

COLONY AND PROTECTORATE OF KENYA

ECONOMIC SURVEY

1962

Three Shillings - 1962

ECONOMIC SURVEY

1962

Presented by

the Minister for Finance

the Hon. J. Gichuru.

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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, 1962

CHAPTER I—THE GENERAL ECONOMY

Domestic Income and Product

1. The stresses to which the economy was subjected in 1960 in the wake of political developments continued undiminished in 1961 and to them were added successively the natural disasters of drought and flood. The national income estimates bring out vividly the effects of these events, since for the first time since such estimates were started in Kenya the gross domestic product at current prices failed to show any appreciable increase. In part, this result arose from disastrous weather conditions which reduced the estimated value of subsistence agriculture, but the increase in output in the recorded monetary sector amounted to only 1.5 per cent. A similarly small increase was estimated for the recession year of 1958 but otherwise this lack of growth is unprecedented in recent years, as is shown by Table 1 and the chart on page 3.

2. In the cash economy, the gross product of agriculture at £37.6 million was £1 million less than in 1960. Weather conditions were unfavourable for some products, but this result was caused more by the drop in the price of the principal export crops than from a reduction in the volume of agricultural production which, in fact, was higher in total than in 1960. The 1960/1961 coffee crop, which represents nearly a quarter of agricultural cash output, reached an all-time high at 33,000 tons. Pyrethrum production also made a new record and sisal output was maintained, although there was a fall in tea production. Markets and prices for all these staple exports, however, weakened to a greater or lesser degree. On the other hand, the cereals crop, mainly sold on the domestic market, was reduced as was output of a number of animal products, but prices for most of these commodities were maintained or even a little higher. The fall in the total recorded cash product of agriculture masks an increase of over £3/4 million in the contribution of African agriculture, which helped to offset the reduction of £1.8 million for farms and estates in the Scheduled Areas.

3. The value of gross product outside agriculture amounted to £143.6 million as compared with £139.8 million in 1960. In spite of the considerable emigration of Europeans from Kenya in 1961 which amounted to at least 5 per cent of the population of that community, internal demand for consumer goods was maintained by an increase in incomes from employment, reinforced by the expenditure of British forces stationed in Kenya. For the same reasons, imports of consumer goods remained at a high level. Exports to overseas markets and trade with Uganda and Tanganyika were also buoyant. These factors resulted in an increase in the value of manufacturing

Gross Domestic Product by Industrial Origin, 1954.1961
(Including Gross Product outside the Recorded Monetary Economy)

Table 1

Industry	£ Million at Factor Cost								Percentage	
	1954	1955	1956	1957	1958	1959	1960	1961 (a)	1954	1961
Agriculture—										
Recorded monetary sector	19.82	19.98	24.90	23.78	24.75	25.32	29.44	28.71	12.5	12.8
Other	33.43	33.56	34.94	37.33	37.67	37.71	35.01	33.12	21.2	14.7
Livestock—										
Recorded monetary sector	6.37	6.92	7.72	8.06	8.27	8.57	9.22	8.91	4.0	4.0
Other	10.13	10.51	10.63	11.72	11.80	11.66	10.99	10.43	6.4	4.6
Total. Agriculture and Livestock	69.75	70.97	78.19	80.89	82.49	83.26	84.65	81.17	44.1	36.1
Forestry	2.28	2.75	319	3.11	3.25	3.50	3.75	3.98	1.5	1.8
Fishing and hunting (b)	1.93	1.74	1.90	1.23	1.10	1.09	0.69	0.68	1.2	0.3
Mining and quarrying	0.89	1.28	1.36	1.26	1.23	1.12	1.09	0.85	0.6	0.4
Manufacturing	14.14	17.44	18.18	19.80	20.52	20.23	21.62	22.73	8.9	10.1
Construction	6.31	8.04	9.34	9.63	8.38	7.94	7.86	7.83	4.0	3.5
Electricity and water	1 24	1.45	1.75	2.09	2.36	2.56	2.79	2.90	0.8	1.3
Transport, storage and communications	11.84	15.18	15.78	18.64	17 69	19.03	20.34	2114	7.5	9.4
Wholesale and retail trade	21.59	25.34	25.83	27.48	26 39	27.68	28.96	29.56	13.7	13.2
Banking, insurance and real estate	1.38	2.22	2.52	2.83	3.26	3.46	3.54	3.88	0.9	1.7
Rents	4.83	5.26	5.80	6.65	7.51	8.05	8.70	9.30	3.0	4.1
Government services n.e.s.—										
Civil departments n.e.s. (c)	10.51	14.28	13.93	15.48	16.40	16.87	18.33	21.52	6.7	9.6
Defence	1.78	2.68	2.54	2.12	1.11	1.43	1 .37	1.50	1.1	0.7
Local authorities	1.61	2.26	2.29	2.53	2.89	3.15	3.35	3.48	1.0	1.5
Overseas governments (local employees)	0.04	0.08	0.05	0.06	0.06	0.10	0.12	0.14	—	—
Services (c)	7.90	10.09	10.73	12.11	13.11	14.58	15.50	14.14	5.0	6.3
Government officers' salaries revision	—	—	—	—	—	—	1.75	—		
Total	158.02	181.06	193.38	205.91	207.75	214.03	224.42	224.80	100.0	100.0

(a) Provisional.
(b) The decline in fisheries output between 1959 and 1960 is overstated as a result of a change in the method of estimation.
(c) In 1961 certain schools formerly classified under "Services" were transferred to "Government".

output and maintained activity in wholesale and retail trade and in the transport industry. The latter was boosted also by the increasing popularity of air transport. Elsewhere in the private sector movements were in general minor ones. In the building industry, which includes the Ministry of Works, gross product declined for the fourth successive year, but by a surprisingly small percentage. This small decline reflects entirely the higher wages paid, particularly in the public element of the industry; the value of work done by private building firms fell severely and profits with it. Declines were widespread in the service industries, e.g. hotels and professional and business services. The employment of domestic servants also was reduced. All in all, there was a marked interruption in the growth of what, until last year, had been a rapidly and consistently expanding section of the economy.

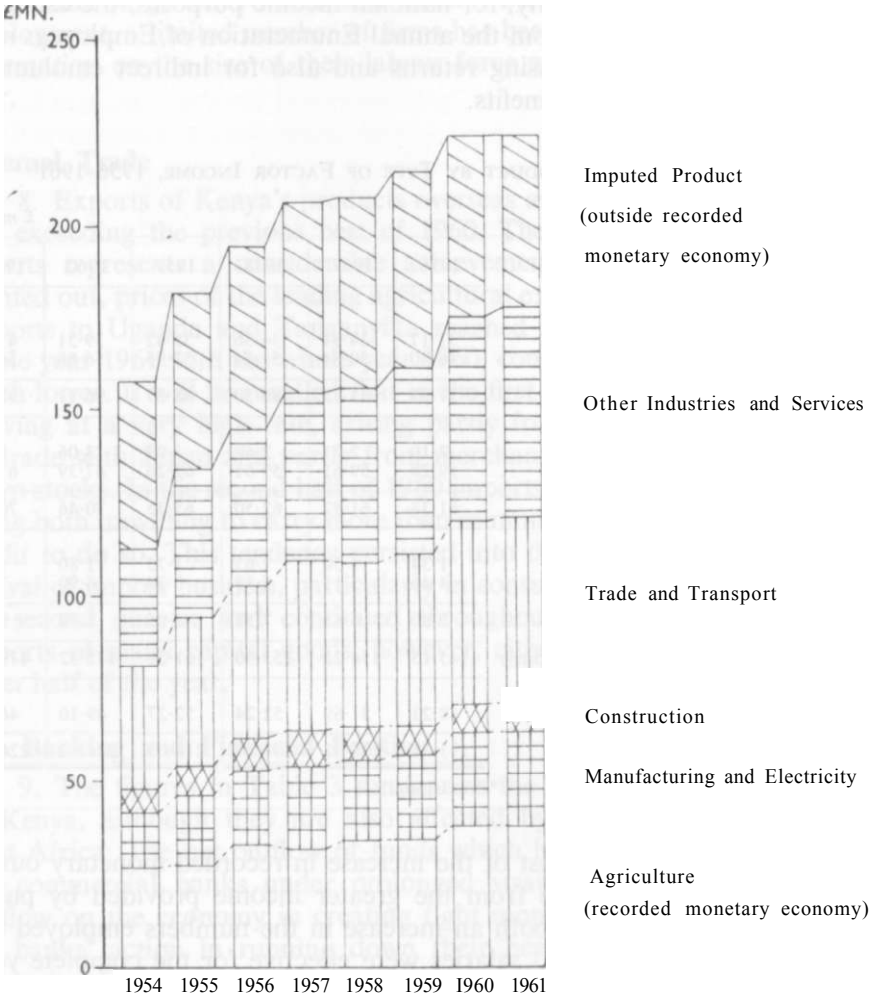


Chart 1—Gross Domestic Product by Industrial Origin, 1954-1961

4. The contribution of Government services showed an increase, mainly because of the increase in salaries following the Flemming award. As a matter of policy Government expenditure was directed to projects which would maintain or increase employment, particularly in forestry and construction. The effect of this policy, however, appears in the forestry and building industries rather than in the figure for Government services.

5. Table 2 shows how total product was divided between employment income, operating surplus (which includes the income of the self-employed as well as the gross income of enterprises), rents and non-recorded imputed income over the period 1956 to 1961. The figures of employment income given in this table differ from those given in Chapter 5 in several respects. First of all an adjustment has been made to the 1960 totals to allow for "Flemming" increases. Secondly, for national income purposes, the estimated annual wage bill as derived from the annual Enumeration of Employees must be increased to allow for missing returns and also for indirect emoluments such as passage and pension benefits.

COMPOSITION OF GROSS PRODUCT BY TYPE OF FACTOR INCOME, 1956-1961

Table 2 — £ *million*

	1956	1957	1958	1959	1960	1961*
RECORDED MONETARY ECONOMY—						
Paid employment:						
Public employment. .	31.17	34.91	34.36	35.42	39.31	41.94
Private employment	46.80	50.84	51.14	52.95	56.86	56.64
Total (employment)	77.97	85.75	85.50	88.37	96.17	98.58
Operating surplus:						
Public enterprise	2.10	2.21	2.69	3.09	3.06	2.99
Private enterprise	59.28	59.61	59.81	62.26	67.39	67.13
Total (operating surplus)	61.38	61.82	62.50	65.35	70.46	70.12
Rental surplus:						
Public enterprise and government	1.34	1.50	1.63	1.75	1.80	1.90
Private enterprise and householders	4.46	5.15	5.88	6.30	6.90	7.40
Total (rental surplus)	5.80	6.65	7.51	8.05	8.70	9.30
Total (recorded monetary economy)	145.15	154.22	155.50	161.76	175.32	178.00
IMPUTED PRODUCT OUTSIDE THE RECORDED MONETARY ECONOMY	48.23	51.69	52.24	52.27	49.10	46.80
TOTAL (GROSS PRODUCT)	193.38	205.91	207.75	214.03	224.42	224.80

*Provisional.

6. It will be seen that most of the increase in recorded monetary output between 1960 and 1961 arose from the greater income provided by public employment, which reflected both an increase in the numbers employed and the fact that higher wages and salaries were effective for the complete year. Income and product from employment in the private sector was virtually unchanged between the two years and the same was true of operating surplus.

Employment and Prices

7. The two retail price indices, which between them cover expenditure of most income groups in Nairobi, rose during 1961 by between 2 and 3 per cent. This followed a lengthy period of stable prices. Although increases in average earnings were substantially greater than the rise in prices for most, though not all, categories of employees, the benefit of higher real earnings was largely counteracted by the increased unemployment which prevailed. The mid-year Enumeration of Employees showed that, although 5,000 more were employed by the public services, 38,000 fewer persons were employed in the private sector than a year earlier. This was equivalent to a decrease of 8 per cent for agriculture and 10 per cent for private industry and commerce. Such evidence as there is indicates that the numbers in employment have diminished still further since June, particularly in agriculture, but no firm figures can be given. To enable a closer watch to be kept on the course of employment, a limited number of firms has been asked and agreed to provide information on the size of their labour force at quarterly intervals from this year.

External Trade

8. Exports of Kenya's products overseas amounted to £35.3 million, thus just exceeding the previous best of 1960. The maintenance of this level of exports represents a considerable achievement since, as has already been pointed out, prices of the leading agricultural exports were lower than in 1960. Exports to Uganda and Tanganyika reached a new record. Comparing the whole year 1961 with the whole year 1960, commercial imports were not very much lower. It will be recalled that in the first half of 1960 imports had been arriving at a very high rate, arising partly from the removal of restrictions on trade with Japan and partly from merchants' need to replenish their run-down stocks. In the second half of 1960 imports contracted sharply, merchants being both unwilling to carry more than minimum stocks and unable to secure credit to do so. This tendency persisted into the early months of 1961 but a revival of import business, particularly in consumer goods, was apparent from the second quarter and continued throughout the remainder of the year. Imports of many capital goods, however, either remained low or fell in the latter half of the year.

The Banking and Financial Position

9. The figures in Table 3 summarize the commercial banks' operations in Kenya, although they are also affected by developments in the rest of East Africa. The net outflow of funds which began early in 1960 has placed the commercial banks under prolonged strain. The initial impact of this outflow on the economy in creating tight money conditions was softened by the banks' action in running down their head office balances and in fact borrowing from overseas. This position was clearly untenable and, as pointed out in last year's Survey, the banks were forced to adopt a restrictive credit

policy and raise interest rates progressively during 1960. By this means they gradually corrected their position during the latter months of 1960 and early part of 1961. By June, 1961, overseas balances were positive for the first time for over a year and have since fluctuated within fairly narrow limits. Advances also have been brought into a more normal relationship to deposits in recent months. Total loans and advances, though lower than the level reached in the exceptional circumstances of 1960, were maintained at a high level throughout 1961, despite the tight credit conditions. In particular, loans to agriculture rose throughout 1960 and 1961 and at the end of the last year were about £1 million higher than in 1959. Measures were also taken by the East African Currency Board at the end of 1961 to secure authority to discount commercial bills drawn in respect of the processing or marketing of export crops, in order to be able to assist the financing of exports should this be hampered by the tightness of credit.

DEPOSITS, ADVANCES AND OVERSEAS BALANCES OF COMMERCIAL BANKS IN KENYA, 1957-1962

Table 3

	Total Deposits	Total Advances	Advances Deposits	Net Overseas Balance
	£ million	*£ million*	*Per cent*	*£ million*
1957 December	53.0	39.2	74	3.7
1958 December	52.2	34.3	66	8.7
1959 December	56.9	37.5	66	8.4
1960 September	46.1	44.3	96	—8.8
December	50.2	42.2	84	—6.6
1961 March	48.2	38.8	80	—1.1
June	52.2	38.5	74	1.6
September	48.9	38.1	78	2.0
December	52.5	39.0	74	—1.0
1962 March	53.3	38.7	73	1.9

10. The outflow of funds was motivated in part by the erroneous belief that the economic uncertainties of 1960 endangered the value of the currency. It has gradually been appreciated that the Currency Board system ensures that East African currency cannot depreciate against sterling and that it is always backed by ample reserves of sterling assets. The return of the banks' overseas balances to a positive position indicates that the abnormal transfer of funds from Kenya was coming to an end in the early months of 1961 and more recently there is other evidence that the inflow of commercial capital is being resumed. On the other hand, there are no clear signs that individuals are now more prepared to retain their liquid assets in Kenya. While savings deposits with the commercial banks were restored during the year to the 1959 level, deposits with the Post Office Savings Bank, whose interest rate was not raised, have drifted lower though less rapidly than in 1960. Furthermore, deposits with the building societies are still falling short of withdrawals. While

the tendency to keep funds overseas does not threaten the value of the currency it does have a harmful effect on the economy by postponing the day when credit conditions can be eased. As a rough measure of private capital's continued lack of confidence in the economy the index of share prices on the Nairobi Stock Exchange (March, 1958=100) which stood at 102 in January, 1960, had fallen to 72 in January, 1961, and 59 in January, 1962.

Capital Formation

11. Preliminary estimates show that total capital formation fell by nearly £7 million to £34.5 million in 1961. This was the lowest figure for at least eight years despite the rise in prices which has occurred during that time. Of the fall of £7.7 million in the private sector, £1.3 million was accounted for by the purchase of Comet aircraft in 1960 which was not repeated in 1961 and a further £13/4million by reduced purchases of private cars. The biggest single factor, however, was the fall of £2.8 million in private residential work and, in fact, new private house-building had almost ceased by the middle of 1961. Investment in agriculture, in commerce and industry and by non-profit-making organizations was less seriously affected but reductions were general. There was probably only a small net addition to the stock of industrial or commercial capital. In its more immediate effects, the most serious aspect was the decline in private building work of all kinds, which thus failed to provide a stimulus to economic activity.

Summary

12. In short, the year 1961 saw the factors which had appeared in 1960 deepening their hold and taking full effect. Foremost among them, the pervading mood of uncertainty in the face of political developments led directly to the prolonged tightness of credit and the further contraction of expenditure on capital account. On the positive side, exports did well, Government expenditure was increased, although only with the aid of massive assistance from the United Kingdom, and the expenditure resulting from the presence of British troops provided a stimulus to demand. But these factors were sufficient only to prevent the economy slipping back. There was little or no advance in domestic product either at current prices or, as far as can be judged, in real terms, i.e. after allowing for wage and price movements. Certainly this was so in terms of real output per head of population and was true even leaving out of account the reduced output of subsistence farming.

CHAPTER 2—EXTERNAL AND INTERTERRITORIAL TRADE

Introduction

1. The changes in the values of total imports and exports between 1960 and 1961 were not large. Net imports showed a small fall, re-exports increased and domestic exports remained at the 1960 level, so that there was a small decrease in the adverse balance of external trade which, nonetheless, remained

substantial. However, the trade records exaggerate the size of the trade deficit since Kenya imports include goods imported by East African organizations such as East African Railways and Harbours and the East African Airways Corporation. A large part of the true deficit on external trade was covered as usual by earnings from the provision of goods and services to Uganda and Tanganyika.

EXTERNAL TRADE, 1955-1961

Table 4 — £ *million*

	1955	1956	1957	1958	1959	1960	1961
Net Imports—							
Commercial	57.4	61.8	64.9	56.4	57.7	65.0	62.0
Government	14.1	8.0	7.1	4.5	3.8	5.0	6.9
Total	71.5	69.8	72.0	60.9	61.5	70.1	68.9
Re-exports	2.3	4.0	4 9	3.9	51	5.0	6.4
Domestic exports	25.7	29.0	26.4	29.3	33.3	35.2	35.3
Adverse visible balance	43.5	36.8	40.8	27.6	23.1	29.9	27.2

2. The value of domestic exports was maintained at the record level reached in 1960. Its failure to continue the steady upward trend of the past few years is partly explained by adverse weather conditions which curtailed agricultural production but much more so by a further decline in the world prices of many of Kenya's exports. For all exports combined the decline in 1961 was of the order of 6 per cent which means that Kenya exported that much more to keep the total value more or less the same as in 1960. This continued fall in prices is a matter of serious concern to all primary producers and its effect on Kenya's exports may be seen in table 5.

VALUE OF DOMESTIC EXPORTS, 1954-61

Table 5 — £ *million*

	1954	1955	1956	1957	1958	1959	1960	1961
Current prices	20.3	25.7	29.0	26.4	29.3	33.3	35.2	35.3
Constant (1954) prices	20.3	27.0	30.8	29.0	34.9	38.3	40.4	43.1

The effect of the decline in export prices has been aggravated by the upward trend in the prices of imports. Kenya is thus doubly unfortunate, and has to export an ever increasing quantity of goods to pay for a constant quantity of imports.

Pattern of Trade

3. The overall decrease in net imports of 1.6 per cent from £70.1 million to £68.9 million deserves careful examination; in one sense it was actually greater than this because two special kinds of import were included in the

1961 figures. First there was famine relief food; if this and all other Government importations are excluded the decline in the remainder, which may be called net commercial imports, was 4.7 per cent. Secondly there was the importation of two Comet aircraft, valued at £2.3 million, which were an East African import, although debited to Kenya in the trade statistics. If they are excluded the decline becomes 8.1 per cent. However, this apparent sharp decline must in turn be qualified by pointing out that in 1960 imports were running at an exceptionally high level, particularly in the first half of that year, and that, even after deducting the Comet aircraft, commercial imports in 1961 were well above the 1958-1959 level.

4. While in general imports were maintained despite the prevailing uncertainty, there is no doubt that certain investment goods showed the effects of the down-turn in activity, particularly items connected with the building trade and with agriculture. Table 6 shows the behaviour of certain of the more important imports.

SELECTED NET IMPORTS 1959-1961

Table 6 *£ million*

	1959	1960	1961		
			1st half	2nd half	Total
Agricultural machinery and tractors	1,311	1,607	502	97	599
Commercial vehicles and chassis	1,883	2,586	898	720	1,618
Cars	2,937	3,891	678	1,378	2,056
Iron and steel	3,738	4,415	1,494	2,042	3,536
Industrial and commercial machinery	5,829	5,878	3,142	2,329	5,471
Electrical machinery and appliances	1,940	2,153	1,169	1,008	2,177
Cotton and synthetic fabrics	3,637	4,545	2,074	2,710	4,784
Motor spirit and fuel oils	5,786	5,534	2,420	2,591	5,011

Noteworthy, though hardly surprising is the very marked decline in imports of agricultural machinery and tractors. The decline in imports of road vehicles from the very high level of 1960 indicates that stocks had accumulated during that year, since registrations of new vehicles in 1961 did not fall to the same extent as imports. The recovery of imports in the last quarter suggests that towards the end of the year stocks had been reduced to a more acceptable level. There was also some decline in imports of vehicle spare parts and accessories and in imports of motor spirit. Capital goods which showed little or no change in 1961 included industrial and commercial machinery and electrical machinery and appliances. The decline in the building industry did. however, lead to a marked drop in imports of iron and steel.

5. Consumer goods were in most cases above the 1960 level. Cotton fabrics were up by 5 per cent, synthetic fabrics by 7 per cent, clothing by 9 per cent, and wireless sets and radiograms by 9 per cent despite the increased rates of duty applied in the 1961 Budget. Imports of blankets, however, fell by 38 per cent.

6. Chart 2 shows the composition of Kenya's exports in 1961. As already mentioned the decline in world prices meant that the total value of exports rose only fractionally in spite of an increase in quantity of 7 per cent. The main cause of this fall was the behaviour of the price of coffee which for Kenya fell by over 10 per cent in 1961 and has fallen by 40 per cent since 1954. Tea and sisal exports each fell by about £0.4 million in value, tea because lack of rain restricted production and sisal because prices fell. Exports of hides and skins declined by 10 per cent and cotton exports, which had been particularly good in 1960, were 25 per cent lower at £0.6 million. Exports of maize were, of course, negligible. Commodities which rose in value besides coffee (up by £0.3 million to £10.6 million) included meat and meat preparations (up by £0.4 million to £2.3 million) principally to the United Kingdom, sodium carbonate and copper, while cement exports doubled to reach £0.4 million. Receipts from pyrethrum sales were practically unchanged.

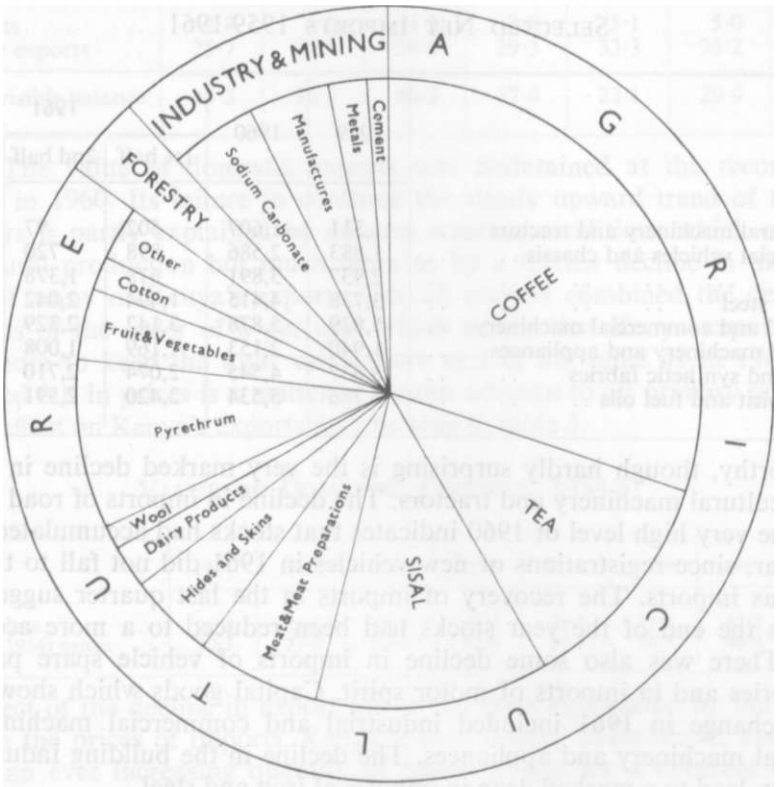


Chart 2—Composition of Overseas Exports, 1961

7. Re-exports at £6.4 million were £1.4 higher than in 1960 due to the resumption of trade with the Congo and increased trade with Somalia and the Sudan. About £1.8 million, that is 28 per cent, of the re-exports were ships' and aircrafts' stores in 1961.

Direction of Trade

8. The United Kingdom remained by far the main source of Kenya's imports and in 1961 supplied goods to the value of £24.1 million, roughly the same as in 1960. This was more than five times the value of goods from her nearest rival, Japan. Many of the Sterling Area countries expanded their exports to Kenya, in particular Rhodesia and Nyasaland (from £0.3 million in 1960 to £1.3 milion in 1961), so that the Sterling Area's share rose from 48 per cent to 53 per cent. The Common Market countries, on the other hand, after a very strong upsurge in 1960 fell back from £13.2 million to £10.0 million, a decline of 25 per cent. This is a reflection of the reduction in imports of transport equipment and iron and steel which make up a high proportion of Kenya's imports from these countries.

9. Of Kenya's total domestic exports of £35.3 million the United Kingdom took £8.5 milion or 24 per cent. The Sterling Area as a whole showed little change taking £14.4 million, that is 41 per cent. The decline in coffee exports to West Germany was marked and as a result total exports to that country fell to 9 per cent below the 1960 level. Exports to the other European Common Market countries also declined and it was to the U.S.A. that the only appreciable increase took place—from £3.9 million to £5.0 million.

10. Markets in the Middle East and the rest of Africa took £4.3 million compared with £4.1 million in 1960. This increase would have been much greater had not exports to Rhodesia and Nyasaland and South Africa fallen by a total of £0.3 million. Among the countries to show substantial increases were Aden, Mauritius, the Congo and Ruanda Urundi, Ethiopia, Reunion, and Somalia, as can be seen from the following table.

DOMESTIC EXPORTS TO MIDDLE EAST AND AFRICAN COUNTRIES, 1959-1961

Table 7 £'000

COUNTRY	1959	1960	1961
South Africa	1,307	1,325	1,214
Rhodesia and Nyasaland	308	364	172
Congo and Ruanda Urundi	433	357	419
Sudan	70	220	194
Somalia	120	145	185
Ethiopia	52	89	103
Other African Countries*	39	66	79
Mauritius	220	404	444
Zanzibar	298	281	284
Seychelles, Reunion and Madagascar	70	42	125
Aden	340	444	589
Bahrein	73	92	104
Israel	245	62	99
Other Middle East Countries+	154	257	273
TOTAL	3.729	4,148	4,284

*Ghana, Nigeria, Mozambique. + Egypt, Iran, Iraq, Lebanon, Libya, Saudi Arabia and Syria.

Exports to these markets consist largely of food such as meat and dairy products, and fruit and vegetables but, with the exception of South Africa, only small quantities of Kenya's staple exports such as coffee and tea. They also include materials, such as sodium carbonate and forest products, and manufactures. Indeed these markets, although taking only 12 per cent of Kenya's total exports, take over 40 per cent of exports classified as manufactures in the Import and Export List.

Interterritorial Trade in Local Produce

11. Kenya's trade with Uganda and Tanganyika continued to expand. Exports in particular were higher, rising from £13.8 million in 1960 to £15.9 million in 1961, and they have trebled since 1954. The expansion has been particularly rapid for Kenya's manufactures such as soap and paper manufactures. Beer and meat preparations also did well in 1961. Imports from Tanganyika and Uganda totalled £7.0 million. For neither territory was there much difference in total as compared with 1960 but the composition of imports from Uganda showed some changes, with marked increases for cotton fabrics and sugar and a decrease in unmanufactured tobacco. Chart 3 shows the growth of interterritorial trade in pictorial form.

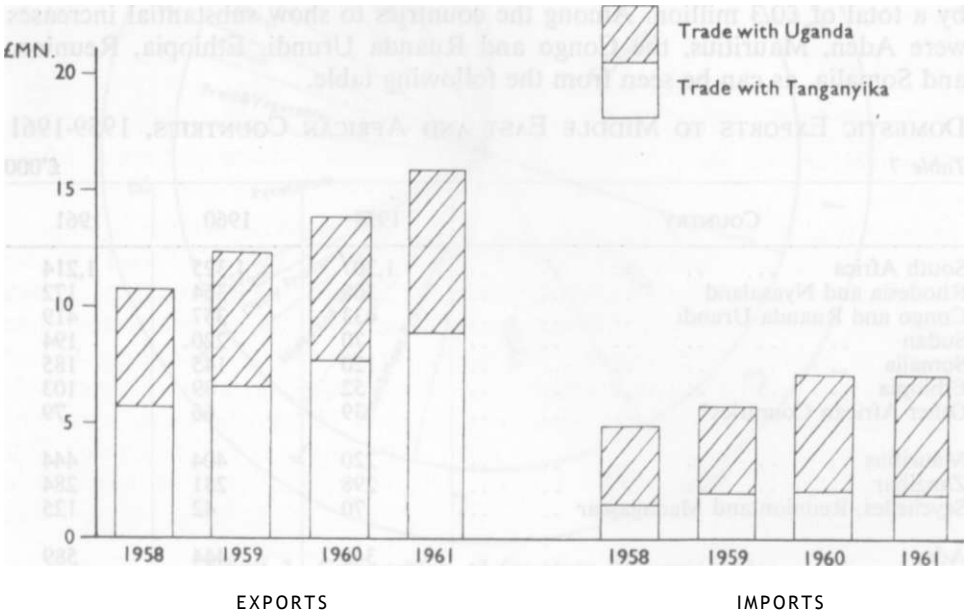


Chart 3—Interterritorial Trade, 1958-1961

CHAPTER 3—AGRICULTURE

Introduction

1. 1961 will long be remembered in the farming areas of Kenya as a year of disaster from drought, pestilence, flood and famine overlaid in the Scheduled Areas by fears for the future caused by political developments. The figures set out below, however, do not reveal fully the havoc wrought by the 1961 weather since much of the farmers' income received in that year was earned by crops, e.g. cereals and coffee, partly harvested in I960, and only when 1962 statistics are available will the full impact be seen. Nor can the calamity of crop failure in areas normally producing little more than subsistence requirements be expressed adequately in statistics.

Production in the Scheduled Areas and Coastal Strip

2. The year under review saw African farmers commence farming in the Scheduled Areas. A few purchased land from existing settlers, while rather more received allocations of land through the Land Development and Settlement Board whose projects are discussed below. The 3,624 holdings of 20 acres or more recorded in the 1961 census of the Scheduled Areas and the Coastal Strip covered some 7,755,000 acres or 12,100 square miles. Almost 1,200,000 acres (15 per cent) were under crops, of which nearly 500,000 acres were under permanent crops such as coffee, tea. sisal and wattle, and a rather smaller acreage under cereals. The most notable changes in the year were the continued decline in the acreage of wheat and a further expansion in the area of maize. The pyrethrum acreage rose by 9,000 to 48,500 acres but this is likely to be a temporary peak since cuts have had to be imposed in producers' delivery quotas.

SCHEDULED AREAS AND COASTAL STRIP—CROP PRODUCTION, # 1959-1961

Table 8 '000 *tons*

	1959	1960	1961
Wheat	96 2	126.7	99 5
Maize	104.1	95.6	90.2
Barley	26.1	20.7	13.3
Oats	9.7	9.7	4.7
Sugar cane*	290.0	335.0	438.0
Coffee-—clean	19.6	18.8	24.9
Tea—manufactured	12.3	13.5	12.2
Sisal fibre and tow	53.7	59.7	56.0
Wattle—green bark	23.4	23.6	29.4
„ stick bark	4.8	7.4	7.7
Pyrethrum flowers	4.2	6.7	7.5

Production in the crop season 1960/61 is shown under 1961.

* Approximate estimate only.

3. Production of major crops in the Scheduled Areas from 1959 to 1961 is set out in Table 8. The coffee crop of nearly 25,000 tons was a record as was also the quantity of pyrethrum delivered. Sisal production was

slightly lower than in 1960 partly due to the drought and partly to less over-cutting. Tea production was some 10 per cent below the 1960 level, which must be entirely attributed to lack of rain. Wheat deliveries which had recovered in 1960 fell back as a result of a lower acreage and a lower average yield. Maize deliveries also declined and the drop in barley and oats was particularly severe. Production of sugar cane has risen without interruption for several years.

4. Figures of the livestock population set out in Table 9 reveal some of the effects of the drought. For the first time there was a fall in the total cattle population. Beef cattle fell from 566,900 in 1960 to 549,100 in 1961 while dairy cattle registered a small decline for the second year running. The sparseness of grazing and the difficult lambing season called a halt to the recent rapid increase in the number of sheep. The number of pigs has declined steadily since 1958.

SCHEDULED AREAS AND COASTAL STRIP—ANALYSIS OF TOTAL NUMBERS OF LIVESTOCK, 1959-1961

Table 9 '000 *head*

	1959	1960	1961
Dairy cattle	427.9	412.7	393.7
Beef cattle	532.4	566.9	549.1
Sheep	548.7	582.6	580.2
Pigs	68.2	50.5	41.4
Poultry	242.6	255.8	280.6

5. Deliveries of livestock products are set out in Table 10. Because of drought, sales of wholemilk and deliveries of butterfat were down on 1960 but the lack of grazing resulted in accelerated deliveries of cattle and sheep for slaughter. The numbers of pigs slaughtered continued to fall because of the slaughter of breeding stock in previous years. Exceptionally, poultry showed an expanding trend in that sales for meat rose substantially, while egg production also reached a new record level. Wool sales rose by 19 per cent in spite of drought.

SCHEDULED AREAS AND COASTAL STRIP—LIVESTOCK PRODUCTION, 1959-1961

Table 10

		1959	1960	1961
SALES OF LIVESTOCK FOR SLAUGHTER—				
Cattle and calves	'000 head	107.2	112.3	127.8
Sheep and lambs	'000 head	58.2	64.9	85.7
Pigs	'000 head	75.5	70.5	62.0
Poultry	'000 head	91.5	114.0	185.2
OTHER PRINCIPAL PRODUCTS SOLD—				
Wholemilk	'000 gallons	18,375	18,954	17,918
Butterfat	'000 lb.	11,565	11,439	10,784
Eggs	'000 doz.	1,419	1,906	2,041
Wool	'000 lb.	2,115	2,246	2,673

6. Even though the full impact on farmers' incomes is not reflected in the 1961 figures the combined influence of the unfavourable weather and of lower prices for many export crops is apparent from Table 11. Gross farm revenue, at just under £36 million, is estimated to have been 5 per cent lower than in 1960, though still appreciably higher than in 1958 or 1959.

7. The 15 per cent decline in revenue from cereals was due mainly to the fall in wheat production. Maize revenue rose in spite of the fall in deliveries since, as there was no surplus, farmers did not have to pay an export cess in 1961. Farmers' receipts from all four principal export crops were affected adversely by price movements, though in varying degrees. Thus coffee production was 32 per cent higher than in 1959/60, but gross receipts were only 6 per cent higher. Production of sisal declined by 7 per cent, but estimated revenue was 11 per cent lower. Tea production fell 10 per cent by quantity and slightly more by value. Pyrethrum revenue failed to expand as much as production. Chart 4 shows the course of world prices of the first three of these export crops over the past five years.

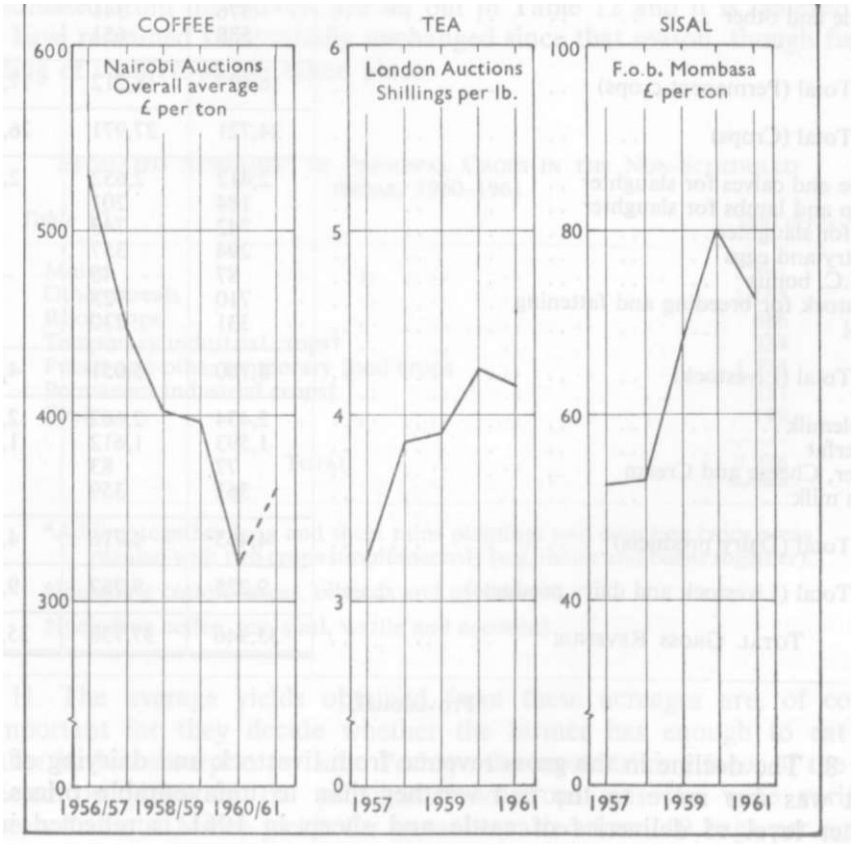


Chart 4—Prices of Coffee, Tea and Sisal

SCHEDULED AREAS AND COASTAL STRIP—ANALYSIS OF GROSS FARM REVENUE, 1959-1961

Table 11 £'000

	1959	1960	1961*
Wheat	2,702	3,454	2,707
Maize	1,576	1,710	1,795
Barley	502	388	268
Oats	149	142	77
Total (Cereals)	4,929	5,694	4,847
Pyrethrum	1,233	1,986	2,137
Sugar	697	778	1,025
Other temporary crops	1,165	1,301	1,207
Total (Other temporary crops)	3,095	4,065	4,369
Coffee (including mbuni)	7,699	7,169	7,608
Sisal	3,641	4,728	4,108
Tea	4,393	5,323	4,762
Wattle and other	376	341	387
Fruit	588	651	560
Total (Permanent crops)	16,697	18,212	17,425
Total (Crops)	24,721	27,971	26,641
Cattle and calves for slaughter	2,412	2,652	2,804
Sheep and lambs for slaughter	184	201	248
Pigs for slaughter	742	743	590
Poultry and eggs	294	357	368
K.M.C. bonus	87	45	–
Livestock for breeding and fattening	710	723	576
Wool	331	330	347
Total (Livestock)	4,760	5,051	4,933
Wholemilk	2,434	2,662	2,491
Butterfat	1,593	1,612	1,461
Butter, Cheese and Cream	77	83	93
Skim milk	361	359	320
Total (Dairy products)	4,465	4,716	4,365
Total (Livestock and dairy products)	9,225	9,767	9,298
TOTAL GROSS REVENUE	33,946	37,738	35,939

*Provisional.

8. The decline in the gross revenue from livestock and dairying of 5 per cent was due more to the bad weather than to unfavourable prices. The higher level of deliveries of cattle and sheep in 1961 is reflected in the increased revenue earned by these products, but the average value per beast was less than in 1960, due to poorer quality. The declining interest in pigs

continued to depress receipts in spite of the better prices received in 1961. The number of livestock sold for breeding and fattening was lower last year resulting in a drop in revenue of 20 per cent.

Production in the Non Scheduled Areas

9. In contrast to the Scheduled Areas by far the larger proportion of agricultural output in the Non-Scheduled Areas is for the household consumption of growers. Although cash crops are becoming increasingly important and the farmers' desire to produce for the market more apparent, the main concern of African farmers remains the production of food for their families.

10. Lack of detailed information on the pattern of land utilization and production by the vast majority of the country's inhabitants has hitherto left an important gap in knowledge of the agricultural sector as a whole. The gap has now to some extent been closed as a result of a sample survey of African farms carried out in 1960/61. The acreages under the principal crops, as estimated from the survey, are set out in Table 12 and it is believed that they have remained substantially unchanged since that season, though further planting of cash crops has taken place.

ESTIMATED ACREAGES* OF PRINCIPAL CROPS IN THE NON-SCHEDULED AREAS, 1960-1961

Table 12	'000 *acres*
Maize	2,891
Other cereals	1,165
Root crops	686
Temporary industrial crops +	334
Pulses and other temporary food crops	1,725
Permanent industrial crops #	217
Fruit	199
TOTAL	7,216

* Adding together long and short rains plantings and counting twice areas planted with two crops simultaneously (e.g. maize and beans together).

\+ Including cotton, sugar, oilseeds and pyrethrum.

\# Including coffee, tea, sisal, wattle and coconuts.

11. The average yields obtained from these acreages are, of course, all-important for they decide whether the farmer has enough to eat and whether he has a surplus for sale. Perhaps the most striking facet of the data collected on yields of the principal food crops was the wide variation between districts. Maize yields for instance varied from 10 bags per acre to less than one bag in the areas worst hit by the drought. If the districts which obtained the very lowest yields had been able to obtain just two or three

bags of maize per acre it would have made the difference between having a surplus and receiving famine relief. The development and introduction of drought-resistant varieties of maize such as into the drier districts is therefore. of major importance.

12. The fruits of the programme of agricultural development in the Non-Scheduled Areas under the Swynnerton Plan are increasingly apparent in the greater quantities of cash crops, particularly coffee, pyrethrum, sisal and rice now reaching the market. The growing importance of production from the Non-Scheduled Areas is illustrated by the following table showing the percentage contribution of production from these areas to the Colony output of three leading export crops.

SHARE OF PRODUCTION FROM THE NON-SCHEDULED AREAS IN TOTAL OUTPUT OF COFFEE, SISAL AND PYRETHRUM, 1958-1961

Table 13 *Percentage*

	1958	1959	1960	1961
Coffee	11	16	19	22
Sisal	–	3	5	10
Pyrethrum	10	13	21	27

Tea output from the Non-Scheduled Areas is at present quite small owing to the length of time taken before a plant starts yielding. By June, 1961, however, over 4,000 acres were under tea, nearly 75 per cent more than a year before. The acreage under this crop is already 9 per cent of the Colony total and it is planned to extend this to 20 per cent by 1966. The area under coffee at the end of 1961 exceeded 44,000 acres, 33 per cent more than in 1960, and is rapidly approaching parity with the Scheduled Areas, although attempts are being made to limit plantings to areas capable of producing coffee of the highest quality and to encourage alternative crops in other areas. At present coffee prices there are, however, no crops which can give as high a cash return per acre even in the less favourable growing areas and it is understandable that the farmers anxious to plant coffee can see only the present returns and not the marketing problem that must inevitably occur in Kenya as production increases over the next five years, carrying with it the likelihood of drastically lower returns.

13. Details of the principal crops marketed from the Non-Scheduled Areas over the last three years are set out in Table 14.

NON-SCHEDULED AREAS—PRINCIPAL CROPS MARKETED*, 1959-1961

Table 14 '000 *tons*

	1959	1960	1961
Maize	79.7	73.2	63.0
Rice paddy	4.3	9.8	14.6
Pulses	12.5	11.3	13.0
Castor seed	1.8	2.7	0.7
Vegetables and fruit	12.1	13.4	17.0
Coffee—clean	3.6	4.6	7.3
Tea—manufactured	0.1	0.1	0.2
Sisal fibre and tow	1.5	2.7	6.1
Cotton lint	3.1	3.4	2.8
Wattle bark	18.1	19.0	16.8
Pyrethrum flowers	0.6	1.8	2.8
Cashew nuts	3.3	5.0	6.4

*Production in the crop season 1960/61 is shown under 1961.

Production of clean coffee (7,300 tons in 1960/61) has more than trebled since 1958. A large proportion is of very high quality. Thus, while the average price for clean coffee from the Scheduled Areas in 1960/61 was £302 a ton, the equivalent price from the Non-Scheduled Areas was £360 per ton. This means that the coffee produced by the African farmers of Kenya is the highest quality coffee produced in the world today. Deliveries of pyrethrum were 56 per cent above 1960, while increased quantities of sisal were produced by farmers in Southern Province. The first phase of the Mwea-Tebere irrigation scheme is complete. The yield in 1961 of 43 cwt. of paddy per acre (which covers marketed paddy only) from 5,000 acres is probably the highest in the world, surpassing that in Japan.

14. Livestock had a very bad year in 1961. Large numbers of animals perished through drought, causing great hardship among the pastoral tribes and the fall in numbers will probably reduce deliveries for slaughter in 1962. The reduction in estimated receipts from cattle sales in 1961 arose from a lowering of the quality of beasts and hence prices received.

15. Estimated gross receipts from marketed production amounted to £10.4 million against £9.5 million in 1960. The increase would have been far greater than this but for a small fall in the estimated value of livestock products (for which the statistics are much less reliable and comprehensive than for crops) and, more important, the fall in the prices of coffee and pyrethrum flowers (the latter reflecting the fall in pyrethrin content). Even so, the growth in known cash income from crops was nearly 15 per cent, not much lower than last year. Details of sales are given in Table 15 overleaf.

NON-SCHEDULED AREAS—ANALYSIS OF GROSS REVENUE FROM MARKETED PRODUCTION, 1959-1961

Table 15 £'000

	1959	1960	1961
Maize	1,006	960	1,082
Rice	103	265	384
Other cereals	128	118	50
Total (Cereals)	1,237	1,343	1,516
Cotton	499	545	505
Tobacco	35	39	58
Pyrethrum	200	484	657
Sugar	20	16	13
Castor and other oil seeds	173	241	216
Total (Temporary industrial crops)	927	1,325	1,449
Pulses	294	307	312
Potatoes	96	125	199
Vegetables	247	259	308
Total (Other temporary crops)	637	691	819
Coffee (including mbuni)	1,830	2,247	2,816
Tea	40	66	79
Sisal	65	284	435
Wattle	193	231	147
Coconuts and products	405	289	286
Total (Permanent crops)	2,533	3,117	3,763
Cashew nuts	120	193	252
Fruit	188	175	103
Miscellaneous other crops	335	277	252
Total (Crops)	5,977	7,121	8,154
Cattle and calves for slaughter	1,848	1,870	1,760
Sheep and goats for slaughter	248	253	252
Pigs for slaughter	25	8	5
Poultry and eggs	74	57	62
Dairy products	178	193	195
Total (Livestock and dairy products)	2,373	2,381	2,274
TOTAL GROSS REVENUE	8,350	9,502	10,428

Capital Expenditure

16. An analysis of capital expenditure by farmers in the Scheduled Areas over the last three years is set out in Table 16. In spite of uncertainties, gross expenditure of £5.2 million was undertaken in 1960/61 although an area analysis of these data shows that expenditure was down in nearly all the mixed farming areas and that it was the continuation of plantation development which maintained the total so near to that of 1959/60.

SCHEDULED AREAS AND COASTAL STRIP—ANALYSIS OF CAPITAL EXPENDITURE, 1958/59-1960/61

Table 16 £'000

	1958/59	1959/60	1960/61
GROSS EXPENDITURE—			
Residential buildings:			
(a) African	355	360	402
(b) Non-African	477	470	301
Non-residential buildings	521	638	406
Roads, dams, drainage and water supplies	530	535	431
Fencing	262	253	187
Plantation development	1,279	1,271	1,252
Vehicles (excluding tractors)	838	815	763
Mechanical equipment (including tractors)	1,237	1,223	1,061
Other	301	363	392
TOTAL GROSS EXPENDITURE	5,800	5,928	5,200
TOTAL SALES OF VEHICLES AND MACHINERY	352	341	319

17. It is not possible to make even an approximate estimate of the value of capital work undertaken by farmers in the Non-Scheduled Areas, but the planting of new permanent crops alone in 1961 was on a very substantial scale. Enclosure and fencing, terracing and other improvements were also being made. Much of the capital expenditure was assisted by Government departments or agencies. Capital expenditure is not the only requirement and of at least equal importance is the regular expenditure by Government on extension work directed to the advancement of farming methods, livestock improvement and soil conservation.

Land Settlement

18. The Land Development and Settlement Board was formed under the Agriculture Ordinance in January, 1961, to prepare and carry out agricultural settlement schemes. The land for this purpose is acquired by the purchase of farms in the Scheduled Areas. The financial resources required to carry out settlement schemes on any considerable scale in this way are very large, but just over £13 million are now available for this purpose, derived from the following sources: —

	Loans	Grants
	£	£
I.B.R.D	3,000,000	–
C.D.C	1,500.000	–
H.M. Government	4,071,000	3,410,000
West German Government (under negotiation)	1,200,000	
	9,771,000	3,410,000

19. There are two categories of settlement schemes: *(a)* smallholder schemes and (b) assisted owner projects. The former are again divided into high density and low density schemes. High density settlement is aimed at providing a reasonable standard of living and a net income to the settler of £25-£40 per annum after meeting annual loan charges. Low density settlement schemes are intended to yield a net income of £100 per year. The objective of the "assisted owner" projects is to create a class of "yeoman" farmer earning a net income of at least £250 from the larger holdings. All those assisted are expected to repay the cost of land, development and settlement in varying degrees. However, while the smallholders are subsidized on land purchase and settling in, the assisted owner is unsubsidized except as regards advice and supervision. Also he must have available about one-third of the capitalization of the subdivisional holding he wishes to purchase.

20. Each smallholder scheme is normally reserved for a specific tribe and the Board endeavours to site it as close as possible to the tribal area concerned. In the case of the high-density schemes it will be normal practice to transfer the land from the Scheduled Areas to the Non-Scheduled Areas. The assisted owner projects are non-tribal and non-racial. They may be situated anywhere in the Scheduled Areas.

21. The settlement targets are at present under revision as a result of experience gained over the last year. The general aim of the Board is to settle as many families as quickly as possible consistent with its terms of finance and consistent with proper planning to produce the returns laid down tor the various schemes. By the end of March, 1962, some 270,000 acres for about 7,500 smallholder families were under investigation, being planned or in process of development. Of this total 166,000 acres had already been purchased at a cost of £894,000. The Board had also agreed to extend financial assistance to 54 assisted owners, involving 17,600 acres valued at £149,000.

CHAPTER 4—OTHER INDUSTRIES

Manufacturing

1. It is estimated that the contribution of manufacturing industry to the gross domestic product rose by about 5 per cent at current prices between 1960 and 1961. This is rather better than the increase for the whole cash economy. It is likely that the relatively good showing of manufacturing reflects higher prices as much as increased output since other evidence suggests that only a small rise occurred. For example, the rising trend of electricity consumption showed a definite flattening out in 1961, and sales of fuel oil showed a marked fall, even after allowing for the dislocation of distribution by floods in November and December. This is illustrated in Chart 5 which shows the percentage changes from year to year in fuel consumption. The figures for electricity consumption cover sales to all users, but the trend of sales specifically for industrial power has followed a similiar pattern. Some

projects were, however, started of which the most important was, perhaps, the oil refinery at Mombasa. A number of other smaller ventures also started up and some expansion of existing plants took place.

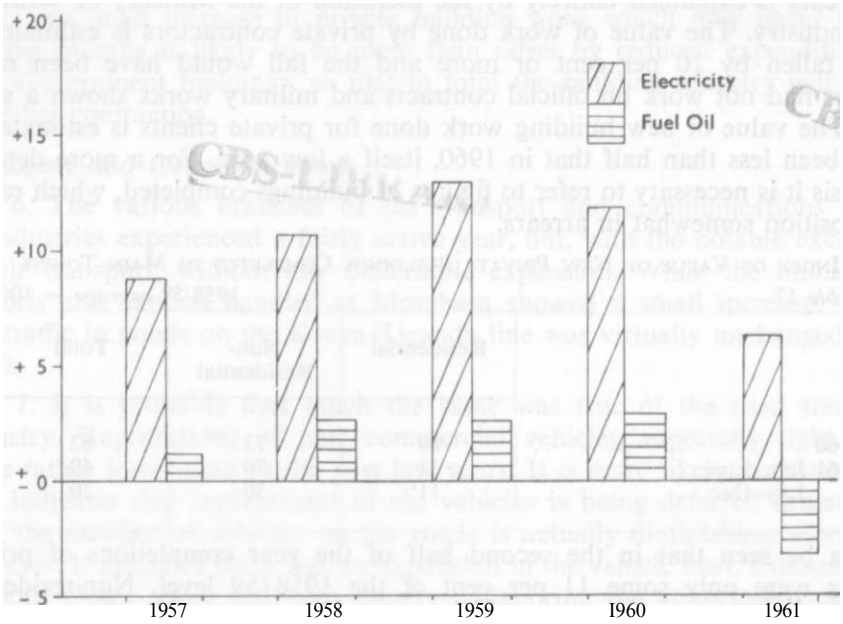


Chart 5—Annual Percentage Change in Power Consumption, 1957-1961

2. The Kenya market for locally produced consumer goods has probably not changed materially, but the decline in capital expenditure had repercussions for producers of building materials (e.g. paints, small fittings and metal windows) and other investment goods. The maintenance, or even small expansion, of total manufacturing production, therefore, was achieved by successful efforts to increase exports, particularly in neighbouring markets as described in Chapter 2. This can be illustrated very strikingly by reference to cement production. Although Kenya's consumption fell by some 60,000 tons export sales were expanded by 50,000 tons, while sales to Uganda and Tanganyika remained constant.

3. With the thoughts of many industrialists turning towards the need to increase export sales, at the end of the year steps were taken to set up an Export Promotion Council functioning in conjunction with the Ministry of Commerce and Industry. While it is, of course, concerned as much with the export of agricultural as with purely industrial products, there is every hope that the work of the Council will play a useful role in maintaining industrial expansion by a build-up of exports. During 1961 also the machinery for co-ordinating tariff policies between the three East African territories was further improved. It is hoped that as a result the working of the East African Common Market, which is so essential for the development of industry in the whole area, will be made even more effective than in the past.

Building

4. The fact that the contribution of the building industry to the gross domestic product was maintained at almost the same level as in the previous two years is explained entirely by the inclusion of the Ministry of Works in this industry. The value of work done by private contractors is estimated to have fallen by 20 per cent or more and the fall would have been much greater had not work on official contracts and military works shown a small rise. The value of new building work done for private clients is estimated to have been less than half that in 1960, itself a low year. For a more detailed analysis it is necessary to refer to figures of buildings completed, which reflect the position somewhat in arrears.

INDEX OF VALUE OF NEW PRIVATE BUILDINGS COMPLETED IN MAIN TOWNS

Table 17 — 1958/59 *average* = 100

	Residential	Non-Residential	Total
1960	89	73	82
1961 Jan.-June	31	70	49
July-Dec.	11	30	20

It can be seen that in the second half of the year completions of private houses were only some 11 per cent of the 1958/59 level. Non-residential buildings, though rather better maintained, since they include a fair proportion of institutional and semi-public buildings, also declined progressively. However, it seems as if the bottom may now have been reached and that the full effect of the decline in private building plans has worked through.

5. The only indications of future trends available are plans approved by Nairobi City Council. Table 18 shows the trend in 1960 and 1961 again taking the 1958/59 average as a base of 100.

INDEX OF VALUE OF PRIVATE BUILDING PLANS APPROVED IN NAIROBI

Table 18 — 1958/59 *average* = 100

	Residential	Non-Residential	Total
I960	55	110	77
1961 Jan.-June	6	42	21
July-Dec.	9	80	37
1962 Jan.-March	5	31	15

In the current year little improvement in the level of private building activity can be expected for if it is true that the full effect of the decline in confidence is now apparent and that, therefore, little further fall need be expected, it is also true that building plans take some time to prepare and set into motion so that an immediate return of confidence would require time to take effect. Furthermore, investors are likely to be cautious and there is not now the same

pressure for residential or office accommodation as was experienced a few years ago. Nor are funds readily available either for the private individual through building societies or for companies through the ploughing back of profits or by advances from banks and other financial institutions. Moreover, any small increase in private building work which may occur in the coming months is likely to be more than offset by reduced expenditure on new Government buildings, so that in total the building industry will suffer a further contraction.

Transport and Communications

6. The various branches of the transport and communications group of industries experienced a fairly active year, but, with the notable exception of air transport, without any discernible expansion. While the tonnage of imports and exports handled at Mombasa showed a small increase, public rail traffic in goods on the Kenya/Uganda line was virtually unchanged from 1960.

7. It is probable that much the same was true of the road transport industry. Registrations of new commercial vehicles, especially light vans, were rather lower than in the past few years. It is more likely, however, that this indicates that replacement of old vehicles is being deferred rather than that the number of vehicles on the roads is actually diminishing. Certainly, however, it indicates there was no expansion in the vehicle fleet. Consumption of both motor spirit and light diesel oil (ignoring the abnormal conditions created by the end-year floods) declined in 1961, though it remained higher than in 1959. The fall was not large, but is in contrast with the previous upward trend. While it is possible that the former was influenced by reduced private purchases following a trend to smaller cars and greater use of air travel for longer journeys, and that the latter reflected reduced consumption by sawmillers and similar users, taken together it suggests that road transport activities were no better than static. The increase in the use of air transport, on the other hand, even ignoring the end-year boost, accelerated during 1961. The number of passengers carried by East African Airways Corporation on all routes rose by 16 per cent and the tonnage of cargo by 18 per cent.

Tourism

8. The number of visitors from overseas arriving in Kenya continued to rise in 1961, those on holiday from 12,600 to 14,600 and others (mainly on business) from 6,600 to 9,300. The full benefit which might have been expected from this increased number of visitors did not reach the hotel and other trades catering for tourists since the preliminary figures show that the average length of stay of each category of visitor was substantially lower than in 1960. The figures may reflect an increase in the number of visitors arriving on group tours and less expensive "package holidays". The disastrous weather and transport conditions at the end of the year may also have caused others to curtail their stay. In consequence total receipts are estimated to have been lower than in 1960.

CHAPTER 5—EMPLOYMENT, EARNINGS AND THE PRICE LEVEL

Employment and Earnings

1. In June, 1961, the total number of persons of all races recorded in paid employment was 589.000. The number had fallen by more than 5 per cent over the previous 12 months and was at its lowest level since 1954. In Table 19 is shown a comparison between 1960 and 1961 of the numbers in employment in June of each year and the estimated annual wage bill as given by the annual Enumeration of Employees, analysed by race and main type of economic activity. It will be seen that the reduction in employment, which was shared by all races, was concentrated in the private sector, while most branches of the public services reported employing rather greater numbers than a year earlier. It will be noticed also that the 5 per cent fall in numbers was accompanied by a rise of between 5 and 6 per cent in the wage bill.

REPORTED EMPLOYMENT AND EARNINGS, 1960 AND 1961

Table 19

Year/Race	PRIVATE INDUSTRY AND COMMERCE		PUBLIC SERVICES		AGRICULTURE AND FORESTRY		TOTAL	
	Numbers Employed	Total Earnings £'000 p.a.	Numbers Employed	Total Earnings £'000 p.a.	Numbers Employed	Total Earnings £'000 p.a.	Numbers Employed	Total Earnings £'000 p.a.
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
1961—								
African	134,089	13,912	145,533	16,463	249,764	9,824	529,386	40,199
Asian	24,973	11,476	12,220	7,381	628	363	37,821	19,220
European	11,669	14,809	8,881	13,357	1,634	2,087	22,184	30,253
Total	170,731	40,197	166,634	37,201	252,026	12,274	589,391	89,672

2. Agriculture continued to be by far the largest employer of African labour with over 47 per cent of the total. Although employment on African farms and more particularly in ancillary activities such as coffee and pyrethrum co-operatives was shown to be on the increase, the agricultural employment situation is still dominated by activity on the large farms and estates of the Scheduled Areas. Here total employment is estimated to have fallen by some 8 per cent between mid-1960 and mid-1961. Leaving aside the bumper 1960/61 coffee crop, the effect of which is not reflected in employment figures for the month of June, the volume of agricultural production is estimated to have been some 6 per cent lower in 1961. The fall in employment was thus possibly slightly greater than the fall in output. Moreover, output of labour-intensive crops such as pyrethrum was maintained or increased. This suggests that the reduced profitability of farming in last year's difficult conditions, in conjunction with rising wage rates and political uncertainty, may have caused farmers to utilize labour more economically and

dispense with part of their labour force, but the present evidence is not conclusive that this was widespread before mid-1961. Although the increase in employment noted a year ago has thus proved temporary, recorded employment in agriculture was nonetheless at roughly the same level as prevailed on average over the period 1955-1959 and considerably higher than in the early 1950s. Off-setting in some measure the recorded decline since 1960 are the greater employment opportunities in the non-Scheduled Areas resulting from the expanding production of cash crops, although such employment largely escapes record at present in the annual enumeration.

3. In the private sector outside agriculture the fall in employment was of the order of 10 per cent. In examining the changes between 1960 and 1961 in the various industrial groups shown by Table 20 it must be borne in mind that certain changes in the industrial classification of firms were made in 1961 The most important of these was the transfer of certain repair workshops associated with sales activities (e.g. the service garages run by vehicle distributors) from the manufacturing to the commerce group. It is estimated that in all some 6,000 persons were involved in 1961. Examining Table 20 with this adjustment in mind it appears that a decline in employment occurred in every branch of industry although the severity of the decline varied considerably from group to group. The total wage bill in each group, however, either rose or fell less than the numbers employed. There are indications that, as in agriculture, the upward trend in wage rates of recent years has caused employers to reduce the numbers and increase the efficiency of their labour force.

REPORTED EMPLOYMENT AND EARNINGS, 1960 AND 1961
Private Industry and Commerce

Table 20

GROUP	NUMBERS EMPLOYED		TOTAL EARNINGS £'000 p.a.	
	1960	1961	1960	1961
Mining and quarrying	5,036	3,760	577	481
Manufactures and repairs	52,333	42,518	10,678	9,264
Building and construction	21,120	17,897	3,252	3,078
Electric light, power and water supply	2,502	2,473	753	847
Commerce	39,025	43,182	12,568	14,735
Transport and communications	14,745	14,514	3,859	4,345
Other services (including domestics)	54,197	46,387	8,455	7,447
TOTAL	188,958	170,731	40,142	40,197

4. To take individual groups in turn the fall in employment in manufacturing was some 7 per cent on the adjusted figures. The industries most severely affected were saw milling, wood products and furniture manufacture, cement and certain types of food processing. This latter may have been the result partly of the poor agricultural year. Employment in engineering was also reduced, particularly in activities connected with capital investment in

machinery and vehicles. On the other hand, employment in printing and publishing was well maintained and in the textile industry it showed an expansion. The further sharp fall of 15 per cent for private building firms comes as no surprise and partly accounts for the reduction in employment in mining and quarrying. In the commerce group, allowing for the reclassification referred to in paragraph 3, the fall in employment was some 5 per cent only. The decline was, however, greater than this for wholesale and retail trade since employment in banking and insurance continued its steady rise. Detailed comparison in the service group of industries is again hampered by reclassification difficulties but reductions were general for both business services and hotels and other recreational activities. A noteworthy feature was the decline in domestic servants recorded from 25,150 to 22,620, a fall no doubt caused by the reduction in the European population.

5. Employment by public authorities as a whole rose by about 5,000 or 3 per cent. Some of the apparent increase in Kenya Government employment may arise from the reclassification of certain schools previously included in the private sector, but another important reason is that priority in development expenditure has been given expressly to employment-creating projects. Employment by local authorities rose by about 1,000 and there was a similar increase for defence. This latter represents almost entirely the employment provided directly by the presence of British military and R.A.F. units.

REPORTED EMPLOYMENT AND EARNINGS, 1960 AND 1961

Table 21 *Public Services*

GROUP	NUMBERS EMPLOYED		TOTAL EARNINGS £'000	
	1960	1961	1960	1961
Kenya Government	99,569	103,296	18,765	22,019
E.A. Railways and Harbours	25,973	25,015	6,341	6,915
E.A. Posts and Telecommunications	4,525	4,692	1,623	1,921
E.A. High Commission	3,102	3,036	1,435	1,704
Defence (civilians only)	3,366	4,379	723	1,063
Local and foreign governments	24,899	26,216	3,368	3,578
TOTAL	161,434	166,634	32,255	37,201

6. The increase in the total estimated wage bill from £84.9 million to £89.7 million was accounted for entirely by the public sector. Although there was some increase in the numbers employed, the higher wage bill resulted mainly from the implementation of the Flemming Commission's recommendations. The figures given for 1960 in Tables 19 and 21 do not include arrears of salary in respect of 1960 which were paid in 1961. The total wage bills of both agriculture and private commerce and industry remained substantially unchanged despite the fall in numbers employed. Average earnings of those in employment rose significantly. Among the probable causes of this rise are the influence of higher Government salaries on the managerial and clerical

level and successful pressure from the trade unions for higher wages for manual workers, supported by the raising of the statutory minimum wage as described in the next paragraph. In the case of African workers there is little doubt that more were employed also in skilled occupations and positions of responsibility. Chart 6 shows that the upward movement in average earnings of African workers resulting from the combination of these factors continued strongly in 1961. On the other hand, it is significant that the average earnings of Asian employees in private industry and commerce did not rise at all, which lends support to the view that members of this community may be accepting lower salaries and less highly skilled jobs than previously.

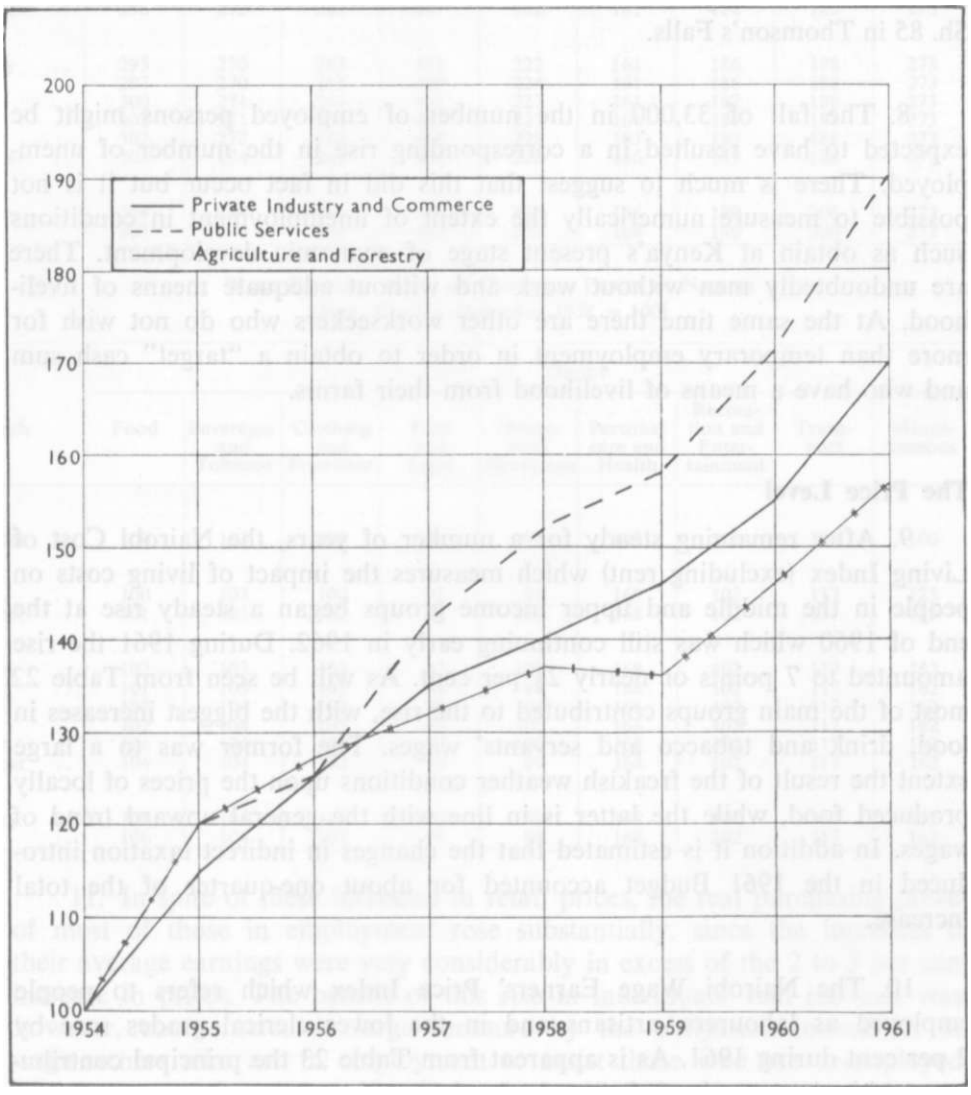


Chart 6—Index of Average Earnings of Africans, 1954-1961
(1954 = 100)

7. Important changes took place in statutory minimum wages during the year. In August, 1961, the differential between the Youth Minimum and the Adult Minimum Wage was increased from 37.5 per cent to 45 per cent. At the same time increases in the Youth Minimum Wage were made in five of the nine towns to which general wages regulations then applied. Further changes came into force in January, 1962, when four of the original nine towns secured increases in the minimum wage and four new towns (Kericho, Thomson's Falls, Naivasha and Machakos) were brought within the scope of general wages regulation orders. Adult minimum wages, excluding house allowance, now range from Sh. 107 in Nairobi, Mombasa and Eldoret to Sh. 85 in Thomson's Falls.

8. The fall of 33,000 in the number of employed persons might be expected to have resulted in a corresponding rise in the number of unemployed. There is much to suggest that this did in fact occur but it is not possible to measure numerically the extent of unemployment in conditions such as obtain at Kenya's present stage of economic development. There are undoubtedly men without work and without adequate means of livelihood. At the same time there are other workseekers who do not wish for more than temporary employment in order to obtain a "target" cash sum and who have a means of livelihood from their farms.

The Price Level

9. After remaining steady for a number of years, the Nairobi Cost of Living Index (excluding rent) which measures the impact of living costs on people in the middle and upper income groups began a steady rise at the end of 1960 which was still continuing early in 1962. During 1961 the rise amounted to 7 points or nearly 2.5 per cent. As will be seen from Table 22 most of the main groups contributed to the rise, with the biggest increases in food, drink and tobacco and servants' wages. The former was to a large extent the result of the freakish weather conditions upon the prices of locally produced food, while the latter is in line with the general upward trend of wages. In addition it is estimated that the changes in indirect taxation introduced in the 1961 Budget accounted for about one-quarter of the total increase.

10. The Nairobi Wage Earners' Price Index which refers to people employed as labourers, artisans and in the lower clerical grades rose by 2 per cent during 1961. As is apparent from Table 23 the principal contributors to this rise were food, fuel and school fees (included in the miscellaneous group).

NAIROBI COST OF LIVING INDEX (EXCLUDING RENT)
(Base: August, 1939 = 100)

Table 22

Month	GROUP									
	Food, Drink and Tobacco	Clothing and Footwear	House-hold	Domestic Servants' Wages	Trans-port	Pharma-ceutical Products	Amuse-ments	Papers and Periodi-cals	Miscell-aneous	All Groups
1959—										
December	296	270	263	431	223	161	186	188	275	290
1960—										
June	295	272	262	431	223	161	186	188	274	290
December	296	272	263	447	222	161	186	188	273	292
1961—										
February	295	270	263	453	222	161	186	188	273	292
April	297	270	263	459	224	161	186	188	273	294
June	300	271	264	461	227	161	187	188	273	296
August	302	271	264	463	227	161	189	188	273	297
October	302	272	264	468	228	163	189	188	273	298
December	303	274	265	472	228	166	189	188	273	299
1962—										
February	304	274	266	479	227	166	190	206	273	301
April	303	276	266	482	228	168	190	206	273	301

WAGE EARNERS' INDEX *OF* CONSUMER PRICES IN NAIROBI
(Base: October-December, 1958 = 100)

Table 23

Month	GR OUP									
	Food	Beverages and Tobacco	Clothing and Footwear	Fuel and Light	House-hold Operation	Personal care and Health	Recrea-tion and Enter-tainment	Trans-port	Miscel-laneous	All Groups
1959—										
December	100	103	100	93	98	168	102	100	100	101
1960—										
June	100	103	100	91	96	169	102	117	125	110
December	101	103	102	93	101	168	102	117	125	103
1961—										
February	102	103	103	93	102	168	102	117	162	104
April	101	103	103	94	99	168	102	117	162	103
June	102	104	103	99	101	168	102	117	162	104
August	102	104	103	97	101	168	102	117	162	104
Octobcr	104	104	103	97	100	168	102	117	162	105
December	104	104	103	99	99	168	102	117	162	105
1962—										
February	104	104	103	100	99	168	102	117	162	106
April	106	104	102	99	98	168	102	117	162	107

11. In spite of these increases in retail prices, the real purchasing power of most of those in employment rose substantially, since the increases in their average earnings were very considerably in excess of the 2 to 3 per cent increase in prices. The benefit of this rise in individuals' real incomes was, however, counteracted in large measure by the obligation incumbent on wage-earners who are in employment to assist those who are unemployed. The average wage-earner, though earning a higher real income, had more dependants to support.

CHAPTER 6—PUBLIC FINANCE

1. This chapter outlines the course of Kenya Government revenue and expenditure over the four financial years ending 1960/61, with a brief reference to 1961/62, as a background to the 1962/63 budget proposals. The trends in revenue from taxation are reviewed over a longer period.

2. The totals of revenue and expenditure given here differ from the totals as shown in the Appropriation Acounts for reasons which have been explained in previous Economic Surveys. Briefly, there are two differences. The first arises mainly from the division of the budget into a Colony Account and a Development Account, the latter covering expenditure which it is considered may properly be met from loan monies and grants. Certain development activities are however carried out as part of the regular services of Ministries, financed by a transfer of funds from the Development to the Colony Account. There are other similar internal accounting transfers, the inclusion of which would lead to double-counting and obscure the real trend in government expenditure. All such transfers have therefore been eliminated from the figures in the following tables. The second difference is that both revenue and expenditure are given here gross of Appropriations in Aid (in the main, fees for services collected by departments and appropriated with legislative approval to their own use) instead of net as voted in the budget.

3. Expenditure over the last four complete financial years is shown in Table 24, and analysed by broad groups of services in Table 25.

KENYA GOVERNMENT EXPENDITURE, 1957/58-1960/61

Table 24 — £ *million*

	Colony Account	Development Account	Total
1957/58	38.47	5.98	44.45
1958/59	38.09	5.84 (a)	43.94
1959/60	38.27	8.12	46.39
1960/61	42.67	7.67	50 35

(a) Excluding transfer of £2.17 million to the Mombasa Pipeline Board in respect of existing assets.

The totals in the latter table include both Colony and Development expenditure (net of internal transfers), and expenditure from the Emergency Fund made through departments e.g. forestry, is included with normal departmental expenditure on that service. Total expenditure, which had been falling until 1958/59 with the end of the active phase of the Emergency, rose in 1959/60 and showed an even bigger increase in 1960/61. The biggest single reason for this was the general increase in salaries, the increase being back-dated to cover the last three months of the financial year 1959/60. To this extent, therefore, the increase in expenditure between 1959/60 and 1960/61 is overstated.

4. In comparing the pattern of expenditure in 1960/61 with earlier years it will be noted that defence expenditure was lower by £1.17 million, since H.M. Government assumed responsibility for the recurrent costs of the East African Land Forces from that year. The increases in the remaining three sub-headings under "General Services" reflect mainly the "Flemming" award which provided an above average increase in the scales of the lower ranks of the police, prisons and customs services, in order to maintain a high calibre force. There was also an increase in the prisons establishment corresponding to the increase in the prison population and designed to raise training and welfare standards. For these reasons expenditure on general services took approximately the same percentage (29 per cent) of total expenditure as in 1959/60, even though Kenya was relieved of the cost of her military forces.

COLONY AND DEVELOPMENT EXPENDITURE (INCLUDING EMERGENCY EXPENDITURE) ON MAIN SERVICES, 1957/58-1960/61

Table 25 — £ *million*

	1957/58	1958/59	1959/60	1960/61
GENERAL SERVICES—				
Administration	3.08	3.56	3.75	4.50
Justice, Police, Prisons	7.82	7.14	6.91	8.53
Revenue collection and financial control	1.03	1.05	1.07	1.23
Defence	1.80	1.71	1.59	0.42
TOTAL	13.73	13.46	13.32	14.68
FINANCIAL OBLIGATIONS—				
Public debt	2.47	2.71	2.86	3.43
Pensions and passages	2.06	2.15	2.06	2.11
Transfers to local authorities	1.00	0.94	1.83	1.39
TOTAL	5.53	5.79	6.76	6.92
ECONOMIC AND COMMUNITY SERVICES—				
Agriculture, veterinary, forestry and game	5.39	6.21	6.20	6.94
Transport	3.18	2.70	3.09	3.37
Other, including water supplies	1.73	1.54	1.57	1.86
TOTAL	10.29	10.45	10.85	12.17
SOCIAL SERVICES—				
Education	5.90	6.30	7.04	8.02
Health	2.76	2.75	2.95	3.39
Other	0.81	1.35	1.14	1.14
TOTAL	9.48	10.40	11.12	12.55
UNALLOCABLE	3.59	3.42	3.79	4.02
EMERGENCY EXPENDITURE, N.E.S	1.83	0.43	0.54	—
TOTAL EXPENDITURE	44.45	43.94	46.39	50.35

5. In the next group of items, which consists of unavoidable financial commitments, the cost of servicing the Public Debt continued to rise, but as will be seen from Table 26, £1.5 million of the total cost was offset by reimbursements from the Railways and Harbours Administration and by interest and capital repayments received from other authorities to whom loans have been extended. The heading for transfers of funds to local authorities does not include contributions to the cost of education, health and roads, which are included under their specific headings. This item may vary substantially from year to year as block transfers are made to the Local Government Loans Authority. £0.5 million was thus transferred in 1960/61 as compared with £1.0 million in 1959/60. Deducting these capital transfers, support for local authorities' current expenditure was a little higher in 1960/61 but has not varied very much over the four-year period.

6. Expenditure on economic services again took about 24 per cent of the total, with the major share (14 per cent) allocated to agriculture, veterinary, forestry and game. Included in the figure of £3.37 million for transport was £2.78 million for roads, both current and capital expenditure, but this excludes work to the value of £1.2 million carried out under the contractor-finance project only a small part of which is included in voted expenditure.

7. In the social services group education is easily the largest item and in 1960/61 took 16 per cent of total expenditure, rather more than the share for the whole agricultural and forestry group of services. Over the three years since 1957/58 expenditure has increased by more than one-third. The increase in health expenditure has been more gradual but amounted to nearly one-quarter over the same period. The remaining item covers a variety of services e.g. community development and labour, but the biggest item is the provision of funds to the Central Housing Board for local authorities' housing schemes. In 1960/61 this amounted to £416,000. a little less than in the two preceding years.

8. Receipts on Colony Account over the period 1957/58 to 1960/61 are shown in Table 26, from which it will be seen that revenue from Kenya's own resources in the last three years under consideration scarcely rose at all, and taxation receipts, which provide about three-quarters of the total, actually fell in 1960/61. More detailed figures of tax revenue covering a longer period are given in Table 27 and discussed in the following paragraph. Receipts of interest and loan repayments have already been noted as offsetting public debt charges. A further sum of between £3/4 and £1 million is normally reimbursed by other administrations for payments made by the Kenya Government on their behalf e.g. for pensions. Receipts from charges directly related to services provided to the private sector have been increasing steadily. In part e.g. water charges and aviation landing fees, this reflects greater consumption of Government provided services and in part, e.g. school fees, higher charges. Part of Colony Account expenditure is covered, as explained above, by transfers from Development, which accounts for the fact that even with the

assistance from H.M. Government, Colony Receipts in some years fall short of Colony Expenditure. Up to 1959/60 this assistance was directed towards meeting the cost of the Emergency. In 1960/61 £1.55 million was received under the Overseas Service Aid Scheme and to meet arrears of allowances payable under the Flemming award. The remaining £2.75 million represented Grant-in-Aid to meet the current deficit.

GROSS RECEIPTS ON COLONY ACCOUNT, 1957/58-1960/61

Table 26 *£ million*

	1957/58	1958/59	1959/60	1960/61
Taxation	27.98	29.52	29.65	29.01
Interest and repayment of loans	1.21	1.24	1.13	1.51
Charges for goods and services	2.99	3.37	3.71	4.30
Reimbursements from other administrations	1.05	0.89	0.78	0.74
Miscellaneous*	1.75	1.75	1.66	1.52
TOTAL	34.98	36.77	36.94	37.07
Assistance from H.M. Government	3.00	1.50	1.60	4.30

*Includes Currency Board surplus, fines, withdrawals from Renewals Funds, etc.

9. Examining Table 27 it can be seen that after a sharp increase in 1955/56, receipts from taxation rose irregularly over the next five years and in 1960/61 were less than £1 million greater than in 1955/56. Taxation revenue in relation to gross domestic product has thus shown a downward trend, drastically so in 1960/61. This has been arrested and will be reversed in the current year when tax receipts are likely to total about £30.5 million, but this will be equivalent to a ratio of only 13.5 per cent of domestic product.

10. Although export duties had been removed by that year, direct tax receipts were at a peak in 1957/58, where they remained in 1958/59. The fall in receipts from income tax in 1959/60 was explained in last year's Economic Survey. A further decrease occurred in 1960/61 since, although tax assessed increased reflecting the improved state of the economy in 1959. collections of arrears which had helped to swell previous years' receipts had by then largely been wiped off and the difficulties of collecting current tax increased. Receipts from graduated personal tax have followed the same trend though for different reasons. In 1959/60 the lowest rate of tax was reduced and 1960/61 collections were further diminished by the increase in tax remissions on grounds of hardship.

11. The trend of indirect taxation has been noticeably upward over the period, though not steadily so from year to year. Import duties provide about one-third of tax revenue and in the last two years have been the biggest single source. Considerable variation occurs in receipts between one financial year and the next, since superimposed on the long-term upward trend in dutiable imports (mainly consumer goods) irregular fluctuations arise from the periodic building up and running down of traders' stocks. Thus the high level of

GROSS REVENUE FROM TAXATION, 1954/55-1960/61

Table 27 £ million

	1954/55	1955/56	1956/57	1957/58	1958/59	1959/60	1960/61
DIRECT TAXATION—							
Income tax	8.12	9.12	10.43	11.29	11.33	10.41	9.97
Graduated personal tax	1.70	1.97	2.04	2.22	2.17	1.94	1.82
Estate duties	0.16	0.19	0.21	0.26	0.25	0.09	–
Export duties	0.97	1.70	0.16	–	–	–	–
TOTAL	10.95	12.98	12.83	13.77	13.74	12.44	11.80
INDIRECT TAXATION—							
Import duties	7.51	9.38	8.47	8.11	9.54	10.66	10.00
Excise duties	2.10	2.81	2.64	2.94	3.16	3.25	3.59
Stamp duties	0.46	0.59	0.63	0.60	0.58	0.66	0.54
Petrol and diesel tax	0.43	0.51	0.50	0.51	0.50	0.57	0.93
Licences and fees under the traffic ordinance	0.54	0.63	0.69	0.73	0.78	0.82	0.76
Taxes and licences n.e.s.	0.44	0.52	0.62	0.62	0 62	0.64	0.67
Land premia and taxes	0.31	0.42	0.38	0.40	0.37	0.39	0.49
Royalties	0.22	0.28	0.29	0.29	0.22	0.23	0.22
TOTAL	12.00	15.14	14.22	14.21	15.77	17.21	17.21
TOTAL (TAXES AND LICENCES)	22.95	28.12	27.05	27.98	29.52	29.65	29.01
Ratio of total taxation to Gross Domestic Product (per cent)*	14.5	15.5	14.0	13.6	14.2	13.9	12.9
Percentage contribution of direct and indirect taxes—							
Direct	48	46	47	49	47	42	41
Indirect	52	54	53	51	53	58	59

*Taxation receipts in 1954/55 are related to gross domestic product in 1954.

imports in the first half of 1960 pushed up receipts in the financial year 1959/60 and the subsequent running down of stocks, which continued into 1961. depressed customs receipts in 1960/61, though imports and duty rose in the last quarter of that financial year. Revenue from excise duties has risen with little interruption over the whole period under review and by a greater percentage than total tax revenue. This rise reflects both fairly steadily increasing consumption and periodic increases in the rates of duty. Revenue from stamp duties has varied within quite narrow limits in sympathy with the general state of the economy, the fall in 1960/61 being symptomatic of the prevailing uncertainty. The changes in 1960/61 in receipts of petrol and diesel tax (which are shown before refunds to agriculture and sawmillers) and of traffic licences resulted from the revised taxation arrangements introduced in the budget of that year when consumption duty was imposed on diesel oil and diesel driven vehicles were exempted from double licence fees. Changes in receipts from other indirect taxes have been small. In total receipts from all forms of indirect taxation were substantially higher in 1959/60 and 1960/61. which offset the fall in receipts of direct taxes.

12. On Development Account receipts of grants and loans in 1960/61 totalled over £8 million, as can be seen from the following table.

RECEIPTS OF DEVELOPMENT GRANTS AND LOANS, 1957/58-1960/61

Table 28 — £ *million*

	1957/58	1958/59	1959/60	1960/61
GRANTS FROM ABROAD—				
C.D.W	1.77	1.07	0 84	1.57
I.C.A. and other	0.71	0.12	0.20	0.05
LOANS—				
U.K. Exchequer	–	–	3.00	5.33
I.B.R.D.			–	0.39
Others raised abroad	0.25	0.57	0.37	0.40
Local market issues	2.21	3.67	1.75	0.30
Other E.A. loans	–	–	0.42	0.10
TOTAL GRANTS AND LOANS	4.94	5.43	6.58	8.14

In addition to the grants of £1.62 million mainly from C.D.W. funds, several smaller grants totalling some £40,000 were credited to Colony Account as Appropriations in Aid. It was still impossible to raise money on the London market but further loans were received from the U.K. Exchequer. The first drawing was made of the £2 million loan from the International Bank for the development of African agriculture, and drawings were made on mortgage loans for government buildings. On the local market a further tranche of the 6 per cent loan of 1980/83 was issued. In June, 1961. the 1960/61 4 per cent stock was successfully converted into £3,040,000 of 6 1/2 per cent stock redeemable in December, 1965.

13. The gross public debt at end-June, 1961, stood at over £69 million. Part of this had been raised on behalf of and is serviced by the Railways and Harbours Administration and part is covered by sinking funds. Deducting these offsetting factors, the public debt exceeded £57 million and further loans have been received in the current year. The cost of servicing this debt has been increasing and will increase further. Only if the expenditure to which loan receipts are applied succeeds in securing a rapid increase in incomes and output and if the effects of government development expenditure are not nullified by reductions in private investment will the burden of debt servicing remain at a tolerable level.

CHAPTER 7—CAPITAL FORMATION

1. While only tentative estimates of gross capital formation in 1961 can yet be made, the preliminary figures leave little doubt that capital expenditure for the whole economy will prove to have been at its lowest level for at least eight years. That the total is low even by comparison with the preceding three years is evident from the following summary figures, which also show that the whole of the decline between 1960 and 1961 occurred in the private sector:—

GROSS FIXED CAPITAL FORMATION, 1950-1961

Table 29 — *£ million*

	Public Sector	Private Sector	Total
1950	8.3	12.8	21.1
1951-53	n.a.	n.a.	n.a.
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	14.4	27.0	41.4
1961, preliminary	15.2	19.3	34.5

The trends in gross capital formation for the whole economy may be seen from Chart 7.

2. There was a further small rise in investment in fixed assets by the public sector. Capital expenditure undertaken directly by the Kenya Government is estimated to have been only a little below the high level of the previous year at nearly £8 million. Expenditure on road construction and major improvements, including work under the contractor finance project and the feeder road programme financed by the IBRD loan, amounted to approximately £1.5 million. The erection of new schools and hospitals absorbed between £3/4 and £1 million, while investment in economic development including forestry, agriculture (e.g. in land consolidation) water supplies and airports continued at a high level as well as the construction of staff housing (e.g. improved police quarters) and administrative buildings for a variety of purposes.

3. Capital expenditure by local authorities, which had amounted to approximately £3 1/2 million in 1959 and £3 million in 1960, is provisionally estimated to have reached a figure of more than £3 1/4 million in 1961. The main directions of local authorities' capital spending are water and sewerage works, road construction and housing schemes. Much of this expenditure is financed by money made available from the Exchequer. Work was also started on the Nairobi City Council contractor finance African housing project.

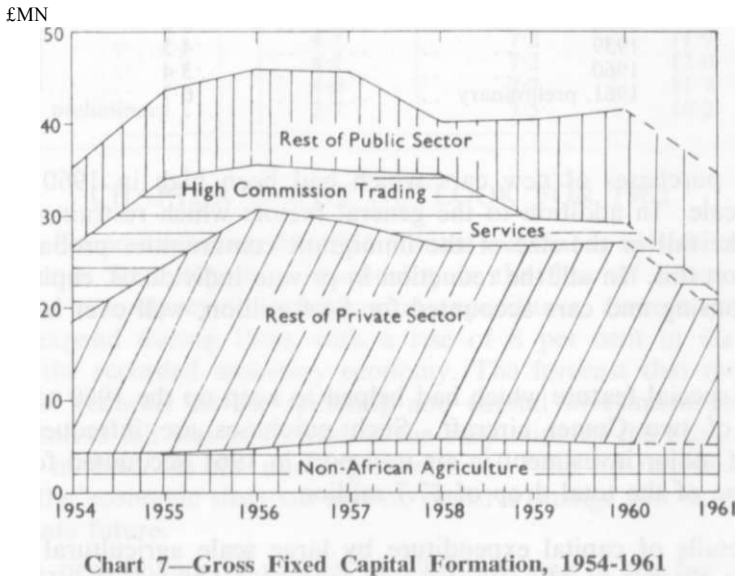


Chart 7—Gross Fixed Capital Formation, 1954-1961

4. The total for the public sector includes also the expenditure in Kenya of the East African Common Services Organization and the United Kingdom Government's expenditure on housing at Kahawa for the British forces. The latter contributed some £700,000 to the increase in public investment. The bulk of the expenditure on capital account by the E.A.C.S.O. (formerly the East Africa High Commission) is incurred by the Railways and Harbours and Posts and Telecommunications Administrations which operate as trading services. Their combined expenditure in 1961 was the same as in 1960 at just over £2 million.

5. In the private sector the precipitous fall of £7.7 million in capital expenditure needs to be analysed both to see which categories of spenders reduced their investment most and which types of assets were affected. The main capital items on which private individuals as opposed to enterprises or institutions incur expenditure are houses and cars. As has been pointed out in Chapter 4. private house-building had fallen to a low rate by the beginning of the year and very few new houses were started during 1961. The extent of

the decline from the year 1956 when the house-building boom was at its height is apparent from the following figures: —

PRIVATE EXPENDITURE ON NON-FARM RESIDENTIAL BUILDINGS, 1954-1961

Table 30	*£ million*
1954	2.6
1955	4.1
1956	6.8
1957	5.3
1958	4.6
1959	4.5
1960	3.4
1961, preliminary	0.7

Similarly, purchases of new cars which had been high in I960 were on a reduced scale. In addition to the general factors which restrained long-term outlays, the fall in the size of the immigrant communities probably had an influence on this. In all, the reduction in private individuals' capital expenditure on housing and cars accounted for £4.4 million, well over half the total drop.

6. A special feature which had helped to keep up the 1960 total was the purchase of two Comet aircraft. Such purchases are infrequent and the absence of major investment in air transport in 1961 accounted for a further £1.3 million of the total drop of £7.7 million.

7. Details of capital expenditure by large scale agricultural enterprises in the last three agricultural years are given in Chapter 3. The drop in expenditure between 1960 and 1961 is estimated at approximately half a million pounds.

8. The remaining private investment is that made by commercial and industrial concerns on the one hand and by non-profit-making institutions on the other. The figures in Table 31 cover investment by organizations of both types but commerce and industry account for most of the total. It is, however, likely that institutional building has not slackened to the same extent as other types of capital expenditure. Bearing this qualification in mind, it seems that total expenditure by commerce and industry was lower by about 15 per cent in 1961 as compared with the period 1958 to 1960 and by about 30 per cent as compared with the years 1955 to 1957 which were characterised by a high rate of investment. It will be seen that expenditure on buildings has been curtailed most. Expenditure on commercial vehicles was also down but investment in plant and machinery was more than maintained. Much of this was probably for replacement rather than expansion, since the area of new factory space completed was small, but evidently manufacturers did not refrain from expenditure to maintain the efficiency of their plant.

GROSS CAPITAL FORMATION BY PRIVATE NON-AGRICULTURAL ORGANIZATIONS, 1954-1961

Table 31 *£ 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	4.0	7.7	11.7
1961 preliminary	2.7	7.5	10.2

CHAPTER 8—THE OUTLOOK FOR 1962

1. The Economic Survey for 1961 pointed out that in spite of the transfer of liquid funds from Kenya, a slackening in the flow of investment from overseas and a tendency to defer capital expenditure, current activity continued to expand during 1960. with a rise of 8 per cent in the domestic income of the recorded monetary economy. The forecast that the full consequences of reduced private spending and capital investment had not yet made themselves felt was confirmed in the stagnation of the economy which took place in 1961. In the opening months of 1962 no improvement was evident in the economic situation and no decisive change can be expected in the immediate future.

2. The performance of exports in 1961 was one of the few favourable factors and the outlook for exports this year is not discouraging. The coffee crop in the season now closing will be nearly 20 per cent lower than in 1960/61, although this will be partly offset by the higher prices realized at the Nairobi auctions. Tea production has recovered and firm prices have been ruling. Sisal output is running at a lower level, but since the end of 1961 higher prices have been obtained. The market for pyrethrum extract, of which Kenya is the world's largest supplier, has been saturated temporarily. It is, however, hoped that once current stocks are moved in advance of the Northern Hemisphere summer demand, the market will again begin to expand, though probably not as rapidly as in recent years. Sales of animal products and other subsidiary agricultural exports should be maintained and may increase and the same is true of the growing trade in manufactures overseas and to neighbouring territories. Receipts from external trade in the current year will probably be at much the same level as in 1961.

3. Kenya's future economic growth must be based on increasing the production of cash crops, but the danger has to be faced that, as production increases, markets may be more difficult to find and prices may fall. Diversification is therefore important, and this is being achieved by emphasis being

placed on the expansion of the production of tea, sugar, rice and cotton. The future position for coffee depends to a large extent on the International Coffee Agreement to be negotiated in Washington in July/August. Control of the world's coffee supply would be of advantage to all producers, including Kenya, but under the agreement as at present drafted Kenya, together with other producers, would be required to comply with a rigid export quota based on past production performance. Since Kenya's coffee crop will undoubtedly increase greatly over the next few years it is to be hoped that the negotiations will introduce greater flexibility into the quota system.

4. The expansion of the level of exports depends both on the maintenance of quality and on the development of export markets. Government is assisting private enterprise in the pursuance of these two objectives through the extension services of the Ministry of Agriculture and the activities of the Export Promotion Council supported by market research investigations. Inseparable from the need to maintain output and standards of quality are the problems that would arise if over the next few years a considerable number of farmers were to depart from the Scheduled Areas which in 1961 contributed three-quarters of the total value of agricultural production for sale. The orderly introduction of small-scale farmers into the Scheduled Areas is an essential condition for the successful solution of these problems and the measures which Government is taking towards this end have been described in Chapter 3.

5. A substantial drop in the level of production in the Scheduled Areas could have serious repercussions, not only on Kenya's export earnings, but also on the level of employment and income, both in agriculture itself and in manufacturing, trading and service activities based on agriculture. The consequences of such a decline on Government revenues, and on the level of services that could be supported, would be grave indeed. Meanwhile in the immediate future the continued rise in unemployment, with its grave social implications, is one of the greatest problems facing Government. Efforts are being made to alleviate the situation by embarking upon labour intensive road projects, and providing employment through increased forest development. The opportunity for these, and similar devices is, however, limited by the availability of finance, and they can at best be regarded as essentially short-term measures.

6. In the past year the high rate of Government spending, both for capital works and to meet the increased cost of civil servants' salaries, was a powerful factor supporting economic activity. This was made possible only by the receipt of financial assistance from the United Kingdom on a scale not enjoyed by any other territory of comparable size. In the financial year 1960/61 grants for all purposes, Exchequer loans and the support of the K.A.R. amounted to considerably more than one-fifth of total Government expenditure, and the position will not be very different in the current financial year. While Kenya may hope for outside aid from new sources and

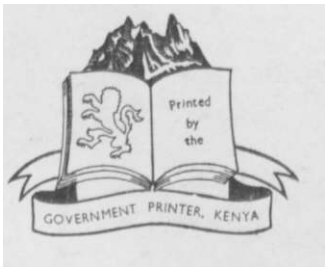
for continued assistance from the United Kingdom, permanent aid of this magnitude, particularly to balance the recurrent budget, is not to be expected, nor is it compatible from whatever source it comes with political independence. The adjustment of current expenditure to the tapering off in overseas aid is likely to be inescapable. Thus, either Government expenditure will decline or, to the extent that taxation is increased and met out of income personal consumption will fall, or both factors will operate together. The influence on the economy of Government financial operations over the next few years will probably be less expansionary than in the past.

7. Although the effects of the disastrous weather conditions of 1961 on the output of a number of crops will be reflected in farmers' incomes for 1962, receipts from other products such as tea and butter should be higher. Overall, given more normal weather, the contribution of agriculture to gross cash domestic product in 1962 is unlikely to change appreciably from last year. Manufacturing should at least maintain its position provided that the trend in recent years of increased exports to neighbouring territories in Africa and the Middle East continues. Little change is to be expected in trading and related activities, any drop in consumer sales probably being offset by increased activity resulting from a higher volume of exports. The service industries are unlikely to do better than maintain their 1961 position, but the transport sector, particularly air transport, may show further expansion. Because of the expected falling off in building and construction work for Government in 1962, and the delayed action resulting from any revival of investment plans by the private sector, the gross product of the building and construction sector as a whole will no doubt show a further decline this year. If Government expenditure is maintained in the next financial year the contribution of Government services of all kinds to gross domestic product should continue at much the same level as in 1961. All in all, there is little prospect of any significant increase in the domestic product of the monetary economy in 1962, even at current prices, although subsistence production, given the absence of natural disasters, should expand. After taking this into account, and allowing for price changes and the growth of the population, it is unlikely that the inhabitants of Kenya will on average secure any advance in living standards during the current year.

8. Expenditure in the public sector met from external aid will continue to play an important part in maintaining economic activity during the remainder of 1962, although possibly not on the same scale as in recent years. To the extent that such investment is directed into productive channels, further expansion will be generated and a much needed boost to Government revenues made possible. Limits to the level of expenditure that Government can incur from overseas funds are, however, fixed by the ability to meet recurrent costs arising from development expenditure and the need to pay loan charges from future revenue. The renewal of investment on the broadest possible front embracing both the private and public sectors is an essential condition for the expansion of employment opportunities, an increase in

gross product and the general economic and social betterment of the population. The encouragement of private investment is, therefore, of paramount importance. That there is scope for profitable investment in manufacturing and other fields is clear from the volume of commercial imports into the East African territories and from the fact that even in the difficult conditions of last year manufacturing output was well maintained. The increased purchasing power resulting from the transition from a subsistence agricultural economy to one increasingly based on the production of cash crops will also expand the potential market for manufactures. While Government will continue within the limits of available finance to take all reasonable measures to attract new capital to the country the basic solution to Kenya's economic difficulties lies in the revival of investment, financed either from ploughing back profits and other domestic sources or from new money brought in from overseas. In spite of some recent encouraging signs of interest by overseas investors in Kenya, it would serve no purpose to pretend that any marked inflow of funds will precede the settlement of outstanding political problems.

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