

REPUBLIC OF KENYA

ECONOMIC SURVEY

1966

Seven Shillings - 1966

ECONOMIC SURVEY
1966

Prepared by the Statistics Division
Ministry of Economic Planning and Development

NAIROBI,
JUNE 1966

CONTENTS

		Page
CHAPTER	1.—The General Economy	1
CHAPTER	2—External and Interterritorial Trade	17
CHAPTER	3—Agriculture	27
CHAPTER	4—Manufacturing, Building and Construction	43
CHAPTER	5—Tourism	51
CHAPTER	6—Transport, Communications and Electricity	54
CHAPTER	7—Employment, Earnings and Prices	58
CHAPTER	8—Public Finance	70
CHAPTER	9—Capital Formation	82
CHAPTER	10—Manpower and Education	86
CHAPTER	11—Development Plan Progress	90
CHAPTER	12—The Outlook for 1966	102

Notes

1. In the tables the following symbols have been used:—

"_" means "nil".

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

2. Individual figures may not add to totals because of rounding.

ECONOMIC SURVEY, 1966

CHAPTER 1—THE GENERAL ECONOMY

External Economic Influences

Although there is a wide variation in the rate of economic progress among different countries of the world there can be no denial that most are dependent in large measure on the prosperity of others with which they are economically closely interlinked. Since Kenya exports goods equivalent to 28 per cent of its gross domestic product and imports the equivalent of 35 per cent of its gross domestic product, it clearly has a vital interest in economic events affecting its principal trading partners. This interest is reinforced by the fact that the country is seeking to finance a significant proportion of its development through investment in Kenya by foreign companies. The willingness and ability of these companies taken as a whole to invest in Kenya will depend not only on their own profitability, but also on the prosperity and balance of payments position of the companies' home countries.

2. World production continued to rise in 1965 but at a rather slower rate than in 1964. The United States economy was particularly buoyant and output rose faster than in 1964 but production in the United Kingdom, France, Germany and Japan all slowed down although in none of these major industrial countries would there seem to have been any overall fall in production. The increase in the gross national product of industrial countries is estimated to have been 4 1/2 percent compared with 5½ per cent in the previous year.

3. The expansion of total world trade dropped back to 8 per cent compared with the spectacular rise of 12 per cent in 1964. Trade in primary products was held back by a general weakness in prices and a relatively small expansion of volume but world trade in manufactures continued to expand at a rapid pace. These trends are reflected in Kenya's own trade in 1965. There was a substantial increase in imports of manufactures and a decline in the value of exports of primary products. Kenya was not in a position to take advantage of the rise in metal prices during the year, except to a limited extent in the case of small quantities of copper, but its relatively wide range of primary product exports provided some hedge against serious price falls such as occurred in the case of sisal. There is no way an underdeveloped country can hedge the impact of rising prices of imported manufactures except to the extent that it can develop its own industries in the face of overseas competition. In the short term, there seems little escape from the steady twist in the terms of trade against developing countries but on the longer term it must be hoped that some of the more realistic proposals discussed at the United Nations Trade and Development Conference will

Table 1 **GROSS DOMESTIC PRODUCT AT FACTOR COST BY INDUSTRIAL ORIGIN 1956-1965** *£ million*

INDUSTRY	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965*
RECORDED MONETARY ECONOMY—										
Agriculture (including Incidental Services)	24.90	23.78	24.75	25.32	29.44	28.33	28.46	33-14	36.72	32.99
Livestock	7.72	8.06	8.27	8.57	9.22	8.97	9.62	9.59	9.50	9.71
Forestry	0.81	0.69	0.68	0.79	0-81	0.90	0.97	0.78	0.92	0.77
Fishing and Hunting	1.62	1.02	0.90	0.89	0.53	0.50	0.81	0.88	0.87	1-01
TOTAL	35.05	33.54	35.58	40.00	38.72	39.86	44.39	48.39	48.01	44.48
OUTSIDE RECORDED MONETARY ECONOMY										
Agriculture	34.71	37.33	38.02	38.47	36.10	34.21	46.43	47.87	49.75	45.60
Livestock	10.63	11.72	11.80	11.66	10.99	10.44	11.86	12.80	12.13	13.00
Forestry	2.38	2.43	2.57	2.70	2.94	3.08	4-74	5.79	6.45	6.54
Fishing and Hunting	0.28	0.21	0.20	0.20	0.16	0-16	0.19	0.20	0.20	0.21
TOTAL	48.00	51.69	52-59	53.03	50.19	47.89	63.22	66.66	68.53	65.35
TOTAL PRODUCT—										
Agriculture	59.61	61.11	62.77	63.79	65.54	62.54	74.89	81.01	86.47	78-59
Livestock	18.35	19.78	20.07	20.23	20.21	19.41	21.48	22-39	21.63	22.71
Forestry	3.19	3.11	3.25	3.50	3.75	3.98	5.71	6.57	7.37	7.31
Fishing and Hunting	1.90	1-23	1-10	1.09	0.69	0.68	1.00	1.08	1.07	1.22
TOTAL	83.05	85.23	87.19	88.61	90.19	86.61	103.08	111.05	116.54	109.83
RECORDED MONETARY ECONOMY—										
Mining and Quarrying	1-36	1.26	1.23	1.12	1.09	0.85	0.83	0.89	0.75	0.84
Manufacturing	18.18	19.80	20.52	20.23	21.62	22.73	23.04	24.38	29.38	32.03
Construction	9.34	9.63	8.38	7.94	7.86	7.80	6.76	4.89	4.38	4.93
Electricity and Water	1.75	2.09	2-36	2.56	2.79	2.84	3.29	3-60	3.47	3.56
Transport, Storage and Communications	15.78	18.64	17.69	19-03	20.34	21.15	22.26	24.62	26.30	29.60
Wholesale and Retail Trade	25.83	27.48	26.39	27.68	28.96	29.56	30.06	31.92	34.06	35.37
Banking, Insurance and Real Estate	2.52	2.83	3.26	3.46	3.54	3.88	4.01	4.17	4.49	4.63
Services	10.73	12.11	13.11	14.58	15.50	14-14	14.21	15.41	18.30	18.37
Rents (including ownership of dwelling houses)	5-80	6.65	7.51	8.05	8.70	8-14	8.43	9.36	9.54	10.37
TOTAL	91.29	100.49	100.45	104.65	110.40	111.09	112.89	119.24	130.67	139.70
GOVERNMENT—										
Central Government:										
Civil Departments	13.93	15.48	16.40	16.87	20.08	21.63	22.02	20.86	20.21	23.86
Local Authorities	2.29	2.53	2.89	3.15	3.35	3.49	4.11	5.90	11.34	11.70
Defence	2.54	2.12	M l	1.43	1.37	1.75	1.83	1.86	1-65	2.07
Overseas Governments (Local employees)	0.05	006	0.06	0.10	0.12	0-14	0-16	0.18	0-91	0.48
TOTAL	18.81	20.19	20.46	21.53	24.92	27.00	28.12	28.80	34.11	38.11
TOTAL	193.15	205-91	208-10	214.79	225.51	224.70	244 09	259.09	281.32	287.64
Recorded Monetary Economy	145.15	154.22	155.50	161.76	175.32	176.81	180.87	192.43	212.79	222.29
Imputed Product Outside the Recorded Monterary Economy	48.00	51.69	52.59	53.03	50.19	47.89	63.22	66 66	68.53	65.35

•Provisional.

come into being. The present situation in world trade under which one set of countries supply primary products at prices continually fluctuating while another set of countries sell them manufactured products at prices continually rising cannot be tolerated by the primary producers for much longer. What is needed in the field of trade and development today is action along three lines—*(a)* international action to reduce instability in the export earnings of the developing countries; (b) relaxation of the trade barriers in the industrial countries against imports from the developing nations; and (c) economic co-operation among the developing countries to establish conditions for industrialization, for this, is the long term solution to many of their problems.

4. It is true that many of the developing countries have received aid in the form of grants, loans and manpower assistance from the more advanced countries and this aid has been of considerable value to many countries, including Kenya. But the greater need is for wider facilities to trade and develop an integrated economy much less subject to price and weather fluctuations. The United Nations development decade is now half completed with no increase in the net total of aid from the rich countries to the poor, a decline in world liquidity on which world trade depends (arising from the controllers of the major reserve currencies being unable to afford a further continual outflow of gold) and a consequent increase in restrictive policies against the free flow of trade and capital which the developing countries must have to achieve a more reasonable balance in their economies. There is also an increasing tendency among donor countries to tie aid to specific projects, particularly those involving imports from the donor country. The giving of aid in this manner introduces rigidities into planning. A more flexible and rational approach to development planning would be possible if aid were to be given for programmes rather than for specific projects.

Domestic Income and Product

5. At the time the Economic Survey for 1965 was prepared, it was already clear that the year 1965 would not be one of such rapid expansion as 1964. Sisal prices had broken in 1964 but the effect on income was delayed until 1965, while a number of crops had been affected by dry weather in the first quarter of the year. What could not be foreseen was that the main rains would fail in most areas and that the dry weather would persist right up to the end of the year, as, in fact, actually happened.

6. Total gross domestic product in 1965 was then forecast to rise by 4 per cent over 1964, whereas a rise of merely 2.3 per cent at current prices was actually achieved. In the circumstances of 1965, when agriculture, the principal industry of the country, suffered severely from what in many areas were drought conditions, this overall increase in gross domestic product cannot be viewed as entirely unsatisfactory. Certainly, an increase of only 2.3 per cent is less than the economy had achieved in the previous two years and is also less than the Development Plan target of an average of 6.3 per cent

COMPOSITION OF GROSS PRODUCT BY TYPE OF FACTOR INCOME

Table 2 — *£ million*

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965*
RECORED MONETARY ECONOMY—										
Paid Employment:										
Public Employment	31.17	34.91	34.36	35.42	39.31	42.17	43.85	42.97	48.54	53.87
Private Employment	46.80	50.84	51.14	52.95	56.86	56.77	56.32	58.88	64.96	68.49
TOTAL (EMPLOYMENT)	77.97	85.75	85.50	88.37	96.17	98.94	100.17	101.85	113.50	122.36
Operating Surplus:										
Public Enterprise	2.10	2.21	2.69	3.09	3.06	3.00	2.93	3.77	3.39	4.05
Private Enterprise	59.28	59.61	59.81	62.26	67.39	66.74	69.34	77.47	86.37	85.52
TOTAL (OPERATING SURPLUS) ..	61.38	61.82	62.50	65.35	70.46	69.74	72.27	81.24	89.76	89.57
Rental Surplus:										
Public Enterprise and Government..	1.34	1.50	1.63	1.75	1.80	1.93	2-05	2.14	2.22	2.30
Private Enterprise and Householders	4.46	5.15	5.88	6.30	6.90	6.21	6.38	7.22	7.32	8.07
TOTAL (RENTAL SURPLUS)	5-80	6.65	7-51	8.05	8.70	8-14	8.43	9.36	9.54	10.37
TOTAL (RECORDED MONETARY ECONOMY)	145.15	154.22	155.50	161.76	175.32	176.81	180.87	192.43	212.80	222.29
IMPUTED PRODUCT OUTSIDE THE RECORDED MONETARY ECONOMY	48.00	51.69	52.59	53.03	50.19	47.89	63.22	66.66	68.52	65.35
TOTAL (GROSS PRODUCT)	193.15	205.91	208.10	214.79	225.51	224.70	244.09	259.09	281.32	287.64

•Provisional.

over the period 1966-70 but in an agricultural economy such as Kenya's, production will, inevitably, in some years receive a setback owing to adverse weather conditions or fluctuating commodity prices. The feature of 1965 was that although the gross domestic product of the agriculture sector fell by 6 per cent, the rest of the economy was sufficiently resilient to continue moving forward and to sustain fully the level of gross domestic product overall.

7. The present Development Plan was published in its initial form in 1964 and projected monetary gross domestic product at an average annual growth rate of 5.7 per cent. Under the recently published revised Development Plan, the planned rate of growth has been increased to 6.3 per cent overall, while the planned average growth of monetary product is 7.1 per cent and the projected growth in the product of the subsistence sector of the economy is 3.2 per cent. In the first two years of the plan i.e. 1964 and 1965, the actual performance of the economy was as follows:—

	per cent
Average increase in gross domestic product overall	+5.4
Average increase in imputed subsistence product	-1.0
Average increase in monetary gross domestic product	+7.5

Thus, in spite of the setback to agricultural production in 1965, the monetary sector of the economy in the first two years of the plan period 1964-70 has grown at a rate faster than the 7.1 per cent rate planned in the revised Development Plan, ignoring price changes which have not been significant, taking those prices which have risen and those that have fallen, together.

8. The overall rise in gross domestic product over the last two years has been slightly less than the planned rate for 1966-70 but this is entirely due to the setback to the imputed subsistence economy which occurred as a result of the dry weather in 1965 and on the assumption that the weather will return to normal, it can be assumed that the subsistence sector will return to the projected growth line.

9. Food production in 1965 was seriously affected, particularly in the Eastern and Coast Provinces and to a lesser extent in Nyanza and Rift Valley Provinces, and not only were cash sales to marketing organizations reduced but there were overall food shortages in some areas which had to be made up by imports of maize from overseas and the redistribution of food into areas often net exporters of maize and other food commodities. The valuation of production which is not recorded and never reaches the market is fraught with difficulty and the reliability of any such estimate must inevitably be low. Such an estimate must be made in order to assess the position of the economy as a whole, however, and the value of subsistence agriculture in 1965 is estimated to have been 8.3 per cent lower than in the previous year. This fall was offset to some extent by increases in the value of subsistence livestock, fishing and hunting, so that, overall, the subsistence sector is estimated to have fallen by 4.6 per cent.

10. The product of marketed agriculture was also reduced in 1965 but much of the reduction could be attributed to the impact of the drastic fall in sisal prices which occurred in 1964 but which, owing to the system of forward sales, was not really felt until 1965. Secondly, coffee production on large estates was substantially reduced, partly owing to the dry weather but partly due to the continued incidence of coffee berry disease which seriously hit production in a dry year for the first time on record. A substantial increase in tea production had been expected but this crop is quickly affected by a shortage of rain and the volume of production over 1965 was in the event slightly lower than the previous year. Dairy production was also reduced.

11. It was a notable feature of 1965, that although food production in the traditional small farm areas was hit severely by the lack of rain and cash production on the large farms was seriously reduced, the estimated cash income of small farmers continued to rise. True, the rise in small farm cash income was less than in the last few years but it is significant that in the dry weather conditions of 1965 there was a further increase at all. In 1965, the share of small farms in the total monetary product of the agriculture and livestock sectors was £13.4 million, 31.4 per cent of the total. In 1964 the comparable percentage was 27.9.

12. The product of the small mining and quarrying sector benefited from the rise in copper prices in 1965 and although oil prospecting had been suspended during the year total product of the industry recorded a rise. The industry has not however returned to the production levels ruling a few years ago.

13. Manufacturing had a very good year in spite of fairly severe restrictions imposed by Tanzania against Kenya manufactured goods. The Mombasa Oil Refinery expanded its production substantially and although there was no increase in the local consumption of petroleum, increased exports overseas and to the rest of East Africa provided an outlet. Apart from the food industry which was affected by the lower level of agricultural production, most industries recorded a rise.

14. The product of the construction industry had reached a ten-year low in 1964 and a turn round had been forecast for 1965. This was in fact achieved and although the industry has a long way to go to catch up with the production levels of a few years ago, it is now possible to say with some confidence that the corner has been turned and the industry can look forward to considerable expansion in the coming years if the Development Plan construction targets are to be achieved—12.6 per cent increase in product in 1965 represents a promising start.

15. The wholesale and retail trade and service industries recorded a sharp expansion in 1964 and it was perhaps to be expected that there would be some levelling out in 1965. In spite of a substantial increase in overseas trade and also an expansion of tourism this would seem to have occurred.

although both industries more than maintained the level of activity of the previous year. Electricity recorded a small increase but there was little change in the level of electricity consumption in 1965. The transport, storage and communications sector increased its product by 12.5 per cent, partly as a result of the increase in the importation of bulk commodities and partly due to the growth of services ancilliary to transport.

16. Property rents began to rise sharply in 1965 as a shortage of property developed in the urban areas, particularly Nairobi. Although most buildings were still subject to leases taken out in previous years at lower levels, the sharp rise in rents for new leases is reflected in the rise in the product of the rental sector.

17. The Government sector increased quite substantially in 1965 when the pace of Government expenditure quickened with the broadening of services throughout the country and the initiation of development projects. Over the period 1964 and 1965 the annual increase in the product of the Government sector has averaged 15 per cent which is rather higher than the planned increase over the period 1966-70. The increase over the last two years has, however, probably been influenced by the filling of vacancies in the civil service and the build up of defence forces. In future years the sector may perhaps grow at a rather slower rate.

18. It is difficult to be precise regarding the distribution of income amongst different sectors of the population in 1965. Wage earners as a whole received higher incomes than in 1964, the increase in wages paid being equivalent to 7.8 per cent and even taking into account the fact that consumer prices rose faster than in recent years, perhaps by 4 or 5 per cent overall, wage earners were certainly better off.

19. The operating surplus of businesses which includes the incomes of the majority of the population, farmers, was more or less unchanged between 1964 and 1965. It has already been pointed out that the brunt of the fall in agricultural production for cash was borne by the large farmers and that the cash incomes of small farmers were up. Since the main part of the increase in small farm income came from pyrethrum, tea, cotton and livestock, the proceeds will have been widely distributed among small farmers, because large numbers of them grow these crops. Against this, the fall in subsistence production has to be taken into account and overall it is likely that, as a group, small farmers were rather worse off in 1965, those in the areas badly hit by drought, substantially worse off. Profits of large-scale farming were reduced by lower sisal and coffee payouts but profits of non-agricultural enterprises were higher. The composition of gross product by type of factor incomes is set out in Table 2.

Capital Formation

20. The forecast rate of capital formation in 1965—£38 million—was just achieved. This represents an increase of 8 per cent over 1964 and if the two

years 1964 and 1965 are considered together there has been an average annual increase of 12 per cent over the two years. Capital formation as a percentage of monetary gross domestic product was higher than in either of the previous two years but is still well below the level of 1960 and the level necessary to reach the revised development target of average of £65 million per year. This will mean that capital formation as a percentage of monetary gross domestic product will have to rise from 17 per cent in 1965 to nearly 30 per cent, the rate last achieved in the years 1955-57.

21. Government expenditure on settlement schemes was lower in 1965 which meant that a greater proportion of development money was available for projects of a new capital nature rather than the transfer of assets between different sectors. On the other hand, the new settlers' own capital spending (with Government loan moneys) was lower since the initial expenditure involved in setting up the farms had been largely completed in the previous year. Large farm capital spending was higher and on a per acre basis was the highest since 1960.

22. Building activity dipped in the early part of the year as a number of large projects had reached the completion stage in 1964 but activity was rising again by the end of the year as new projects got under way. Construction activity was higher than in any other year since 1957, except 1962 when the oil refinery construction was at a peak.

Finance and Banking

23. Three significant events in the financial field have occurred since the publication of the Economic Survey 1965. These are the announcement of the dissolution of the common currency area, the passing of the Kenya Central Bank Act and the introduction of exchange control over sterling transactions (control over non-sterling transactions had existed previously). These three events were reflected in changes in the structure of assets and liabilities of the commercial banks during 1965.

24. Firstly, in anticipation of the introduction of separate currencies and separate state banks within what at present is a common currency area, the banks have been adjusting their assets/liabilities, so that the banks in each country separately are now very largely independent of banks in the rest of East Africa, so much so that in some cases balances are being cleared between branches, say in Kenya and Uganda, through London rather than directly as previously. Hitherto, the banking system in East Africa has reflected the close interlocking of the commercial system. It is difficult to predict with any precision the effect of the introduction of three separate currencies on the pattern of commerce in East Africa for the free movement of currency has enabled a high proportion of transactions to be undertaken in cash between the three countries. A higher proportion of East African trade will be likely to be undertaken through the banks in future. It is encouraging that banks in all three countries have indicated their intention to exchange the new currencies at par and to charge no commission. It should be noted here that

Kenya very much regrets the break-up of the common currency area which has contributed in no small part to the high level of trade between the three member countries. In any event, banking transactions between Kenya and its East African neighbours will, once there are separate currencies, be little different from transactions with banks in other countries except that there is no exchange control between the three East African countries as there is with all others. In anticipation of this position, the banks in the three East African countries have reduced their indebtedness with each other, indebtedness which in the last few years has been substantial. This had the effect that Kenya banks now no longer draw substantial amounts from head offices abroad to finance balances due from Uganda and Tanzania. In fact, by the end of March 1966 Kenya banks were in substantial credit with banks abroad. Uganda and Tanzania banks may in future have to rely on internal funds to finance the movement of their crops or draw directly on head offices overseas; the actual course followed will presumably depend in part on the policies followed by the respective state banks. The changes in bankers' balances in 1965 can be seen from the following table: —

CHANGES IN BANKERS' BALANCES WITH OTHER BANKS

Table 3 £'000

	Net balances due from branches in Uganda and Tanzania	Net balances due to banks abroad
1960 December	6,371	6,570
1961 December	6,665	1,003
1962 December	5,151	-3,986
1963 December	5,496	1,185
1964 March	5,312	4,669
1964 June	8,864	8,528
1964 September	11,760	10,681
1964 December	18,825	15,421
1965 March	15,733	13,599
1965 June	3,721	3,908
1965 September	2,270	276
1965 December	4,591	295
1966 March	2,271	-5,345

25. Secondly, the introduction of exchange control over sterling transactions held back in the country money which had been previously moving out to build up assets abroad. The Economic Survey 1965 commented on the fact that in 1964 there was an improvement in monetary gross domestic product of £17 million and an improvement in Kenya's visible trade balance while private deposits rose by little more than £1 million. This could only be explained by a substantial capital outflow from the economy and it is clear that this persisted up to June 1965 when exchange control over sterling transactions was introduced. The effect of the new regulations on the level of private deposits can be seen from the following series.

PRIVATE BANK DEPOSITS*

Table 4 *£'000*

	Demand	Time	Saving	Total
1960 December	32,799	3,989	5,512	42,301
1961 December	32,089	3,990	7,126	43,206
1962 December	31,832	4,845	8,772	45,449
1963 December	31,935	4,751	9,973	46,660
1964 December	32,574	4,481	10,824	47,879
1965 March	32,030	3,469	11,366	46,897
June	29,151	3,847	11,415	44,749
July	30,670	4,473	11,590	47,067
August	32,170	5,145	11,792	49,447
September	33,074	5,863	12,202	51,469
October	34,882	5,685	12,328	53,220
November	33,744	5,332	12,674	52,070
December	34,651	4,426	13,050	52,806
1966 January	34,044	5,288	12,954	52,608
February	34,829	6,306	13,583	55,040
March	35,711	6,570	14,080	56,986

'Excluding the Government sector.
lncludes deposits in sterling or other foreign currenies.

26. The continual outflow of money from the economy caused a tight credit position to build up over the period 1964/65 and by January 1965 the private advances/private deposits ratio was at a peak of 109—advances to the private sector increased during a period when there was little change in private deposits. The increase in private deposits following the extension of exchange control in June 1965 resulted in some easing of the advances/ deposits ratio but also some further increase in advances to the private sector.

BANK DEPOSITS AND ADVANCES

Table 5

	GOVERNMENT		PRIVATE SECTOR		ADVANCES/DEPOSITS RATIO	
	Deposits	Advances	Deposits	Advances	Private	Total
	£'000	*£'000*	*£'000*	*£'000*	*%*	*%*
1960 December	7,906	4,164	42,301	38,061	90	84
1961 December	9,251	4,904	43,206	34,104	79	74
1962 December	13,786	6,420	45,449	35,279	78	70
1963 December	15,861	7,994	46,660	42,367	91	80
1964 March	18,697	8,702	45,646	46,037	101	85
1964 June	19,052	6,341	43,553	46,228	106	84
1964 September	17,743	8,073	47,364	46,764	99	84
1964 December	17,115	7,006	47,879	47,641	99	84
1965 March	19,835	6,991	46,897	46,302	99	80
1965 June	16,234	5,550	44,749	46,225	103	85
1965 September	13,297	6,362	51,469	48,748	95	85
1965 December	16,798	7,278	52,806	50,130	95	82
1966 March	16,898	5,683	53,986	52,920	93	79

27. By standards elsewhere in the world, bank lending in Kenya is still heavily extended and any further expansion is likely to be dependent on the growth of deposits. A further factor which should be taken into account is that the banks are likely to follow a cautious lending policy until the credit policy of the new State Bank becomes known.

28. The outflow of money from East Africa up to June 1965 was reflected in a reduction in the currency in circulation* from £64.2 million at 31st December 1964 to £56.3 million at 30th June 1965. After 30th June currency in circulation increased again up to £65.5 million by the end of the year. Over the year as a whole, the total assets of the East African Currency Board backing the currency (in East Africa) rose from £70.4 million to £73.1 million —representing more than 100 per cent backing. External assets also expanded from £46.8 million to £49.1 million over the year but this masks the fact that there was a fall in external assets down to June of £2 million and a rise in the second half of £4.4 million after the outflow of capital was halted. There was a small increase in the value of internal assets over the year and the proportion of external backing to the currency rose from 73 per cent to 75 per cent.

29. Thus, in spite of a marked deterioration in the visible trade balance of all three East African countries in 1965—in Tanzania and Uganda worse than in Kenya—there was no loss of Currency Board external assets following the introduction of exchange control over sterling transactions but there can be little doubt that these assets would have been depleted if exchange control had not been strengthened.

30. The statutory limit on the fiduciary element of local currency remained unchanged at £45 million in 1965 but Kenya took up part of its unutilized share of this total when the Currency Board purchased £1 million Kenya Treasury bills—the first issue of such bills. Rediscount rates remained unchanged during the year in spite of higher money rates operating in other centres. The commercial banks in consequence turned to the Currency Board for assistance to a greater extent as their deposits/advances ratios became strained. Assistance was, however, confined to the rediscount of crop bills in accordance with principles laid down previously for the Currency Board to operate in this field.

31. Withdrawals from the Kenya Savings Bank showed a further decline in 1965 but deposits continued to decline also and although the rate of fall of the balance of deposits held by the bank has slowed down, the point had not yet been reached when new deposits were exceeding withdrawals and it seems doubtful if this will occur without the offer of a higher rate of interest to depositors, particularly larger longer term depositors. It is perhaps noteworthy that although the balance of deposits held by the Kenya Savings Bank has

* Excluding East Afican currency estimated to be in circulation in Aden which issued its own currency in exchange for East African during 1965.

steadily declined since 1957, there has been a remarkable growth in the number of depositors which has risen from approximately 193,000 in 1954 to nearly 500,000 in 1965. Clearly the average size of deposits has fallen steadily over this period and there seems little doubt that depositors are using the Kenya Savings Bank as a substitute for a demand deposit account at a commercial bank rather than a savings bank in the normal sense.

32. On the other hand, savings deposits at the banks, offering much the same rates of interest, expanded during 1965. "Bank-mindedness" is growing and there has been a considerable increase in the number of deposits held by small African farmers and traders. Part of this expansion may also represent commercial money not presently utilized for one reason or another. The building societies, generally offering higher rates of interest to their depositors (but less favourable repayment opportunities), do not seem to have improved their position to any significant extent although there has been some easing of their lending policies.

COMMERCIAL BANK SAVINGS DEPOSITS AND KENYA SAVINGS BANK DEPOSITS 1960-1965*

Table 6 *£'000*

	COMMERCIAL BANK SAVINGS DEPOSITS*	KENYA SAVINGS BANK		
		Total Balance	Annual Deposits	Annual Withdrawals
1960 ..	5,525	6,974	3,446	5,346
1961	7,126	6,507	3,393	4,011
1962 ..	8,839	6,250	3,286	3,687
1963 ..	10,051	5,756	3,150	3,783
1964 ..	10,934	5,105	2,868	3,344
1965 ..	13,050	4,908	2,218	2,629

*As at 31st December.

33. Although there has been only a slight easing in the tight financial position of the building societies taken as a whole, 1965/66 probably represents a turning point in the availability of finance for property. Since 1960, virtually no finance had been available in Kenya for house purchase or other property financing but by early 1966 there were clear indications that the situation was easing to some extent. A new building society backed with Government support opened its doors as a lender on 1st January 1966 and a few of the insurance companies have made mortgages available in recent months. The amount of money available for property investment is still probably insufficient to meet demand, particularly to meet the needs for housing in and around Nairobi but property transactions are now taking place in sufficient numbers to say that a property market has been re-established for the first time for five years. This is most important in relation to the building requirements for the Development Plan.

34. Year 1965 was also remarkable for a Stock Exchange boom that has continued into 1966. Share prices which had been depressed over the period 1960-63 started to move up in the latter year and have pursued an almost

uninterrupted rise since then. At the beginning of 1964 the "East African Trade and Industry" share index stood at 91.8 and by the end of the year it had moved up to 111.1 and by the beginning of May 1966 to 125.5. Although average dividend yields on shares quoted on the Nairobi Stock Exchange are still quite high by some standards, it has already been suggested that too much money has been chasing too few shares in recent weeks and it is significant that most of the 1965/66 rise in share prices occurred after the extension of exchange control to sterling transactions. The rise in share prices had also been reflected in a hardening of the prices of Government Stocks and a conversion issue of £3.5 million stock was substantially oversubscribed early in 1966. Subsequently, small additional issues of £188,460, £200,000 and £183,410 have been successful. All of these issues were much on a 6 1/4 - 7 1/4 per cent yield basis which, in the light of interest rates ruling generally in the world, cannot be considered unsatisfactory.

External Trade

35. Total exports, both inside and outside East Africa and including re-exports, rose by £2 million in 1965. Total imports from all sources rose by £13 million in value and as a result the adverse visible balance of trade deteriorated by nearly £11 million, the adverse balance on external account deteriorating from a debit of £23 million to a debit of £37 million while the interterritorial account (trade with Uganda and mainland Tanzania) improved from a credit of £14 million to a credit of £18 million.

36. The total value of exports improved in spite of a sharp drop in sisal export prices and a drop in the quantity of coffee available for export. Most other agricultural exports were also reduced as a result of the dry weather. The improvement in performance overall can be attributed almost entirely to an expansion of manufactured exports, particularly petroleum products. Exports to Uganda and mainland Tanzania continued to rise in total in spite of fairly severe restrictions being imposed by Tanzania against Kenya goods. The main part of the increase was due, however, to a rise in the value of petroleum products and if it had not been for these, total exports to Tanzania would have been lower.

37. The abnormally sharp rise in imports was due partly to the necessity to import foodstuffs, particularly maize, as a result of the shortfall in local production caused by the dry weather, and partly to a 25 per cent increase in the value of intermediate goods imported for processing of which crude oil and iron and steel were the most notable. Imports from Uganda and Tanzania continued to rise. Although the United Kingdom remains Kenya's principal trading partner, 14 per cent of imports were purchased from African countries while 43 per cent of all exports were sold within Africa.

38. In spite of a substantial fall in sisal prices, export prices overall showed a small improvement over 1964. Import prices rose to a rather greater extent and there was, therefore, a small adverse movement in the terms of trade.

Balance of Payments

39. Not all the information required is available yet to compile a comprehensive balance of external payments for 1965 but the main features are already clear. The overall position can be summarized by saying that total receipts and payments on current and capital accounts were substantially in balance and there was a small increase in monetary reserves over the year as a whole. However, this statement masks many interesting changes that become evident during the year. Inevitably, the sharp increase in the value of imports caused a deterioration of the balance of merchandise transactions—of nearly £10 million—while there was a loss of some million in foreign receipts on current account as a result of the departure of British forces from Kenya. But in spite of the loss of military receipts, total receipts for goods and services were fully maintained in 1965 compared with 1964. Increased income was earned from handling goods destined to Uganda and Tanganyika, but, more significant, there was the sharp rise in tourist income, estimated at over £11 million. In 1963 and 1964 foreign travel receipts and payments were approximately in balance but in 1965 there was a net credit in Kenya's favour of £4.7 million.

40. The current account as a whole was more or less in balance, a deficit for goods and services of £5.8 million being offset by net transfer receipts of £6.2 million. The influence of exchange control over sterling transactions can be seen in the changes in the capital account. In spite of an outflow of capital from the economy in the first half of the year, there was a marked reduction in the purchase of overseas assets by the private sector taking the year as a whole. The net outflow of private capital in 1964 was £6.5 million but although exchange control over sterling transactions was in force for only six months of the year, this net outflow was eliminated in 1965 and according to the provisional figures there was a small net inflow.

41. There was a significant increase in Government long-term liabilities, for although the land settlement programme slowed down in the year, loans from the United Kingdom worth £3.5 million were received. Other U.K. loans for development purposes were valued at £2.3 million and for civil servants' compensation and commuted pensions £2.5 million. Public Law 480 loans from the United States Government against imports of maize were valued at £2.5 million.

42. Taking everything together, the balance of payments outcome in 1965 can be considered very satisfactory, particularly with regard to the cessation of the private capital outflow.

Summary

43. In a number of ways 1965 is a difficult year to sum up economically. Unfavourable weather, the incidence of coffee berry disease and low sisal prices together caused a severe setback to the agricultural industry, so that

the product of agriculture was reduced for the first year since 1961. But whereas in 1961 the agricultural setback caused a fall in gross domestic product overall this was not the case in 1965, for in that year the rest of the economy was sufficiently resilient to maintain fully the level of G.D.P. in the face of a 6 per cent fall in agricultural product (including non-monetary agriculture). Although it was still very much dependent on a prosperous agricultural sector, the rest of the private sector continued to move forward and overall increased the value of its product by nearly 7 per cent. This rise combined with an 11 per cent increase in the value of Government services was sufficient to raise the overall level of gross domestic product by *2 1/4* per cent. Such an increase was almost certainly less than the expansion in the population during the year and overall there will, therefore, have been a small decline in *per capita* income. It has already been stressed, however, that such setbacks are the inevitable lot of economies heavily dependent on agricultural production and there is no doubt that if it had not been for the increasing diversification of the Kenya economy over recent years the agricultural setback of 1965 would have borne more heavily on the economy as a whole.

44. The diversified strength of the economy was underlined by the fact that the level of domestic exports was fully maintained in spite of lower receipts being received for sisal and coffee. Imports expanded much more than anticipated, partly because of the need to import foodstuffs but also because of much greater imports of producers materials. The level of interterritorial trade continued to grow in the face of fairly severe restrictions imposed by Tanzania against Kenya products.

45. Capital formation continued the recovery initiated in 1964 and there is reason to believe that the upswing was accelerating by the end of the year. The building and construction industry is recovering rather more slowly than had been expected but there is little doubt now that it is moving forward steadily and at a faster rate.

46. Employment is still not rising as fast as the expansion of gross domestic product although average wages and salaries continue to move up steadily. A large part of the increased product produced in 1965 was used to the benefit of wage and salary earners and self-employed farmers were relatively worse off during the year. The recovery of agriculture and the upswing of building and construction in 1966 should cause a greater increase in the level of employment provided wages are not pushed up to cause further economies in the use of labour. The increasing momentum of the Development Plan should generate new income and new employment opportunities in 1966. The prospects for this year are discussed in more detail in the final chapter of this Survey.

47. Perhaps, the most significant economic event in 1965 was the reversal of a capital outflow into a capital inflow. This could have a vital impact on the Development Plan investment targets.

BALANCE OF PAYMENTS, 1963-1965

Table 7 £'000

	RECEIPTS (CREDIT)			PAYMENTS (DEBIT)			NET CREDIT		
	1963	1964	1965	1963	1964	1965	1963	1964	1965
A. GOODS AND SERVICES									
1. Merchandise Transactions	67,910	77,251	78,002	81,973	87,094	97,439	*Dr.* 14,063	Dr.9,843	Dr. 19,437
2. Non-Monetary Gold Movements	111	149	172	8	68	88	103	81	84
3. (a) Freight etc. on International Shipments	6,571	7,618	8,008	418	426	430	6,153	7,192	7,578
(*b*) Insurance on International Shipments	120	126	128	49	56	64	71	70	64
4. Other Transportation	8,567	9,357	11,096	5,376	5,384	5,480	3,191	3,973	5,616
5. Foreign Travel	6,977	6,886	11,082	6,651	6,778	6,387	326	108	4.695
6. International Investment Income	5,295	4,963	5,644	14,452	14,786	13,002	*Dr.* 9,157	*Dr.* 9,823	*Dr.* 7,358
7. Government Transactions n.e.i.:									
(a) Military	9,795	7,885	300	256	754		9,539	7,131	300
(*b*) Other	1,214	1,649	1,745	1,020	1,608	1,483	194	41	262
8. Other Services	5,094	5,473	5,689	3,033	3,244	3,290	2,061	2,229	2,399
TOTAL GOODS AND SERVICES	111,654	121,357	121,866	113,236	120,198	127,663	*Dr.* 1,582	1,159	*Dr.* 5,797
B. TRANSFER PAYMENTS									
9. Private Transfer Payments	3,914	4,402	4,230	9,514	7,453	5,000	*Dr.* 5,600	*Dr.* 3,051	*Dr.* 770
10. Government Transfer Payments	11,566	16,047	12,939	4,264	5,135	5,930	7,302	10,912	7,009
TOTAL TRANSFER PAYMENTS	15,480	20,449	17,169	13,778	12,588	10,930	1,702	7,861	6,239
C. CAPITAL MOVEMENTS	IES (NET INCREASE)			ASSETS (NET INCLEASE)			NET CREDIT		
11. (a) Private long term	210,339	10,148	10,500	16,142	16,632	10,031	*Dr.* 5,803	*Dr.* 6,484	469
(*b*) Government Enterprises Long Term	818	1,326	998	260	1,204	1,821	558	122	*Dr.* 823
12. (a) Private Short Term	1,042	822	500	1,251	1,178	1,000	*Dr.* 209	*Dr.* 356	*Dr.* 500
(*b*) Government Enterprises Short Term		319	*Dr.* 319	*Cr.* 308	*Cr.* 195	*Cr.* 16	308	514	*Dr.* 303
13. Local Government	653	*Dr.* 106	*Dr.* 43	Cr. 1,442	373	1,269	2,095	*Dr.* 479	*Dr.* 1,312
14. Central Government:									
(a) Long Term ..	7,952	2,314	10,669	1,395	2,066	631	6,557	248	10,038
(b) Short Term	225	*Dr.* 255	-	369	98	820	*Dr.* 144	*Dr.* 353	*Dr.* 820
15. Central Monetary Institutions:									
(a) E.A. Currency Board	-	-	-	3,070	0.2,688	1,250	*Dr.* 3,070	2,688	*Dr.* 1,250
(*b*) Accounts with I.M.F.	-	-	-	-	806			*Dr.* 806	
16. Other Monetary Institutions:									
(a) The Commercial Banks	-	-	-	Cr.4,826	*Cr.* 907	1,200	4,826	907	*Dr.* 1,200
(*b*) Kenya Savings Bank				*Cr.* 554	*Cr.* 592	*Cr.* 592	554	592	592
TOTAL CAPITAL MOVEMENTS	21,029	14,568	22,305	15,357	17,975	17,414	5,672	*Dr.* 3,407	4,891
BALANCING ITEM	-	-	-	-	-	-	*Dr.* 5,792	*Dr.* 5,613	*Dr.* 4,527

CHAPTER 2—EXTERNAL AND INTERTERRITORIAL TRADE

Introduction

Total world trade in 1965 showed a rise of some 8 per cent compared with 12 per cent in 1964. The expansion was confined largely to trade in manufactured goods, for, as a result of falling prices, trade in primary products rose by no more than 4 per cent overall. Primary producers as a whole suffered a deterioration in their visible trade balances and this feature is reflected in Kenya's own visible trade balance which widened by £10.7 million to £19.2 million as a result of an increase of nearly 15 per cent in the value of all imports compared with a rise of only *2 1/2* per cent in the value of all exports. The overall trade balance is summarized in the table below: —

EXTERNAL TRADE, 1961-1965

Table 8 — *£ million*

	1961	1962	1963	1964	1965
IMPORTS—					
Net Imports—Total	68.9	69.5	73.7	76.7	89.0
of which Commercial	*62.0*	*63.8*	*70.3*	*68.0*	*80.5*
Government	*6.9*	*5.7*	*3.4*	*8.6*	*8.5*
Inter-territorial*	7.0	7.3	9.2	11.4	11.7
TOTAL	75.9	76 8	82.9	87.9	100.7
EXPORTS—					
Domestic	35-3	37.9	43.8	47.1	47.2
Re-exports	6.4	7.2	7.1	6.4	4.9
Interterritorial*	15-9	17.3	19.8	25.9	29.4
TOTAL	57.7	62.5	70.8	*19.4*	81.5
BALANCE OF TRADE—					
External	-27.2	-24.3	-22-7	-23.0	-37.0
Interterritorial*	+ 90	+ 100	+ 10-6	+ 14.5	+ 17.7
TOTAL	-182	14 4	-121	-8.5	-19.2

*Trade with Uganda and Tanganyika. It should be noted that in the trade statistic Customs and Excise Department, Zanzibar is shown separately from the Tanzania mai Zanzibar is included in net imports and domestic exports rather than with "interter this reason, reference is made in this chapter to "Tanganyika". This should be r Tanzania formerly known as Tanganyika"

2. In 1964 Kenya exports were able to take advantage of a marked improvement in prices although there was very little change in the volume of commodities sold abroad. In 1965, in spite of a sharp break in the average price of sisal, other prices taken as a whole improved sufficiently to offset this and there was, in fact, once more a small gain in export income due to price changes. The volume of exports at constant prices was rather lower as can be seen from the following table comparing exports valued firstly at current prices and secondly at 1960 prices.

VALUE OF DOMESTIC EXPORTS, 1961-1965

Table 9 — *£ million*

	1961	1962	1963	1964	1965
At current prices	35.3	37.9	43.8	47.1	47.2
At constant 1960 prices	37.'4	39.8	44.7	45.1	44.9

3. On the face of it, this table suggests Kenya is an exception to the generally accepted idea that primary producers are continually hit by falling prices. There are two comments which should be made on this. Firstly, wide fluctuations such as occurred with sisal in 1965 make planning difficult (particularly if export taxes are a significant form of revenue) and secondly, the price of imports has risen at a relatively faster rate, so that the purchasing power of exports has declined: in spite of a slight rise in export prices since 1960, the *terms* of trade have moved against Kenya.

Pattern of Trade

4. Domestic exports, valued at £47.2 million at 1965 prices, were almost exactly the same as in 1964. The composition of exports, however, showed significant changes for as a result of the incidence of the dry weather and coffee berry disease, the quantity of coffee shipped out was 9 per cent lower than in the previous year, although the average export price was fully maintained. The quantity of sisal exported was also maintained but a 36 per cent fall in the average price caused a loss of export income equivalent to £2.2 million. The dry weather held back the anticipated rise in tea production and exports but a 4 per cent rise in the average price declared for export just offset a 4 per cent drop in the volume shipped.

5. Taken together, the value of agricultural products exported fell by £3.5 million but this fall was offset completely by a similar rise in the value of manufactured exports, of which the most significant was an increase of £2.4 million in the value of petroleum exports from the Mombasa refinery and a £0.5 million increase in the value of copper exports as a result of the sharp rise in the world price. The following table provides a summary of export performance in 1965 compared with 1964: —

Table 10 DOMESTIC EXPORTS, 1964 AND 1965

ITEM	VALUE		INCREASE IN			
	1964	1965	Value		Qty.	Price
	£'000	£'000	£'000	%	%	%
Coffee, unroasted	15,396	14,096	-1,300	-8	-9	+1
Tea	6,056	6,085	+29		-4	+4
Petroleum products*	2,124	4,544	+2,420	+114	+49	+43
Sisal	6,028	3,852	-2,176	-36	+1	-36
Meat and meat products	2,167	2,468	+301	+14	+8	+5
Pyrethrum (extract and flowers)	2,453	2,230	-223	-9	-3	-6
Hides and Skins undressed	1,294	1,742	+448	+35	+32	+2
Cement	802	939	+137	+17	+15	-5
Copper, unwrought	402	883	+481	+120	+9	+104
Soda ash	708	806	+98	+14	+15	+2
Pineapples, tinned	874	775	-99	-11	-14	+3
Cotton, raw	648	747	+99	+15	+22	-6
Wattle extract	883	711	-172	-19	-28	+9
Wool	515	560	+45	+9	+5	+3
Cashew nuts, raw	252	480	+228	+90	+42	+33
Beans, peas and lentils	521	475	-46	-9	-27	+28
Metal scrap	475	443	-32	-7	-54	
Wood carvings	225	336	+111	+49		
Butter and ghee	754	293	-461	-61	-64	+8
Animal feed	278	224	-54	-19	-29	+13
Wattle bark	198	118	-80	-40	-40	
Other	4,062	4,366	+304	+7		
TOTAL	47,115	47,173	+58 "	+1	-	-

•Excluding by-products.

Although still heavily dependent for its export income on the three major crops, coffee, tea and sisal, Kenya has gradually widened its export base, particularly with manufactured products, so that although it still suffers from the vagaries of the weather on agricultural production and the vagaries of world commodity markets on agricultural prices, the relatively broad base of exports provides some protection to its total export income which other more specialized primary producers have cause to envy. It is noteworthy that petroleum products became Kenya's third ranking external export in 1965, replacing sisal which dropped to fourth in the ranking. Taking into account exports to Uganda and Tanganyika, the oil balance of trade in 1965 was: cost of imports, £9.1 million, value of exports £9.4 million. Kenya's own petroleum and oil requirements were met with no cost to the balance of payments, except in so far as profits earned by the refinery were paid abroad.

6. Agricultural exports, including processed products, accounted for 82 per cent of total domestic exports in 1965 compared with 92 per cent in 1961. The three principal crops contributed 51 per cent of the total compared with 53 per cent in 1961. If processed agricultural products are included with other non-agricultural manufactured products, the proportion of primary products exports can be seen to have fallen from 81 per cent in 1961 to 73 per cent in 1965. The inclusion of interterritorial exports with domestic exports shows that only 57 per cent of all exports in 1965 were accounted for by primary products compared with 68 per cent in 1961. The planned expansion of agricultural exports up to 1970 will, however, reverse the present trend to some extent.

7. An increase in imports in 1965 had been expected but in the event, the necessity to import substantial quantities of foodstuffs as a result of the dry weather and a marked increase in imports of manufactured products meant that the increase was substantially higher than forecast—16 per cent as against 4 per cent. The expansion of imports according to the international classification is set out in Table 11.

NET IMPORTS, 1964 AND 1965

Table 11 *£000*

	1964	1965	Change
Food and live animals	5,866	9,617	+3,751
Beverages and tobacco	867	788	-79
Crude materials, inedible, except fuels	1,265	1,638	+373
Mineral fuels	9,272	10,281	+ 1,009
Animal and vegetable oils and fats	903	1,810	+907
Chemicals	6,779	8,345	+ 1,566
Manufactured goods	19,359	23,474	+4,115
Machinery and transport equipment	23,152	22,959	-193
Miscellaneous manufactured goods	5,524	6,058	+ 534
Miscellaneous	3,609	4,065	+456
TOTAL	76,595	89,037	+ 12,442

8. Government imports in 1965 were almost the same as in the previous year. Imports of rolling stock which are included under this heading were down by £1.5 million and this was offset by higher imports of other articles, mainly manufactured products.

9. Commercial imports (from overseas) resumed an upward trend interrupted by a £2.3 million decline in 1964. The total cost rose from £68.0 million to £80.5 million, a rise of £12.5 million. The most notable items contributing to the increase were: —

	£ *million*
Maize	2.3
Crude oil	1.8
Road motor vehicles ...	1.5
Textile goods	1.4
Iron and steel	1.3
Paper and manufactures	0.7
Fertilizers	0.5
Sugar	0.5
	10.0

Very broadly the increase can be divided as follows: —

£ million

	1964	1965	Change
Food	5-9	9.6	+3.8
Other consumer goods	23.9	26.3	+2.4
Intermediate goods (raw materials)	24.6	31.0	+6.4
Capital equipment	22.2	22.1	- 0 1
TOTAL	76.6	89.0	+ 12.5

It should be noted that iron and steel and other materials which might be used in capital works are included with intermediate goods and not with capital equipment, which in any case was influenced by the fall of £1.5 million in the cost of rolling stock for the railways.

Direction and Balance of Trade

10. There were only a few significant changes in the values of Kenya products purchased by individual countries in 1965. The United Kingdom remained Kenya's best market as shown by the Kenya trade statistics, but it should be noted that an unknown portion of goods exported to the United Kingdom are shipped on consignment and are subsequently re-exported to other European countries. In 1964, the U.S.A. was Kenya's fourth best customer purchasing goods worth £4.9 million but that country reduced its purchases in 1965 to £2.8 million, largely due to a substantial reduction in purchases of Kenya coffee. Exports to West Germany continued to expand as a result of the importance of coffee in that market. Japan also increased its purchases from Kenya, although not as much as the increase in sales to Kenya. In spite of a number of import restrictions directed towards improving it, the large adverse balance of trade with Japan increased by nearly £2 million, widening the gap further.

11. Since there was such a marked increase in the value of net imports in 1965, most countries were able to expand their sales to this country. The largest increase was in the value of purchases made from the United States as a result of the need to import maize but since maize imports were mainly purchased through arrangements under U.S. Public Law 480, the value of these purchases is available for development purposes as a loan. Imports from the United Kingdom were valued at some £1.6 million higher than in 1964 covering a wide range of goods, while crude oil imports from Iran increased by £2.5 million. Germany's exports to Kenya declined but this was more than offset by increases in imports from the other members of the E.E.C.

12. Exports to African countries excluding Uganda and Tanganyika did not improve in 1965 and there was very little change in the value of imports from African countries. However, if Uganda and Tanganyika are included with other African countries, the growing importance of Africa as a market for Kenya's products is shown by the fact that in 1961, 37 per cent of all exports were sold within Africa but by 1965 these markets had expanded at a relatively faster rate than Kenya's markets as a whole, so that, the percentage of exports sold within Africa rose to 43 per cent. Over the same period, imports from African countries fell from 17 per cent to 14 per cent of the total. The main reason for this relatively faster growth in exports is the expansion of trade with Uganda and the Tanzania mainland.

13. Since there was an increase of £13.9 million in Kenya's visible trade gap in 1965 there was a deterioration in Kenya's trade balance with most of its trading partners. Comment has already been made on the widening in the trade gap with U.S.A. and Japan. There was also a deterioration in the trade balance with the United Kingdom of £1.8 million without taking into account Kenya goods resold to the continent: The total trade gap with U.K. in 1965 was £14.0 million, 37.5 per cent of the total. The only significant favourable trade balances were those with Canada and West Germany.

DIRECTION OF TRADE AND TRADE BALANCES, 1963-1965

Table 12 *£'000*

AREA/COUNTRY	NET IMPORTS			EXPORTS*			BALANCE		
	1963	1964	1965	1963	1964	1965	1963	1964	1965
STERLING AREA—									
United Kingdom	22,665	23,551	25,164	12,032	11,272	11,079	-10,633	-12,279	-14,085
Bahrein Islands	1,210	219	-77	210	276	184	-999	+57	+ 261
Hong Kong	1,043	876	733	279	303	291	-764	-573	-442
India	2,754	2,367	2,171	1,259	1,570	1,545	-1,494	-797	-626
Kuwait		5,043	2,887		163	152		-4,880	-2,735
Other	3,766	3,424	4,358	5,363	6,427	6,298	+ 1,595	+ 3,003	+ 1,940
TOTAL	33,602	35,476	35,236	21,518	20,010	19,548	-12,084	-15,466	-15,688
DOLLAR AREA—									
Canada and Newfoundland	235	228	551	1,667	1,894	1,848	+ 1,432	+ 1,666	+ 1,297
United States of A	4,000	4,037	8,511	3,169	4,870	2,750	-831	+ 33	-5,761
DOLLAR AREA— TOTAL	4,235	5,065	9,062	4,836	6,764	4,598	+ 601	+ 1,699	-4,464
Canada and Newfoundland									
WESTERN EUROPE (excluding U.K. and Eire)—									
United States of A									
West Germany	4,970	6,991	6,147	6,846	7,282	7,398	+ 1,876	— 291	+ 1,251
Other E.E.C. countries	7,917	7,307	9,114	5,688	4,857	4,570	— 2,229	-2,450	- 4,544
Other	3,161	3,413	3,583	2,589	3,248	3,524	-572	-165	-59
United Kingdom									
Bahrein Islands									
Hong Kong									
India									
Kuwait									
TOTAL	16,048	17,711	18,844	15,123	15,386	15,492	-925	-2,325	-3,352
EASTERN EUROPE—									
TOTAL	647	1,748	1,870	485	1,540	1,005	-162	-208	-865
REST OF WORLD—									
Africa (non-sterling)									
Canada and Newfoundland									
China									
United States of A									
WESTERN EUROPE (excluding U.K. and Eire)—									
Japan									
West Germany									
Other E.E.C. countries									
Other									
TOTAL	920	1,128	1,125	3,296	4,024	3,899	+2,376	+ 2,896	+ 2,774
STERLING AREA—									
United Kingdom	326	696	954	364	394	633	+38	-302	-321
Bahrein Islands									
Hong Kong									
India									
TOTAL	4,819	2,052	4,149	166	117	131	-4,653	-1,935	-4,018
SHIPS' STORES, PARCEL POST AND SPECIAL TRANSACTIONS	7,857	7,122	9,058	1,685	1,648	1,730	-6,172	-5,474	-7,328
GRAND TOTAL	947	1,933	4,850	1,184	1,419	1,840	+237	-514	-3,010
DOLLAR AREA— TOTAL	14,869	12,931	20,136	6,695	7,602	8,233	-8,174	-5,329	-11,903
Canada and Newfoundland									
WESTERN EUROPE (excluding U.K. and Eire)—									
United States of A									
West Germany									
Other E.E.C. countries									
Other	4,287	3,659	3,883	2,322	2,247	3,167	-1,965	-1,412	-716
TOTAL	73,688	76,595	89,037	50,979	53,548	52,042	-22,710	-23,046	-36,995

•Includes Re-exports. lndicates a favourable balance. ^Included with "other" in 1963.

TRADE WITH COUNTRIES IN AFRICA 1963-1965

Table 13 *£'000*

	EXPORTS*			NET IMPORTS		
	1963	1964	1965	1963	1964	1965
MAINLAND—						
Uganda	9,425	12,581	15,339	6,248	7,244	7,135
Tanganyika	10,365	13,299	14,087	2,915	4,110	4,569
Somalia	417	600	462	12	9	9
Ethiopia	140	164	113	36	26	92
Sudan	243	362	306	—	9	49
Rwanda and Burundi	259	351	369	—	4	5
Congo (Leopoldville)..	273	123	79	500	725	314
Rhodesia		310	306		268	287
Malawi	231	37	99	481	303	371
Zambia J		135	328	J	156	134
Mozambique	85	311	47	252	330	638
Egypt	115	75	87	23	29	12
Algeria and Libya	8	19	38	2		5
Ghana and Nigeria	15	18	20	8	4	23
INDIAN OCEAN ISLANDS—						
Mauritius	352	633	631	5	9	6
Zanzibar	420	282	221	47	97	55
Other	165	416	663	100	1	2
TOTAL	22,511	29,717	33,195	10,629	13,324	13,707
Percentage of all Exports/ Imports	35.4	40.7	43.3	12.8	15.1	13-6

•Excluding re-exports.

lncludes Madagascar, Reuinion and Seychelles.

Interterritorial Trade

14. The three East African countries of Kenya, Uganda and Tanzania (mainland) have constituted a custom union without tariff barriers since 1923. Apart from export controls arising from the operation of Marketing Boards in individual countries, there has been virtually no restriction on the free movement of goods between the three countries. As a result of the existence of this free trade area, trade between the three countries has expanded rapidly, particularly in the last few years but owing to the more rapid development of manufacturing in Kenya and the ability of Kenya to supply temperate agricultural produce which can only be produced in limited quantities in the other two countries, exports from Kenya to Uganda and Tanganyika have grown so that they are now worth substantially more than the imports from those two countries. On the other hand, careful examination of the data shows that the rate of increase in the value of imports from Tanganyika and Uganda into Kenya over the last five years has, in fact, been faster than the

rate of growth of exports to those countries. However, in order to achieve a more even balance of trade between the three countries, restrictions were imposed under the Kampala Agreement on the export of goods of specified categories from Kenya to the other two countries and these restrictions became effective in 1965.

15. In spite of these restrictions, which affected the value of exports of a number of individual products, the total value of Kenya's trade with Uganda and Tanganyika continued to expand more rapidly than trade with overseas countries, so that, in 1965 Kenya's exports to Uganda and Tanganyika represented 36 per cent of all exports compared with 32.5 per cent in 1964. The structure of Kenya exports to those countries did, however, show a number of changes and, as with external trade, the most important of these was the rising significance of petroleum products which in 1965 was the leading export from Kenya to both countries. If it had not been for a rise of £1.3 million in the value of petroleum products exported to Tanganyika the total value of all exports to Tanganyika would, in fact, have shown a decline in 1965. Restrictions imposed by Tanganyika on exports from Kenya covered beer, cigarettes, roasted coffee, clothing, soap, plastic goods, aluminium products, wire nails, paint and enamels, butter and ghee, exercise books and registers. Taken as a whole, these products dropped in value by £1.2 million and it must be expected that the continuing incidence of these restrictions will now place a fairly severe check on the further growth of exports to Tanganyika and that growth in the future will largely depend upon the development of new exports rather than the continued expansion of existing ones. Once the Dar es Salaam refinery comes "on stream", Tanganyika will not require petroleum products from the Mombasa refinery and a fairly sharp drop in the total value of exports to Tanganyika must be expected.

16. Exports to Uganda showed a rise in value of approximately £2.8 million in 1965. There was, in fact, a general rise throughout most items but, once again, the most significant increase was a £1.3 million rise in the value of petroleum products exports.

17. Imports from Tanganyika showed an increase of approximately 10 per cent in 1965 but, unlike recent years, most of the increase was confined to imports of food and food products and unmanufactured tobacco. There was only a small increase in the value of manufactured goods, although a number of individual increases offset the decline in the value of footwear imports.

18. Imports from Uganda showed a small fall compared with 1964 but this can be attributed to a fall of over £1 million in the value of Kenya sugar purchases from Uganda arising from a sharp fall in Uganda's production and its inability to fulfil Kenya requirements. If sugar is excluded, there was a rise in Kenya's purchases from Uganda equivalent to 31 per cent and there was, in fact, a fairly general rise in the value of most individual items.

INTERTERRITORIAL EXPORTS 1963-1965

Table 14 £'000

ITEM	To UGANDA			To TANGANYIKA		
	1963	1964	1965	1963	1964	1965
FOOD—						
Meat and meat preparations	137	139	209	170	209	152
Dairy products	767	848	1,361	358	346	309
Cereals and cereal preparations	714	1,549	1,089	1,147	1,096	1,048
Fruit and vegetables	193	201	209	338	276	310
Coffee and tea	190	119	99	351	332	352
Other foods	335	477	494	353	540	531
TOTAL	2,264	3,248	3,461	2,640	2,724	2,702
BEVERAGES AND TOBACCO—						
Beer	100	156	64	581	805	690
Cigarettes	783	802	452	1,127	823	363
Other	345	310	93	59	112	147
TOTAL	1,228	1,268	609	1,767	1,740	1,200
BASIC MATERIALS AND FUELS—						
•Petroleum products	21	1,045	2,153	27	1,468	2,752
Other	168	181	572	222	214	369
TOTAL	189	1,226	2,725	249	1,682	3,121
MANUFACTURED GOODS—						
Chemicals and products:						
Soaps, cleansing and polishing preparations	508	549	677	593	971	592
Other	767	790	1,044	480	716	938
Bicycle tyres and tubes	203	181	185	124	100	92
Paper, paperboard and manufactures	365	447	569	338	418	526
Textile fabrics, articles, etc.:—						
Sisal bags and sacks	266	378	478	79	118	95
Other	267	424	566	191	250	296
Cement	149	119	68	537	764	880
Iron and steel	721	699	781	406	165	25
Aluminium	81	111	38	65	24	41
Metal manufactures	442	837	989	669	780	751
Clothing	568	868	1,347	830	1,134	1,020
Footwear	517	605	600	683	793	694
Other	862	797	1,160	648	831	1,010
TOTAL	5,716	6,805	8,502	5,643	7,064	6,960
MISCELLANEOUS—TOTAL	28	34	42	66	88	104
GRAND TOTAL	9,425	12,581	15,339	10,365	13,299	14,087

•Excluding by-products.

Excluding domestic aluminiumware which is included in metal manufactures.

INTERTERRITORIAL IMPORTS 1963-1965

Table 15 £'000

ITEM	FROM UGANDA			FROM TANGANYIKA		
	1963	1964	1965	1963	1964	1965
FOOD—						
Meat and meat preparations	75	72	4	75	88	127
Cereals and cereal preparations	135	163	208	194	280	340
Fruit and vegetables	35	76	106	400	420	453
Sugar, not refined	1,836	1,961	835	204	5	147
Coffee and tea	91	71	38	29	61	41
Margarine and shortenings ..	26	313	491	—	7	32
Other	193	212	331	226	216	261
TOTAL	2,371	2,868	2,013	1,128	1,077	1,401
BEVERAGES AND TOBACCO—						
Beer	18	6	27	4	17	1
Cigarettes	667	517	177	1	112	71
Unmanufactured tobacco ..	351	476	809	22	279	409
Other	1	2	33	5	4	9
TOTAL	1,037	1,001	1,046	32	412	490
BASIC MATERIALS AND FUELS—						
Oil seeds, oil nuts and oil kernels, etc.	11	7	27	217	174	121
Pyrethrum extract				217		
Vegetable oils	673	753	983	111	305	480
Electricity	349	406	418	38	14	
Other	220	131	140	180	219	147
TOTAL	1,253	1,297	1,568	763	712	748
MANUFACTURED GOODS—						
Soaps, cleansing and polishing preparations	154	229	306	2	6	4
Textile fabrics, articles, etc.—						
Cotton piece goods	1,030	1,289	1,261	76	187	59
Other	22	54	46	225	373	422
Iron and steel	35	185	186	1	80	103
•Aluminium				13	401	509
Metal manufactures	84	85	91	45	71	114
Clothing	14	17	31	68	99	108
Footwear	17	15	42	356	342	258
Other	263	204	539	200	344	346
TOTAL	1,619	2,078	2,502	986	1,902	1,923
MISCELLANEOUS—TOTAL	4	4	5	6	7	7
GRAND TOTAL	6,248	7,244	7,135	2,915	4,110	4,569

•Excluding domestic aluminiumware which is included in metal manufactures.

CHAPTER 3—AGRICULTURE

The year 1965 was a very difficult one for all sections of the agriculture industry, since nearly all areas had insufficient rain and in many areas the shortage reached drought proportions. The consequences of this were felt in two ways—a marked fall in the output of subsistence food crops and a significant decrease in the output of some of the major cash crop enterprises, notably coffee and dairy products. Gross farm revenue (in the monetary sector) declined by 8.1 per cent and the output of the subsistence sector by an estimated 5.3 per cent.

2. The general food shortage caused by the abnormally dry weather was alleviated by substantial imports of maize from the United States, amounting to 79,831 tons. A further 120,000 tons will probably be imported in 1966 to meet requirements until the main 1966 harvest is available. The shortage of maize resulted in an increase in the consumption of wheat products of over 30 per cent compared with 1964. While the record wheat crop of 1964/65 would have been sufficient to meet the whole of East African normal requirements, this abnormal increase in consumption (apparent also in Uganda and Tanzania, although to a lesser degree) created a need for imports of this cereal also. Among other products, dairy output fell substantially but, although there were brief temporary shortages of milk and butter, internal requirements were met in full, primarily by a major cut-back in exports (domestic exports of dairy products declined by 65 per cent).

3. Another notable consequence of the drought was a severe shortage of animal feeds. Not only were supplies to feed manufacturers of the necessary grains, particularly of maize and barley, sharply depressed, but farmers also had insufficient quantities on the farms to feed direct to their animals. Ten thousand tons of feed maize and sorghum were imported and sold to manufacturers and farmers at subsidized prices.

4. Total gross farm revenue in 1965 and its distribution between large and small farms is indicated in Table 16.

5. Farm income declined overall in 1965 but cash receipts of small farmers actually increased and their share in the total farm revenue rose from 25 per cent to 28 per cent although the absolute increase in 1965 was well below that in all but one of the previous nine years. It should, however, be noted that the small farm sector has been increased (and the large farm sector corresponding reduced) by the addition of the area of land covered by the land resettlement programme, the so-called "one million acre scheme". It is difficult to be precise regarding the effect this has had on the total gross farm revenue of small farms but the Department of Settlement Annual Report indicated total cash sales through co-operatives of £614.000 in 1965 compared with some £249.000 in 1964. Production in the small-holder sector is expected to maintain and indeed accelerate the steady increase in cash revenue, partly as a result of previous investments bearing fruit, particularly

GROSS VALUE OF MARKETED PRODUCE, 1956-1965

Table 16

	LARGE FARM SECTOR		SMALL FARM SECTOR		TOTAL		SHARE OF SMALL FARM SECTOR
	£ m.	Annual % Increase	£ m.	Annual % Increase	£ m.	Annual % Increase	%
1956	32-6		5 9		38-5		15-3
1957	32-4	-0-6	6.9	+16.1	39.3	+2.1	17-6
1958	33.4	+ 3.1	7.6	+ 101	41.0	+ 4.3	18.5
1959	33.9	+ 1.5	8.4	+ 10.5	42.3	+ 3.2	19-9
1960	37.7	+ 11.2	9.5	+ 131	47,2	+ 11.6	20.1
1961	35.7	-5.3	10.4	+9.5	46.1	-2.3	22.6
1962	37.1	+ 3.7	10.5	+ 1.0	47.5	+ 3.0	22.1
1963	40.9	+10.2	11-6	+ 10.5	52.5	+ 10 5	22.1
1964	42.0	+ 2.7	13.9	+ 19.8	55.9	+6.5	24.9
1965*	36.9	-12.1	14 5	+4.3	51.4	- 8 1	28.2

•Provisional.

in permanent crops, but also following the major development effort, current and future, being pursued under the Development Plan.

6. In terms of gross farm revenue, the most serious impact of the drought was on coffee production: output during the season ending 30th September 1965 was 4,636 tons less than in 1963/64. The bulk of the decline was in estate production, as the output of small-holdings was sustained by further increases in the acreage of young coffee reaching maturity. Coffee also continued to suffer seriously from coffee berry disease and the reduced output should not be attributed entirely to the dry weather. Tea production declined by 400 tons, a cut of 1,000 tons in large estate production being partly offset by an increase of 600 tons in small farm production. Milk production on large-scale farms fell from 49.9 million gallons to 41.8 million gallons or 16 per cent.

7. The decline in farm incomes was not entirely due to reverses in production. Unfavourable changes in prices of some crops also had their effect. The most serious of these was in sisal, the f.o.b. price of which fell from £107 per ton in 1964 to £67 in 1965. The decline in the price of sisal has been severe but it does help to strengthen the competitive position of sisal against synthetic substitutes which in the last two years have made serious inroads into the traditional sisal markets. Coffee and tea auction prices also declined but less markedly, the overall Nairobi auctions price of the former falling by £6 per ton and of the latter (in the London auctions) by 16 cents per lb. or £18 per ton. The effects of price changes on gross farm revenue, at current and 1958 prices, are set out in Table 17.

VALUE OF MARKETED AGRICULTURAL PRODUCTION AT CURRENT AND 1958 PRICES 1958-1965

Table 17 *£'000*

	G.F.R.* at current prices	G.F.R.* at 1958 prices	Cumulative "Losses" resulting from price changes	Annual 'Gains" (+) or "Losses" (—) over previous year
1958	41,019	41,019		
1959	42,296	44,327	-2,031	-2,031
1960	47,204	47,238	-34	+ 1,997
1961	46,079	50,243	-4,064	-4,130
1962	47,549	48,573	-1,024	+ 3,140
1963	52,502	56,170	-3,668	-2,644
1964	55,918	56,009	-91	+ 3,577
1965	51,433	52,502	-1,069	-978

•Gross Farm Revenue

This table suggests that there was an overall decline in prices in 1965 but that this was not as bad as in some previous years. However, the table gives only an incomplete picture, the varying fortunes of individual commodities being disguised in the overall totals. For example, isolated from other crops, coffee prices in 1965 had declined by 20 per cent over 1958. It should also be noted that the prices of commodities consumed mainly within East Africa, e.g., cereals, meat and dairy products, have risen substantially over the last few years. In fact, but for the very substantial increases in prices for these commodities in 1965, gross farm revenue last year would have declined even more.

8. While natural factors held farm output back, efforts to promote growth by the initiation of specified projects continued. Budgeted development expenditure by the Ministry of Agriculture in 1965/66 is £2.8 million compared with £2.5 million during the previous financial year. (This does not, of course, include direct investment by farmers or all expenditure on agriculture by Government (*see* Table 23).) Such development expenditure is essentially of a long-term nature and its fruits cannot be expected to accrue immediately. Mention will be made later of development in specific fields.

The Large Farm Sector

9. With nearly all land purchases for the million-acre settlement scheme already made (if land purchased for all purposes is included, actual purchases total 1.4 million acres), the total acreage in the large farm areas is now at 6.5 million acres. At the same time, within this sector, about half-a-million acres of primarily mixed farm land have been transferred intact to African ownership. This transfer of large-scale farms to owners who have little or no previous experience of managing large mechanized holdings has raised new problems, particularly as a result of the fact that many of these farmers start operations with a heavy burden of debt arising out of the purchase of land and loose assets. In order to help such farmers, a special advisory

service was set up in 1965. So far, the service is operating primarily in Nakuru and Trans Nzoia but it is expected that Uasin Gishu, the area which contains most of these farms, will also be covered within the next few months. In addition, a special school to provide training in the management of large holdings has been set up at Thomson's Falls, and arrangements are in hand for a second such school to be established in 1966 in Western Kenya.

10. The figures of production shown in Table 18 do not indicate fully the consequences of the drought. The output of cereals shown is that from plantings in 1964 but harvested or moved off the farm in 1965. The average yield per acre of wheat from 1965 plantings is expected to be 16 per cent lower than from 1964 plantings which yielded a record harvest.

LARGE FARM AREAS—CROP PRODUCTION*, 1963-1965

Table 18 *'000 tons*

	1963	1964	1965
Wheat	117.8	131.2	140.6
Maize	119.7	69.0	64.0
Barley	19.2	16.3	14.5
Sugar cane	545.8	500.0	465.0
Coffee—clean	26.4	28.1	23.3
Tea—manufactured	17-4	19.3	18.3
Sisal fibre and tow	63.1	61-4	63.8
Wattle—green bark	22.1	20.0	15.4
Wattle—stick bark	4.4	3.1	3.7
Pyrethrum flowers	3.9	2.2	2.9

•Production in crop season 1962/1963 is shown under 1963 and so on.
tEstimated.

11. While sugar-cane production declined a little, manufactured sugar output fell substantially, from 34,775 tons in 1964 to 28,511 tons in 1965, although sugar consumption continued to increase. This discrepancy can be explained by the diversion of large quantities of cane to jaggery production because of the higher returns received for this use than paid by the sugar factories. Steps have now been taken to ensure that sugar factory requirements receive priority in the supply of cane. However, the heavy rains in 1964 and the drought of 1965 upset the planting programme in Central Nyanza, the main sugar producing district, and further shortages of cane for sugar production are therefore also likely this year. Production from the first of the two new factories being built in the area is expected to start in September.

12. The most notable production improvement was in the output of pyrethrum flowers, which was 31 per cent higher than in 1964. Although still well below the peak level of 7.500 tons in 1961. the trend of production in 1965 turned upwards for the first time in four years and would have been even higher but for the drought. The increase in deliveries has been induced by a 26 per cent rise in payout per lb. of flowers.

13. Factors affecting coffee and tea production have already been mentioned. Wattle grown for extract continues to be a declining industry—competition from other vegetable extracts, synthethic substitutes and cut price sales of wattle itself by producers in other countries have depressed prices. The introduction recently of a prohibitive tariff in wattle imports by the Government of India will probably further depress exports in 1966. On the other hand, the use of wattle timber to produce charcoal has been developed over the last two years and sales from Western Kenya to the Uganda iron and steel industry have grown from £12,500 in 1964 to £102,000 in 1965. The large farm acreage under wattle has dropped by 31 per cent since 1960 but land thus released is being converted to enterprises such as cereals and livestock; a portion will be planted to soft wood forest.

14. Statistics of livestock numbers on large-scale farms are shown in Table 19. It will be seen that over the period 1960-1965 the numbers of dairy cattle and sheep fell by approximately one-third while numbers of other livestock fell by one-fifth. Although a proportion of these were transferred to settlement schemes, this decline in numbers is a matter of considerable concern in the light of the need to build up livestock numbers in the country as a whole to achieve development targets. Once again in 1965 there was a fall in the numbers of principal livestock categories but some encouragement can be taken from the fact that the decline in all categories has slowed down considerably.

LARGE FARM AREAS—LIVESTOCK NUMBERS, 1960-65

Table 19 *'000 head*

	1960	1961	1962	1963	1964	1965
Dairy cattle	412.7	392.7	355.7	332.0	284.6	260.1
Beef cattle	566.9	549.1	530.4	480.7	451.1	446.3
Sheep	582.6	580.2	510.9	501.8	409.8	399.8
Pigs	50.5	41.4	34.5	35.4	36.6	36.3
Poultry	255.8	280.6	287.7	255.7	203.3	198.7

This is more clearly apparent from the following table which sets out the percentage fall in numbers since 1960.

ANNUAL PERCENTAGE DECLINE IN LIVESTOCK NUMBERS 1960-1965

Table 20

	1961	1962	1963	1964	1965	1960-65
Dairy cattle	-4.8	-9.4	-6.7	-14.3	-8.6	-37.0
Beef cattle	-3.1	-3.4	-9.4	-6.2	-1.1	-21.3
Sheep	-0.4	-11.9	-1.8	-18.3	-2.4	-31.4
Pigs	-18.0	-16.7	+ 2.6	+ 3.4	-0.8	-28.1
Poultry	+9.7	+ 2.5	-11.1	-20.5	-2.3	-22.3

15. Except for pigs, the decline in numbers of all categories of livestock was less than in 1964. In fact, except for dairy cattle, it could be said that livestock numbers on large farms have virtually stabilized but the fall in numbers of dairy cattle continues at a rapid rate in spite of an improvement in the prices of dairy products. During 1964/65, 17,600 head of dairy cattle were sold by large-scale farmers, of which 7,840 were sold to other large-scale farmers and the balance to settlement schemes and other small-holders outside settlement. It is disturbing to note that no significant change in breeding policy took place in 1965—the proportion of heifers and calves in the herd remained where it had been in 1964. Prices of £40-£45 per head are being paid today for dairy cows of quite average quality, compared with only £25 four years ago and it is not surprising that many farmers are tempted to sell. It is, however, important that breeding should be resumed on large farms if the dairy industry targets for small-holdings during the current Development Plan period are to be achieved. Prices of dairy stock are likely to remain high for several years, which together with the recent increases in prices paid for dairy products, should provide a strong incentive for a resumption of breeding over the longer term.

16. The effects of the drought on dairy production are apparent from Table 21. Total output of milk in 1965 was 16 per cent less than in the previous year. Some of the decline can, of course, be attributed to the fall in the numbers of dairy cattle but milk production per mature cow fell, from 278 gallons in 1964 to 257 gallons in 1965. However, farm sales of liquid wholemilk declined by only 8 per cent so that the main impact of lower production was felt by a reduction of 27 per cent in butterfat output. This is reflected in a sharp reduction in butter exports in 1965.

LARGE FARM AREAS—LIVESTOCK PRODUCTION, 1963-1965

Table 21

		1963	1964	1965
SALES OF LIVESTOCK FOR SLAUGHTER—				
Cattle and calves	.. '000 head	129-9	104-4	91*8
Sheep and lambs	.. '000 head	89-0	81.0	76.2
Pigs	.. '000 head	44-3	42.0	42.4
Poultry	.. '000 head	228-2	231.1	200.4
OTHER PRINCIPAL PRODUCTS SOLD—				
Wholemilk	.. '000 gal.	17,484	16,729	15,351
Butterfat	.. '000 lb.	10,493	9,051	6,653
Wool	.. '000 lb.	2,724	2,350	2,285
Eggs	.. '000 doz.	1,855	1,601	1,657

17. While the numbers of sheep have declined for several years, the wool clip per sheep has increased. In 1965, it was 6 per cent higher than in 1964 and 43 per cent above that in 1960. This suggests that the decline in numbers has been more in the nature of a severe culling process. The total clip is only slightly less than in 1960, despite a fall in numbers of over 31 per cent.

LARGE FARM AREAS—ANALYSIS OF GROSS FARM REVENUE, 1963-1965

Table 22 *£'000*

	1963	1964	1965*
CEREALS—			
Wheat	3,278	3,652	3,822
Maize	1,629	1,153	1,167
Barley	456	377	336
Oats	28	24	26
TOTAL	5,391	5,206	5,347
OTHER TEMPORARY CROPS—			
Pyrethrum	1,188	505	726
Sugar	1,152	1,092	960
Other	940	861	925
TOTAL	3,280	2,458	2,611
PERMANENT CROPS—			
Coffee	7,136	9,625	7,687
Sisal	7,454	6,494	4,316
Tea	6,615	7,556	6,888
Fruit	490	455	518
Wattle and other	327	329	403
TOTAL	22,022	24,459	19,812
TOTAL CROPS	30,693	32,123	27,771
LIVESTOCK—			
Cattle and calves for slaughter	3,175	2,542	2,391
Sheep and lambs for slaughter	246	246	214
Pigs for slaughter	500	475	470
Poultry and eggs	365	290	268
K.M.C. bonus	51		
Livestock for breeding and fattening	1,014	1,479	1,379
Wool	400	354	343
TOTAL	5,751	5,386	5,064
DAIRY PRODUCTS—			
Wholemilk	2,544	2,653	2,644
Butterfat	1,485	1,329	1,049
Butter, cheese and cream	78	220	171
Skim milk	331	306	229
TOTAL	4,438	4,508	4,093
TOTAL LIVESTOCK AND DAIRY PRODUCTS	10,189	9,894	9,157
TOTAL GROSS FARM REVENUE	40.882	42,017	36,926

•Provisional.

Under the Development Plan, an increase of at least 200,000 in the numbers of wool sheep is envisaged. This will require an intensive breeding effort on the part of existing sheep farmers and a rapid reversal of the present downward trend in the size of the large farm sheep flock is an absolute necessity.

18. Sales of cattle and calves for slaughter as a proportion of the total herd declined from 23.1 per cent in 1964 to 20.5 per cent in 1965. This is encouraging from the point of view of the future for it suggests a resumption of breeding and a return to a more normal level of off-take. The slight increase in sales of pigs, despite a small fall in numbers, might be a result of the shortage of feeds last year. Output of poultry sold for slaughter fell by 13.3 per cent in 1965 but egg production registered a 3.4 per cent increase.

19. Estimated gross farm revenue on large-scale farms is set out in Table 22. The consequences of the fall in coffee production and sisal prices are clearly apparent. Gross revenue from these two commodities together declined by £4.1 million over the previous year, and this was the major factor in the overall decline of farm incomes of £5.1 million. The fall in income would have been even higher but for the increase in the price of wholemilk. butterfat and beef—by 11,8 and 6 per cent respectively in 1965. Prices paid for pigs and maize were also higher.

Capital Expenditure on Large Farms

20. The recent higher trend in capital expenditure on large-scale farms, shown in Table 23, was maintained in 1964/65.

LARGE FARM AREAS—GROSS CAPITAL EXPENDITURE BY TYPE OF EXPENDITURE, 1962/63-1964/65

Table 23 *£'000*

	1962/63	1963/64	1964/65
Residential buildings	343	396	606
Non-residential buildings	208	399	266
Roads, dams, drainage and water supplies	186	205	249
Fencing	86	115	132
Plantation development	851	713	595
Vehicles (excluding tractors)	590	657	660
Mechanical equipment (including tractors) ..	826	1,040	1,307
Other	199	164	258
TOTAL	3,289	3,690	4,072

21. In terms of expenditure per acre, gross investment in 1964/65 was the highest since 1960/61. Although the biggest increase is in mechanical equipment, the rise in expenditure on residential buildings, fencing and other permanent improvements is encouraging. The continued fall in expenditure on plantation development underlines the stagnation and even decline of the acreage under all permanent crops except tea. Overall, it would seem apparent

that there has been a considerable return of confidence on the part of large-scale farmers or at least a determination to maintain the asset value of their farms.

The Small Farm Sector

22. The quantities of the principal crops marketed from the small farm sector are indicated in Table 24. It should be kept in mind that these quantities do not include unrecorded sales within districts, only quantities known to have been "exported" out of districts and, as noted above, this sector now includes farms in the "million-acre" settlement scheme.

SMALL FARM AREAS—PRINCIPAL COMMODITIES—MARKETED* 1963-1965

Table 24 *'000 tons*

	1963	1964	1965
Maize	980	44.8	47.2
Rice paddy	130	13.6	15.0
Pulses	12.4	13-7	12.9
Castor seed	4.5	2.4	51
Coffee—clean	9.4	15.2	15.4
Tea—manufactured	0.4	0.6	1.2
Sisal fibre and tow	65	6-2	41
Cotton lint	2.7	30	3.8
Wattle bark	22.3	21 6	19.0
Cashew nuts	4.3	5.2	8.9
Pyrethrum flowers	1.7	2.2	3.3

•Production in the crop season 1962/1963 is shown under 1963 and so on.

23. Actual sales of maize were probably larger than deliveries to the Maize Marketing Board suggest. It is known that during the critical shortage last year, large quantities were exported illegally to Uganda or sold in the internal black market at prices well above those paid by the Maize Marketing Board. Gross revenue from maize, shown in Table 25. therefore probably understates considesably the actual income derived from this crop. Sales of other food crops such as pulses were also reduced by the drought. In a situation of food shortage farmers retained as much as they could of the reduced output of food crops. Marketed quantities of millet and sorghum, not very large even in normal years, were negligible in 1965—1.763 tons of millet and only 729 tons of sorghum. Food manufacturers were prepared to pay much higher prices for sorghum than are usually received for it but could not obtain any locally.

24. Production of rice paddy continued to increase in 1965. Virtually the entire marketed output of the crop now derives from the Mwea Irrigation Scheme, where in 1965, the first newly-irrigated land under the current expansion programme was settled with an additional 148 families on 592 acres, bringing the total number of families settled to 1,484 and the acreage under paddy to 5,541 acres. The yield from the crop harvested in 1965 was. however, 9 per cent less than in 1964.

25. Developments at the other two important irrigation schemes, Perkerra and Galole, may be briefly mentioned here, although neither of them produces paddy. At Perkerra, the number of tenants was increased to 402 without any increase in acreage under irrigation by reducing the size of existing holdings in order to secure more intensive cultivation. Production of onions, the principal crop, rose from 1,200 tons in 1964 to 1,522 tons in 1965, despite serious disease problems. At Galole, on the Tana River, there was also a small increase in the number of tenants and an increase of 40 per cent in the yield per acre of cotton, the principal crop, from 1,051 lb. in 1964 to 1,470 lb. in 1965.

26. The 1964/65 cotton crop showed a significant increase in other producing areas as well (only a small proportion of it is grown at Galole). Unfortunately, the crop planted in 1965 suffered severely from drought and was completely re-planted in some areas. Last year, the Cotton Lint and Seed Marketing Board issued £60.000 worth of credit to growers for the purchase of tractor services, insecticides, etc., but the sharp increase in production which was expected to follow this is now unlikely to be realized.

27. Notable increases took place in the production of cashew nuts, castor seed and pyrethrum, mainly as a result of better prices paid to farmers but, in the case of cashew nuts, partly a result of trees planted during the last few years reaching maturity and partly following the regularization of marketing under statutory control. While the output of castor seed increased, that of other oil seeds declined. Pyrethrum production on small-holdings exceeded that on large-scale farms for the first time, but the pyrethrum content of flowers from small-holdings remain below that of large farms. An incentive scheme to encourage small-holders to improve quality has now been introduced.

28. Figures of gross farm revenue in the small farm sector are set out in Table 25.

29. Despite a slight fall in production in 1965, the importance of coffee for small farm cash income increased further—37 per cent of gross farm revenue originated from this source compared with only 26 per cent two years ago. Although planting of coffee is no longer allowed (except to reach previously authorized total), the large number of new trees established in the last few years will, as they mature, increase the relative share of coffee income further over the next few years. In mid-1965, only 39,300 acres or one-third of the total acreage (121.500 acres) on small-holdings were three years old and over, and only 17 per cent five years old and over. In 1965/66 another 24,500 acres and in 1966/67 another 46.300 should reach the age of three years. However, although large increases in production can be expected, production will undoubtedly be adversely affected by the continued widespread prevalence of coffee berry disease.

SMALL FARM AREAS—ANALYSIS OF GROSS FARM REVENUE, 1963-1965

Table 25 £'000

	1963	1964	1965*
CEREALS—			
Maize	1,244	749	768
Rice	320	343	336
Other	156	103	108
TOTAL	1,720	1,195.	1,212
TEMPORARY INDUSTRIAL CROPS—			
Cotton	498	550	722
Tobacco	111	76	27
Pyrethrum	359	405	719
Sugar	45	85	127
Castor and other oil seeds	337	200	216
TOTAL	1,350	1,316	1,881
OTHER TEMPORARY CROPS—			
Pulses	282	321	308
Potatoes	132	151	199
Vegetables	203	231	142
TOTAL	617	703	649
PERMANENT CROPS—			
Coffee (including mbuni)	3,022	5,366	5,367
Tea	122	159	240
Sisal	519	667	159
Wattle	268	236	167
Coconuts and products	246	324	403
TOTAL	4,177	6,752	6,335
FRUIT AND MISCELLANEOUS CROPS—			
Cashew nuts	113	221	397
Pruit	230	173	143
Miscellaneous crops	336	130	171
TOTAL	679	524	711
TOTAL CROPS	7,864	10,490	10,718
LIVESTOCK AND DAIRY PRODUCTS—			
Cattle and calves for slaughter	2,184	2,258	2,422
Sheep and goats for slaughter	316	319	375
Pigs for slaughter	5	21	84
Poultry and eggs	54	85	80
Dairy products	518	728	828
TOTAL	3,077	3,411	3,789
TOTAL GROSS FARM REVENUE ..	11,620	13,901	14,507

•Provisional.

30. Maintenance of quality is becoming a serious problem. The quality of coffee in the first three grades has declined appreciably. For example, in Meru, a major producing area, it fell from 47 per cent in 1963/64 to 26 per cent in 1964/65. Although drought and disease were partly responsible, there is little doubt that inadequate and careless handling by the growers and societies is an important factor in this decline of quality. Steps to improve extension services and better training and supervision of the societies are under active consideration.

31. The increase of 50 per cent in gross farm revenue from tea in 1965 is a natural consequence of the rapid increase in acreage during the last few years and as the following series indicates, another 2,625 acres were put under tea in 1965.

ACREAGE UNDER TEA ON SMALL-HOLDINGS 1960-65

	Acres
1960	2,290
1961	3,680
1962	6,232
1963	8,430
1964	10.785
1965	13,410

32. Over 22,000 growers are now cultivating the crop. Production of green leaf in 1964/65 was 12.0 million lb. compared with 6.3 million lb. in 1963/64. Three new factories were opened early this year to process small-holder tea, bringing up to six the number so far built by the Kenya Tea Development Authority. Another 3,200 acres are to be planted during the current year. Tea is a long-maturing crop and total production will continue to remain small for a few years. However, an increase of 80 per cent in green leaf deliveries is expected during the current year.

33. Sisal production from hedgerow cultivation on small-holdings in 1965 fell sharply. This, however, is directly related to the steep fall in" prices compared with the two previous years. While production in 1965 was a third less than in 1964, income from the crop fell to only a quarter of the level attained during the previous year. Attempts to promote compact planting of sisal by small-holders have been discontinued in view of the discouraging future prospects of this crop.

34. The bulk of sugar-cane grown on small-holdings still goes into uses other than sugar production, mainly liquor and jaggery. In 1965, 2,000 tons of jaggery were produced in South Nyanza. However, with the new sugar factory at Muhoroni nearing completion and development for the second factory at Chemilil under way, the future pattern of the use of sugar-cane from small-holdings will undergo a rapid change. In fact, some small-holder

cane has been delivered to the existing sugar factory in Nyanza for the past two or three years. Planned acreage under cane on small-holdings until 1969 is as follows: —

	Settlement Schemes	Other Areas	Total
1964 ..	640	1,000	1,640
1965 ..	3,680	2,130	5,810
1966 ..	2,110	4,260	6,370
1967 ..	2.170	5,490	8,660
1968 ..	1,965	8,520	10.485
1969 ..	1,998	10,650	12,648

The entire output of cane from this acreage is expected to be crushed for the manufacture of sugar.

35. Paradoxically, the increase in the value of cattle and calves sold for slaughter is partly a consequence of the drought. The shortage of grazing forced many owners of cattle to sell larger numbers for slaughter while the need to secure cash in order to buy food was a further incentive to sell. Sales to the Kenya Meat Commission numbered 95,000 head in 1965, compared with 77.000 head in 1964. More than half of the K.M.C.'s total supplies in 1965 were drawn from the pastoral areas but the contribution of these to total meat production was considerably less than half in view of the low weight of cattle from these areas.

36. Rapid advances are being made in the development of rangeland in the arid areas. The objective of the development programme in these areas is the introduction of modern range practices to "activate" the existing under-utilized resources of land and cattle to produce more for sale. Development is proceeding under the control and supervision of the Range Management Division, established in the Ministry of Agriculture and Animal Husbandry in 1964. Five co-operative ranches, with a present stock population of 4,500 cattle, are now established and the numbers of cattle on these ranches are expected to increase rapidly in 1966 when about a thousand head are expected to be sold for slaughter. Two more co-operative ranches have been registered. Major advances were made in the development of individual ranches in Masailand in 1965. Twenty ranches were set up and £36.000 of loan funds advanced to them. Forty more individual ranches are now at the development stage. Grazing schemes established in earlier years appear to be working satisfactorily. Discussions with the inhabitants of several pastoral districts regarding the development of new co-operative and individual ranches and grazing schemes are proceeding and the Range Management Division is carrying out water and range surveys and providing training facilities. The United Nations Special Fund recently approved a £640.000 grant for range development and an application for a much larger loan from the World Bank is being prepared.

Land Settlement

37. The land settlement programme continued in 1965 at the rapid pace that had been established in previous years. By the end of June 1965, the Central Land Board had purchased 1,094 farms in the former scheduled areas, covering 1,421,257 acres, of which 402 farms of 540,036 acres had been purchased in the previous twelve months. The land purchased by the Central Land Board is used in a number of different ways. Of the total area purchased by 30th June 1965, 1,116,467 acres was destined for small-holder settlement schemes. Of this total area 134,802 acres had been settled by 3,187 settlers in "low density" schemes, whilst 601,632 acres were in "high density" schemes, where 20,730 families had been settled. The balance of the area already purchased for settlement was being laid out, prior to the introduction of new settlers in 1965/66. During those twelve months it was expected that a further 76,975 acres would be purchased to complete the buying schedule under the original "million-acre" settlement programme.

38. With the establishment of more new schemes and the move towards maturity of a number of those settled some years ago, production from settlement increased considerably. During the twelve months up to mid-1965, recorded sales through scheme co-operatives rose in comparison with the previous year by almost 150 per cent to £613,865. Some idea of the progress of individual schemes was obtained from the preliminary results obtained from economic surveys carried out in twenty-one schemes during 1964/65. These results, taken from a variety of types of schemes, some of which were in their first full production year, showed that on each of the ten low density schemes studied, production per acre after settlement had exceeded the pre-settlement level, whilst on the eleven high density schemes, this had been achieved in only two cases. Some of these high density schemes had been prepared and settled in great haste in the second half of 1963, and had not had sufficient time to settle down before the survey took place. It is hoped that a similar survey, conducted in 1965/66 will show better results from the high density settlements.

39. A new development of some significance during 1965 was the purchase of the Ol Kalou Salient. In this "sore thumb" area eighty-three farmers were purchased whose total area was 118,808 acres. It is planned that this area of fairly poor land which is unsuitable for subdivisional settlement should eventually be formed into around twenty large-scale farming units, which would be owned by co-operative societies formed from those Africans living in the area at the time of purchase. However, for an interim period of a few years, the area is being farmed as one unit by a specially created section of the Department of Settlement. The farms were taken over in early 1965, and the management has nearly completed its first year of operation, which appeared to be quite successful.

Land Registration in the Traditional Small Farm Areas

40. Reform of the tenure status of landowners continued apace in 1965 through the registration of ownership rights, after adjudication under the Land Adjudication Act by the Department of Land Consolidation. This process has been going on since 1956, when the first land was registered in Central Province. By the end of 1965, a total of 1,845,809 acres had been registered in fifteen districts, although due to the need to re-adjudicate 215,212 acres of land already registered in Fort Hall District, only 1,630,597 acres had been brought on to the register by the end of the year. The number of acres in each district and province registered annually is shown in Table 26. The land reform process covers all land in the areas concerned, including that set aside for townships, villages, trading centres, etc. To the end of 1965, adjudication had led in these districts to the registration of 274,582 agricultural holdings, as shown in Table 27.

ACRES REGISTERED IN EACH DISTRICT, 1956/57-1965/66

Table 26 '000 *acres*

	Total during 1956/7-1959/60	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66 (6 months)	Total to 31.12.65
Central Province			+	+	+	+	+	
Nyeri	131.0	65.7						196.7
Murang'a}	(215.2)	18.5	51.6	65.7	51-9	56.4	28.4	487.7
Kiambu	238.2	+	+	+	+	+	+	238.2
Kirinyaga	107.0	28.4	53.0	+	+	+	+	188 4
Total	691.4	112.6	104.6	65.7	51.9	56.4	28.4	1,111-1
Eastern Province	+					+		
Meru	+	23.2	73.4	24.4	21.6	+	22.0	164.5
Embu		38.5	86.7	+	+		+	125.2
Total	+	61.7	160.2	24.4	21.6	+	22.0	289.7
Rift Valley Province	+						+	
Nandi		6.7	7.2	9.2	3.2	13.9		40.2
Elgeyo-Marakwet			17.4	+	3.6	27.4		48.4
Baringo	30.1	2.8	41 -5	14 8	1.8	13.7	8.7	113.3
Kajiado				+	9.9	4.0	+	13.9
Total	30.1	9.5	66.0	24.1	18.6	58.9	8.7	215.9
Western Province			+					
Kakamega	•	:	+		24.0	41.8	61.3	127.1
Bungoma					21.4	32.4	21.1	74.9
Total	•		+		45.4	74.2	82.4	202 0
Nyanza Province	•				+			
Central Nyanza					+		0.9	0.9
Kisii		:	:			7.0	+	7.0
South Nyanza						+	19.2	19.2
Total	*	•	•			7.0	20.1	21.1
Total All Provinces	721.5	183.9	330.8	114.1	137.5	196.5	161.6	1,845.8

•Denotes that no Adjudication Sections had been declared by the end of the year.
Denotes that Adjudication Sections had been declared but no land was registered by the end of the year.
Registration was cancelled in Murang'a in 1961 and the acreage affected upto 1959/60 is indicated in brackets.

AGRICULTURAL HOLDINGS BROUGHT ON TO THE REGISTER IN EACH DISTRICT BY 31ST DECEMBER 1965

Table 27

	Numbers
Nyeri	43,593
Kiambu	37,408
Embu/Kirinyaga*	43,302
Murang'a ...	62,126
Meru	11,967
Nandi	2,792
Elgeyo/Marakwet	3,166
Baringo	1,953
Kajiado	412
Kakamega	55.821
Bungoma ...	7,914
Central Nyanza	164
Kisii	1,062
South Nyanza	2,902
Total	274,582

* When the land was first registered, Kirinyaga was part of Embu District. Since the creation of the new district, land-owners from both continue to use the land registry in Embu, and no count has yet been made of the number of registered holdings in each of the two districts.

41. Land registration has steadily spread from Central Province to every other province except the North-Eastern. In addition to those districts where some land has already been registered, adjudication was also being carried out in 1965 in Machakos, Kericho, West Pokot, Busia and Taita Districts, in all of which it is expected that land will be registered for the first time in 1966. It is Government policy to accelerate the rate of land registration, since this is seen as one of the fundamental preconditions for the rapid development of the traditional small-farm areas. Early in 1966, a joint British and Kenya Government mission looked into the progress and achievement of the land reform processes which lead up to registration, with a view to suggesting how procedures could be improved and the rate of work increased. The recommendations of this mission are now being considered by the Government which hopes to implement an accelerated registration programme in the coming financial year.

CHAPTER 4—MANUFACTURING, BUILDING AND CONSTRUCTION

Manufacturing

The steady but continuous development of its manufacturing sector over the last few years has afforded the Kenya economy a diversity and stability which stood it in good stead in 1965. In spite of a fall in agricultural income of 8 per cent the level of monetary gross domestic product was fully maintained, due in large part to the further growth of manufacturing.

2. This record is all the more commendable in the light of the fact that a number of Kenya industries were hit by restrictions imposed against their products by Tanzania in 1965. Tanzania import licensing now covers a wide range of Kenya products as can be seen from the following list: —

> Biscuits, sweets, chillies, spices, ice cream, laundry-soap, detergents, insecticides, wire nails, knitwear, toilet-soap, aluminium products, roasted coffee, plastic goods, coconut oil, dairy products, beer, pyrethrum extract, paints and distempers, cycle tyres and tubes, exercise books, textile fabrics, sisal products, cement, C.G.I, sheets, shirts and gin.

Undoubtedly, the Kenya manufacturing sector has valued the Tanzania market highly and, in part, its rapid development has been due to the facility of free access to that market. It must be accepted that Tanzania needs to build up its own manufacturing sector and to do this it may need to protect its infant industries, including some protection against competition from Kenya's established factories. In a number of cases import licensing has, however, been imposed against Kenya products not produced in Tanzania or produced in industries well established and no longer entitled to claim "infant industry" protection. Kenya has not, however, retaliated against Tanzania products sold in the Kenya market, even when the same Kenya products are banned completely from Tanzania. The subject of the East African common market including the trade restrictions has been the subject of a commission of inquiry and its report is now being studied by the three Government. The present situation must be regarded as most unsatisfactory and it must be hoped that a return to the common market principles will allow an equitable and rapid growth of manufacturing industries in all areas simultaneously.

3. An overall measure of manufacturing performance in 1965 is given by the Quantity Index of Manufacturing Production which is estimated to have risen by eight points or 6.7 per cent in 1965. As usual, performance of the different sectors varied and this is best depicted by the sector indices which are set out in the Table 28.

4. The fall in the production of foodstuffs in 1965 was largely due to the fall in agricultural output caused by drought. Butter production fell from 10.2 million lb. to 8.0 million lb. while cheese production dropped from

QUANTITY INDEX OF MANUFACTURING PRODUCTION, 1961-1965
COMPARATIVE CHANGES BY SECTOR

Table 28 *Base Year 1961*

INDUSTRIAL GROUP	Base Year Weight	1961	1962	1963	1964	1965*
Foodstuffs	200	100	100	104	108	105
Beverages and tobacco	17-6	100	95	103	106	105
Textiles, clothing, footwear and leather	8.3	100	110	112	129	137
Wood, paper and printing	12.6	100	95	106	121	142
Rubber and chemicals	12.1	100	94	86	151	169
Non-metallic minerals	10.7	100	101	102	124	142
Metal working	17.6	100	123	125	118	123
Miscellaneous	1.0	100	105	119	157	175
TOTAL	1000	100	103	106	120	128

•Provisional.

approximately 1.5 million lb. to 1.3 million lb. On the other hand, there was a small increase in ghee production from 1.9 million to 2.0 million lb. Although there was an increase of 20 per cent in the number of slaughter cattle purchased by the Kenya Meat Commission, average cold dressed weights were lower and beef production was up by only 2 per cent. Owing to lower cane production and the diversion of cane to jaggery mills, output of refined sugar from Kenya factories fell from 34,800 tons to 28,500 tons. It has already been noted that internal consumption of wheat flour rose by an unprecedented 30 per cent in the year but owing to reduced exports of flour to Uganda and Tanzania, Kenya production increased by only 2.6 per cent.

5. The tobacco industry was responsible for the slight drop recorded by beverages and tobacco. The output of cigarettes fell by 8 per cent and offset a rise in beer production of 2 per cent. It is significant to note here that both the tobacco and beer industries have been affected by restrictions imposed under the Kampala Agreement and, as already noted in Chapter 3, exports of these products to Uganda and Tanzania were cut quite sharply in 1965. The textile and clothing industry had another successful year since the imposition of higher tariffs and import restrictions in 1963, but, apart from the protection that this industry now enjoys, a number of new textile mills have been set up in the country in the last two years and production capacity substantially increased. Growth in wood, paper and printing industries was largely due to the increase in the output of packing and cardboard materials.

6. A notable rise appears to have taken place in the output of the wood carving industry. Although figures of actual production are not available, the large increase in exports of wood carvings, illustrated in the series below, is an index of its growth.

EXPORTS OF WOOD CARVINGS, 1956-65

	£
1956	28,000
1960	109,000
1961	112,000
1962	137,000
1963	157,000
1964	225,000
1965	336,000

Exports in 1965 were 49 per cent higher than in 1964 and have grown eleven-fold over the last decade. The rapid growth in the number of tourists also provides a growing market within the country for wood carvings and a variety of other "souvenir" articles, many of which are of a handicraft nature. Such production can be expected to grow further with the development of tourism.

7. The spectacular expansion in the rubber and chemicals group in the last two years has been almost entirely due to the build-up of production of petroleum products at the oil refinery in Mombasa. The aggregate index of manufacturing would have been 119 in 1965, on 113 in 1964, if petroleum production were excluded. The output of the oil refinery rose from 392.6 million imperial gallons in 1964 to 464.4 million imperial gallons in 1965 and exports of petroleum products rose 115 per cent by value, to £2.5 million in 1965. In the same industrial group, slight increases in production were realized by soda ash, calcium carbides and processed pyrethrum flowers. Soap just managed to maintain the 1964 level of production in spite of Tanzania's restriction while the output of wattle extract fell.

8. Cement, the most important single product in the non-metallic mineral products group, continued to increase and production in 1965 was 14.6 per cent up. Kenya consumption of cement increased by 17 per cent and external exports by 15 per cent. Exports to Tanzania also increased but will fall away in 1966 with the opening of a new Tanzania factory. Metal industries which had fallen back in 1964 as a result of the establishment of competitive plants in Uganda and Tanzania and less railway repair work, showed a small increase in 1965.

9. The year 1965 saw the establishment of a number of industrial and commercial firms in the country and also the implementation of a number of projects negotiated in 1964. Since independence the Kenya market has witnessed the introduction of an increasing number of new products being manufactured locally and in 1965 an even wider range of products were introduced. Businessmen are increasingly becoming more confident about the future and major projects implemented or in course of implementation in

1965 include a sugar factory at Muhoroni, involving an investment of £5 million, beginnings of the developments for another sugar factory at Chemelil, a rayon textile mill at Thika with a total investment of £3.5 million, and a textile mill at Kisumu costing £3.5 million. Side by side with these projects, a large number of the existing plants carried out expansion programmes and notable among these was the sugar mill at Miwani, the breweries and the cement factories. New local products on the Kenya market include locally manufactured nylon shirts, wood screws, aerosol sprays, socks and plastic products.

10. The restrictions imposed by Tanzania on imports of manufactured goods are a challenge to the industries affected. Their future growth depends on the resilience and adaptability they show in the face of this loss of their traditional market. Although there is undoubtedly scope for further expansion within the East African market, it is important that industries should look beyond East Africa for new outlets. The Government is doing all it can to promote trade links with new markets and several "export promotion" missions led by ministers visited a variety of countries last year. However, the ability of Kenya industries to enter new markets will be determined primarily by their efficiency against competitors. That export-based growth can be achieved by Kenya industries is admirably illustrated by the expansion of the cement industries in recent years.

11. When internal consumption of cement declined sharply in 1961, following the virtual collapse of building, the cement industry responded with commendable resilience. It has been able to not only maintain production but to expand by increasing exports, as shown in Table 29. Production between 1960 and 1965 increased by 41.8 per cent although domestic consumption declined by 47 per cent. However, exports grew rapidly over this period—substantially to Uganda and Tanzania (63 per cent) but dramatically to other countries, 363 per cent.

Table 29

CEMENT PRODUCTION AND UTILIZATION, 1960-1965

'000 TONS

	Production	Consumption	Net Transfer to Uganda and Tanzania	Domestic Exports	EXPORTS as % OF TOTAL PRODUCTION	
					All Exports	Domestic Exports
					%	/o
1960	335-8	182.1	112.4	42.4	46.1	12-6
1961	324.3	118.3	113.0	93.7	63.7	28.9
1962	338.1	123.2	111.9	103-9	63.8	30.7
1963	338.3	116.4	113.8	108.9	65.8	32.2
1964	415.4	82.7	161.3	171.4	80.1	41.3
1965	476.2	96.6	183.3	196.3	79.7	41.2

12. During the year 1965 negotiations were proceeding for the manufacture of torch batteries, paper and pulp, several types of chemicals including fertilizers, enamelware, plastics, tyres, motor-vehicle assembly, electric bulbs, pipes, agricultural equipment and other types of manufactured goods.

13. The year also saw the establishment of the Kenya National Trading Corporation which is a state trading enterprise under the auspices of the Ministry of Commerce and Industry and was designed to participate in import/export trade and engage in the distribution trade and at the same time promote African wholesalers and retailers in accordance with the declared policy of correcting the present racial imbalance in trade and commerce. It is now the sole importer and wholesale distributor of sugar and rice. The Corporation is still in the infant stages and has many teething troubles to overcome but it has already achieved much. It has helped many African wholesalers to establish themselves and, through its operations, it will reduce the number of middlemen between manufacturers and consumers and thus benefit the consumer and the economy as a whole. It will also gradually reduce the reliance on one particular country in regard to imports by spreading trading contracts widely.

14. The Industrial and Commercial Development Corporation continued to expand its operations by vigorously promoting industries with African participation. Comprehensive feasibility studies have been undertaken by the Corporation's experts and a report produced showing a three-year programme of development. Foreign countries have shown increasing regard for the Corporation and West Germany in particular produced a sizeable amount of financial and technical support to the organization during 1965.

15. Another important development was the establishment of the Industrial Training Institute at Nakuru which will train young African businessmen and industrialists so that after completion of their course they can manage competently their own small industries or business enterprises. The first batch of African students was taken in July 1965, and the results so far have been encouraging.

Building and Construction

16. A number of large building projects were completed in 1964, particularly in Nairobi, and as a result statistics of building completions showed a rise of over 100 per cent over 1963. In 1965, a large number of building projects were started but much fewer were brought to completion in that year and thus, although there was a sharp drop in the value of buildings completed, this is not a reliable indicator of the level of activity in the industry. The 1964 values of buildings completed were influenced by the inclusion of four buildings, valued together at £1.6 million, which arrived at the completion stage in that year: these included the auto silo car park and two hotels. There were no such large projects completed in 1965 although many more individual projects were started.

BUILDINGS—CAPITAL FORMATION AT MARKET PRICES 1956-1965

Table 30 *£ million*

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Public ..	5.57	5.36	4.26	4.40	5.33	5.68	3.90	2.76	2.06	2.56
Private	12.61	10.49	9.90	9.90	7.90	3.20	2-81	2.67	5.00	3.68
TOTAL	18.17	15.85	14.17	14.30	13.22	8.88	6.71	5.43	7.06	6.24

17. Ostensibly, on the basis of these figures, the building industry had another setback in 1965 but in fact the value of work actually undertaken by the industry was probably much the same as in 1964 and possibly slightly higher. In a sense, this performance was still disappointing and a more definite up turn of the industry had been expected. Employment in the industry was, however, higher in 1965 and was rising further by the end of the year, so much so that by early 1966 some building artisans were in short supply. Shortages of skilled manpower could slow down the growth of the industry in the coming year but otherwise the expansion is likely to be rapid, and, for the first time for some years, there is now a revival of interest in new private residential building in Nairobi as a reaction to steeply rising house rents.

REPORTED COMPLETION OF NEW PRIVATE BUILDINGS IN MAIN TOWNS 1959-1965

Table 31

	NUMBER		ESTIMATED COST (£ MILLION)		
	Residential	Non-Residential	Residential	Non-Residential	Total
1959	676	200	3.80	3.87	7.67
1960	562	154	3.29	2.34	5.63
1961	123	93	0.80	1.64	2.44
1962	57	100	0.33	1.48	1.81
1963	86	102	0.41	0.87	1.27
1964	98	98	0.48	2.25	2.73
1965	43	74	0.26	1.10	1.36

18. The value of all building work including extensions completed in the main towns was higher than in 1963, and not far short of the 1962 level. While Mombasa saw a decline, Thika stood out with the completion of the nylon textile mill there. Nairobi still dominates the building scene and some of the bigger non-residential buildings completed during 1965 were the Etco House, the Commonwealth House, the Crown Cork building and the Colgate Palmolive factory. Work is progressing rapidly on the new Industrial Promotion Services building and a new cinema.

19. While private expenditure scheduled for non-residential buildings would seem to be rising with such projects as the Israeli wooden box factory, and a

VALUE OF ALL BUILDINGS WORK COMPLETED IN MAIN TOWN, 1960-1965

Table 32 *£ million*

Year	Nairobi	Mombasa	Nakuru	Kisumu	Kitale	Eldoret	Thika	Total
1960	4.97	0.61	0.18	0.17	0.01	0.13	-	6.08
1961	2.24	0.50	0.05	0.07	0.01	002	-	2.88
1962	1.66	0.47	0.02	0.07	0.01	0.06	-	2.28
1963	1.09	0.42	0.04	0.07		001		1.63
1964	2.95	0.32	0.02	0.05	0.01		0.04	3.40
1965	1.43	0.16	0.02	0.04	0.01	001	0.15	1.82

fertilizer mixing factory at Nakuru, two blanket factories at Mombasa, and others regularly listed in the Quarterly Economic Review, residential building is only now starting to pick-up. The virtual cessation of residential building in the towns over the last four years combined with the steady rise in urban populations, including, as far as Nairobi is concerned, the influx of diplomatic missions since Independence, has caused a shortage of housing and a consequent steep rise in rents.

20. It has already been noted in Chapter I that although the building societies are still very short of funds, there has been some easing of the shortage of mortgage finance, particularly for new building, and this should be reflected in increase and house building fairly quickly, although it takes some months to complete arrangements for building, taking into account the need to buy land, draw up plans and have them approved by the local authority concerned. Public sector building plans approved by Nairobi City Council in 1965 involve an expenditure of £367,000, being the highest over the past five years. The two most important of these plans are the tenant purchase housing scheme at Bahati, and staff housing for the East African Posts and Telecommunications.

21. Among the non-residential plans approved for the Government are a Science Teachers College to be built with Swedish assistance, extensions to the Kenya Polytechnic, the construction of a new fourteen-storey head-quarters building for the Ministry of Works and the addition of a tenth storey being to Jogoo House. These buildings account for construction worth £1.4 million.

CONSTRUCTION AND OTHER WORKS 1956-1965

Table 33 *£ million*

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Public ..	5.64	8.57	6 91	7.04	6.82	6.72	6.71	5.21	4.53	6.69
Private	2.10	2.90	3.24	3.20	3.09	2.49	5.12	3.63	3.73	3.87
TOTAL	7.74	11.47	10.15	10.24	9.91	8.21	11.83	8.84	8.26	10.56

PRIVATE AND GOVERNMENT BUILDING PLANS APPROVED BY THE NAIROBI CITY COUNCIL, 1961-66

Table 34

	NUMBER OF PLANS						ESTIMATED COST £'000					
	PRIVATE			GOVERNMENT			PRIVATE			GOVERNMENT		
	Residential	Non-Residential	Total	Residential	Non-Residential	Total	Residential	Non-Residential	Total	Residential	Non-Residential	Total
1961..	311	379	690	12	44	56	306	1,689	1,997	111	282	393
1962..	386	312	698	9	29	38	184	1,208	1,392	263	358	621
1963	357	328	685	14	25	39	465	1,381	1,846	316	84	400
1964	321	367	688	11	32	43	542	1,397	1,939	37	518	556
1965	266	420	686	10	32	42	504	1,599	2,103	367	1,203	1,570
1966—												
1st Quarter	99	109	'208	5	8	13	235	324	558	6	126	132

There was a rise in Government expenditures on road works, £1,850,000 being included in capital formation in 1965. Construction work on irrigation schemes and land consolidation also increased. Toward the end of the year, Nairobi City Council initiated work on a two-year £1 million project to raise the level of Sasuma dam from which the city draws its water supply. In the private sector, the £6 million Kindaruma hydro-electric scheme was inaugurated but, apart from the access road costing £500,000 (which is included in the public sector), expenditure in 1965 was confined to £225,000. The construction of electric power lines from Kisumu to Kakamega and from Sagana to Embu was undertaken in 1965. Except for 1962, when work on the Mombasa oil refinery was at a peak, construction activity in 1965 was higher than in any other year since 1957 and there was a rise in construction expenditures over 1964 of 29 per cent.

CHAPTER 5—TOURISM

The number of visitors to Kenya during 1965, set out in Table 35, showed a 24 per cent rise over the previous year which was the highest rate of increase achieved over the past ten years, while the total of 81,448 visitors was nearly double that of 1961. Since 1961 the average annual rate of growth in the number of visitors has been 18 per cent. Although individual years may fall short of the target rate of 15 per cent set out in the Development Plan, an overall growth rate of 3 per cent in excess of this has been maintained in the last four years. With an estimated income of £10.8 million, tourism is second only to coffee as an earner of foreign exchange.

VISITORS AND PERSONS IN TRANSIT, BY CONTINENT OF DEPARTURE 1956-1965

Table 35 *Numbers*

Continent	1956	1957	1958	1959	1960	1960	1961	1962	1964	1965
Africa	13,501	13,656	14,904	18,102	19,194	22,411	25,830	24,872	23,470	32,680
America	438	464	564	594	549	603	788	6,639	9,289	4,674
Asia	10,519	11,610	11,856	12,485	4,915	5,952	7,698	9,908	9,179	15,670
Europe	12,039	12,210	12,997	13,470	11,038	13,016	15,430	19,440	22,857	27,556
Other	119	176	177	278	104	53	174	493	637	868
TOTAL ..	36,616	38,116	40,498	44,929	35,800	42,035	49,920	61,352	65,432	81,448

2. The main reason for the very large increase in the number of visitors between 1964 and 1965 would seem to be that by 1965, the initial period of anxiety that might have been experienced overseas following independence in 1963 was over and political stability, together with the active encouragement of tourism by the Government, was reflected in the visitor statistics. The growth of package tours was also having a significant effect on the statistics by 1965.

3. The proportion of visitors "in transit" declined from 48 per cent of the total in 1964 to 43 per cent in 1965, while that of all other visitors increased correspondingly from 53 per cent to 58 per cent. This is a desirable change as,

in terms of aggregate revenue, the contribution of the persons "in transit" is less significant than that of the visitors of other categories, whose duration of stay in the country is much longer. Nonetheless, from the point of view of tourist expenditure within a given period of time, even in-transit visitors appear to be not insignificent spenders and are therefore of considerable tourist benefit to the country. In 1965, the number of visitors on holiday or on business showed a remarkable rise of 35 per cent over 1964. However, as a part of this rise was due to the increasing number of package tours staying between eight and fourteen days and whose earning capacity is less, revenue from tourism is unlikely to have increased to the same extent. Although package tours attract more tourists, they create problems of accommodation and care will be needed to ensure that sufficient facilities are provided to cater for both package tours and also other types of visitors who may stay longer and therefore spend more money in the country.

VISITORS TO KENYA BY NATIONALITY, 1964 AND 1965

Table 36

COUNTRY OF NATIONALITY	VISITORS ON HOLIDAY			ALL VISITORS		
	1964	1965	% + or —	1964	1965	% + or —
	No.	*No.*	%	*No.*	*No.*	%
EUROPE—						
United Kingdom	5,654	11,358	+ 100.9	16,496	26,416	+60.1
Germany	1,470	2,429	+65.2	3,042	4,226	+-38.9
Italy	1,000	1,626	+62.6	2,753	3,348	+21.6
Belgium, France and Netherlands	1,319	1,677	+27.1	3,339	4,449	+33.2
Other	2,045	3,567	+74.4	4,568	6,384	+39.8
TOTAL ..	11,488	20,657	+79.8	30,198	44,823	+48.4
UNITED STATES OF AMERICA ..	6,328	6,867	+8.5	12,815	13,512	+5.4
ASIA—						
India	1,151	1,263	+9.7	4,542	4,296	-5.4
Pakistan	178	182	+2.2	503	512	+ 1.8
Other	512	669	+30.7	3,426	3,878	+ 13.2
TOTAL ..	1,841	2,114	+ 14.8	8,471	8,686	+2.5
AFRICA—						
South Africa	508	518	+2.0	2,944	3,606	+22.5
Rhodesia	586	302	-48.5	2,194	1,491	-32.0
Other	847	771	-9.0	6,467	6,126	-5.3
TOTAL ..	1,941	1,591	-18.0	11,605	11,223	-3.3
ALL OTHER COUNTRIES	765	1,122	+46.7	2,343	3,204	+36.7
TOTAL ALL VISITORS	22,363	32,351	+44.7	65,432	81,448	+24.5

4. It will be noticed from Table 35 that there was a sharp reduction of 50 per cent in the number of visitors arriving from America in 1965. This is surprising and perhaps a matter of some concern for the Kenya tourist industry but it should also be noted that the substantial increase in visitors arriving from African countries includes visitors of many nationalities other than African. Indeed, it would seem that Kenya is becoming an important tourist centre for "expatriate personnel" working in Africa. Thus, although there was a reduction in the number of visitors arriving from America, there was a 5 per cent increase in the number of visitors of American nationality.

5. A similar trend can be seen in British visitors. The number of British nationals went up by over 10,000 but visitors coming from the United Kingdom increased by only 1,000. British visitors included 4,000 members of Britain's armed forces stationed in Aden and using Kenya as a leave centre. It should also be noted that the tourist statistics do not include visits by British naval personnel at Mombasa which has been increasingly used as a refuelling base by the British Navy, partly because of the excellent shore leave facilities there. Expenditure by British naval personnel in and around Mombasa in 1965 is estimated to have been approximately £3 million.

6. Visitors from the continent of Europe (excluding U.K.) rose sharply in 1965, with an increase of nearly 40 per cent in German nationals, a 22 per cent rise in Italians and a 33 per cent rise from the other E.E.C. countries taken together. With the inauguration of package tours, Kenya is becoming more and more accessible to European visitors who are looking for new countries to visit for their annual holidays. The continuance of "the affluent society" in Europe should cause a further expansion in Kenya's tourist industry.

7. On the basis of its recent growth, the tourist industry would seem to be quite capable of the 15 per cent overall growth rate set out in the Development Plan, and in individual years outstripping this rate provided the conditions necessary for attracting tourists are maintained. One of the most important aspects—that of accommodation—is being given due consideration. Of the eight new game lodges planned to 1970, three of 100-bed capacity each and costing million, are scheduled for the first phase to 1967. Of the scheduled expenditure on new hotels, Nairobi claims £2.5 million while the coast claims about £1.7 million. The hotel occupancy statistics during 1965 do not indicate any serious overall shortage of accommodation and it will be seen from Table 37 that while the number of beds occupied in 1965 increased, the accommodation being made available also increased. Only Nairobi and the coastal hotels reach a 70 per cent occupancy rate during peak periods. Although game lodge accommodation would appear to be sufficient, bottlenecks at peak seasons or particular days such as week-ends are a feature. While these overall figures provide no cause for concern, shortages seem to be felt in certain classes of accommodation.

NUMBER OF HOTEL BEDS AVAILABLE AND BEDS OCCUPIED—MONTHLY AVERAGES
1964-1965

Table 37 *'000 Bed Nights*

Year/Quarter/Month	TYPE OF HOTEL									Total Beds Occupied
	Nairobi International*			Game Lodges			Other			
	Beds Available	Beds Occupied		Beds Available	Beds Occupied		Beds Available	Beds Occupied		
		Foreign Visitors	E.A. Residents		Foreign Visitors	E.A. Residents		Foreign Visitors	E.A. Residents	
1964—(Apr-Dec.) ..	27.5	14.6	4.5	6.9	1.4	1.3	127.7	9.5	46.4	78.0
1965	32.4	16.2	4.4	11.4	2.7	1.6	133.2	13.7	44.6	83.2
1964—										
2nd Qr	27.5	12.9	4.6	3.9	0.7	0.7	122.3	6.9	41.9	67.8
3rd Qr	27.5	16.5	4.4	6.3	1.5	1.6	130.7	11.3	50.5	85.7
4th Qr.	27.3	15.3	4.6	10.4	2.1	1.6	130.2	10.2	46.7	80.5
1965—										
1st Qr	32.0	17.9	3.9	11.3	3.7	1.5	130.0	16.6	44.5	88.1
2nd Qr	32.3	13.5	4.4	11.9	1.5	1.3	131.3	8.6	40.7	70.0
3rd Qr.	32.7	16.6	4.4	10.7	3.1	2.0	135.6	15.5	46.0	87.6
4th Qr.	32.5	16.9	4.7	11.7	2.7	1.5	135.7	14.1	47.0	87.0
1966—										
January	33.0	19.3	4.1	12.8	5.6	1.6	136.2	26.4	52.4	109.4

"Nairobi International" hotels are defined as those for which over 50 per cent of the beds filled are occupied by foreign visitors.

8. Two new hotels were opened in Nairobi in 1964 and construction of two new large ones should commence in late 1966. Other tourist facilities have been improved. The standard of the Nairobi/Mombasa road has been raised and a new road to join the Tsavo National Park West with Amboselli National Parks is under construction. The road to Keekorok Lodge is also being improved. A Tourist Development Corporation has been set up and as this Corporation gets under way, the tourist industry should benefit from its official support and planning.

CHAPTER 6—TRANSPORT, COMMUNICATIONS AND ELECTRICITY

Railways and Harbours

The year 1965 was marked by transport difficulties which were the culmination of the 33 per cent expansion of freight handled by the port of Mombasa over the period 1963-1965. In spite of the fact that there was a substantial increase in imports, including bulk imports such as maize and sugar, coming through the port, the expansion of freight handled in 1965 was in fact less than in 1964 but it was sufficient to create a serious congestion of goods in the port and in consequence serious delays in the turn round of ships at the

port. The expansion of freight over the last five years can be seen from the following series: —

FREIGHT HANDLED AT MOMBASA, 1961-1965

Table 38 *'000 tons*

	Landed	Loaded	Total
1961 ..	1,752	1,032	2,784
1962	1,820	1,156	2,976
1963	1,969	1,302	3,271
1964 ..	2,415	1,645	4,060
1965 ..	2,635	1,701	4,345

2. The increase in the volume of bulk commodities requiring movement found the East African Railways and Harbours short of rolling stock which exaggerated the situation further. In order to overcome the problem pending the arrival of new rolling stock in the second half of 1966, the East African Railways and Harbours organized a fleet of privately-owned lorries in March 1966 and planned to move up to 10,000 tons of freight a month out of the port and up-country by road transport.

3. A notable expansion of physical facilities in railways and harbours took place in lake transport. Assembly of a new ferry to transport trains across Lake Nyanza, between the terminal ports at Kisumu, Port Bell and Mwanza, was completed in 1965. A second similar ferry is to be launched this year. This development will help to rationalize and improve co-ordination between rail and water transport.

4. The number of passengers passing through Mombasa port declined by about 10,000 due to a fall in the number of people leaving for Asia. Such persons normally constitute two-thirds of the number using the port. The total number of people leaving East Africa for Asia by sea fell from 30,000 in 1964 to 23,000 in 1965 while the number of people arriving into East Africa from Asia by sea went up from 13,000 to 19,000. Inland passengers carried by East African Railways and Harbours also showed a slight decline of 1 per cent in favour of road or air transport.

Road Transport

5. Road transport expanded rapidly during 1965. New motor-vehicle registrations shown in Table 39 were 11,049 compared with 9,601 in 1964—a rise of 15 per cent, and the highest number of registrations for the past ten years. Commercial vehicles showed a smaller increase of 15 per cent but passenger car registrations increased by 24 per cent. A large part of this increase occurred in the two months prior to the budget. The number of passenger cars imported in 1965 was 5,760, 29 per cent higher than in the previous year, and the highest since the record level of 1960, while imports of commercial vehicles increased proportionately slightly more with an increase of 31 per cent.

Table 39 NEW MOTOR VEHICLE REGISTRATIONS, 1960-1965

	1960	1961	1962	1963	1964	1965
Motor cars	5,007	3,653	4,305	4,466	4,058	5,031
Utilities	2,914	2,118	2,422	2,542	2,974	3,402
Lorries	857	714	618	799	658	785
Buses	243	186	206	289	281	252
Motor cycles	1,151	634	536	602	650	729
Other	740	452	557	753	980	850
TOTAL	10,912	7,757	8,644	9,451	9,601	11,049

6. Petrol consumption declined slightly over 1964 by 22,000 imperial gallons. This was possibly due to the increase in the number of smaller vehicles, for the share of passenger cars of less than 2,000 c.c. in the 1965 new registrations increased from 87 per cent in 1964 to 89 per cent. Registrations of larger vehicles can be expected to decline further with the new rate of import duty of 40 per cent on passenger vehicles of more than 1,800 c.c., and 50 per cent on those more than 2,300 c.c. Petrol consumption has, in fact, increased by only 4 per cent since 1960 in spite of a rise of 10 per cent in vehicles on the road in Kenya over the same period.

7. Further development of roads to cope with the increasing traffic and the needs of economic development continues at an accelerated pace. The value of capital works on roads in 1965/66 is expected to be £2.4 million compared with only £0.6 million in 1964/65. The projects being undertaken can be classified into two broad categories—(1) improvement of existing roads by bitumenization, higher standards of gravel, realignment and construction of new or improved bridges and (2) the construction of new roads, particularly of roads associated with tea and sugar development. Details of individual projects are set out in Chapter 11.

Air Traffic

8. The number of passengers handled at Nairobi Airport increased from 485.500 in 1964 to 555,100 in 1965, which is to be expected with a 24 per cent rise in visitors to Kenya during 1965. Freight carried by air also increased by 8 per cent. With the inauguration of the new direct flight by Pan-American Airways to America this year, air freight destined for West Africa is also expected to increase. However, the share of East African Airways in total traffic declined. Passengers carried by it went up by only 2.4 per cent compared with the increase of 14.3 per cent for all airlines taken together and freight moved by East African Airways actually declined by 6.4 per cent as against an increase of 7.9 per cent for all airlines.

COMMERCIAL AIR TRAFFIC AT NAIROBI AIRPORT

Table 40

	1961	1962	1963	1964	1965
PASSENGERS—'000—					
Landed	102.2	117.7	136.2	153.9	166.8
Embarked	111.4	122.0	140.9	169.0	175.5
In-Transit	88.8	98.9	89.4	81.3	106.4
TOTAL	391.0	437.5	456.0	485.5	555.1
FREIGHT—tons—					
Landed	2,148	2,225	2,456	2,942	3,114
Loaded	3,727	3,971	4,489	5,265	5,739
TOTAL	5,875	6,196	6.945	8,207	8,853

Electricity Generation and Consumption

9. Production, imports and consumption of electricity are shown in Table 41. The increase of 2 per cent in electricity consumption in 1965 was consistent with the modest growth of the economy during the year. Of the total supplies of electricity available, the proportion generated domestically remained at the same level as in 1964. Imports of electricity from Tanzania, declining in recent years, ceased altogether in 1965 and all imports now originate in Uganda.

PRODUCTION, IMPORTS AND CONSUMPTION OF ELECTRICITY, 1962-1965

Table 41 *'000 kwt.*

	1962	1963	1964	1965
Domestically generated	239,498	263,340	323,170	327,503
Imported	208,701	204,999	183,286	190,484
Total available	447,599	468,339	506,456	517,987
Power station use and transmission losses	74,102	74,952	80,780	83,969
Net sales	373,497	393,387	425,676	434,018

10. The only significant change in 1965 in the pattern of electricity consumption, shown in Table 42, was the 11 per cent decline in sales to large and commercial consumers. It should, however, be noted that sales under "special contracts" increased, by 37 per cent. This suggests that large and commercial consumers are now acquiring more of their energy requirements under special contracts and have, in fact, slightly increased their total consumption.

SALES OF ELECTRICITY BY TYPE OF USER, 1962-1965

Table 42 *'000 kwt.*

	1962	1963	1964	1965
Domestic	86,283	89,053	89,679	87,395
Off-peak Water heating and pumping ..	70,631	71,551	70,736	73,814
Small power supplies	23,641	22,320	20,395	20,701
Large power supplies	85,439	89,899	94,828	81,296
Commercial	56,100	61,922	67,999	63,698
Lighting (small consumers)	4,944	5,048	5,369	5,633
Street lighting	7,538	7,930	8,301	8,438
Special contracts	36,909	43,520	66,137	90,628
Staff quarters	2,012	2,144	2,232	2,415
TOTAL	373,497	393,387	425,676	434,018

CHAPTER 7—EMPLOYMENT, EARNINGS AND PRICES

Employment

Although the principal measure of the rate of economic growth is the rate of change of the total value of goods and services produced domestically, the measure known as gross domestic product, development goals in respect of other standards such as the distribution of incomes and the level of employment are also legitimate objectives of development policy. By themselves all of these methods of assessing development are in some ways unsatisfactory which is why it is valuable to examine the economy from a number of aspects simultaneously.

2. The principal difficulty in using changes in the number of persons fully employer as a standard of judgement is, firstly, the problem of definition of "fully employed" and, secondly, a problem of statistical coverage. In a country such as Kenya it is quite insufficient to consider merely the number of persons in wage employment, important though this is, for there are more than twice as many people who obtain their living as self-employed farmers, tradesmen, artisans, etc., as there are people working for others for a regular wage. Whether such people are or are not fully employed is extremely difficult to define and even more difficult to count statistically. There has been no complete census of farms taken in Kenya but it is estimated that there are approximately one million of them and if they were all worked to their maximum potential, they would require the full time labour of the landowners and their families and more. It is clear that many, if not most, farms are not yet producing their full potential and as a result many people might be regarded as under-employed in the sense that they do not work a full day's labour regularly five or six days a week.

3. It is not yet possible to count all of the self-employed or family workers throughout the country and it is, therefore, necessary to fall back on to consideration of numbers in wage employment, even though these represent

only approximately one-third of the active labour force. But the creation of wage paid jobs is an important sphere of the Development Plan and the achievement of the targets set out in the Plan will be among the most difficult of all. Although an increase in the level of investment usually induces a growth in the numbers in employment, this growth may be high or low. One of the most important factors affecting the growth of employment opportunities will be the level of wages in relation to productivity. It is not often realized that the cost of labour is itself a major determinant of the level of employment. The consequences of this relationship and its ramifications are examined more fully later in this chapter.

4. Statistics of numbers employed are obtained from the Annual Enumeration of Employees. The limitations of this survey have been discussed in previous reports and in particular in the Economic Surveys of 1964 and 1965. The annual enumeration has not, unfortunately, succeeded in covering all employees, particularly casual employees on small farms. Furthermore, there have been variations in the coverage of the survey which, while not entirely invalidating year to year comparisons, do require that they are made with some caution. In order to overcome this difficulty, employment totals set out in Table 43, are also shown in Table 44 as indices of employment which can be regarded as providing a basis of valid comparisons over time.

NUMBERS REPORTED IN PAID EMPLOYMENT, 1960-1965

Table 43 *'000s*

	1960	1961	1962	1963	1964	1965
AGRICULTURE AND FORESTRY—						
African	269.1	249.8	243.5	217.6	207.7	207.6
Asian	0.8	0.6	0.6	0.7	0.7	0.7
European	1.9	1.6	1.4	1.3	1.2	1.1
	271.8	252.0	245.5	219.7	209.6	209.5
PRIVATE INDUSTRY AND COMMERCE—						
African	151.1	134.1	133.2	121.8	168.2	169.6
Asian	25.6	25.0	23.6	24.3	28.0	27.4
European	12.3	11.7	10.6	10.2	10-1	9.5
	189.0	170.8	167.3	156.4	206.3	206.5
PUBLIC SERVICE—						
African	140.7	145.9	147.2	139.5	160.9	165.8
Asian	11.8	12.2	12.0	11.7	8.1	7.8
European	8.9	8.9	7.8	6 1	4.7	4.5
	161.4	167.0	167.0	157.3	173.7	178.0
ALL EMPLOYMENT—						
African	560.9	529.8	523.9	478.9	536.9	542.8
Asian	38.2	37.8	36.1	36.7	36.7	35.9
European	23.1	22.2	19.8	17.7	16.0	15-0
	622.2	589.8	579.8	533.3	589.6	594.0

The double rule between 1963 and 1964 indicates a break in the series caused by a marked improvement in coverage of private industry and commerce when approximately 42,200 employees were added to this sector as a result of a survey of establishments in rural areas. For additional details *see* page 46 of the Economic Survey, 1965.

NUMBERS IN PAID EMPLOYMENT, 1960-1965
(1964 = 100)

Table 44

	1960	1961	1962	1963	1964	1965
Agriculture	130.5	121.0	117.9	105.5	100.0	100.6
Private Industry and Commerce	114.3	103.3	101.2	94.6	100.0	99.4
Public Service	92.9	96.1	96.1	90.6	100.0	102.5
African	112.7	106.5	105.3	96.2	100.0	101.1
Asian	111.0	109.9	104.9	106.7	100.0	97.8
European	151.0	145.1	129.4	115.7	100.0	93.8
TOTAL EMPLOYMENT	113.7	107.8	105.9	97.4	100.0	100.7

5. The sharp fall in total employment which occurred following the peak year of 1960 was not reversed until 1964. In 1965 there was a further improvement but this was less than in the preceding year but a number of comments on the 1965 figures are required. Firstly, monetary gross domestic product rose by only 4 per cent in 1965 and even if there were no labour economies being made in the year only a small increase in job opportunities would normally be expected in these circumstances. Secondly, the enumeration of 1965 covered the period after the ending of the Tripartite Agreement under which firms voluntarily agreed to increase their labour force by 10 per cent and Government by 15 per cent. It might have been expected that the ending of the agreement would result in at least part of this additional labour in the private sector being laid off again. It is clear that taking the country as a whole this did not occur. Thirdly, the statistics of agricultural employment since 1960 cover the period v/hen not only was there a down-turn in a number of labour intensive enterprises, such as pyrethrum and tea development on estates, but also the period of the "million acre" settlement scheme. As a result of the latter, many workers lost their wage paid jobs but approximately 60,000 persons were provided with a means of livelihood either as settlers or working adult members of a settler's family. This figure of 60,000 is over and above the 15,000 persons in wage employment on the settlement schemes included in the employment statistics. The 1965 figures must be seen in the light of an increase in the numbers of self-employed and family workers on settlement schemes of approximately 20,000 compared with 1964.

6. The relative composition of the employed labour force has changed over the last five years with the numbers of Europeans employed dropping

by approximately one-third, Asians by 12 per cent and Africans by about 10 per cent. Since 1963 there has in fact been a 6 per cent rise in the numbers of African employees while the numbers of Europeans and Asians in paid jobs have continued to fall.

7. Having regard to the regular increase each year in the population of working age, the overall wage employment position even in the improved situation of the last two years cannot be regarded as satisfactory. Monetary Gross Domestic product has risen by 27 per cent since 1960 but the numbers of people able to find wage employment has dropped by approximately 11 per cent. It is clear that many establishments that employ labour have found ways of making economies in its use, presumably, in many cases, by substituting capital equipment for labour and increasing labour productivity.

8. Comment has already been made on the fall in agricultural employment since 1960 which, although affected to a certain extent by labour economies caused by a cut-back in labour intensive enterprises such as pyrethrum and maize planting and relative stagnation of plantation development, was mainly caused by the land resettlement programme displacing wage paid labour by self-employed and family workers. It must also be remembered that although it has been possible to estimate and include the numbers of wage paid employees on settlement farms, this has not been possible for small farms generally. Such surveys as have been undertaken suggest that on the average there are approximately 50.000-75.000 jobs existing on small farms which are not included in the labour statistics.

9. The reported numbers employed in private industry and commerce set out in Table 45. were much the same in 1965 as in 1964, a slight increase of 250 employees being reported. At the same time, however, there was a drop in the number of domestic employees by 1,400 but there is likely to have been some under-reporting of domestics, possibly to a rather greater extent than usually.

EMPLOYMENT IN PRIVATE INDUSTRY AND COMMERCE, 1963-1965

Table 45 *Numbers*

	1963	1964	1965
Mining and quarrying	3,110	2,294	2,287
Manufactures and repairs	40,743	59,479	63,773
Building and construction	8,619	8,814	8,961
Electric light, power services and water	2,407	2,469	2,485
Commerce	41,968	57,301	54,944
Transport and communications	16,703	18,011	19,467
Other services	42,803	57,890	54,478
TOTAL	156,353	206,258	206,495

10. The relatively rapid expansion of employment in manufacturing which has been a feature since 1963 continued in 1965 but, on the other hand, there was a reduction reported in the numbers employed in commerce which is surprising in the light of the expansion of overseas trade and the buoyancy of the non-agricultural economy. Employment in the building and construction industry moved up and had the annual enumeration been taken in the second half of the year, a much more significant change would have been recorded.

11. Public sector employment indicated in Table 46 showed the most significant increase in 1965 which is perhaps an indication that the public sector part of the Development Plan is moving off the ground more rapidly than the private sector. In 1964, public sector employment was increased by 16,000 largely as a result of the Tripartite Agreement. These employees were retained after the ending of the Agreement and there was a further increase of 4,300. On the face of it, this increase is accounted for by a rise of 4,900 in the number of persons employed by local authorities but the latter was largely due to a switch of school teachers from Central Government to Local Government as the 1963/64 reorganization of education was finalized. When this is taken into account, it can be seen that the apparent rise of 600 in the numbers employed by Central Government was, in fact, something more substantial. Taken together, Central and Local Government employment rose by 3.3 per cent between 1964 and 1965.

REPORTED EMPLOYMENT IN THE PUBLIC SECTOR, 1963-1965

Table 46 *Numbers*

	1963	1964	1965
Kenya Government	80,114	84,485	85,117
E.A. Railways and Harbours	24,124	23,338	24,289
E.A. Posts and Telecommunications Administration	4,515	4,479	4,825
E.A. Common Services Organization	3,218	3,165	3,276
Defence (civilians only)	4,617	2,470	552
Foreign Government employees	279	301	574
Local Government	40,466	55,483	59,399
TOTAL	157,333	173,721	178,032

E.A.C.S.O. services, including the East African Railways and Harbours, East African Posts and Telecommunications and the General Fund Services, provided employment for an additional 1,400 persons in 1965 following a drop in employment between 1963 and 1964.

12. There has been a fall of over 4,000 in the civilian employees working for defence services. This fall was caused entirely by the departure of British forces from Kenya following Indepedence. It should be noted that the

substantial build-up of Kenya's own armed forces since Indepedence is not reflected in the employment statistics as, by convention, they are not included with statistics of civilian employment.

13. There was very little change in the levels of employment in each province taken separately in 1965. Small falls in the Rift Valley, Coast and North-Eastern Provinces were offset by small increases in other provinces. The only significant change was an increase of some 10 per cent in the numbers employed in Nyanza, reflecting the new developments taking place in that province.

TOTAL NUMBER OF REPORTED EMPLOYEES, 1964 AND 1965 BY PROVINCE

Table 47 *000s*

PROVINCE	PUBLIC SERVICE		PRIVATE INDUSTRY AND COMMERCE		AGRICULTURE AND FORESTRY		TOTAL	
	1964	1965	1964	1965	1964	1965	1964	1965
Central	28.2	27-7	22.8	23.1	61.4	63.9	112.4	114.7
Nairobi	39.8	41 .4	80.9	79.7	3.4	3.3	124.1	124.4
Eastern	20.3	20.8	8.2	7.9	11.7	12-3	40.2	40.9
Nyanza	17.0	18.4	16.3	17.0	9.1	11-3	42.4	46.8
Rift Valley	36.1	36.6	32.0	30.9	108.5	106.6	176.6	174.1
Coast	20.8	20.7	41.0	42.6	12.6	10.7	74.4	74.0
Western	9.7	10.8	4.4	4.8	2.9	1.4	17.0	17 0
North Eastern	1.8	1.6	0.7	0.6			2.5	2.2
TOTAL	173.7	178.0	206.3	206.5	209.6	209.5	589.6	594.0

14. A large part of the increased employment available in 1965 was, in fact, female employment. Of the total increase of 4,400 jobs, the number of jobs filled by women increased by 4,900, those filled by men increased by 1,000 but those filled by juveniles fell by 1,400. The relatively large increase in female employment reflects an increase in job opportunities for casual workers in agriculture.

EMPLOYMENT OF MALES AND FEMALES, 1964 AND 1965

Table 48

	MALES		FEMALES		JUVENILES	
	1964	1965	1964	1965	1964	1965
Agriculture	155-2	153.6	47.3	50-2	7.2	5.7
Private industry and commerce	189.6	189.3	15.9	16-5	0.7	0/7
Public Service	159.5	162.4	14.2	15.6	—	—
TOTAL	504-3	505.3	77.4	82.3	7.9	6.5

COMPARISON OF TARGET AND ACTUAL RATES OF WAGE EMPLOYMENT GROWTH

Table 49

SECTOR	REPORTED WAGE EMPLOYMENT* 1963 = 100			ANNUAL GROWTH RATE	
	1963	1964	1965	1963-65	1966-70
Agriculture and Forestry	100	95.4	95.4	-2.3	3.0
Mining and quarrying	100	66.0	65.8	18.0	5.0
Manufacturing and repairs	100	107.6	118.4	9.0	5.0
Commerce	100	108.2	101.5	1.3	4.3
Electricity and water	100	102.1	102.7	0.7	3.3
Government services	100	113.3	115.7	7.4	5.0
Other services	100	103.9	97.8	-1.1	5.0
Building and construction	100	98.7	101.3	0.6	12.7
Transport and communications	100	100.4	106.3	3.1	2.0
TOTAL WAGE EMPLOYMENT	100	102.6	103.3	1.6	4.5

Comparable figures.

15. The revised Development Plan 1966-70 implies an annual rate of growth for wage employment of about 4.5 per cent. The actual average increase for the two years 1963-65 according to the annual enumeration was 1.6 per cent although, if the employment on the settlement schemes and the numbers of self-employed had been taken into account, it seems reasonable to suppose that the difference between the plan and the reported figures would have been smaller.

16. The main reason why the reported total of wage employment has not achieved the same high annual rate of growth as projected in the revised Plan is due to trends in agriculture, mining and quarrying and building and construction. From 1963 to 1965 there was a decline or only a small increase in wage employment in these industries, whilst the Plan indicates a significant increase. It is, however, noteworthy that for agriculture and mining and quarrying the downward trend in employment up to 1963 seems to have levelled out. For manufacturing and commerce the actual increase in employment is slightly ahead of the targets set out in the Plan. The Public Service has also been expanding at a faster rate than expected in the Plan.

Earnings

17. The total wage bill of the country moved up to a new record level in 1965—the total amount paid out in wages and salaries in the year is estimated to have been £113.7 million, an increase of £8.7 million over the wage bill of 1964. This was an increase of 8.1 per cent compared with a rise of 11.5 per cent between 1963 and 1964.

ESTIMATED ANNUAL WAGE BILL, 1960-1965

Table 50 — *£ million*

	1960	1961	1962	1963	1964	1965
AGRICULTURE AND FORESTRY—						
African	100	9.8	9.5	10-1	10 6	10.5
Asian	0.4	0.4	0.4	0.4	0.4	0.5
European	21	2.1	1.7	1.6	1.7	1.7
	12-5	12.3	11.6	12.1	12.7	12-7
PRIVATE INDUSTRY AND COMMERCE—						
African	13-9	13.9	14.6	16.1	20.9	23.4
Asian	11.7	11.5	11.4	12.5	14.8	15.7
European	14-5	14-8	14 0	14.5	15.1	15.3
	40.1	40.2	40.0	43-1	50.8	54.4
PUBLIC SERVICE—						
African	14.4	16.5	17.8	19-2	27.8	32.8
Asian	6 6	7.4	7.3	7-7	6.2	6.4
European	11-3	13.4	12.0	9.6	7.7	7.5
	32.3	37.3	37.1	36.5	41.7	46.6
ALL EMPLOYMENT—						
African	38.3	40.2	42.0	45.4	59.3	66.7
Asian	18.7	19.3	19.1	20.6	21.4	22.5
European	27.9	30.3	27.7	25.7	24.4	24.5
	84.9	89-8	88.8	91.7	105.1	113.7

The double rule between 1963 and 1964 indicates the break in coverage described in paragraph 4. In order to be able to make comparisons over time the wage bill is shown below as an index with 1964 as a base.

INDEX OF THE ESTIMATED ANNUAL WAGE BILL

Table 51 (1964 = 100)

	1960	1961	1962	1963	1964	1965
Agriculture	98.4	96.9	91.3	95.3	100.0	1000
Private Industry and Commerce	85.5	85.7	85.3	91.9	100.0	107.1
Public Service	77.5	89.4	89.0	87.5	100.0	111.7
African	67.1	70.4	73.6	79.5	100.0	112.5
Asian	91.7	94.6	93.6	101.0	100.0	105.1
European	117.2	127.3	116.4	108.0	100.0	100.4
TOTAL WAGE EMPLOYMENT	83.8	88.7	87.7	90.5	100.0	108.2

18. Average earnings per employee rose by 7 per cent in 1965, a sharper increase than the 4 per cent of the previous year, which was influenced by the large number of lower paid employees recruited under the terms of the

Tripartite Agreement. It has been usual in recent years for average wages and the total wage bill to rise at a faster rate than the rise in employment. Indeed, taking the period 1960-65 together, the level of employment has fallen by 13 per cent while the total wage bill has risen by 29 per cent. On the face of it, at least, there seems little doubt that these two phenomena are inter-connected and the rising cost of labour has caused economies to be made in its use which explains in large part why the expansion of the economy has not caused an increase in the total numbers of persons in wage employment.

19. As prosperity in the country increases, labour has a reasonable right to expect that it can share in this prosperity. On the other hand, if as a result of the fact that it is better organized through trade unions, labour is able to demand and obtain pay increases at a faster rate than the expansion of the economy as a whole, the result can only be that the shares in national income of other classes of the population are reduced which in Kenya means a reduction in the relative share of national income going to the self-employed, particularly the large number of unorganized self-employed farmers. This problem is not unique to Kenya and many countries of the world are seeking some form of incomes and prices policy but in developed countries the majority of the population are wage and salary earners and the effect of forcing up wages is passed on in the form of higher prices which need not necessarily be harmful in itself unless prices are being forced up at a rate relatively faster than that of overseas competitors. In a country heavily dependent on primary products such as Kenya, it is not possible to allow product prices to rise in this manner for prices are largely determined in overseas commodity markets over which the primary producer has little control. The effect of disproportionate increases in wages is not so much to push up prices, although this occurs to some extent, but the creation of a cost squeeze which either forces the producer to abandon that particular enterprise or causes him to produce with different combinations of capital and labour—the effect of both alternatives is to reduce employment. A study of the tables of employment and wages in this chapter shows that the wage bill of agriculture was almost the same in 1965 as in 1960 but that the number of persons finding wage employment on the farms was reduced by over 60,000. It is true that 60.000 people have been provided with a living on settlement schemes but with a rapidly expanding population it is insufficient in Kenya merely to stand still.

20. Private industry and commerce may seem to be less affected by the cost squeeze created by rising wages in agriculture and certainly the share of the total wage bill contributed by private industry and commerce has risen relatively to that of agriculture since 1960. Between 1964 and 1965 the wage bill of private industry and commerce rose by over 7 per cent while there was little change in the level of employment in the sector. But. taking the period since 1960. there has been an increase of over 25 per cent in the total wage

bill while the level of employment has fallen by 13 per cent. It is clear that economy in the use of labour in this sector has also been practised and although the people who have been able to retain their jobs are very much better off since 1960, their good fortune has been at the expense of some of their fellow workers who have lost their jobs.

21. Only in the public sector has there been an increase in the level of employment and the total wage bill. Total employment since 1960 has risen by 11 per cent while the total wage bill has risen by 44 per cent. In 1965 the total wage bill rose by 11 per cent compared with a rise in employment of 3 per cent. The increase in average earnings this implies was not due to any general salaries revisions in the year but to the effect of normal increments and promotions to higher graded posts.

22. In all sectors taken together there has been a rise in average earnings per employee of 53 per cent and a fall in employment of 13 per cent between 1960 and 1965. The African employees' share of the total wage bill has however risen from 44 per cent in 1960 to 58 per cent in 1965. The share of Asian employees has fallen from 22 per cent to 19 per cent over the same period, while that of Europeans has fallen from 34 per cent to 23 per cent. In 1965, the total wage bill of African employees rose by 12 per cent, Asians' 5 per cent but that of Europeans changed little.

PERCENTAGE DISTRIBUTION OF WAGES, 1964 AND 1965

Table 52

SHILLINGS	AFRICAN MALES IN AGRICULTURE		ALL AFRICAN MALES		ALL EMPLOYEES	
	1964	1965	1964	1965	1964	1965
Under 99	76-9	73.8	40.7	35.6	39.1	34.1
100-149	17.2	190	18-7	14-5	16.5	13 0
150-199	3.2	4 0	134	17.1	11.6	14 9
200-299	1.7	2.0	14.4	15-7	12-8	13-9
300-399	0-5	0.5	6 1	8.0	5.9	7.6
400-499	0.2	0.3	2.3	3.3	2.5	3.4
500-599	0 1	0.1	1.2	1.6	1.7	2.1
600-799	0 1	0 1	1.3	1.6	2.3	2.5
800-999		0 1	0.6	0.9	1.7	1.9
1,000-1,199			0.5	0.6	1.5	1.6
1,200-1,499			0.3	0.5	1.4	1.5
1,500-1,999			0.2	0.3	1.1	1.3
2,000-2,999	0.1	0.1	0 1	0.1	1.0	1.1
3,000-3,999				0.1	0.5	0.6
4,000-4,999			0.1	0.1	0.2	0.3
5,000 and over ..	-	-	J		0.2	0.2
TOTAL	1000	1000	1000	100.0	100.0	100.0

23. The distribution of wages in Kenya has been changing rapidly as a result of the policy of Africanization of the economy and the general trend of rising wages. Thus, in 1964, nearly 60 per cent of all African employees

received a wage of under Sh. 150 per month but by 1965 this percentage had been reduced to 50. At the other end of the scale 3.1 per cent of African employees received more than Sh. 600 per month in 1964 and by 1965 this percentage had moved up to 4.2 per cent.

Prices

24. The stability of consumer prices which had been a feature in the Kenya economy for some years was disturbed quite significantly in 1965. Food shortages consequent on the low agricultural harvests caused prices to rise, particularly the consumer price of maize meal which was forced up in spite of maximum price legislation. As a result, low income workers who spend a relatively high proportion of their income on food were hit fairly severely in 1965. To some extent, the low and middle income cost of living indices were also affected by price increases following the end of price control over essential commodities introduced as part of the Tripartite Agreement and by higher indirect taxes introduced within the budget of 1965.

25. It is also quite clear that prices rose further than they need have done in 1965 as a result of traders taking advantage of the position of shortage. In particular, a black market developed in maize and maize meal during periods when these commodities were particularly short and, in the latter half of the year, the price of maize meal was pushed up well above the statutory maximum level. Although the maize shortage no longer provides a problem in the towns, consumers are still being overcharged quite frequently. The ending of the food shortage by the end of 1965 led to prices ceasing to rise and there has been no increase in the principal consumer price indices since January. On the other hand, there has been little evidence so far of prices falling back to their earlier levels.

26. Two separate price indices are now being maintained for measuring changes in consumer prices in this country—the Nairobi Wage Earners' Index, based on the expenditure and consumption pattern of Africans with a monthly income of less than Sh. 350 or £210 per annum, and the Nairobi Middle Income Index of Consumer Prices, based on a family budget survey of African middle class residents of Nairobi with annual income varying from £200 to £750.

27. The movement of the two indices over the period 1964-1966 can be summarized as follows: —

Table 53 RELATIVE CHANGE OF CONSUMER PRICE INDICES, 1964 TO APRIL 1966

	December 1964	July 1965	December 1965	April 1966
(i) Low Income Index (Nairobi Wage Earners' Index)	1000	104.6	106.6	108.8
(ii) Middle Income Index (Nairobi)	100.0	100 0	101.0	104.0

28. Between the period December 1964 and March 1966, the Wage Earners' Index rose by nearly 9 per cent, a rise almost double compared with the rise in the Middle Income Index. This difference was mainly due to the greater weight of maize meal in the Wage Earners' Index compared with the other.

29. The Nairobi Wage Earners' Index (Base: July 1964 = 100) rose by eight points between December 1964 and January 1966, but has since remained steady at 109 in the first four months of 1966. The Food group, which accounts for two-thirds of the wage earners' household budget, showed a steep rise mainly due to the maize shortage and increases in the prices of cheaper grade meat. A 10 per cent increase in the excise duty on tobacco and cigarettes was reflected in a 5 per cent increase in the group index for beverages and tobacco in April 1965. On the other hand, out-patients attendance at public clinics was made free in July 1965. This caused a steep fall in the group index for Personal Care and Health and had the effect of an overall decrease in the index of two full points. The "household operation" group has been affected mainly by fluctuations in the price of soap.

NAIROBI WAGE EARNERS' INDEX OF CONSUMER PRICES

Table 54 *(Base: July 1964=100)*

Year/Month	GROUP									
	Food	Beverages and Tobacco	Clothing and Footwear	Fuel and Light	Household Operation	Personal Care and Health	Recreation and Entertainment	Transport	Miscellaneous	All Groups
1964—										
August	99	100	100	100	100	100	100	100	100	1000
October	99	100	99	100	103	100	100	100	100	100 0
December	100	100	100	100	105	100	100	100	100	100 6
1965—										
February	105	100	102	100	100	100	100	100	100	103 8
April	104	105	103	100	105	100	100	100	100	103-8
June	108	105	103	100	105	100	100	100	100	106-1
August	111	106	104	100	109	35	100	100	100	105-1
October	111	106	103	100	109	35	100	100	100	105 2
December	114	106	103	100	115	35	100	100	100	107-2
1966—										
January	117	106	103	100	115	35	100	100	100	109 0
February	117	106	104	100	111	35	100	100	100	109-3
March	117	106	103	100	112	35	100	100	100	109 4
April	117	107	105	100	113	35	100	100	100	109-2

30. The Middle Income Index of Consumer Prices (Base: July 1964 = 100) rose by three points from 101 to 104 between December 1964 and January 1966. The effects of increases in food prices, particularly those of sifted maize meal and high grade meat, were to a very large extent counterbalanced by a steep decline in the cost of Personal Care and Health due to attendance in clinics being made free for out-patients since.

NAIROBI MIDDLE INCOME INDEX OF CONSUMER PRICES
(Base: July 1964=100)

Table 55

YEAR/ MONTH	GROUP										
	Food	Beverages and Tobacco	Clothing and Footwear	Fuel, Light and Water	Household Operation	Furniture and Utensils	Personal Care and Health	Recreation and Entertainment	Transport and Travel	Miscellaneous	All Groups
1964—											
Aug.	99	100	100	100	100	100	100	100	100	100	101
Oct. ..	100	100	100	100	100	100	100	100	100	100	101
Dec. ..	100	100	100	100	100	100	100	100	100	100	101
1965—											
Feb. ..	102	100	102	100	99	100	100	100	103	100	102
Apr. ..	101	103	102	100	99	100	100	100	103	100	102
June ..	105	105	102	100	101	100	101	100	103	100	103
Aug. ..	105	105	102	100	101	100	48	100	103	99	101
Oct. ..	106	105	102	100	101	100	48	100	104	99	101
Dec. ..	108	105	102	100	101	100	48	100	104	99	102
1966—											
Jan. ..	113	105	102	100	101	100	48	100	105	99	104
Feb. ..	112	105	102	100	101	100	48	100	105	99	104
Mar. ..	112	105	104	100	101	103	48	100	105	98	105
Apr. ..	112	105	104	100	101	103	48	100	105	98	104

CHAPTER 8—PUBLIC FINANCE

Financial operations of the Kenya Government play an important role in the economy of the country. In this chapter, the course of Central Government revenue and expenditure is analysed to assess this contribution as a background to the 1966/67 financial budget to be presented to Parliament.

2. As explained in previous issues of the Economic Survey, the totals of revenue and expenditure as set out in this chapter differ from the totals shown in the Government Appropriation Accounts and in the published estimates of expenditure and revenue. The principle reasons for these differences are: —

(a) the division of the Budget into Recurrent and Development Accounts causes transfers of various expenditure items from one account to the other. The figures included in this chapter eliminate any resultant double counting in the Appropriation Accounts;

(b) both revenue and expenditure are given here gross of, collection costs for income tax, and customs and excise taxes, and Appropriations-in-Aid (in the main, fees collected by departments and appropriated with parliamentary approval to their own use) instead of net as voted in the Budget;

(c) all Regional expenditure incurred in 1963/64, and 1964/65 before the constitution was amended, has been included in the Central Government expenditure so as to maintain comparability over time;

(d) all expenditure undertaken through the Overseas Service Aid Scheme for British expatriate civil servants, and also the expenditure under consolidated fund services has been included with the Central Government figures, to give a complete picture of the Budget. That part of the expenditure financed by grants from the British Government under O.S.A.S. is however set out separately in Table 59 and can be subtracted from total expenditure if desired.

3. The expenditure and revenue of the last ten complete financial years including the estimates for the current financial year, are shown in Table 56. The net out-turn for the financial year 1964/65 showed a surplus of £2.5 million whereas a net deficit of almost £7.5 million is forecast for the current year 1965/66. However, 1965/66 figures should be treated as provisional estimates only, and they reflect the appraisal of Government accounting as at the end of April 1966. It is rather difficult at this stage to forecast the actual out-turn of the total revenue, on the recurrent and development accounts—both of which could be subject to significant variations by the end of the financial year. The final out-turn, therefore, at the end of June may result in a reduced deficit which, at this stage, cannot be predetermined more precisely. It is not unlikely that the actual deficit in 1965/66 may turn out to be considerably less at about £4-£5 million. On the basis of figures as they stand now, total expenditure showed an increase of nearly 4 per cent between 1963/64 and 1964/65, but an estimated increase of over 12 per cent between 1964/65 and 1965/66 is expected.

OUT-TURN OF CENTRAL GOVERNMENT EXPENDITURE AND REVENUE
1956/57-1965/66

Table 56 *£ million*

	REVENUE			EXPENDITURE			Surplus or Deficit
	Recurrent	Development	Total	Recurrent	Development	Total	
1956/57 ..	36.69	4.75	41.43	38.00	8.27	46.26	-4.83
1957/58 ..	37.98	5.52	43.50	38.47	5.98	44.45	-0.94
1958/59 ..	38.27	6.15	44.42	38.09	8.02	46.11	-1.69
1959/60 ..	38.51	7.57	46.08	38.25	8.11	46.36	-0.28
1960/61 ..	41.36	9.18	50-54	43.27	7.68	50.94	-0.40
1961/62 ..	44.41	9.26	53.67	45.22	7.16	52.37	+1.29
1962/63 ..	46.82	11.40	58.21	48.34	9.40	57.73	+0.48
1963/64 ..	55.57	13.26	68.83	54.04	14.08	68.13	+0.70
1964/65 ..	57.34	15.83	73.17	56.92	13.76	70.68	+2.49
1965/66 Est.	59.90	11.99	71.89	64.23	15.19	79.42	-7.53

4. Over the last ten years, total Central Government expenditure has risen by 70 per cent compared with a rise of 53 per cent in monetary gross domestic product. It will be noted that the Development Account has risen at a proportionately faster rate, particularly over the last three years and although some difficulties have been experienced in getting planned development projects implemented, the pace of development expenditure has accelerated, particularly in the light of the fact that expenditure on land resettlement in the Development Account has tailed off in 1965 /66. This is discussed in more detail below.

5. The impact of Government on the economy can be seen from the following series relating recurrent, development and total expenditures to monetary gross domestic product.

PROPORTION OF CENTRAL GOVERNMENT EXPENDITURE TO MONETARY GROSS DOMESTIC PRODUCT

Table 57 *Percentage of GDP*

	Recurrent Account	Development Account	Total Expenditure
1956/57 ..	26.2	5.7	31-9
1957/58 ..	24.9	3.9	28.8
1958/59 ..	24.5	5.2	29.6
1959/60 ..	23.6	5.0	28.7
1960/61 ..	24.7	4.4	29.1
1961/62 ..	25.6	4.0	29.6
1962/63 ..	26.7	5.2	31.9
1963/64 ..	28.1	7.3	35.4
1964/65 ..	26.7	6.5	33.2
1965/66 Est. ..	28.9	6.8	35.7

PAYMENTS UNDER OVERSEAS SERVICE AID SCHEME

Table 58 *£ million*

	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66 Estimates
Overseas Addition	496	2,002	1,825	1,456	1,571	1,333
Education Allowance ..	12	109	134	109	88	109
Pensions and Gratuities	3	33	71	262	232	259
Compensation		129	824	2,782	1,800	1,770
Passages	83	397	350	349	292	341
TOTAL	593	2,670	3,204	4,958	3,982	3,812

6. Table 59 analyses Central Government expenditures "functionally" showing, within broad categories, the cost of the different services provided by Government. After a sharp rise in 1963/64—the financial year covering the date of Independence— expenditure levelled out in 1964/65 and although a further marked increase is indicated in 1965/66, it has already been noted that the final out-turn cannot be determined accurately at this stage of the accounting year.

7. The final figures for 1963/64 and 1964/65 showed that the cost of a number of services had risen, the principal of which were: defence, as a result of the necessity to bear the cost of the Kenya armed forces previously paid for by the British Government: and administration, arising from the reorganization of Government in the post-independence period including the creation of a number of new Ministries and higher salaries to Members of Parliament.

RECURRENT AND DEVELOPMENT EXPENDITURE ON MAIN SERVICES
1961/62-1965/66

Table 59 *£ million*

	1961/62	1962/63	1963/64	1964/65	1965/66 Est.
GENERAL SERVICES—					
Administration	2.95	3.39	3.82	4.97	4.78
Law and Order	8.31	8.22	8-17	8-16	9.02
Defence	0\31	0.17	1-16	3.04	4.19
Revenue Collection and Financial Control	1.55	1.59	1-46	1.66	2-15
TOTAL	13.12	13.31	14.61	17.83	20.14
FINANCIAL OBLIGATIONS—					
Public Debt	4.15	4.66	5.21	6.36	6.46
Subscriptions to International Monetary Organizations			1.05		0.71
Pensions and Gratuities	1.83	2.59	4.41	3.86	4.09
Compensation Payments	0.26	1.65	5.59	3.60	3.43
Passages and Leave Expenses	0.89	0.82	0.95	0.66	0.72
Transfers to Local Authorities	1-53	1-53	0.92	2.47	3.35
TOTAL	8.66	11.24	18.14	16.96	18.75
ECONOMIC AND COMMUNITY SERVICES—					
Agriculture and Veterinary	6.81	10.53	13.46	12.88	11.86
Forestry	0.84	0.88	0.92	1.11	1.46
Game and National Parks	0.32	0.34	0.35	0.47	0.66
Transport	3.90	3.75	3.82	3-41	6.47
Other including Water Supplies	1.77	1.72	209	2.82	3.32
TOTAL	13.65	17.22	20.63	20.69	23.77
SOCIAL SERVICES—					
Education*	8.25	7.96	7.39	6.81	7.32
Health	3.42	3.41	3.05	3-17	3.74
Other	1.92	1.50	1.11	2.35	2.49
TOTAL	13.59	12.87	11.55	12.33	13.55
UNALLOCABLE	3.35	3.09	3.19	2.86	3.21
TOTAL EXPENDITURE	52.37	57.73	68.12	70.68	79.42

•The apparent decline in expenditure on education after 1961/62 is largely the result of the transfer of primary education to local authorities in 1964. *See* paras 9 and 12 and also para 11 in Chapter 7.

8. A number of expenditure heads were lower in 1964/65 than in the previous year. These include subscriptions to international monetary organizations which were once and for all items arising from Kenya becoming a member following independence. Secondly, compensation payments to expatriate civil servants on loss of office reached a peak in 1963/64 and started to tail off in the following year. Pensions and gratuities also reached a peak in 1963/64 when they were abnormally high as a result of retiring expatriates commuting part of their pensions into lump sums: this item must be expected to move up again in 1965/66 and 1966/67 as a result of new retirements. Subscriptions to international monetary organizations which have added £0.7 million to expenditure in 1965/66 have been met almost entirely by contributions from the Currency Board.

9. Some comment is required on the increase in the cost of transfers to local authorities after 1963/64. for in that year there were specific grants for particular services which in the functional analysis were shown against that service. Since 1964/65 these specific grants have been replaced by block grants to the local authorities and the service they finance cannot be identified separately. They are, therefore, shown entirely against "grants to local authorities".

10. The cost of public debt obligations continued to expand as a result of further increases in the size of the public debt, arising particularly from loans for the resettlement programme and compensation payments to expatriate civil servants. An overall picture of public debt can be seen from the following table.

KENYA GOVERNMENT PUBLIC DEBT

Table 60 *£ million*

Year as at 30th June	TOTAL DEBT*			Total Sinking Fund at Market Value	Annual Debt Servicing Charges	Interest and Loan Repayments Receipts	Net Cost of Servicing Charges
	External	Internal	Total				
1956	37.98	9.13	47.10	3.20	1.75	0.67	1.09
1957	38.63	11.62	50.25	3.24	2.09	0.52	1.57
1958	40.64	13.86	54.51	3.75	2.45	0.69	1.75
1959	39.81	17.61	57.42	4.39	2.60	1.24	1.36
1960	44.47	18.43	62.90	4.72	2.83	1.13	1.70
1961	51.74	17.43	69.17	5.23	3.40	1.51	1.89
1962	57.74	17.70	75.44	5.28	4.14	1.75	2.39
1963	65.41	17.58	82.99	6.67	4.66	1.83	2.83
1964	68.51	17.60	86.11	7.88	5.21	2.04	3.17
1965	77.23	18.21	95.44	9.05	6.36	2.82	3.54

'Excluding short term borrowing.

11. Expenditure on agriculture, which is the largest item of expenditure, declined in 1964/65 and is expected to be lower again in 1965/66. This is due entirely to a fall in expenditure on land resettlement, particularly expenditure on land purchase in the former Scheduled Areas. A higher proportion of total expenditure in the agricultural field is now directed towards raising the level of agricultural income through extension services and the development of new projects than in transferring assets from large farmers to small. This can be seen from the following table.

EXPENDITURE ON AGRICULTURE AND SETTLEMENT

Table 61 — *£ million*

	MINISTRY OF SETTLEMENT			Other Agricultural Expenditures	Total
	Recurrent	Land Purchase	Total*		
1962/63	0.18	2.35	3.78	6.75	10.53
1963/64	0.16	4.26	7.40	6.06	13.46
1964/65	0.08	3.73	6.67	6.21	12.88
1965/66 Est. ..	0.08	0 81	3.15	8.71	11.86

•Including other development expenditures.

12. Expenditure on education in 1964/65 also went down compared to 1963/64. However, as mentioned earlier, this is accounted for by the amalgamation of specific grants for education from the Central Government to local authorities, with the general block grant made to these authorities. Direct expenditure on education in 1965/66 shows an increase—and is due to very large increases in grants-in-aid for secondary and technical education on the recurrent side and in expenditure on secondary education and on teacher training colleges on the development side.

13. Central Government expenditures have been considered in the earlier part of this chapter according to the type of service provided, that is, according to a functional analysis. It is also possible to consider Government expenditures in relation to the goods and services they are used to purchase—an economic analysis. Firstly, expenditures are divided between those of a capital and those of a recurrent nature: this division will very roughly accord with the division of the Recurrent and Development Accounts, but by no means completely so. Secondly, capital expenditures can be divided between those that directly contribute to capital formation and those which represent loans to other sectors (to finance their capital formation). Finally, there are expenditures on loan repayments.

14. Capital expenditures have taken an increasing share of Central Government expenditure over the last three years, being 14.8 per cent in 1962/63, 17.6 per cent in 1963/64 and 19.6 per cent in 1964/65. Direct Central Government capital formation has also risen but to a lesser extent, being 7.0 per cent in 1962/63, 6.6 per cent in 1963/64 and 7.8 per cent in 1964/65.

15. The largest item of recurrent Government expenditure is on wages and salaries of civil servants, taking approximately 40 per cent of all expenditure in recent years. Most of the rest of recurrent expenditure represents payments to the private sector, for goods and services, and transfers, to households and institutions, for pensions and education grants, and to other organizations undertaking functions on behalf of Government.

KENYA GOVERNMENT ACCOUNTS
ECONOMIC ANALYSIS OF EXPENDITURE 1961/62-1964/65

Table 62 — *£ million*

ITEM	1961/62	1962/63	1963/64	1964/65
RECURRENT EXPENDITURE				
CONSUMPTION EXPENDITURE ON GOODS AND SERVICES—				
Wages and Salaries:				
Personal Emoluments	17.98	17.72	17.91	19.01
House Allowances	0-71	0.74	0.71	0.72
Passage and Leave Expenses	0.87	0.82	0.95	0.66
Pay and Allowances to Armed Forces:—				
Military	0.23	0-12	0.52	1.65
Pension and Gratuity to Military	0.08	0.08	0.07	0.07
Contribution to Pension Fund	0.29	0.41	0.57	0.45
Total Wages and Salaries	20.15	19.89	20.73	22.57
Other Goods and Services:				
Rent of Fixed Assets:—				
(a) Residential	0-16	0.15	0.16	0-17
(b) Non-residential and other	0-17	0.15	0.17	0.20
Maintenance and Repairs	1.27	1.32	1.25	2.76
Travelling expenses	0.88	0.92	1-18	1.73
Equipment, Postal and Incidental expenses	0.91	0-81	0.80	0.67
Courses of Training for Government Officers	0.09	0.16	0.02	0.04
Commission to Agents	0.04	0.03	0.06	0.07
Stores	0.37	0.50	0.64	0.90
Rations	0.38	0.46	0.44	0.55
Expenses of Boards, Committees and Commissions of Enquiry	0.04	0.08	0.04	0.10
Research Work and Specialist Visits and Surveys	0-18	0.13	0-17	0.24
Uniforms	0.20	0.23	0.29	0.34
Light, Water and Conservancy	0.28	0.33	0.35	0.47
Advertising and Publicity, Printing and Stationery	0.11	0.17	0.18	0.24
Libraries	0.04	0.01	0.01	0.02
Collection Costs of Income Tax, Customs and Excise Duties	0.75	0.76	0.74	0.76
Provincial Administration—other charges	0.24	0.24	0.24	0.45
Miscellaneous	0.85	0.96	1.67*	2.28
Total Other Goods and Services	6.95	7.40	8.40	11.98
Total Consumption Expenditure	27.10	27.29	29.13	34.55

[Contd.

KENYA GOVERNMENT ACCOUNTS

ECONOMIC ANALYSIS OF EXPENDITURE 1961/62-1964/65—(*Contd.*)

Table 62 *£ million*

ITEM	1961/62	1962/63	1963/64	
SUBSIDIES—				
To Agriculture	0.60	0.64	0.33	
To Other Sectors	0.16	0.12	0.08	
Total	0.76	0.76	0.41	
INTEREST—				
External Debt	2.30	2.66	2.95	
Internal Debt	0 99	100	1.11	
Total	3.29	3.66	4.05	
OTHER TRANSFERS—				
To Household and Unincorporated Enterprises:				
Persons (including pensions)	2.69	4.00	5.13+	
Private non-profit Educational Institutions	4.85	4.78	4.46	
Other private non-profit Institutions	0.38	0.21	0.13	
To Public Corporations	0.13			
To Rest of the World	0.25	1-39	5.95+	
To Other General Government Agencies:				
Road Authority	317	2.88	2.39	
Local Government}	1.43	1.71	1.03	
E.A.C.S.O	0.23	0.22	0.13	
Land Settlement		1.94	2.81	
Miscellaneous	0.19	0.38	0-51	
Total	13-31	17.50	22.52	
TOTAL RECURRENT EXPENDITURE	44.46	49.21	56.11	
CAPITAL EXPENDITURE				
GROSS CAPITAL FORMATION—				
Residential Buildings	0.42	0.29	0.29	
Non-residential Buildings ..	1.17	0.74	0.80	
Construction and Works ..	1.84	2.00	2.19	
Plant, Machinery and Equipment	0.45	0.58	0 . 9	
Vehicles	0.53	0.41	0.59	
Land			0.02	
Total	4.41	4.03	4.48	5.54
LOANS TO OTHER SECTORS—				
To Household and Unincorporated Enterprises	0.60	0.48	0.32	0.21
To Public Corporations	0.41	0.55	1.27	1.05
To Private Corporations	0.03			
To Other General Government Agencies	1.61	2.47	4.79	4.82
Total	2.65	3.50	6.38	6.08

[Contd.

KENYA GOVERNMENT ACCOUNTS

ECONOMIC ANALYSIS OF EXPENDITURE 1961/62-1964/65—*(Contd.)*

Table 62 *£ million*

Item	1961/62	1962/63	1963/64	1964/65
LOAN REPAYMENTS TO OTHER SECTORS—				
External Debt	0.33	0.48	0.63	0.89
Internal Debt	0.02	0.01	0.01	0.84
Sinking Fund	0.51	0.51	0.51	0.51
Total	0.86	100	115	2.23
TOTAL CAPITAL EXPENDITURE	7.92	8.52	12.01	13.85
TOTAL EXPENDITURE	52.37	57.73	68.13	70.68

•Increase in 1963/1964 mainly due to expenditure on Independence Celebrations and certain other items for which an economic breakdown is not available.

+Increase in 1963/1964 is due to Compensation and Gratuity, payments made partly locally and partly overseas.

The figures differ marginally from those shown as transfers to local authorities in Table 59. This is because some of the transfers to local authorities which could be identified functionally have been included under their appropriate functional head in Table 59.

N.B.—Totals of Interest Payments and Loan Repayments to other sectors in 1961/1962 and 1964/1965 do not agree with the respective public debt charges for these years as shown in Tables 59 and 60. This is because certain interest and loan repayments liabilities incurred by the Kenya Government on behalf of some semi-government bodies in these years are shown as interest and/or loan repayment charges in Table 62.

GROSS RECEIPTS ON RECURRENT ACCOUNT

1961/62-1965/66

Table 63 *£ million*

	1961/62	1962/63	1963/64	1964/65	1965/66 Est.
Taxation	30.98	34.92	36.77	39.74	43.65
Interest and repayment of loans	1.75	1.83	2.03	2.67	3.17
Charges for goods and services	4.62	4.57	4.54	5.28	5.01
Reimbursement from other administrations	0.78	0.89	1.08	0.95	1.09
Miscellaneous*	1.32	1.72	2.18+	1.12	2.68+
Total	39.45	43.93	46.60	49.76	55.60
ASSISTANCE FROM U.K.—					
Grants under Overseas Service Aid Scheme	2.40	1.56	4.53	3.55	3.03
Other Grants	2.55	1.08	0.57	1.31	0.05
Loans		0.25	3.87	2.72	0.56
Total	4.95	2.89	8.97	7.58	3.65
TOTAL RECEIPTS	44.40	46.82	55.57	57.34	59.25

•Includes fines, withdrawals from renewal funds, etc., and in some years Currency Board surpluses.

+Includes Currency Board grant of £1.19 million in 1963/64 and £0-7 million in 1965/66 for subscriptions to International Financial Organizations

16. Table 63 sets out all the sources of revenue for recurrent expenditure. The three sources of revenue are taxation, overseas grants and loans, and receipts from other internal sources of revenue. Taxation in the last five years accounted for between 69 per cent and 72 per cent of the total recurrent expenditure and from about 19 per cent to 21 per cent of revenue has come from other internal sources. The remainder has been financed from overseas grants and loans from the United Kingdom. Of the recurrent revenue from overseas the loans obtained in 1964/65 and 1965/66 were for commuted pensions and compensation payments share of the Kenya Government. These will decline from now onwards with the Africanization of the Civil Service. Grant receipts under O.S.A.S. having reached a peak in 1963/64 can be expected to settle down at a lower but fairly constant level, since Africanization of the remaining expatriate officers—mainly on technical assignments—is likely to be a slower process. Other grants from the United Kingdom Government on recurrent account show an increase in 1964/65. Of the total, £1.25 million is the final grant-in-aid by the British Government towards recurrent expenditure, and as mentioned by the Minister for Finance in his last year's budget speech, will not be repeated. The remaining grants are C.D. & W. fund grants on recurrent account carried over from the pre-Independence era; these are unlikely to be repeated. It should be noted that the difference between receipts from the British Government under the Overseas Service Aid Scheme in this table and the expenditure under O.S.A.S. shown in Table 58 is that here it is receipts that are set out whereas Table 58 analysis payments under O.S.A.S. through the Exchequer Account.

17. Increases in miscellaneous revenues in 1965/66 arise as a result of the Currency Board Surplus of £1.30 million. In 1964/65 the Currency Board Surplus of £0.63 million was allocated to the Development Exchequer. In 1965/66, miscellaneous revenue also includes a surplus receipt of £40,000 from the £3.38 million public loan floated during the year, of which £3.34 million has been used for both the redemption and conversion of an existing loan.

18. In Table 64 taxation as a source of revenue for the recurrent expenditure has been analysed separately. However, all revenues from taxation are not included in this table since in 1964/65 part of the receipts from export taxes on coffee and sisal were credited to the development account. These are shown in Table 65. Income tax and import and excise duties are the major contributors to the total revenue from taxation for recurrent expenditure. Income tax receipts in 1965/66 are estimated at £16.0 million—an increase of some 19 per cent over 1964/65, arising mainly from the high level of profits and incomes earned in 1964. Customs revenues on the other hand, are not expected to reach the forecast target for 1965/66 receipts in spite of an increase from 25 per cent to 30 per cent in the general rate of duty—mainly because, following the drop in agricultural incomes due to drought, the consumption of dutiable items did not rise as expected, although

there was a substantial increase in the imports of non-dutiable items or raw materials on which duty drawback is claimed. The final collection of import duties in 1964/65 showed an increase of over £2 million over the 1963/64 receipts—due partly to higher rates of duty levied that year and partly a higher level of dutiable imports.

19. Excise revenue has shown a steady rise over the last few years but in spite of increases in rates of duty the growth of revenue from this source has not been as fast as might have been expected in the light of the expansion of the economy and there is reason to believe that the principal excise duties are now at a level close to a point at which they would give diminishing returns to the exchequer, at least for a while.

20. It is of interest to note that income tax, and customs and excise duties together, contributed 89.6 per cent of total tax revenue in 1964/65. In the same year the percentage contribution of direct taxes to total taxation receipts on the recurrent account dropped marginally to 35 per cent: the contribution of indirect taxes was correspondingly 65 per cent. However, if the receipts from taxes credited to the development account are included, the percentage contribution of direct and indirect taxes to total receipts from taxation changes to 36 per cent and 64 per cent respectively, compared to 37 per cent and 63 per cent in 1963/64. In 1965/66 however, the percentage contribution of direct taxes to revenue for recurrent expenditure is expected to go up to 39 per cent with increased receipts from income tax and relatively lower receipts of customs and excise. No adjustment to these percentages needs to be made for 1965/66, to take account of taxation receipts credited to development, since no allocation from taxation receipts is expected to be made to the development exchequer.

21. The total revenue from taxation for recurrent expenditure in 1964/65 as a proportion of total monetary G.D.P. is 18.7 per cent, but if receipts from taxation credited to development are also taken into account the proportion of total receipts from taxation to monetary G.D.P. rises to almost 19 per cent. In 1965/66, the comparable proportion is expected to be 19.6 per cent.

22. As in previous years, the contribution of foreign sources of revenue to the Development Account still predominate over local sources. The growth of recurrent expenditures has been such that although there has been a general growth in taxation revenues there has been only a limited surplus available to finance development expenditures. In 1964/65, local sources of revenue contributed 19 per cent of total development revenue but in 1965/66 the local contribution is expected to fall to about 9 per cent of the total. (If savings from the previous year are included, the local contribution would, of course, be higher.)

23. This larger contribution to total development revenue from local sources in 1964/65 is to be attributed firstly to a contribution of £1.03 million, from a local market issue—not repeated on quite the same scale in 1965/66 although a local loan of £3.5 million was successfully converted, and

GROSS REVENUE FROM TAXATION FOR RECURRENT EXPENDITURE, 1961/62-1965/66

Table 64 *£ million*

	1961/62	1962/63	1963/64	1964/65	1965/66 Forecast
DIRECT TAXATION—					
Income Tax	10.30	11-12	13.23	13.46	16.00
Graduated Personal Tax	1.69	1.26	0-15		
Estate Duties	0.10	0.03			0.18
Export Duties		0.10		0.45	0.80
Total	12.09	12.42	13.38	13.91	16.98
INDIRECT TAXATION—					
Import Duties	11.71	13.76	13.69	15.89	16-31
Excise Duties	3.86	5.44	6.02	6.24	6.34
Stamp Duties	0-54	0.52	0.78	0.72	0.70
Petrol and Diesel Tax	1.07	1.07	1.07	M 5	115
Licences and Fees under the Traffic Act	0.80	0.86	0.80	0.84	1.28
Taxes and Licences, n.e.s	0.71	0.65	0.84	0 . 5	0.69
Land Premia and Taxes	0.05	0.03	0.03	006	0.03
Royalties	0-15	0.16	0.15	0-18	0.17
Total	18.90	22.50	23.39	25.83	26.68
TOTAL (TAXES AND LICENCES)	30.98	34.92	36.77	39.74	43.65
Per cent of total taxation to Gross Domestic Product (Monetary Sector)	17.5%	19.3%	19.1 %	18.7%	19.6%
Percentage contribution of:—					
Direct Taxes	39	36	36	35	39
Indirect Taxes	61	64	64	65	61

secondly, to a contribution of £0.6 million from taxation—again not repeated in 1965/66. However, to complete the picture it should be mentioned that Development Revenue as shown in Table 65 does not reflect transfers of £1.5 million in 1963/64, of £1 million in 1964/65, and, to-date, of £2.59 million in 1965/66, from the Recurrent Exchequer to Development Revenue. These transfers appear as Recurrent Revenue in the tables of this chapter. This fact should be borne in mind in evaluating the local contribution to Development Revenue.

24. The principal foreign source of revenue for the Development Account is still the United Kingdom which in 1964/65 contributed 61 per cent of the total revenue and this relative percentage is expected to go up to 66 per cent in 1965/66, although the total value of United Kingdom grants and loans passing through the Development Account is likely to be rather lower in absolute terms following the slowing down of the land resettlement programme. As a result of the importation of maize under the United States PL.480 programme, a loan from the United States equivalent to £1.50 million is available to the Development Account in 1965/66.

DEVELOPMENT REVENUE ACCOUNT, 1961/62-1965/66

Table 65 *£ million*

	1961/62	1962/63	1963/64	1964/65	1965/66 Est.
EXTERNAL SOURCES—					
Grants:					
U.K. Government			0.51	3.03	2.52
C.D. & W./D.T.C	2.27	3.74	3.90	0.44	0.01
Peoples Republic of China		—	—	1.07	—
Freedom from Hunger (U.K.) and others	0.14	0.22	0.33	0.26	0.19
Loans:					
U.K. Exchequer	4.45	5.39	5.86	6.21	5.30
I.B.R.D	0.69	0.64	0.27	0.27	0.25
West Germany	—	0.68	0.73	1.22	0.02
l.D.A	—	—	—	0.03	0.59
A.I.D	—	—	—	—	1.50
Other raised abroad	0.16	0.03	—	0.24	0.32
INTERNAL SOURCES—					
Grants:					
Local Grants	—	—	0.07	0.04	0.08
Loans:					
Local Market Issues	0.29	—	—	1.03	0.57
Other East African Loans	0.07	—	0.03	—	0.26
MISCELLANEOUS OTHER—					
Taxation	0.05	—	0.32	0 64	—
Development Project Earnings	0.16	0.21	0.23	0.23	0.33
Others	0.98	0.48	100	1.12	0.05
TOTAL REVENUE	9.26	11.40	13.26	15.83	11.99

CHAPTER 9—CAPITAL FORMATION

1. It was reported in the Economic Survey 1965 that the low point of capital formation expenditure had occurred in 1963 and that the provisional figures for 1964 had seen a considerable improvement. Revised figures for 1964 now indicate that the improvement was even greater than first reported and that total capital formation in 1964 was 15.6 per cent higher than 1963.

2. It was also forecast last year that capital expenditure in 1965 would be in the region of £38 million. The provisional estimates now compiled indicate that the out-turn was, in fact, £38.2 million—a rise of 7.1 per cent over the revised figure for 1964. Over the first two years of the Development Plan, capital expenditure has risen at an average rate of approximately 11.9 per cent per annum. Even if this rate of increase is maintained, capital expenditure in 1970 will only just exceed the revised Development Plan target of an annual expenditure of £65 million throughout the Plan period. Clearly, therefore, capital expenditure will have to be stepped up to reach the Plan target. An annual growth of over 22 per cent or very nearly twice the rate realized during the last two years will have to be achieved if the Plan target is to be realized.

3. In order for the Development Plan capital formation targets to be reached it will be necessary to increase the rate of saving and capital formation as a percentage of monetary gross domestic product. The last two years have seen a rise from the low point of 1963 but the percentage of capital formation to gross domestic product is still below the levels of a few years ago and there is considerable scope for an increase to achieve the target. The £65 million per annum target implies capital formation equivalent to 30 per cent of the 1965 level of monetary gross domestic product, a rate last achieved in the years 1955-57. Since G.D.P. itself will be rising this is not an unrealistic target, although it requires a significant increase from the 1965 rate of capital formation—17 per cent.

RATES OF CAPITAL FORMATION TO MONETARY GROSS DOMESTIC PRODUCT
1960-1965

Table 66 *£ million*

	1960	1961	1962	1963	1964	1965*
Monetary G.D.P	175.3	176.8	180.9	192-4	212.8	222.3
Capital Formation	41.5	32.1	33.6	30.9	35.7	38.2
Per Cent	23.7	18.2	18.6	16.0	16.8	17.2

•Provisional.

4. A large part of the increase in capital formation in 1965 originated from the Central Government, as Development Plan projects were implemented. Capital expenditures by EACSO services were rather lower in 1965, largely because of the fact that there was a reduction in the purchases of rolling stock by the East African Railways and Harbours compared with 1964. Local Authorities' expenditures showed some rise but a much sharper increase will be seen in 1966 as Local Authorities' development plans get under way.

GROSS FIXED CAPITAL FORMATION, 1960-1965

Table 67 *£ million*

	1960	1961	1962	1963	1964	1965*
PUBLIC SECTOR—						
Kenya Government	9.2	9.0	7.4	5.2	4.9	6.6
E.A.C.S.O. (incl. Trade Sec.)	2.2	2.2	2.2	2.1	4.0	3.6
Local Authorities	3.0	3.2	3.2	2.5	1.4	1.7
Total	14.4	14.5	12.8	9.8	10.3	11-9
PRIVATE SECTOR—						
Agriculture	5.6	4.8	3-9	4.7	5.7	5.1
Other	21 6	12-9	16 9	16-3	19.6	21.1
Total	27.2	17.7	20.8	21 0	25.3	26.2
PUBLIC AND PRIVATE TOTAL ..	41.5	32-1	33.6	30.8	35.7	38.2

•Provisional.

Only a small increase was recorded in the capital formation of the private sector but total expenditures are still about 23 per cent above the level of 1962 and 1963 and very close now to the 1960 level. It has already been pointed out in Chapter 6 that building work in 1964 was inflated by three or four large projects in Nairobi reaching completion. Many new private projects were started in 1965 but most of these did not get under way until towards the end of the year and will therefore have a greater impact on the 1966 figures than on 1965. Private capital expenditures in agriculture declined in 1965 entirely due to a fall in the capital expenditures undertaken by farmers in the settlement areas who had completed the initial capital work required to set up their farms. It was pointed out in Chapter 3 that capital expenditures on large farms actually increased in 1965 and expenditures per acre, were, in that year, higher than in any other year since 1960. The figures of capital formation in agriculture also include those of tea development on small holdings. The value of such development in 1965 was £300,000. It is known that there was other capital formation apart from the establishment of tea undertaken on small holdings outside the settlement schemes, but no reliable data on such expenditures are available.

5. Part of the increase in capital formation in 1964 and 1965 has been caused by self-help projects being undertaken by local groups of people throughout the country. The total value of self-help projects undertaken in 1965 which created a capital asset and can legitimately be included in the capital formation statistics was estimated by the Department of Community Development to be worth approximately million in 1965 compared with £450,000 in 1964. The type of projects undertaken by self-help groups cover a considerable range including schools, hospitals, health centres, teachers' houses, community centres, agricultural feeder roads, etc. If enthusiasm for this type of local projects can be maintained, not only can the day-to-day conditions of the people be improved immediately, but capital assets will be laid down to lead to further improvements in the future.

6. It is perhaps remarkable that there was an increase in capital formation in 1965 in spite of a reduction in building activity, taking the year as a whole. In part, this was due to the fact that, as mentioned earlier, a number of large projects in Nairobi were completed in 1964, and in part, due to the fact that many new projects were not started until towards the end of 1965. A serious housing shortage and, to a lesser extent, a shortage of commercial accommodation is now a feature in Nairobi and although the initial effect of this shortage has been to cause a sharp rise in property rents, the normal secondary effect of an increase in new building development has already started in Nairobi and for the first time for some years investment in new residential property is taking place. The effect of this should be seen in 1966 statistics.

GROSS CAPITAL FORMATION IN THE PRIVATE SECTOR, 1960-1965

Table 68 *£ million*

	1960	1961	1962	1963	1964	1965*
AGRICULTURE—						
Buildings	1.3	1.0	0 6	0.7	0.8	0.9
Construction	2.5	2.2	1.9	2.5	3.1	2.3
Vehicles, machinery and other equipment	1.8	1.6	1.4	1.5	1.8	1.9
Total	5.6	4.8	3.9	4.7	5.7	5 1
REST OF PRIVATE SECTOR—						
Residential Buildings	3.4	0.7	0.5	0.7	0.6	0.7
Non-Residential Buildings ..	3.2	1.6	1.7	1.2	3.6	2 1
Construction	0.7	0.5	3.5	1.5	0.9	1.8
Cars	5 1	2.9	3.6	4 1	4.1	5.3
Commercial vehicles	2.4	1.5	1.6	2.7	2 9	3 5
Aircraft	1.4	—	0.5	0 1	0.6	0.6
Machinery and other equipment	5.4	5.7	5.4	6.0	6.9	7.1
Total ...	21.6	12.9	16.9	16.3	19.6	21.1
PRIVATE SECTOR TOTAL	27.2	17.7	20.8	21.0	25.3	26.2

•Provisional

7. Purchases of motor vehicles including commercial vehicles increased substantially in 1965 and were, in fact, higher than in any other year since 1957. There has now been a continuous increase in purchases of commercial vehicles since 1961 which reflects the steady growth of road transport activity in the country.

8. Private construction activity excluding agriculture shows an increase of almost 100 per cent over 1964 and reflects the fact that the Kindaruma Hydro-Electric project got well under way in the year and this can be expected to move ahead faster in 1966. Other electricity supply projects undertaken in the year were the Sagana-Embu and Kisumu-Kakamega extensions, a new generating station at Embu and the installation of an additional generating set at Mombasa.

9. The total value of all road construction carried out in the year was £1.85 million compared with £0.5 million in 1964.

CHAPTER 10—MANPOWER AND EDUCATION

Population and Migration

Assuming that the annual rate of population growth remained unchanged at 3 per cent, the total population of Kenya is estimated to have increased by some 260,000 persons between mid-1964 and mid-1965. All of the increase consisted of people of African descent, for there was a small reduction in the non-African population due to net emigration over this period.

2. The European population fell by approximately 8,000 largely due to the departure of the British forces at the end of 1964 and it will be seen from the calendar year external migration figures below (which cover civil population only) that there was a further reduction in emigration from the 1961 peak while the total number of Europeans coming into the country as "permanent immigrants" showed a rise of 45 per cent in 1965. This sharp rise probably reflects the increasing number of people arriving in Kenya as diplomatic representatives and also under technical assistance arrangements but the figures do perhaps suggest that the period of net emigration of Europeans which occurred from 1960 onwards may now be passing.

PERMANENT IMMIGRATION AND EMIGRATION OF CIVIL POPULATION

Table 69 *Numbers*

	EUROPEANS		ASIANS AND ARABS	
	Immigration	Emigration	Immigration	Emigration
1960 ..	3,628	3,813	2,801	2,130
1961	3,204	6,052	2,282	2,529
1962 ..	3,956	8,379	2,177	1,922
1963	3,789	8,107	2,348	1,675
1964	3,500	6,677	1,666	2,944
1965	5,085	5,169	1,472	1,769

3. Asian immigration and emigration both declined in 1965, the latter rather more sharply than the former. There is, however, still a slight net emigration, but this is more than offset by the annual natural growth of the Asian community.

Manpower Shortages

4. The rapid growth of Kenya's population continues to generate more unskilled and untrained manpower in the country than there are job opportunities for them, while at the same time, significant numbers of vacancies exist for personnel with specialized training or skills. The shortages among the middle and high level occupations are not universal with some, such as primary and secondary school teachers, being in critically short

supply, while for others the possibility exists that some surpluses may become apparent shortly. Since the high and middle level manpower survey was carried out in 1964 there have been a number of significant policy changes in the Government which have altered the projections. Furthermore, the revised Development Plan contains markedly higher employment targets for 1970 than those contained in the first edition.

ESTIMATED EMPLOYMENT BY OCCUPATIONAL GROUP, 1964 AND 1970
(NON-AGRICULTURAL WAGE AND SALARY EXCLUDING DOMESTIC SERVICE)

Table 70

OCCUPATIONAL CATEGORY	1964	1970	PER CENT INCREASE
Professional and top management		11,000	75
Technical and semi-professional	12,800	38,000	197
Skilled office and middle and lower management	32,000	49,000	53
Skilled manual	19,700	30,000	53
TOTAL HIGH AND MIDDLE-LEVEL MANPOWER	70,800	128,000	81
Semi-skilled and unskilled	292,000	368,000	26
TOTAL EMPLOYMENT	362,800	496,000	37

5. At the present time it seems that the optimism expressed in last year's survey was perhaps premature, at least if the revised plan employment targets are to be reached. And this is true for all categories of high and middle-level manpower. It had been thought that, leaving aside the skill distribution within the category, the numbers of university graduates would approximate the requirements. Even with revised data showing some increase in the numbers pursuing university studies outside East Africa, it now appears that there will be rather widespread shortages. The introduction of free out-patient care at Government hospitals and free medical services for children has had the effect of increasing the immediate need for medical staff. The elimination of school fees for Forms V and VI has not yet had an impact on the demand for secondary teachers as there had been some unfilled spaces in these forms but it is expected that an increased demand will occur shortly.

6. The data in Table 70 indicate quite clearly that the major manpower bottleneck may well appear in the technical and semi-professional occupations. The largest single requirement in this category is for almost 31,000 trained primary school teachers. This is followed by nursing (1,100), agricultural technicians (1,000), non-certified accountants (700), and engineering technicians (900) all of which represent significant elements in the demand picture between now and 1970.

7. The skilled office and middle and lower management job requirements are most heavily concentrated in the general clerical or office skills. Almost 12,000 trained clerical workers and 2,200 secretaries and stenographers will be required by 1970. Book-keepers (3,600) and typists (1,200) are other sizeable demands in this category.

8. On the supply side little new information has become available which indicates that the estimates to 1970 made last year, except for university graduates, have changed materially. Thus, the first conclusion one reaches is that shortages will be more marked and a number of the surpluses previously expected for 1970 may turn into shortages. The fact that supply estimates have not changed in the skilled manual, semi-skilled and unskilled occupations need not be cause for alarm. Employers typically meet these needs with their own resources with on-the-job training schemes or other similar devices. The area which may prove to be most difficult is in the technical and semi-professional group of occupations and this is the area in which the percentage increase is greatest. Concerted efforts will be required to meet these demands.

Education

9. The need for a great expansion of education at all levels has become a matter of national concern and much has been done since the attainment of Indepedence. The number of children attending primary schools had risen from 892,000 in 1963 to 1,011,000 in 1965, while the number of secondary schools has more than doubled since 1963. In 1965, some 150,000 children sat for the Kenya Preliminary Examination, the largest number on record. During the year the President announced that education in Forms V and VI would be free, the first step towards the introduction of free education in the country.

10. Responsibility for adult education has been transferred from the Ministry of Labour and Social Services to the Ministry of Education as part of Government's programme to eradicate illiteracy throughout the country. The new Section of Adult Education is now responsible for literacy and adult education, Kenya National Library Service, museums, evening continuation classes, vocational training, television and radio programmes for adults, and the Kenya Literacy Centre. In connexion with the adult literacy programme, the Government has decided to establish a National Library Service which will provide adult literates as well as school children with suitable reading material.

11. Although a number of primary schools had to close temporarily in 1965 owing to financial difficulties arising mainly from the lower income earned by farming in many areas, leading to non-payment of school fees and graduated personal tax, the long-term development of schools went forward uninterrupted by this temporary setback. Thus, although there was a small—0.4 per cent—reduction in enrolments in primary schools, the

number of secondary schools increased by 51 per cent in the year and the number of enrolments at secondary schools rose by 33 per cent, a rate of increase never before achieved in one year.

NUMBER OF SCHOOLS AND PUPILS, 1956-1965

Table 71 *Numbers*

YEAR	SECONDARY		PRIMARY	
	Schools	Pupils	Schools	Pupils
1956 ..	55	10,856	3,680	486,937
1957 ..	62	11,265	4,064	547,989
1958	78	15,142	4,691	651,758
1959	94	17,950	4,876	719,510
1960 ..	91	19,445	5,206	781,295
1961	104	21,369	5,725	870,448
1962 ..	141	25,903	6,198*	935,766
1963 ..	150	31,120	6,058*	891,533
1964 ..	222	35,921	5,150*	1,014,719
1965	336	47,910	5,078*	1,010,889+

•1962/1965 figures for numbers of primary schools are not comparable with each other or with earlier years owing to the amalgamation of some schools in these years. There was also some conversion of primary schools to secondary schools over this period.

+The reduction in enrolment in primary schools in 1965 is due mainly to the fact that some schools in a number of counties had to close temporarily for lack of funds.

12. The number of secondary schools Form I opened in 1965 in maintained schools was increased by 57 in the year, but at the same time, there were some 100 new Forms I opened in *Harambee* Secondary Schools built by local communities on their own initiative. This is perhaps the most notable impact of self-help projects initiated since Independence on the economy as a whole.

13. The rapid expansion of the number of secondary schools inevitably has created an urgent need for additional teachers and in order to go some way to meet this, enrolment in teacher training colleges rose from 3,934 in 1964 to 5,355 in 1965, an increase of 36 per cent.

14. In 1965, there were a total of 765 Kenya students enrolled in the University of East Africa, distributed as follows: —

University College Nairobi 422
University College Makerere 264
University College Dar es Salaam 79

The Kenya School of Law increased its Kenya students from 39 in 1964 to 58 in 1965.

15. Altogether the country had more than 5,000 students in post-secondary courses either in East Africa or in foreign countries.

TOTAL NUMBER OF POST-SECONDARY STUDENTS BY FIELD OF STUDY IN THE UNIVERSITY OF EAST AFRICA AND ABROAD, 1965-1966

Table 72

FIELD OF STUDY	Number of Students	Percentage of Total
Education	293	5.8
Law	232	4.6
Arts and Social Sciences	1,257	25.0
Natural Sciences	389	7.8
Engineering	741	14.8
Medical Science	928	18.5
Agriculture	308	61
Vocational Training	114	2.3
Not specified	750	15.0
TOTAL	5,012	1000

CHAPTER 11—DEVELOPMENT PLAN PROGRESS

Throughout this survey, economic progress has been assessed largely in financial terms—gross domestic product, capital formation and balance of payments—or as physical production achievements in agriculture, manufacturing and building and construction. In the early years of a development plan, however, such statistics do not reflect fully the progress being made in development, for it is in these years that the basic foundations of economic growth are laid down. Plans are implemented but the full benefit of higher incomes and higher employment that is derived from them is not felt until subsequent years. Similarly although all these schemes contribute to development, they do not all consist of capital formation, since only schemes which create a physical asset are included there.

2. This chapter gives a resume of the schemes implemented under the Development Plan 1964-70. That plan itself has now been revised and the revision has been published as the Development Plan 1966-70. A description of physical progress cannot in the space available cover all of the major achievements under the plan in the fields of planning, preparation and reorientatation of ideas necessary as a basis for progess but the details which follow indicate the start that has been made in the first two years.

Agricultural and Animal Husbandry

3. *Agricultural Training.*—Two new Farmers Training Centres, at Kirinyaga and Ngong were opened in 1965: another at Homa Bay is under construction. Others have been reorganized and improved with the result that the number of courses run (at Ministry of Agriculture Centres only) has been increased from 509 in 1963 to 694 in 1965; the number of student days has nearly doubled in the period.

4. *Cash Crops Development—Maize.*—Concentration has been upon achieving higher yields from lesser acreage. The production of high yielding hybrid maize seed in 1965 was sufficient to plant 120,000 acres compared with only 30,000 acres planted in 1963.

5. *Coffee.*—Owing to international quota restrictions, the emphasis of Government policy has been upon the improvement of quality, processing and marketing facilities. A new warehouse for storage of up to 20,000 tons was opened in June 1965 as a joint Coffee Board private venture, in Nairobi. The total capital of the warehousing company formed is £520,000.

6. *Tea.*—Details of the expansion in tea planting and production are given in Chapter 3.

7. *Sisal.*—Owing to falling prices, no significant increase in acreage has been planned. Instead, research has been directed towards better cultural methods to improve yields, and to find alternative economic uses for both fibre and leaf.

8. *Cotton.*—The main progress has been in Eastern and Central Provinces where acreage under cotton has increased to give a production of 3,394 bales in 1964/65 and an estimated 6.000 bales in 1965/66 compared with 1,471 bales in 1963/64.

9. *Pineapples.*—An additional 458 acres in Central Province or about a quarter of the planned acreage, has been planted since October 1965. In 1965, at 15,534 tons small-holder production of pineapples was already 79 per cent of total deliveries to canneries. The marketing of the crop is just as important, and the production and extensions at Thika by Kenya Canners, now operated by an international canning company, ensure that a ready international market is available.

10. *Passion Fruit.*—The production of fruit for export in the form of juice has shown a spectacular increase. In Kisii District alone the number of vines has increased enormously in 1965. The factory at Sotik has been taken over by a new company partly owned by the Agricultural Development Corporation. It has been modernised and the capacity increased five fold and although there is some danger of over-production, a large scale advertising and market promotion campaign in Europe has already been started by the company.

11. *Sugar.*—A new factory at Muhoroni owned jointly by Government and private enterprise has been built and most of the machinery installed. The factory and estate at Ramisi, which was badly run down by 1964, has changed hands and has been overhauled. New plantings of 4,000 acres at Chemelil have been completed in preparation for a further factory to be built at the end of 1967.

12. *Wheat.*—1,000 acres of former grazing land in the Ildamet Melili area of Narok District has been prepared for planting as part of a scheme to convert a much larger area from a pastoral to an arable and sheep economy.

13. *Cashew Nuts.*—The hand shelling factory at Kilifi hag increased production through improved methods and the benefit of organized marketing of raw nuts through the Kenya Agricultural Marketing Board. Investigation into the prospects of a mechanical shelling process has been carried out in consultation with Tanzanian businessmen.

14. *Rice.*—An additional 592 acres under rice has been developed at Mwea: this is described further under "irrigation".

15. *Other Crops.*—Development has been largely in the field of improvement of quality and yield (e.g. beans), improvement of marketing facilities (e.g. onions, fresh vegetables, chillies, spices), encouragement of planting of drought crops (e.g. cassava, sorghum), negotiations for international markets (e.g. geranium, castor, sunflower) and research into production methods and utilization (e.g. kenaf).

16. *Agricultural Finance.*—£1,198,000 loan money for various agricultural purposes, including large farm purchases, all for the benefit of African farmers, was issued in 1964/65. A further £1£ million is in the process of being channelled to African farmers during the current year (1965/66).

17. *Animal Husbandry. Artificial Insemination.*—The number of semen doses sold has increased from 63,000 to 102,000 per annum, mainly in settlement schemes and Central Province. The price has been reduced from Sh. 10 to Sh. 7/50 a dose for frozen semen. Room temperature semen is now available at Sh. 3 a dose. A new laboratory and collecting room has been completed at Kabete.

18. *Stock Routes.*—The first stage (14 miles) of a new stock route between Athi River and Machakos has been fenced. The Kenya Meat Commission brought into operation a chartered ship in 1965 for the transport of cattle from Lamu to Mombasa.

19. *Poultry Training.*—Five demonstration units have been opened at Farmers Training Centres during the period.

20. *Sahiwal Stud.*—The herd has been increased from 800 to 1,525. The first two auctions of pedigree and grade bulls were held in 1965 and 1966 averaging a price of £90 each. One bull fetched £315, the highest price ever paid for a locally bred bull in an auction.

21. *Research and Training.*—The Animal Health and Industries Training Institute has been in operation since the end of 1965 and 120 students are in residence. A new Pathology block for the University College has just been opened at Kabete. A Bacteriology block and Library for the Veterinary Department at Kabete, and a new Laboratory for the production of vaccines at Embakasi have just been started.

22. *Rural Dairies.*—The number of rural dairies assisted under the U.N.I.C.E.F. scheme has increased from 68 in 1963/64 to 90 in 1965/66, and the value of milk and milk products handled has risen from £137,000 to

£280,000. This does not include the Mariakani scheme which was greatly expanded in 1963, and is now handling three times the value of milk compared with 1954.

23. *Range Management.*—Reference has already been made in Chapter 3 to range development activities. The Range Management Division of the Ministry of Agriculture and Animal Husbandry was set up early in 1964. It now has 17 trained officers in the field covering Rift Valley, Eastern and Coastal Provinces. Some of these have been locally trained; five other Africans are at present in America undergoing training to qualify for B.Sc. degrees in Range Management. A general ecological classification of all pastoral areas for land usage was finished in 1965; a detailed survey of the special problems in Turkana has just been completed.

24. The greatest progress has been made in the Kajiado District where 29 individual ranches are now under management and 36 group ranches are in an advanced stage of preparation. Two new pipelines have been laid and several boreholes sunk. Similar progress on a lesser scale has been achieved in Narok District. In Eastern Province 11 ranching co-operatives have been registered of which two are in full operation. In Coast Province, two ranching companies, one co-operative and five group ranches have been registered. One of the companies is in operation. Many other ranching and grazing schemes are in the negotiation stage. The main task of the Department has been in persuading the people to adopt scientific principles of land usage and cattle husbandry; the fact that acceptance of grazing, dipping and cropping regulations has been achieved throughout most of the pastoral areas is a major step forward.

25. *Irrigation.*—This section supplements the remarks on irrigation in Chapter 3. An interim National Irrigation Board was set up in May 1965. A Bill to give the Board statutory powers over all irrigation projects was passed early in 1966. These are essential preliminaries to large-scale investment in new projects since the success of the latter depends mainly on close control and discipline.

26. *Mwea-Tebere.*—An additional 592 acres have been developed under rice and 148 families settled in 1964 and 1965. A further 800 acres has been prepared and is now ready to settle another 200 families. The tenants have built 230 permanent houses on the scheme with loans from commercial banks; the loan repayment rate is 100 per cent. A credit union formed by the tenants has so far collected £24,000 towards the cost of putting up their own rice mill.

27. *Perkerra.*—No additional acreage has been brought under irrigation but a further 68 families have been settled by intensification of the scheme. Another 200 acres are in process of preparation. Despite very severe drought in 1965 the tenants were able to maintain and in some cases increase their yield of onions through improved management and discipline.

28. *Lower Tana and Galole.*—No additional acreage has been developed at Galole but the yield of cotton has been increased by over 40 per cent through application of preliminary results of the Lower Tana Survey. Under the latter, an area of 900,000 acres has been surveyed and 40 acres of the Galole scheme taken over and developed as a demonstration and pilot plot. Experimental results on sugar, groundnuts, kenaf and sorghum are encouraging.

29. *Yala.*—The levee and main drains for a 500 acre pilot scheme at Bunyala have been completed. Delay in starting this scheme was caused through failure to obtain the necessary expert staff until the end of 1965.

30. *Land—Land Settlement.*—Details of progress made will be found in Chapter 3.

31. *Land Consolidation.*—The main achievement in land consolidation since Independence has been in overcoming the doubts and suspicions of local farmers to the stage where the demand for consolidation and registration far exceeds the capacity of the Department. Details of progress are set out in Chapter 3. A commission of inquiry into the problems of registering the remaining areas of medium and high potential land in Kenya, has been held and its report has now been submitted to Government.

32. *Natural Resources—Urban Water Supplies.*—During the Plan period, new supply schemes for Lodwar and Butere have been completed. A new scheme for Wajir proved abortive and is to be replanned, while a new scheme for Mombasa South has been started.

33. Extensions to the supply, renewal of mains, additional sources, new reservoirs, major repairs or rebuilding or other major works have been completed at Mombasa, Isiolo, Kiambu, Othaya, Kajiado, Bondo, Bungoma, Kilifi, Kinango, Embu, Ngong and Kabarnet. Similar works are in progress at Meru. Nkubu, Limuru, Homa Bay, Kakamega, Busia, Gatundu and Kericho.

34. *Rural Water Supplies.*—In 1964, control over water supplies was reorganized and the Department of Water Development formed. Thirty-seven rural water supply projects were grant-aided in 1964/65 and a further 13 have so far been aided in 1965/66.

35. In 1964/65 the "Dixie Unit" (a water development construction team) working in the North-Eastern Province became inoperative owing to the security situation. The opportunity was taken to carry out overhaul of the machinery and to arrange a system whereby operations could recommence despite *Shifta.* As a result, since July 1965, three new water pans have been constructed, five desilted, five repaired and three airstrips constructed. This rate of work is about double the average achieved in the years before Independence.

36. *Forestry.*—Coniferous plantations have now reached approximately 180,000 acres out of the acreage planned for 1980, of 300,000. Planting is proceeding at a rate of 12,000 acres per annum. An area of 50,000 acres has been earmarked at Turbo for afforestation to support the proposed pulp and paper mill at Broderick Falls. Of this area, 6,000 acres has been taken over and a forest nursery started. Road construction equipment has been purchased to the value of £230,000 to facilitate extraction from neighbouring existing forests. A Government logging unit has been formed and is now operating in the Maji Mzuri area. As well as carrying out a necessary commercial function, the unit trains Africans in logging.

37. *Mines and Geology.*—A detail geological survey of 9,000 square miles in Western Kenya started in 1964. The initial reconnaissance work is nearly complete; three drilling rigs are now in operation starting on the second phase of the survey. In other parts of Kenya research has been concentrated on known deposits, mainly of non metallic minerals with a view to proving their economic potential.

38. *National Parks.*—The lodges at Kilaguni and Treetops have been enlarged to 100 and 42 beds respectively. A new tented camp in the Northern part of Tsavo East Park has been established. The number of visitors to Tsavo Park has increased by 50 per cent, mainly due to improved access from Malindi and the bituminization of the Mombasa road. Two additional aircraft for National Parks have been obtained during the period (making four) with a consequent improvement in fire and poaching control.

39. *Game.*—The Game Department is being reorganized and strengthened; new Divisional Headquarters have been established at Maralal. Nyeri, Ngong and Mombasa. Seventeen miles of game fence (out of a planned 24 miles) have been erected along the Ngong Hills. An ecological research laboratory at Maralal has been constructed. A new game reserve in the Lambwe Valley was created early in 1966. Keekorok Lodge has been enlarged to 40 beds and further enlargement is in progress. Samburu Lodge has been enlarged to 34 beds.

40. *Fisheries—Sea Fisheries.*—A new company in which Government is the largest share-holder, has been formed and has been in operation since early 1966. This company is engaged in research activities, as well as exploiting the lobster and prawn potential of the coast. Five buying stations and a processing plant have been set up. Refrigerated storage has been installed in the KMC cattle boat for transport of fish from Lamu. A new Fisheries Department station has been opened in the former King's Boat Yard, Mombasa. Surveys of biological and marketing potential for deep sea fisheries have been carried out by the F.A.O. and advance copies of reports have now been received. A further study into the possibility of starting a deep sea fishing industry has just been instituted. The revolving loan fund operated by Government to enable local fishermen to buy improved equipment was increased by £5,000 in 1964/65.

41. *Inland Fisheries.*—New fisheries stations at Lakes Rudolf and Baringo are being built: the Lake Rudolf station is nearly complete. A survey of the Kitale—Ferguson's Gulf road to enable the fish potential of Lake Rudolf to be fully exploited, has been completed, while buildings and land for a fisheries station and fish landing on Lake Naivasha were acquired early in 1966. A survey of fisheries potential and requirements in South Nyanza was started in December 1965.

42. The fish culture centres at Kiganjo, Sagana, Kisumu and Homa Bay have been expanded to supply the rapidly increasing number of private fish ponds in Central Nyanza and Western Province. Approximately 1,000 new ponds in each of Western and Nyanza Provinces were known to have been started in 1965 bringing the number to around 12,000 in each Province. In Central Province, local fish ponds are a new idea and have increased from virtually nil in 1963/64 to about 1,000 in 1965.

Commerce and Industry

43. The role of the Development Finance Corporation of Kenya is described in the Development Plan. Through its participation and the active encouragement of Government, more than twenty major new factories have been built and put into operation since 1964 and a further ten are in the process of being built. In addition, at least five larger-scale extensions to existing factories have been completed or are now in progress. These new factories cover the manufacture of textiles, soap, milk products, chemicals, fertilizers, paint, garments, blankets, plastic goods, batteries, beer, sweets, foodstuffs and fruit juices, rope and twine, rubber goods, crown corks and various items of machinery. They are financed largely by overseas industrialists with participation of the Government through the D.F.C.K.

44. The Industrial and Commercial Development Corporation, although concentrating mainly upon medium scale enterprises of local African businessmen also participates in some large-scale factory projects. The Corporation has approved investment of £198,000 in seven such projects by way of loans and equities, although these funds have not yet been issued.

45. In its main field of operations, i.e. in local African enterprises requiring capital of £500 and over, the I.C.D.C. has since the end of 1964, approved loans and credit totalling more than £250,000 covering 154 commercial projects and 59 manufacturing projects. The "commercial" projects consist of shops, hotels, tailoring, butcheries, livestock dealing, carving and general trading. The manufacturing projects include wood workshops, garages, bakeries, radio assembly, cement block and insulating materials, sawmills, canning, oil mills and the like. Of the loans approved, £67,500 has been issued to commercial enterprises and nearly £70,000 to manufacturers.

46. The Kenya Industrial Training Institute, which trains African businessmen, opened in Nakuru in July 1965.

47. Small scale African businesses are catered for by Trade Development Joint Boards set up and controlled by the Ministries of Commerce and Industry and of Local Government. Thirty-three such Boards have been established in the last year and all African businessmen throughout the country now have access to a Board. The Ministry of Commerce and Industry has a team of 16 Trade Development Officers who assist, advise and encourage local businessmen. Nearly £30,000 in loans to 188 traders was issued in 1965 and now that the reorganization of the system is complete the tempo of processing applications and issuing loans is increasing.

Transport and Communications

48. *Roads.*—The following progress on road construction has been made over the two-year period since the beginning of 1964: —

Nairobi-Mombasa: Bitumenization has been completed from Mackinnon Road to within 10 miles of Mtito-Andei. The formation and realignment between Mtito-Andei and Kibwezi is now 25 per cent complete, while the formation and realignment between Ulu and Sultan Hamud is nearing completion.

Nairobi-Addis Ababa: The building of this road is to be carried out under an agreement between Kenya and Ethiopia and work has been started on the Kenya side between Lewa and Archers Post.

Embu-Sagana: Five miles of bitumenized surface are now open and the remainder of the bitumenization is very nearly complete.

Kiganjo-Nanyuki: There is a bitumenization programme for this road and earthworks have already started.

Asawa-Sondu-Nyakoe and Kijano-Sotik: Asawa and Sondu bridges are now completed, six other bridges are completed or nearing completion, while eleven miles of gravel reconstruction have been completed.

Morendat, Kazita and Maragua Bridges are all started and pier work is almost completed at Morendat.

Tea Roads: Planning, siting, working drawings and financial arrangements are complete for the whole programme. Work on the Matara-Gatakaini road is almost complete and a bridge over the Chania River has been completed.

Tourist Roads: In the Mara Reserve a bridge over the Sand river was built in 1965 and improvements to the Narok-Keekorok road are nearing completion. The road from Amboseli across the Chyulu Hills to Kilaguni is also nearly finished.

Municipal Roads: The dual carriageway approach to Mombasa Island from the mainland has made fair progress.

49. *Aerodromes.*—

Nairobi: A new electrical ring main has been constructed, while conversion of the catering arrangements and improvements to the V.I.P. lounge have been completed.

Malindi: Mains power has been laid on to the airport buildings. New terminal buildings and control tower are in process of construction and the apron has been extended and improved.

Mombasa: New V.H.F. Omni-Range radio equipment has been installed. The Hangar has been moved to give more parking apron space and better visibility and communication from the Control Tower.

Wajir: The runway has been strengthened and improved.

Building and Works

50. The largest Government building completed has been the new National Assembly. Other major buildings include the Kenya School of Law, a new Court House at Meru and an additional storey on the Treasury Building. New Offices for the Ministry of Works have been started. These are items not specifically intended for separate economic development projects. The expanded building programme for schools, hospitals, laboratories, staff housing, etc., can be deduced from the details given under the relevant headings below.

51. *Power.*—The first stage of the Tana River Hydro-Electric Scheme, being the Kindaruma Power Station project below the Seven Forks rapids, was formally inaugurated by the President in March 1965. The access road was completed in August. Soil excavation for most of the major installation has been finished and rock excavation is now making progress. Permanent staff quarters are in process of construction.

Education

52. *Secondary Education.*—The following table shows the rapid expansion in secondary education in maintained schools only (i.e., excluding *Harambee* schools) since the inception of the plan.

NEW STREAMS OPENED—1963-66

Table 73

YEAR	Boarding	Day	Higher School Certificate	Total
1963	9	11	—	20
1964	18	15	I	34
1965	35	22	7	64
1966 (to April) ..	41	——	8	49

A number of the newly opened streams started this year (1966) are functioning in makeshift accommodation while the building programme catches up with expansion.

53. *Technical Education.*—The existing Technical Schools are to be converted to Secondary Trade Schools by extending the course to four years and greatly enlarging the scope of the syllabus. This conversion has now taken place at Kabete, Thika and Eldoret Schools where the first stream on the new syllabus started in January 1966. The Kenya Polytechnic has now reached full capacity; new buildings to double capacity have been started. Following the success of the pilot scheme at Chevakale Secondary School, courses in Agriculture were started in 1964/65 at Kangaru, Narok, Njoro, Bungoma, Kisii and Rapogi.

54. *Teacher Training.*—Effort has been concentrated upon reorganizing and enlarging the capacity of existing Teacher Training Colleges. The output of trained teachers has been increased from 1,622 in 1963 to 2,250 in 1965. Two thousand four hundred and twelve teachers are now in their second year of training and will complete their courses in 1966. New Training Colleges at Kisii and the Coast were opened in 1965.

Health

55. *Mental Health.*—*A* new mental hospital of 400 beds at Gilgil has been completed; further extensions are in progress. Mental wards have been opened at Port Reitz and Kakamega together with the necessary staff quarters.

56. *General Hospitals.*—New hospitals at Kisumu and Homa Bay are well advanced. New outpatients blocks have been completed at Nakuru, Wajir and Machakos. New X-ray equipment has been installed at Embu and Meru. New operating theatres have been opened at Nakuru and Embu. Maternity wards have been built or enlarged at Malindi and Kiambu. A steam installation at Kenyatta National Hospital has been completed.

57. *Other Hospitals and Medical Institutions.*—The leprosarium at Itesio, has been extended, while the former British Military Hospital, Nairobi, has been converted to an Orthopaedic hospital. The Orthopaedic wing of Kenyatta National Hospital has been converted to an Obstetrical centre, which is part of the planned expansion of the hospital to provide a postgraduate medical training school; some classrooms have been provided and alterations made to the mortuary. A sleeping sickness health centre at Siaya is nearing completion and a new blood donor centre has been opened in Nairobi. The first phase (dormitories) of the planned expansion of the Mary Griffin Nurses Home has been completed and staff housing has been built at Meru, Machakos, Wesu, Tambach, Nakuru, Maralal, Bungoma, Fort Hall and Nyeri hospitals.

58. Grants towards capital improvements at non-Government Hospitals of £14,000 were made in 1964/65; a further £10,000 is being allocated in 1965/66.

59. *Health Centres.*—Grant assistance has been given towards the construction, extension and improvement of Health Centres at Gatundu, Siaya, Edirsiratsi, Nyeri, Kapsakwany, Garsen, Loitokitok, Uruku, Nyandarua

Sultan Hamud, Langata, Madiany, Doldol, Rumuruti, Kalawa, Makueni and Ukwala.

Information and Broadcasting

60. A video recording vehicle for outside television broadcasting, and separate similar equipment for studio use, were brought into use in 1964. Planning, siting and testing for a television station at Mombasa has been completed and construction and installation now awaits the provision of funds. In 1965 studio, control room and office accommodation were extended at a cost of £24,000 to facilitate broadcasting for schools. At the same time the new medium wave transmitting station at Ngong was started and the buildings are nearing completion, the main equipment having been installed.

61. Plans for the Ministry Training School are complete and the equipment has been ordered. Meanwhile training has been carried on in temporary accommodation as well as by means of many different courses to which staff have been sent in Britain, America, Israel, India, Tanzania, Uganda and at the K.I.A., Maseno and other institutions in Kenya. Over 150 members of the staff have received specialized training by such means.

Social Services

62. *Community Development.*—Although self-help groups existed and community development projects were undertaken in many parts of Kenya before 1964, they were largely instigated locally through Councils and the Administration without any Central Government co-ordination. Since 1964 these activities have been brought into Government planning and greatly expanded through the posting of trained staff to districts, the establishment of Community Development Committees and the provision of grants. Thirty District Committees are now functioning regularly and another six are in process of formation. These will cover all districts in Kenya outside the North-Eastern Province. More than five thousand self-help groups have been formed with a total membership of about 300,000.

63. It is difficult to assess the number of self-help projects undertaken in the period accurately owing to the lack of information available for the time when many districts had not yet been brought under the wing of the Community Development Department. The following are estimates of some projects completed in 1964 and 1965, assisted by Government grants to a total of £90,000.

Community halls and teachers houses	3,000	
Access roads	11,000	miles
Clinics and dispensaries	190	
Spring protection, dams, pipelines, furrows	1,500	
Bridges and culverts	1,100	
Nursery centres	3,100	
Adult literacy centres	1,200	
Public latrines	3,600	

64. New training centres for Community Development staff have been opened at Embu and Kisii, and additional courses have been run at Maseno, Maluga and the K.I.A. Moreover training courses are now being conducted at Kakamega, Machakos, Njoro, Bungoma, Meru, Kitui and Kericho. A detailed survey of the potential for progress under the stimulus of community development has been carried out in three selected areas in Kericho, South Nyanza and Busia Districts.

National Youth Service

65. The service was formed in 1964; the first 150 men were recruited in August 1964. Since then a total of 5,000 men have recruited of whom 3,500 are still in service and 1,500 have returned to civilian life. The service has been built up into five field units, at Gilgil, Yatta (Thika), Mombasa, Archers Post and Turbo, together with a headquarter and training unit at Nairobi. The training unit gives basic training plus courses for N.C.O.s, plant operators, drivers and mechanics. Each field unit is responsible for a farm and carries out two work projects, as well as providing education classes for one month in every three months.

66. Four work projects have been completed and a further ten are on in progress. The completed projects cover road building, fencing, dam construction, bush clearing and irrigation works in Nairobi National Park, Samburu Park, Tsavo Park East and at Donyo Sabuk. Of the ten projects in progress the two biggest are for road construction on the Addis-Ababa, and Thika-Seven Forks-Kitui roads.

Internal Security and Defence

67. *Police.*—New posts have been built and opened at Todenyang (Turkana), Saroleni (Samburu) and Ol Kalou. Others are now in process of construction at Oropoi (Turkana), Tigania (Meru District) Maragua and Galole. New staff lines, flats and other quarters have been completed at Kiambu, Kilimani and Parklands. Others are in progress at Eldoret and Mathari. New premises have been provided, by conversion of buildings, for the G.S.U. Headquarters and for the Mombasa Provincial and District Headquarters. The training centre at Kiganjo has been improved and extended.

68. *Prisons.*—The new prisons at Eldoret and Nakuru have been completed, together with staff quarters. The new Kamiti Prison is now nearing completion. New staff quarters have been built at Shikusa, Kakamega and Meru and are in process of construction at Kisumu, Homa Bay and Mombasa. Improvements or major repairs have been carried out at most prisons, the most significant being at Kisii, Meru, Kapenguria, Nyeri, Shimo, Kitui, Kitale, Nairobi, Bungoma, Manyani and Gathigiri.

Armed Forces

69. *Kenya Army.*—The existing infantry battalions have been increased in strength by 25 per cent and their organization and equipment modernized. A parachute company has been formed, trained and equipped. A field Engineer Company has been formed, partly equipped and is in training.

70. *Kenya Air Force.*—The formation of the Kenya Air Force is described in the Revised Development Plan. It now has two squadrons, one of Beaver aircraft and the other of Caribous.

71. *Kenya Navy.*—One seaward defence vessel was brought into operation at the end of 1964. Officers, seamen and specialists to the planned force of Vosper petrol craft are now in training. The former Navy Armament Depot at Mtongwe (Mombasa) has been converted and occupied as a Headquarters and base.

CHAPTER 12—THE OUTLOOK FOR 1966

It is rather more difficult than usual to forecast world economic trends for the coming twelve months. A number of the major industrial countries have been producing close to the present limits of economic capacity and as a result are showing concern at the possibility of "overheating". The United States has introduced a budget to restrain rather than stimulate the economy for the first time since 1960 while the United Kingdom is still concerned that the pressure on resources will prevent the necessary correction of its balance of payments. Germany has also been concerned with inflationary trends but France, Italy and Japan may have entered upon periods of renewed expansion. Overall, the level of gross national product of industrial countries should continue to rise, perhaps by as much as in 1965.

2. World trade should also expand further but the rate of growth is likely to be less than in 1964/65 and a significant part of the increase is likely to be taken up by higher prices paid for metals, particularly copper. Concern will persist regarding the balance of payments position of both the United States and the United Kingdom and although corrective measures will be directed mainly to the capital account, through restrictions on the export of capital, the availability of economic aid is also likely to be limited, while policies leading to an expansion of current imports must be considered right out of the question.

3. As far as Kenya is concerned, these trends mean that there is likely to be little expansion in the total markets for its overseas exports and any increase in Kenya's share will have to be won in competition with other suppliers. Much of the overseas investment in Kenya in 1966 will tend to take the form of reinvestment of profits by companies already operating here rather than the introduction of new capital by new companies. There is likely to

be a shortage of overseas capital seeking investment outlets. The balance of payments position of the United Kingdom and the United States will also affect overseas aid in the form of grants and loans.

4. On the other hand, the Kenya economy is likely to be more buoyant as the agricultural industry recovers from the setbacks of 1965. Although there has been a shortfall in locally produced food in the first half of the year which has had to be made up by further imports of American maize, once the long rains harvests are available the position should have returned to normal; the 1965 second rains production has already eased the position substantially.

5. Although it is inevitable that some price changes will occur during 1966 it is not expected that any of these will affect Kenya's agricultural exports significantly and in the main, constant prices have been assumed. In spite of the continued incidence of coffee berry disease, a much larger crop is "forecast for 1966 compared with 1965 and this is expected to add approximately £3.4 million to agricultural income. About half of this will be earned by small farmers and about half by large farmers. Tea production has already recovered from the effects of the dry weather in 1965 and with new trees coming into production for the first time tea income should rise by approximately £3 million in the full year. No significant recovery is looked for in sisal this year and income is expected to be much the same as last year.

6. Pyrethrum and sugar should earn higher incomes in 1966 but the 1965 dry weather will continue to affect the production of cereals and a lower income is forecast. The output of dairy products and slaughter stock is expected to rise and income will benefit accordingly.

7. Overall, large farm income is forecast to rise by £4.4 million or about 12 per cent while small farm income should rise by £3 million or about 20 per cent. In consequence of these changes in gross income, the gross monetary domestic product earned by the agriculture sector is expected to rise by 15 per cent.

8. A cautious view is taken of manufacturing prospects in 1966 as the full effect of Tanzania trade restrictions will be felt and the Dar es Salaam oil refinery is due to come on stream in August (and will replace most of our petroleum exports to Tanzania). On the other hand, a number of new Kenya factories will come into production and this should be reflected in the output of textiles particularly.

9. The transport, storage and communications sector is becoming one of the most important in the economy. It achieved a marked expansion in 1965 but in spite of the continued congestion at Mombasa a rather slower rate of expansion is forecast for 1966. The electricity industry on the other hand should move ahead rather faster than last year and the same has been forecast for wholesale and retail trade, banking and the service industries.

10. A major recovery in the building and construction industry is forecast, taking into account projects which have already started and which will have got under way by the end of the year. Expenditure on the Kindaruma scheme will accelerate, while the Muhoroni Sugar Factory and Kisumu and Gatundu Hospitals should approach the finishing stage. The forecast takes into account a further increase in road construction and the start of a recovery in residential building. An overall 32 per cent increase in activity is looked for.

11. Tourist income should continue to grow but perhaps at slower rate in 1966 compared with the growth of 1965. On the other hand, visitors arriving in the first two months of 1966 were 31 per cent greater than in the first two months of 1965: visitors on holiday increased by a phenomenal 72 per cent. However, much of the increase will be made up by people coming in package tours and their effect on tourist income will be relatively less. A conservative 15 per cent increase in tourist income is forecast for the year 1966.

12. Forecasts of export income for 1966 have to take into account the recovery of agricultural production (but the difficulty of finding overseas markets for some products), the stiffening restrictions on Kenya's trade with Tanzania and the effect of the Dar es Salaam oil refinery coming on stream in August. Provided world commodity markets remain reasonably firm, domestic (external) exports might rise by £6 million or 13 per cent. Exports to Tanzania and Uganda will however be restricted and it would perhaps be unwise to look for any significant overall increase in 1966, in view of the fact that Tanzania will be able to supply its own petroleum products after August.

13. Total imports will be influenced by the imports of maize in the first part of the year, the delivery of two Super VC 10 aircraft in the last part of the year and rising capital spending. Stocks were probably fairly high at the beginning of the year and locally produced textiles should be available in greater volume. Overall external imports may rise by £5 million or 5} per cent. Imports from Tanzania and Uganda should also rise, particularly if Uganda is able to meet Kenya's sugar shortfall and taken together an increase of £2 million seems likely.

14. The effect of all these changes should be a small improvement in the merchandise account of the balance of payments which together with higher tourist income and increased receipts for handling Uganda and Tanzania goods should lead to some improvement in the Goods and Services Account.

15. As Government development activity accelerates with the implementation of new schemes, the impact of the public sector on the economy will increase. The recurrent budget will rise by approximately 7 per cent and the development budget by rather more, so that the product of Central Government and, in fact, the public sector as a whole is likely to rise by 8 per cent in the year.

16. The rate of capital investment during the year will be an important factor in determining the increase of gross domestic product. It has already been suggested in this Survey that the rate of capital formation is rising and a total capital formation worth £47 million is forecast for 1966, a rise of 23 per cent over the 1965 estimate. This total takes into account new purchases of rolling stock for the Railways and the delivery of two Super VC 10 aircraft for East African Airways but in addition also assumes a much higher level of activity in the building industry.

17. The level of wage employment in 1966 will be determined in part by the rate of progress in the various sectors of the economy and in part by the rate at which wage increases force further economy in the use of labour. Recent experience suggests that wages will continue to rise faster than employment and there is no reason to believe that this trend will be reversed in 1966. On the other hand, the principal sectors of expansion in 1966 are expected to be coffee, tea, pyrethrum and construction all of which tend to be labour intensive activities and therefore favourable to an expansion of employment opportunities. If wages were constant during the year a rise of 5 per cent in employment opportunities could be expected, but in practice, it is unlikely that the number of new jobs created will exceed per cent or about 20,000, compared with less than 1 per cent in 1965.

18. The introduction of the new Kenya currency and the inaugural operations of the Kenya State Bank will perhaps cause the commercial banks to take a cautious view of their lending operations in 1966. Although the banks' advances/deposits ratio is still quite high, there has been a significant improvement in the first three months of the year, while balances have been allowed to accumulate with banks abroad. If account is taken of these balances ,the pressure on the banks' lending position has eased considerably. It is, perhaps, doubtful though whether this will be reflected in increased lending by the banks in 1966, except to finance the higher level of agricultural crops, until the policies of the new state banks become apparent.

19. When all factors are taken into account there seems little doubt that, providing Kenya does not have to suffer any natural disasters, 1966 will be a very good year economically, In part, the increase in gross domestic product expected will represent the leeway made up from last year but to a greater extent the economy will benefit from rising production and rising investment. Overall, gross domestic product is forecast to rise by 8 per cent bringing the economy well back on to the course set by the revised Development Plan 1966-70, and as far as the monetary sector is concerned will keep it ahead of the revised target.

G .P.K. 851—2,100—5/66