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GOVERNMENT OF KENYA

SESSIONAL PAPER
No. 1 of 1963

Observations on the Report of an Economic Survey
Mission from the International Bank for
Reconstruction and Development

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NOTE

The marginal notes refer to pages in the edition of "The Economic Development of Kenya", Report of an Economic Survey Mission, printed in Kenya by the Government Printer, December, 1962.

SESSIONAL PAPER No. 1 OF 1963

INTRODUCTION

The Government of Kenya welcomes the Report of the International Bank Mission which was organized in 1961 at the Government's request in order to provide guidance in the preparation of the next development programme. The Report has been received at a very opportune time, for not only is the Government preparing a development plan for a further period of years, but constitutional changes are necessitating a substantial reorganization of the Government. The Report will therefore be taken carefully into consideration, in the context of both the new organization of government and the next development plan.

2. The Government accepts the general approach of the Mission to the problems of economic development in Kenya. It notes that the broad assignment of development priorities by the Mission corresponds closely to the Government's own approach to and execution of development projects during the past six years; and it notes with gratification the comment of the Mission that Kenya now starts from a situation of great advantage, in that so much has been done and that some services are of a standard equal to the best in Africa.

3. However, it should be stressed at the outset, as the Report itself emphasizes continually, that economic development in Kenya during the next few years will depend critically on the provision of external assistance. It will be necessary for the Government to raise some £29 million from overseas during the next four years in order to complete the £56 million programme proposed by the Mission. Many of the most promising projects, including those essential to the balance of the Programme, are included in the portion still to be financed. The Government stresses that borrowing on this scale, especially given the present requirements of overseas aid agencies, presents a formidable task. The success of the Development Programme will depend not only on careful planning and execution by the Government, but also on the ability and willingness of the overseas aid agencies to make development funds available on terms which fit the needs of the country.

I—PROGRAMME FOR ECONOMIC DEVELOPMENT (Chapter 3)

4. The Government endorses the view of the Mission that the private sector is too large to allow diminishing activity in that sector to be balanced by expansion of the public sector. Private investment, both from overseas and domestic sources, has a major role to play in the development of Kenya. The Government therefore considers that one of its own tasks during the next planning period lies in creating conditions and providing services and assistance designed to encourage private investment. As the Mission suggests, the time is not ripe, nor are the resources available, for the Government to extend further its role in production, although the Government hopes to assist with the provision of capital for industrial and agricultural development in the private sector. The Government agrees that its most rewarding role during the next few years lies in planning for the public sector, while pursuing the policies for healthy growth in the private sector and developing a balanced economy.

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Annex A,
page 220.

5. The Mission by implication endorses a large part of the Government's planning machinery, under which planning is the responsibility of the Minister for Economic Planning and a Development Committee of which he is Chairman, and which consists of Ministers with economic portfolios. The Government notes the view of the Mission on the establishment of a planning commission. It believes however that assistance to and co-ordination with the private sector, as well as planning for the public sector, can be greatly assisted by the recently established Planning and Development Advisory Commission, which includes members drawn from outside Government and is advisory to the Minister for Economic Planning.

6. The Government shares the view of the Mission that development planning should continue to be the responsibility of a minister with a central or co-ordinating role in Government and that, wherever the planning organization is located, constant and close contact with the Ministry of Finance is essential. Steps have been taken to associate the Director of Economics and Statistics more closely with the work of planning and some strengthening of the Development Planning Division has been carried out. Further consideration will be given to the organization of planning staff in all ministries.

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7. The Government is aware that the scarcity of resources for development makes it imperative that capital investment in the services operated by the E.A.C.S.O. must be integrated with the Government's development programme. Consequently, the Government agrees that there should be more consultation and co-ordination with E.A.C.S.O. in the field of planning and will work towards this end.

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8. The Government endorses the view that the main emphasis should be placed on measures to improve production rather than on welfare projects; this has, in fact, been a part of Government planning policy. It is agreed that unproductive relief works are undesirable. The Government believes, however, that sound development projects in themselves create considerable employment and that there is room within a development programme to choose projects which will make substantial contributions both to the immediate problem of unemployment and the long-run need for economic growth. The need to reduce the costs of individual projects is fully appreciated, and designs and standards are continually under review.

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9. The Government accepts the general scale and broad outline of the development programme proposed by the Mission, and in particular endorses the emphasis on increasing production and revenue by developing African cash agriculture and training Africans to assume a greater role in the economy. The Government is aware that a large element in the programme is more correctly designated as reconstruction rather than development, and that this entails certain dangers. In general the broad balance of allocation of resources between competing sectors is acceptable, but it will be necessary to maintain an extremely flexible approach to development priorities due to both the transitional nature of the economy and the almost overwhelming dependence of the programme on external assistance. The present indications are that the Government will have the greatest difficulty in raising as much capital abroad as the Mission suggests is necessary to finance the programme.

10. The heavy dependence of the programme on external finance will require a new approach to the organization of external aid, both by the Government and many of the external aid agencies. A high proportion of the balance to be financed—probably over three-quarters—will represent local cost expenditure. Much of it also represents expenditure on small projects of a kind which are not at present acceptable to external agencies. If there is to be any hope at all of financing a programme of this size and nature, it will be essential for many external aid agencies to broaden and relax their rules and practices as to the financing of local costs; and also to make available some finance for programme support as opposed to project aid. At the same time the Government recognizes its own responsibilities for raising internal as well as external finance, and will energetically pursue all approaches which are possible within the framework of the East African Common Market and the East African monetary system. The Government notes that 37 per cent of the finance for the Programme will be required for the Land Settlement schemes. As this finance has already been negotiated, the balance of the Programme still to be financed from external sources represents a very high proportion (82 per cent) of that part of the Programme not devoted to settlement. The Government strongly endorses the view of the Mission that it should seek loans at low rates of interest repayable over extended periods to conform with the nature of the returns from its development projects.

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II—AGRICULTURE (Chapter 4)

Role of Agriculture

11. The Government fully supports the position taken by the Mission that the agricultural sector is of pre-eminent importance to the economy of Kenya and that the economic development of the country will largely depend upon progress in that sector. Increased output of primary products, which in Kenya means largely agricultural produce, will have to provide the energy for the expansion of other sectors. It is clear, therefore, that agriculture must be accorded the highest priority in the allocation of both technical and financial resources within Kenya's Development Programme.

Page 45.

Development of Farming

12. The Government has placed its emphasis on the development of farming on the lands of high potential in the former African (Non-Scheduled) areas of Kenya, and has been supported in this by the Report. Five-sixths of the high-potential land in Kenya lies in these areas and they offer the best prospects for high returns on capital investment in agriculture. Development has been pursued on the basis originally set out in the Swynnerton Plan, which was primarily concerned with land consolidation and the development of small, mixed farms growing cash crops as part of a crop programme planned by the Ministry of Agriculture. The Mission endorses this policy, but recognizes, as does the Government, that some changes are necessary in the Swynnerton Plan, chiefly due to changing market conditions for crops, especially coffee and pyrethrum. The Government is now considering a new national cash crops policy to meet the needs arising from these new conditions. Nevertheless, the basic tenet of the Swynnerton Plan, which

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was the consolidation of fragmented agricultural holdings, continues to be of primary importance and is a prerequisite for the successful expansion and improvement of agriculture on a smallholding basis.

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13. The Government supports the Mission in placing great importance on the provision of piped water supplies, especially in rural areas. The Mission's allocation of £600,000 over four years for these supplies was made on the basis that the available resources could support no more, although there are useful and viable schemes which could absorb a considerably greater amount of funds. The Government must point out, however, that a number of schemes could be self-financing, and on that ground could attract additional outside finance which might not be available for other projects. In so far as this is the case, it may become both possible and desirable to devote more funds to piped water schemes. The Mission's allocation will be required largely for normal expansion of existing township supplies. The demand for new water supplies will therefore have to be met by additional allocations where this is feasible.

Page 54.

14. The Government agrees with the Report that the development of lands of medium and low potential does not offer attractive possibilities for immediate and substantial returns on capital investment. Nevertheless, these regions, if they remain undeveloped, will become a heavy burden on the economy, and, as the Mission recognizes, there are compelling social reasons necessitating their development. Furthermore, world markets have recently been more favourable towards the produce of these lands, notably sisal and beef cattle. For these reasons it is the intention of the Government that the lands of medium and low potential should receive greater emphasis in future development programmes than they have received in the past.

Page 56.

15. The Mission makes three major recommendations on irrigation schemes. First, the Mwea Tebere scheme on the Tana River should be expanded by 2,000 acres. Second, the United Nations Special Fund preinvestment survey of the Lower Tana region should proceed. Third, a pilot irrigation project should be established on the Kano Plain. The Government has already taken steps to implement the first two recommendations. In the past, difficulties over land acquisition have prevented action being taken on the Kano Plain, but now schemes in the area are being explored.

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Page 7.

16. The critical importance of continued large-scale farming in the former European (or Scheduled) areas is one of the recurring themes of the Report. The Mission points out that increasing productivity in agriculture depends on sound land policy, including security of tenure, whether for Africans or non-Africans, and a careful concern for the economic size of farm units. The importance of agricultural output from large-scale farms is indicated by the fact that, in 1961, 78 per cent of the total farm output of £46 million came from farms and plantations in the Scheduled areas. The Government recognizes the importance of continued large-scale farming and agrees that capital investment must be sustained in these areas. It further realizes that political stability is a requirement for the continued healthy development of large-scale farming. Of equal importance, and largely dependent on political stability, is the maintenance of asset values, including those of livestock.

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20. The Mission recommends that a committee be established to supervise overseas fellowships for post-graduate training for top level agricultural staff, particularly for research posts. It is not considered that such a committee is necessary, since the requirement is covered by existing arrangements under which the Deputy Directors of Agriculture and Veterinary Services select candidates in light of the needs of their departments and the controlling restrictions imposed by the availability of candidates for specific openings in schools abroad and the sufficiency of funds. The Mission also suggests that diploma-level training for agricultural staff be concentrated at Egerton College, the diploma course at Siriba College being replaced by a two-year certificate course. However, the Government considers that if immediate staff needs for diploma holders are to be met, both Siriba and Egerton will have to offer a diploma course until mid-1966, after which time it will be possible to concentrate this training at Egerton.

Page 65.

21. The Government acknowledges the importance of the Mission's proposal to expand and equip a number of agricultural and veterinary institutes and to establish a number of demonstration centres to provide short courses for farmers. This is in accordance with the Government's own long-range plans for agricultural education. However, under the new Constitution many of these centres will be administered by the Regions, and every attempt will be made to impress upon the regional authorities the importance of these institutions.

Page 67.

Crop and Livestock Improvement

22. The Government agrees on the importance of a comprehensive fertilizer policy such as is outlined by the Mission. A plan to subsidize the use of fertilizer has been introduced and suitable precautions are being taken to ensure proper use of fertilizer, as recommended.

Page 68.

23. The Government is aware of the agricultural research needs set out in the Report, but it is doubtful whether the suggested allocation of £150,000 would be sufficient provision to cover these projects.

Page 71.

24. The Mission makes several suggestions on livestock improvement. A scheme to clear the tsetse fly, *Glossina palpalis* (fuscipes), from the Lake Victoria area is recommended on both medical and economic grounds. Since the Mission's visit to Kenya, it has been established that another tsetse fly, *Glossina pallidipes*, is also spreading human sleeping sickness in the same area and the scheme should be extended to include the clearance of this fly also. However, previous experience in the Lambwe Valley has demonstrated that tsetse fly clearance is not necessarily followed by close settlement, and therefore the scheme must stand or fall largely on its medical advantages. The Government is in the process of establishing a committee to review all aspects of the stock breed improvement programme, as recommended by the Mission. The Mission suggests that sufficient exotic dairy stock of high quality are available for the country's future breeding needs. The Government is of the opinion that unless major stock breeders remain in Kenya and are encouraged, there will be insufficient stock for the African farmers who now appreciate the benefits to be derived from the possession of such animals.

The Government is concerned about the wastage of exotic breeding stock and will consider what steps are necessary to reverse the present trend. The Report raises the question of grazing lands management. The Government has agreed to establish a range management section to give overall guidance to the development and improvement of grazing land. It is hopeful that, in association with the other East African Governments, it may be possible to attract international support for a broad scheme of livestock development on an East African basis.

Production and Marketing Policies

25. The Government, realizing that Kenya is faced with adverse conditions of world trade in regard to many primary commodities, agrees there is a need further to diversify the economy and intensify the exploration of export markets. It also agreed that major emphasis should be placed on agricultural planning which has the object of import saving.

Page 73.

26. The Government feels that the present system, under which a section of the Economics and Statistics Division of the Ministry of Economic Planning provides economic intelligence, market research and statistical services for the Ministry of Agriculture, is largely satisfactory. It agrees with the Mission, however, that the work of the farm economic survey unit should be co-ordinated closely with this section and it intends that it should become part of it. Government further intends that market research covering agricultural commodities shall be intensified in accordance with the Mission's recommendations. The Government also supports the Mission's recommendation for an improvement in the collection of agricultural statistics covering small-scale farmers.

Page 75.

Page 76.

27. The Mission supports the importance of continued organized marketing, although advocating some modifications in the system. It is agreed that organized marketing is needed to effect the efficient and profitable disposal of export crops, to ensure a stable and fair return to the producer and to ensure a sufficiency of foodstuffs for the urban population. The suggested review of the statutory boards is at present being carried out by the Ministry of Agriculture. However, it is not expected that any considerable part of the present duties carried out by these boards could or should be transferred to the Ministry as suggested by the Report. Recommendations for change include the replacement of guaranteed minimum returns financed by a crop insurance scheme by contributions from Government and producers. The Cereals Producers Board, with considerable financial assistance from the brewing industry, has assumed financial liability for a crop insurance scheme on maize and barley. Government now retains liability for wheat only, for which the introduction of an insurance scheme is not now considered practicable.

Page 77.

28. The recommended amalgamation of the Uplands Factory with the Kenya Meat Commission would represent a major alteration in the present organization, and is being considered. The Government does not however support the Mission's recommendation that ALMO should be absorbed by the Kenya Meat Commission. ALMO has non-commercial functions which are incompatible with the operation of the K.M.C., and the absorption is further discouraged by

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the possibility that ALMO's commercial functions will be transferred to a number of regional boards. Careful consideration will have to be given to the proposal for the abolition of the Pig Industry Board; absorption into a livestock producers' board is one possibility. As recommended, the proposal to transform the Kenya Co-operative Creameries into a public corporation will be carefully examined, although it has not been apparent up to the present that advantages would be derived from the change.

Page 79.

29. The Mission recommends that the level of prices for certain crops should be related to farm costs at a particular level of desired efficiency, taking into account prices or trends in international markets where transactions are on a commercial basis. The Government feels this proposal has merit, but would place greater stress on production at a price level competitive in world markets, as recommended by the McGillivray Committee. The policy on price levels is again under consideration.

Page 83.

Prospects for Individual Commodities

30. The Government endorses the views of the Mission on the need for Kenya to maintain the high quality, and therefore good reputation, of her coffee. To this end, the Government will endeavour to maintain proper standards of supervision and will continue to support the Coffee Board in imposing penalties upon individuals and co-operatives whenever coffee is produced below specified standards of quality. In addition, measures are being taken to control the amount and location of new coffee plantings, as recommended.

Page 86.

31. The Mission's recommendation that tea acreage in African areas be expanded by 12,300 acres to give a total area of 23,250 acres by 1971 is accepted. Nursery plantings have begun and finance is being sought for the entire programme, which has a high priority. A further expansion is also under consideration.

Page 88.

32. The Government agrees with the Mission that there is scope for the expansion of the sisal industry. A Working Party has already issued its report on the feasibility of sisal growing on African small-holdings, and the Government has taken steps to implement it. Private investors have shown considerable interest in sisal development. Agreement has been reached with one private grower who will develop a nucleus estate and establish factories in Embu District; the factories will process the sisal of both the nucleus estate and African growers in the district. It is hoped that further expansion along these lines will be achieved through private investment at very little cost to the Government and two further similar projects are being planned.

Page 89.

33. It is agreed that the future of the dairy industry, which will play a major part in agricultural development, depends on sound diversification of production, more efficient production at lower cost, the development of nearby markets, and East African collaboration on import policies. The Mission has recommended the adoption of a concise but comprehensive plan for the development and diversification of the industry, which was submitted to the Mission by the Kenya Co-operative Creameries. The Government must withhold judgment on this programme until it has been submitted to careful examination.

34. The development plan of the Kenya Meat Commission covering an expenditure of £557,000 has been recommended by the Mission and agreed in principle by the Government. Page 91.

35. It is agreed that the wool industry should be expanded. The major need is the thorough education, training and supervision of sheep farmers, implying a large and skilled extension staff. Before reaching a decision, the expense involved will be weighed against the probable economic returns. The Government considers, however, that economic wool production is more likely to be achieved on large-scale farms.

36. The Government notes the views of the Mission on the expansion of sugar production. The Ministry of Agriculture is at present negotiating for the erection of further sugar factories and plans an expansion exceeding 50,000 tons of manufactured sugar per annum. Opportunities for smallholder settlers are considered an important aspect of these negotiations. Page 93.

37. The views of the Mission on maize production are being considered. A general inquiry into the maize industry has been undertaken, and the Government is now considering the report.

38. The recommended incentive scheme for barley production has been introduced with the co-operation of the East African Breweries Ltd. Page 95.

39. The Report notes that Kenya has subsidized rice consumption in the past. This subsidy is no longer in effect, and the Government's present policy is to expand rice production to a stage where it will meet all internal demands and provide a surplus for export. Page 96.

Forests and Fisheries

40. The view of the Mission that Kenya should accelerate its forest planting programme is supported by the Government. Although an immediate start on an accelerated programme will not eliminate an estimated deficit of 11,000,000 cubic feet for East Africa by 1980, such a move would substantially improve the situation. Proposals to move in this direction are under consideration. An increased planting programme will require the establishment of some forest produce industries, such as paper and pulp, and the Government has under active consideration possible establishment of such industries. A firm of industrial consultants from Canada is advising the Government on this development. Page 99.

41. The Government feels that the Mission may have underestimated Kenya's potential as an exporter of seafoods. However, it is correct in assigning a comparatively low priority to the development of this export, when agricultural exports are more promising. The internal demand for fish is increasing slowly as traditional prejudices against a fish diet are breaking down. A start has been made on a small scale to exploit the resources of Lake Rudolf to assist the Turkana in developing a cash economy. The domestic fishpond scheme has continued to develop and at present there are believed to be more than 8,000 ponds in existence. The expansion is continuing without the need for any encouragement from the Government, but advisory staff are necessary if the scheme is to remain a success. Beyond these developments no concerted effort to expand the fish industry is being contemplated.

III—MINING AND MANUFACTURE (Chapter 5)

Mining

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Page 104.

42. As the Mission recommends, the Government intends to maintain a positive policy towards the mineral sector. The maintenance of the staff of the Mines and Geological Department at a high level of technical competence has been made more difficult by the need for stringent economy measures throughout the Government. However, an application has been made to the United Nations Special Fund for an intensive mineral survey in the Nyanza Region which will, if granted, be a step towards the active pursuit of a positive mineral policy. Every attempt will be made to support genuine prospectors within the limits imposed by the economy measures.

Government Policy Towards Manufacturing

Sector
Summary 2.

43. The Government is fully aware that the expansion of manufacturing depends on the establishment of a favourable climate for investment. Private investment has a major role to play in the economic development of Kenya, and it is Government policy to encourage such investment at all levels of manufacturing activity. It is appreciated that the resources available for development preclude the Government from making a significant entry into this field, nor is it considered desirable for the Government to do so. The Government has no intention of nationalizing any existing industry. Furthermore, the new Constitution with its Bill of Rights contains provisions ensuring the sanctity and security of private investment. These provisions will be published in concise form shortly.

Page 114.

44. The Report recommends governmental assistance to encourage the growth of local industry in order to displace imports of manufactured goods. Import substitution where economic is Government policy in all spheres of economic activity. The Report is not specific concerning measures which could or should be applied in the case of manufacturing industry, but the Government will continue to consider what measures would be advantageous. Customs drawbacks are, as the Mission suggests they should be, regarded as an extension of general tariff policy. As suggested, the aim has been to rate raw materials duty free in the tariff and not to load costs of production with import duties. The Mission recommends that drawbacks be granted only where manufacture is on a substantial scale and the material on which the drawback is granted is a significant component of the finished product. This is the established policy.

Page 115.

45. The Ministerial Committee of the Common Services Organization for Commercial and industrial Co-ordination reviews periodically industrial policy, including customs policy, thus ensuring a common East African approach to these problems. The Mission recommends that the Committee review the criteria which the Tariff Protection Committee uses in examining applications for protection. As these criteria were examined and agreed by the Governments only recently, it is not thought necessary to carry out a further review at this time. Although there is differing legislation on drawbacks in each territory, there is interterritorial consultation in appropriate cases. After a drawback has been granted by one territory, the others are always informed.

46. The Mission recommends that no further classes of product be subject to industrial licensing and that products subject to licensing be derestricted as rapidly as commitments allow. Licensing is a matter for consideration by all three East African Governments and the Ministerial Committee of E.A.C.S.O. for Commercial and Industrial Co-ordination will be reviewing this question. It is thought that some form of licensing may be essential in order to secure investment and to ensure the viability of particular industries in East Africa.

Page 116.

47. The Report suggests that the opportunity be taken to reorganize the Industrial Development Corporation and to make more capital funds available for worthwhile industrial projects. The Government is aware of the need to encourage industrial development with increased capital funds, and is undertaking the formation of the Development Finance Company of Kenya, which will have an initial capital of £1.5 million. The Development Finance Company of Kenya will devote its resources to financing large-scale industry, while the Industrial Development Corporation will be reorganized to fill a new role as the developer of small industries. The Revolving Loan Fund for small African industrialists has recently been supplemented to help the Industrial Development Corporation accomplish its task, and further finance for the promotion of small industries is being sought.

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IV—TOURISM AND WILD LIFE (Chapter 6)

Tourism

48. The Government shares the optimism of the Report on the potential of the tourist industry, and has followed for many years a policy of enhancing and preserving Kenya's considerable tourist attractions. The Government agrees that tourist policy should aim at increasing the flow of middle-income tourists as well as catering for the "luxury trade". It feels that the middle-income tourist trade should be attracted primarily to the game parks and reserves for the purpose of photographing game, while the hunting *safari* should remain a high-priced, exclusive venture for the upper-income tourist. To popularize hunting through the lowering of licence fees would only result in a serious depletion of Kenya's wild life to the detriment of the tourist industry.

49. The Government has, as the Report recommends, already embarked on an integrated, comprehensive tourist amenities programme. The basic plan is to establish several tourist circuits connecting the attractions both in Kenya and in Northern Tanganyika so that a tourist can see as much as possible without retracing his steps. This involves road development and improvement to connect such points as the Kenya coast, Tsavo National Park, the Masai/Amboseli Reserve, Nairobi, the Masai/Mara Reserve, the Aberdare mountains, etc. Concurrently, lodge capacity is being increased in the various parks and reserves, to the point where lodges can be run at a profit and package tours can be accommodated throughout the circuit. Lodge standards will be sufficiently high to provide the degree of comfort expected by the middle-income tourist. The Government expects, as the Mission suggests, that this programme will attract new tourists and induce private capital to enter the field. The ensuing chain reaction should result in a self-developing and rapidly growing tourist industry.

Wild Life

50. The Mission feels that additional measures will be needed for the protection of wild life if the latter is to be of continuing long-term value to the country. The Government realizes that Kenya's wild life population has been safeguarded, not so much by sufficient sanctuaries, but rather by the reasonable degree of safety outside the sanctuaries. However, this safeguard may be a fleeting one, and it will be necessary to increase the number and area of the sanctuaries. The Government is considering a plan for the first steps to implement this proposal.

V—BASIC SERVICES (Chapter 7)

Power

Page 126.

51. The Government accepts the Mission's evaluation of the probable maximum demand for electrical power in the greater Nairobi and west Kenya areas, with some reservations having regard to the latest estimates of maximum demand prepared by the power company and to experience in other newly independent African countries. It agrees, however, that present capacity, when supplemented by an additional 15 m.w. from the Owen Falls dam, is likely to be sufficient to satisfy needs for the next four years. Nevertheless, the 15 m.w. addition will bring Kenya's maximum take-off from the Owen Falls installation to 45 m.w., which will load the transmission lines to their maximum carrying capacity and which is the maximum allowable under the existing agreement with the Uganda Electricity Board. The Mission's forecast only covers the four years of its proposed programme, but the power company's latest forecast is that demand for electricity will exceed existing supplies, including the additional 15 m.w. from Uganda, during 1967 or soon afterwards, and the company has already been forced to plan additional thermal generating capacity to meet this new demand. In making its decision on the major hydro-electric scheme at Seven Forks on the Tana River, the Government must take into consideration not only the anticipated shortage of generating capacity in four years' time, but also the long-term nature of such a project. It is anticipated that the Seven Forks project would take a total of four years from the first stages of construction until generation can begin. Hence, if the dam is to be built in time to meet the needs of the late 1960's and avoid the wasteful construction of thermal generating capacity, a decision on the dam must be taken during the first half of the four-year planning period discussed by the Mission. It must also be realized, although the point was ignored by the Mission, that in order to satisfy electrical needs after 1967 from the Owen Falls dam or a second Nile dam, additional lines have to be constructed at a cost exceeding the first stages of the Seven Forks dam. Furthermore, a high dam at Seven Forks will be essential to the development of extensive irrigation on the middle and lower Tana. The Tana Irrigation Scheme, which is now the subject of a preinvestment survey by the United Nations Special Fund, may become the most important single development project in Kenya during the late 1960's and the power dam has been designed to ensure its maximum compatibility with the project. The Government, considering these and other relevant factors, has already agreed in principle that Kenya should develop its own source of hydro-electric

accepted. This has been the policy of E.A.R. & H. and the proposal that such review should include the availability, cost and convenience of other means of transport is endorsed as a proper undertaking for an economic unit of the Common Services Organization.

56. The Mission doubts the value of both the policy of controlling highway transport as a means of assisting in the maintenance of Railway revenue and the continuance of differential rates for stimulating agriculture and other industry. However, in the light of the administrative and financial problems likely to confront the Kenya Government and the Common Services Organization over the next few years, it is unwilling to recommend early changes. E.A.R. & H. has now under consideration a review of the railway tariff system which will eventually be considered by the three constituent governments of E.A.C.S.O.

Page 135.

57. The Mission is of the opinion that, because of the general scarcity of development finance in East Africa and because the rate of growth in railway traffic in the next few years is rather uncertain, E.A.R. & H. should be especially careful in controlling capital expenditure and, whenever possible, defer replacements. The Mission does recognize, however, that E.A.R. & H. has in fact been prudent in its control of capital expenditure, and the Government feels that the process of deferring such expenditure may be reaching its limit. Hence the scope for easing the financial situation by postponing replacement of needed equipment is probably small. The Mission's recommendation that railway capacity is generally sufficient to meet present demands and that any expansion of the system should reflect clear expectations of increased traffic above the present capacity is accepted. It is to be noted, however, that the margin for carrying increased traffic, particularly in rolling stock, is rather limited. The Government also realizes that E.A.R. & H. will, in seeking funds for further development, be to some extent, though not always, in competition with the constituent governments in their search for development finance. Therefore every effort will be made to co-ordinate railways and harbours development with the general development programme.

Page 136.

58. The Mission thinks that a critical review should be made of the proposed capital expenditure programme on harbours, with a view towards downward revision. They further recommend that capital expenditure on East African harbours should be limited for the next few years to that required for safe operation to complete projects already begun so that funds already spent will not be wasted, or to prevent excessive delays in traffic under normal operating conditions. These are in fact the criteria which are followed by the E.A.R. & H. when submitting their programme to the constituent governments.

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Civil Aviation

59. The Mission's recommendation that the proposed major extension of facilities at Nairobi Airport be deferred for the next few years is accepted by the Government. However, increased traffic may necessitate considerable capital expenditure which will require some time to plan. The recommended embarkation tax of Sh. 7.50 for locally embarking passengers is being examined; its feasibility and potential return must be weighed against those of possible alternatives.

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East African Posts and Telecommunications

60. The deficits forecast by the E.A.P. & T. Administration for the years 1963 to 1967 which are mentioned in the Report are largely due to the provision for compensation of designated officers. Otherwise, given present trends, a reasonably satisfactory operating revenue is envisaged. The Mission recommends that the proposed capital expenditure programme of some £5.5 million for the years 1963 to 1967 be reviewed and possibly revised downward in the light of the probable departure of a substantial number of current users of E.A.P. & T. services and the scarcity of development capital. It is the Administration's policy to assess its capital budgeting needs continually. The programme referred to in the Report has been reviewed as suggested and reduced to approximately £4 million.

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VI—SOCIAL SERVICES AND MANPOWER (Chapter 8)

Manpower

61. The Government notes the Mission's view that programmes of training to replace expatriate staff with local staff should be accelerated. However, the Mission points to a continuing need for expatriates, especially in specialized posts, for the next few years. The Report underlines the inevitable competition for the limited supply of trained manpower as both public and private sector organizations increase their localization programmes. The Government notes the danger in attempting to claim a disproportionately large share of the training facilities or output of trained personnel.

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Page 151.

62. The Mission suggests that localization should be made the occasion to reorganize the Civil Service with the object of reducing the total complement below present establishment, particularly in view of the country's financial situation. The Economy Commission Report, published in December, 1962, made concrete proposals for such a reorganization and reduction, and these are being largely implemented by the Government. On the other hand, the provision in the Constitution for regional authorities will inevitably result in some additions to the Public Service taking Kenya as a whole.

Sector
Summary 3.

63. Unemployment is one of the most serious problems facing the Government. The Mission's arguments that short-term unemployment relief measures are unlikely to achieve the desirable results and will detract seriously from the financial resources for development, are compelling. Nevertheless, the Government also realizes that short-term considerations can have an important effect on long-range plans, and that relief of the unemployed may well be one of the factors necessary to maintain law and order, which the Mission considers so important for the promotion of economic development. In order to satisfy both the long-term and short-term needs in so far as is possible, the Government will deal with unemployment within the context of its Development Programme. A sound development project can frequently make a significant contribution to the relief of unemployment in the short term.

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64. As the Mission suggests, the Government is pursuing a policy of raising statutory minimum wages toward a family standard as rapidly as conditions permit.

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Education

65. It should be emphasized that Kenya's new Constitution removes the responsibility for primary and most of secondary education from the Central Government, and places it in the hands of the regional authorities. However, because the Central Government will have sole power to borrow funds abroad and because investment in secondary education will largely depend on such funds, the Central Government will have a major share of the responsibility for determining priorities both within the field of secondary education and between projects in secondary education and other development projects.

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66. The Government notes the Mission's opinion that scarce resources should not be utilized in pursuing a goal of universal primary education when these resources are needed more urgently at the post-primary level. However, as both primary and secondary education will be the responsibility of regional authorities, it will fall upon them to make the necessary allocations of their resources between primary and secondary education. It should be noted that universal primary education is a popular goal which has acquired considerable momentum and which may become a compelling factor in the considerations of the regional government. The Mission's suggestion that recurrent costs of primary education be shifted progressively to local school districts will be implemented under the new Constitution, with the proviso that grants from regional authorities will supplement local authority revenues where necessary.

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67. The success of Kenya's long-range economic development depends on an increased supply of well-educated and trained Africans. To fill this need, the Mission places special emphasis on increasing the output of the secondary level of education, and the four-year programme concentrates on establishing secondary schools, increasing secondary teaching staff, and therefore enrolling more pupils. The Government subscribes to this view and also to the corollary, expressed by the Mission, that the retention and expansion of expatriate teaching staff will be a major factor in the success of secondary education. The Government realizes the importance of the task set by the Mission, to maintain a local supply of non-graduate teachers at least equal to their present ratio to secondary pupils.

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68. The Mission, observing that further general education is required beyond the primary level before embarking on specialized training, recommends that a proposed network of technical secondary schools should not be established, but that regular secondary schools should add science-technical streams to their curricula. The Government finds difficulty in adhering to such a policy. In the first place, education in secondary technical schools does not provide narrow technical training of a specific vocational character. Rather, secondary technical schools offer a general education, making use of the special scientific and technical interests and aptitudes of carefully selected pupils, and provide a broad basis for later specialized training in industry or in the engineering faculty of a university. Although the Government is not opposed in principle to placing technical streams in general secondary schools, the final arrangement must be determined in each case by local circumstances and the need to make fullest use of expensive equipment and of scarce specialized staff. Because at least two, and preferably three, parallel technical streams

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are necessary to ensure the full use of workshops and staff, it has seemed more practicable to provide this kind of education in separate schools. The Mission's recommendation that all secondary schools should have a strong science programme has been Government policy, and science courses are now taken by the great majority of secondary school pupils.

69. The Mission includes provision for two new trade schools to be built by 1967. However, the Government now believes that there exists ample trade school capacity for some years to come, particularly if supplemented in certain cases by the upgrading of rural training centres. While the future of trade schools rests with the Regions, Government policy is to link trade school courses increasingly with apprenticeship programmes in industry, an arrangement consistent with the Mission's recommendation that the major part of vocational training at the secondary level be provided under the programmes of the Ministries, combined with those of private firms. The Mission sees a need for additional training at the technician level and therefore supports the Government's proposals for the expansion of the Kenya Polytechnic.

70. The Mission gives a low priority to the further expansion of university education in East Africa. It proposes that, as a general principle, new courses of study should be started only when the cost per student is less than the cost of sending students overseas to universities. The Government fully shares the Mission's anxieties about the present high cost of educating a university student in East Africa and is constantly searching for measures to reduce the cost. However, it must be recognized that the costs per student are unavoidably high in the early stages of development of any course of university study and will inevitably compare unfavourably with the fees charged at overseas universities, as these are normally far less than the full cost of the education provided. Furthermore, the use of this single criterion is not sufficient to cover all the pertinent considerations regarding the expansion of university education in East Africa. A special committee has been considering the future academic and financial policies of the three constituent colleges of the University of East Africa, and the Mission's suggestions are receiving careful consideration.

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Health

71. The Mission draws attention to the important part played by local authorities in providing a network of health centres, and recommends that the best way of extending both preventative and curative medicine into the rural areas is by continuing to assist in the construction of these centres. The Government supports this point of view, and would give even greater emphasis to a policy of active preventative and promotive medicine, as opposed to the mere acceptance of the sick in hospitals. In districts where rural health centre programmes are already well advanced, it has been demonstrated that pressure on hospital beds has diminished. The Government also recognizes that capital assistance for the construction of health centres must be followed by adequate revenues to cover the ensuing recurrent expenditures. Under the new Constitution, this is a matter for the local authorities, so that the expansion of locally provided health services will depend largely on local priorities.

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72. Pointing to the existing shortage of skilled medical personnel and the limited output of locally trained doctors which can be expected from Makerere in the next few years, the Mission emphasizes the need to retain expatriate medical personnel wherever possible. The Government is cognizant of this need. It is agreed that the present rate of training of supporting medical staff should be increased, but additional recurrent expenditure will be necessary to pay the staff when trained. The disadvantages of training staff without adequate assurances that funds will be available to employ them need no elaboration.

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73. In view of the problem of financing the recurrent costs involved in any major increase in hospital facilities, the Mission's recommendation that no general expansion be undertaken at present is supported. The proposed capital programme of improvements to medical institutions is considered modest, but the resources for development will not allow more, and the Mission's assignment of priorities is considered satisfactory. Again, it will be necessary to ensure the provision of funds to meet the resulting recurring costs of such a programme, and in this regard some of the Mission's estimates of recurrent expenditure are understated. The suggestion that a strict limit be placed on the amount of housing provided for medical staff can only be accepted with the qualification that junior staff morale depends to a considerable extent on the adequacy of the housing provided and the proximity of staff housing to the hospitals. Finally, it must be recognized that the Mission's programme, which is dictated at least in part by financial stringency, will at best allow health services to be maintained at their present level of expenditure; it will not enable health services to keep pace with population growth.

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Housing

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74. The Government intends to carry out the country-wide housing survey recommended by the Mission to determine housing needs and provide a basis for housing policy. Negotiations with the United Nations for technical assistance in carrying out the survey are in progress.

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75. The Mission acknowledges that the Central Housing Board plays an important role as the principal instrument of the Government in promoting the construction of houses by local authorities. Although accepting the Mission's stricture that financial allocations from projects will have to be limited to avoid the diversion of resources from projects with higher priorities, the Government also recognizes that economic development in the urban areas must be accompanied by sound community development, including adequate housing. The Mission itself implies that its allocation of £400,000 per annum to housing cannot possibly meet Kenya's needs, and the Government must necessarily keep this allocation under constant review.

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76. The Mission advises against the attempt to meet general low-income housing needs through subsidies, although agreeing that there may be a role for the selective use of subsidies where important external economies are to be gained. The Government concurs in this view.

77. The Government strongly supports the suggestion that self-help home building should be encouraged, and that substantial Government action is desirable to create conditions to encourage private investment and construction in housing. Methods of accomplishing these ends are being studied.

78. The Government notes that its intention to play a more restricted role in the provision of housing for civil servants is supported by the Mission.

VII—MONEY AND BANKING (Chapter 9)

79. The Mission sees no immediate need for a central bank and considers that decisions on future political co-operation in East Africa should come first. It nevertheless suggests that the operations of the East African Currency Board be developed progressively towards the eventual establishment of a central bank for East Africa. The Government notes the view of the Mission, but believes that the first step towards the establishment of a central bank may have to be taken in the near future. The recommendation that a Financial Adviser be appointed to advise the three East African Ministries of Finance on currency and banking matters is accepted. An expert report has recently been prepared on central banking for the Tanganyika Government, and it will be examined by the three East African Governments.

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80. The Mission calls attention to the major role played by commercial banks in promoting economic activity in East Africa. It will, as the Report states, become increasingly important that arrangements be made for the provision of commercial credit to African farmers and businessmen. The need for close collaboration between the banks and the public authorities is noted.

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81. The Mission recommends the establishment of a corporation to add to the agricultural credit facilities provided by the commercial banks and to integrate the activities of the various Government bodies at present dispensing agricultural credit. The Government is preparing legislation to establish an Agricultural Finance Corporation on the lines proposed in the Report. The Land and Agricultural Bank will be associated with the Agricultural Finance Corporation, but will continue to operate under its own board.

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82. Noting that the Post Office Savings Bank has been a short-term borrower but a long-term lender, the Mission suggests that future investments of the bank should be in shorter term securities, allowing greater liquidity. The Government has been aware of this problem and considers this a sound recommendation, but notes the difficulty in following it at a time when withdrawals continue to exceed deposits and the funds for short-term investment are therefore not available. The Mission also suggests a review of the use of savings certificates as a means of attracting small savings. A detailed investigation performed five years ago showed that the difficulties in such a system outweighed its advantages. However, recognizing the need to mobilize savings, the Government will keep this proposal under review, together with other techniques for mobilizing internal savings.

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VIII—PUBLIC FINANCE (Chapter 10)

The Budgetary Problem

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83. The Report projects a Budget deficit of £10 million by 1964/65 if major changes in expenditure policy are not made. The Government fully subscribes to the Mission's admonition that a prompt and radical improvement in the budgetary situation and continuing policies of financial prudence are essential to the growth of the economy. The Mission recommends a combined course of action to reduce expenditure, raise taxation and seek external assistance for the provision of specific services.

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84. In order to reduce expenditure, the Mission suggests a thorough reappraisal of Government outlays with the aim of cutting out non-essential items and those not supporting economic growth. In June, 1962, an Economy Commission was appointed to review recurrent expenditure and advise on what measures could be taken with a view to bringing the recurrent budget into early balance. The Commission has reported and has recommended changes which could result in a saving of £3 million per annum by 1965/66. The Government is taking steps to implement the Report.

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85. The Mission makes a number of recommendations on taxation. The Government will take these into consideration together with the recommendations of the Fiscal Commission in framing its future budgetary policy. Incorporating both its recommendations and those of the Economy Commission, the Fiscal Commission Report forecasts that the deficit of £10 million projected by 1964/65 can be reduced to £3.1 million for all public authorities, of which the Central Government will have a deficit of £2.1 million.

Local Government

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86. The Mission favours the continued expansion of Local Government responsibilities and finances. It also recommends that an increasing proportion of receipts should come from local revenues rather than from the Central Government. The Government concurs with the Mission in these recommendations, and notes that the Fiscal Commission, which was also asked to make recommendations on the future fiscal structure having regard for the framework of the new Constitution, has made several specific proposals to implement these recommendations. One of them, that graduated personal tax should become a source of revenue for local authorities, was also proposed by the Mission.