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ON

ECONOMIC PROSPECTS AND POLICIES

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ON

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ECONOMIC PROSPECTS AND POLICIES

1. The Fourth National Development Plan covering the years 1979/80-1982/83, is based on a number of assumptions which appeared realistic when the Plan was written. These assumptions are consistent with the Plan targets of continued economic growth at an average annual rate of 6.3 per cent, a more equitable distribution of income, and special attention to the needs of specific under-privileged groups within the nation. The targets are established at levels which serve the Plan's overall aim of alleviating poverty through the creation of employment opportunities and the provision of basic needs.

2. Since the Plan was published in March of 1979, several of these assumptions have proven to be overly optimistic, most significantly those pertaining to the balance of international payments and to the forward budget position. As a result, it is now necessary to do two things—

   (i) reassess the goals established for the Plan period in both national income and social welfare terms, and selectively reduce them to reflect the present economic reality;

   (ii) design a revised set of policy initiatives that will overcome the short term economic problems that face the nation, particularly financial problems associated with the balance of payments and budgetary limitations, in order to allow us to re-establish the growth path that was envisioned for the latter part of the planning period. The overall development strategy and policy framework set forth in the Plan will be maintained, but a revised short-run economic programme is required in order to keep the longer-run objectives within reach.

3. In formulating such an economic programme it is important to strike a balance which reflects our commitment to limit domestic inflation and to strengthen our foreign exchange position, while preserving emphasis on increased welfare of the people as the basic objective. At the same time, we must continue to move toward the goals of a more integrated economy, a better balance between rural and urban standards of living and a shift in emphasis from import substitution to resource-based, export-oriented production.

4. The policy initiatives outlined in this Paper will serve to alleviate the structural imbalances in the economy that must be corrected if the former growth rate is to be re-established. However, we must face squarely the fact that the coming years, and the next two years in particular, will be a time of austerity during which there will be slower growth of the economy, less employment creation, and more limited social services than were envisaged in the Plan. These hardships are not peculiar to Kenya. They reflect the economic stagnation being experienced in many countries around the world, developing and developed alike, and are traceable to the successive large increases in energy costs and to related stresses in the established system of international trade and payments.

5. The Paper reviews the economic factors that make it necessary to reassess our position, and describes the effect of these factors on our balance of payments position and on budgetary receipts and expenditures. It specifies the economic policy measures required to provide short and medium term relief from the most pressing constraints on economic growth while moving in directions consistent with our longer term development objectives. It also contains a general outline for dealing with the most serious problems facing the economy. The detailed analysis and action programmes required for specific problem areas such as unemployment, commodity production and food security, investment and export promotion, and energy, will be presented by appropriate Ministries.

Constraints on Achievement of Plan Targets*

6. Two constraints have emerged with increased force since formulation of the 1979/83 Development Plan. These are the shortage of foreign exchange resulting from an adverse movement in our international terms of trade and the

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**The budgetary and balance of payments figures cited in this and subsequent sections of the Paper, were the best available comprehensive estimates as of January, 1980. Such figures continue to change over time, and information which is now being collated indicates that the financial constraints during 1980 and 1981 are likely to be somewhat more severe than was previously anticipated.*

imbalance between Government receipts and expenditures. These constraints work inter-dependently to limit the economic growth envisaged in the Plan. Reduced imports of capital equipment and inputs lead to decreased production and thereby to lower Government revenues. Slowdowns in export earnings accentuate both the foreign exchange and the budgetary problems. Government development programmes cannot grow at the expected rate due to lowered Government revenue estimates and scarce foreign exchange. As a result, it has been necessary to reduce the estimated growth rate of the economy from an annual average of 6.3 per cent to 5.4 per cent. Employment goals must also be reduced, although less severely than overall growth.

7. The balance of payments constraint will be particularly difficult to alleviate by Government action in the short term. Following the four-fold increase in oil prices in 1974, there has been a continuing trend in the international economy marked by economic recession combined with inflation. Kenya has experienced an average annual increase in consumption of petroleum products of 5 per cent per year since 1974, at sharply rising prices. The gross foreign exchange outflow on petroleum accounts was K£133.2 million in 1979, which comprised 24 per cent of our total foreign exchange earnings from exports. In 1973, in contrast, the corresponding outflow figure was K£21.6 million, less than 10 per cent of export earnings. Stated alternatively, approximately 60 per cent of Kenya's coffee exports were required to pay for petroleum imports in 1973 while in 1979 the gross foreign exchange outflow on petroleum account amounted to approximately 120 per cent of foreign exchange earnings derived from coffee exports. There was a further sharp price increase in mid-1979 and the outlook is for continued increases at a rate at least equal to world inflation. The industrialized economies which are our suppliers of vital manufactured products continue to raise their prices, partly as a result of oil price increases and world-wide inflation. Further increases are forecast. It has also been necessary in recent years to increase defence expenditures in order to maintain national security against external threats. Increased defence expenditures, including the costs of debt

servicing, have affected both the foreign exchange and the budgetary constraints.

8. During the period of rising crude oil prices, there has been a decline in the relative price of agricultural commodities on the international market. The result has been a continuing decline in the nation's international terms of trade. Although Kenya's position improved temporarily when frost in Brazil during 1976 pushed the price of coffee to very high levels, these high prices have now receded. Forecasts for coffee, and to a lesser extent for tea, suggest further price declines over the next several years. In terms of food supply, domestic production of basic cereal crops has been inadequate to meet demand, resulting in present and potential shortages. It is therefore necessary to import substantial amounts of cereal grains during the next 12 months.

9. Balance of payments deficits are anticipated in each year through 1983 at substantially higher levels than were forecast when the Plan was formulated. As shown below, the current account deficit for the five-year period is now estimated at twice the size forecast in the Plan. Although the inflow of capital is now expected to exceed the Plan levels, the revised overall deficit is estimated at K£203 million compared with the surplus of K£60 million predicted earlier. Full details on balance of payments projections through 1983 appear in the Appendix, Table I.

BALANCE OF PAYMENTS, 1979–1983

		K£ Million	
		Plan	*Revised*
Current Account Balance	...	−511	−1,026
Capital and Reserve Items	...	571	823
Overall Surplus/Deficit	...	60	−203

10. The second constraint, the projected imbalance between Government receipts and expenditures, is compounded by the foreign exchange shortage and lowered forecasts for overall economic growth. Without the anticipated vigour in domestic economic activity, revenues derived from incomes, sales and customs taxes are expected to fall below the previously projected

levels. Recently revised estimates for fiscal year 1979/80 indicate that the shortfall in sales tax receipts may be as much as K£10 million and the income tax revenues will be some K£5 million lower than had been anticipated. The budgetary imbalance must be closely controlled to avoid excessive reliance on deficit financing, which would result in increased inflationary pressure and limitation of the credit available for support of agricultural and industrial development in the private sector. Limitation of Government expenditure is also required in light of the balance of payments constraint, due to the import content of many Government projects.

11. The Government budget has therefore been revised for the Plan period to reflect the reduced revenues that will be available. Total estimated revenues have been decreased from K£2,754 million to K£2,393 million. Anticipated Ministerial expenditures have been scaled down from K£3,115 million to K£2,749 million in order to keep the budget deficits within manageable limits. The following table summarizes the revised Government revenue and expenditure forecasts for the Plan period. Detailed forecasts appear in the Appendix, Table II:

GOVERNMENT REVENUES AND EXPENDITURE
1979/80–1982/83

	K£ Million	
	Plan	*Revised*
Current Revenue	2,754	2,393
Current Expense by Ministries ...	1,914	1,758
Interest on Debt	267	318
Current Surplus	574	317
Development Expense of Ministries	1,202	991
Overall Deficit	503	583

12. The balance of payments and budgetary deficits projected for the remainder of the Plan period indicate the magnitude of the financial constraints on the pace of economic development. Kenya cannot finance balance of payments deficits by means of external borrowing beyond certain limits

without doing irreparable damage to its hard-earned international reputation for credit-worthiness. Likewise, there are clearly defined limits on the extent to which budget deficits can be financed by reliance on domestic sources of credit without generating uncontrollable inflationary pressures and otherwise imperilling the stability of the country's financial system. Consequently, while there still remains ample scope for introduction of appropriately devised policy responses in the near term, the country's financial circumstances dictate lowering of many of the targets of the 1979/83 Plan including lowering of the 6.3 per cent average annual growth rate.

13. Estimated rates of growth for the economy have been revised downward as follows:

RATE OF GROWTH OF GDP (%)

	1979	*1980*	*1981*	*1982*	*1983*	*Average*
Plan	4.5	7.0	6.5	6.7	6.9	6.3
Revised	3.5	5.8	5.9	5.9	6.0	5.4

These forecasts compare with an average rate of growth of 5.7 per cent annually between 1964 and 1977. Reduced economic growth, coupled with a higher rate of population increase (now estimated at 3.9 per cent vs. 3.5 per cent assumed at the time the Plan was formulated) means that the anticipated increase in per capita income cannot be achieved.

14. The social welfare implications of reduced growth are clearly reflected in the outlook for new employment opportunities. The Plan projected a 3.8 per cent average annual increase in employment on the basis of the assumed 6.3 per cent average annual rate of economic growth. Since the average growth rate of the economy is now estimated at 5.4 per cent over the Plan period, there will be a corresponding reduction in the number of new jobs available. Furthermore, the revised population estimates indicate that the rate of increase in the working age population is likely to be higher than the 3.5 per cent assumed in setting the Plan targets. It is clear therefore, that the problems of unemployment and

under-employment have assumed larger dimensions than were anticipated, and that further means must be found to encourage labour-intensive, job-creating productive activities.

15. Special emphasis must be placed on those parts of the economy which offer the best opportunities for creating additional employment in view of the rapidly increasing population and labour force. While the modern sector is an important source of jobs, it provides less than 20 per cent of total employment, and can absorb only a small fraction of the new entrants to the labour force. The bulk of additional jobs must be in the rural areas, specifically in small scale farming and in rural non-farm activities. Medium and long term solutions to the nation's employment needs will therefore require co-ordinated policy action on a wide front. Increased emphasis on population policy and direct encouragement to small scale agriculture and to rural trade and manufacturing are basic starting points. In addition the attractiveness of rural life must be enhanced by continued improvement in rural-urban balance, including improvement in the terms of trade between agriculture and the rest of the economy and the development of basic services through the designated service centres. At a more basic level, attitudes towards rural residence and agricultural labour must be altered, to end the paradox of unemployment co-existing with vacancies in agriculture-related rural activities. These issues, including the role of the educational system in attitude formation, and appropriate rural-urban wage and income policies will be dealt with in a separate Sessional Paper.

16. The circumstances described above present Government with a double challenge: First, to respond effectively to the near term financial pressures, and, second, to bring about the structural adjustments required for re-establishment of a higher rate of economic growth. The seriousness of the near term financial adjustment problem and the difficulty of the longer term structural adjustment problem must not be underestimated. The former requires that strong measures be taken by Government during the months immediately ahead to bring the nation's financial accounts into proper and sustainable balance. The latter requires that, through

a variety of measures, Government gradually brings about changes in relative profitability of productive activities in order to re-orient the economy toward the more efficient, internationally competitive structure called for in the Plan.

Framework of Formulation of Policy Responses

17. The economic problems confronting Kenya are inter-related. The balance of payments constraint is closely linked to the budgetary constraint; and both constraints operate to limit overall growth of the economy as well as the availability of resources required to support various social welfare and public investment programmes. No single initiative or policy action will be sufficient to deal with these problems. What is required is a comprehensive set of mutually supportive policies that work in various ways toward the specified objectives.

18. Although some of the goals must now be reduced, Government will continue to be guided by the same principles and strategies underlying the 1979/83 Development Plan. The policy initiatives described in the following sections of this Paper reflect the high priority that is placed on the financial stabilization and economic rationalization objectives. In implementing these policies, some extensions of social services and expansions of economic infrastructure provided for in the Plan will have to be deferred.

19. The policies that have been formulated to guide Government's response to our economic problems are grouped for purposes of discussion in the following categories—

    (i) international economic policy;
    (ii) monetary and fiscal policies;
    (iii) incomes and wages policies;
    (iv) industrial policy;
    (v) agricultural and food policies;
    (vi) energy policy.

International Economic Policy

20. While the fiscal and monetary policies described in the next section will be the principal instruments for pursuing the financial stabilization programme objectives outlined in the

Plan, modifications of the existing system of import restrictions and foreign exchange controls will also facilitate realization of these objectives.

21. The development strategy set forward in the Plan—to direct emphasis toward agricultural and export-directed activities—is designed to meet the multiple goals of accelerated growth, stimulation of employment, and improvement in the balance of payments position. Government intends to continue implementation of this strategy and to proceed with the gradual reduction of international trade and payments restrictions upon which its success depends.

22. Policy actions recently taken in this area include relaxation of the advance import deposit scheme and discontinuance of the "letter of no objection" practice. Additional policy measures will serve to reverse the import substitution bias of existing regulations. The most significant change will be a shift from quantitative import restrictions to tariff protection. The rationale for these actions, and the related administrative changes being planned, are discussed in the Industrial Policy section of this Paper.

23. Actions in these areas must be co-ordinated with forceful measures to address Kenya's near-term balance of payments problem. According to a recent revision of estimates for 1980, a current account deficit of K£212.1 million is projected. The corresponding estimate for 1979, based on actual data for the first three calendar quarters, is K£170.2 million. Further comparisons of component elements of the balance of payments estimates for the two years are shown in the following table:

Balance of Payments Estimates (K£ million)

	Imports	Exports	Other Current Receipts (Net)	Deficit Current Account	Net Capital Inflow and Reserve Additions	Overall Balance	Finance Required
1979	685·2	551·6	−36·6	−170·2	244·4	+74·2	Nil
1980	818·3	640·8	−34·6	−212·1	109·6	−102·5	102·5

24. In interpreting these figures, several points warrant comment. First, the large net capital inflow for 1979 included K£37 million borrowed in Euro-dollars and K£27 million borrowed from the International Monetary Fund. While these loans helped produce a positive overall balance, they are on relatively hard terms, increasing the burden of external debt servicing in both fiscal and balance of payments terms. Second, the final column shows a sharp increase in the financing required to cover the overall deficit. Strong efforts are being made to arrange the necessary funding with sources including the World Bank, the IMF and various bilateral agencies, but at present, a significant portion is uncovered. Third, the 1980 figures are estimated and may prove to be overly optimistic. Overall, the figures reflect the seriousness of Kenya's international financial position, the heavy dependence on external borrowing, and the resulting increases in the burden of external debt service.

25. Because of the onerous terms on which commercial credits are available, it is the policy of this Government not to utilize further external commercial borrowing for budgetary support nor to rely on such borrowing for augmenting international liquidity except in emergency circumstances. Furthermore, realistic limits are to be established for all types and maturities of international borrowing with the objective of maintaining prudent levels of external debt servicing obligations. To ensure adherence to this policy objective, and also in order to monitor adequately the outstanding amount of public and publicly-guaranteed external debt, a new system is to be installed for recording the external indebtedness of all public and parastatal enterprises. The section of the Treasury charged with this responsibility will be strengthened, and regular consultations on these matters will be held between Treasury, MEPD and Central Bank.

26. Kenya continues to receive substantial support from the World Bank, the International Monetary Fund and various bilateral agencies in the form of grants and loans on concessional terms to assist Government in the efforts it is making to cope with unfavourable developments in world markets. Such assistance provides the time and resources

necessary to permit an orderly adjustment of the Kenyan economy to the changing international environment. It is the intention of Government to continue its co-operation with those international agencies that are helping to ensure the success of the efforts being made to achieve financial stability and to maintain Kenya's reputation for credit-worthiness.

Fiscal and Monetary Policies

27. The principal instruments for pursuing the financial stabilization objective are fiscal and monetary policies. It should be re-emphasized, however, that policies in these areas must be supported by complementary actions directed toward establishment of equilibrium in Kenya's balance of international payments (as discussed in the preceding section) and toward maintenance of wage and price stability in domestic markets (as will be discussed in the next section).

28. The mid-year review has confirmed that the overall budget deficit for 1979/80 will be approximately K£150 million. The required financing is expected to be arranged as follows:

—Net external (concessionary) loans K£96.6 million.

—Net domestic (non-bank) borrowing K£36.6 million.

—Banking system credits and intra-Government transfers, K£16.7 million.

As already stated, the use of external commercial loans will be avoided because of their high debt service costs payable in foreign exchange. Also, in order to keep borrowings from the Central Bank as low as possible, issuance of Treasury bills to non-bank lenders and the commercial banks will be the principal means of deficit financing in the domestic market. Government will seek to minimize the size of the deficit by exercizing close control of expenditures for the balance of the fiscal year and through strong efforts to improve revenue collections.

29. The revised estimates of deficits in subsequent years are substantially higher than Plan projections as shown in the following table:

ESTIMATED BUDGET DEFICITS (K£ MILLION)

	1979/80	*1980/81*	*1981/82*	*1982/83*
Plan ...	137.3	129	114	123
Revised ...	149.9	152	143	138

These figures indicate the need for a fiscal adjustment of substantial magnitude, achievement of which must be the primary objective of fiscal policy during the balance of the Plan period.

30. *Education Expenditure.*—The Government's policy objective in this area has been to keep education expenditure below 30 per cent of the total recurrent budget and to limit increases to the rate of growth of current revenues. In persuance of this objective, total expenditure for support of education, the largest single category in the revised recurrent budget, amounts to about 27 per cent of the total.

31. *Food Imports.*—The food situation facing the nation in 1980 is of increasing concern. There is already evidence of wheat and rice shortages. A shortfall in maize availability is expected during the first half of the year, and milk and meat need to be carefully monitored to ensure adequate supplies. These shortages are due to several factors including the vagaries of the weather. During 1980 it is estimated that approximately K£27 million will need to be expended for importation of maize, wheat and milk. While some of this may be made available on grant or concessionary terms, the bulk will be reflected in the expenditure accounts of the budget as well as in the balance of payments.

32. Revised forward budgets have been prepared for each Ministry on the basis of the overall recurrent and development expenditures that can be financed in the new circumstances. In preparing these forward budget revisions, each tax and other revenue source has been examined separately in the light of the reduced national growth rate target. Opportunities for securing additional revenues by means of improved administration of the existing tax statutes are presently being intensively explored. The revised revenue projections include conservative estimates of the additional receipts that it is believed can be generated by increased

efficiency in tax collection. Estimates of the local currency counterpart accruing to Government as a result of programme loans from international assistance agencies also have been made. Overall, revenues are projected to grow at an average annual real rate of 6.6 per cent through 1982/83, substantially in excess of the anticipated GDP growth rate.

33. The average annual growth rate of recurrent expenditures by Ministries for the remainder of the Plan period has been reduced to 4.1 per cent from the 7.2 per cent rate originally projected. Since it is necessary to give highest priority to commitments for defence and for the provision of education, the operating budgets of some Ministries have had to be cut rather sharply. The revised Ministerial allocations as presently projected are shown in detail in the Appendix, Table III, and can be summarized by years as follows:

RECURRENT FORWARD BUDGET
(Missions of K£)

	1979/80	*1980/81*	*1981/82*	*1982/83*	*Total*
Plan ...	430	461	493	530	1,914
Revised ...	416	431	443	469	1,758

34. The situation on the development side is similar, with the projected growth rate reduced to 2.1 per cent from the 3.2 per cent rate cited in the Plan. After deducting defence commitments, the remaining funds have been shared among the Ministries in the same proportions adopted in the Development Plan. Development priorities have therefore been maintained, with the highest rates of increases being projected for Agriculture, Labour, Housing, Social Services, Local Government and Health. Detailed Ministerial allocations are shown in the Appendix, Table IV, and can be summarized by years as follows:

DEVELOPMENT FORWARD BUDGET
(Missions of K£)

	1979/80	*1980/81*	*1981/82*	*1982/83*	*Total*
Plan	291	295	296	320	1,202
Revised	243	245	245	258	991

35. In interpreting these figures; seven points require specific comment:

(i) The principal constraint on provision of services in the quantities required is the recurrent expenditure budget. It makes little sense to allocate large sums to development projects if increases in current expenditure are insufficient to operate effectively the newly-constructed facilities. Hence, each development project proposed for implementation must be accompanied by assurances that the personnel and other current costs can be financed when the project comes on stream.

(ii) Even with increases in the efficiency with which current expenditures are managed, it seems unlikely that the per capita availability of social and economic services provided by Government (excluding education) will improve over the next three years. Current expenditure for these purposes is budgeted to grow by only 2.9 per cent per year while the population continues to grow at nearly 4.0 per cent. Priority must now be given to maintaining the per capita availability of services, and to improving distribution throughout the nation, rather than to increasing per capita expenditure.

(iii) Higher priority must also be given to providing encouragement and incentives to the private sector to expand its role in supplying social and economic services to the people. The Harambee movement, voluntary agencies, trade unions and associations, co-operatives and private firms must all be induced to take up some of the burden which Government cannot now finance.

(iv) As stated in the Development Plan, all proposals for new investment by public enterprises and parastatals, and for their participation with private firms, must be carefully scrutinized to ensure that Government funds are utilized only when absolutely required and that the prospective return justifies such use of these funds.

(v) Budget stringency places a high premium on managerial efficiency and sound management systems. All Ministries and parastatal organizations are expected to improve their managerial capabilities, requesting assistance as required from the Office of the President.

Expenditures necessary for improvement of managerial performance when recommended by that office are to be accorded high priority.

(vi) The Government's emphasis on decentralization of development activities is to continue. In the short term, the aspects to be emphasized include assignment of increased responsibilities to local bodies, particularly the District Development Committees, and changes that will permit more efficient use of resources through local participation in programme selections and implementation. More costly decentralization measures, such as those that increase recurrent costs through the creation of additional posts or that require extensive housing or other building expenditures, will be deferred.

(vii) Finally, Government will re-double efforts to ensure that all citizens meet their obligations as taxpayers fully and promptly. The existing legislated tax structure is economically sound and consistent with generally accepted principles of taxpayer equity, so there can be no excuse for wilful non-compliance.

36. *Monetary Policy.*—The fiscal policy measures described in preceding paragraphs will be accompanied by corresponding initiatives in the area of monetary policy. The objectives of monetary policy, however, will continue to be those enunciated in the Development Plan—namely, providing adequate credit on a selective basis to support growth of productive activities while administering the money supply flexibly to minimize inflation and balance of payments difficulties.

37. The monetary programme outlined in the Plan projected growth in the money supply at an average annual rate of about 15 per cent per annum, and a gradually delining rate of inflation to about 7 per cent by 1983. These are still the operative targets. They will not be achievable, however, unless the corollary objectives of limiting the financing of Government deficits with banking system credits can be achieved. The extent of such borrowing projected in the Plan for 1979/80 was K£23.4 million—as compared to the K£16.7 million it now appears will need to be financed in this manner. However, at the end of December, 1979, almost

75 per cent of the net increase in banking system credits to Government during the current fiscal year had been derived from the Central Bank rather than by drawing on the less inflationary credit facilities afforded by the commercial banks. Government will, during the months ahead, devise ways to shift its deficit financing from the Central Bank to the commercial banks—and also from the banking system as a whole to non-bank lenders.

38. *Interest Rates.*—There is evidence that a disequilibrium exists in the Kenyan financial system as a result of maintenance of an excessively low and inflexible interest rate structure. This structure, especially in the prevailing inflationary environment, causes a number of distortions in the economy. Private domestic savings are discouraged *vis-à-vis* consumption expenditures. Because real rates of interest (i.e. nominal rates adjusted for inflation) are too low, and in fact are negative, there is insufficient incentive to save out of current income. The low interest rates also stimulate excessive demand for credit relative to the available supply of savings, thereby encouraging speculation, fuelling inflationary pressures by leading to increases in the money supply, and necessitating non-market credit rationing schemes which tend to misallocate the country's investable resources and to be prone to abuses of various sorts.

39. The most significant change in monetary policy in the months ahead, therefore, will be upward adjustment in the level and structure of interest rates. This will serve to stimulate increased savings, induce a better balance between capital-intensive and labour-intensive activities, and rationalize allocation of investable resources between alternative uses in accordance with productivity criteria. Upward adjustment in interest rates also will contribute importantly to reduction of inflationary pressures. It is intended that this action will constitute a first step toward interest rate flexibility as a central feature of monetary policy in the future.

40. Details regarding Government's initiatives with respect to interest rates are presently under discussion. While the degree of the upward adjustment of rates is yet to be determined, it is recognized that special provision will be needed for the credit requirements of the agricultural sector.

It is not intended that the interest costs of agricultural credit will be maintained below the levels established for other sectors of the economy but rather that additional measures will be introduced to strengthen the presently-existing procedures of directing an ample volume of credit at reasonable cost to targeted segments of the agricultural sector. Particular emphasis will be placed on increasing the flow of credit to agriculture from the commercial banks and other private sector financial institutions.

41. Higher interest rates will increase the cost to Government of deficit financing, but this fact should not deter Government from taking the actions necessary to establish an appropriate level and structure of interest rates. The higher cost of deficit financing will be offset, to the extent possible, by fostering further development of competitive bidding practices in markets for Treasury bills and other Government obligations.

Income and Wages Policies

42. The main emphasis of incomes policy will continue to be creation of more employment opportunities for disadvantaged groups; equitable distribution of income between owners of land, suppliers of capital and providers of labour; and, reduction of urban-rural disparities through increased incentives for intensive land and labour utilization in rural areas.

43. The wages policy established in the Plan is to hold increases in the total wages bill below the rate of inflation, thereby dampening the upward pressure of prices and encouraging expansion of employment. This policy has been generally successful in the public sector in reducing hardship among lower paid workers and in narrowing the gap between the lowest and the highest paid employee groups. It has succeeded to a lesser degree in the private sector, where the Government's role in wage determination is less direct. Therefore, renewed efforts must be made to induce employers in the private sector to restrain salary increases in the higher income groups, in order to narrow the gap between their highest and lowest paid employee groups.

44. In view of the economic problems facing the nation, and as an important element in the fight against inflation, continuation of the austerity policy is clearly necessary. Any relaxation of the restraint on general salary increases would be inconsistent with the need to create the maximum number of employment opportunities. While the blend of incomes and wages policies enunciated in the Plan continues to be appropriate, the following points warrant renewed emphasis in the present circumstances:

(i) The wage guidelines are to be continued, subject to modification as circumstances dictate. The guidelines direct that increases in overall wages compensation are to be held within one-half of cost-of-living increases. In awarding increases, employers are directed to be particularly cognizant of the need to protect lower paid wage groups against the effects of inflation.

(ii) Since the wage rate of unskilled workers in the Civil Service has increased significantly during the past seven years, further substantial general increases cannot be justified. There is evidence of overstaffing in some parts of the Civil Service. A first priority will therefore be to assure that each worker is fully utilized. Restructuring and expansion of the Civil Service must be kept to a minimum and be confined to essential job re-definitions, upgrading in special schemes, transfers of presently employed civil servants and other measures aimed at improving morale and efficiency. In this connection, a thorough review of staffing in the Civil Service will be carried out by the Directorate of Personnel Management, and the feasibility of instituting an Economy Commission to identify measures for increasing efficiency in the service will be explored.

(iii) Budgetary stringency requires outbacks in certain public sector programmes. In deciding which programmes shall be maintained, Ministries are directed to give priority to those which have a positive effect on the incomes and employment opportunities of targeted low-income groups—especially small farmers, landless rural workers, pastoralists, urban poor and the handicapped. Other programmes to be emphasized include

those which encourage the use of labour-intensive technologies, which provide for the expansion of food production and agricultural employment, and which encourage rural non-farm activities.

(iv) The success of the development strategy being followed depends in substantial degree on our ability to avoid becoming a high-cost economy incapable of competing effectively in world markets. Government recognizes that excessive reliance on expatriate talents, especially in the industrial and commercial sectors of the economy, tends to work against containment of upward cost pressures. The process of Kenyanization will therefore be accelerated, not only as a means of increasing employment opportunities for Kenya citizens, but also with a view to preventing higher cost expatriates from excessively burdening costs of production and marketing.

45. A vitally important adjunct of incomes and wages policies is control of prices charged for basic necessities. The existing price control regulations are out-dated in many respects and a major review is planned for the months ahead. In deciding what changes need to be made, careful distinction will be made between those items that must be readily available to low-income groups throughout the country and luxury goods the prices for which might better be left to determination by market forces. Particular attention will also be paid to the need to maintain adequate producer incentives for basic foodstuffs and other necessities, as well as to the implications of the impending changes in import restrictions for price regulations.

46. Policy initiatives in each of the areas discussed above and also with respect to the industrial and agricultural sectors discussed in the following sections, will reflect Government's awareness of the need to provide adequate incentives to initiatives in the private sector. Particularly important is stimulation of increased financial savings and productive investments on the part of individual entrepreneurs and established indigenous enterprises. Likewise, potential private foreign investors judged to be capable of assisting

Kenya to accelerate developing its economy within the established policy framework will be afforded all necessary encouragement and assurances.

Industrial Policy

47. The Manufacturing sector has made a major contribution to our national income since independence with an annual average growth rate of 9.5 per cent compared to 6.0 per cent per year for total G.D.P. Manufacturing output has increased $3\frac{1}{2}$ times since Independence, and manufacturing employment has risen about $2\frac{1}{2}$ times. This remarkable performance by the sector was based quite appropriately on import substitution. However, the most profitable consumer goods investments have already been made and imported consumer goods now account for only 15 per cent of our import bill. The manufacturing sector requires substantial imported raw materials, intermediate inputs and machinery, making it a net consumer of foreign exchange to the detriment of our balance of payments position. The scope for further import substitution investment in input industries is limited by the small size of the Kenyan market and consequent high costs of production. Thus, in order to sustain industrial growth and to turn industry into a net contributor of foreign exchange, industrial production must be increasingly oriented toward export markets.

48. Our industrial promotion techniques will need to be changed in order to encourage industrial exports. Import substitution industrial development has relied on high tariffs and quantitative restrictions on imports in order to protect local manufacturers from foreign competition. The higher prices paid by Kenyans for domestic manufactured goods represent a sacrifice that has been made to develop local industries, create employment and train local technicians. However, the high protection afforded against competing imports has encouraged slack management and high costs which make many industries uncompetitive in foreign markets. In order to improve our competitiveness, policy changes are required in the method and level of protection for domestic industry, in export incentives, and in administrative measures of industrial promotion.

49. *Protection of domestic industry.*—In accordance with the stated intention in the Plan "to discontinue the use of quantitative restriction of imports as an instrument of industrial protection", it has been decided that all existing quantitative restrictions and restrictive import licensing will be replaced with tariffs as soon as practicable. The substitution of tariffs for quantitative restrictions will be done systematically with emphasis initially on imported consumer items, especially those in the luxury goods category.

50. Simultaneously with the switch from administrative measures to tariff protection, rigorous measures will be introduced to protect local manufacturers from dumping by foreign exporters. An independent industrial assistance commission will be established to investigate all formal complaints of dumping and to take appropriate corrective action.

51. After quantitative restrictions have been removed, the next phase will be to standardize and reduce the levels of protection. The goal will be to reduce the wide variation in protection given to different industries, and to eliminate the bias that exists in favour of import substitution and against exports. This will ensure that industrialization is neither too import-intensive nor hampered by high-cost domestic input industries. This rationalization of industrial protection will be undertaken over several years and in a way that minimizes disruption and dislocation for existing firms.

52. *Export promotion.*—Three new measures will be undertaken to encourage industrial exports:

(i) An export credit and guarantee scheme will be established to reduce the risks of exporting. Exporters will be able to obtain insurance from risk of non-payment from abroad and local commercial banks will be guaranteed against non-repayment of credit by local exporters.

(ii) Administration of the existing export compensation scheme will be simplified. The responsibility for compensation payment will be vested in the Central Bank operating through the commercial banks in accordance with guidelines to be issued by the Ministry of Finance.

Payments will be made automatically for approved categories of exports upon presentation of export documents and payment of foreign exchange.

(iii) The final and most important export promotion measures will be to improve financial incentives for export. The export compensation scheme will be reviewed to ensure that it is appropriately adjusted to the exchange rate so that adequate incentive is provided for exports. The objective is to make efficient exports at least as rewarding as local market sales.

53. *Administrative Changes.*—A number of institutional changes will be necessary to enable industry to respond to the new incentives. While important control activities such as Government's anti-hoarding measures will be rigorously enforced, the changes described above will greatly reduce the need for detailed administrative involvement and control in industrial development and foreign exchange management. In general, administrative bodies will not be involved in case-by-case decision-making or in granting specific concessions to individual firms. They will shift their attention to monitoring and reviewing the effects of policies and regulations that affect all firms. Their mandate will be to encourage industrial development which is competitive with the rest of the world in both cost and quality. Amongst the specific proposed changes are the following:

(i) With immediate effect, no new No Objection Certificates or other protective quantitative import restrictions will be granted either by investment agreement or administrative action. The only permitted forms of protection for new infant industries will be tariffs or direct Government subsidies and these will be established by legislative rather than administrative action.

(ii) The New Projects Committee and the Industrial Protection Committee will be merged. The expanded committee will be the focal point for all inquiries concerning investment but its role will be more advisory than regulatory. It will continue to advise on Government participation in industry and on industrial promotion measures while advising investors on policy and availability of infrastructure and services for

industrial development. It will not offer special concessions. The general policy framework on tariff concessions will be based upon guidelines issued by the Treasury in consultation with the Economic Ministries, and any special concessions must be approved by the Cabinet.

(iii) The Foreign Exchange Allocation Committee and the Import/Export Licensing Office will continue to administer balance of payment-related restrictions and to monitor imports previously restricted by protective quantitative restrictions. During a transition period, importers will still be required to obtain licences for imports in order to facilitate monitoring, but such licenses will be granted automatically, depending on availability of foreign exchange.

(iv) The Ministry of Industry will undertake studies to determine how best to assist existing industry to adjust to changes in protection and to take advantage of new export opportunities.

54. *Effect of industrial policy changes.*—The new policies to stimulate industrial exports should have a significant effect on both industrial growth and manufactured exports. Because of protection abroad and our inexperience in marketing, we should not expect an immediate or dramatic increase in exports, but the policy changes should provide the basis for a sustained increase in manufactured exports of 10-15 per cent per year in real terms. This would represent a substantial improvement over recent performance.

55. The policy changes will also have a favourable effect on other Government objectives. The improved incentives for exports will benefit agricultural processing and other domestic resource-based industries which tend to be located outside the major industrial centres. Kenyanization of commerce and industry will also be favourably affected by changes in industrial incentives. The existing system of import licensing has tended to discourage entry of small, new firms. Replacement of quantitative restrictions by tariffs will open up new opportunities for Kenyan firms.

56. In spite of existing problems and need for adjustments, it is essential that the progress of Kenyanization be continued. The Government's Kenyanization policy is based on the belief that productivity will increase as local people become more able to identify themselves with enterprises in which they are employed or in which they have ownership interest. Continued progress of Kenyanization will still largely depend on Government initiatives such as promotion of small scale industries through Kenya Industrial Estates, programmed financial participation by parastatals in joint ventures and provisions of Government industrial services to small and medium sized enterprises owned by Kenyans. However, it is now vital that foreign investors should demonstrate more confidence in local private investors and be prepared to enter into joint ventures with them without insisting on direct participation of the Government through parastatals. To this end new guidelines will be issued to Government development finance institutions to provide more assistance to local potential investors to enable them to enter joint venture partnerships with foreign owners of capital and technology rather than participate in all such joint ventures themselves. In addition, the system of issuing work permits will be reviewed in order to make it unnecessary for enterprises to engage non-Kenyans in general administrative and management positions.

57. As regards ownership of capital, foreign investors will be encouraged to allocate a certain number of shares to their employees in order to encourage more productivity and industrial peace. It will no longer be considered adequate for foreign investors to allocate a nominal amount of shares to local investors either through public capital issues or through private negotiations. A realistic and effective propramme of transferring a reasonable amount of business ownership to local investors should now be implemented.

Agricultural Development and Food Policy

58. Agricultural policy faces two important challenges. The most immediate challenge is to cope with an impending shortage of basic foods. The second and longer-term challenge is to

increase production and employment opportunities in agriculture in order to meet the needs of our rapidly growing population.

59. *Food Policy.*—During 1980, domestic production of food will not meet all our requirements for maize, wheat, rice or milk, and meat will not be plentiful. Dry weather is the main reason for the shortage in production, but there have been other contributory causes. Maize producers reduced plantings in response to lower prices and the inability to sell their maize quickly and efficiently to the Maize and Produce Board during recent surplus years. Wheat consumption has for many years been growing at about 7 per cent per annum while production stagnated. On top of this long-term trend, production has fallen due to weather conditions. Rice production is also insufficient to meet domestic demand and the imbalance between supply and demand has worsened as consumers facing shortage of other grains have tried to switch to rice. Finally, milk production has also passed from surplus to shortage owing to dry weather and rapidly growing demand for this product.

60. Our first priority is to ensure that there is sufficient food during the temporary shortage of the present and coming year. This will require imports of grain and milk, costing perhaps as much as K£27 million in 1980. Although we will be able to obtain some of these imports on concessional terms, a substantial portion will also have to be purchased by drawing on our own foreign exchange reserves. This is one of the reasons for the tight foreign exchange and bugetary position we are now facing. The Government will ensure that sufficient food is available and that the management of storage, distribution, and marketing is improved. At the same time, however, it is essential that we do not over-react by importing more food than we shall need because this could be very detrimental to our long-term development programme. The Government will therefore watch our supply and demand position closely and adjust imports on a month-by-month basis to ensure that there is sufficient food, while avoiding importing food we do not need.

61. We have already taken several steps to alleviate the short-term problem of food shortages. First, the Ministry of Agriculture has prepared a food policy paper to advise Government on appropriate actions. Second, exports of basic foods have been banned, and the necessary imports are being arranged. Third, some producer and consumer prices have been raised. Fourth, the Government has cracked down on hoarding which artificially aggravates the situation. Finally, the budget allocation for famine relief to particularly hard-hit areas has been increased from K£675,000 to K£1,300,000. All of these measures cost money and represent a burden on the economy. All of us must be prepared to share the sacrifice which this entails. This means that in order to reduce the budgetary and foreign exchange burden and avoid excessive costs in essential services and development projects, we must be prepared to bear higher food cost.

62. The fundamental long-term challenge in agriculture is to provide adequate growth of domestic supplies of food, foreign exchange earnings and employment opportunities for a rapidly-growing population. Agricultural production must more than double over the next twenty years in order to provide sufficient food and make reasonable contribution to the foreign exchange needs of a growing economy. One measure of the magnitude of the task is that agricultural output has grown at only about 2.5 per cent per year since 1972, far below the rate of population growth. An inter-Ministerial Food Policy Committee has been formed to offer continuing advice on ways in which the necessary increases in food supply can be obtained. To ensure that the required goals are met, the Government affirms its commitment that adequate resources, both financial and technical, will be made available to the agricultural sector. Pricing policies will encourage expanded output. In determining the agricultural prices, the price relationships between different agricultural commodities, and between producers and consumers, will be taken into account. Furthermore, to facilitate speed in price analysis and advice to the Cabinet, the Costs and Prices Committee will be reactivated. The credit system has been streamlined through creation of a new seasonal credit scheme, which will be adequately funded to assure sufficient seasonal credit. In

return, the farming sector, and particularly the small farmers, must do their part by increasing production, taking advantage of extension advice and other inputs, and by regular repayment of their seasonal credit advances.

63. Success in raising the rate of growth of agricultural output and employment is critical to the achievement of our objectives of poverty alleviation and rural development. The Plan outlines several policies to help raise agricultural production and employment:

(i) Land policies will be reviewed and changed in order to encourage more intensive cultivation where appropriate. This will be done through an expanded settlement programme utilizing any idle state land, and an increase in labour absorption on larger smallholdings. Implementation of the proposal in the Plan for the establishment of a land Commission is moving forward. The Commission will review policies to ensure equitable access to land and more intensive development of all areas of suitable potential. As a growing population presses on the limited supply of high potential land, there will be an accelerated movement towards land of marginal quality. A programme for Arid and Semi-Arid Land development is under way and will be given high priority in order to achieve optimal land use patterns in these areas, and to minimize the risk of environmental degradation.

(ii) Greater encouragement will be given to crops and technologies with a high employment potential. Credit and pricing policies will be used to encourage labour-intensive crops and livestock activities. Direct Government programmes will support coffee rehabilitation, horticultural development and smallholder expansion. Strong encouragement will be given to increased use of fertilizer.

(iii) Increased attention will be given to development of arid and semi-arid lands through a series of regional development projects. Soil and water conservation will be given high priority in all areas.

(iv) Finally, the Plan stresses greater use of market and price incentives to encourage agricultural development. This implies greater competition in marketing and input supply and more active use of pricing policy to improve production incentives. The changes in industrial policy will play an important part in improving the relative price of agricultural products and the incentives for agricultural production.

Energy Policy

64. An important feature of the recent Governmental re-organization was establishment of centralized administrative machinery for addressing our energy problems in a systematic manner. The new Ministry of Energy is charged with responsibility for devising the strategies and policies for ensuring that the country's energy requirements will be met.

65. The policies outlined in the National Development Plan continue to be relevant. In the short run we have no option but to adopt measures that will promote better utilization of the available supply of conventional energy sources. This will be done both by means of domestic price adjustments and, as necessary, physical allocation programmes. A separate paper detailing the steps to be taken along these lines will be presented to Parliament shortly.

66. We must not lose sight of the fact that the serious economic problems we are confronting—especially those relating to the balance of payments and inflation—are largely traceable to the continuing escalation of crude oil prices on the World Market. We cannot allow the economy to be strangled by the progressive increase in energy costs. Therefore, at the same time that actions are being taken to devise appropriate energy policies for coping in the short run, all possibilities for reducing our dependence on imported petroleum over the longer term will be accelerated. These include the following:

(i) Expansion of non-petroleum energy sources, particularly hydro and geo-thermal.

(ii) Rationalized use of oil through increased reliance on railroads for long haul deliveries, plus the co-ordination

of rail-road-pipeline facilities for petroleum transportation.

(iii) Emphasis on the production and on production-related research for new energy sources, including power, alcohol, thermal and solar energy.

(iv) Intensified exploration efforts to assess the nation's fossil fuel potential.

(v) Emphasis on afforestation programmes to provide the required wood and charcoal fuels.

Co-ordination and Timing of Policy Initiatives

67. There are three main themes in this Sessional Paper. The first is that since the 1979/83 Development Plan was formulated more than a year ago, some of the underlying assumptions, particularly those regarding the balance of payments and the Government budget, have proven to be overly optimistic. The second is that Kenya is confronted with major economic problems, most of which were identified and correctly diagnosed in the Plan. In the more difficult circumstances now prevailing, these problems require somewhat different policy responses than were previously proposed. The third theme is that these problems are of two sorts, namely those of a financial nature requiring immediate action on the part of Government and those of a structural nature that must be addressed within a longer time frame. A subsidiary point, but nonetheless important for policy formulation, is that the economic problems with which we are confronted are inter-related and require a co-ordinated combination of policy initiatives by Government.

68. It is believed that the policies described above do constitute an integrated and comprehensive response to the newly-defined set of economic problems confronting Kenya, although admittedly, additional refinement is necessary in some instances. More specifically, additional thought needs to be given to what constitutes proper balance in the emphasis to be placed on the short and longer term perspectives and the extent to which policy responses should be premised on strictly economic considerations rather than on broader social welfare criteria. The brutal facts are, however, that unless the immediate financial difficulties are

successfully dealt with, the longer term structural adjustments will be much harder to achieve; and that until our economic circumstances improve, full pursuit of social welfare objectives must be deferred.

69. The task of policy co-ordination therefore has two dimensions, namely that of assuring the requisite degree of complementarity between the various initiatives being taken by Government and that of determining the appropriate timing for these initiatives. While this Paper does not discuss all of the considerations that must be taken into account in arriving at decisions regarding these matters, it should nevertheless be clear that Government is giving highest priority to the short term financial problems—and that during the period immediately ahead, the focus of policy initiatives will be directed towards resolution of these problems.

70. Every effort is being made to stay within the 1979/80 Budget. Also, in preparing the framework for the 1980/81 Budget, the necessary hard choices will be made to assure that expenditure programmes are tailored to accord with revenue availabilities as supplemented by prudent levels of deficit financing via domestic credit sources. In seeking to re-establish order in the balance of payments, Government is giving careful consideration to all possibilities for achieving the necessary adjustment to the realities of the international economy, including possibilities of arranging for assured sources of external financing on terms that will not be unduly burdensome in the future.

71. In the 1979/83 Development Plan we advised the nation that "the era of soft options is over". This admonition was with reference to the difficult domestic economic policy decisions then pending. It was implicitly assumed at that time that the four-fold increase in the price of crude oil which had occurred in the world market since 1973 was not likely to go on, and that the industrialized countries would somehow break free of the inflation-cum-recession pattern into which they had fallen. In short, it was thought that implementation of the 1979/83 Plan could be carried out within an international economic environment similar to the pre-1973 setting. It is now clear that this will not be

the case—and instead that the 1980s will be a time of perpetual crisis in the world economy. We must temper our optimism—and prepare our defences accordingly.

72. The problems outlined in this paper are national. They therefore must be faced realistically by all of us—by farmers, industrial workers and owners, civil servants, KANU officials, Members of Parliament and councillors. Each of these groups must recognize that solving the difficult challenges we face will require hard work, commitment and sacrifice. Farmers must increase food production and achieve a better utilization of our land resources. Industrial workers and managers must raise productivity and ensure that our productive capacity is fully used. The Civil Service must increase its efficiency and make sure that each public employee earns his or her daily wage by giving a full and effective day's work. KANU leadership must continue to inform the people and build a national commitment to overcome the difficulties we face. Parliament must address itself seriously to the legislative tasks at hand and exercise restraint in urging increased expenditures. The Government, the Party, the parents, the teachers, and other opinion leaders must educate the youth to the reality that the only feasible employment opportunities for the majority of them will be in agriculture and other rural-related activities. Sacrifices will be required from all of us. In particular, the well-to-do must accept their responsibility to make greater proportional sacrifices than the poorer members of our society. In these ways we can surmount the problems that face us with particular severity over the next two years, and achieve the Nyayo philosophy of peace, love and unity as expounded by H.E. the President, Mr. Daniel arap Moi and as expressed in the goals of our national development plan—individual commitment and effort leading to reductions in economic inequality and sustained growth and prosperity for the nation.

APPENDIX
TABLE I

BALANCE OF PAYMENTS, 1978—1983

K£ Million

	1978	1979	1980	1981	1982	1983
Imports, Goods and Non-Factor Services	787·4	685·2	818·3	896·9	980·6	1,088·8
Exports, Goods and Non-Factor Services	566·8	551·6	640·8	711·6	797·9	894·7
Resource Balance	−220·6	−133·6	−177·5	−185·3	−182·7	−194·1
Investment Income, Net	−55·0	−58·0	−65·0	−72·0	−77·0	−82·0
Other Factor Income, Net	−16·7	−16·0	−14·6	−15·0	−15·0	−15·0
Transfers, Net	39·8	37·4	45·0	56·0	65·0	73·0
Current Account Balance	−252·5	−170·2	−212·1	−216·3	−209·7	−218·1
Private Long-Term Capital, Net	76·4	75·0	75·0	80·0	85·0	90·0
Public Long-Term Capital, Net	84·0	103·8	91·5	82·3	89·3	94·4
Other Capital, Net	11·5	65·6	−33·7	−13·9	8·0	8·0
Total Capital	171·9	244·4	132·8	148·4	182·3	192·4
ADDITIONS (−) toReserves (0·2 × △M) Because of Higher Imports	—	—	−23·2	−15·7	−16·7	−21·6
Overall Balance	77·6	−74·2	102·5	83·6	44·1	47·3
Additional Financing Required	3·0	26·9	102·5	83·6	44·1	47·3
Of which:						
I.M.F.	3·0	26·9	24·2	29·0	5·8	—
I.B.R.D. Programme Loans..	—	—	26·9	—	—	—
Probable Bilateral Programme Loans	—	—	16·3	11·0	10·8	—
Unidentified Sources: Gross	74·6	−101·1	35·1	43·6	27·5	47·3
Reduction in Reserves ..	74·6	−101·1	9·3	10·0	—	—
Net	—	—	25·8	33·6	27·5	47·3

APPENDIX
TABLE II

OUT-TURNS OF GOVERNMENT FORWARD BUDGET, 1979/80—1982/83

	1979/80	1980/81	1981/82	1982/83	Total	% of G.D.P.
A1 Current Revenue	539·7	566·4	601·9	640·3	2,348·3	25·2
A2 Counterpart Fund	5·5	14·1	12·6	12·6	44·8	0·5
A Total Current Revenue (=1+A2)	545·2	580·5	614·5	652·9	2,393·1	25·7
B Current Expenditure of Ministries	416·0	430·6	443·0	468·8	1,758·4	18·9
C Interest on Debt, Pensions, etc.	56·2	79·5	92·5	89·3	317·5	3·4
D Total Current Expenditure (=B+C) ..	472·2	510·1	535·5	558·1	2,075·9	22·3
E Current Surplus (=A−D)	73·0	70·4	79·0	94·8	317·2	3·4
F Foreign Grants	21·3	22·1	22·9	25·2	90·3	1·0
G Development Expenditure of Ministries ..	243·0	244·8	244·7	258·4	990·9	10·6
H Overall Deficit (=E+F−G)	−149·9	−152·3	−142·8	−138·4	−583·4	6·3
Financed By:						
J Net External Concessionary Loans (1) ..	97·9	75·0	72·3	75·8	321·0	3·4
K Net External Commercial Loans (2) ..	−1·3	—	−12·1	−18·9	−32·3	0·3
L Net Domestic (Non-Bank) Borrowing (3) ..	36·6	38·6	38·6	38·6	152·4	1·6
M Total Net Non-Bank Borrowing (=J+K+L)	133·2	113·6	98·8	95·5	441·1	4·7
N Residual Deficit (=H−M)	−16·7	−38·7	−44·0	−42·9	−142·3	1·5
Memorandum Items:						
(1) Gross Borrowing (=J+ Repayments of (1))	111·4	84·4	82·2	91·1	369·1	4·0
Repayments of (1)	9·3	9·4	9·9	15·3	43·9	0·5
(2) Gross Borrowing (=K+ Repayments of (2))	17·1	22·5	11·9	2·4	58·9	0·6
Repayments of (2)	−8·4	22·5	24·0	2·9	35·2	0·4
(3) Gross Borrowing (=L+ Repayments of (3))	44·1	48·6	49·9	100·6	243·2	2·6
Repayments of (3)	7·5	9·9	11·6	62·0	91·0	1·0
Monetary G.D.P. (Growth %)	2,135(4·5)	2,258·0(5·6)	2,391·0(5·7)	2,533·0(5·8)	9,317·0(5·4)	100·0

APPENDIX
TABLE III

RECURRENT FORWARD BUDGET 1979/80—1982/83 (*K£'000s' in 1979/80 Prices*)

	VOTE	1979/80	1980/81	1981/82	1982/83	TOTAL	% DISTRIBUTION	
							Plan	Revised
R1	Office of the President	41,484	43,064	44,302	46,883	175,733	7·6	10·0
R2	The State House	540	430	443	469	1,882	0·1	0·1
R3	Directorate of Personnel Management	4,094	4,306	4,430	4,688	17,518	1·1	1·0
R4	Ministry of Foreign Affairs	7,644	7,752	7,974	8,439	31,809	1·5	1·8
R5	Ministry of Home Affairs	12,052	12,489	12,847	13,596	50,984	2·7	2·9
R6	Ministry of Planning and Development	3,410	3,445	3,544	3,751	14,150	2·2	0·8
R7	Office of the Vice-President and Ministry of Finance	9,088	9,474	9,746	10,314	38,622	—	2·2
R8	Defence Department	74,877	77,516	79,743	84,389	316,525	18·0	18·0
R9	Ministry of Livestock Development	10,062	10,335	10,632	11,252	42,281	—	2·4
R10	Ministry of Agriculture	13,384	13,781	14,177	15,002	56,344	7·1	3·2
R11	Ministry of Health	33,095	34,542	35,442	37,506	140,495	9·6	8·0
R12	Ministry of Local Government and Urban Development	11,545	12,058	12,404	13,127	49,134	3·1	2·8
R13	Ministry of Works	12,667	12,919	13,290	14,065	52,941	6·1	3·0
R14	Ministry of Transport and Communications	27,701	28,853	29,682	31,411	117,647	2·3	6·7
R15	Ministry of Labour	2,959	3,014	3,101	3,282	12,356	1·6	0·7
R16	Ministry of Tourism	2,028	2,153	2,215	2,344	8,740	2·1	0·5
R18	Ministry of Social Services and Housing	4,871	5,168	5,316	5,626	20,981	7·0	1·2
R19	Ministry of Information and Broadcasting	4,750	4,737	4,873	5,157	19,517	1·3	1·1
R20	Ministry of Water Development	7,163	7,321	7,531	7,970	29,985	2·1	1·7
R21	Ministry of Environment and Natural Resources	7,917	8,182	8,417	8,908	33,424	0·6	1·9
R22	Ministry of Co-operative Development	1,946	2,153	2,215	2,344	8,658	0·5	0·5
R23	Ministry of Commerce	1,776	1,722	1,772	1,875	7,145	0·7	0·4
R24	Ministry of Higher Education	34,546	35,743	36,770	38,913	145,972	—	8·3
R25	Office of the Attorney-General	2,672	2,584	2,658	2,813	10,727	0·5	0·6
R26	Judicial Department	1,823	1,723	1,772	1,875	7,193	0·5	0·4
R27	Public Service Commission	155	160	165	175	655	0·1	0·1
R28	Controller and Auditor-General	716	861	886	938	3,401	0·2	0·2
R29	National Assembly	1,579	1,722	1,772	1,875	6,948	0·4	0·4
R30	Ministry of Energy	224	430	443	468	1,565	—	0·1
R31	Ministry of Basic Education	78,637	81,392	83,730	88,608	332,367	21·0	18·9
R32	Ministry of Industry	579	705	727	765	2,776	—	0·1
	Annual Growth Rate	—	3·5	2·9	5·8	4·1	—	—
	TOTAL	415,984	430,644	443,019	468,828	1,758,475	100·0	100·0

APPENDIX
TABLE IV

DEVELOPMENT FORWARD BUDGET 1979/80—1982/83

(*K£'000s' in* 1979/80 *Prices*)

VOTE	1979/80	1980/81	1981/82	1982/83	TOTAL	% DISTRIBUTION	
						Plan	Revised
D1 Office of the President	24,730	24,972	24,962	26,356	101,020	5·8	10·2
D2 The State House	440	490	489	517	1,936	0·1	0·2
D3 Directorate of Personnel Management	29	25	26	27	107	0·04	—
D4 Ministry of Foreign Affairs	270	244	245	258	1,017	0·2	0·1
D5 Ministry of Home Affairs	1,300	1,224	1,224	1,292	5,040	0·5	0·5
D6 Ministry of Planning and Development	801	734	734	775	3,044	0·4	0·3
D7 Office of the Vice-President and Ministry of Finance	8,893	9,058	9,055	9,560	36,566	—	3·7
D8 Defence Department	6,858	6,853	6,853	7,235	27,801	2·9	2·8
D9 Ministry of Livestock Development	9,194	9,058	9,055	9,560	36,867	—	3·7
D10 Ministry of Agriculture	33,951	34,275	34,262	36,175	138,663	20·5	14·0
D11 Ministry of Health	11,805	11,996	11,992	12,661	48,454	5·2	4·9
D12 Ministry of Local Government and Urban Development	12,319	12,460	12,481	13,178	50,438	5·3	5·1
D13 Ministry of Works	3,998	3,917	3,916	4,134	15,965	16·0	1·6
D14 Ministry of Transport and Communications	50,246	50,678	50,658	53,487	205,069	6·4	20·7
D15 Ministry of Labour	2,166	2,203	2,205	2,325	8,899	1·0	0·9
D16 Ministry of Tourism	2,107	2,203	2,205	2,325	8,840	3·6	0·9
D18 Ministry of Social Services and Housing	10,253	10,283	10,278	10,853	41,667	5·8	4·2
D19 Ministry of Information and Broadcasting	4,974	4,896	4,895	5,168	19,933	1·4	2·0
D20 Ministry of Water Development	22,528	22,768	22,760	24,030	92,086	14·8	9·3
D21 Ministry of Environment and Natural Resources	15,683	15,913	15,907	16,795	64,298	3·4	6·5
D22 Ministry of Co-operative Development	2,336	2,448	2,447	2,584	9,815	0·9	1·0
D23 Ministry of Commerce	3,675	3,672	3,670	3,876	14,893	1·9	1·5
D24 Ministry of Higher Education	6,566	6,610	6,607	6,977	26,760	—	2·7
D25 Office of the Attorney-General	968	979	978	1,033	3,958	—	0·4
D26 Judicial Department	350	245	245	258	1,098	1·1	0·1
D30 Ministry of Energy	550	489	489	517	2,045	—	0·2
D31 Ministry of Basic Education	1,174	1,224	1,224	1,292	4,914	2·8	0·5
D32 Ministry of Industry	4,842	4,903	4,865	5,145	19,755	—	2·0
Annual Growth Rate	—	1·01	1·0	1·06	2·1	—	—
TOTAL	243,008	244,822	244,727	258,393	990,950	100·0	100·0

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