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ON

RECOVERY AND SUSTAINABLE DEVELOPMENT

TO THE

YEAR 2010

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LIST OF ABBREVIATIONS

AEC	African Economic Community
AIA	Appropriation in Aid
AIDS	Acquired Immune Deficiency Syndrome
ADB	Agricultural Development Bank
ASAL	Arid and Semi-Arid Lands
ASEAN	Association of South East Asia Nations
BRP	Budget Rationalisation Programme
CBK	Central Bank of Kenya
CHE	Commission for Higher Education
CMA	Capital Markets Authority
COTU	Central Organisation of Trade Unions
COMESA	Common Market for Eastern and Southern Africa
DET	Department of External Trade
EPC	Export Promotion Council
EPPO	Export Promotions Programme Office
EPZ	Export Processing Zone
EU	European Union
FKE	Federation of Kenya Employers
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GNP	Gross National Product
HCDA	Horticultural Crops Development Authority
HIV	Human Immunodeficiency Virus
IPC	Investment Promotion Centre

KARI	Kenya Agricultural Research Institute
KIBT	Kenya Institute of Business Training
KIRDI	Kenya Industrial Research Development Institute
KPA	Kenya Ports Authority
KPTC	Kenya Posts and Telecommunications Corporation
KPLC	Kenya Power and Lighting Company
KTMB	Kenya Tourism Marketing Board
KWS	Kenya Wildlife Service
LGLA	Local Government Loans Authority
NHIF	National Hospital Insurance Fund
NDCC	National Drought Co-ordinating Committee
NCPB	National Cereals and Produce Board
NEAP	National Environmental Action Plan
NES	National Environment Secretariat
NFCF	Net Fixed Capital Formation
NAFTA	North American Free Trade Area
NGO	Non-Governmental Organisation
NSE	Nairobi Stock Exchange
NSSF	National Social Security Fund
OAU	Organisation of African Unity
PIP	Public Investment Programme
PTA	Preferential Trade Area
RTPC	Rural Trade and Production Centre
TSC	Teachers Service Commission
SAP	Structural Adjustment Programme
SSE	Small Scale Enterprise
VAT	Value Added Tax

CHAPTER 1

THE CHALLENGES OF RECOVERY AND SUSTAINABLE DEVELOPMENT

1.1 THE CHALLENGE OF RECOVERY

1.1.1 This Sessional Paper is intended to complement and build on *Sessional Paper No.1 of 1986, on Economic Management for Renewed Growth.* It provides a reaffirmation of our medium to long term strategy to maintain measures for socio-economic stability which will lead to sustained development. It is only through sustainable economic growth that the national wealth can be created to support measures to alleviate poverty, protect vulnerable groups and provide rising standards of living for our people. The Paper makes cross reference to recent and forthcoming papers on environment, agriculture, forestry, employment and tourism. The Paper also takes into consideration the Policy Framework Paper, which was discussed with the donor community in November 1993.

1.1.2 Over the period 1985-89, Kenya's structural adjustment programme, as set out in *Sessional Paper No. 1 of 1986,* successfully generated the development needed to create employment, raise the standard of living of ordinary Kenyans and reduce the incidence of poverty. This economic performance was a dramatic improvement over the period 1982-85. The annual growth rate of Gross Domestic Product (GDP) at factor cost, increased from 3.0 percent to 5.1 percent, while GDP at market prices grew at an average rate of 5.9 percent. Concurrently, the fertility rate of women dropped significantly thereby reducing the rate of population increase and improving the growth of per capita incomes.

1.1.3 However, real growth of the GDP has slowed progressively since 1989, achieving a rate of 4.3 percent in 1990, 2.3 percent in 1991, 0.4 percent in 1992 and only 0.1 in 1993. Therefore, the greatest challenge at this time, is to re-assess the country's policy framework and adopt a strategy for recovery and rapid restoration of economic development. While recovery is the greatest priority, the strategy adopted must lead to sustained development in the future, to avoid the large fluctuations in growth experienced in the recent past. The high instability of prices, interest rates, and the rate of exchange in the course of 1993 must be counteracted if the long-run problems are to be successfully addressed.

1.1.4 A combination of factors explain the 1990-93 decline in our economic performance. Poor weather, together with intermittent ethnic strife adversely affected agricultural performance, particularly in 1992. Poor rain also led to power rationing which, together with declining agricultural production, reduced manufacturing output. The transition to multi-party democracy and the 1992 general elections created uncertainty, which reduced investment, tourism and manufacturing output. The influx of large numbers of refugees from neighbouring countries also strained the nation's resources.

1.1.5 The recession that occurred in the developed countries was another contributing factor to the country's slower growth. This resulted in lower export earnings from coffee and tourism, which reduced Kenya's import capacity and terms of trade in 1991 and 1992. Kenya's economy is heavily dependent upon imports as imported capital goods are necessary for investment and capital formation. Imports are critical links in many chains throughout the economy, adverse developments in the trade account contributed to reductions in investment of 14.2 percent in 1992 and in inventory accumulation, which declined by 74 percent. Kenya's capacity to import was also sharply reduced by the freezing of donor balance of payments support in November 1991,

1.1.6 Modern sector employment continued to grow in 1991-92, but the growth rate slowed significantly from an annual average of 3.4 percent 1987-90 to 2.3 percent in 1991 and 1.4 percent in 1992. As a result, considerable slack has developed in the labour market, with modern sector employment at 3.7 percent below trend. Real wages declined steeply by about 8 percent for the second year in a row and consequently consumption was 7.8 percent lower. The rise in prices and fall in public spending reduced domestic demand and, therefore, output in the short run.

1.1.7 The adverse external circumstances of the early 1990s coincided with domestic policy developments which exacerbated financial imbalances. Insufficient control over public expenditures and financial institutions led to a widening fiscal deficit. The financing of the budgetary deficits, together with lax lending policies, caused the money supply to rise far too rapidly. The resulting spiral of inflation, in turn, drove up interest rates to extraordinary levels. Further, in real terms, the Shilling depreciated by some 35 percent against the US dollar between 1990 and 1993.

1.2 A STRATEGY FOR SUSTAINABLE DEVELOPMENT

1.2.1 The goal of this Sessional Paper is to introduce policies and programmes in order to attain economic recovery, re-establish economic stability, and then accelerate and sustain development. The immediate challenge that Kenya must face to attain recovery is the restoration of business confidence. This will be achieved by guaranteeing macroeconomic stability. Such stability will entail the reduction of inflation and the fiscal deficit. The aim is to quickly bring the rate of inflation to single digit figures and to attain further reductions in interest rates. This will be done through maintaining strict budgetary discipline and a balanced budget. A restoration of macroeconomic balance, under conditions of a free financial system and liberalised external flows will be the starting point for recovery. Specific short term measures that must be intensified to restore recovery include: the implementation of the civil service reform; the enforcement of strict monetary controls; the acceleration of the divestiture of non strategic parastatals; and, the abolition of price, marketing and production controls.

1.2.2 There is increasing evidence of the type of policy framework needed for accelerated and sustained development. From 1965 to 1990, income *per capita* in South Korea, Taiwan, Hong Kong, and Singapore grew by 6 percent a year or more, probably the fastest sustained growth rates in history. The stories of the four 'tigers' of East Asia are well known, because they have become models for growth in other developing countries. In the 1970's, Thailand, Malaysia, and Indonesia adopted a series of policy reforms that resulted in similar rapid growth and development. Chile and Mexico in Latin America, Turkey in Asia, and Mauritius in Africa are outstanding examples of countries that have turned around essentially stagnant economies in recent years, to join the ranks of the most rapidly growing economies.

1.2.3 Kenya will adopt a similar framework to generate rapid, sustained growth. Firstly, strict macroeconomic management will be exercised to control budget deficits, the money supply and inflation. Secondly, an outward orientation will be created which does not allow overvaluation of the domestic currency but allows ready access to foreign exchange. Thirdly, establish trade policies which foster an overall "export bias" in the economy, and stimulates private foreign investments. Fourthly, emphasis will be given to the development of our human resources through education and training. Fifthly, wages and labour allocation will be left to liberalised labour markets to encourage mobility and capacity for rapid adjustment. Finally, reliance will be placed on the private sector to determine industrial expansion. Government will minimise complex interventions and instead concentrate on the provision of a conducive environment within which the private sector can flourish.

1.2.4 Physical sustainability requires conscious planning to husband the environment. Renewable resources that contribute to the development of the nation must be utilised and managed in a sustainable fashion. The use of our depletable resources will be budgeted and long-term efforts for their replacement explicitly addressed.

1.2.5 It is only when all citizens are given an equal opportunity to contribute to and benefit from economic development that the nation will become committed to the maintenance of stability. Government will ensure that a positive policy environment is created and maintained to encourage private investment from both domestic and foreign sources. However, Government is particularly concerned that Kenyan citizens should be in a position to fully participate in developing the nation's enterprises and that we increasingly rely upon our own resources to build a prosperous future.

1.2.6 Increased wages and higher rates of employment creation are dependent upon the achievement of high rates of savings and investment. Once stability is secure, business decisions are less risky hence investment is stimulated and savings are allocated in productive ways. Budget deficit control will ensure that the private sector is not crowded out. Investments will be market driven with the private sector responding to the deregulated regime where tax reforms and decontrols lower the risks and costs in decision making. These policies will further stimulate entrepreneurs to make greater use of available resources by creating productive employment for the large numbers of educated job seekers that will enter the Kenyan labour market between now and 2010.

1.2.7 It is vital that the nation increases its ability to import. Imported capital goods are necessary to support increased domestic production in all sectors of the economy. The Government has restored and strengthened its relationship with the donor community and will seek increased balance of payments support, which is particularly needed during the period of recovery. In the long term, the strategy for sustainable development will reduce the dependency on aid and thereby further contribute to economic stability.

1.2.8 As stated in *Sessional Paper No. 1 of 1986,* accelerated growth will increase employment opportunities and act as a catalyst to reduce poverty. With growth, resources will be available to enable society to care for those with insufficient means to satisfy their basic needs. The successful implementation of the strategies in this Sessional Paper will enable a more focused Government to undertake investments in public infrastructure, provide for the development of human resources through better health and education, protection of environment, good governance and the rule of law.

CHAPTER 2
FRAMEWORK FOR DEVELOPMENT

2.1 PHILOSOPHICAL FRAMEWORK

The Philosophical Challenge

2.1.1 This Sessional Paper recognises that development is a much broader and more complex process than the achievement of economic growth. For this reason, various dimensions of development are addressed so that our strategy takes account of historical experiences, expectations and aspirations, diverse cultures, values and practices. When Kenya attained Independence, expectations and aspirations were very clear. Kenyans expected to determine their destiny in terms of political processes and governance. Their expectations and aspirations also centred on better access to economic assets, such as land and capital, better services in education and health, and an equal opportunity to participate in the social and cultural processes. Kenya must strive to establish a tolerant society in which all Kenyans, regardless of their ethnic background, colour and creed are free to practice and profess their customs, cultures, and religious beliefs. In this regard, we must promote a liberated, secure and developed Kenya society with faith and confidence in itself. We must strive for the pursuit of excellence.

2.1.2 In light of the challenges, expectations and aspirations perceived at Independence, the Government of Kenya published the *Sessional Paper No. 10 of 1965 on African Socialism and Its Application to Planning in Kenya*. Nearly thirty years have passed since its publication. The basic tenet of the Paper was to establish a system for political, economic and social progress that is embedded in pragmatism and a free market economy. Over this period, Kenya witnessed dramatic changes in both international and domestic political environments, while economic achievements recorded mixed results. By the mid-1980s, structural dislocations became apparent, necessitating the introduction of Structural Adjustment Programmes (SAPs) as espoused in *Sessional Paper No. 1 of 1986.* An evaluation of the economic performance since the inception of this Sessional Paper is reviewed in Chapter 3. In Kenya, as in other developing countries, the implementation of the SAPs has led to short term, adverse social impacts which Kenya has to address.

2.1.3 Kenya, like many other developing countries during this period, has experimented with the democratic process, moving from a multi-party democracy in the first years of Independence, to a single party system of government from the latter part of the 1960s until 1992, when a multi-party system was re-introduced. However, the pragmatic approaches to governance, with all their weaknesses, have ensured that Kenya remained by and large peaceful and stable. This in turn, contributed to the positive achievements that have been accomplished in the economy.

2.1.4 The end of bi-polar politics has brought with it a new world order. The most dramatic change has been the collapse of communism in the former Soviet Union and Eastern Europe. However, a negative effect of this change has been the resurgence of nationalism which has resulted in conflicts within the region. Closely associated with the collapse of communism and the end of bi-polarity is the introduction of multi-party democracy which brings new challenges and opportunities. As has happened in the former Soviet Union and Eastern Europe, narrow nationalism, in the form of ethnically based political parties, has brought disunity and conflict to Africa. With the re-introduction of multi-party democracy in Kenya similar tendancies have emerged which require concerted political attention.

2.1.5 International cooperation is assuming new dimensions with emerging trading blocks, notably the European Union (EU), the North American Free Trade Area (NAFTA), and the Association of South East Asian Nations (ASEAN) among others. The advantages or disadvantages that developing countries like Kenya can reap from these developments need to be assessed. However, the new developments should encourage African countries to look inward for political and economic unity in line with the Charter of the Organisation of African Unity (OAU) and the Treaty establishing the African Economic Community (AEC). The dynamics of sub-regional economic groupings such as the East African Co-operation and Common Market for Eastern and Southern Africa (COMESA) should be strengthened by member States, Kenya included, with a view to making them the building blocs for African regional integration. In addition, the emergence of a free non-racial democratic South Africa will introduce new economic challenges in Africa that Kenya should not ignore.

Political and Social Stability

2.1.6 The strategies underlying this Sessional Paper demand a political and social stability if all other intended programmes are to be successfully implemented. An unstable political and social environment is not conducive to sustained economic growth. The strategies require the mobilisation of both domestic and foreign resources. However, no investor will risk long term investment in a country where political, social and economic stability do not prevail. An unstable business climate discourages new investment and encourages disinvestment, capital flight, speculative investments, and corruption. To encourage the private sector to play its rightful role, the Government will ensure that political, social and economic stability prevail.

2.1.7 Kenya must therefore, develop along all dimensions. We must strive to develop Kenya in terms of national unity and social cohesion, in terms of the economy, social justice, cultural and spiritual diversity, political stability, system of governance, quality of life, national pride and confidence. By year 2010, Kenya should be a united nation, with a confident, respectful and proud society, infused by strong morals, beliefs and ethical values. We must cherish a society that is fully democratic, tolerant, economically just and equitable, progressive, dynamic and resilient. Indeed, our objective is to build a united nation, capable of social and economic progress in the modern world, and a Kenya in which men and women have confidence in the sanctity of human life, individual rights and liberties and in the proper safeguarding of the interests of the minorities. A nation at peace with itself, territorially, ethnically integrated, living in harmony and full and fair partnership.

2.1.8 While political and social stability should be nurtured through Government actions, it critically depends upon people of different ethnic communities, social groups, gender, religious belief and racial backgrounds feeling mutually secure and identifying with common national interests and aspirations. Although Kenya has maintained peace and stability over the last thirty years, the situation has changed in the last three years. This has made it necessary for the country to re-examine the means of strengthening political stability and of maintaining it in the future. The Government will put in place an institutional framework that will ensure that peace and security improve and are sustained, by :

- encouraging, through constitutional reform, the development of a political system based on democratic principles of openness, tolerance, freedom of expression, association and choice, and the enjoyment of freedoms enshrined in the Constitution;

- ensuring that the benefits of development are equitably distributed among individuals and across the country. Citizens will be offered equal opportunities in the economic sphere and in access to basic welfare provisions; and,
- maintaining good neighbourliness, friendly international relations and regional cooperation by honouring and respecting international treaties and laws.

Governance and Responsible Leadership

2.1.9 The goals of recovery and sustainable development cannot be achieved without creating the necessary enabling environment. Kenyans have to believe that those who make decisions on the use of resources to meet developmental goals, embrace a high degree of accountability, commitment and discipline. Such values are needed to implement the policies set out in this programme and to efficiently utilise the country's financial and human potential. In order to improve, promote and strengthen good governance, all arms of the public service must be nonpartisan in the discharge of duties. They must, however, implement all policies and programmes impartially for the constitutional Government of the day.

Multi-Party Democracy

2.1.10 The Kenya Government is firmly committed to multipartyism and will use all resources to promote and develop the multi-party system. However, Kenyans must avoid irresponsible politics that undermine sustainable human and economic developments, especially in fostering national unity, peace and security. Multi-partyism has to develop the checks and balances that allow for constructive dialogue and criticism between Government, the Opposition and wider society. It must promote respect for fundamental human rights, and foster the development of a civil society by enhancing participation of civil groups in the decision making process.

Regional Conflicts

2.1.11 The conflicts that continue to afflict the African continent have now become of global concern. Resultant from these conflicts are the acute problems of displacement of populations, growing numbers of refugees with the resultant drain of financial resources to cater for their influx. The cost to be paid is the diversion of the scarce resources which otherwise would be for development. Consequently, we are witnessing an Africa characterised by creeping poverty, social unrest and, beyond our control, recurrent droughts which added together represent a potential human crisis. In recent years Kenya has had to play host to a growing number of refugees from the neighbouring countries. There is no guarantee that current efforts towards reconciliation between factions in conflict will succeed. Nevertheless, as in the past, Kenya will continue to play the role of a mediator. In the meantime, the international humanitarian response to the refugee problem in Kenya to supplement the Government's effort, has been commendable in the provision of basic needs. Since this assistance has, however, not been adequate, Kenya has had to sacrifice a considerable amount of her own resources to cope with the crisis. This includes the additional measures put in place by the Government to contain the attendant problems of insecurity and banditry. A further sacrifice that Kenya is making is the over-use of her infrastructure and facilities for relief-related operations, as well as environmental degradation with no compensation by the international community. However, Kenya will continue to support all efforts by the United Nations and the OAU to instill peace through the promotion of harmony, in the spirit of Kenya's policy of good-neighbourliness in search for lasting peace.

2.2 ECONOMIC AND SOCIO-CULTURAL DEVELOPMENT

Economic Policy and the Concern with Social Welfare and Poverty

2.2.1 Government recognises the inalienable right of every citizen, no matter his or her social or economic status, to access to basic welfare provision. It also recognises an obligation to provide the opportunity to all Kenyans to participate fully in the economic development of the country and to obtain a decent standard of living. The commitment of Government to these two central concerns is long-standing. Notwithstanding the very rapid increase in population numbers since independence, enormous progress has been recorded in the provision of basic welfare services in terms of education at all levels, health facilities and access to potable water.

2.2.2 However, in the last two decades certain structural economic dislocations emerged that demanded a re-examination of economic policies. The strategies expounded in Sessional Paper

No 1 of 1986 and reiterated in this Paper, will lead to recovery and sustainable development to the year 2010. The capacity of Government to increase, and maintain, its social welfare provision is dependent upon a buoyant economy. The economic downturn of the past few years threatens this capacity. Therefore, it is vital to re-establish a policy framework that will stimulate the economy to generate the national wealth that will support welfare provision. Furthermore, accelerated growth is the only sustainable approach to increase employment opportunities and provide the resources that will enable society to care for those with insufficient means to satisfy their basic needs.

2.2.3 However, even with an expanding economy, public expenditures must be controlled and it will be difficult for Government to increase per capita outlays, given continuing population increases, without endangering the sustained economic growth upon which Government revenues rely. Part of the answer to this problem lies in contributions by the individuals and families who benefit from facilities providing basic needs. Those who benefit most from economic growth in terms of increasing incomes must expect to contribute commensurably to the welfare services they use. The imposition of user charges on those members of society who are able to pay will enable Government to target welfare assistance to the more disadvantaged and vulnerable groups within society.

2.2.4 Experience with structural adjustment programmes in Kenya, as elsewhere in the developing world, has shown that these programmes have short-run, painful and undesirable impacts on people's welfare. Attempts to curtail public expenditures allocated to basic need services in health and education will reduce their availability. Foreign exchange and price liberalisation often lead to higher prices which reduce purchasing power, particularly for the poorer. In the short term, both relative and absolute poverty may well increase in the adjustment process. In order to alleviate the short term adverse effects resulting from the implementation of structural adjustment, the Government will establish a Social Dimensions Fund. Targeted programmes will be financed through this Fund to provide temporary measures to protect the poorer members of society from hunger and deprivation. Details of the Social Dimensions Fund will be addressed in the forthcoming Paper on "Social Dimensions of Development". Given the very large financial implications of this undertaking, contributions will be sought from sympathetic donors.

2.2.5 A well educated and healthy population is a fundamental prerequisite for sustained economic growth as well as a basic right for each member of society. Consequently, Government is committed to increase the proportion of public spending that goes to basic welfare service programmes that reach a large number of the poor. Given overall constraints on resource availability, this will require targeted interventions. In the education sector, Government will re-allocate expenditures toward primary and secondary education, increase spending on supplies of educational equipment, and improve the provision of text books in poorer Districts and other disadvantaged areas. Scholarships and bursary programmes will be expanded for students from families otherwise unable to afford full schooling. The Government will also consider other appropriate financial interventions at the primary level to preserve equity and access by vulnerable groups. In the health sector, greater attention will be given to improving services offered at health centres which represent the most accessible facility for curative care. Programmes to immunise against childhood diseases will be generally expanded together with all aspects of preventive health care. Hospital and health centre user charges will be continuously be reviewed to see whether adjustments in fee levels and exemptions are needed to ensure universal access. These and other measures are detailed in Chapter 9.

2.2.6 Malnutrition and susceptibility to disease are direct results of poverty throughout society but pregnant and nursing women and young children are particularly vulnerable. Government will continue to provide support to severely malnourished children through direct feeding programmes at hospitals and health centres. In an effort to improve the nutritional status of school children in disadvantaged districts cooked meals will be provided at school. The milk programme will be targeted to reach pre-school children in arid and semi arid areas. In times of drought, food relief programmes will be initiated. To lessen the impact of drought, Government will increase research and extension programmes for drought-resistant crops. Special programmes will be initiated to support poorer members of the community, including public works programmes that provide income while creating productive assets, such as water schemes and roads.

2.2.7 However, while Government will attempt to alleviate pockets of poverty, assist vulnerable groups and provide relief in times of emergency, the immediate responsibility for employment creation and income growth rests firmly with individuals, groups and to the community at large. While government will invest to develop and protect our human resources, it is the private sector that must invest in the productive enterprises that will provide the employment and generate incomes to enable its citizens to achieve higher standards of living.

The Role of Education in Political and Social Change

2.2.8 As indicated in the *Seventh National Development Plan, (1994-1996)*, the Government intends to institute far reaching reforms in the education sector. Education is one of the most powerful instruments in promoting political awareness and social change, especially among youth. Those that are currently in school will become adults between now and the year 2010. They will be key actors in all sectors including political, economic and social decision making processes beyond the year 2010. At a basic level, literacy, leads to a better appreciation of the economic, social and cultural environments. Education is essential to develop the necessary dialogue between communities and their Government, and enable them to articulate their needs. At higher levels, education provides the necessary skills to promote higher human productivity. It also exposes people to international influences in the areas of culture, use of modern technology and consequently may lead to changes in aspirations and human relations. In this regard, the Government will provide an education system that inculcates a sense of national belonging; commitment to hard work and self-reliance; appreciation of our cultural heritage; promotion of family values; and the understanding of the demands of the democratic processes.

Gender Issues

2.2.9 The important role women play in national development has been fully appreciated in Kenya. Women have been recognised as playing a significant role in producing the nation's food and wealth, as keepers of family health, the first teachers of children, and the guardians of the nation's morals. The Government has, and will continue to give a high priority to the involvement of women in national development. Many development projects implemented after the Women's Decade (1974-84) under the banner of "Women in Development" have not resulted in real improvements in the lives of Kenyan women. Consequently, an approach has been adopted called "gender and development" to avoid the treatment of women's issues in a discrete and isolated manner. This approach is based on the principle that development will occur only when the dynamics of differential power and privilege between men and women are addressed. This in turn implies that both access to, and control of, economic and social resources and benefits must be equitable. In particular, women's access to land and control of other production resources, as enshrined in the current succession laws, will be enhanced.

2.2.10 The Government will continue its efforts to ensure that women participate and benefit equally from the development process. Efforts to improve opportunities for women have focused on improving their human capital through increasing their access to education and health care. Further, given the important role played by women in the rural sector, improvements will be made to agricultural extension support to women farmers. This last concern will include re-designing the agricultural extension service to provide information that is directly relevant and accessible to rural women. The recruitment of women as extension staff, the use of women's groups to disseminate technical information, will be enhanced to improve productivity.

2.2.11 The Government will increase its efforts to raise the proportion of girls who attend primary school in ASAL areas and continue their secondary and university education, and encourage their enrollment in science and technical courses. Increased education and income opportunities will contribute to improved child health and reduce family size. The Government will also initiate ways to improve women's access to productive resources such as agricultural inputs, water, fuelwood and credit.

2.3 ENVIRONMENTAL SUSTAINABILITY AND DEVELOPMENT

General Policy Framework

2.3.1 Since the 1972 United Nations Conference on the Environment in Stockholm, both the developing and developed nations have given more emphasis to the environmental consequences and the sustainability of development policies and processes. However, the fundamental cause of environmental degradation in Third World countries, which is "poverty", was not fully addressed in the Stockholm Declaration. In recognition of this, the United Nations Conference on Environment and Development (UNCED) was convened in Rio de Janeiro in June 1992 to find realistic solutions for resolving the apparent conflict between development and poverty eradication on the one hand, and environmental conservation, preservation and rehabilitation on the other. The result is Agenda 21, in which the World Community pledges itself to mobilise financial, human and technological resources, to achieve sustainable development within this century.

2.3.2 Rising population pressures, migration and rapid urbanisation have increased the need for urgent action to conserve and rehabilitate Kenya's unique and fragile environments. In response to these challenges, the Government is preparing a comprehensive National Environmental Action Plan (NEAP), which will be shortly completed and formally adopted. NEAP will translate broad environmental concerns into specific action plans and identify policy measures and investment priorities. While recognising the need to develop a comprehensive approach to deal with Kenya's environmental problems, the Government's immediate priorities and focus will be on forests, wetlands, Arid and Semi Arid Lands (ASALs), the wildlife sector and the incorporation of environmental concerns into the Public Investment Programme.

2.3.3 Immediately after the Stockholm Conference, Kenya established the National Environment Secretariat (NES) as the watchdog on environmental matters. Spearheaded by NES, more will be done to evolve a unified and integrated environmental policy, especially with regard to regulatory processes and standards, capacity building in planning and policy analysis, public education and information, as well as in research and technological development.

Wildlife and Tourism

2.3.4 Wildlife constitutes an important resource with substantial socio-economic, cultural, scientific and environmental values. Wildlife is estimated to account for about 50 percent of the country's tourism earnings. Its linkages with other subsectors also contributes significantly to total wage employment. In addition, the country has rich aquatic resources in both fresh and marine waters that offer benefits in terms of, increased income, food and recreation.

2.3.5 Tourism is an industry where the objectives of environmental protection and economic development are interdependent. The revenue from tourism provides a means of conserving the natural environment while creating employment and economic growth. Tourists are attracted to natural environments whether in game parks or on sea-coasts. Environmental degradation reduces the value of these income-earning assets. However, unless properly managed, tourism's own success threatens the unique environments on which the industry depends. The Government support to the Kenya Wildlife Service (KWS) has led to considerable progress in relating the cost of managing wildlife in protected areas to revenues arising from tourism and also in sharing the benefits with the local communities.

Drought Management

2.3.6 Drought, and other natural disasters, are an ever present threat to the well being of the country. They result in suffering in the form of famine, chronic malnutrition, livestock mortality, conflicts over grazing and water resources, environmental degradation, deterioration in health, dislocation and a general breakdown in community structures. The alleviation of the immediate and longer term impact of drought puts a heavy strain on public resources. Whenever drought-related disasters strike, Government resources have to be diverted from on-going development activities in order to cope with the emergency. Frequently, donor agencies and NGOs have provided vital complementary assistance. However, while such joint efforts have succeeded in alleviating disasters, relief programmes have often been managed on an ad hoc basis. This approach has led to duplication, wastage, and frustration on the part of both the relief givers and the target recipients.

2.3.7 There is strong evidence that drought occurs in a cyclical pattern and so more can be done to predict and prepare for these disasters. Existing regional and local Early Warning Systems will therefore be strengthened to provide the information that would enable relief agencies and local communities to prepare for, and mitigate against, the worst impact of drought. Droughts are more frequent and severest in arid and semi arid areas and so should be the focus for mobilisation and awareness-building programmes. Research and extension programmes for dry land farming systems, drought resistant crops, water harvesting technologies, particularly dams and pans, and livestock fodder production will be expanded to provide the means to lessen the adverse impact of drought conditions.

2.3.8 A National Drought Coordinating Committee (NDCC) will be created, composed of relevant Government departments, donor agencies and NGOs. The NDCC will be an autonomous body, provided with a permanent secretariat, with responsibility for coordinating research, monitoring, and information dissemination on all matters related to drought management. It will also draw up preplanned strategies and projects for drought relief whose implementation will be triggered at different stages and severities of drought.

2.3.9 All future drought relief programmes will be designed not only to alleviate immediate suffering but also to induce development and behaviour that will forestall or minimise the impact of any further droughts. Furthermore, all development programmes implemented in drought-prone areas must be orientated toward increasing capabilities to overcome drought conditions.

Urbanisation and Human Settlements

2.3.10 The rapid increase in the urban areas of Kenya projected to 2010 will create other sets of problems. The concerns include the provision of decent shelter and housing, safe drinking water, waste disposal and physical infrastructure, especially roads and transport. The administration and financial framework of urban development needed to cope with these and other concerns arising from rapid urbanisation are addressed in Chapter 9.

CHAPTER 3

PAST PERFORMANCE AND FUTURE PROSPECTS

3.1 IMPLEMENTATION OF SESSIONAL PAPER NO.1 OF 1986

Fiscal and Monetary Management

3.1.1 *Sessional Paper No. 1 of 1986*, proposed a reduction of the overall fiscal deficit from around 4.1 percent of the GDP in 1985/86 to 2.5 percent by the year 2000. The Government moved towards this deficit target through resource mobilisation, levy of user charges, as well as expenditure control and rationalization. Ordinary revenues, including Appropriations-in-Aid, increased from 21.3 percent of the GDP in 1985/86 to 23.7 percent by 1991/92, thus making it possible to achieve the target rate of 24 percent by the year 2000. Over the same period, expenditures increased from 23.3 percent of the GDP to 28.4 percent, mainly as a consequence of domestic and foreign interest payments.

3.1.2 Over the five year period 1988/89-1992/93, recurrent expenditures declined from 16.5 percent of the GDP to 14.2 percent and development expenditures from 7.2 percent to 5.8 percent. Domestic and foreign interest payments increased from 6.3 percent of the GDP to 10.9 percent over the same period. Steady progress was maintained in reducing the budget deficit to about 2.9 percent of the GDP by the year 1991/92. However, in 1992/93 the deficit rose to a high level of 7.5 percent. Government's fiscal balance as measured by primary deficit (i.e. overall deficit less interest payments) has continued to be positive since 1991/92 as a result of a very strict control over Ministry expenditures. Substantial progress has been made in tax modernisation and reform since the late 1980's. Sales Tax was replaced by Value Added Tax in 1989 and income tax rates progressively reduced.

3.1.3 On the management of public expenditures, Government implemented the Budget Rationalisation Programme which improved the budget processes and established a macroeconomic framework for the forward planning of Ministry expenditures. An expenditure ceiling system was introduced and gradually refined and closely monitored. Simultaneously, the three year financial planning exercises were strengthened and much more closely integrated with the annual budget. The linkage of the Forward Budget with the estimates processes also assisted in addressing some of the major structural constraints of the budget.

3.1.4 In order to reduce the rate of growth of expenditures on salaries and allowances, several measures have been taken since 1990. These include the freezing of new recruitment to Job Group A-G, the ban on filling posts that have remained vacant for more than six months and the subsequent removal from the establishment of a large number of vacant posts. These measures are now being expanded through the phased implementation of a Civil Service Reform Programme (see Chapter 10). Expenditures on salaries which grew at an annual rate of 22 percent in the late 1970's and 12 percent in the mid 1980's have slowed to 9.1 percent in 1990. Simultaneously the per-capita non-wage operating expenses increased in real terms by 38 percent between 1986 and 1991.

3.1.5 As far as the project portfolio was concerned, a number of measures were implemented to speed up the implementation of on-going projects and to improve the quality of the portfolio. Ministries have from 1992 classified all their projects into "core", "high " and "medium" priority, to assist in the allocation of budgetary resources. As a result of a review of projects in all sectors, and the subsequent introduction of the Public Investment Programme, the total number of projects has been reduced from 2,558 in 1991/92 to 1,177 planned for 1994/95 with GOK financed projects reduced from 1,937 in 1991/92 to 736 in 1994/95.

3.1.6 The Government also implemented the policy of levying user charges in a number of sectors, particularly in university education, and curative health services. As a result, the recurrent Appropriations in Aid increased from 0.6 percent of the GDP in 1988/89 to 0.9 percent in 1991/92. There were however, some large increases in Ministry expenditures due to the importation of food, drought and security, as well as on the multi-party elections. There was also some delay in the realization of AIA's by the Ministry of Education during the first three years of introduction of user charges leading to budget overruns.

3.1.7 The Government has continuously improved the system of budget monitoring and strengthened control over actual expenditures at the macro level. This has contributed to achieving the macro level fiscal targets of budget deficit and domestic bank and non-bank borrowing. An extended monitoring system was introduced in 1993 to capture expenditures at the detailed budget item levels such as, salaries and allowances, district expenditures, and expenditures on programmes and projects. This new system has provided improved control over expenditure through monthly monitoring on a ministry by ministry basis.

Financial Market Development

3.1.8 The broad proposals for the development of financial markets that have already been implemented include: creation of the Capital Markets Authority (CMA), restructuring the Nairobi Stock Exchange, introduction of new financial instruments, liberalisation of interest rates and credit controls, and the introduction of a secondary market for Government financial instruments. These also reduce the excessive dependence on short term debt to finance economic activities.

Rural-Urban Balance

3.1.9 The Rural-urban balance strategy was intended to foster economic growth in rural areas through strengthening economic linkages between urban areas and their rural hinterlands. Selective public investments were made in designated Rural Trade and Production Centres (RTPCs). Eight RTPCs were implemented at a cost of Kshs. 165 million. Nine more RTPCs were identified but implementation has been delayed due to lack of funds.

3.1.10 In addition, the strategy aimed at strengthening the performance and financing of local authorities. Despite some progress in improving their revenue base, local authorities remain poorly equipped to perform their functions effectively.

3.1.11 The rural-urban balance was also concerned with measures to promote informal sector development which was expected to generate off-farm employment opportunities. A comprehensive policy framework for small scale enterprise development is contained in the *Sessional Paper No. 2 of 1992 on Small Scale Enterprises and Jua Kali Development*. The policy guidelines emphasised the Government's role as that of a facilitator rather than a direct participant. Employment in the informal sector increased at an average of 12.7 percent per year between 1986 and 1992, far above the forecasts of 3.5-4.5 percent.

Agriculture and Food Security

3.1.12 The policy for agriculture in Sessional Paper No. 1 of 1986 had three aims: to ensure the nation's food security, to contribute to export earnings and to promote higher farm incomes through off-farm employment as envisaged in the rural-urban balance strategy. To achieve these aims, land was to be reallocated to activities with higher returns per hectare, and productivity raised through using better seeds and cultivation techniques.

3.1.13 Performance within the agricultural sector has been mixed. Coffee performed poorly, mainly due to the sharp decline in international coffee prices, but tea and horticulture production exceeded expectation. Production in the dairy industry has been erratic due to drought and price adjustments not keeping pace with costs of production. The decontrol of milk prices in 1993 and removal of the Kenya Co-operative Creameries monopoly has encouraged additional investment in milk marketing. The decontrol on meat prices and the removal of the Kenya Meat Commission monopoly in 1987 awakened the industry from a period of prolonged stagnation.

3.1.14 The Sessional Paper No. 1 of 1986 also proposed the adoption of import/export parity pricing for food crops as well as intensified research, improved internal management in the National Cereal and Produce Board, and the promotion of alternative cereals crops. International parity pricing was adopted for maize and cotton and subsequently extended to other commodities. Complete liberalisation of maize marketing has been achieved.

3.1.15 As a measure to promote increased use of fertiliser, the importation and distribution of fertilizer was progressively liberalised. The response to these moves has been disappointing, partly due to the depressed state of the coffee sector, the largest user of fertiliser in Kenya and, to increased fertiliser prices which made the commodity out of reach for the average farmer.

Industry and Trade

3.1.16 The programme for industry aimed at both countering the anti-export bias and improving incentives in the domestic economy. Measures already implemented to achieve these include price decontrol, liberalisation of imports and exchange controls, tariffs adjustment, and implementation of export promotion schemes.

3.2 ECONOMIC PERFORMANCE SINCE 1986

3.2.1 Real GDP at factor cost from 1986 to 1990 grew by an average of 5.0 percent compared to the targets of 4.8 percent per year for 1984-88 and 5.9 for 1988-2000. In the trade sector, real exports grew strongly, by 7.8 percent per year on average and were augmented by a major inflow of structural adjustment loans on the capital account of the balance of payments. This allowed real imports to rise by 11.8 percent per year. In contrast, over the two years 1991-92 real GDP growth slumped to an average of 1.4 percent per year. The quantities of exports and imports declined at an average of 1.7 percent and 7.3 percent respectively. In the manufacturing and services sectors, growth was substantially below expectations, but the most serious shortfall was in agriculture which fell by 5.2 percent. The decline continued in 1993, registering an overall growth rate of 0.1 percent

3.2.2 Four broad types of explanations for the slowdown in growth over the last two years are: the structural adjustment process, internal political change, macroeconomic management, and external factors. Adjustment causes dislocations in the economy which adversely affect growth in the short term. The removal of high rates of protection, for instance, reduced production incentives in existing industries but it takes time for new industries to expand. There is evidence that some specific policy reforms in Kenya had a far less significant impact on production than anticipated: the pricing and marketing of fertiliser is a particularly important example. Another significant aspect was the timing of changes that were implemented. Much of the reform in Kenya's tariff and import regime occurred early in the process whereas most of the specific price decontrols have occurred recently.

3.2.3 Many of the sectors that have done well over the past three years are those where policy reforms were introduced earliest and then sustained. The implementation of reform affecting the financial sector, for example, has been most successful, leading to a growth of 6.5 percent over 1990-92. Significant achievements were also made in trade and industrial policy. These have resulted in a high rate of export growth for horticulture and other non-traditional commodities. Results for the traditional agricultural sector have been disappointing.

3.2.4 The 1992 multi-party election in Kenya created uncertainty which negatively affected tourism, investment and industrial production. Ethnic strife has been an additional factor that adversely effected agricultural production.

3.2.5 Macroeconomic policies and actions have had a negative impact on the modern sector. The continued deficit on current account constrained private investment. The rapid expansion of the money supply and acceleration of inflation throughout 1990-93 created uncertainty and reduced growth.

3.2.6 Several other factors contributed to the decline in the economy. These include: the Gulf War, the drought experienced between 1991 and 1993, and world recession, which reduced the demand for tourism. Scarcity of foreign exchange required for the importation of key inputs and the withdrawal of balance of payments support in 1991 also affected the economy adversely.

3.2.7 Overall, the recent events show the classic signs of a business cycle slowdown. Investment went down by 14.2 percent in 1992, inventory accumulation and exports declined by 74 percent and 3 percent of the GDP respectively. At the same time, public consumption was 7.8 percent lower because of severe fiscal constraints. Real GDP at market prices rose by a meagre 0.4 percent in 1992. The severity of the downturn was due to the coincidence of all these factors.

3.2.8 It is not possible to prevent a similar coincidence of such factors in the future but there are some important lessons. The more dynamic and less regulated private sector industries performed better because they were able to respond fast to changing circumstances. Because of the continued critical role of imports, Kenya will continue to emphasise an export led growth and reduce dependence on donors for balance of payments support.

3.3 TARGETS FOR 1994-2010

3.3.1 An overriding goal of Government economic policy is to attain renewed growth as soon as possible. On the basis of policies outlined in this Sessional Paper, it is expected that GDP growth will recover to 5-6 percent per annum by 1996. The implementation of policies contained in this Paper will enhance the growth rate and sustain it to the year 2010. The increased economic activity will to derive from higher private sector investment in response to more stable macroeconomic conditions, as well as more efficient access to imported inputs and capital goods. In addition, the increased efficiency of investment associated with the restructuring of key public enterprises will also expected to boost economic growth in the medium term. A higher level of national saving will to come from sustained fiscal adjustment over the period, as well as the response of private saving to positive real interest rates. In turn, the higher level of saving will contribute to lowering the external current account deficit. Exports are expected to respond positively to the incentives introduced through the liberalised exchange and trade regimes.

3.3.2 The GDP is expected to grow by 3.0 percent in 1994. Thereafter, the annual growth rate is expected to accelerate to 5-6 percent. This is around the same rate as projected by *Sessional Paper No. 1 of 1986*. Agriculture is expected to rebound in 1995. The recovery will then broaden to other sectors from 1995 onwards. In the longer term, growth will be most rapid in the manufacturing and service sectors. Civil Service reform will curtail the growth of public sector in the medium term, but Government outputs are essential to the economy and therefore public sector productivity will eventually have to grow in proportion to the expansion of the economy.

3.3.3 The growth of the capital stock slowed in the 1980s, to 2.7 percent per year compared to 7.1 percent in the 1970's. By the early 1990's, gross investment barely sufficed to keep the capital stock from shrinking. Many sectors of the economy have chronic excess capacity as a result of high import protection and excess capitalisation in the parastatal sector. As a result, an expansion of supply, with little new investment initially should present no difficulties. Finally, as a result of the depreciation of the Shilling, there will be a strong incentive for investors to choose labour intensive technologies. Consequently, capital/output ratios are expected to fall throughout the period.

3.3.4 Table 3.1 presents population projections to the year 2010. The population is forecast to be 29.7 million in the Year 2000 and 36.9 million in 2010. The forecast for year 2000 is well below the forecast in *Sessional Paper No.1 of 1986*. The main reason for this is the lower fertility rates recorded since 1989. The total fertility rate fell from 7.9 in 1981 to 5.4 in 1991 and is forecast to decline to 4.1 and 3.3 in 2000 and 2010 respectively. Lower population growth rates are also forecast because of the impact of HIV/AIDS on mortality. This is not an important factor to the year 1995, although the epidemic is still spreading rapidly, the number of deaths is not yet great because of the slow onset of symptoms. By 2000, the cumulative number of premature deaths resulting from AIDS is expected to near 900,000 and rise to 2.8 million in 2010. These forecasts also incorporate a slowing of the rapid spread of the epidemic resulting from increased awareness and changes of sexual behaviour which begin to take effect from 1997.

TABLE 3.1:
PROJECTION OF POPULATION TO YEAR 2010
(000's)

	1980	1990	2000	2010
Total	16,670	22,753	29,706	36,898
Growth Rate (percent)		(3.5)	(2.7)	(2.2)
Female	8,390	11,399	14,855	18,461
Male	8,280	11,354	14,851	18,437
Rural	14,170	18,727	22,755	25,581
Rural Share (percent)	85	82.3	76.6	69.6
Urban	2,500	4,026	6,951	11,217
Urban Share (percent)	15	17.7	23.4	30.4

3.4.5 By 2010, the dominantly rural character of Kenya will have changed, with 30.4 percent of the total population living in urban areas. In 1989, 85 percent of the population still lived in the rural areas but 25 percent of the growth of population occurred in urban areas. By 2010 more than 50 percent of the growth of population will be occurring in the urban areas.

CHAPTER 4

PUBLIC FINANCE, MONETARY POLICY AND FINANCIAL MARKETS

4.1 FISCAL AND MONETARY SITUATION IN THE 1990s

4.1.1 Kenya passed through a turbulent period in the early 1990s, characterised by rapid monetary expansion, large budget and balance of payments deficits which translated into high rates of inflation and interest, and a sharp depreciation of the Shilling. The Government has drawn a number of lessons from this experience and from policy implementation of successful newly industrialised countries. The most fundamental of these lessons is that sound macroeconomic stabilisation and discipline is critical not only to preserve stability in the short run, but also as a foundation for sustained growth.

4.1.2 The establishment of a viable position and ultimately a balance in the fiscal accounts is a primary goal and key to financial stability. This will be complemented by a strong market oriented monetary policy and a sound financial system. Further development of financial systems and capital markets will not only facilitate the interaction between savers and investors but also allow effective use of indirect monetary policy instruments. In addition, fiscal and monetary policies must ensure that currency exchange rates maintain Kenya's competitive position in the world economy. These components of domestic and external financial policy will be examined in turn.

4.2 FISCAL POLICY

4.2.1 A substantial tightening of fiscal policy was imposed in 1993/94 aimed at reducing the overall budget deficit. Over the medium term, fiscal policy will remain tight, with emphasis on the restraint of expenditures and further revenue enhancement. A major objective of fiscal policy over this period is to sharply reduce the level of domestic borrowing for deficit financing and, to the extent possible, make net repayments on domestic debt, thereby freeing resources for private sector activity.

4.2.2 Revenue collection has been improved, and expenditures by ministries have been cut back. The budget deficit, however, remains large, due mainly to very high interest costs on the domestic debt. This reflects not only the large fiscal deficits over the past few years, but also the issuing of Treasury Bills to absorb excess liquidity in the economy. The interest rates on Treasury Bills and bonds have already come down to more normal levels after the very high rates experienced in 1993. A temporary factor affecting the public debt has been the cost of drought relief. A balanced budget will allow more resources to flow to the private sector. It will also stop further increase in the national debt as a result, debt-servicing will cease to be an excessive drain on the budget and on the balance of payments.

4.2.3 Central Government revenue is targeted in the short term to increase from 22 percent of GDP in 1992/93 to 24 percent. The overall goal is to enhance revenue collection through broadening the tax base while reducing the maximum rates of import duties, income taxes and VAT. The broadening of the tax base will be accomplished, *inter alia*, by removing tax exemptions granted to public enterprises and by expanding VAT coverage in the service sector. Measures to enhance the collection of duties will include an improved Pre-Shipment Inspection of imports. The Personal Income Tax Number system for tax assessments and further commitment to computerised tax administration will also result in improved revenue collection in the medium term. The Tax Modernisation Programme will continue to enhance the efficiency of tax collection, provide a tax structure that is more responsive to GDP, and encourage more savings and investment as opposed to consumption.

4.2.4 The Government is committed to reduce overall spending in the course of the next three years, while concurrently shifting its focus towards expenditure which fosters economic growth. Total expenditure and net lending is expected to be reduced to about 29 percent of GDP immediately and then further to 26 percent in the near future.

4.2.5 Achievement of budget deficit reduction in the medium term will be supported by improved enforcement of budget monitoring and control. The issuance of circulars on the accountability of accounting officers with respect to procurement procedures and unauthorised or extra budgetary expenditures (issued in September 1993), will be complemented by enforcement of sanctions in cases of non-adherence. It has been reaffirmed to accounting officers that certifying undelivered goods as actually delivered will result in their dismissal and appropriate legal action. Similar measures will be taken with respect to Government officials involved in cases of financial irregularities. The Government will also initiate measures to clear the backlog of pending bills and to improve the expenditure disbursement, control, monitoring and reporting systems.

4.2.6 A detailed review of public expenditure is currently underway. The Government will incorporate its recommendations as necessary in future budgets. There will be a re-allocation of budget resources towards the core functions of Government: the maintenance of law and order, the administration of justice, the provision of broad-based education and health services, the provision of economic infrastructure, and the protection of the environment. The Government's objective is to raise Civil Service wages towards parity vis-a-vis the private sector. This will be achieved while reducing the wage bill in relation to GDP as the size of the Civil Service will be reduced through retrenchment as described in Chapter 10. To spur growth, development expenditure and recurrent non-wage operating and maintenance expenditure will increase as a share of GDP.

4.2.7 A medium term goal is to allocate at least 75 percent of the development budget to projects that satisfy the core government functions enumerated above, with priority given to those that reach a large number of Kenyans, particularly the poor. Furthermore, the Government will continue with its recent efforts to establish and enforce clear objective economic and technical criteria for project selection, which will apply to all projects. Following efforts introduced in 1992/93, the number of projects to be included in future budgets will be limited so that the Government's contribution will be fully funded, and implementation speeded-up. To this end, the Government will soon complete its efforts to rationalise the project portfolio by identifying and terminating non-priority projects. If development expenditure has to be curtailed below the amount budgeted, the Government will give priority to core projects.

4.2.8 Government's fiscal policy will be focussed on the following medium and long term targets:

- the budget (including grants) will be balanced, with net repayments of public domestic debt;
- current revenue will be stabilised at around 24 percent of GDP. The base of taxation will be broadened and efficiency of collection improved to allow a progressive

reduction in rates, while maintaining overall revenue targets;

- Government expenditure will be restricted to between 24 and 26 percent of GDP;

- Budget Rationalisation measures will aim at maximizing the productivity of Government expenditures. In particular, objective technical and economic criteria will be applied to project selection, with priority given to projects in the areas of health, education, infrastructure and the environment; and,

- the present system of budget monitoring and expenditure control will be strengthened to ensure full compliance of public officials with the Government's fiscal objectives and targets.

4.2.9 The Government is committed to the provision of adequate funding for the operation and maintenance of existing public investments. Coverage and capacity of such services will be expanded as essential pre-requisites for economic growth. However, private sector participation in providing capital investment in certain infrastructure will be encouraged and facilitated. Public expenditures of an increasing magnitude will be spent on the implementation of special programmes to benefit those sections of the population adversely affected by economic reform programmes.

4.3 MONETARY POLICY

4.3.1 Monetary policy is directly linked with fiscal policies through the financing of the fiscal deficits. A large part of fiscal deficits have traditionally been financed directly through overdrafts in the Central Bank (CBK). Over the past several years, other methods of financing budget deficits have been developed. Treasury bonds with varying maturities have been introduced and markets outside the CBK have been developed. In addition, interest rates have been fully liberalised and allowed to vary with the demand and supply of loanable funds. These developments have increased the policy instruments available to the authorities and made possible the conduct of monetary policy in a more sophisticated manner. With open market operations, the financing of budget deficits need no longer cause the money supply to rise, thus pushing up inflation and putting pressure on the balance of payments.

4.3.2 The Government will continue to allow interest rates to be the main signals directing savings to the most productive uses. The CBK will not attempt to direct commercial banks on where and how much to lend.

4.3.3 Monetary policy will aim at containing liquidity expansion at a pace consistent with targeted growth rates of GDP and anticipated inflation, while maintaining positive real interest rates. Specifically, the CBK will continue to manage domestic liquidity through market interventions in Treasury bills, in order to achieve target levels of net domestic assets of the CBK that are consistent with broader monetary objectives. The CBK's monetary policy will be supported by strict enforcement and appropriate changes in the statutory cash ratio, and strict limits on access to CBK credit through its rediscount and overnight lending facilities.

4.3.4 The CBK will also work toward improving the effectiveness of open market operations in Government securities and ensuring an efficient transmission of changes in Government security rates to savings and lending rates of commercial banks. To this end, the CBK will promote the development of secondary markets in Treasury bills, which will include efforts to promote market makers in such bills. The establishment of a central depository for Treasury bills by the private sector will be encouraged to ensure an efficient delivery and payment system for secondary market transactions. In an effort to foster increased market demand for both Treasury bills and bonds, the CBK has already sponsored publicity campaigns targeted at individual investors, lowered minimum denominations of the securities on offer, and appointed commercial banks as agents for the sale of Treasury securities. The proposed central depository will also facilitate further capital market development, by serving as a depository for trading in shares and other financial instruments. Further steps will also be taken to encourage expansion of the activities of the Nairobi Stock Exchange (NSE), including expanding its membership, broadening its coverage to include trading in Treasury bonds and other financial instruments, and promoting the increased floating of equity issues. An expanded role for the NSE would also assist in the privatisation programme for public enterprises.

4.3.5 Recovery and sustained development in Kenya depends on strong export growth, which will be supported by the recent liberalisation of the exchange and trade system. Sound monetary and fiscal policies assisted by interventions in the foreign exchange market will result in a stable exchange rate. The Government expects to be able to achieve this during the next three years, while accelerating economic growth and reducing its recourse to general balance of payments financing. The Government intends to increase international reserves to over three months of imports.

4.3.6 The considerable progress made so far in reforming the management of the exchange and payment system will be further strengthened. Exchange control regulations will be liberalised further and the Kenya Shilling made fully convertible. The CBK will continue to intervene through buying and selling in the foreign exchange market to minimise undesired fluctuations of the Shilling while allowing the operation of the market to determine the exchange rate. A stable exchange rate will be maintained through strict fiscal and monetary policy in support of the objective of single digit inflation in the medium term. The CBK will coordinate its foreign exchange and open market operations to ensure that monetary policy targets and objectives are met. The Government will limit contracting and guaranteeing new non-concessional external borrowing by the public sector.

4.4 FINANCIAL SYSTEMS

4.4.1 The CBK will focus on improving the soundness of the financial system through a number of measures. The Central Bank of Kenya Act will be reviewed to define more clearly the responsibilities and accountability of the CBK, including the area of monetary policy. The Government will offer to the public an increased shareholding of those commercial banks in which Government holds substantial interest. Furthermore, the CBK will continue efforts to tighten enforcement of prudential regulations in the financial system. Commercial banks with affiliate Non-Bank Financial Institutions will be required to meet statutory cash and liquidity ratios on a consolidated basis. To improve the financial position of the National Social Security Fund (NSSF), an action plan will be prepared, drawing on the results of an actuarial study on its financial stability and the soundness of its investments

4.4.2 The CBK will instill disciplined monetary management by decisively acting on any future problems of weak and distressed financial institutions. Its supervisory role will be strengthened through effective enforcement of prudential regulations and tightening lending to commercial banks.

4.4.3 The role of capital markets, to enhance the mobilisation and allocation of financial resources, has long been recognised by the Government which set up the Capital Markets Authority (CMA) in 1989. The CMA is mandated to create the conditions necessary for domestic capital markets, and promote investor confidence. The

CMA will work towards the establishment of an active secondary market for Government securities in order to enhance their liquidity and the efficient mobilisation of resources in the economy. It will also work towards the establishment of a second tier Stock Exchange for venture capital to be invested in new companies with good growth prospects but no track record that qualify them for listing in the main Stock Exchange. The CMA will establish and manage trading rules in the growing capital market and facilitate the creation of unit trusts as vehicles for small investors. The creation of specialised institutions as full security firms of underwriters and discount houses will be encouraged.

CHAPTER 5
SAVINGS AND INVESTMENT

5.1 IMPORTANCE OF SAVINGS AND INVESTMENT

5.1.1 Effective mobilisation of domestic and foreign savings for productive investments is a pre-requisite to economic growth and thus the attainment of sustainable development. A country that is able to generate a high savings ratio is able to finance more rapid development and employment generation. The savings rate is thus a key performance indicator of economic growth. The "tigers" of Asia have maintained rapid economic growth in part because of their ability to mobilise high rates of savings and attract foreign equity investment. Indeed, our ability to transform domestic savings into additional income in the future through capital accumulation is critical to rapid and stable growth.

5.2 SAVINGS

5.2.1 The main source of investment finance is private domestic savings. There are, however, two other sources, Government savings and foreign savings which come into the country as grants, net lending or direct foreign equity investment. Any increase in savings from any of these three sources will result in an increase in net capital formation. An increase in gross savings of 10 percent in 1991, for example, would have increased net fixed capital formation by 26.3 percent. This leveraging of increased savings into increased net capital formation is able to give a large boost to output and employment.

5.2.2 Private savings in Kenya fluctuated in the range of 15.7 to 20.9 percent of GDP through the 1980s. This is not high by world standards as shown in Table 5.1. The failure of savings and investment to sustain a higher rate of growth of the capital stock is the principal reason why the average GDP growth rate fell from 4.5 percent in 1973-82 to 3.4 percent in the period 1983-92.

TABLE 5.1
SAVINGS AND INVESTMENT
(PERCENT OF GROSS DOMESTIC PRODUCT)

Country	Gross Investment	Gross Savings
Low Income Countries	31.0	28.0
Middle Income Countries	23.0	24.0
China and India	32.0	33.0
Indonesia	36.0	37.0
Thailand	27.0	34.0
Malaysia	34.0	33.0
Korea	37.0	37.0
Singapore	39.0	45.0

The fall in real wages and slow growth in employment can also be attributed to the low levels of savings and investment. Raising the level of net investment is, therefore, absolutely necessary if Kenya is to achieve the targets of long term growth set out in Chapter 3 and to make an impact on the problems of unemployment, falling incomes and poverty.

5.2.3 Over the past two decades Gross Fixed Capital Formation (GFCF) as a proportion of GDP has remained relatively constant, but the Net Capital Formation (NFCF) in real terms has fallen significantly. The peak for gross investment in current prices was during the 1977 coffee boom. There was a large fall in the 1982-85 period and since then there has been a gradual increase back to the levels that prevailed before the coffee boom. The pattern is similar for investment in constant 1982 prices, but its level averaged about 20 percent of GDP for the period 1983-91, down from average levels of about 30 percent of GDP that prevailed in the 1970s.

5.2.4 The main reason for the difference between the performance in current and constant prices is that the cost of investment goods, which are generally imported, has increased steadily in relation to prices of goods and services which in general constitute the GDP. The substantial depreciation of the Shilling, as well as the fall in international terms of trade, have resulted in a considerable rise in the relative price of investment goods. However, net investment in real terms has continued to be positive throughout the period and total capital stock, as a result, has continued to grow. The portion of gross investment necessary to make up for depreciation has also grown. Net investment, is far from recovering to the levels of the 1970s in real terms. Since 1982, net investment as a proportion of GDP has been between a quarter to a half of its level in the preceding decade.

5.3 GOVERNMENT DIS-SAVINGS

5.3.1 In *Sessional Paper No. 4 of 1991 on Development and Employment in Kenya,* the Government set a target of raising the national saving ratio to 22 percent of GDP. Among the measures identified as necessary to attain this was the elimination of Government dis-saving. Between 1977 and 1980, the Government made a net contribution to savings that ranged from 1.4 to 2.9 percent of GDP. In 1981 the Government became a dis-saver, running a deficit on its current account, a situation that has continued since that time. Government savings averaged -1.5 percent of GDP over the period 1981-1991, ranging from -0.9 percent in 1981 to -2.2 percent in 1990.

5.3.2 The reasons for the decline in Government saving have been sluggish revenue growth, and rises in current expenditure, particularly expenditure on wages and salaries. The Government's aim is to eliminate this dis-saving through measures relating to both revenue and expenditure described in Chapter 4.

5.3.3 The implementation and adherence to three major programmes of reform will be of particular importance in this context: Tax Reform and Modernisation, Civil Service Reform, and Parastatal Divestiture. Tax Reform will maintain and improve revenue while Civil Service Reform, which involves an absolute reduction in staffing levels and re-organisation of the public sector will improve the functioning of Government and reduce total public expenditure.

5.3.4 The parastatals have proved a continual drain on the budget instead of providing additional resources through dividend payments. During the year 1990-1991, for instance, the net outflow from the Government budget to the parastatals, excluding dividend payments by the CBK, amounted to one percent of GDP. Divestiture of commercial enterprises, while improving accountability of strategic parastatals, will reduce this major source of fiscal indiscipline.

5.4 FOREIGN CAPITAL

5.4.1 As a developing country, Kenya needs foreign capital to stimulate domestic investment and promote economic growth. Most, if not all countries which now enjoy high living standards have, at some point in their development, imported capital to supplement their domestic savings. A recent and successful example of this pattern of development is the region of South East Asia. Foreign capital will enable Kenya to maintain higher levels of investment than can be supported by domestic savings alone and to expand needed imports more rapidly through a deficit on current transactions with the rest of the world.

5.4.2 Foreign capital can enter a country in three forms; foreign aid in the form of external grants or concessionary loans, commercial loans to the Government or Kenyan companies, and private foreign investment. A common pattern over the past several decades has been for Kenya, as well as other developing countries, to use foreign aid as the preferred form of capital imports. In addition, we have borrowed substantial sums abroad to sustain our foreign exchange reserves. Net Government borrowing from abroad averaged 2.7 percent of GDP over 1987-91. The freeze on programme aid in November 1991 substantially lowered grants and net Government borrowing.

5.4.3 Other forms of capital imports, private direct investment and portfolio investment, have been negligible. Over the 5 year period to 1991, private capital flows were approximately 12 percent of the total net capital account flow. Including the parastatals sector, the share amounted to a little over 30 percent. Nearly all of this was in the form of commercial loans rather than private direct investment or portfolio investment. Direct foreign investment in the form of share capital and re-invested earnings have amounted to less than 30 percent of the gross private foreign capital inflow. When account is taken of capital repatriation and stock redemption, direct foreign investment on a net basis has been negligible, switching from positive to negative from year to year.

5.4.4 Foreign aid in the form of grants or concessional loans are obviously beneficial in many ways, especially in financial terms and add little to our external debt obligations. But large concessional capital flows, including aid in the form of grants to Africa, will not rise and may even decline in real terms, in the current period when capital transfers to Asia and Eastern Europe are increasing rapidly. As we look to the long term, the high levels of grants and concessionary loans received in the 1980s will most likely not be forthcoming in the 1990's and beyond. We must, therefore, plan on the basis of a sharp reduction in the aid/GNP ratio.

5.4.5 Debt arrears is a new problem for Kenya, reflecting insufficient growth in export earnings. The previous Chapter described the Government's resolve to settle existing arrears on external public debt and to restrict new non-concessional external borrowing. Considering the risks associated with external loans and the diminished relative availability of aid and concessionary loans, it is clear that Kenya must in future depend on its own resources while attracting increased volumes of foreign, non-debt, private capital.

5.4.6 Kenya can gain access to foreign private capital without borrowing, either as portfolio investment in Kenyan companies or as direct equity investment. In the former case, non-resident companies and individuals hold shares in Kenyan companies broadening their access to capital. A remarkable development of the international capital markets in recent years has been the very rapid growth of foreign portfolio investment in all parts of the world. Kenya will formulate policies to tap this most dynamic form of foreign investment.

5.4.7 The further development of our own financial and capital markets will be important in attracting private capital from abroad in the form of portfolio investment. Recent developments in these markets and the general policy intentions for the future are outlined in Chapter 4. Strict disclosure rules for companies quoted on the stock exchange and, more generally, an improved flow of information from the NSE will be widely disseminated to attract potential investors.

5.4.8 Several new initiatives and institutional changes will be considered to stimulate international portfolio investment in Kenya. The possibility of a country fund to be quoted in London or New York will be explored with the International Finance Corporation. The Government will also explore the possibility of establishing the NSE as a regional equity market. Obstacles concerning capital controls will have to be removed and certain other institutional problems will have to be resolved before such regional integration can become a reality. The establishment of a regional capital market would obviously be beneficial not only to Kenya but equally to other countries, as they could seek risk capital from the Nairobi market.

5.4.9 Foreign equity investment can also be used to accelerate development. Foreign entrepreneurs can contribute knowledge of, and access to, foreign markets and technology that is in very short supply in Kenya. An additional advantage is that the risks inherent in business are borne partly or wholly by the foreign investor. Direct foreign investment creates opportunities for local entrepreneurs in joint ventures, and in backward linkage industries to provide intermediate products and services to foreign firms.

5.4.10 Private capital flows to developing countries are rising rapidly and will continue to increase. This has been particularly noticeable in the South East Asian region. One important precondition for attracting foreign capital is macroeconomic stability, in particular a low rate of inflation, and a stable and realistic exchange rate. After the period of instability in the early 1990s, the Kenya economy is now gradually moving back towards greater stability. As discussed in Chapter 4, the Government puts a very high priority on re-establishing and then maintaining financial stability. However, these forms of capital movements are traditionally subject to fairly large cyclical fluctuations, and judging from the experience of other developing countries, Kenya can expect more private capital flows only after more rapid growth has been restored and a stable macroeconomic framework maintained for a considerable period of time.

5.4.11 Another important factor has been the policy of indigenisation of the economy that was adopted immediately after Independence to reverse decades of discrimination practised during the colonial era. The Government has begun the process of encouraging greater foreign investment by reviewing the various laws, regulations and administrative procedures that discriminate against foreign firms:

- the de facto restrictions on the repatriation of profits, dividends, licence fees and royalties which has been a major disincentive in recent years have been removed with the complete liberalisation of our foreign exchange regime;
- the restrictions in the Foreign Investment Protection Act on the repatriation of capital gains will be removed; and,
- the restrictions on local borrowing by foreign controlled firms have been lifted.

5.4.12 While initiatives to attract foreign private capital and expertise will be maintained, concerted efforts must continue to stimulate and support domestic investment. These will include the measures described in Chapter 4 to create vehicles for small investors and the provision of lines of credit to small scale enterprises laid out in Chapter 8. The effectiveness of Savings and Credit Co-operative Societies must be enhanced through better management, both to protect members interests and to make their very considerable savings available to entrepreneurs seeking funding for viable investments. If Kenyans are to take the leading role in developing our economy they must have access to investment funds. In particular, funds must be readily available to small scale entrepreneurs to enable them to build up their businesses and provide the country with a locally controlled economic base.

5.6 PUBLIC AND PRIVATE INVESTMENT

5.6.1 The public sector, including parastatals, has accounted for about 45 percent of total fixed investment in Kenya, the remaining 55 percent being investment undertaken by the private sector. Public sector investment has been determined by considerations of growth and development of the economy, social service provision and the constraints of fiscal discipline. Private sector investment, on the other hand, has been guided by considerations of profitability relative to risk and the cost of investment in Kenya compared with other countries.

5.6.2 A high rate of economic growth, both actual and anticipated, is a strong incentive for businessmen to invest in building up new productive capacity. In Kenya, economic growth and prosperity are closely linked with buoyancy of export earnings. A low exchange rate of the Shilling boosts exports by lowering the price of our goods abroad thereby increasing foreign demand for our exports and increasing the rewards to exporters in terms of Kenya Shillings. Government policy will therefore be aimed at strengthening support for export promotion while the exchange rate will be determined by market factors.

5.6.3 Excessive regulation such as price controls and licensing discourage investment. The discretionary application of regulations so that some among competing firms have an unfair advantage is particularly discouraging. The regulatory reforms proposed in Chapter 8 of this Sessional Paper will alleviate this constraint.

5.6.4 As regards an overall enabling environment, the Government will initiate legislation for an investment code which relates to both local and foreign investment and under which the Investment Promotion Centre (IPC) will operate. The investment code will set clear guidelines for processing investment applications and will incorporate the means to ensure transparency and accountability.

5.6.5 Of particular importance is the provision of information on various incentives to investors including, the procedures for obtaining such information and how the incentives are implemented. At present, the IPC, which operates a "one-stop" office to facilitate the inflow of investment, lacks proper authority to implement many incentives and procedures. In order to give the IPC greater authority, enabling legislation will be introduced to accord the IPC the necessary powers in respect of new investments.

5.6.6 With the opening up of South Africa, Eastern Europe, the former Soviet Union and China and with aggressive policy reforms in the emerging economies of Latin America and South Asia, total international investment funds likely to be available to Sub-Saharan African economies will shrink. In this context, IPC will continuously monitor the investment codes of other countries, especially countries of this region, and identify further necessary policy reforms to ensure that Kenya remains competitive in attracting direct foreign investment.

CHAPTER 6
EMPLOYMENT

6.1 EMPLOYMENT AND JOB CREATION

6.1.1 The Government has continued to address the issue of employment creation as a major social and economic challenge. However, despite past Government efforts, unemployment and underemployment still remain serious problems. It is evident that there is a need to reassess and update the strategies for job creation that the Government has pursued since Independence to reflect today's environment. For example, land constraints preclude a further increase in land available for smallholder farmers. This sector has been the primary source of job creation in the rural areas but further expansion can now only come from increased productivity. Industrial growth through protected import substitution cannot be sustained. Furthermore, the public sector has reached its peak as a share of the total modern sector employment.

6.1.2 It is, therefore, clear that Government policy toward employment generation must shift from one of direct intervention to that of providing a favourable environment for private investment and job creation. Government will remove all unwarranted controls, simplify and make more transparent remaining regulations, establish stable and favourable macro-economic policies, and invest in human resources and provide basic infrastructure. It is, however, the private sector which must invest in productive enterprises that will provide increased employment and generate incomes. This calls for an "enterprise culture" that induces self reliance, risk taking and provides rewards for effort and initiative. It must encourage locally owned enterprise initiative and expansion to create the base for our economic development.

6.2 SOURCES OF EMPLOYMENT

6.2.1 Sufficient employment growth will require a comprehensive transformation of the economy based on a firm strategy to mobilise all available resources. Table 6.1 presents employment projections to the year 2010. During the period 1996-2010, employment growth must average 4.3 percent annually if near full employment is to be achieved. Employment generation will have to total 6.4 million jobs over the period or 455,000 jobs annually. For this target to be achieved, the agriculture sector will need to create about 3.1 million jobs or almost 50 percent of total requirements. The urban informal sector, growing at about 11 percent per annum between 1996-2000 and 6 percent annually between 2000-2010, would generate over 1.5 million jobs or some 23 percent of total requirements. Employment in the modern sector will largely depend upon an expansion in the private sector and self employment. Public sector employment will grow only slowly and in the short term will decline as the Public Service Reform is implemented. Over the medium term, some employment growth can be expected in strategic parastatals and in local authorities responding to accelerating urbanisation.

6.2.2 Agriculture is by far the largest employer in Kenya and will continue to be so until well after the year 2010. As identified in *Sessional Paper No. 1 of 1986*, a dynamic agricultural sector is crucial to the economic development of the country, especially as regards employment creation. The largest component of job creation will therefore fall to agriculture even accepting that the sector will grow relatively slowly. The policies to facilitate more rapid agricultural development presented in Chapter 7, therefore, are most important in this respect. The number of rural non-farm jobs is expected to rise steadily as a buoyant agricultural sector increases its demands for services, inputs and other goods.

TABLE 6.1
PROJECTIONS OF TOTAL EMPLOYMENT, 1990-2010 AND JOBS CREATED BETWEEN 1996 AND 2010 (000)

	1990	1996	2000	2010	Jobs created
Traditional Agriculture	5,082	6,124	6,893	9,264	3,140
Rural Non-farm	844	1,017	1,167	1,646	629
Modern Sector Employment					
Public Sector	690	732	814	1092	361
Private Sector	710	824	999	1,569	745
Total	1,409	1,555	1,813	2,661	1,106
Urban Informal Sector	439	870	1,321	2,366	1,496
TOTAL EMPLOYMENT	7,774	9,566	11,194	15,937	6,371

6.2.3 The most rapid increase in employment will have to occur in the urban informal sector. Its share of employment in the urban areas will continue to increase rapidly throughout the period to 2010 and beyond, provided a facilitating environment is maintained. The sector is inherently dynamic and will continue to provide jobs and find new services and products while expanding its output of existing services and products. The most important policies to promote this growth are a simplified regulatory framework, changes to accelerate the acquisition of equity rights for small scale enterprises which will promote access to credit, and the availability of favourable locations within urban areas. The last two are particularly important to allow the process of transformation into formal sector businesses to take place. Policies for the growth of small scale enterprises are presented in Chapter 8.

6.2.4 Private modern sector employment is the most productive in Kenya but has been growing far too slowly as shown in Table 6.2. Private sector businesses accounted for 43.4 percent of modern sector employment in 1990 but only 36.5 percent of employment creation over 1986-90. The largest source of new employment was the Government which, together with parastatals and other enterprises with government participation, accounted for 63.5 percent of the increase over the same period. With Civil Service reform and parastatal divestiture the rate of growth, at least initially, for both of these categories will be sharply reduced. The policies outlined below to promote more rapid growth of the private sector therefore, are urgently needed to maintain modern sector job creation.

6.3 EMPLOYMENT POLICY

6.3.1 The Government will promote more rapid growth of private sector job creation by reviewing and formulating appropriate employment and income policies. These measures will release resources to promote private sector investment for rapid economic growth. Indeed, the policy reforms which are specified in *Sessional Paper No. 1 of 1986* and the Ndegwa Report of 1991 on Development and Employment in Kenya essentially entail public budget rationalisation measures and actions to reduce the size of public sector expenditure.

TABLE 6.2
DISTRIBUTION OF MODERN SECTOR EMPLOYMENT AND EMPLOYMENT CREATION

	Number (000's)	Share (percent)
EMPLOYMENT IN 1990		
TSC, Central and Local Government	525.1	37.1
Enterprises with Government Participation	274.5	19.4
Fully Private Sector Businesses	614.1	43.4
TOTAL	1413.7	100.0
NET EMPLOYMENT CREATION, 1986-90		
TSC, Central and Local Government	15.3	32.0
Enterprises with Government Participation	15.1	31.5
Fully Private Sector Businesses	17.5	36.5
TOTAL	47.9	100.0

6.3.2 As stated in the Seventh Development Plan, the Ministry of Labour and Manpower Development, in particular the National Employment Bureau, will be strengthened to enable it to develop a sound information base on employment trends and labour market development. This will allow the Government to formulate and articulate appropriate policies in support of employment creation. The Government will:

- formulate a comprehensive and integrated national employment policy which, in addition to the objectives of achieving full employment and raising standards of living, will also emphasise the achievement of equality and right of work for all Kenyans, access to free choice of employment, just and favourable conditions of employment and equal access to the identification and development of individual skills and talents;
- formulate, develop and establish a National Employment Programme that will ascribe responsibility to institutions for implementing programmes and projects that will support employment;
- establish a National Employment Insurance Scheme for employment protection;
- promote employment creation centres for vulnerable groups such as youth, women, disabled persons, street children, and retrenched workers;

- pursue active labour market policies, monitor the labour market situation and trends, undertake occupational research to provide accurate and reliable labour market information, provide vocational guidance and counselling services to individuals and groups and also develop and strengthen employment promotion services provided in the District Employment Bureaus;
- review labour laws in order to make them consistent with changing economic circumstances; and,
- collect reliable information on employment in different socio-economic sectors, household incomes and standards of living.

6.3.3 Kenya has a well developed system of industrial relations which regulates employment in the modern sector. Labour laws cover many aspects of bargaining agreements, including minimum wages, benefits, working hours and termination. The Government has pursued flexible and pragmatic labour policies. However, two forms of intervention stand out as now requiring amendment. These are, restrictions on redundancy which reduce the ability of firms to reorganise, and Wage Guidelines that limit the ability of firms to use wages to reward and attract quality workers.

6.3.4 The current regulations governing permanent redundancies can make adjustments in the labour force a protracted and expensive process. The Government will, therefore, in cooperation with the Federation of Kenya Employers (FKE) and the Central Organisation of Trade Unions (COTU), develop a system that allows firms autonomy in hiring and firing employees. This will be combined with more generous severance allowances or provision for training for workers made redundant, to discourage unjustified or punitive redundancy. Emphasis will be given to a binding procedure to resolve disputed redundancy cases quickly.

6.4 WAGE POLICY

6.4.1 Government wage policy has been based on the payment of a controlled minimum wage, implemented through Wage Guidelines. Despite many amendments, Wage Guideline objectives have remained employment creation, the promotion of equitable income distribution between sectors, industries, and rural and urban areas and control of inflation. The Guidelines set minimum units for negotiated wage settlements and have been used in Kenya to limit wage increases and promote good industrial relations. But they also have an adverse impact, particularly in a market oriented economy in which prices are decontrolled, by distorting the relationship between productivity, skills and pay. By limiting the flexibility with which employers can reward outstanding workers, they may discourage growth of the more efficient and dynamic firms. Wage Guidelines, like all wage indexation schemes, have the basic disadvantage of freezing a key production cost. In order to reduce the constraints enumerated above, the Government will re-examine existing policies on wage guidelines.

6.4.2 The Government will support the development of an industrial relations system that encourages the growth of representative organisations of workers and employers. Such dialogue should not only concentrate on workers' compensation but also on means to improve productivity and general performance of the enterprises so as to increase the ability and capacity of the employer to pay better wages and other benefits.

6.5 MIGRATION AND UNEMPLOYMENT

6.5.1 Very little reliable data are available on unemployment rates in Kenya. The only recent firm evidence is that the unemployment rate was found to be 16.1 percent in the 1986 Urban Labour Force Survey, a figure which has remained virtually unchanged since the 1977/78 Labour Force Survey. Both of these surveys were in years of good overall economic performance. The unemployment rate is expected to have worsened in 1991 to 1993 due to the slow growth of the economy.

6.5.2 The unemployment problem in Kenya is made more intractable by the rapid growth of population and, in urban areas, the large number of migrants from rural areas. Migrants, coupled with increasing numbers of school leavers, mean that the number of new labour market entrants is enormous. These new entrants do not possess the experience, skills and work habits that can only be developed "on the job". Universally, unemployment rates are highest for labour force entrants but when they are such a large share of the total labour force, as is the case in Kenya, it is still more difficult for the economy to create productive jobs for them. For this reason, the largest portion of new entrants in Kenya, will need to create jobs for themselves in the informal and agricultural sectors.

6.5.3 Youth unemployment remains a critical issue. It is estimated that 59 percent of Kenya's population is under 20 years old. The Government, in collaboration with the private sector, will increase opportunities for youth through vocational and technical training programmes and university internship. Further measures will be undertaken to:

- support youth involvement in social and community development projects both in the urban and rural areas;
- consider the establishment of a Youth Development Fund to assist unemployed youth establish self-employment ventures; and,
- establish Employment Promotion Centres where youth can be provided with career and vocational guidance and counselling services, together with assistance in the acquisition of relevant entrepreneurial skills for self employment.

6.6 EDUCATION AND TRAINING

6.6.1 Education and training continue to be the most important long term means of reducing unemployment levels. Since Independence, the Government has placed a high priority on these areas. The primary objectives of education and training programmes, as contained in *Sessional Paper No. 8 of 1988 on Manpower Training for the Next Decade and Beyond*, will remain unchanged. These objectives include, enhancing and improving the relevance and quality of education at all levels and, strengthening sector management, planning, budgeting and the availability of information.

6.6.2 Further improvements can be made by more closely matching training programmes with the needs of the private sector. Therefore, the Government, in collaboration with the private sector, will introduce and strengthen existing training institutes by formulating training packages to upgrade the skills of industrial workers. The private sector will be increasingly required to meet their own training needs. Efforts will be made to rationalise existing technical institutions so that they are able to provide appropriate industrial techniques. Furthermore, the private sector, in collaboration with Government, will be expected to develop education and training infrastructure. This will ensure a constant flow of trained industrial personnel at both managerial and technical levels.

CHAPTER 7
AGRICULTURE

7.1 POLICY AND POLICY REFORMS

7.1.1 A major policy objective of the Government is self-sufficiency in basic foods. This objective has been reaffirmed in all past development plans as well as in *Sessional Paper No.1 of 1986 and Sessional Paper No. 2 of 1994 on National Food Policy.* The potential for self-sufficiency in most food crops and livestock products exists. The major determinants of the country's ability to be broadly self-sufficient are the development and diffusion of technical innovations to enhance yields, and the availability and efficient use of labour, fertiliser and other inputs. In addition to the maintenance of broad self-sufficiency, high value agricultural activities to generate employment, incomes and foreign exchange earnings will be promoted.

7.1.2 The national food security objective will aim to make available adequate, nutritionally balanced food in all parts of the country. This will be achieved by increasing food production and the promotion of inter-district trade. At the household level, food security will be achieved through increasing opportunities to generate cash income and providing incentives to farmers to improve agricultural productivity. Due to the uncertainty and vagaries of weather and changes in social economic parameters, there will be need for the continued maintenance of a strategic reserve of maize. The need to diversify the base for food security calls for the production of other crops such as wheat, pulses, sorghum, millet and root crops

7.1.3 Between 1960 and 1970, the sector recorded a growth rate of 4.7 percent per annum. In 1991, however, the sector declined by 1.1 percent, resulting in the need for substantial food imports over 1992-94. The major aim of agricultural policies now will be the speedy recovery of agricultural production covering food crops, industrial raw material, and export crops. This recovery will be enhanced through increased resource allocation to support key farm services. To guide farmers, minimum (floor) prices based on export parities will be recommended for maize, wheat, rice and sugarcane.

7.1.4 Currently, there are various constraints that need particular attention. Delayed and irregular payments to farmers, together with limitations in infrastructure and credit are probably the most pervasive. Other constraints include shortage of farm machinery and marketing problems. The private sector will be expected to participate in marketing aggressively while the role of the Government will be largely confined to policy formulation and provision of infrastructure, research and extension services. However, it will take time for this arrangement to be put in place, particularly the capacity of the private sector to market agricultural production. In the interim it will be necessary to ensure that the public sector is adequately funded to manage the transition effectively.

7.1.5 A number of steps will be taken to strengthen policy formulation and the delivery of basic services. The Ministry of Agriculture, Livestock Development and Marketing will be reorganised and strengthened to rationalise its role, structure and functions. This process has five facets. First, the role and strategic functions of the Ministry in an agricultural sector increasingly reliant on private sector initiative will be reviewed and appropriate reorganisation implemented. Second, the management of technical units in the Ministry which provide strategic services to farmers, mostly research and extension services, will be strengthened. Third, serious efforts will be made to privatise a number of services, including tractor hire services and some veterinary services. Fourth, for services that cannot be privatised, cost recovery will be implemented at as high a level as possible. And finally, the effectiveness of the Ministry will be improved as a result of the Government-wide effort at Civil Service Reform and consequent increased funding for non-wage operations and maintenance expenditures.

7.1.6 The Government recognises the need to clarify the roles of the various bodies engaged in the dairy sector. The Dairy Board will be strengthened to enable it to perform its role in encouraging a competitive market for dairy products. Legislation to give effect to a liberalised environment for dairy marketing has been put into effect. Kenya Cooperative Creameries will prepare and implement, a restructuring plan to re-establish its commercial viability on the same basis as any private operator.

7.1.7 In order to accelerate and sustain growth in the agricultural sector, actions will be taken to improve policy formulation and the delivery of basic services. To achieve agricultural recovery, the following specific measures will be implemented:

- the modalities for privatising sugar factories are expected to be completed during 1994-96. In this privatisation process, it will be necessary to ensure that the mode of privatisation is one that will ensure that farmers and farmers groups' interest in the ownership of the factories is facilitated;
- Cotton Board ginneries will also be privatised and legislation will be presented to Parliament to restructure the Cotton Board;
- the adoption of a strategy leading to a market oriented oilcrop industry;
- a review of the institutional structure of the coffee industry will be completed;
- consolidation of the on-going process of privatisation and liberalisation;
- selective protection of the sector will be made through the use of the variable import duty;
- agro-industries will be promoted through, increased extension and research services;
- increased funding will be provided for the activities that remain as core functions of the Ministry;
- greater autonomy for marketing co-operatives with direct accountability to members will be ensured; and,
- where necessary, revolving funds will be established to guarantee sustainable service delivery.

Other measures are specified in *Sessional Paper No. 2 of 1994, on National Food Policy.*

7.2 COMMODITY PROGRAMMES

Food and Cash Crops

7.2.1 With regard to food crops, the objective is to increase production through land use intensification, increased use of high yielding seed varieties and other inputs and increasing processing capacities. Deliberate efforts will be made to diversify beyond the traditional cash and export crops. In particular, emphasis will be laid on horticulture and oil seeds. Efforts will also be continued to revitalise the coffee and tea sectors, particularly with regard to their marketing, institutional framework and developing alternative income generating activities in the coffee zones.

Horticulture

7.2.2 A major source of agricultural growth is the horticulture subsector. However, there are constraints to its continued growth: inadequate supplies of high quality seeds and standardised planting materials, lack of suitable technology, insufficient research, poor packaging materials, and poor extension services. The export market is constrained by inadequate crop cooling facilities, high jet fuel prices, inadequate air cargo space and poor handling services. Major problems in domestic marketing include lack of organised market outlets in the small-scale sector, poor market information and rural road infrastructure. Steps to be taken to overcome these constraints include:

- allocating land to private operators near the two main International Airports for the construction of structures for airfreight handling;
- the installation of pre-cooling facilities at the international airports and major horticultural producing areas;
- the investigation by the Horticultural Crops Development Authority (HCDA) of the constraints impeding the development of sea freight and the suggestion of possible solutions;
- maintaining jet fuel prices at a competitive level; and,
- the strengthening of links between research and extension by the Kenya Agricultural Research Institute (KARI) and the Ministry of Agriculture, Livestock Development and Marketing.

Oil Crops

7.2.3 Although Kenya has the capacity to produce a substantial amount of its vegetable oil and feed cake requirements, very little effort has been put into their development. The widespread production of oil crops in most parts of Kenya is an indication that, with appropriate domestic policy, Kenya could produce adequate edible oils and animal feeds. Increased domestic production will reduce dependency on imported edible oils and fats which are costing the country over Ksh. 4 billion in foreign exchange each year. A number of ASAL regions in the country have the right climatic and soil conditions for oil seeds development. There is an unexploited buoyant export market for certain oil seed products such as sunflower and olive oil. Thus promotion of an oilseeds industry will contribute to income redistribution and equity, as well as employment generation.

7.2.4 Of the many oil crops that can be grown in Kenya, the most important are sunflower, coconut, cotton, simsim, groundnuts, castor, and soyabean. A number of measures are required to promote domestic oil crop production, such as the provision of high yielding seed varieties to farmers and competitive farm prices. The highest priority in terms of research and on-farm promotion will be given to soyabean, sunflower, simsim, coconuts and cotton. KARI will collaborate with the private sector to formulate policies and strategies to promote oil crops in the country which will be announced by the Government in the course of 1994. An Oilseeds Development Council will be established to oversee the development of the oilseeds industry.

7.3 AGRICULTURAL SUPPORT SERVICES

Infrastructure

7.3.1 Agricultural production is constrained by inadequate provision and maintenance of rural access roads. Bad road conditions result in high transport costs which discourage farmers. Particularly in wet conditions, considerable losses of perishable commodities like milk, fruits and vegetables take place and reduce their profitability for farmers. High priority will be accorded to the development and maintenance of roads in key agricultural areas. In addition to roads, there are limitations in the adequacy of other infrastructures such as telephones, electricity and irrigation water. Establishment of power lines along major rivers with significant irrigation potential can lead to reduced costs of power for irrigation.

7.3.2 In many rural areas, farmers do not have easy access to facilities for the maintenance of their farm machinery and equipment. This is partly because electric power is not available in such areas. Lack of capital prevents entrepreneurs from providing the needed services. Assistance will be given to capable entrepreneurs in pilot areas to develop Farm Service Centres.

Marketing and Distribution

7.3.3 Following the liberalisation of the economy, the public sector will no longer play a key role in the marketing and distribution of agricultural inputs and commodities. These functions have been passed to the private sector. The public sector storage facilities will be confined to the national strategic reserve. The private sector will be encouraged to undertake storage of various commodities both at the local level and those intended for export. As noted earlier, the transition period must be adequately managed to avoid any disruption in the smooth marketing and distribution of agricultural commodities and inputs. Therefore, the Ministry of Agriculture, Livestock Development and Marketing will continue to monitor the situation and facilitate any necessary corrective policy decisions.

7.3.4 The cooperative movement has played an important role in the development of the national economy. The movement has facilitated production and marketing of agricultural commodities. However, poor management is still the biggest problem besetting the movement. The movement will be restructured and strengthened where necessary in order to improve efficiency, especially in marketing of agricultural commodities and distribution of inputs including animal feeds and livestock drugs. With liberalisation, cooperatives will need to improve services rendered to their members. In this new environment it is necessary to review the legal and policy framework for cooperatives, and the implications of this situation for the role of the Ministry of Cooperative Development, and any necessary legal, policy or institutional changes will be implemented.

7.3.5 The Government has decontrolled maize prices and has removed maize movement controls, including those on imports. In this new policy environment, the role of the National Cereals and Produce Board (NCPB) will be confined to managing a strategic maize reserve. Initially the maximum size of the reserve will be set at 3 million 90 kg bags. To ensure food security, the strategic grain reserve will be supplemented by a foreign exchange reserve, initially of US$ 60 million, earmarked for emergency maize imports. Consistent with its new role, NCBP will be expected to participate within a specified price band which will facilitate private sector participation but cushion the farmers and consumers against any exploitative situation. In this respect, Government will ensure market stability.

Research and Extension Services

7.3.6 Agricultural research will be intensified. The objective of crop research will be to continue the search for more productive and profitable crop varieties. Increased emphasis will be placed on:

- breeding programmes aimed at continuous increases in the yields of already established food crops;
- breeding for disease and pest resistance varieties;
- research in integrated pest management systems;
- efficient fertiliser use; and,
- agronomic research particularly on smallholder production systems.

7.3.7 Whilst maize will continue to be the priority subject of food crop research, increased attention will be given to: drought tolerant crops, major cash, industrial and export crops, including oilcrops, and environmental protection.

7.3.8 Livestock research will still be directed towards improvement of the genetic potential of animals suitable for arid and semi-arid areas and for zero and near-zero grazing systems. Efforts will be made to develop more suitable types of forage crops, including more integrated methods of recycling crop residues for livestock production.

7.3.9 As a signatory to the Rio Conference on Bio-diversity, it is in the country's interest to identify, protect and ensure the sustainable use of genetic resources. The Ministry of Agriculture, Livestock Development and Marketing and the Ministry of Research Technical Training and Technology have a major responsibility for safeguarding the country's genetic resources. The Government will gazette Plant Breeders' Rights and negotiate membership of relevant international organizations. This will allow Kenyan farmers to acquire patented new innovations of plant varieties that have hitherto been difficult to obtain, particularly for horticultural crops.

7.3.10 A mechanism will be introduced under which agricultural marketing institutions, or other organisations, will collect commodity specific research levies, such as already exist for coffee, tea and sugar. Farmers and other organisations will be encouraged to support research of their choice. The industry could realise faster development through building mutually beneficial contractual links with research institutions, including universities, for the generation of commercially viable technologies.

7.3.11 The application of biotechnology in agriculture and livestock production will be nurtured and developed. For example, where technically and economically appropriate, the extension service will encourage farmers to use alternative and environmentally friendly farming methods.

7.3.12 Since the 1920's, when the Kenya Stud Book was established, a number of institutions providing similar services have been introduced. These include: the Livestock Recording Centre, Kenya Milk Records, Central Artificial Insemination Station and Kenya National Artificial Insemination Service, Breed Societies and the Agricultural Society of Kenya. To harmonise and improve coordination and solve the recurring financial problems plaguing these activities, these and similar livestock breeding activities will be put under one organisation which will develop a self-sustaining breeding programme. This body will finance its activities from a cess on the sale of livestock products and semen and will supply farmers with improved breeds on a commercial basis.

Agricultural Education and Extension

7.3.13 Through the extension system, the Government will instill a greater awareness of improved agricultural practices among farmers. This will be based on training of farmers through the effective utilisation of Farmers Training Centres and moving the location of agricultural education and training to informal institutions closest to the farmers. These efforts will be coupled with greater use of farm demonstrations and farm group counselling, especially among women farmers.

7.3.14 Extension services are under the control of the Ministry, through its Extension Services Division. However, Kenya Tea Development Authority carries out its own tea extension with staff seconded from the Ministry. There are private companies carrying out extension on crops relevant to their industries, such as British American Tobacco, Kenya Breweries, and Farmers Choice. A number of NGOs also contribute to agricultural extension. Although the Government will continue to provide extension services, the private sector will be expected to play a greater role in crop specific extension programmes and fostering stronger linkages between the farming community and agro-industry. Farmers co-operative societies and unions will also be expected to play their part.

Animal Health

7.3.15 The Government's objective is to facilitate gradual privatisation of veterinary practice in all viable areas. Over-time, a revolving fund will be developed to build a self-sustaining private veterinary service. Currently the Government imports, and distributes almost all drugs and vaccines at cost through Government veterinarians. The Government will divest itself from the importation and distribution of drugs, except those for strategic functions. Its role will remain in quality control and in the administration of the Pharmacy and Poisons Act and other legislative aspects related to the use of drugs and medicines. As private veterinary practice becomes developed in an area, the Government's provision of clinical services will be gradually withdrawn. The Government has already started charging users the full cost for livestock drugs. This will be followed by increasing other veterinary charges for clinical services towards realistic levels by the end of the 1994/96 Plan period.

7.3.16 Other issues to be addressed will include problems related to the repair of dips, operational and financial management and non-commitment by the community towards dipping projects.

Agricultural Credit

7.3.17 Provision of increased agricultural and livestock credit will be effected through the establishment of the Agricultural Development Bank (ADB) and encouraging increased agricultural lending by the commercial banks and non-bank financial institutions. The private sector will be invited to invest in ADB.

Agricultural Information Systems

7.3.18 Agricultural development depends critically on information flows. Farmers and policy-makers require reliable information on available technologies, prices of inputs, available local and overseas markets, product prices, weather patterns, etc. With better educated farmers and greater reliance on the market, access to information becomes more critical. The research system and the extension service will be required to be up-to-date and highly responsive to farmers' needs. In order to meet these challenges, increased attention will be given to production of appropriate literature and development of libraries at district and sub-district levels where farmers can check on the information they require.

7.4 AGRICULTURAL INPUTS

7.4.1 The Government's inputs policy is to ensure that, to the greatest extent possible, farm inputs are available, affordable and used at the right time and in the correct quantities.

Seeds

7.4.2 The Government's policy is to ensure an adequate supply of high quality seeds for a wide range of crops. For this policy to be realised, the plant breeding programme at KARI will be improved. Measures will be taken to ensure strict adherence to specified seed quality standards and also enable the Kenya Seed Inspectorate Service to exercise their supervisory role effectively. The private sector will be invited to invest in seed production and distribution. However, the Government will continue to ensure that standards of high quality seeds are maintained.

Fertiliser

7.4.3 Fertiliser use has been declining over the last five years, primarily because of high relative prices. The foreign exchange difficulties of 1992/93 constrained importation while the rapid depreciation of the Shilling led to even steeper rises in domestic prices. In recognition of the importance of fertiliser in increasing productivity, the Government will strengthen measures to bring about efficient and timely importation and distribution and to increase fertiliser use, especially among smallholders. To keep the prices of fertilisers low, the Government will continue to encourage cooperatives, farmers' companies and farmers' groups to import fertilisers for their members. To complement inorganic fertilisers, production of alternative fertilisers such as bio-fertilisers and nitrogen fixing agents will also be promoted

Farm Machinery

7.4.4 The main aim with respect to farm machinery policy is to support the private sector in the development, distribution and maintenance of appropriate technology. This will increase labour productivity and reduce the present emphasis on imported capital-intensive equipment. The framework to this support will be set out in the National Agricultural Mechanisation Strategy which is soon to be finalised. Part of this support will be in the form of improved mechanisation extension services. The availability of agricultural machinery, particularly that required for small scale farming, will be increased through programmes supporting the formal and Jua Kali manufacturing sub-sectors in supplying mechanised, animal-drawn and hand equipment.

Livestock Inputs

7.4.5 In the high rainfall areas where intensification of production systems is necessary, animal feeds continue to be either unavailable or too expensive for the ordinary farmer. This constraint is particularly limiting to poultry, pig and dairy production. To address these limitations, efforts will be made to identify alternative raw material for feed. There will also be need to revive and expand meat processing plants to generate the protein required for animal feed manufacturing.

7.4.6 Artificial insemination is not widely available while a disproportionate number of veterinary vaccines and virtually all drugs are imported. The policy is to promote cost-sharing, and the eventual privatisation of services. In the interim, the Government will improve the existing AI services by allocating increased levels of resources for staff training, deployment and operational funds.

7.5 AGRICULTURAL LAND USE POLICY

7.5.1 The Government's land-use policy objective is to ensure that all land is efficiently utilised. There are various Acts governing the acquisition and use of agricultural land. A comprehensive land policy will be developed to harmonise the various Acts and to remove certain impediments to agricultural production. Land rights of agricultural producers should be secured and protected by the State and the Kenya Constitution guarantees the right and security of land tenure. An assessment will be made of the land use efficiency of existing land tenure systems and of the laws and regulations governing the transfer and adjudication of land. The process of land adjudication has been accelerated and special attention will be given to the problems created by the subdivision of group-owned large farms to ensure that these farms are not subdivided into uneconomic units.

7.6 IRRIGATION AND DRAINAGE DEVELOPMENT

7.6.1 In view of the relative shortage of land that receives adequate rainfall for crop production, irrigation will remain an important means of increasing agricultural production. Water availability limits the area for irrigation to only 472,000 hectares distributed in five drainage areas. Of this area, the land under irrigation is 65,000 hectares or about 14 percent. To exploit the country's irrigation potential, a start will be made with the development of some 140 small-scale irrigation projects covering seven thousand hectares. These projects will be implemented by the farmers themselves. However, the Government will assist the farmers in designing the schemes and arranging for loans for equipment purchases.

7.6.2 Government policy on irrigation will favour commercial smallholder based irrigation projects. Such schemes are more oriented towards employment generation, local food security and increased incomes owing to their relatively low implementation and operational costs. Experiences gained in the construction, operation and maintenance of major irrigation infrastructure will be used to devise appropriate systems deliver and distribute water to smallholder farmers. In order to enhance sustainable group based irrigation schemes, meaningful farmer participation will be a precondition for support. For such participation to take place, community mobilisation will be an element of the project implementation process. The Government, in line with its cost sharing policy, will streamline the already developed credit access systems such as the Smallholder Irrigation Scheme Development Organisation and explore other workable credit systems.

7.7 DEVELOPMENT OF THE ARID AND SEMI-ARID LANDS

7.7.1 The Arid and Semi Arid Lands (ASAL) of Kenya make up over 80 percent of the country's total land surface and support over 25 percent of the human population and slightly more than half of the livestock population. The majority of the ASAL population is pastoralist although semi pastoral and farming communities have increased due to the high rate of immigration.

7.7.2 Some districts, which are predominantly arid and semi-arid, nevertheless have pockets of high agricultural potential, where crops can be grown successfully. Where feasible, irrigated horticultural production will be encouraged. For this purpose, demonstration farms will be set up where farmers can learn how to use small engine water pumps to irrigate farms.

Dryland Farming Systems Development

7.7.3 The main dryland farming support in the ASAL will be the development and demonstration of low-cost technical packages through Farming Systems Development. Involvement and co-operation of farmers in the ASALs will be a key element of the on-farm trials and demonstrations. Cultivation of drought resistant but high yielding cereals and pulses will be intensified, with special emphasis given to sorghum, millet, pigeon peas, green grams, and beans. Other crops will include cotton, oilseeds and root crops such as cassava. Desertification and environmental degradation will be fought by increasing the use of agro-forestry practices. Suitable tree seedlings will be developed and distributed to farmers. Since most of the farmers in ASAL regions are small-scale operators, the Government will encourage the training of oxen, donkeys and camels for animal-draft work such as ploughing, furrowing, weeding, and pulling of carts.

Improved Livestock Production and Marketing

7.7.4 Livestock production remains the most viable way of utilising the rangelands in the ASAL. Improvements in livestock production will be achieved through improved pest and disease control, proper range management and range rehabilitation. Livestock farmers will be encouraged to engage in the production of fodder crops for use during dry periods, and where possible, through irrigation. Pastoralists will be encouraged to buy fodder or exchange it for livestock during droughts.

7.7.5 Livestock production is very difficult and seasonally mobile in most of the ASALs. Livestock buyers also take substantial risks in bringing livestock to the terminal markets. Measures that need to be undertaken to make livestock marketing in the ASALs more profitable include:

- establishment of a price monitoring and information dissemination service, including information on quarantine;
- improvement of roads in ASAL districts;
- improvement of crushes, loading ramps and water supply;
- encouragement of the private sector to establish slaughterhouses in livestock production areas with refrigerated transport of meat to reduce livestock and meat losses;
- the provision of credit for the livestock trade in the ASALs; and,
- encourage the production of non-conventional livestock, including bee-keeping.

Water Resources Development

7.7.6 There is need to establish a long-term programme for water resource development in the ASALs. The development of both surface and ground water sources will be emphasized. Water harvesting techniques of all kinds, particularly construction and desilting of pans and rock catchments, will be used for agricultural production. To achieve these goals, a high level of community participation will be required as well as the use of local resources and materials.

7.7.7 The basic approach to irrigation development in the ASAL will be to adapt accessible irrigation technology to the needs of small units. High priority will be given to new irrigation schemes of simple technology, rehabilitation of older ones and improved maintenance of irrigation works. Water harvesting techniques of all kinds in areas far from river basins will be used for agricultural production.

CHAPTER 8
TRADE AND INDUSTRY

8.1 THE STRATEGIC ROLE OF TRADE AND INDUSTRY

8.1.1 The single most important determinant for meeting Kenyans' economic aspirations is the extent of the country's success in exporting to world markets. In recent years, the Government has taken a number of bold measures to strengthen the country's competitive position and exporters have begun to respond as demonstrated by the rapid expansion of non-traditional exports. There is still a long way to go, hence, trade promotion is central to the strategy of this Sessional Paper.

8.1.2 The industrial and trade sectors have a crucial role to play in this strategy. The successful industrialisation of the economy depends upon the ability of the manufacturing sector to compete internationally. Domestic manufacturers will need to be able to compete with imports but further expansion will depend upon their ability to sell to the rest of the world. Here again, a beginning has been made with measures to raise the competitive strength of our industrial sector but it is crucial that this process is carried further.

8.1.3 One of the strongest and most successful sectors of Kenya's economy has long been that of the service sector, resulting in significant benefits in terms of employment and foreign exchange earnings. The continued strength and development of the service sector in response to market forces will support the expansion of manufacturing and trade. Within the service sector, tourism will continue to be a dynamic source of recovery and sustainable development.

8.1.4 In addition to the higher incomes that a successful strategy of export growth and diversification will generate, it will enable the country to import the goods and services it needs. Accelerated industrialisation will enhance Kenya's ability to absorb and adapt modern technology and develop an experienced and skilled labour force.

8.2 CREATING AN EXPORT BIAS

Policy Framework

8.2.1 One problem facing the country is the long term deterioration in terms of trade. This reflects the weak underlying condition of the world markets for our major exports, compared to the more dynamically growing world demand for the industrial goods we import. The effect of this has been to weaken the balance of payments, by depressing the purchasing power of our exports, and to reduce the incomes and jobs generated in the export sectors. Since exporting is so important for total economic activity, these adverse price movements have also had a depressing effect on the rest of the economy.

8.2.2 The lack of dynamism in the export sector results in part from adverse world export prices but also from the policy environment that has not been as favourable as it might have been. As recommended in *Sessional Paper No. 1 of 1986*, the Government took action to improve the incentives for exporters. More recently, the exchange rate has been made more competitive and exporters given the right to retain 100 per cent of their foreign exchange earnings. The effect of these changes has been to make foreign exchange and imports readily available to those that need to buy critical imported inputs or capital goods. Most importantly, these policies raise the profitability of exporting and exporters have responded to these changes. Horticultural and other non-traditional exports have grown rapidly. At the same time, the share of the major commodity exports, coffee, tea and oil products, has fallen from 69 per cent of total exports in 1985 to 54 percent in 1992.

8.2.3 Within the context of multilateral arrangements, including the General Agreement on Tariffs and Trade, the United Nations Conference on Trade and Development and the Lome Convention, singularly and collectively with others, Kenya will adopt a more aggressive approach towards international trade to counter the protectionist tendencies of the trading blocks against goods coming from the developing world. An important element of this overall strategy is the expansion of trade opportunities through our membership in regional trade blocks within Africa. Reduced trade barriers within Africa and enhanced trade related infrastructure offer the greatest potential for rapid growth of Kenya's manufacturing and service exports while simultaneously enhancing international cooperation and security within the region.

8.2.4 The diversification of exports certainly does not mean that we should neglect our traditional exports, for it is in them that the country has an already-demonstrated comparative advantage. Indeed, we need to respond more vigorously to the weak state of the markets for these goods through measures to raise productivities and lower costs. This gives added weight to the policies set out in Chapter 7 intended to raise agricultural efficiency, increase the growth of agricultural output and stimulate agricultural exports.

8.2.5 Kenya must develop more dynamic, export oriented manufacturing enterprises. Many different aspects of the economic environment affect the ability of manufacturers in Kenya to compete internationally. Many changes initiated in *Sessional Paper No. 1 of 1986* have improved this environment markedly but much remains to be done. Many of the most important changes such as, the macroeconomic framework, parastatal reform, and the regulatory structure that affects investment and labour are described in other sections of this Sessional Paper. The explicit export promotion programmes and Government activities to encourage agreements with other countries are described in the remainder of this Section.

Export Promotion Programmes

8.2.7 Export promotion, within the context of Kenya's obligations under multilateral agreements, will continue to be an important means of stimulating more rapid growth and employment. Government now has in place three principal export incentive schemes: duty/VAT remission, Export Processing Zones, and Manufacturing Under Bond. All of these stimulate exports by reducing tariffs, taxes, and regulations on exporting firms so that their products are better able to compete internationally. All of these programmes were primarily targeted at manufacturing but have been expanded to encompass services and primary production. The Manufacturing Under Bond and Export Processing Zones are also intended to attract mobile capital to Kenya that might otherwise be invested elsewhere. As the whole economy is increasingly liberalised, the need for such special programmes will be reduced.

8.2.8 Export Processing Zones demonstrate well the potential for rapid expansion. The Sameer EPZ was fully occupied soon after completion while over 30 applications have been received for the Athi River EPZ which is expected to begin operation in 1994. 1650 jobs had been created on EPZs in Kenya by December 1993 and a further 25,000 more are expected by 1998. For the present, the expansion of employment in the EPZs appears to be limited by the rate of expansion of the physical facilities. However, the management of the three export incentive schemes will need to continue to be of the highest calibre to insure that these programmes are not used by Kenyan businesses to avoid taxes in the domestic market. The incentives offered will be continuously monitored to ensure that they are matched by export performance and other benefits accruing from programmes.

8.2.9 Successful export promotion requires supporting services. Here the thrust of policy will be for Government to work in close collaboration with the private sector to facilitate the growth of support services and, when the market is unlikely to provide these, to stand ready to provide the services itself. In addition to the three export incentive schemes, therefore, several agencies and projects have been established to promote exports. The Export Promotion Council (EPC) was established in August 1992 with the primary objectives of identifying export opportunities and overcoming constraints. The EPC is comprised of high level Government officials and senior private sector individuals and serves to provide leadership to all other export programmes.

8.2.10 Within the Ministry of Finance, the Export Promotion Programmes Office (EPPO) has become the focus for monitoring and evaluation of the various tariff, tax and regulatory structures that affect exports. The Department of External Trade (DET) of the Ministry of Commerce and Industry provides assistance to Kenyan exporters in identifying foreign markets and buyers. Various projects have been created to assist EPPO and DET achieve their objectives. The Kenya Exporter Assistance Scheme, offers grants to manufacturers towards the cost of their direct export promotion expenditures and the Kenya Export Development Support project provides similar grants, sponsors studies and workshops, and assists private and public sector agencies to increase awareness of export opportunities and procedures. The Government is strongly committed to the overall approach in which the responsibility of producing and marketing export goods and services remains with the private sector while Government programmes assist with information, an enabling environment, and a stimulating market framework.

8.2.11 At present our exporters suffer from the absence of an export credit and insurance guarantee facility. Government will continue its efforts to interest private banks and insurance houses to establish a consortium to provide such a facility, and stands ready to enact any necessary amendments to existing banking and insurance legislation. In addition, it recognises that such a privatelybased scheme will not cover non-commercial risks. Such provision can be expensive. The Government will make the necessary arrangements to provide a stand-by facility to cover such risks.

Regional Trade

8.2.12 While substantial progress has been achieved in diversifying the goods and services Kenya exports, less has been made to diversify the geographical markets to which the country sells. Traditionally, this has been heavily weighted towards Western Europe, with over two-fifths of total exports being sold to this region in 1992, which represents a higher share than ten years previously. Importantly, the expansion of our sales to the Far East has failed to keep pace with the dynamic growth of that region in total world trade, only a little over a tenth of our exports were sold to those countries in 1992.

8.2.13 Kenya's potential for industrial exports is greatest in neighbouring countries. Kenya has been a staunch supporter of regional economic integration efforts in Eastern and Southern Africa and in the African region as a whole. An important development is the transformation of the PTA into the Common Market for Eastern and Southern Africa (COMESA). Kenya will continue to emphasise, at COMESA forums, the need for a faster removal of tariff and non-tariff barriers and a smoother flow of goods and services within the region. The need to improve the efficiency of existing infrastructure and develop new facilities to allow a smooth flow of export products through good communications, banking and insurance services will also be stressed. Of particular importance is the recent agreement to enhance economic co-operation between the states of the former East African Community. This new agreement will make possible a more rapid liberalisation and expansion of trade with these countries.

8.2.14 To obtain maximum advantage from these regional trading arrangements, the Government will work in collaboration with the COMESA and EAC Secretariats, and private sector representatives, including the Kenya National Chamber of Commerce and Industry and Kenya Association of Manufacturers. It will emphasise at COMESA forums the need for cooperation in various regional infrastructural facilities and services. It will be vigorous in taking advantage of facilities available under the various COMESA institutions. Of particular importance are the PTA Bank and Clearing House and the East African Development Bank, which provide trade and development financing facilities that should be utilised by our local business and industrial communities.

8.3 SUPPORT FOR INDUSTRY

8.3.1 An adverse trend, that must be reversed, is the slowdown in the rate of growth of the industrial sector. Although there are various reasons for this, the basic cause is clear: our early industrialisation was based on import substitution. Given the small size of the domestic market, it did not take long for the most obvious import-substitution possibilities to become saturated. The way to break out of the confines of the domestic market, is to sell to neighbouring countries and the rest of the world. For this to be feasible, our industries must be internationally competitive. However, although some successes have been scored, the manufacturing sector as a whole has not proved competitive. A combination of protection from competing imports and limited competition within the economy has dulled the incentives to achieve maximum efficiency. Hence the near-cessation of industrialisation giving rise to the urgent need for policy revision.

Industrial Policy Framework and Tariff Rationalisation

8.3.2 The main policy thrust will be to work chiefly through market incentives and the self motivation of the private sector. This does not mean that Government will be passive. Its active participation will be needed but more in the role of ensuring that market incentives are in place and the policy environment is an 'enabling' one than in direct intervention. The *Sessional Paper No. 1 of 1986* presented a reform package that included: price de-control; financial market modernisation; parastatal reform; export promotion; and, tariff rationalisation. Kenya has now completely de-controlled virtually all prices. Market forces are now the basis for price determination. Financial market modernisation has been largely implemented but further changes will continue to be introduced as the economy matures as indicated in Chapter 4. The parastatal reform programme, still in the initial stages, is reviewed in Chapter 10, while export promotion has been described in the preceding Section. The remainder of this Section deals with the on-going programme of tariff rationalisation.

8.3.3 As an essential step in the rationalisation of its industrial protection policy, Government has replaced all quantitative restrictions with 'tariff equivalents'. These were still intended to provide protection but in a more transparent manner. The next step was to rationalise and generally reduce levels of tariff protection. This is being done gradually, to allow firms that have become accustomed to high levels of protection to become competitive, and substantial progress has already been made. In 1987/88, 124 import items were subjected to tariffs of 100 percent or more, with a further 109 items in the 80-99 percent range. Excessively high tariffs have been eliminated. Without the temporary surcharge raised in September 1993, the maximum rate is 50 percent, with an average rate of 33 percent which compares with an average rate of 49 percent at the end of the 1980s.

8.3.4 Government will continue this process further, progressively lowering protection rates (while maintaining a competitive exchange rate) so as to produce an efficient industrial sector which can both meet the needs of the domestic market and compete successfully in world markets. The intention for the medium term is that the maximum tariff rate will be reduced to 30 percent. It should be emphasised to both existing and new investors that this process of rationalisation has been implemented gradually since 1986 to allow investors to adjust and realise the returns expected from their investments. The Government's objective now is to complete the period of tariff rationalisation as rapidly as possible so that a stable environment can be created to form the basis for future investment decisions.

8.3.5 Experience has shown that existing enterprises will respond to changing tariffs by investment in new technology, training and new products and thereby becoming efficient and competitive internationally. It is anticipated that Kenya's overall trade and industrial policy will have this effect on most existing firms although it is recognised that some existing enterprises will be unable to make this transition. The loss of these high-cost producers should be set against the new efficient investments generated by the more rational market-based incentive structure. There may be some short-term loss of jobs but this will be more than offset by new jobs created by a revival of industrialisation.

Support Services

8.3.6 Entrepreneurial capacity is generally acquired through experience. However, the majority of Kenyans have little experience in modern commerce and manufacturing. It is therefore essential to promote Kenyan entrepreneurs in modern sector manufacturing. This can best be done by providing a policy environment of economic stability and market encouragement. In addition, however, training and other support programmes will be provided by Government in collaboration with the private sector.

8.3.7 For Kenyan goods to be readily accepted on international markets, they will have to be of high quality and conform to international standards. Among such requirements is compliance with the internationally recognized 'Quality Management Standards' under the ISO 9000 series. The Kenya Bureau of Standards has developed a certification scheme under these standards. The implementation of this scheme will be accelerated through enhancement of the technological capability of the Bureau.

8.3.8 No enterprise can achieve efficiency without access to information about advances in production technologies. In Kenya, a number of institutes are involved in industrial research, notably the Kenya Industrial Research and Development Institute (KIRDI). To date the operations of KIRDI have not been successful, due to lack of sufficient financial resources and qualified manpower. To reverse this, the private sector will be called upon for support, since they benefit from the research and development being undertaken.

8.3.9 The Government will continue to provide incentives to manufacturers and businessmen to encourage dispersion and decentralisation of industries to rural areas. Government and Local Authorities will provide infrastructure to facilitate input delivery and the marketing of outputs. Government will continue to encourage improved technologies, especially those required by small scale enterprises. The Kenya Bureau of Standards together with KIRDI will be expected to identify and develop emerging appropriate technologies. In addition, policy measures will be initiated to attract foreign investment and thus facilitate the transfer of technological know-how to Kenya.

8.3.10 Business training is an important factor in the promotion of trade. The Kenya Institute of Business Training (KIBT) was established in 1966 to provide Kenyans with business management skills. The Institute continues to provide courses in accounting, management, and supervision to businessmen and artisans. As the demand for business training increases, it will be necessary to encourage and assist KIBT to emerge as a leading coordinator of business training, counselling and extension services in the country. The Ministry of Commerce and Industry will initiate a gradual process of decentralising the provision of business training and extension services.

8.3.11 For growth to be accelerated, information on markets, credit and technology must be readily available. Industrial reports documenting market operations, current prices and projected raw material availability, prices and other decision parameters need to be provided on a continuous basis to the ultimate consumer in a usable format. The Government, in collaboration with the private sector, will strengthen its industrial research and extension programmes to generate and disseminate research findings and other relevant information to the trade and industrial sector.

8.3.12 Access to credit has been one of the major constraints in business development. Most new entrants into business suffer from capital shortages and the performance of their businesses remain depressed for a considerable length of time. Joint Loan Boards, managed by the Ministry of Commerce and Industry, assist small businessmen to expand their operations, while the Rural Enterprise Fund is designed to help the rural unemployed, including school leavers, obtain venture capital for business start-ups. These two schemes have the potential for providing significant financial support for small scale business enterprises. However, to improve the schemes' efficiency, direct Government management will be replaced by arrangements in which a designated commercial bank operates the schemes and Board funds are used as security guarantees for business loans.

Regulatory Reform

8.3.13 Trade licensing as a regulatory control and as a means of raising revenue has undergone considerable reform. Procedures have been simplified and bureaucracy reduced to a minimum. But one aspect that will require serious consideration is the lack of sufficient co-ordination of interpretation of laws between Local Authorities and Central Government. While the law is specific about the limits of licensing powers of the Local Authorities, most Authorities sidestep the provisions of Cap. 497 and demand licensing fees from firms already licensed by the Central Government. In this regard, the Government will make efforts to ensure that the licensing procedures are harmonised to eliminate duplication.

8.3.14 An important aspect of trade is the issue of export licensing. These were necessary in the period of extensive exchange and import controls but there is little rationale for them when there is a market-determined exchange rate and liberalised trade and payments. It is therefore the Government's intention to abolish export licensing, except for a short list established for security, health and environmental reasons.

8.4 SMALL SCALE AND JUA KALI ENTERPRISES

8.4.1 Government recognises the significant contribution of the small scale and Jua Kali enterprise sector to employment and income creation. A general framework for its development is detailed in *Sessional Paper No 2 of 1992 on Small Enterprises and*

Jua Kali Development in Kenya. This Paper identifies a number of constraints on the rapid expansion of the sector, including; the inhibiting general policy environment, cumbersome laws and regulations, inadequate training for artisans, poor information dissemination, and a lack of credit provision. In response, Government is undertaking a comprehensive review of pertinent regulatory Acts and all licensing requirements and will introduce amendments to remove impediments to small scale enterprise development. More generally, direct and indirect Government support will be given to this sector to increase production and productivity and improve the range and quality products. Groups of artisans will be encouraged to form associations to take advantage of economies of scale to procure inputs, increase specialisation, integrate production and exploit potential markets. Significant potential exists for sub-contracting to larger scale manufacturing concerns and Government will facilitate increased contact between the two sectors.

8.4.2 The small-scale "informal" and Jua Kali sector has witnessed a rapid expansion since independence, thus providing not only jobs but a means for many Kenyans to enter the manufacturing and service sectors. While the sector as a whole must continue to expand to provide future employment, it is equally important that individual enterprises consolidate and grow into small and medium scale formal sector businesses. This vital evolution towards a locally controlled manufacturing economy is severely handicapped by a lack of business management skills, constraints in the availability of credit, poor marketing organisation and the paucity of information concerning appropriate technologies and products. Thus, policy for the sector must adopt a dual focus. On the one hand, the general environment must be made more positive to encourage Kenyans to continue to start up informal small scale enterprises to provide low cost employment opportunities. On the other hand, more attention must be given to facilitating these Kenyan owned enterprises to transform into efficient modern sector businesses that are competitive and able to lead the country's economic development in the twenty-first century. Such policies and actions are described throughout this Chapter and Paper and will be focussed in particular upon the small scale and Jua Kali sector.

8.4.3 Kenya has an extensive network of institutions promoting Small Scale Enterprise (SSE) activities. However, these have often been ineffective for a number of reasons: high costs to targeted clients; poor dissemination of information of the services that they have to offer; little coordination between the institutions involved, leading to duplication and unnecessary competition; lack of clear policy; lack of integration of training in the assistance programme; and lack of capacity and experience on the part of the institutions in needs assessment. For the future, efforts will be concentrated on increasing the impact of existing institutions rather than spending resources to create new ones. Past coordination failures among institutions will be corrected, through consultations between donors, NGOs, Government, local authorities and beneficiaries.

8.4.4 Despite the existence of many financial institutions in Kenya, SSEs continue to experience limited access to credit. Credit programmes in the SSE sector will target emerging entrepreneurs, including the "missing middle" level entrepreneurs. Women, who form a significant proportion of SSE entrepreneurs, are specific target beneficiaries. Special groups, including the physically handicapped, with a disproportionately high percentage of unemployed, will also be targeted. To ensure increased flows of loan funds, Government will intensify its efforts to acquire supplementary soft loans for on-lending to financial institutions for lending to the small scale and Jua Kali sectors.

8.4.5 Availability and secure access to land is critical to the success of SSEs. Most are service oriented enterprises, the success of which depends upon their having a convenient location relative to their potential customers. Land near commercial sections of Kenya's secondary towns and cities will continue to be made available to SSEs. An inter-Ministerial Committee has been formed with responsibilities for identifying and documenting suitable urban sites. For most small businesses, title deed is the primary guarantee to creditors that the business is stable and has the ability to meet debt obligations. Title deeds also provide small scale entrepreneurs with the security they need to invest more in their enterprises so that they can grow, take on more employees and become more formal businesses. The new programme to provide SSEs with title deeds will therefore, be gradually expanded.

8.5 TOURISM

Development Strategies

8.5.1 Tourism has been a means of foreign exchange generation, employment creation and conservation of our natural heritage. To promote tourism, the Kenya Tourist Development Corporation was established in 1965 with the responsibility of financing the development of tourist facilities, and *Sessional Paper No. 8 of 1969 on the Development of Tourism in Kenya* was prepared. These early efforts propelled tourism to its current position as the country's major foreign exchange earner. Total tourist arrivals increased from 65,400 tourists in 1964 to about 814,000 in 1990. The sector also provides direct employment to about 170,000 people and indirectly to another 340,000 people. Hotel occupation grew from about one million bed-nights in 1964 to over 6.5 million in 1991. The recession in tourism over 1991-92 is evidenced by the 15 percent decline in tourist arrivals. The return to normal levels of tourists visiting Kenya, which appears to be underway from late 1993, will be a factor in the overall recovery of the Kenya economy.

8.5.2 The traditional attractions that Kenya has continued to rely upon are its beaches and game viewing opportunities. For further growth and development, the Government will continue to support efforts to promote diversification. These include conference tourism, cruise shipping, domestic and regional tourism and specialised tourism (mountain climbing, bird watching, camel safaris, golf and other sports, etc.).

8.5.3 Currently, multi-destination tourism is fashionable, with the tourists visiting many countries in one package. For this to be facilitated, regional cooperation and promotion is important. There are several barriers to this type of tourism, including immigration and customs regulations relating to movement of vehicles and persons between countries, and the remittance of proceeds by tour operators from one country to another. The Government will initiate dialogue with neighbouring states to dismantle these barriers. In addition, regional cooperation in wildlife conservation and development of infrastructure will receive priority.

8.5.4 There is a potential conflict in the diversification strategy between luxury and mass tourism. Luxury tourists spend more per day but require a very high level of inputs in terms of imported goods and the presence of far fewer other tourists. Mass tourism has much greater potential to create more employment and generate foreign exchange but with the disadvantage of congestion in the parks and the beaches. Kenya will diversify and accommodate both types of tourism through land use planning while market forces will be allowed to ultimately determine the forms of tourism that develop in Kenya.

8.5.5 Domestic tourism is a valuable potential source of employment creation. The most serious handicap to its development is the level of disposable incomes of the majority of Kenyans. The Domestic Tourism Council will be strengthened and the private sector encouraged to support domestic tourism, for example, through providing a credit facility for domestic travel and sponsoring employees for incentive travel. Serious efforts will be directed to the creation of public awareness of the value of domestic tourism to promote a travel culture among Kenya's communities. The Kenya Budget Hotels Association is expected to continue to play a major role in promoting domestic tourism. Other measures that could support domestic tourism include encouraging education institutions to avail their facilities for hire during holidays. The fencing off or sealing of public access routes to the sea and beaches will be prohibited. Encroachment of high water mark by developers will also be prohibited.

Training

8.5.6 Manpower training is an important component in harnessing the benefits of tourism. Trained manpower contributes to reduced leakage of foreign exchange earned by tourism and facilitates diversification in the country. The Government will continue to promote training of manpower involved with planning and marketing of tourism to ensure the sector attains its full potential. The Utalii College, the major institution producing trained manpower for tourism, will establish a branch at the coast to enable an expansion of training and to open new areas of training, such as those related to cruise tourism. In line with Government policy, the introduction of cost sharing at Utalii College and other similar institutions will be examined.

8.5.7 There are a number of private colleges offering courses in various tourism areas. This situation has arisen from the high demand for trained manpower in the sector. To accelerate training, the Government will encourage such private sector initiatives. However, to ensure quality and harmonised training, institutions will be required to register with the Ministry of Tourism and Wildlife. Curriculum and national testing and certification will be centralised through an appropriate institution to ensure high quality standards.

Marketing

8.5.8 Traditionally, the marketing of tourism in Kenya has concentrated on wildlife and beaches as the main tourist attractions. In line with the tourism diversification policy, the range of products to be developed and promoted will be expanded as earlier indicated. In promotion of conference tourism, for example, hotel owners will be encouraged to install and modernise conference facilities in their hotels and market them internationally to exploit this lucrative market. In the rural areas, businessmen will be encouraged to put up facilities that can attract national meetings as a way of boosting domestic tourism.

8.5.9 In addition to our traditional sources of tourists efforts will be made to attract tourists from other potential regions notably, Eastern and Southern Europe, the Far East including Japan and Australia, Canada and South Africa and the Middle East. To strengthen the marketing efforts, a Kenya Tourism Marketing Board (KTMB) will be formed with extensive private sector involvement.

Enabling Environment

8.5.10 The business environment for development of the tourist sector needs to be strengthened. Improved infrastructure will be an added incentive to the industry. The Government will give a high priority to the improvement of infrastructure that is critically important to tourism and wildlife development. This includes roads to support tourism in national parks and game reserves and supplies of water and electricity at the coast, the most concentrated centre of the industry.

8.5.11 Kenya's stability since Independence has been instrumental in the tremendous growth realised by tourism. However, in the last two years concern for personal security and safety has influenced tourists' decisions to travel to Kenya. Decisive action will be taken to improve the image of the country since climate, wildlife and scenery are not enough to attract visitors if they encounter violence, lack of courtesy or harassment. Towards that end, the Government will set up a Tourist Police Unit and continue to foster peace and stability.

8.5.12 Government will reduce its direct involvement in the industry in line with the privatisation policy. Currently, the Government is involved in over twenty separate hotel businesses. Withdrawal from such investments will open up opportunities for the private sector, and introduce more efficiency in the industry. Specific issues on parastatal reforms are presented in Chapter 10.

8.5.13 Environmental conservation and management shall be accorded high priority in future tourism development. Solutions will be sought to the problems of beach pollution and litter in the National Parks and Reserves, beaches and other tourist sites. The Government will continue supporting the efforts of Kenya Wildlife Service in wildlife conservation and management.

8.5.14 A number of economic reforms have been undertaken which have an impact on tourism. These include foreign exchange liberalisation, price de-controls, efforts to contain inflation and security enhancement. An analysis will be undertaken to assess the impact of these reforms on tourism and to identify how regulatory procedures that affect the tourism industry generally can be streamlined. This analysis will also include a more comprehensive assessment of tourism's contribution to the economy in the long-term. In view of potential land use conflicts, especially in the beaches, national parks, reserves and wildlife dispersal areas, the Government will harmonise the respective regulatory frameworks and develop a Tourism Development Master Plan. The Government will also provide other incentives to enhance the tourism sector to sustain its contribution to the national economy.

CHAPTER 9

RURAL AND URBAN SETTLEMENT, INFRASTRUCTURE AND SOCIAL SERVICES

9.1 RURAL AND URBAN SETTLEMENT

9.1.1 A central component of the larger effort towards economic recovery and sustainable development in Kenya, is the strategy for the balanced development of rural and urban areas. The primary aim of this strategy is to promote the development of an urban system that both supports the growth of agriculture and the development of rural areas, and that generates productive employment opportunities in urban manufacturing and service enterprises. The main objectives of the strategy will be: to avoid the excessive concentration of population in Kenya's largest cities; to promote vigorous growth of secondary towns and smaller urban settlements; to foster productive linkages between agriculture and other sectors of the economy, and among rural areas, local service centres, market towns, and larger cities; to bring renewed economic growth to all regions of the country; and, to facilitate the provision of public infrastructure in all urban centres.

9.1.2 Urbanisation is an integral part of the development process and will be increasingly important to the development of the country. The Government will pay greater attention to urban policy and re-orient the rural-urban balance strategy as laid out in *Sessional Paper No 1 of 1986* accordingly. Table 9.1 represents the urban population from 1980 to 2010.

TABLE 9.1
RURAL AND URBAN POPULATION, 1980-2010 (MILLIONS)

	1980	1990	1992	2000	2010
Total Population	16.67	22.75	24.18	29.71	36.90
Urban Population	2.50	4.03	4.50	6.95	11.22
Share (percent)	(15)	(17.7)	(18.6)	(23.4)	(30.4)
Rural Population	14.17	18.72	19.68	22.76	25.68
Share (percent)	(85)	(82.3)	(81.4)	(76.6)	(69.6)

9.1.3 Between 1980 and 1990 the urban population grew at an annual rate of 5.0 percent, increasing from 2.48 million in 1980 to 4.03 million in 1990. It constituted 15.5 percent and 17.7 percent of the total population in 1980 and 1990 respectively. Urban population is projected to increase to 6.95 million and 11.22 million by the year 2000 and 2010 respectively. The urban population growth rate between 1990 - 2000 is expected to be 5.6 percent but fall to 4.9 percent between 2000 - 2010. The urban population will constitute 23.4 percent of the total population by 2000 and 30.4 percent in 2010. It is expected that by 2010 over half the annual national population growth will be occurring in urban areas.

9.1.4 Assessing the future distribution of the growth of population is the key for the overall rural-urban balance policy (Table 9.2). The fastest growing areas in Kenya in the 1980s were the Town Councils with an average population of 12,000, but they only accounted for 7 percent of the urban population in 1989 and 11 percent of the growth in urban population between 1979 and 1989. The smallest towns, with an average population of 6,000 accounted for another 14 percent of the growth of urban population. However, the large towns with an average population of 48,000 and above had 82 percent of the urban population in 1989 and experienced a 75 percent increase in population.

TABLE 9.2
DISTRIBUTION OF URBAN POPULATION IN 1989 AND OF 1979-89 POPULATION GROWTH

	1989 Urban Population			1979-89 Population Growth		
Region	Total Number (000s)	Share of Total (percent)	Average Size (000s)	Growth Rate (percent)	Number (000s)	Share of Increase (percent)
Municipalities:						
Nairobi	1,346	36.0	1,346	5.0	518	36.4
Mombasa	465	12.4	465	3.1	124	8.7
Other	1,240	33.2	48	4.3	424	29.8
Subtotal	3,051	81.7	109	4.4	1,066	74.9
Other Urban Areas:						
Town Councils	263	7.0	12	9.1	153	10.7
Others	422	11.3	6	6.8	204	14.3
Subtotal	685	18.3	7	7.6	357	25.1
Total Urban	3,736	100.0	31	4.9	1,423	100.0

9.1.5 Therefore, it is necessary to develop new policies to balance the pressing needs for infrastructure and services in urban centres experiencing the fastest population growth with the requirement to improve provision in more remote and presently disadvantaged regions. A comprehensive rural and urban settlement policy will call for greatly increased resource mobilisation and more effective management and administration. Since a central role will here to fall on Local Authorities the Government will take active steps to strengthen Local Authorities to enable them to effectively develop Kenya's towns and cities.

9.1.6 A necessary step will be the review of existing local administration, focusing on the current functional hierarchy, relationship to Central Government administration, geographic boundaries, revenue generating capacities and access to non-local resources. Increasingly, the private sector will be invited to take an active role in the functioning of urban areas, the provision of infrastructure and strengthening links to the rural hinterland and the wider national and international economy.

Small Towns and their Hinterlands

9.1.7 Policies that seek to promote rural-urban interaction must be maintained and interventions to broaden access to, and delivery of, improved local infrastructure and services to the rural population will continue to be a central concern. Improved productivity and output in agriculture is closely linked to the growth of small towns and rural centres. Improving the linkages between rural and urban areas is an essential step towards stimulating economic growth in general, and raising farm productivity and urban employment opportunities in particular. Thus, programmes such as those for Rural Trade and Production Centres (RTPCs) and other small towns, rural access roads, water supplies and rural electrification will continue to be emphasised.

9.1.8 To facilitate the growth of small towns and their productive hinterlands, the Government will continue to support the RTPC Programme. The purpose of the programme is to finance essential public investments in selected rural centres and their hinterland which have high potential for agriculture and other productive activities. The concentration of resources in a rural centre over a limited period is designed to complement existing physical infrastructure, to maximise the aggregate impact of individual projects, and to bring quicker benefits and financial returns, thus contributing to the goal of accelerated economic growth.

9.1.9 While these initiatives will contribute to the goal of balanced rural-urban development, their success depends crucially on the broader policies set to raise agricultural production and rural incomes. A productive agricultural sector, with higher incomes for farmers and farm workers, stimulates demand for a wide range of urban goods and services. Public investment in local infrastructure alone is unlikely to stimulate development where there is limited latent potential. Hence, priority will be given to urban areas where growth is already taking place but is being retarded by limited facilities, or where strong potential and local efforts to promote growth require only a limited infusion of capital.

Financing and Managing Urban Development

9.1.10 Capital investment for urban development has not kept pace with the high levels of population growth. Capital expenditure in City, Municipal, Town and Urban Councils in recent years has been declining as a share of total expenditure. Nationally, it declined from 49.3 percent in 1985/86 to 36 percent in 1988/89. In 1989/90 and 1990/91, the share of capital expenditure increased to 52.2 percent and 58.3 percent respectively. But this increase was attributed solely to massive investment in water supply for the city of Nairobi. As a result, more and more urban families are lacking basic urban infrastructure and the backlog in the provision of such services has been steadily increasing.

9.1.11 Increasing the level of financing for urban infrastructure presents a challenge that can only be matched by a range of initiatives. Most importantly, steps will be taken to increase the revenues of Local Authorities which lack the resources required to provide and maintain services and infrastructure. To generate such resources and reduce dependency on Central Government, reforms will be introduced that expand and strengthen the fiscal base of Local Authorities. Given the diversity of revenue potential of Kenya's councils, the Ministry of Local Government will explore possibilities with each Local Authority on a case-by-case basis. Among the options to investigate are: updating the schedule of activities subject to Local Authority fees and licences to reflect newer commercial and professional activities; tying property rates to improved site value to reflect the scale of activity on each site; transferring responsibility for the operation of certain facilities and services, such as water, to councils which have the necessary administrative and technical capacity, and improving systems for the operation and maintenance of services and facilities provided by Local Authorities.

9.1.12 The Ministry of Local Government will expand efforts to institute improved financial management to assist Local Authorities to raise their performance in collecting revenues, improve accounting procedures and the preparation of annual estimates and forward budgets. Particular emphasis will be given to improving the collection of revenues to which Local Authorities are properly entitled. The Ministry of Local Government will prepare guidelines and performance standards against which to measure collection rates of each authority. Measures will also be enacted to enable Local Authorities take prompt legal action to recover delinquent payments. Local authorities will also be required to revise the pricing of utilities and services to ensure that they reflect the real costs of operation, maintenance, and long term capital stock replacement. Local tax measures will not, however, be levied at rates that will undermine the broader policy of encouraging industry to locate outside of major urban areas.

9.1.13 While an expanded revenue base and improved collection of revenues will generate greater income for Local Authorities, it is equally important to ensure that funds are put to the most effective use. Available funds can be stretched considerably further by raising productivity in local government services, through adopting more efficient methods of operation, and more appropriate standards of construction and maintenance. The Ministry of Local Government will strengthen its technical services division to assist Local Authorities to improve systems for the operation and maintenance of their services and facilities. The Government will encourage the mobilisation of additional resources for urban infrastructure from other sources, such as Harambee contributions and NGOs.

The Local Government Loans Authority

9.1.14 The Local Government Loans Authority (LGLA) is an important source of capital for urban development. The Government will continue its efforts to strengthen the Authority by reviewing the enabling Act (Cap 270). Reforms will be made towards the proper administration and management of the Authority. These will include strengthening the Management Board of the LGLA by including members of well managed Local Authorities. The LGLA will be restructured to enable it to access commercial capital markets. Financial discipline will be reimposed on the repayment of LGLA loans. However, it is recognised that Local Authorities do face real difficulties in this regard. The mutual debt problem will be tackled, with Central Government departments taking a leading role in paying for services to Local Authorities. Consideration will be given to reviewing existing debts for certain smaller, revenue deficient authorities and financing future investment through grants.

Local Authority Staffing

9.1.15 The role of the Public Service Commission in recruitment, disciplining and firing of officers of Local Authorities has resulted in many senior officer posts remaining vacant. Lack of competent and good quality financial managers makes it difficult to provide proper financial services in Local Authorities. The possibility of establishing a Local Authority Service Commission will be studied. Ways will be sought to allow local authorities compete for competent personnel in the open market. This implies hiring personnel at market prices. The Public Service Reform Programme will be extended to Local Authorities to create efficient staffing levels.

Urban Planning Issues

9.1.16 There is need to educate all citizens on the importance of physical planning and to involve them in the planning process. The time involved in the planning process and approval will be shortened so that the plans are not overtaken by events. Legislation will be introduced to make urban land management more effective and to provide legal powers to enforce urban development plans. Between now and 2010 the Government will seek to implement the recommendations of the Presidential Commission on Land Use and to strengthen the Town Liaison Committees. Local Authorities will be strengthened to enable them to plan and control physical development within their areas of jurisdiction. Urban renewal and redevelopment will be made part of the planning process to curb urban degradation and conserve scarce urban land. Finally, standard criteria will be applied in the extension of boundaries and upgrading of Local Authorities.

9.2 BASIC INFRASTRUCTURE

9.2.1 Accelerated industrial, commercial and agricultural growth is dependent upon the availability and quality of infrastructure. Inadequate or poorly maintained infrastructure not only reduces productivity and induces attendant losses in production but also discourages investment. The provision of public infrastructure is a critical incentive that will be utilised to influence the spatial location of private investment. While the immediate priority is to rehabilitate existing facilities and satisfy existing demand, the longer term objective is to expand the provision of new infrastructure to areas that are currently comparatively disadvantaged.

9.2.2 The Government will provide basic infrastructure on a cost recovery basis wherever this is feasible. Even where capital costs cannot be fully recouped, operation and maintenance expenditures must increasingly rely on user charges. To do so will require effective and efficient cost recovery measures and user charges that encompass due regard to "ability to pay" and other questions of equity. The resultant expenditures must be clearly visible. The money so collected must be well accounted for, including being audited by the Controller and Auditor General.

Road Development and Maintenance

9.2.3 In Kenya, the road network in 1992 consisted of 8,621 km of bituminous roads, 26,092 km of gravel roads and 28,406 km of earth roads. Most of these roads are poorly maintained due to inadequate budgetary provision. As a consequence, sections of engineered road have already failed while, on others, routine maintenance has not been very successful. Immediate action will be taken to restore the serviceability of the affected road sections, as delay will not only result in increased road user operating costs but also increased costs of rehabilitation or reconstruction. The standard to which future road projects will be constructed will be determined by expected traffic levels and maintenance capacities.

9.2.4 One factor that contributes to rapid wear and tear of our road network is the lack of effective axle-load control. Although enforcement machinery is in place its operation has been hampered by various factors, including low court fines for overloading and corruption among enforcement officers. As a first step, the law will be amended to provide for punitive court fines for offenders as well as errant law enforcement officers. The completion of the Eldoret section of the Nairobi-Western Kenya Petroleum Pipeline has provided some immediate relief in this region by removing most of the road tankers. Further relief will be provided when the pipeline extension is completed in 1994, and the capacity and efficiency of the Kenya Railways improved to off load heavy consignments from the road system.

9.2.5 In order to increase funding for road network development and maintenance, a special levy on motor fuels has been introduced by legislation, to replace existing road tolls. The levy will initially be set at a level that will provide the bulk of funds required for road maintenance and will, over time, be raised to finance development expenditure as well. A strategy to address the maintenance, rehabilitation and upgrading of roads will be developed.

Energy Development

9.2.6 The majority of households will continue to rely upon wood based sources for their energy needs. Despite rising incomes, overall demand is expected to rise with population growth, particularly for charcoal in urban areas. The three policy responses to this situation, articulated in *Sessional Paper No 1 of 1986*, will be maintained and intensified. In summary, these are to promote agroforestry, to undertake reafforestation programmes in all regions of the country and to encourage woodfuel plantations. Research and development of renewable energy sources to enhance energy supplies in rural and remote areas will continue.

9.2.7 The development and maintenance of electricity supply has hitherto proved inadequate and unreliable. This has recently become more evident because of an inadequate reserve capacity, a limited transmission network and a weak distribution system being unable to meet increasing demand. This declining performance can be traced to inadequate operation, maintenance and development budgets, the root causes of which are low consumer tariffs and lack of adequate long term domestic investible funds.

9.2.8 Both the level and structure of electricity tariffs will be adjusted so as to achieve an operational profit by Kenya Power and Lighting Company (KPLC) and allow it to raise the local capital to sustain a power sector investment programme. Performance contracts between the Government and KPLC, the Tana River Development Company, and the Kenya Power Company will be completed.

9.2.9 In order to enhance efficiency in the electric power sector and attract private sector participation in the supply of electricity, the necessary legal and institutional reform will be undertaken. These will provide for the separation of commercial and regulatory functions and provide for generation and sale of electricity by independent power producers on terms that are commercially viable. Public sector companies will be restructured into two distinct companies with separate Boards of management, one for generation and the other for distribution and transmission of electricity.

9.2.10 The implementation of a sound policy framework and an appropriate investment programme is critical to addressing the increasingly serious shortfalls in power supply capacity. The Government will prepare annually, a rolling five year least-cost investment programme for power and petroleum. Project proposals will be evaluated taking account of their environmental impact.

9.2.11 The procurement, marketing and pricing of crude oil and petroleum products will be fully liberalised. The Government will also conclude a performance contract with the National Oil Corporation of Kenya. Urgent investments are also needed in the Mombasa-Nairobi oil pipeline, to avoid the risk of disruption of oil supplies.

Water and Sewage

9.2.12 The water sector has also been adversely affected by inadequate financing. Despite budgetary constraints, the Government embarked on an ambitious water development programme. Subsequently, some projects have had to be suspended in order to complete higher priority schemes. Currently, some 90 projects are earmarked for implementation between 1994/95 and 1996/97, on the basis of budget rationalisation policies. To improve the utilisation capacity of existing infrastructure, attention is being focused on rehabilitation. Municipal and Town Councils are having similar budgetary problems largely due to misuse of water revenue and inadequate tariffs.

9.2.13 The Government address the issue of marked deterioration in water supply infrastructure across the country. The rate of return for maintaining existing water and sewage infrastructure is higher than investing in new ones. To enhance maintenance and conservation of the existing stock of infrastructure, there is a need to review the user charges and streamline cost recovery. Despite the declared official policy on user charges, actual revenue constitutes less than 10 percent of total recurrent expenditure. To correct this gross imbalance, urban and rural consumer tariffs will be adjusted to raise collections to at least 70 percent of recurrent expenditure. Wherever possible, funds will be recycled to local communities which volunteer to maintain the water schemes, on the basis of enhanced consumer tariffs.

9.3 SOCIAL SERVICES

Population Policy

9.3.1 The results from the 1989 Population Census and 1993 Kenya Demographic and Health Survey confirm the continuing decline in the population growth rate resulting from a dramatic decline in fertility. The lowered fertility itself reflects a decline in desired family size and there is also evidence that there continues to be unmet demand for family planning services. The population of Kenya will continue to increase because of the large number of women entering their childbearing age. To achieve earlier population stabilisation, the Government will continue to implement appropriate population policies. The Government has recently indicated its intention to undertake mass media activities in population and health. Greater reliance on NGOs and the private sector will allow better coverage of the population. Increased emphasis on family planning service delivery is expected to increase contraceptive prevalence rates even higher.

9.3.2 The National Council for Population and Development is being restructured, with the objective of redefining its role as a policy making entity. Bureaucratic functions will be eliminated, staff positions streamlined and staff career prospects improved to accelerate implementation of population programmes.

Health and Nutrition

9.3.3 The Government is firmly committed to major reform in the health sector. The framework of this reform programme will focus on improved resource mobilisation and efficient allocation to cost effective public health interventions. It will cover restructuring of the Ministry of Health, health financing, expenditure, staffing needs and training, reform of the National Hospital Insurance Fund (NHIF), decentralisation of management authority to district levels, the encouragement of active community participation in health care delivery and the roles of private and public sectors. Critical to the success of this reform programme is the availability of an adequate drugs supply. In this context, the Government is developing a National Drug Policy and a supporting Quality Control Laboratory. These are expected to greatly improve the quality and availability of drugs and dressings.

9.3.4 The principle of cost recovery has been accepted as essential for the sustainable provision of Government services. A progressive set of hospital in-patient user charges was introduced with exemptions for those unable to pay or for services that need to be promoted for social reasons (child health, treatment of STDs; etc.). User charges have recently been extended to health centres. Hospital and health centre user charges will be continuously reviewed to see if adjustments in fee levels and exemptions are required, taking account of the revenue impact, inflation, and household budget data from the Health and Welfare Monitoring Survey. Monetisation of in-kind benefits under the Civil Service Reform Programme, will allow the exemption from hospital user chargers granted to Civil Servants to be discontinued. The Government will raise user charge collections as a percent of Ministry of Health recurrent expenditures from the present level of 1.7 percent to 9 percent over the short term. Revenue from user charges is allocated to the Facility Improvement Fund which is managed by the respective District Health Management Board (DHMB). To enhance DHMB control over health care in their district, the Government will expand their terms of reference to include management of district budgetary allocations. This will only take place after appropriate procedures to identify accountable officials and ensure timely audits of DHMB accounts are in place.

9.3.5 The HIV/AIDS epidemic is quickly assuming crisis proportions with the number of HIV infections rising from 0.7 million in 1992, to a projected 1.2 million in 1995, and 1.7 million by 2000. In addition, the incidence of sexually transmitted diseases (STDs) is on the increase. The adverse implications of AIDS for Kenya's development underlines the need for strengthening preventive health care. Prevention and treatment of STDs is proven to be one of the cost-effective ways to reduce HIV incidence. The Government will maintain a concerted effort to increase public awareness in recognition of the need for interventions that will bring about behavioral change. An AIDS prevention and treatment/management programme has already been developed together with donors and NGOs. The programme distinguishes between treatment for those who are HIV positive and designing appropriate community based home care for those with AIDS.

9.3.6 The nutritional status of children is widely regarded as a reliable indicator of societal welfare. High infant mortality, underweight and stunted children in many parts of Kenya reported by Child Nutrition Surveys, reflect the high incidence of diseases such as diarrhoea and malaria as well as nutritional deficiencies, poverty and lack of appropriate nutritional knowledge. The Government provides support for malnourished children under five years and the direct feeding and treatment of all severely malnourished children at hospitals and health centres. The school milk programme aims to provide every child with 0.2 litres of milk twice a week, but because it is untargeted and because each calorie supplied through milk could be provided at one sixth the cost via a school feeding programme, this has proven to be an excessively costly form of intervention. To maximise the impact of scarce budgetary resources, the effort to improve the nutritional status of school-age children will be limited to children in disadvantaged districts. Instead of milk, the intervention will rely on feeding cooked meals based on maize and beans. The milk programme will be targeted to reach pre-primary and pre-school children in arid and semi-arid areas. Other interventions to be developed include de-worming school children and Vitamin A prophylactics, both of which have significant health benefits.

Education Policies and Reforms

9.3.7 The Government's objective in the medium term is to increase access to, and the quality of, education while continuing to control and rationalise its own expenditures in the sector. The issues to be addressed include:

- re-allocating expenditures towards primary and secondary education by reducing the share of university education;
- increasing the proportion of spending on supplies of educational equipment and the in case of poor districts and other disadvantaged areas, textbook provision will be improved;
- lowering student-teacher ratios;
- determining and correcting the causes of dropouts from primary schools;
- instituting corrective intervention measures for low female enrollment in ASAL areas, especially at secondary and university level; and,
- reducing the large numbers of untrained primary and secondary school teachers.

9.3.8 At the primary level, the Government has stabilised the size of the teaching force at about 175,000 and is committed to not recruiting more untrained teachers. It will prepare a 10 year forecast of teacher training requirements (including the needs of untrained in-service teachers) and a plan to address that requirement, taking account of the designed capacity of the Primary Teacher Training Colleges. The goal of achieving minimum norms for student/teacher ratios will continue to be pursued. Scholarships and means-tested bursary programmes to secondary school students will be expanded, and the Government will consider appropriate financial interventions at the primary level in order to preserve educational equity, and access by vulnerable groups. The Government is committed, as part of its overall rationalisation of public expenditures, to increase allocations to non-salary items such as textbooks and other educational material. At the secondary level, the Government will allocate the necessary resources to improve the quality of science education.

9.3.9 The Government has initiated the process of cost recovery to arrest and reverse the excessive share of expenditures going to university education Increased cost sharing at the public universities will be facilitated by separating university charges for tuition from those for board and lodging, and moving toward full cost recovery for board and lodging. Students at public and private universities who are unable to meet the costs of their education from their own or parental resources, will be eligible for consideration for loans. Students at public universities will continue to be eligible for means-tested public bursaries as well. In addition, a study of private universities will examine whether students in these universities can also be eligible for means-tested public bursaries. Means-testing will be introduced for loans and the interest rate on such loans will be gradually adjusted to reflect those obtained in the market. Loans will be made and recovered by commercial banks contracted for the purpose. To address the longer term issues of public university funding, the Government will prepare a Public University Development Plan, featuring 10 year projections, a 6 year plan and a 3 year budget proposal. The Government also intends to introduce a system of lump-sum grants to a restructured Commission of Higher Education (CHE) to replace the existing practice of direct funding of individual universities. The restructured CHE will then be responsible for the planning, management and allocation of grants to individual universities.

9.3.10 In general, the thrust of reforms in funding arrangements and management of educational institutions will seek to decentralise decision making by gradually enhancing the capacity, responsibility and accountability of local bodies in educational institutions. In line with this objective, the functions of the TSC, which is currently responsible for teacher registration, recruitment, remuneration, deployment and discipline, will be reviewed. The responsibilities of the TSC will be rationalised and functions which are more appropriately managed at the local level will be decentralised while strengthening the TSC to handle those that can only be centrally enforced. Other policies to achieve sectoral objectives include a commitment to a gradually liberalised price policy at all levels of education; and expanded scope for private sector participation in the establishment and operation of educational institutions, the publication of books and production of educational materials.

CHAPTER 10

THE ROLE OF PUBLIC SECTOR

10.1 THE ROLE OF THE GOVERNMENT

10.1.1 In the period following Independence, the Government gave priority to the maintenance of the rule of law and an effective civil administration and to the provision of basic infrastructure such as roads, schools, hospitals, energy and water. It also assumed a major direct role in the growth and development of the economy. At that time, there was a scarcity of private domestic savings, management talent and entrepreneurial experience. Thus, direct Government participation in commercial and industrial activities was regarded as an effective way to induce development, promote regional balance, attract private investors and also act as an essential step towards the Kenyanisation of the economy.

10.1.2 Over the years, the Government's role in the economy continued to expand despite the emergence of a growing private sector. In part, growth of the public sector has resulted from increased demands for administrative and social services arising from the fast growing population. However, in other cases, this expansion was the result of policy objectives, for example: creating employment, increasing capacity to control the economy and increasing specialisation within the Civil Service.

10.1.3 In *Sessional Paper No. 1 of 1986*, the Government laid out a series of policies to redefine the role of Government. It has subsequently implemented a variety of reforms to create an economy that is market oriented, less controlled, and to encourage the private sector to play a pivotal role in the economy. After three decades of Independence and with the reforms implemented since 1986, the private sector is now sufficiently developed to assume greater responsibility in employment creation and income growth. The Government will therefore, continue to move away from interventionist measures to that of creating an environment supportive of the efficient operation of the private sector and markets. To this end, regulations, controls and laws governing the operation of the private sector will be streamlined and bureaucratic procedures made more transparent. Direct public sector participation in production activities will be minimised.

10.1.4 In addition to macroeconomic policy formulation and the provision of an overall policy enabling environment, the Government will concentrate its activities in four main areas: maintenance and extension of social services; the provision and maintenance of public physical infrastructure; efficient administration of Government services and justice and, the protection of the environment. This Chapter concentrates on the Government's role in ensuring the efficient administration of Government services through the Budget Rationalisation Programme, the Public Service Reform Programme and Parastatal Reform.

10.1.5 For public enterprises, the Ministry of Finance will intensify its review and approval of all investment proposals to ensure that they are in line with Government priorities and meet technical and economic criteria. The Ministry of Finance will also review and approve any commitments or expenditures that have implications for the Government budget (e.g. borrowings involving Government guarantees).

10.2 EFFICIENT ADMINISTRATION OF GOVERNMENT SERVICES

10.2.1 No development is possible without an efficient administration. This Sessional Paper will continue and intensify the reforms outlined in *Sessional Paper No. 1 of 1986.* To support these developments, the legal system and laws are being reviewed to make them current and compatible with new development processes and needs. The legislative arm has been transformed from a single to multi-party democratic system. These changes will continue at a pace compatible with social and political needs.

10.2.2 To make the executive machinery of Government efficient, on-going reforms have recently been accelerated. The successful implementation of the Public Service Reform will deliver services more efficiently.

10.2.3 Information and broadcasting is an important agency for promoting development activities by facilitating increased communication and awareness in rural and urban areas. Increased awareness promotes responses from various social and economic groups leading to mobilisation of resources for development. Mechanisms will be put in place to improve the management and flows of information on Government policies to ensure understanding and popular participation.

Discipline and Adherence to Laws

10.2.4 The new public service will be geared and re-oriented to the adherence of laws and regulations. Any non-adherence to provisions of the Finance Acts, Appropriations Act or procurement procedures and directives will be dealt with vigorously through appropriate sanctions and legal machinery. The recently established anti-corruption police squad will be strengthened and supported at all levels to eliminate any form of indiscipline. Similarly, the judiciary will be strengthened and equipped to work in tandem with the squad and other arms of law enforcement.

Security

10.2.5 To achieve sustained economic and social development, people's security must be guaranteed. This can only be achieved through social, economic and political stability. In achieving this objective, Kenya's internal and external security needs will be adequately catered for and deliberate efforts will be made to finance the security arm of Government in order to ensure political, social and economic stability. However, provision of this security is not costless. Resources have to be shared with sectors that produce goods, services and other employment generating activities. Consequently, security needs in the form of personnel, structures, equipment and training up to the year 2010 will be evaluated and revised in line with the requirements of geo-political re-alignments and economic changes.

10.3 BUDGET RATIONALISATION PROGRAMME

10.3.1 The Budget Rationalisation Programme (BRP) was launched in 1986 to bring about changes in the composition of public expenditures in order to increase their efficiency and effectiveness. The BRP remains a central strategy to increase the productivity of Government expenditures and so facilitate the reduction of the fiscal deficit. At its core, the Programme seeks to: improve the allocation of available budgetary resources; ensure that resources are concentrated on a smaller number of priority development activities; shift public investment to projects that more directly assist the private sector to be more productive; and, improve the utilisation of facilities and services through the provision of adequate operation and maintenance funds.

10.3.2 Since BRP's introduction there have been substantial improvements in the management and forward planning of public finances, the budget process and control of expenditures. Government is committed to maintain and reinforce the implementation of the Programme to achieve further gains in expenditure efficiencies and effectiveness. In order to strengthen public investment planning, the Government introduced the Public Investment Programme (PIP) in 1992. The PIP requires all public development agencies to review their portfolios, set priorities for implementation, apply objective criteria to the selection of projects, and ensure the provision of adequate recurrent funding for completed projects. To bring about adherence to these requirements, the Government will implement a standard set of procedures governing the selection, appraisal and approval of all projects and programmes that must be completed before any budget allocation is approved.

10.3.3 Further refinements and measures to strengthen the Government budget process will be introduced and strict adherence to expenditure procedures will be enforced. The present system of expenditure monitoring will be strengthened to ensure full compliance with Government fiscal objectives and targets.

10.4 PUBLIC SERVICE REFORM

Civil Service Reform

10.4.1 As Kenya enters a period of significantly accelerated structural change there will be a need for flexible and responsive management, and strengthened analytical and policy making capability. To restructure the public service, a Civil Service Reform Programme and Action Plan has been approved by the Government. The Government is committed to the comprehensive reform and capacity building proposed in this document, covering civil service organisation, financial and performance management, staffing levels, personnel management, and pay and benefits. A Secretariat has been set up to manage the process. The Government has already identified the following actions in this regard: preparing a policy statement redefining the scope of responsibilities of the civil service and identifying functions which will be restructured; identifying the key ministries to be restructured in the first year of the programme; and making the early retirement programme including an adequate safety net fully operational. One objective is to reshape the structure of the Civil Service by reducing chronic over manning at lower grades and providing attractive remuneration for higher professional grades in order to fill vacant establishments with well qualified staff.

10.4.2 At Independence, the number of employees in the Civil Service (excluding teachers) stood at about 60,000 while the corresponding national population was 8 million giving a population to Civil Service employee ratio of 133 to one. Employment in the Civil Service grew by about 5.5 percent per year between 1963 and 1991, reaching 272,000 employees in July 1991. The growth rate of the Civil Service surpassed the high annual average growth in population resulting in the population to employee ratio falling to 85:1 in 1991. Government will maintain a rational population to employee ratio that reflects the needs of Kenyans, the provision of efficient service and resource constraints.

Retrenchment

10.4.3 As a result of incentives for early retirement and a freeze on hiring of levels A-G, staff levels had been reduced to 265,161 by June 1993. The Government plans that 16,000 positions will be eliminated each year over three years (1994/95-1996/97) through attrition and voluntary retirement. A review of the programme will be undertaken at the end of this initial three year period. Reforms of the judicial and police services along the lines of the civil service reform will also be developed.

10.4.4 The on-going retrenchment programme of the Civil Service has developed an elaborate mechanism to cater for voluntary early retirement. Programme implementation will be kept under review for opportunities to accelerate attrition. The reform programme will also use redeployment and retraining, where possible, to fill manpower shortages, especially at the district level.

10.4.5 The retrenchment programme includes provision of a safety net for retirees, comprising of lump-sum, gratuity payments and pensions (where applicable). In 1993/94, over Kshs 1 billion was set aside for this purpose to cover employees in the Civil Service, Teachers Service Commission and parastatals. The financial demands of this safety net are very large and in order to meet them, external donor support for this programme is being actively sought.

10.4.6 Reducing the size of civil service establishment will be costly in the short run, although net budgetary savings will be made in the long run. Consequently, the very limited net savings from immediate down-sizing will not allow significantly increased allocations to operations and maintenance expenditures. Judicious incremental budget restructuring will be implemented to provide selective increase in operations and maintenance allocations. Given the seriousness of Kenya's stabilisation problems, the Government will use an appropriate mix of cost reduction measures with those aimed at capacity building through filling vacancies at higher levels.

10.4.7 The Government will review salary scales and monetise benefits in line with recommendations of the Action Plan. The reform programme, especially those aspects which deal with pay and employment, will be explicitly linked to the short and medium term macroeconomic framework and will be introduced in a manner that does not conflict with objectives for the fiscal deficit. Reduction of the absolute wage bill is seen as an essential component of fiscal reform.

Rationalised Organisation

10.4.8 The functions and corresponding staffing levels of the Public Service will be determined on the basis of demand, subject to budgetary constraints. Three important principles will determine how the functions of the Public Service are divided among Ministries, Local Authorities and Parastatals and how each is organised to carry out its functions. First, individual organisations need not necessarily be set up solely for functional specialisation. Instead, the Government will seek to exploit economies of scale, wherever these exist, by grouping functions associated with the same sector. Second, rationalisation of staff and functional reviews will be directed toward securing an efficient structure, optimal size and staffing norms within various departments and cadres of personnel. Third, within Ministries, Public Institutions and Departments, technical and scientific fields will be allowed to adopt a more truncated organisational structure in order to accommodate decentralisation of decision making. Decentralisation of decision making from national levels to the districts will be continued and the latter strengthened in line with District Focus for Rural Development.

10.4.9 In the longer term, improved policy formulation and implementation capacity depends primarily on the creation of an environment supportive of objective analysis and professionalism. A key goal of Civil Service Reform is capacity building. In the short term the Ministry of Finance and the Office of the Vice-President and Ministry of Planning and National Development will prepare action plans to intensify training for key policy analysis. At the Central Bank, capacity needs to be built in key operational departments, including banking supervision, foreign exchange operations, and domestic and foreign debt management. The CBK is in the process of developing an action plan for staff development.

10.5 PARASTATAL REFORM

10.5.1 Since 1990 the Government has maintained a strong commitment to restructure the State Corporations. Initial reform measures were undertaken on a case by case basis while, concurrently, a comprehensive policy framework was prepared and the institutional capacity to develop a sustained programme established. In July 1992, the Government published a paper that defined policies, principles and guidelines for privatisation and parastatal reform. The paper identified 207 non-strategic public enterprises for, privatisation or liquidation. The remaining 33 strategic public enterprises were to be retained under Government ownership but restructured to enhance efficiency through private sector participation and performance-linked contracts.

10.5.2 An independent study of subsidies and financial flows from Treasury to state corporations estimated that direct and indirect financial flows from the Government to the parastatals averaged some 5.5 percent of GDP over the period 1989/90-1991/92. Under a subsidy reduction plan, direct and indirect subsidies will be progressively reduced and eventually eliminated.

10.5.3 A corporate plan for restructuring Kenya Railways was approved by its Board of Directors in September 1992. The plan includes actions to divest peripheral activities and contract out others, limit freight services to 23 main freight stations on the network where 90 percent of traffic exists, and reduce staff levels. A performance contract will be agreed between the Government and the Board, including full compensation to the railway for any non-commercial services provided at Government's request. Following a tariff increase of 30 percent in March 1993 and a further increase of 20 percent later in that year, a third tariff increase will be implemented in 1994.

10.5.4 A performance contract between the Government and the Kenya Ports Authority (KPA), will be completed. The maintenance of cargo handling equipment and port infrastructure will be privatised. Measures to empower KPA to contract out stevedoring to the private sector will also be enacted.

10.5.5 In recent years, the Kenya Post and Telecommunications Corporation (KPTC) has made a significant contribution to Kenya's development, through the substantial expansion of the telecommunications network throughout the country. However, the

Government recognises that KPTC's performance has created a major drain on the budget. Strong action will be taken to remedy the situation. The Board of KPTC has decided that the posts and telecommunications activities should be separated into two companies. The Government has endorsed this decision, with substantial privatisation of telecommunications services as the longer-term goal. A number of immediate first steps will be taken to facilitate this process and to improve KPTC's performance. A new management will be in place by mid-1994. Its contract will clearly specify financial targets to be achieved. The new management will be given full authority to undertake any actions, including staff reductions, necessary to achieve them, subject to normal Board approvals. The contract will require the new management to take appropriate steps to separate the postal and telecommunications activities and draw up detailed plans for privatisation. Government will introduce legislation to Parliament for the separation of the post and telecommunications functions and to facilitate privatisation of those functions which are to be divested. The new Board of KPTC will agree on a performance contract with the Government consistent with the actions above.

Non-Strategic Parastatals

10.5.6 In an effort to accelerate the pace and ensure full transparency of privatisation of non-strategic public enterprises, the Government has created the joint public and private sector Parastatal Reform Programme Committee to oversee the process for divesting non-strategic parastatals. The Government will ensure a high level of active Kenyan participation in the future running of the divested Corporations. It will carefully consider options for effective and broad access by Kenyans to opportunities for investing in the ownership of divested enterprises. Further, it will establish one or more unit trusts as means for disposing of smaller non-strategic parastatals, for example, those held by the Industrial and Commercial Development Corporation and the Industrial Development Bank.

Strategic Parastatals

10.5.7 The Government has approved a policy for a Corporate Governance System for parastatals. This System will formalise a transparent, owner-manager relationship between the Government and the management of strategic parastatals. It will provide the framework within which the Government will:

- appoint the Boards of public enterprises from among those who are adequately qualified and meet specified criteria;
- negotiate performance contracts with Boards to define objectives and operational performance criteria;
- provide enhanced incentives for improved performance;
- adjust tariffs to reduce the need for subsidies by public monopolies; and,
- establish appropriate regulatory bodies to regulate monopolies.

CHAPTER 11
SUMMARY OF PRINCIPAL POLICY ACTIONS

11.1 THE STRATEGIC FRAMEWORK

11.1.1 The overriding goal of this Sessional Paper is to put in place a strategy for the recovery and rapid restoration of economic development. To achieve this goal will call for a renewed partnership between the people of Kenya and the Government and a clear mutual understanding of the roles of the public and private sectors. This demands a reorientation and redefinition of the role of Government.

11.1.2 Building on the process started under *Sessional Paper No. 1 of 1986*, immediate responsibility for determining economic production, employment creation and income growth firmly belongs with individuals, groups and communities themselves. Government will pursue policies to provide a stable economic climate that fosters business confidence and encourages savings and investment. This will be achieved through good macroeconomic management with strict fiscal and monetary control. Concurrently, Government will remove or streamline remaining regulations, controls and laws governing the operation of private sector and ensure transparency in all bureaucratic procedures that remain. The Government will concentrate its efforts on the provision of good governance, efficient administration, national security, social welfare services, physical infrastructure and the protection of the environment. Specific programmes will be undertaken to alleviate any short term negative impact that structural adjustment may have on vulnerable groups. Satisfying demand for even these focal functions will strain Government resources. Increasingly, partnerships between government, local authorities, communities and private enterprise will, therefore, have to be formed to ensure adequate provision.

11.1.3 In all its endeavours, Government will seek dialogue with all sectors of society to ensure widespread involvement in decisions and subsequent implementation, growing self-reliance and equity of opportunity. It is essential that all parts of society understand and identify with the ongoing reform programme if they are to effectively contribute to, and benefit from, a growing economy. It is expected that GDP growth will recover to 5 or 6 percent per annum by 1996. The increased economic activity will come from higher private sector investment, export promotion and efficient access to imported inputs and capital goods.

11.2 GOVERNMENT'S ACTION PROGRAMME

11.2.1 The remainder of this Chapter provides a summary of the major policies and initiatives requiring direct Government action. Not all policies described earlier are included, for example those that envisage only general affirmative support by Government for private sector activities. Policies already in effect are mentioned only to the extent that significant changes are envisaged.

11.2.2 Government is in the process of preparing specific Sessional Papers and policy documents that will detail future sectoral policy and actions within the framework provided by this Sessional Paper. These will be published in the immediate future and include consideration of:

- tourism;
- social dimensions of development; and,
- the national environmental plan of action.

11.3 PUBLIC FINANCE AND MONETARY POLICY (Chapter 4)

Fiscal Policy

11.3.1 Government's fiscal policy will be focused on the following medium and long term targets:

- the budget (including grants) will be balanced, with net repayments of public domestic debt;
- current revenue will be stabilised at around 24 percent of GDP. The base of taxation will be broadened and efficiency of collection improved to allow a progressive reduction in rates, while maintaining the overall revenue target;
- Government expenditure will be restricted to between 24 and 26 percent of GDP;
- budget rationalisation measures will aim at maximizing the productivity of Government expenditures. In addition, objective technical and economic criteria will be applied

to project selection, with priority given to projects in the areas of health, education, infrastructure and the environment; and,

- the present system of budget monitoring and expenditure control will be strengthened to ensure full compliance of public officials with the Government's fiscal objectives and targets.

Monetary Policy

11.3.2 To attain rational monetary policy, the following will be undertaken:

- the CBK will continue to manage domestic liquidity through the more efficient market based policy instruments such as the reserve requirement, Treasury Bills and other Government debt instruments;
- the CBK will promote the development of secondary markets in Treasury Bills and other Government securities;
- exchange control regulations will be liberalised further and the Kenya Shilling made fully convertible;
- a stable exchange rate will be maintained through strict fiscal and monetary policy in support of the objective of single digit inflation in the medium term; and,
- the Government will tightly limit contracting and guaranteeing of new non-concessional external borrowing by the public sector.

Financial Systems

11.3.3 In support of efficient and stable financial and banking systems:

- the Central Bank of Kenya Act will be reviewed and necessary amendments made to give the CBK more operational independence;
- the CBK will act on the problems of weak and distressed financial institutions while strengthening its supervisory role;
- the Government will offer to the public an increased shareholding of those commercial banks in which the Government holds substantial interest; and,

- the Capital Markets Authority will work towards establishing an active secondary market for Government securities, a second tier Stock Exchange for venture capital and facilitate the creation of unit trusts as a vehicle for small investors in the market.

11.4 SAVINGS AND INVESTMENT (Chapter 5)

11.4.1 Government's dis-saving will be eliminated, partially through continued implementation of Tax Reform and Modernisation, Civil Service Reform, and Parastatal divestiture.

11.4.2 Policies will be formulated to tap portfolio investment and encourage foreign equity investment including lifting the restrictions in the Foreign Investment Protection Act on the repatriation of capital gains.

11.4.3 Government will initiate an Investment Code relating to both local and foreign investment.

11.4.4 Enabling legislation will be introduced to accord the IPC all necessary powers in respect of new investments. IPC will:

- set clear application procedures for local and foreign investment; and,
- set clear guidelines on processing of applications and especially setting deadlines of response from licensing authorities to the applicants to ensure transparency and accountability.

11.5 EMPLOYMENT (Chapter 6)

11.5.1 The Government will, in cooperation with the Federation of Kenya Employers and the Central Organisation of Trade Unions, develop new employment regulations that allow firms autonomy in hiring and firing employees, combined with more generous severance allowances or with provision for training for workers made redundant to discourage unjustified or punitive redundancy. Emphasis will be given to a binding procedure to resolve disputed redundancy cases quickly.

11.5.2. The Government will re-examine existing policies on Wage Guidelines.

11.5.3 The Government will support the development of an industrial relations system which encourages the growth of representative organisations of workers and employers.

11.5.4 The Government will review and reform where necessary, the delivery of education at all levels to improve its relevance and quality to the needs of a modern economy.

11.5.5 Government will assist and guide unemployed youth in self employment ventures through the Youth Development Fund and Employment Promotion Centres.

11.6 AGRICULTURE (Chapter 7)

11.6.1 The MALD&M will be reorganised and strengthened to rationalise its role, structure and functions.

11.6.2 In order to accelerate and sustain growth in the agricultural sector, actions will be taken to formulate policy and the delivery of the basic services. To achieve agricultural recovery, the following measures will be implemented:

- privatisation of sugar factories;
- Cotton Board ginneries will also be privatised and legislation will be presented to Parliament to restructure the Cotton Board;
- the adoption of a strategy leading to a market oriented oilcrop industry;
- selective protection of the sector under a liberalised environment through the use of the variable import duty;
- promotion of agro-industries through increased extension and research services;
- increased funding of the activities that remain as core functions of the Ministry;
- ensure greater autonomy for marketing co-operatives with direct accountability to members; and,
- where necessary, establishment of revolving funds to ensure sustainable service delivery.

11.6.3 The legal and policy framework of marketing co-operatives will be reviewed and any resulting legal, policy or institutional changes will be implemented.

11.6.4 The role of the National Cereals and Produce Board will be confined to managing a strategic reserve, initially set at 3 million 90 kg bags, supplemented by a foreign exchange reserve of US$ 60 million.

Commodity Programmes

11.6.5 The following measures will be taken to overcome constraints in the horticulture sector:

- allocating land to private operators near the two international airports to tor the construction of structures for airfreight handling;
- installation of pre-cooling facilities at major international airports and major horticultural producing areas;
- investigation of the constraints impeding the development of sea freight and the proposal of possible solutions by the Horticultural Crops Development Authority (HCDA);
- maintaining jet fuel prices at a competitive level; and,
- strengthening links between research and extension by KARI and Ministry of Agriculture, Livestock Development and Marketing.

11.6.6 KARI will collaborate with the private sector to formulate policies and strategies to promote oil crops in the country. An Oilseeds Development Council will be established to oversee the development of the oilseeds industry.

Agricultural Support Services

11.6.7 Agricultural research will be intensified through increased allocation of resources. The objective of crop research will be to continue the search for more productive and profitable crop varieties. Increased emphasis will be placed on:

- breeding programmes aimed at continuous increases in the yields of already established food crops;
- breeding for disease and pest resistance crop varieties;
- research in integrated pest management systems;
- efficient fertiliser use;
- agronomic research particularly on smallholder production systems; and,
- more suitable types of forage crops including more integrated methods of recycling crop residues for livestock production.

11.6.8 The Government will gazette Plant Breeders' Rights and negotiate membership of relevant international organizations.

11.6.9 A mechanism will be introduced with which agricultural marketing institutions or other organisations will collect commodity specific research levies such as already exist in the case of coffee, tea and sugar to support research programmes.

11.6.10 Government will facilitate the privatisation of veterinary practices and divest the importation and distribution of livestock drugs, except those for strategic functions.

11.6.11 Provision of increased agricultural and livestock credit will be effected through the establishment of the Agricultural Development Bank.

Agricultural Inputs

11.6.12 The Ministry of Agriculture, Livestock Development and Marketing will liaise with relevant institutions to finalise the preparation of the National Agricultural Mechanization Strategy (NAMS). Through the implementation of NAMS, the Government will support the development of an effective farm machinery manufacturing, distribution and service system.

Irrigation and Drainage Development

11.6.13 The Government in line with its cost sharing policy will streamline the Smallholder Irrigation Scheme Development Organisation for smallholder irrigation farmers and explore other workable credit systems.

Development of the Arid and Semi-arid Lands

11.6.14 To improve livestock marketing in the ASAL areas, the following measures will be undertaken:

- establishment of a price monitoring and information dissemination service including information on quarantine;
- improvement of roads in ASAL districts and crushes, loading ramps and water;
- providing credit financing for the livestock trade in the ASALS; and,
- encouraging the production of non-conventional livestock, including bee-keeping.

11.6.15 The development of both surface and ground water sources will be emphasized. Water harvesting technologies that are sustainable and friendly to the environment will be given priority. To achieve these goals, a high level of community participation will be required as well as the use of local resources and materials.

11.7 TRADE AND INDUSTRY (Chapter 8)

11.7.1 The overall policy of Government with regard to the promotion of trade and industry is one of ensuring that market incentives are in place together with an enabling environment.

11.7.2 Within the context of multilateral arrangements, Kenya will adopt a more aggressive approach towards international trade to counter the protectionist tendencies of trading blocks.

11.7.3 Export incentives will be continuously monitored to ensure that they generate a desired export performance and other benefits accruing from the programmes.

11.7.4 Government will continue its efforts to interest private banks and insurance houses to set up an export credit and insurance guarantee facility and will enact any necessary amendments to existing banking and insurance legislation.

11.7.5 Kenya will continue to emphasise the need for a total removal of tariff and non-tariff barriers and other impediments to the flow of goods and services within the region.

11.7.6 Government will continue to rationalise and reduce levels of tariff protection. The medium term target is a maximum tariff rate of 30 percent.

11.7.7 To ensure Kenyan exports conform to international quality standards, the Kenya Bureau of Standards certification scheme will be implemented at an accelerated rate.

11.7.8 The Government, in collaboration with the private sector, will strengthen its industrial research and extension programmes to generate and disseminate research findings and other relevant information to the trade and industrial sector.

11.7.9 Direct Government management of the Joint Loans Boards and the Rural Enterprise Fund will be replaced by arrangements in which a designated commercial banks will operate the schemes.

11.7.10 Export licensing will be abolished, except for a short list established for security, health and environmental reasons.

11.7.11 Emphasis will continue on the support of small scale and Jua Kali Enterprises through reforming cumbersome laws and regulations, increased co-ordination of promotional institutions, improved access to credit, accelerated provision of title deeds and provision of good commercial sites for their activities.

11.7.12 Government will continue to provide a positive supportive framework to the tourist industry to encourage further growth though diversification, increased competitiveness, improved marketing and security. While the private sector must take the major responsibility for the industry's growth, Government will institute the following actions:

- initiate dialogue with neighbouring countries to harmonise visa and entry procedures, customs controls and foreign exchange regulations;
- seek the formation of a Kenya Tourism Marketing Board to be financed on a cost sharing basis;
- improve infrastructure servicing major tourist attractions;
- establish a Tourist Police Unit;
- reduce its direct investment in the tourist sector;
- undertake an analysis of the impact of economic reform on the tourist industry;
- adopt policies appropriate to product and market diversification and the utilisation of appropriate technologies; and,
- establish a branch of Utalii College at the Coast.

11.8 RURAL AND URBAN SETTLEMENT, INFRASTRUCTURE AND SOCIAL SERVICES (Chapter 9)

Rural and Urban Settlement

11.8.1 The Government will pay greater attention to urban policy and re-orient the rural-urban balance strategy as laid out in *Sessional Paper No 1 of 1986* accordingly. The private sector will be invited to take an active role in the functioning of urban areas, the provision of infrastructure and strengthening links to the rural hinterland and the wider national and international economy.

11.8.2 A review of the current Local Authorities system will be undertaken as a first step in revitalising the role and performance of Local Government.

11.8.3 Programmes in support of improving economic interaction between rural and urban areas will continue to be funded. Priority will be given to areas and small towns with the largest potential for growth but which are retarded by limited infrastructure.

11.8.4 Government will continue reforms to expand and strengthen the fiscal base of Local Authorities coupled with initiatives to improve financial management and improve revenue collection.

11.8.5 The Local Government Loans Authority (LGLA) will be restructured to enable it to access commercial capital markets. Financial discipline will be reimposed on the repayment of loans to the LGLA

11.8.6 The mutual debt problem will be tackled with Central Government departments taking a leading role in paying promptly for services rendered by Local Authorities. Existing debts for certain smaller, revenue deficient authorities will be reviewed and financing future investment through grants considered.

11.8.7 Local Authorities will be strengthened to enable them to plan and control physical development within their areas of jurisdiction. Urban renewal and redevelopment will be made part of the planning process to curb urban degradation and conserve scarce urban land. Standard criteria will be applied in the extension of boundaries and upgrading of Local Authorities.

Basic Infrastructure

11.8.8 Immediate priority is to rehabilitate existing infrastructure and satisfy existing demand but the longer term objective is to expand infrastructure provision to areas that are comparatively disadvantaged.

11.8.9 The Government will in future provide basic infrastructure on a cost recovery basis wherever this is feasible. Both the level and structure of electricity tariffs will be adjusted so as to achieve an operational profit by KPLC and allow it to raise the local capital to sustain a power sector investment programme. Performance contracts between the Government and KPLC, the Tana River Development Company, and the Kenya Power Company will be completed.

11.8.10 The special levy on motor fuels will be made operational, initially to provide the bulk of funds for roads maintenance but overtime, levy rates will be raised to provide capital funds.

11.8.11 The procurement, marketing and pricing of crude oil and petroleum products will be fully liberalised. The Government will also conclude a performance contract with the National Oil Corporation of Kenya.

11.8.12 User charges for water supplies will be adjusted over time to raise at least 70 percent of recurrent expenditures.

Social Services

11.8.13 Government is firmly committed to a major reform of the health sector, focussed on improved resources mobilisation and efficient allocation to cost effective public health intervention.

11.8.14 User charges for health services will be raised to provide at least 9 percent of the Sector's recurrent expenditures.

11.8.15 The Government will maintain a concerted effort to increase public awareness of the HIV/AIDS, in recognition of the need for interventions that will bring about sexual behavioral change.

11.8.16 To maximise the impact of scarce budgetary resources, the effort to improve the nutritional status of school-age children will be limited to children in disadvantaged districts. Instead of milk, the intervention will rely on feeding cooked meals based on maize and beans. The milk programme will be targeted to reach pre-primary and pre-school children in arid and semi-arid areas. Other interventions to be developed include de-worming school children and providing them with Vitamin A prophylactics.

11.8.17 The Government's objective for the education sector is to increase access to, and the quality of, education while continuing to control and rationalise its own expenditures in the sector. The issues to be addressed include:

- the need to re-allocate expenditures towards primary and secondary education by reducing the share of university education;
- the proportion of spending on supplies of educational equipment will be increased. In the case of poor districts and other disadvantaged areas, textbooks provision will be improved;
- raise student-teacher ratios;
- determine and correct the causes of dropouts from primary school;

- institute corrective intervention measures for female enrolment in ASAL areas, especially at secondary school and university level; and,
- reduction of the large numbers of untrained primary and secondary school teachers.

11.9 THE ROLE OF PUBLIC SECTOR (Chapter 10)

11.9.1 In addition to macro economic policy and the provision of an overall enabling environment, Government will concentrate its activities in for main areas: maintenance and extension of social services; the provision and maintenance of public infrastructure; efficient administration and justice; and protection of the environment.

11.9.2 The public service will be re-oriented to the adherence of laws and regulations, in particular non-adherence to the Finance Act, Appropriations Act and procurement procedures will be dealt with vigorously.

11.9.3 The anti-corruption Police squad will be strengthened and supported at all levels to eliminate any form of indiscipline.

11.9.4 The functions and associated staffing levels of the Public Service will be determined on the basis of need and budget constraints.

11.9.5 Government will reduce Public Services staffing levels by some 16,000 positions each year up to 1996/97.

11.9.6 Government will review salary scales and monetise benefits of the Public Service.

11.9.7 Decentralisation of decision making from national level to the districts will continue across all Ministries and Departments.

11.9.8 The Ministries of Finance and OVP&MPND will prepare a short term action plan to intensify training for key policy analysis.

11.9.9 The Parastatal Reform Programme will be speeded up. Non-strategic public enterprises will be privatised or liquidated. Strategic public enterprises will be restructured to enhance their efficiency.

11.9.10 Government will ensure a high level of active Kenyan participation in the future running of divested public enterprises.

11.9.11 Government will implement a corporate governance system for retained strategic parastatals and will:

- appoint the Boards of public enterprises from those who are qualified and meet specialised criteria;
- negotiate performance contracts with Boards to define objectives and operational performance criteria;
- provide enhanced incentives for improved performance;
- adjust tariffs to reduce the need for subsidies by public monopolies; and,
- establish appropriate regulatory bodies to regulate monopolies.

11.9.12 A performance contract between the Kenya Ports Authority (KPA) and the Government will be completed.

11.9.13 KPA will privatise the maintenance of cargo handling equipment and port infrastructure KPA will be empowered to contract out stevedoring to the private sector.

11.9.14 A new management Board for Kenya Post and Telecommunication Corporation will be formed,

11.9.15 Government will introduce legislation to Parliament for the separation of the post and telecommunications functions and facilitate privatisation of those functions which are to be divested.

11.9.16 The new Board of KPTC will agree on a performance contract with the Government.

11.10 COORDINATION AND MONITORING

11.10.1 A co-ordination and monitoring department will be establish in the Office of the Vice-President and Ministry of Planning and National Development. Annual reports on implementation will be presented to Cabinet. Immediate responsibility for implementation lies with individual Ministries and other public agencies through National Development Plans, sector specific Sessional Papers, the Public Investment Programme and budget instruments.