this implies that real output per head, monetary and non-monetary sectors combined, was no more than maintained at the 1959 level. Table 2 shows how the gross domestic product was distributed in the form of income in the period 1955 to 1960.

COMPOSITION OF GROSS PRODUCT BY TYPE OF FACTOR INCOME. 1955-1960

Table 2 — *£ million*

	1955	1956	1957	1958	1959	1960*
RECORDED MONETARY ECONOMY—						
Paid employment:						
Public employment	31.14	31.17	34.91	34.36	35.42	37.08
Private employment	44.10	46.80	50.84	51.14	52.95	56.86
Total (employment)	75.24	77.97	85.75	85.50	88.37	93.94
Operating surplus:						
Public enterprise	2.31	2.10	2.21	2.69	3.09	3.32
Private enterprise	51.93	59.28	59.61	59.81	62.26	67.73
Total (operating surplus)	54.24	61.38	61.82	62.50	65.35	71.05
Rental surplus:						
Public enterprise and government	1.24	1.34	1.50	1.63	1.75	1.80
Private enterprise and householders	4.02	4.46	5.15	5.88	6.30	6.90
Total (rental surplus)	5.26	5.80	6.65	7.51	8.05	8.70
Total (recorded monetary economy)	134.74	145.15	154.22	155.50	161.76	173.69
IMPUTED PRODUCT OUTSIDE THE RECORDED MONETARY ECONOMY	46.32	48.23	51.69	52.24	52.27	49.10
TOTAL (Gross Product)	181.06	193.38	205.91	207.75	214.03	222.79

*Provisional.

6. As a result of an expansion in the numbers employed coupled with the general increase in earnings, the estimated annual wage bill as reported in the annual Enumeration of Employees rose to nearly £85 million in 1960. After adjusting for non-response and certain indirect benefits such as passages and contributions to pension funds, the share of domestic income distributed in the form of wages and salaries in 1960 is estimated at £93.9 million. This represented 42 per cent of the total domestic income, but the apparent slight

increase in the share of total income accruing as wages and salaries compared with 1959 reflects the fall in the contribution of the subsistence sector rather than any significant change in the disposal of income earned in the cash economy.

7. Operating surplus (i.e. gross profits before depreciation) excluding rental surplus amounted to £71.1 million, or 32 per cent of total domestic income. In absolute terms profits increased by some £6 million from their 1959 level, of which the major part occurred in the private sector. The operating surplus of public undertakings, notably the East African Railways and Harbours and Posts and Telecommunications Administrations, increased by just over £0.2 million. Over half of the increase in profits within the private sector was accounted for by agricultural and livestock production, where total profits rose from £22.4 million to £25.5 million. The surplus earned by African farmers from the production and sale of crops and livestock products for marketing in Kenya or overseas continued to expand in 1960 and at £8.5 million was 13 per cent higher than in the previous year. This figure is, of course, lower than that of gross revenue accruing to African farmers included in Table 15 of Chapter 3 since it excludes all costs of production.

The Consumer Price Level

8. Consumer prices on the whole remained stable throughout 1960 and such slight upward movement in the cost-of-living indices as did occur reflected increased prices for largely domestic goods and services, in the main not responsive to the normal interaction of supply and demand. To the extent that the landed cost of certain imported goods rose these increases were not passed on to the consumer. In general advances in wages were more than sufficient to cover the small rise in living costs that took place during 1960 and this was particularly true for Africans in employment whose real earnings increased by approximately 5 per cent.

External Trade

9. Increased output of agricultural products in 1960 was reflected in the level of Kenya's exports which rose by 6 per cent over 1959 to achieve an all-time record of £35.2 million. Exports of Kenya's products to the neighbouring territories of Tanganyika and Uganda also rose. Imports during 1958 and 1959 had been at a fairly low level compared with that of the preceding three years and there is some evidence that merchants' stocks had fallen considerably by the end of 1959. During the first few months of 1960 the indications were that the year would be a record one for imports as merchants began the process of re-stocking in anticipation of a continuance of the more buoyant conditions which had become evident towards the end of the previous year. During the period January-June, 1960, net retained imports were running at an annual level of £69.1 million, the same as the previous record figure achieved in 1955. This initial promise was not maintained as political uncertainty made itself felt in a tendency for consumers to defer purchases of non-essential goods and for merchants to cut back on imports in an attempt

to reduce their inflated stocks. The rate of imports in the first half of 1960 was 21 per cent higher than the 1959 average, but in the second six months only 7 per cent higher. Imports of capital goods followed this general pattern, except that the longer period between the time of placing an order and actual delivery meant that the falling off in capital imports during the second half of 1960 was not so marked as for consumer goods.

The Financial Background

10. The deficit in Kenya's overseas balance of payments is covered by earnings arising from trade with and services rendered to the other East African territories, and by the inflow of funds from abroad on capital and current account. The seasonal pattern of Kenya's exports normally places some strain on the liquidity position of the banks, and this applies to the whole of East Africa, but during the first part of 1960 further strain was experienced owing to movement of money from the territories as a result of political instability which also caused a reduction in the inflow of funds. While in normal times the liquidity ratio of the commercial banks should be about 30 per cent of their total deposits, this ratio had fallen to as low as 10 per cent at the end of June, 1960, due to the continued demand for bank loans and advances. By the end of September, bank lendings in Kenya had reached a figure of £44 million which meant that they were leaning heavily on overseas resources.

11. This position was not one which could be allowed to continue and early in 1960 the banks had already taken steps to restrict credit, and later further action was taken by upward adjustment of the rate structure. By early 1961 this action began to prove effective and a reduction in loans and advances brought them into a more realistic relation to deposits. While there is evidence that the outflow of funds continued during the latter part of 1960 the published statistics of the commercial banks indicate some improvement in their net overseas balances by the end of the year. Because of the link with sterling through the East African Currency Board system the safety of the currency had gradually become appreciated.

12. The following table shows in summary form the trend in the ratio of advances and deposits at the end of each year from 1955.

DEPOSITS AND ADVANCES OF THE COMMERCIAL BANKS IN KENYA, 1955-1960

Table 3 *£ million*

31st December,	Deposits	Advances
1955	57.9	41.3
1956	51.4	35.7
1957	53.0	39.2
1958	52.2	34.3
1959	56.9	37.5
1960	50.2	42.2

Capital Formation

13. Revised estimates of capital formation in 1959 show that the level of investment in that year was approximately the same as in 1958, which in its turn was some 12 per cent lower than the level achieved in the peak years of 1956 and 1957. Provisional estimates indicate that at £41 million little improvement took place in 1960. Investment in the public sector remained unchanged, a fall in capital expenditure by the Railways and Harbours Administration offsetting the build up of expenditure on the road programme and military projects. Purchases of jet aircraft by the East African Airways Corporation, together with higher expenditure on private cars, had the effect of causing a rise of approximately£1/2 million in capital expenditure on private account. At most other points in the private sector, however, a decline in investment expenditure was evident as a result of the lack of confidence which gathered momentum during the year and which led to a deferment of plans either to establish new enterprises in Kenya or to expand existing capacity. The level of capital imports during the year and the static position of the building industry, as indicated by its gross product, confirm this position. At the same time it is clear that because of the time lag between the initial plans for capital development and their actual implementation the full impact of the cutting back of capital investment has not yet made itself felt. The falling away in the value of building plans approved by the Nairobi City Council throughout 1960 and the even more disastrous decline recorded in the first quarter of 1961 supply ample proof of this.

Summary

14. Incomes and profits expanded in 1960, largely as a result of the increased output in the agricultural sector which to some extent was reflected in a higher level of activity in other industries and services depending upon agriculture. The indications are that consumer spending did not expand to the same extent since consumers tended to defer the purchase of certain categories of goods, and to transfer funds abroad. The fears which led to this attitude also caused distributors to reduce their stocks and to convert their assets into as liquid a form as possible, resulting in a drop in imports from the high level at which they had been running during the first half of the year. This process was further accelerated towards the end of the year by the measures introduced by the commercial banks to protect their liquidity. The buoyancy of the economy during the early months of 1960 had largely dissipated itself by the end of the year. The number of bankruptcies as reported by the Official Receiver in the second half of 1960 was more than twice that of the first half, while the estimated liabilities of bankruptcies reported in the fourth quarter were nearly four times the total of those associated with bankruptcies during the first three quarters.

15. The same general uncertainty which caused a reduction in the current purchase of goods and services also led to a cancellation or postponement of investment plans. The full force of this did not become apparent during 1960,

largely because capital expenditure in the public sector remained at much the same level as in the previous year and for the special reasons noted in paragraph 13. In spite of the serious shortfall in revenue from import duties as a result of the fall in imports, total expenditure by the Kenya Government is expected to increase in the financial year 1960/61. This has been made possible largely through the generous assistance of the United Kingdom Government in meeting the cost of maintaining the East African Land Forces, in bearing part of the salaries and other emoluments of overseas officers and through other direct assistance. This continuing boost to the economy, together with the good performance of agriculture, the high level of activity generally in the early part of the year and the time-lag in cutting back on capital investment, succeeded in bringing about the overall increase in the gross domestic product for the year. The fact that the full consequences of reduced private spending and capital investment had not made themselves felt during 1960 contains a warning for economic prospects in the immediate future.

16. Chapters 2-7 of this survey discuss the position in 1960 in each of the major sections of the economy, while an attempt to forecast the likely trend of economic development in the current year is made in Chapter 8.

CHAPTER 2—EXTERNAL AND INTER-TERRITORIAL TRADE

Introduction

1. The extent and composition of Kenya's external trade is that common to many countries at a similar stage of development, importing consumer goods, most kinds of capital equipment and some non-indigenous raw materials and exporting predominantly agricultural products. The expansion in recent years of the value and range of locally manufactured articles has done little to change this basic pattern and in 1960 the value of Kenya's external trade amounted to 45 per cent of the gross domestic product, compared with 35 per cent for the United Kingdom and 6 per cent for the U.S.A. The following table summarizes Kenya's external trade in recent years: —

EXTERNAL TRADE, 1954-1960

Table 4 *£ million*

	1954	1955	1956	1957	1958	1959	1960
Net Imports—							
Commercial	49.0	57.4	61 .8	64.9	56.4	57.7	65.0
Government	11.3	14.1	8.0	7.1	4.5	3.8	5.1
Total	60.3	71.5	69.8	72.0	60.9	61.5	70.1
Re-exports	2.5	2.3	4.0	4.9	3.9	5.1	5.0
Retained imports	57.8	69.2	65.8	67.1	57.0	56.4	65.1
Domestic exports	20.3	25.7	29.0	26.4	29.3	33.3	35.2
Adverse visible balance	-37.5	-43.5	-36.8	-40.7	-27.7	-23.1	-30.0

2. Domestic exports rose for the third successive year although the increase of just under 6 per cent was relatively lower than that recorded in 1958 and 1959. This increase in domestic exports resulted entirely from a rise in the quantity of goods sold abroad, since the export price index showed no change. As a result the terms of trade once again moved against Kenya to the extent of some 3 per cent. This was worse than in the period 1957-1959 when an average annual deterioration of about 1 per cent was recorded, but much better than in the period 1954-1957 when the terms of trade moved against Kenya by 6 per cent per annum on the average.

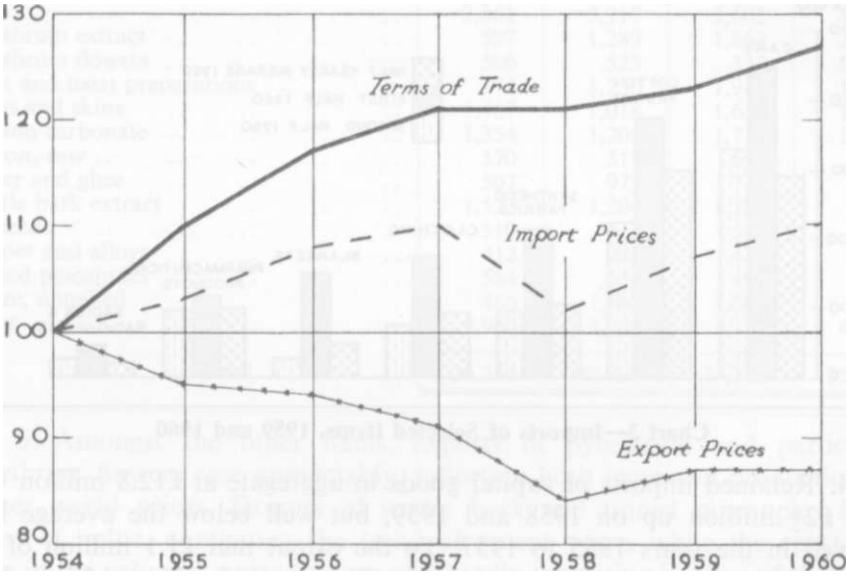


Chart 2—Terms of Trade, 1954-1960
(1954 =100)

Pattern of Trade

3. The overall increase of 14 per cent in net imports conceals some important differences between the various groups of commodities. Imports of food, for example, actually fell by 25 per cent, largely as a result of greatly reduced imports of sugar and rice from outside East Africa. Consumer goods (other than food, drink and tobacco), on the other hand, at £17.3 million showed an increase of 18 per cent and were well above the level of any previous year. Imports of road passenger vehicles at £3.9 million were 27 per cent greater than the previous peak of £3.1 million in 1957. Increases in the value of imports between 1959 and 1960 were also recorded for cotton fabrics (16 per cent), synthetic fabrics (48 per cent), clothing (35 per cent), blankets (85 per cent) and wireless sets and radiograms (51 per cent). The easing of quota restrictions on imported Japanese fabrics and clothing towards the end

of 1959, coupled with the low level of stocks in Kenya at that time, gave impetus to the buoyant demand for textile imports in the first and second quarters of 1960. In the remaining six months, however, not only were textile imports 46 per cent lower than in the first half of the year but were 13 per cent lower than in the second half of 1959, which was by no means an exceptional year for this class of imports. Some indication of the magnitude of the reversal in the trend of imports that occurred in mid-1960 may be obtained from the following chart which compares the value of imports of selected items in the second half of the year with that in the first half. The half-yearly average imports in 1959 are also shown.

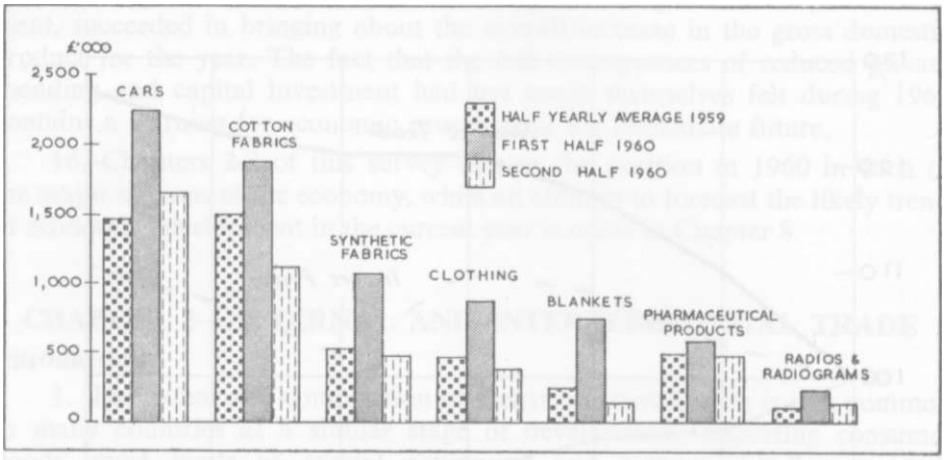


Chart 3—Imports of Selected Items, 1959 and 1960

4. Retained imports of capital goods in aggregate at £12.8 million were some £2 1/2 million up on 1958 and 1959, but well below the average level achieved in the years 1955 to 1957. To the extent that £1.1 million of this increase derived from higher imports of rolling stock for East African Railways and Harbours, the whole of which was debited to Kenya in the trade accounts, a misleading picture of capital investment in the Colony during 1960 is obtained from these figures. Higher imports of commercial vehicles (+ £0.7 million), tractors for the road building programme and electrical machinery accounted for the remainder of the increase in capital imports. A decline in imports during the second half of 1960 was also evident in the case of certain items of capital equipment, notably industrial and commercial machinery, agricultural machinery and implements and commercial vehicles. Imports of producers' materials in 1960 amounted to £24 million, a 20 per cent increase on 1959.

5. Table 5 shows the performance in the last few years of the more important items entering into Kenya's export trade. A notable feature of 1960 was the steep rise in the value of sisal and tea exports caused by increases in both price and quantity for these commodities. Sisal has now replaced tea as Kenya's second largest export, while coffee still remains the most important

export in spite of the effect of lower prices on the export value of this commodity in 1960. In terms of value, the contribution of coffee to export earnings has fallen progressively from 41 per cent in 1957 to 29 per cent last year.

DOMESTIC EXPORTS

Principal Commodities by Value, 1957-I960

Table 5 *Ã'000*

	1957	1958	1959	1960
Coffee	10,793	10,405	10,577	10,261
Sisal	2,078	2,228	3,458	4,566
Tea	2,861	3,217	3,602	4,411
Pyrethrum extract	597	1,289	1,863	2,019
Pyrethrum flowers	506	525	333	1,006
Meat and meat preparations	374	1,230	1,987	1,845
Hides and skins	1,467	1,018	1,635	1,756
Sodium carbonate	1,354	1,205	1,713	1,317
Cotton, raw	370	515	658	842
Butter and ghee	507	973	711	735
Wattle bark extract	1,522	1,204	1,206	730
Oil seeds	510	512	572	562
Copper and alloys	412	386	436	452
Tinned pineapples	584	555	491	443
Maize, unmilled	466	1,867	1,092	178
Other	1,960	2,351	3,152	4,065
Total	26,361	29,300	33,306	35,188

6. Amongst the other items, exports of pyrethrum and particularly pyrethrum flowers rose appreciably, reflecting both increased production and higher world prices. Exports of wattle bark and tinned pineapples fell in terms of value, continuing the trend of recent years, while the spectacular drop in the value of maize exports was hardly surprising in view of the failure of production of this crop to meet internal requirements. Exports of cattle products showed little change from the preceding year, while cotton exports continued the steady climb from the severe set-back of 1957.

7. Re-exports at £5.0 million were much the same as in 1959. The two main markets were the United Kingdom and Japan. The latter imported scrap metal to the value of over £ 1/2 million in 1960.

Direction of Trade

8. The import figures analysed by country of origin relate to direct imports, that is imports into Kenya from outside East Africa, and include commodities subsequently transferred to Tanganyika and Uganda. In 1960 direct imports from the United Kingdom amounted to £30.7 million, an increase of only 4 per cent over the previous year's performance compared with a 14 per cent increase in total imports. Since imports from many other Sterling Area countries fell imports from the Area as a whole, at £43.7 million, dropped by 1 per cent from 1959 and its share of total imports declined from 55 per cent to 49 per cent. By way of contrast the European Common Market

countries continued to expand their exports to Kenya which rose from £12.3 million in 1958 and £12.6 million in 1959 to £15.9 million, with the result that their share increased from 14 per cent to 17.7 per cent over the last year. Imports from the United States of America rose from £2.9 million in 1959 to £5.0 million in 1960, but the most spectacular performance was that of Japan, from which imports at £8.9 million were more than double the 1959 figure. This leap may be partly explained by the composition of Japanese imports which consist largely of consumer goods; textiles alone accounted for 62 per cent of the imports from that country in 1960. The boom in the import of consumer goods in the first part of the year acted particularly strongly in Japan's favour.

9. Of total domestic exports amounting to £35.2 million in 1960, the United Kingdom took £8.8 million, or 25 per cent, and the Sterling Area as a whole £14.6 million (42 per cent). This represents little change from the 1959 position, although some of the smaller countries in the Area imported considerably more from Kenya in 1960 than in the immediately preceding years. Exports to Australia (£0.7 million) and India (£1.2 million), on the other hand, fell by some 20 per cent. Of the European Common Market countries, Western Germany, which takes most of Kenya's coffee and which last year looked likely to replace the United Kingdom as Kenya's principal export market, imported from Kenya goods to the value of £6.5 million, 19 per cent less than in 1959. The other live countries of the Community showed an increase of 11 per cent, but it was the dollar account countries which absorbed most of the increase in Kenya's exports. The U.S.A. took £3.9 million as against £2.7 million in 1959, and Canada £0.8 million compared with £0.5 million. Exports to the Far East also increased, with China taking 50 per cent more at £351.000 and Japan up by 5 per cent to £1.4 million.

10. Markets in nearby countries, although comparatively small, continued to increase slowly in importance. Mauritius and Aden were particularly good customers in 1960, while South Africa, Rhodesia and Nyasaland, and Somalia all imported more than in 1959. Among Middle East countries, exports to Israel fell from £245,000 to £62,000, but Egypt, Iraq, Lebanon, Libya, Saudi Arabia and Syria made up for this to a considerable extent by importing £250,000 worth of goods from Kenya compared with £154,000 in 1959. Domestic exports in aggregate to the Middle East and neighbouring countries in Africa totalled £4.1 million in 1960 compared with £3.7 million a year earlier and £2.9 million in 1954.

Interterritorial Trade in Local Produce

11. Kenya's volume of trade with the adjoining territories of East Africa is about 12 1/2 per cent of that with countries outside East Africa and in 1960 the positive balance earned on this interterritorial trade reduced the visible trade deficit on external transactions by £7 million. Imports from Uganda and Tanganyika in 1960 rose by £1.5 million to a figure of £7 million, the greater part of this increase being accounted for by imports of unrefined sugar from

Uganda, which has replaced some of the sugar imported into Kenya from outside East Africa. Exports of Kenya produce to Tanganyika and Uganda in 1960 amounted to £13.8 million compared with £12.3 million in 1959. About 75 per cent of this increase derived mainly from sales to Tanganyika and was spread over nearly all commodities, the only items to fall being wheat, flour and tea. The principal export items entering into Kenya's inter-territorial trade were tobacco, manufactured and unmanufactured, cereals, wheat flour and meal, building cement, clothing, footwear, beer, soap and cleansing preparations; these in aggregate made up 50 per cent of the value of Kenya's exports to the other territories. Unrefined sugar, unmanufactured tobacco, vegetable oils and cotton piece-goods accounted for nearly 60 per cent of the value of Kenya's imports from Uganda and Tanganyika.

12. The following table summarizes Kenya's interterritorial trade with her two neighbours in 1959 and 1960: —

INTER-TERRITORIAL TRADE, 1959 AND 1960

Table 6 *£ million*

FROM/TO	1959		1960	
	Imports	Exports	Imports	Exports
Tanganyika	1.9	6.5	1.9	7.6
Uganda	3.6	5.8	5.1	6.2
Total	5.5	12.3	7.0	13.8

CHAPTER 3— AGRICULTURE

General

1. In spite of the serious drought of recent months the year 1960 as a whole was by no means a bad one from the point of view of agricultural production and income. Three principal export crops, tea, sisal and pyrethrum, were produced in record quantities and commanded good prices, and although the coffee section of the industry was overshadowed by the world surplus of that crop, production in the 1959/60 season was fully maintained at the previous season's level while the average price realized was only slightly lower. The cereals section had a mixed year. Wheat deliveries from the 1959/60 season were higher than for some years but deliveries of maize to the Maize Marketing Board were lower and barley production was adversely affected owing to the sharp cut in purchases by the local maltings factory.

2. Butter production and milk sales showed an advance in spite of the dry season but the need for supplementary feeding to offset the declining quality of pastures inevitably led to higher production costs and lower profitability. The Kenya Meat Commission purchased record numbers of cattle in 1960 and the success of this organization in recent years has been a bulwark to the stability of the agricultural industry as a whole. On the other hand the confidence of pig producers has not been restored in spite of the fact that the

difficulties of two years ago have been largely overcome. Purchases of pigs by the Pig Industry Board were less than in 1959 and there has been a sharp drop in the Colony pig population.

3. Accurate estimates of the production of food crops that fail to reach recognized marketing points are unavailable but the dry months at the end of the year jeopardized the position in nearly all areas, particularly in Southern, Rift Valley and Central Provinces. Famine relief measures have been operating in a number of districts during the last few months and will have to continue until the newly planted crops are ready for harvest. Good rains during the rest of the year are vital to overcome the shortage of food. However, the estimated gross revenue from cash crops and marketed livestock originating from both the Scheduled and Non-scheduled Areas rose from £42.3 million in 1959 to £47.5 million in 1960, representing a most satisfactory rise of 12 per cent. African farms in the Non-scheduled Areas contributed 20 per cent of this total as in 1959. An analysis of farm revenue earned in the Scheduled Areas and non-African farms in the Coastal Strip is set out in Table 11 while that for the Non-scheduled Areas appears in Table 15. The following diagram shows the relative share of revenue accruing to these two major divisions of agriculture in recent years: —

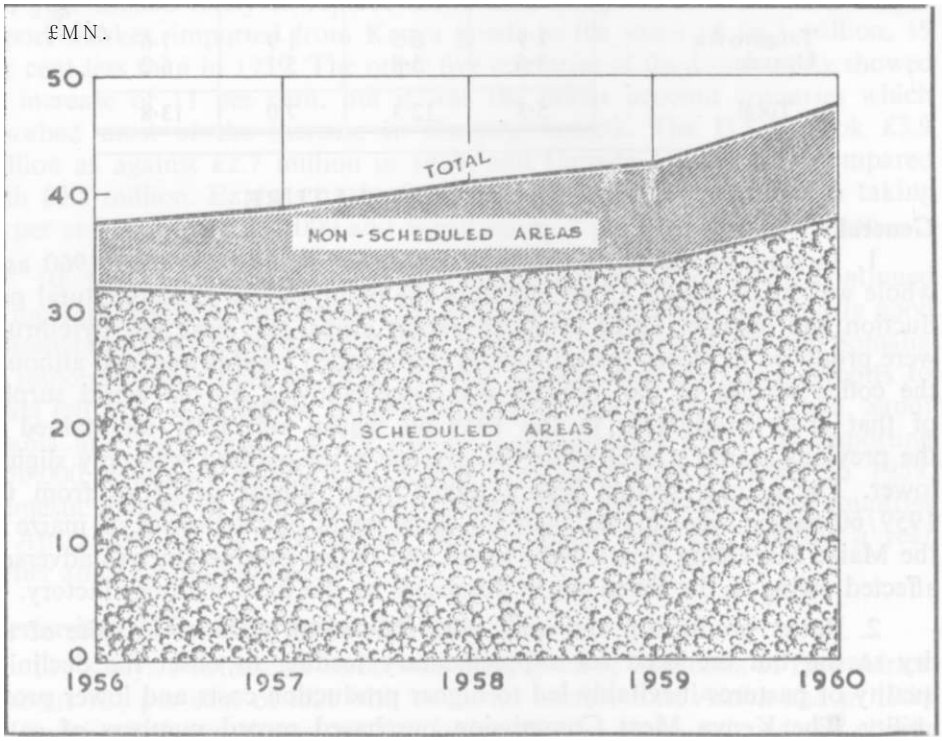


Chart 4—Gross Cash Farm Revenue, 1956-1960

4. Exports of agricultural products totalled £32 million compared with £30 million in 1959 and represented 90 per cent of all exports in 1960 com-

pared with 91 per cent in 1959. This underlines the importance of agriculture's contribution to the Colony's export earnings and to the buoyancy of the economy in general. The long and severe drought that has recently affected the country and jeopardized the out-turn of both crops and livestock products must therefore lead to a cautious view of the economy in the current year. A setback for agriculture such as may result from the recent long and severe drought, must be regarded as a setback for the economy as a whole.

The Scheduled Areas (including the Coastal Strip)

5. The farming area described in the Agriculture Ordinance of 1955 as the Scheduled Areas, with the addition of European and Asian farms in the Coastal Protectorate, consisted in 1960 of 3,609 agricultural holdings of 20 acres or more and in total covered 12,100 square miles of land. The average size of holding was 2,142 acres, although half of the farms were smaller than 890 acres. In 1960, 1,139,200 acres or 15 per cent of farming land in the Scheduled Areas and the Coastal Strip were under crops. The most striking changes in crop acreages in the last year were the continued decline in the acreage of cereals and the further expansion in the acreage of permanent crops, notably of pyrethrum which increased by 42 per cent. There are now more farmers growing pyrethrum in the Scheduled Areas than any other crop except maize. The total acreages under each individual crop over the last three years are set out in the following table: —

SCHEDULED AREAS AND COASTAL STRIP

Table 7 *Analysis of Total Crop Acreages, 1958-1960* *'000 acres*

	1958	1959	1960
Wheat	247.0	253.9	247.9
Maize	148.3	134.6	142.4
Barley	61.5	47.2	31.3
Oats	34.2	30.1	28.0
Total (cereals)	491.0	465.7	449.6
Sunflower and linseed	18.1	14.8	14.1
Other temporary crops (including employees' cultivation)	124.7	137.5	139.6
Total (other temporary crops)	142.7	152.2	153.8
Coffee	64.4	67.8	71.2
Tea	32.9	36.1	37.0
Sisal	243.7	243.2	244.8
Wattle	88.2	85.7	85.5
Pyrethrum	22.3	27.9	39.7
Sugar	27.4	36.2	42.2
Coconuts and kapok			6.5
Fruit	6.1	8.2	9.3
Total (permanent crops)	485.1	506.8	536.2
Total (all crops)	1,118.8	1,122.9	1,139.2

6. The rearing of livestock in some form is a vital part of the pattern of mixed farming followed by the majority of farmers, and between 1959 and 1960 there were a number of interesting changes in livestock populations. Sheep and beef cattle recorded further increased numbers but the population of pigs fell for the second year running. For the first time since an annual census was taken a fall was recorded in the numbers of dairy cattle.

SCHEDULED AREAS AND COASTAL STRIP

Analysis of Total Numbers of Livestock, 1958-1960

Table 8 *'000 head*

	1958	1959	1960
Dairy cattle	411.0	427.9	412.7
Beef cattle	506.1	532.4	566.9
Sheep	488.4	548.7	582.6
Pigs	70.2	68.2	50.5
Poultry	206.1	242.6	255.8

7. These differing trends can, in general, be seen to reflect producers' present expectations or recent experiences. Two relatively dry seasons and an uncertain world butter market have halted what up till 1960 was a progressive expansion of the numbers of dairy cattle while confidence in the pig industry remains unrestored after the severe setback of 1958. The loss of a small percentage of what were almost certainly marginal milk producing cows will not necessarily prevent a further increase in dairy production, provided the industry does not suffer another dry year, but the reduction in the numbers of pig breeding stock by 30 per cent between 1959 and 1960 must jeopardize the level of pig slaughters which in 1960 was already below that of the previous year. On the other hand it is hoped that the recent increase in the prices of pig meat will provide the stimulus required to restore production to a higher level. The beef industry in recent years has progressed from strength to strength and the beef cattle population has risen with the level of prosperity in this section of the industry. Limitations in the rate of natural increase are, however, likely to check further growth if the numbers sent forward for slaughter each year continue to expand.

8. Sheep rearing has increased in volume rapidly over the last few years, largely due to a greater concentration on woolled sheep which in 1960 represented 79 per cent of all sheep compared with 68 per cent four years ago. The Kenya wool clip is rising each year, but since it is sold almost entirely on the London market or in Bradford it is subject to the frequent variations of the world price. In the last year the prices received for wool fell, but the most recent market intelligence indicates firmer levels although the current clip is likely to be adversely affected by the drought.

9. A number of crops grown in the Scheduled Areas and the Coastal Strip were produced in record quantities in 1960. Sisal production at 60,700 tons was higher than 1959, the previous record year, by 13 per cent. Manu-

factured tea production was 10 per cent higher than 1959, which was the previous record year for this crop. Deliveries of pyrethrum flowers in 1960 recorded a spectacular increase of 60 per cent over 1959, although in fact the level was still below the 1945 record. Wheat deliveries more than recovered from the low level of 1959 and only coffee, maize and barley recorded lower production of any significance in the crop year 1959/60. The production of the principal crops over the last three seasons is set out in the following table: —

SCHEDULED AREAS AND COASTAL STRIP

Table 9 — *Crop Production#, 1958-1960* — *'000 tons*

	1958	1959	1960
Wheat	102.1	96.2	126.7
Maize	120.6	104.1	95.6
Barley	27.7	26.1	20.7
Oats	11.8	9.7	9.7
Sugar cane*	230.0	290.0	335.0
Sunflower seed	2.0	2.7	2.4
Coffee—clean	18.5	19.6	18.8
Tea—manufactured	11.2	12.3	13.5
Sisal fibre and tow	46.0	53.7	60.7
Wattle—green bark	29.0	23.4	23.6
stick bark	7.1	4.8	7.4
Pyrethrum flowers	3.4	4.2	6.7

***A**pproximate estimate only, no reliable information available.
Production in the crop season 1959/60 is shown under 1960.

10. Deliveries of livestock products from farms were also in the main running at record levels in 1960. The drought caused slightly lower deliveries of butterfat but wholemilk sales from the farms were more than maintained. Apart from pigs and calves more livestock were sold for slaughter than in the previous year. Egg sales rose by 34 per cent and wool sales by 6 per cent.

SCHEDULED AREAS AND COASTAL STRIP

Table 10 — *Livestock Production, 1958-1960*

		1958	1959	1960
SALES OF LIVESTOCK FOR SLAUGHTER:—				
Cattle	'000 head	76.5	96.9	103.6
Calves	'000 head	12.6	10.3	8.7
Sheep	'000 head	32.2	47.8	51.0
Lambs	'000 head	9.3	10.4	13.9
Pigs	'000 head	65.0	75.5	70.5
Poultry	'000 head	69.6	91.5	114.0
SALES OF DAIRY PRODUCTS:—				
Wholemilk	'000 gallons	17,147	18,375	18,954
Butterfat	'000 lb.	11,066	11,565	11,439
Butter	'000 lb.	264	211	163
Cheese	'000 lb.	234	171	189
OTHER PRODUCTS:—				
Eggs	'000 doz.	1,445	1,419	1,906
Wool	'000 lb.	1,815	2,115	2,246

11. The average producer returns for almost all agricultural products in 1960 showed an improvement over the previous year. Even the average return received for coffee was only slightly lower in the 1959/60 season compared with 1958/59. Overall there was an increase in the gross farm revenue in the Scheduled Areas and Coastal Strip of 12 per cent. Table 11 sets out the final estimates of gross farm revenue for 1958 and 1959 and the provisional estimates for 1960.

SCHEDULED AREAS AND COASTAL STRIP

Analysis of Gross Farm Revenue, 1958-1960

Table 11 *£'000*

	1958	1959	1960
Wheat	2,927	2,702	3,454
Maize	2,372	1,576	1,710
Barley	646	502	388
Oats	206	149	142
Total (cereals)	6,151	4,929	5,694
Sunflower and linseed	62	84	58
Other temporary crops	1,114	1,081	1,243
Total (other temporary crops)	1,176	1,165	1,301
Coffee (including mbuni)	8,306	7,699	7,150
Sisal	2,433	3,641	4,728
Tea	4,035	4,393	5,323
Pyrethrum	1,067	1,233	2,100
Sugar	680	697	778
Wattle and other	461	376	341
Fruit	413	588	651
Total (permanent crops)	17,392	18,627	21,071
Total (crops)	24,719	24,721	28,066
Cattle and calves for slaughter	2,164	2,412	2,652
Sheep and lambs for slaughter	131	184	201
Pigs for slaughter	678	742	743
Poultry and eggs	336	294	356
K.M.C. bonus	–	87	45
Livestock for breeding and fattening	615	710	723
Wool	309	331	367
Total (livestock)	4,233	4,760	5,087
Wholemilk	2,288	2,434	2,662
Butterfat	1,315	1,593	1,613
Butter, cheese and cream	91	77	83
Skim milk	341	361	359
Total (dairy products)	4,035	4,465	4,717
Total (livestock and dairy)	8,268	9,225	9,804
TOTAL GROSS REVENUE	32,987	33,946	37,870

12. The value of cereals production is estimated to have risen by 15 per cent between 1959 and 1960 largely due to the steep rise in wheat production, but also partly due to an increased average return for maize resulting from the fact that there was a lower deduction to the payout arising from export losses. This increase was more than sufficient to offset the lower deliveries of maize.

13. The coffee payout in the Scheduled Areas was down by some million reflecting mainly the drop in production of 800 tons, although the average return per ton was reduced from £385 to £376. However, the reduced gross revenue from coffee was more than offset by the increased revenue earned by the other major permanent crops. Estimated revenue from tea rose by 21 per cent, from sisal by 30 per cent and from pyrethrum by 70 per cent as a consequence of increased production coupled with higher prices ruling in the export markets. The gross revenue from permanent crops which are in fact the major export crops rose in total by £2.4 million or 13 per cent.

14. With a greater amount of wholemilk taken into the first pool and a higher price paid for butterfat, revenue from dairy farming rose by 6 per cent in 1960 while increased deliveries of livestock for slaughter largely caused the 7 per cent revenue increase from the sale of livestock.

15. Farm revenue in 1961 should be as high as in 1960, although much will depend on an ample fall of rain during the rest of the year. The coffee crop for the current season ending in June, 1961, is now largely secured and the crop from the Scheduled Areas is expected to be some 7,000 tons higher than in the 1959/60 season. On the other hand the price received by the growers is likely to drop from £376 per ton to approximately £325 per ton owing largely to the effects of the drought on the quality of coffee produced. Pyrethrum deliveries in the first quarter of 1961 were 4 per cent higher than in the first quarter of 1960 but on the other hand the dry weather has caused lower production of tea and butter in the first quarter of the current year although the final 1961 production out-turns could still reach their 1960 levels if the weather allows. Output of cereals is expected to be lower than in the previous season.

16. The beef producers have reacted to the drought by sending more beasts to the Kenya Meat Commission for slaughter. With its canning facilities the Commission has been able to handle this increase but future cattle supplies may possibly be affected by these recent enforced deliveries. On the other hand there are still large numbers of calves slaughtered in the Scheduled Areas rather than raised to maturity for beef and the destocking programmes in a number of districts of the Non-scheduled Areas could, if successful, lead to a temporary increase in the numbers of stock coming forward from these areas. The restoration and improvement of grazing is, however, vital to the immediate prosperity of the beef industry.

17. In view of the political uncertainty which prevailed throughout 1960, and the resulting flow of funds out of the Colony, it is perhaps surprising that that the level of investment in farming in the Scheduled Areas should have been fully maintained in the census year ending 31st August, 1960. This phenomenon is considered sufficiently interesting for the detailed investment expenditure to be set out in the following table: —

SCHEDULED AREAS AND COASTAL STRIP

Analysis of Capital Expenditure, 1957/58-1959/60

Table 12 *£'000*

	1957/58	1958/59	1959/60
TOTAL EXPENDITURE:—			
Residential buildings:			
(a) African	384	355	360
(b) Non-African	565	477	470
Non-residential buildings	590	521	638
Roads, dams, drainage and water supplies	650	530	535
Fencing	277	262	253
Plantation development	1,112	1,279	1,271
Vehicles (excluding tractors)	818	838	815
Mechanical equipment (including tractors)	1,132	1,237	1,223
Other	362	301	363
TOTAL GROSS EXPENDITURE	5,891	5,800	5,928
TOTAL SALES:—			
Vehicles (excluding tractors)	178	200	185
Mechanical equipment (including tractors)	121	152	156
TOTAL SALES	299	352	341

Non-Scheduled Areas

18. The land available for agriculture and grazing outside the Scheduled Areas consists of 191,000 square miles, of which only some 18,200 square miles have sufficient rainfall in a normal year to allow the cultivation of crops. The remaining 173,000 square miles are suitable only for extensive grazing of livestock. As in the Scheduled Areas, there is therefore a fairly sharp division between agricultural and pastoral activities although in both areas agriculture follows in general a pattern of mixed farming with both crops and livestock.

19. There is at present insufficient knowledge regarding the number of farms in and the production from the Non-scheduled Areas but there is ample evidence to demonstrate the emergence of small-scale farmers from the tradi-

tional pattern of subsistence farming to a modern commercial basis. These farmers still generally grow sufficient food to meet the needs of themselves and their families but in addition play an increasingly important part in earning the export revenues of the Colony. The marketed production of some of the more important crops is set out in Table 13: —

NON-SCHEDULED AREAS

Principal Crops Marketed, 1958-1960*

Table 13 *'000 tons*

	1958	1959	1960
Maize	69.6	79.7	73.2
Rice paddy	5.3	4.3	9.8
Castor seed	4.6	1.8	1.6
Vegetables and fruit	15.1	12.1	13.4
Coffee—clean	2.3	3.6	4.6
Tea—manufactured	-	0.1	0.1
Sisal fibre and tow	-	1.5	2.7
Cotton lint	4.6	6.9	7.9
Wattle bark	25.4	18.1	19.0
Pyrethrum flowers	0.4	0.6	1.8

*Production in the crop season 1959/60 is shown under 1960.

20. In the current season coffee production is expected to rise by 2,400 tons to 7,000 tons, 22 per cent of the total Colony crop, and the production of pyrethrum flowers by 2,700 tons to 4,500 tons. On the other hand deliveries of maize are likely to be well down due to the effects of the drought.

21. The sale of livestock is also an important form of cash income and in the pastoral areas it is usually the only source. Largely due to destocking programmes in a number of districts sales of cattle from the Non-scheduled Areas to the Kenya Meat Commission have risen steeply over the last three years and now account for 35 per cent of total cattle handled, although on the other hand sales of sheep and goats have declined. Pig sales have virtually ceased.

NON-SCHEDULED AREAS

Purchases of Livestock by the Kenya Meat Commission, 1958-1960

Table 14 *'000 head*

	1958	1959	1960
Cattle	25.3	43.5	53.8
Sheep and goats	130.2	108.4	107.0

22. The following table of cash revenue received by producers indicates the rising trend in the value of agricultural output sold outside the district of production: —

NON-SCHEDULED AREAS

Analysis of Gross Revenue from Marketed Production, 1958-1960

Table 15 *£'000*

	1958	1959	1960
Maize	1,118	1,006	960
Rice	138	103	265
Other cereals	127	128	118
Total (cereals)	1,383	1,237	1,343
Cotton	348	499	545
Tobacco	52	35	39
Castor and other oil seeds	329	173	241
Total (temporary industrial crops)	729	707	825
Pulses	373	294	307
Potatoes	60	96	125
Vegetables, fruit and flowers	306	247	259
Total (other temporary crops)	739	637	691
Coffee (including mbuni)	1,266	1,830	2,241
Tea	–	40	66
Sisal	3	65	284
Wattle	267	193	231
Pyrethrum	89	200	545
Sugar	–	20	16
Coconuts and products	236	405	289
Total (permanent industrial crops)	1,861	2,753	3,672
Cashew nuts	57	120	193
Bananas	92	83	76
Pineapples	71	51	49
Other fruit	30	54	50
Total (fruit)	250	308	368
Miscellaneous other crops	263	335	277
Total (crops)	5,225*	5,977	7,176
Cattle and calves for slaughter	1,876	1,848	1,955
Sheep and goats for slaughter	242	248	248
Pigs for slaughter	153	25	8
Poultry and eggs	64	74	57
Dairy products	200	178	180
Total (livestock and dairy products)	2,535	2,373	2,448
TOTAL GROSS REVENUE	7,760	8,350	9,624

*Excluding value of A.D.C. cesses.

23. The provisional estimates of the value of marketed production for 1959 published in the Economic Survey, 1960, have been revised in the light of additional information obtained which has had the effect of lowering the previously published estimate from £9,096,000 to £8,350.000. The main part of this revision is accounted for by a recalculation of the value of livestock sales.

24. Between 1959 and 1960 the gross revenue received by African farmers for marketed crops and livestock is estimated to have risen by 15.3 per cent following a rise of 7.6 per cent in the previous year. Coffee which in 1960 accounted for 23 per cent of the total, recorded a rise of £411,000 reflecting the rise in production as more trees reached the bearing stage for the first time. The substantial advance in the value of pyrethrum was caused by an increase of 140 per cent over the last two years in the acreage under the crop while the progress of the Mwea-Tebere Irrigation Scheme largely caused the growth in the value of marketed rice. The recovery in the price of sisal and a shortage of food in Southern Province led to a substantial increase in sisal cutting and the rise in sisal income in the Non-scheduled Areas to a level four times that of 1959. Cotton income was still important but failed to reach its potential level owing to the failure of farmers to seize the opportunity made available by the strong market position of this crop. The value of livestock marketed failed to increase in proportion to the number of head slaughtered since the quality of beasts offered, and thus the price received, was lower.

25. The value of marketed produce from the Non-scheduled Areas is now rising each year and can be seen to spring to a substantial extent from the spread of land consolidation and enclosure. By the end of 1960, 260,950 farms in the Non-scheduled Areas had been enclosed and nearly 155,000 titles issued. These enclosed farms covered 1.8 million acres or approximately 15 per cent of the land suitable for agriculture.

26. Land consolidation and enclosure has involved a considerable capital investment by Government. In fact, capital investment in the Non-scheduled Areas has in the main been carried out by Government or Government agencies although expenditure by individuals on housing, farm buildings and the development of cash crops has grown considerably in recent years, particularly in the consolidated areas. The difficulties of obtaining finance have, however, in the past, held back the advance of investment by individuals but an International Bank loan of £1 million is now available for the provision of loans to African farmers. £1 million from the same source is also to be spent on the improvement of produce roads in order to facilitate the prompt marketing of crops. A Special Crops Development Authority has been set up and will first concern itself with the development of tea in the Non-scheduled Areas. Plans exist to increase the acreage of this crop from 2,000 to 11.000 acres by 1966 or earlier, involving an expenditure of £1,150.000 for field development and a further £900,000 for tea factories.

27. The additional funds now obtained to broaden the development of agriculture in the Non-scheduled Areas should accelerate the expansion of cash income that is already occurring but the effects of the recent drought on the basic food requirements of the population dominate the current position. Although it is to be hoped that this is purely a temporary phenomenon and that the development of cash farming with modern techniques will remove the spectre of famine for all time, until the food position is assured the agricultural situation in the Non-scheduled Areas cannot be considered satisfactory.

CHAPTER 4— OTHER INDUSTRIES AND SERVICES

1. Employment and output in most branches of manufacturing remained steady or increased in 1960 as compared with 1959. The gross product of manufacturing industry is estimated to have increased from £20.2 million to £21.6 million, a rise of some 7 per cent, which is much the same as that in the total recorded cash product. The increase in output during 1960 was derived mainly from the expansion of existing industries but several new industries were established during the year, notably for the manufacture of matches, paints and distempers, printing and industrial inks, fluorescent signs, methylated and industrial spirit and shoe polishes. A number of missions were undertaken to overseas countries with the object of attracting textile and other new industrial enterprises. The output of the electricity supply industry continued to expand significantly, reflecting both increased industrial and commercial consumption and a continued rise in domestic sales.

2. Although the private building and contracting industry in 1960 showed no recovery from the depressed level of 1959, it at least did not show any further fall. The gross product of the industry, including the Ministry of Works as well as private firms, is estimated at £7.9 million in both 1959 and 1960, which compares with £9.6 million at its peak in 1957. The value of non-residential buildings. completed in 1960 for private ownership in the six main towns of Kenya was approximately 80 per cent of that of the previous year. For new residential buildings the value of completions in the first three-quarters of the year was as high as 95 per cent of the 1959 performance, but fell to below 60 per cent in the fourth quarter. These figures of completions do not, however, present an up-to-date picture of the state of the building industry, in view of the time lag, particularly in the case of commercial buildings, between the commencement and completion of actual building operations. The value of work done by private firms for private clients did in fact fall severely in the year, but this was counterbalanced by an increase in contracts placed with private firms by the public sector, primarily under the road programme and for military building but for other works also.

3. In the current year no improvement and some deterioration must be expected in the private building industry. Table 16 shows the value of building

plans approved by the Nairobi City Council in each quarter of 1960 and in the first quarter of 1961 as an index based on the average level of approvals in 1958 and 1959.

INDEX OF BUILDING PLANS APPROVED (NAIROBI)

Table 16 *1958/59=100*

	1960				1961
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.
Residential	92	69	42	16	9
Non-residential	162	80	185	10	58

4. Private residential building normally accounts for half or more of the private work of the building industry and it will be seen from the above table that residential building plans approved in Nairobi have declined progressively since early 1960 and in the first quarter of 1961 were at a rate of only 9 per cent of the average level of 1958/59, which was in turn far from a boom period for house building. The building societies through lack of funds, were not in a position to make any fresh loans for house purchases during the second half of 1960, but it is not possible to say to what extent the curtailment of private building arises from this cause and to what extent it derives from the unwillingness of individuals to invest their savings in housing. On either score, no rapid improvement is to be expected. The position is less discouraging for non-residential building. Firstly there are a number of large projects in hand on which work will continue for some time, and secondly the decline in plans approved in Nairobi was less drastic than for residential building. Nevertheless, this will not compensate for the reduction in residential building and it is unlikely that public contracts will be at as high a rate in the current year as in 1960.

5. Among industries supplying the building and construction industry, quarrying remained at a low level. On the other hand, although domestic demand for cement remained stationary, that industry was able to increase production further by the expansion of sales to Tanganyika and local export markets. Chart 5 overleaf illustrates these trends.

6. Activity in the distribution and transport trades was higher in 1960 than in 1959. This reflects higher shipments to both overseas and local export markets and the very heavy volume of imports particularly in the early part of the year. There is reason to believe that this led to heavy overstocking by merchants since retail sales did not expand at the expected rate, although there is little evidence of any substantial decline. A large part of transport and communications activities is in the hands of public authorities. The tonnage

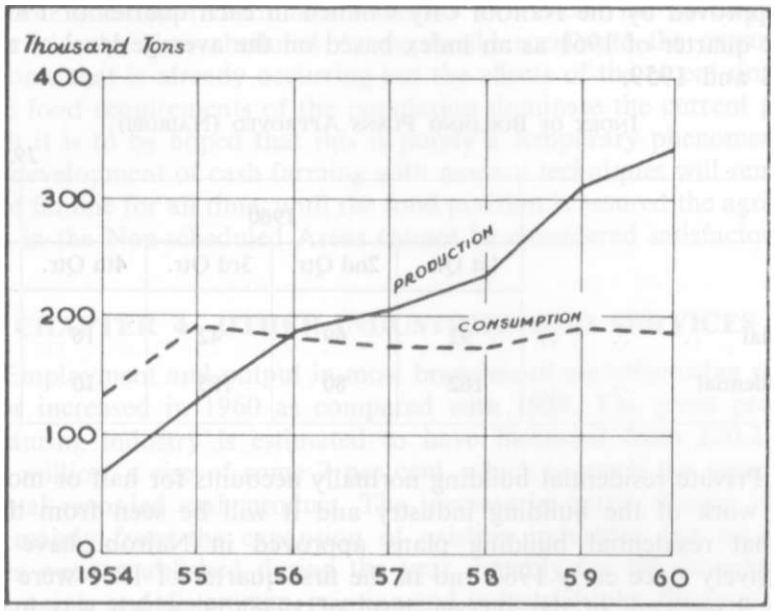


Chart 5—Production and Consumption of Cement, 1954-1960

handled and operating revenue of the railway were both maintained in 1960 and an increase for port operations at Mombasa was recorded. The business of the Posts and Telecommunications Administration also expanded, particularly on the telephone side. The increase in the private sector's contribution to the transport and communications industry arose on the one hand from the greater port activity at Mombasa and, on the other, increased business of the air transport undertakings. The number of motor vehicles registered in 1960 achieved an all-time peak and at 14,100 represented an increase of 10 per cent over the 1959 registrations. In line with the expansion in the number of vehicles of all kinds in use on the roads of Kenya consumption of petrol and light diesel fuel also increased from the 1959 level by 3 per cent and 12 per cent respectively.

7. The increase in the estimated value of the output of services arose partly from an increase in domestic services, and partly from an increase in employment in recreational services and hotels and restaurants. The increase in domestic services was attributable more to higher wages than to an increase in numbers employed. As regards the hotel and associated trades, the recorded number of overseas visitors to Kenya, including holiday and business visitors, rose from 17,000 to over 19,000, but their average length of stay in East Africa, and by implication in Kenya, was shorter than in 1959. The number of transit visitors also showed quite a marked drop. These factors suggest that the demand of East African residents for recreational services was an important factor in maintaining activity in these industries.

CHAPTER 5—EMPLOYMENT, EARNINGS AND THE PRICE LEVEL

Employment and Earnings

1. 622,000 persons of all races were recorded in paid employment in June, 1960. This represents an increase of 4.2 per cent over the position in 1959 and a slight improvement on the previous peak years of 1955 and 1957, when approximately 615,000 persons were reported in paid employment. Table 17 analyses in summary form the numbers in employment and the estimated annual wage bill (as recorded in the Enumeration of Employees) by race and main type of economic activity for 1959 and 1960.

2. Of the total number of 622,200 persons in paid employment, some 560,900 or 90 per cent were Africans, the corresponding percentages for Asians and Europeans being 6 per cent and 4 per cent respectively. Nearly 40 per cent of employed African males were engaged in agriculture, of whom the overwhelming majority were employed on the large farms in the Scheduled Areas. The coverage of African farmers in the annual enumeration of employees is still very restricted, although it is not thought that the African farmer is as yet an employer of a permanent labour force on any extensive scale. Between 1959 and 1960 the number of Africans employed in agriculture increased by approximately 20,000 or 8 per cent. This increase was very closely in line with the rise in real output of non-African farms mentioned in paragraph 1 of Chapter 1. A rise in the employment of non-Africans tells the same story, although undue weight should not be attached to the 16 per cent increase between 1959 and 1960 in view of the relatively small numbers involved.

3. Elsewhere in the private sector the labour force remained more or less stable, the numbers recorded in paid employment increasing from 185,000 in 1959 to 189,000 in 1960. An analysis of reported employment and earnings by broad industrial groups within the private sector is given in Table 18, from which it will be seen that no change of any marked significance occurred in any individual group. In the public services there was an overall increase of only 1,000 in the numbers employed, but this increase resulted from divergent movements in employment by the various administrations which fall within the definition of the public service. Slight decreases in the numbers employed by the Railways and Harbours and Posts and Telecommunications Administrations and in local government were more than offset by an increase of nearly 3,000 in the numbers employed by the Kenya Government. Fuller details of the employment position in the various branches of the public service are presented in Table 19.

4. It must be emphasized that the statistics of employment quoted in this chapter refer to the position as at mid-1960. It is probable that during the second half of 1960 and in the early part of 1961 some reductions in the labour force occurred as a result of private firms cutting back in the face of more difficult trading conditions and the restrictions on credit.

REPORTED EMPLOYMENT AND EARNINGS, 1959 AND 1960

Table 17

YEAR/RACE	PRIVATE INDUSTRY AND COMMERCE		PUBLIC SERVICES		AGRICULTURE AND FORESTRY		TOTAL	
	Numbers Employed	Total Wages £'000 p.a.	Numbers Employed	Total Wages £'000 p.a.	Numbers Employed	Total Wages £"000 p.a.	Numbers Employed	Total Wages £"000 p.a.
1959—								
African	148,023	12,794	139,976	13,223	249,400	8,617	537,399	34,634
Asian	25,050	11,407	11,128	6,180	563	283	36,741	17,870
European	12,033	13,830	8,975	11,306	1,749	1,934	22,757	27,070
TOTAL	185,106	38,031	160,079	30,709	251,712	10,834	596,897	79,574
1960—								
African	151,102	13,898	140,703	14,371	269,077	10,033	560,882	38,302
Asian	25,619	11,758	11,809	6,562	836	412	38,264	18,732
European	12,237	14,486	8,922	11,322	1,848	2,058	23,007	27,866
TOTAL	188,958	40,142	161,434	32,255	271,761	12,503	622,153	84,900

REPORTED EMPLOYMENT AND EARNINGS, 1959 AND 1960

Private Industry and Commerce

Table 18

GROUP	NUMBERS EMPLOYED		TOTAL WAGES £'000 p.a.	
	1959	1960	1959	1960
Mining and quarrying	5,426	5,036	623	577
Manufactures and repairs	53,717	52,333	10,098	10,678
Building and construction	18,897	21,120	2,889	3,252
Electric light, power and water supply	2,486	2,502	694	753
Commerce	37,492	39,025	12,188	12,568
Transport and communications	14,233	14,745	3,530	3,859
Other services (including domestics)	52,855	54,197	8,009	8,455
TOTAL	185,106	188,958	38,031	40,142

REPORTED EMPLOYMENT AND EARNINGS, 1959 AND 1960

Public Services

Table 19

GROUP	NUMBERS EMPLOYED		TOTAL WAGES £'000 p.a.	
	1959	1960	1959	1960
Kenya Government	96,955	99,569	17,271	18,765
E.A. Railways and Harbours	26,983	25,973	6,535	6,341
E.A. Posts and Telecommunications	4,644	4,525	1,569	1,623
E.A. High Commission	3,103	3,102	1,400	1,435
Defence (civilians only)	3,000	3,366	768	723
Local and foreign governments	25,394	24,899	3,166	3,368
TOTAL	160,079	161,434	30,709	32,255

5. While 1960 was a record year for employment it was also, so far as any statistical assessment is possible, a year of serious unemployment. Statistics of persons seeking work at employment offices give only an imperfect indication of the level of unemployment since it is known that large numbers of work seekers and also some employers do not make use of the facilities provided at these employment offices. Nevertheless the figures do give some indication of the trend of genuine work seekers in the principal urban centres and it is of some significance that at the end of 1960 and in the first few months of 1961 the number of unplaced applicants on the books of the employment offices had. at approximately 5,000, returned to the general level which had prevailed during the preceding two to three years. The figures of

10,000 to 12,000 recorded during the first three months of 1960 reflected the purely temporary movement of Kikuyu to towns, and to Nairobi in particular, immediately following the removal of Emergency restrictions.

6. This situation confirms the important point made in the recently published report on unemployment,* which was underlined in the accompanying Government Sessional Paper,+ that the main labour problem in Kenya is one of under-employment rather than unemployment in the sense in which that term is used in more developed countries. As mentioned in both these reports, the extent of under-employment does not lend itself easily to statistical measurement. It is, however, clear that at any one time there is a substantial body of men seeking paid employment and unable to obtain it. In so far as many of these are so-called target workers, seeking a limited cash sum, and at the same time owners of land in their home areas, the expansion of cash crops, both for export and for sale in the urban areas, will diminish the number of those seeking such temporary work by providing them with a steady source of cash income. The depressed state of the building industry, which employs a substantial proportion of casual workers, has accentuated the difficulties of providing temporary work for such men over the last two years. There are, in addition, an unknown number who do not own sufficient land to provide a reasonable standard of living. For some of these, the projected peasant farmer settlement schemes have as a primary object the relief of population pressures, which though limited to certain areas are acute where they occur. There are, however, others who would prefer permanent paid employment and an urban way of life. The labour force on non-African farms and estates is unlikely to expand more rapidly than output and may indeed expand more slowly. While some increase in employment in industry and commerce could occur without an increase in industrial capacity, any substantial increase is dependent on the resumption and acceleration of capital investment. Both this and the intensification of agriculture in the Non-scheduled Areas are essential if the growing working population is to be absorbed into productive effort.

7. The estimated annual wage bill for 1960 at £84.9 million shows an increase of some £5.3 million, or more than 6 per cent, over that for 1959# Agriculture accounted for approximately £11/3 million of this figure, the remainder of the private sector for a further £2 million, and the public services for the balance of £1 1/2 million.

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*Survey of Unemployment, by A. G. Dalgleish. Government Printer, 1960. Price Sh. 4.

+Sessional Paper No. 10 of 1959/60. Government Printer, 1960. Price Sh. 2.

#These figures, obtained directly from the annual enumerations of employees, differ from those used in estimating Kenya's domestic income for the reasons given in paragraph 6 of Chapter 1.

8. Although part of the overall increase in the wage bill between 1959 and 1960 may be explained by the rise in employment, part of it must be due to increased earnings. The results of the 1960 Enumeration of Employees suggest that over the 12 months ending June, 1960, there was an increase of slightly more than 2 per cent in the general level of earnings. African workers benefited most in this respect with rises of 8 per cent and 7 per cent respectively in the public services and the private sector (both agriculture and industry and commerce). Statistics of average earnings of Africans must be used

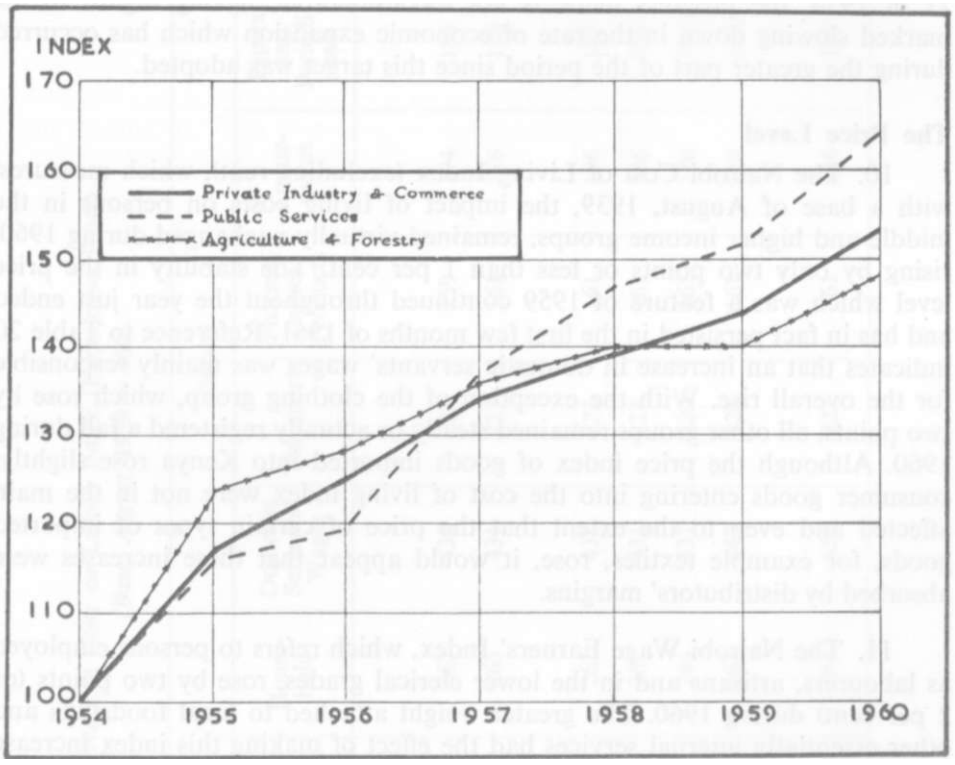


Chart 6—Index of Average Earnings of Africans, 1954-1960 (1954 =100)

with some caution since they give no indication of the wide distribution of individual earnings within industrial groups or for the main sectors. The increases in average earnings which have occurred during recent years will reflect partly the general upward trend in the wages of workers in the lower income groups in furtherance of Government's declared policy of encouraging a stable labour force, partly greater productivity necessitated by less favourable trading conditions and partly the increased employment of Africans in the skilled manual, higher clerical and executive positions in both Government and commerce alike. Average earnings of non-Africans increased less spectacularly, rising to the extent of approximately 1 per cent for both Asians and Europeans.

9. New rates for minimum wages and housing allowances in the nine towns covered by the Minimum Wage Orders came into force on 1st July, 1960. As a result of these changes the total amount of the basic minimum wage and housing allowance payable to adults was increased by sums ranging from Sh. 2/50 (Thika) to Sh. 8/50 (Nairobi). The basic minimum wage of adult workers now stands at a point 37 1/2 per cent higher than that payable to youths, and although this increase still falls short of the target of a 67 per cent differential which was accepted by Government in Sessional Paper No. 21 of 1954, the progress made is not inconsiderable, having regard to the marked slowing down in the rate of economic expansion which has occurred during the greater part of the period since this target was adopted.

The Price Level

10. The Nairobi Cost of Living Index (excluding rent), which measures, with a base of August, 1939, the impact of living costs on persons in the middle and higher income groups, remained virtually unchanged during 1960, rising by only two points or less than 1 per cent. The stability in the price level which was a feature of 1959 continued throughout the year just ended and has in fact persisted in the first few months of 1961. Reference to Table 20 indicates that an increase in domestic servants' wages was mainly responsible for the overall rise. With the exception of the clothing group, which rose by two points, all other groups remained steady or actually registered a fall during 1960. Although the price index of goods imported into Kenya rose slightly, consumer goods entering into the cost of living index were not in the main affected and even to the extent that the price of certain types of imported goods, for example textiles, rose, it would appear that these increases were absorbed by distributors' margins.

11. The Nairobi Wage Earners' Index, which refers to persons employed as labourers, artisans and in the lower clerical grades, rose by two points (or 2 per cent) during 1960. The greater weight attached to local foodstuffs and other essentially internal services had the effect of making this index increase by a relatively greater amount than the general cost of living index. Higher milk prices, increased school fees and more expensive bus fares were primarily responsible for the rise in the Wage Earners' Index. Details of movements in the index, in total and for the component groups, since early 1959, are given in Table 21.

12. It will be appreciated that the more important elements causing the upward movement in both indices derived from administrative action rather than from the interplay of market forces; even the increase in the wages of domestic servants may to some extent be attributed to the effect of Government policy in raising the adult minimum wage in mid-1960, since changes at the minimum tend to have repercussions elsewhere in the wage structure. If the effect of these increases is eliminated the price level showed a remarkable stability. Even allowing for the fact that a retail price index is not a

NAIROBI COST OF LIVING INDEX (EXCLUDING RENT)

(*Base: August,* 1939 = 100)

Table 20

MONTH	GROUP									
	Food, Drink and Tobacco	Clothing and Footwear	House-hold	Domestic Servants' Wages	Transport	Pharma-ceutical Products	Amuse-ments	Papers and Periodi-cals	Miscell-aneous	All Groups
1959—										
February	292	273	262	435	223	159	174	188	267	288
December	296	270	263	431	223	161	186	188	275	290
1960—										
February	296	272	262	431	222	161	186	188	274	290
June	295	272	262	431	223	161	186	188	274	290
October	296	272	264	437	220	161	186	188	273	290
December	296	272	263	447	222	161	186	188	273	292
1961—										
February	295	270	263	453	222	161	186	188	273	292

WAGE EARNERS' INDEX OF CONSUMER PRICES IN NAIROBI

(Base: October-December, 1958 = 100)

Table 21

MONTH	GROUP									
	Food	Beverages and Tobacco	Clothing and Footwear	Fuel and Light	House-hold Operation	Personal Care and Health	Recrea-tion and Entertain-ment	Transport	Miscell-aneous	All Groups
1959—										
February	100	100	99	96	99	100	100	100	100	100
December	100	103	100	93	98	168	102	100	100	101
1960—										
February	100	103	102	92	98	168	102	100	125	101
June	100	103	100	92	96	169	102	117	125	101
October	101	103	100	92	99	168	102	117	125	102
December	101	103	102	93	101	168	102	117	125	103
1961—										
February	102	103	103	93	102	168	102	117	162	104

particularly sensitive indicator of economic change, this lends little support to the contention that Kenya suffered from an economic depression during 1960. On the other hand, it is true that the higher level of incomes did not lead to any increase in prices. A tendency on the part of some sections of the community to transfer funds out of Kenya and to defer the purchase of certain categories of goods, particularly those of a semi-durable nature, seems to have led distributors to absorb higher import prices.

13. Considering the 12 months June, 1959—June, 1960, the rise in the average earnings of Africans as estimated from the Enumerations of Employees (some 5 per cent to 6 per cent in Nairobi) was more than adequate to cover the 1 per cent increase in the Wage Earners' Index, which occurred during this period, with the result that the African in employment enjoyed a not insignificant increase in real earnings and a consequent improvement in living standards. The non-African communities did not benefit to anything like the same extent, although the average earnings of Europeans during the 12 months ended June, 1960, increased by an amount sufficient to cover the small rise in the cost of living which occurred during the year.

CHAPTER 6— PUBLIC FINANCE

1. Government financial operations play a central role in the economy of the territory, it being understood that "Government" includes the activities of the High Commission in Kenya and of local authorities as well as those of the Kenya Government. Since the Kenya contributions to the High Commission are already included in Kenya Government expenditure and since local authorities' expenditure is on a much smaller scale than that of the Kenya Government, it is the transactions of the latter which exert the major influence and which are examined in this chapter. An analysis has been made for the period from the ending of the operational phase of the Emergency to the last complete financial year to provide background for the review of the current financial year, which will be made by the Minister for Finance when he presents the Budget for 1961 /62. A brief reference to the expected out-turn for the current year is, however, given at the end of this chapter.

2. Government revenue and expenditure may be considered from two standpoints, the general and the particular. From the general standpoint it is necessary to examine the total of Government expenditure in any period in relation to the amount raised by taxation. If the excess of Government expenditure over taxation revenue increases in any year, either because more money is obtained by grants and loans or because Government balances accumulated in earlier years are run down, the increase in expenditure will act as a stimulus to encourage activity generally. This will be the greater to the extent that loans are raised from outside the territory or raised in Kenya from savings which might otherwise have been transmitted abroad. Conversely, if taxation rises more than expenditure this will have a dampening effect on the economy. In Kenya the scope for deliberate variations of this nature in fiscal policy are limited, particularly at the present time when loan funds are only available

from a small number of sources and at high rates of interest. Moreover, there is the danger, not at present imminent, that any sudden injection of external funds into the economy might have disturbing effects on the price level. Secondly, it is of interest to see what particular changes have occurred within these totals in the direction of Government spending and sources of taxation.

3. The way in which the Budget is drawn up and Government accounts maintained is determined by the needs of financial and Parliamentary control. The total of Government revenue and expenditure as shown by the Appropriation Accounts does not always reflect accurately the real trends. The principal reason for this is that provision is frequently made for transfers of funds between the two main sections of the Budget, the Colony Account and the Development Account, and between the Ministry of Works and the Road Authority. Similar transactions have occurred in recent years between the Emergency Fund and the two main Accounts. A reclassification of the accounting figures is therefore made each year in economic terms eliminating these internal transfers which lead to double-counting in the Appropriation Accounts totals. Another difference in presentation between the accounts and the reclassified data is that in the reclassification expenditure is shown gross of Appropriations in Aid (largely fees charged by Departments for the provision of services and appropriated with legislative approval to their own use). The trend of total expenditure from Colony and Development Accounts, net of internal transfers, is shown together with receipts from taxation in the following table covering the financial years 1956/57 to 1959/60.

KENYA GOVERNMENT EXPENDITURE AND TAXATION RECEIPTS, 1956/57-1959/60

Table 22 *£ million*

	EXPENDITURE			**Taxation** Receipts
	Colony Account	Development Account	Total	
1956/57	38.00	8.27	46.26	27.07
1957/58	38.47	5.98	44.45	28.03
1958/59	38.09	5.84 *(a)*	43.94 (a)	29.52
1959/60	38.27	8.12	46.39	29.65

(a) Excluding transfer of £2.17 to the Mombasa Pipeline Board in respect of existing assets arising from earlier Kenya Government expenditure.

4. It will be seen that while expenditure fell sharply in 1957/58 following the end of the active phase of the Emergency with a further small decline in 1958/59, receipts from taxation rose in both years. With the tapering off of Emergency assistance from the United Kingdom, only partially offset by small increases in grant and loan funds, this step was essential to reduce the accumulated deficits which had arisen during the Emergency years. Essential and unavoidable as was this course of events, it was doubly unfortunate in that it coincided with deflationary trends in the world economy which reduced Kenya export prices and earnings. Budgetary factors, therefore, could do nothing to counteract the recessionary influences Kenya suffered in 1958 and

into 1959, and indeed accentuated their effects. A decisive change occurred in 1959/60 when expenditure was greatly increased while taxation receipts were only fractionally higher. Since receipts from new loans were also higher this did not lead to an increased deficit. The effect of the increased Government spending in 1959/60 made possible by the receipt of new loan money was an important factor in the economic recovery of that year.

5. Table 23 shows the broad changes which have taken place in the direction of Government spending over the same four-year period.

COLONY AND DEVELOPMENT EXPENDITURE (INCLUDING EMERGENCY EXPENDITURE) ON MAIN SERVICES, 1956/57-1959/60

Table 23 *£ million*

	1956/67	1957/58	1958/59	1959/60
ADMINISTRATION, LAW AND ORDER	15.05	13.76	13.50	13.37
RECURRENT FINANCIAL OBLIGATIONS:—				
Public debt, pensions and passages	3.88	4.53	4.85	4.92
Transfers to local authorities	1.50	1.37	1.41	2.34
ECONOMIC AND COMMUNITY SERVICES:—				
Agriculture, veterinary and forestry	5.67	5.19	6.01	5.99
Other economic services	0.90	0.96	0.84	0.81
Roads	2.09	2.03	2.15	2.58
Other transport	0.62	1.12	0.55	0.50
Waterworks	1.20	0.97	0.90	0.97
Total	10.48	10.27	10.45	10.85
SOCIAL SERVICES:—				
Education	5.35	5.90	6.30	7.04
Health	2.17	2.43	2.32	2.49
Other	0.43	0.74	1.26	1.04
Total	7.95	9.07	9.88	10.57
UNALLOCABLE EXPENDITURE	3.74	3.61	3.42	3.79
EMERGENCY EXPENDITURE NOT INCLUDED ABOVE	3.65	1.83	0.43	0.54
Total Expenditure	46.26	44.45	43.94	46.39

6. Although the total spent on administration, law and order has declined progressively, this continues to be the largest single category of expenditure, accounting for some £13.4 million, or 29 per cent of total expenditure in 1959/60. Recurrent financial obligations in the form of servicing of the Public Debt, pensions and passages accounted for a further £4.9 million. Of this, however, over £1 million was offset by the reimbursement of interest from the Railways and Harbours Administration and by interest and capital repayments received on loans extended to other authorities and institutions. Transfers of funds to local authorities in support of services other than education normally absorb a little less than £1 1/2[million. The rise in 1959/60 reflects a

transfer of £1 million to the Local Government Loans Authority rather than an increase in regular grants.

7. Total expenditure on economic and community services has not varied greatly from year to year, amounting to between £10 and £11 million per annum. This represented 23 per cent of all expenditure in 1959/60. Well over half the total of this group of services has been devoted to agricultural, veterinary and forestry services in accordance with the basic position of agriculture in the economy. An apparent small fall in expenditure on agriculture

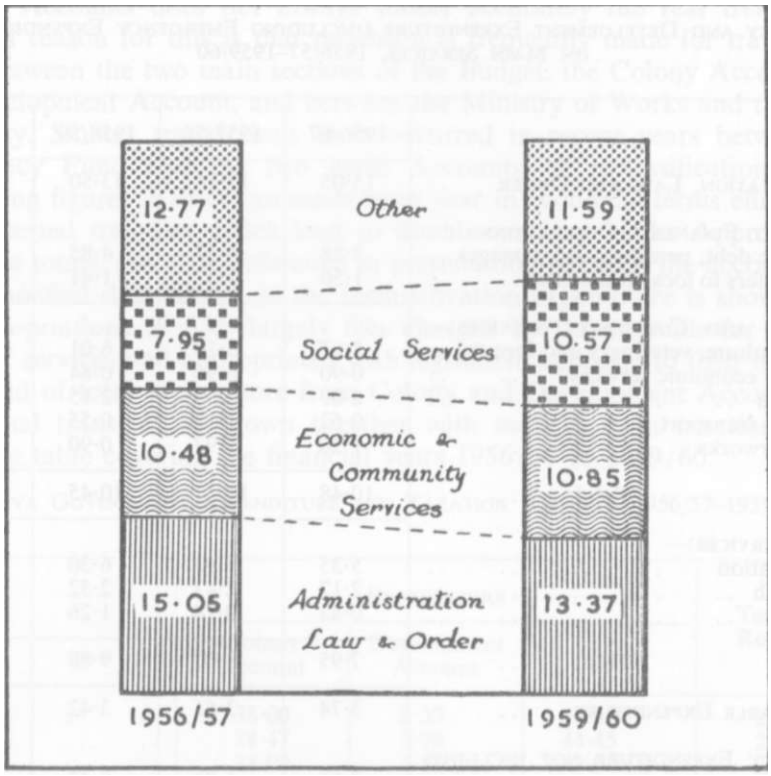


Chart 7—Kenya Government Expenditure, 1956/57 and 1959/60 (Colony and Development Accounts Combined—£ million)

in 1959/60 is explained by the fact that contributions to High Commission Research Services were reduced and the expenditure met by running down surplus balances. Apart from this, spending on agriculture continued to rise. The second largest item in this group is roads, expenditure on which was at the rate of over £2 million per annum from 1956/57 to 1958/59. The increase in roads expenditure in 1959/60 is not reflected fully in Table 23 since only part of the expenditure under the contractor-financed project is included in the Budget. If the whole of the work done under this programme were included, expenditure would be £3.2 million in 1959/60. From this it will be clear how important this programme has been in permitting an expansion in road development.

8. The most striking increase in expenditure has been that on the social services. Expenditure on this group of services rose from £8 million in 1956/57 to over £10 1/2 million in 1959/60 when it approached expenditure on the economic and community services. The steady upward trend in expenditure on education has been at the rate of about 10 per cent a year on average and this continued in the current financial year. Education has absorbed a greater share of expenditure than the agricultural services since 1957/58. Health expenditure also has increased, but much more gradually. The big increase in other social services has been concentrated on housing schemes, including the provision of funds to the Central Housing Board, whence they are channelled to local authorities. Taking the social services as a whole it can be seen that the greater part of the financial resources released by the reduction in expenditure on administration, law and order since 1956/57 has been absorbed by the increase in expenditure on the social services, particularly education. This switch in expenditure is illustrated in Chart 7.

9. Some three-quarters of revenue in the Colony Account is normally raised by taxation. Part of the remainder is provided by the charging of fees for services provided directly to the public, e.g. medical fees, or by reimbursements from other Government bodies, and these offset the corresponding items of expenditure. The rest is derived from a variety of sources, **e. g.** Kenya's share of the surplus of the East African Currency Board, and more particularly in the period under review by Emergency grants and loans from the United Kingdom. Table 24 gives details of the money raised by the various forms of taxation for the period 1956/57 to 1959/60.

REVENUE FROM TAXATION, 1956/57 1959/60

Table 24 *£ million*

	1956/57	1957/58	1958/59	1959/60
DIRECT TAXATION:—				
Income tax	10.43	11.29	11.33	10.41
Graduated personal tax	2.04	2.22	2.17	1.94
Other	0.36	0.26	0.25	0.09
Total	12.83	13.77	13.74	12.44
INDIRECT TAXATION:—				
Import duties	8.47	8.11	9.54	10.66
Excise duties	2.64	2.94	3.16	3.25
Stamp duties	0.63	0.60	0.58	0.66
Petrol tax	0.50	0.51	0.50	0.57
Licences under traffic ordinance	0.67	0.70	0.78	0.82
Taxes and licences, n.e.s.	0.66	0.70	0.62	0.64
Land premia and taxes	0.38	0.40	0.37	0.39
Royalties	0.29	0.29	0.22	0.23
Total	14.24	14.25	15.77	17.21
Total (taxes and licences)	27.07	28.03	29.52	29.65

10. As a matter of policy the tendency over recent years has been for less to be raised by direct and more by indirect taxation. This trend was accentuated in 1959/60 when receipts of income tax were particularly low, reflecting the lower incomes of 1958. A further important factor in this year was the change in the basis of income tax made as a result of the Coates Report, the increase in the rate of company tax being, in the event, insufficient to offset concessions made in individual taxation and the removal of the Emergency surcharge on higher incomes. At the same time commercial imports were at a high level, particularly in the first half of I960, swelling import duty collections.

11. As has already been noted, Kenya's receipts from new grants and loans were noticeably higher in 1959/60. Though conditions were still unfavourable for raising money in the London market, £3 million was received in the form of United Kingdom Exchequer loans, £1.75 million was raised locally by market issues and a further £0.42 million from other local sources, including £129,000 from the issue of Kenya Savings Bonds. In total receipts of grants and loans for the Development Account rose by £1.1 million enabling vital development to go forward. Details of receipts in the form of grants and loans for development purposes from 1956/57 are given in the following table.

RECEIPTS OF DEVELOPMENT GRANTS AND LOANS, 1956/57-1959,60

Table 25 **£** *million*

	1956/57	1957/58	1958/59	1959/60
GRANTS FROM ABROAD:—				
C.D.W. (including Swynnerton)	1.82	1.75	1.07	0.84
l.C.A. and other	0.06	0.85	0.12	0.20
LOANS:—				
U.K. Exchequer	–		–	3.00
Others raised abroad	0.05	0.25	0.57	0.37
Local market issues	2.46	2.21	3.67	1.75
Other E.A. loans	–	–	–	0.42
Total	4.39	5.06	5.43	6.57

12. In the light of the figures of receipts into the Exchequer in the first nine months of this financial year, it is evident that revenue will fall substantially short of the estimates, particularly the revenue from import duties. As shown in Chapter 2, there was a substantial fall in imports in the second half of the 1960 calendar year, which is the first half of the 1960/61 financial year, and there was little evidence of any recovery in the first three months of 1961. The total shortfall in revenue from taxation, both direct and indirect, is likely to be of the order of £3 million, and the Government will on the expenditure side have to find an additional £2 million for salaries revision.

13. Expenditure on Development Account is likely to be slightly below the original estimates, partly owing to the postponement of the work on the extension of the runway at Nairobi Airport. Receipts in loans and grants are likely to total about £1 million less than expenditure, and the gap will be filled by further short-term borrowing.

CHAPTER 7— CAPITAL FORMATION

1. The figures published in the 1960 Economic Survey indicated some improvement in 1959 from the low level to which total capital expenditure had fallen in 1958. Later figures reveal that this assessment was over-optimistic and that gross capital formation in 1959 was only fractionally higher than in 1958. While final figures for the whole year 1960 are not yet available for more than a small part of the economy, the available information suggests that 1960 also is likely to show only a small increase from the two preceding years, and that total capital expenditure will still have been substantially less than in 1956 and 1957. Summary figures are given in the following table: —

GROSS CAPITAL FORMATION, 1954-1960

Table 26 — *£ million*

YEAR	Public Sector	Private Sector	Total
1954	16.7	18.6	35.3
1955	19.0	24.8	43.8
1956	15.0	30.7	45.7
1957	16.4	29.2	45.6
1958	13.3	26.7	40.0
1959	13.6	26.7	40.3
1960, preliminary	13.8	27.2	41.0

2. It will be evident from these figures that there was virtually no increase in capital formation in the public sector taken as a whole. In addition to expenditure by the Kenya Government directly, this comprises expenditure by the High Commission in Kenya, by local authorities and by the United Kingdom Government. On provisional figures the capital programmes of the High Commission trading services, i.e. the Railways and Harbours and Posts and Telecommunications Administrations, resulted in combined capital expenditure in Kenya of about £2 million as compared with over £3 million in 1959. 1960 saw the partial completion of the Kipevu project and the first delivery of main-line diesel electric locomotives. In 1961 work will continue at Mombasa in preparation for the larger tankers which will use the port in 1963 when the oil refinery will come into operation. New works to be begun in the year are all on a relatively modest scale, both because of the high cost of capital and also because the heavy investment of earlier years has resulted in the E.A.R. & H. now being well equipped to meet forseeable needs.

3. Capital expenditure by all local authorities combined is estimated to have fallen from the record level of £3$ million in 1959 to around £2f million.

The completion of two very large housing schemes and lower expenditure by the Nairobi water undertaking contributed to the overall decline though some authorities increased their capital expenditure. In the financial year 1959/60 £1 million was transferred by the Kenya Government to the Local Government Loans Authority and £0.5 million in the current year and further international funds are being sought. It is hoped therefore that money will be available this year to permit the implementation of local authorities' essential programmes, particularly for sewerage and water supply schemes. The Kenya Government's own direct capital expenditure, on the other hand, rose by well over £1 million. The main item of note was the first complete year's work under the contractor-financed road project, the work done under this programme alone amounting to £1.3 million. The two other services on which capital expenditure was heaviest continued to be agriculture and allied services and education.

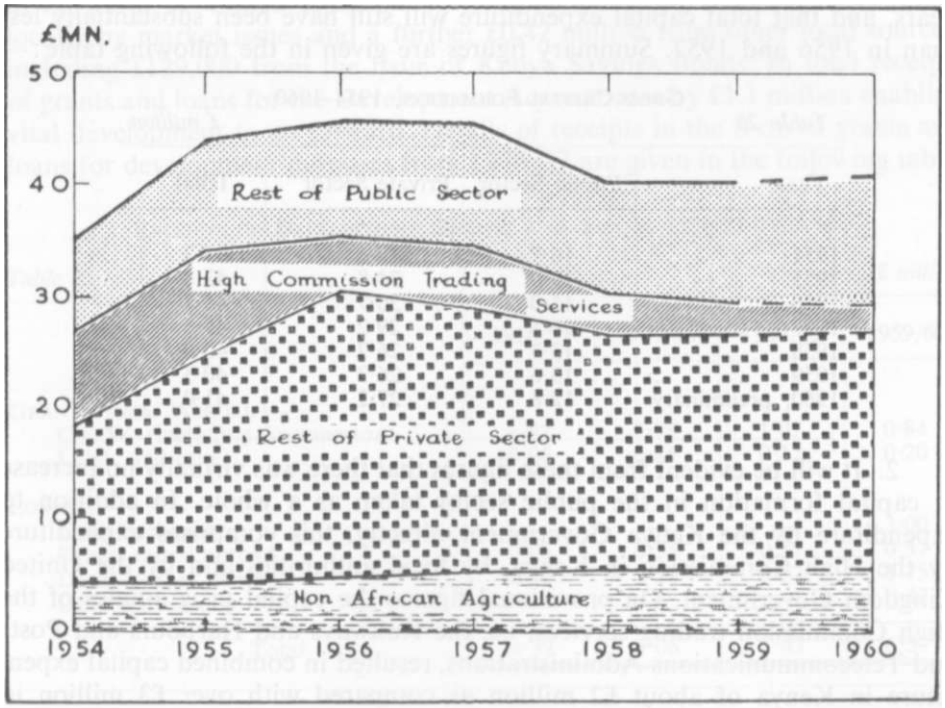


Chart 8—Gross Capital Formation, 1954-1960

4. In the private sector the year was marked by divergent trends between expenditure by different classes of spender. Much the most important single factor increasing the total from £26.7 to £27.2 million was the purchase of jet aircraft by East African Airways Corporation. The share of such purchases attributable to Kenya, together with purchases of aircraft (including engines) by purely private companies, is estimated at £1.4 million, compared with less than £30,000 in 1959. Apart from this, increases in private capital expenditure were few. In commerce and industry, i.e. among non-agricultural enterprises.

capital expenditure is estimated to have fallen by about million to £ 11 1/4 million. On preliminary figures non-residential building and construction fell by over £1 million, though expenditure on commercial vehicles was only slightly reduced, and expenditure on machinery and other equipment on the contrary was higher by perhaps £0.4 million. This latter rise was partly attributable to expenditure by the oil companies, whose capital programmes, unlike those of most other enterprises, showed an increase last year. The trend in expenditure by commerce and industry as a whole is indicated by the figures in Table 27, showing expenditure on the principal types of assets purchased by this sector.

GROSS CAPITAL FORMATION BY PRIVATE NON-AGRICULTURAL ORGANIZATIONS, 1954-1960

Table 27 *£ million*

	Non-residential Building and Construction	Machinery, Equipment and Commercial Vehicles	Total
1954	3.2	5.1	8.3
1955	4.4	8.2	12.6
1956	5.1	10.0	15.1
1957	4.6	9.0	13.6
1958	4.7	7.2	11.9
1959	4.8	7.2	12.0
1960, preliminary	3.7	7.6	11.3

While these figures do not correspondent precisely to expenditure by commercial and industrial enterprises in that, for example, they exclude expenditure on staff housing and include expenditure by non-profit-making concerns, they are sufficient to show the broad movement over the past seven years. Capital formation by these enterprises in 1960 was at the lowest level since 1954 and only some 75 per cent of the peak level of 1956.

5. In non-African agriculture, capital expenditure recorded in the last three agricultural censuses, a detailed analysis of which appears in Table 12, has shown a surprising stability in aggregate. The census year is a 12-month period ending not later than August. The latest figures, those for 1959/60, do not therefore reflect any changes which occurred in the latter part of 1960, when there may well have been some slackening in expenditure on land improvement and permanent crop development.

6. The two remaining items of capital expenditure, house-building and private cars, are largely though not entirely items of expenditure by individuals rather than enterprises. Imports of private cars showed a further increase in the year and registrations of new vehicles rose. Though some increase is thought to have occurred in dealers' stocks, it is estimated that final expenditure on cars was at a new high level and this partly accounts for the rise in total capital expenditure. The fall in residential building work, on the other hand, was severe as has been pointed out in Chapter 4. Provisionally it is

estimated that expenditure on flats and houses other than farm buildings amounted to £3.3 million, less than half that in the peak year of 1956.

PRIVATE EXPENDITURE ON NON-FARM RESIDENTIAL BUILDINGS, 1954-1960

Table 28

	£ million
1954	2.6
1955	4.1
1956	6.8
1957	5.3
1958	4.6
1959	4.5
1960, preliminary	3.3

The evidence of the rate of building plans approved in Nairobi where well over two-thirds of the building takes place, and the continued lack of house mortgage funds, indicate that no reversal of this trend is likely to occur in the current year.

7. Chart 8 on page 42 summarizes pictorially the course of gross capital formation since 1954 by the four main groups of spenders as discussed in the preceding paragraphs. It shows clearly the fall in total capital expenditure which occurred between 1957 and 1958 and its failure to recover from the 1958 level in 1959 and 1960.

CHAPTER 8— THE OUTLOOK FOR 1961

1. In this concluding chapter an attempt is made to examine the influences which are likely to affect the economy in the coming months. Considering first the world economic climate, as far as can be foreseen, the level of activity in industrial countries will probably be favourable to a high level of export earnings. Both in the United States and in the United Kingdom and Europe there are prospects of a rising level of production for the remainder of 1961. There is thus unlikely to be any general depression of world markets for primary products. Kenya's exports are, however, limited in range and still largely dominated by coffee, so that given this background further examination of the position for individual commodities is required.

2. The outlook for coffee in the world market continues to be uncertain. While Kenya quality coffees have a market distinct from that of the bulk of lower quality Robustas, this cannot be insulated from the general market, which may well weaken further, despite international regulation. There is a further factor to consider in that on 1st January, 1961, countries of the Common Market took the first step towards a common customs tariff discriminating against imports from non-members. Germany is the principal continental market for Kenya coffee and the final common tariff at 16 per cent will be higher than that at present prevailing. A mitigating factor, however, is that the German consumption tax will reduce the price differential between high and low quality coffees, and thus be advantageous to Kenya.

3. The Common Market arrangements will have no effect on sisal, Kenya's second most important export to these countries, and it will continue to enter duty free. In general sisal exports are expected to continue at a satisfactory level. The market for Kenya teas also is expected to continue firm. The pyrethrum industry has undertaken a vigorous sales programme for flowers and extract and expansion of production has been related to sales prospects. Exports have increased substantially and, although there will be a carry-over of stocks at the end of June, this will be no more than prudent trading requires. Markets for hides and skins and other animal products are not likely to be more than maintained but neither is a major fall in exports envisaged. In short, conditions overseas are favourable for most of Kenya's principal exports. Supply difficulties could arise as a result of the prolonged drought, especially for tea, coffee to some extent, and livestock products, but this factor should not prevent a small rise in total exports occurring. External circumstances thus give cause for moderate optimism.

4. In I960, in the face of declining private expenditure on capital account and a deterioration in the balance of trade (despite higher exports), the main impetus to the economy was provided by the public sector. The level of Government expenditure and revenue, as described in Chapter 6. will result in substantial deficits on Colony account, both in 1960/61 and 1961/62. Substantial assistance of various types from the United Kingdom will alleviate the position. To the extent that this aid represents an injection of funds into Kenya and an increase in purchasing power, a boost is given to the economy in the same way as the financing of development expenditure by means of loans and grants from overseas stimulates economic activity. At the same time it is not desirable, even if it were possible, that a balance between revenue and expenditure on current account should be dependent in the long term on overseas assistance. An additional consideration is that if the recommendations of the Raisman Economic and Fiscal Commission were to be adopted in 1961 /62 a further demand to the extent of £0.6 million would be made on the Kenya Exchequer. While the United Kingdom Government has already agreed to meet a considerable part of the cost of overseas civil servants during the coming financial year in addition to the assistance which it is giving in other directions, the narrowing of the Budget gap will have to be achieved by squeezing both ends, by restraining expenditure and by increasing revenue from Kenya's own resources.

5. Perhaps the most disquieting feature of 1960 has been the decline in business capital expenditure, the full impact of which had not made itself felt by the end of the year. The significance of this lies not only in the failure to provide any stimulus to employment and production currently but also in the small increase in the productive capacity of the territory, on which the expansion of output and income in the future depends. Strictly economic considerations can have played little part in this slackening. The basically favourable conditions for investment in commercial and industrial enterprises in Kenya

still obtain, in the form of steadily expanding markets in East Africa and in neighbouring territories. In Kenya the level of incomes now accruing to African farmers, which will continue to increase as the effects of the large-scale investment, past and present, by Government in the Non-scheduled Areas are felt, will play an important part in this expansion.

6. While political considerations dwarf all others in businessmen's assessment of the future, and so long as the political future is regarded with misgivings, it is idle to hope for more than a stabilising of business investment at the current low level. If present political problems can be speedily resolved, however, a change in outlook could follow fairly quickly and the economy could again start going ahead. Without this the gross domestic product in 1961 is likely to show only a modest expansion. Given improved weather conditions and normally good food crops, the value of subsistence production will return to its former level, while an increase of perhaps 2 per cent may occur in the recorded cash economy. On the assumption of a roughly equivalent increase in population this would hold out little hope of any significant advance in consumption and living standards for the mass of the population.

G.P.K. 1009—1,100—4/61